

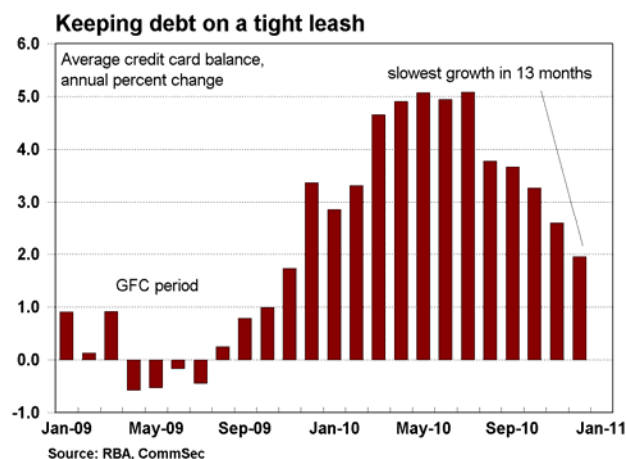
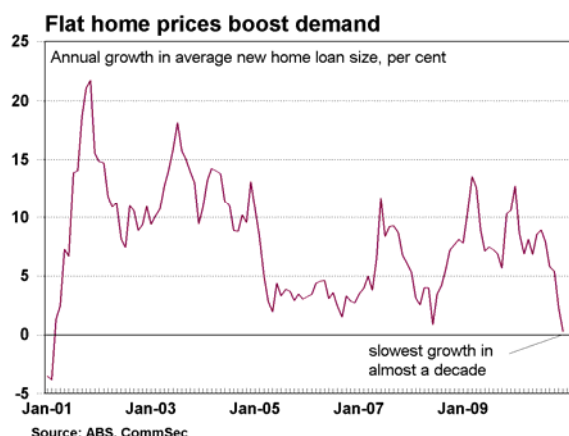
Cheaper homes encourage buyers

Housing finance; Credit card lending; Weekly Petrol Price

- **Lending to build new homes recorded a healthy increase in December.** Loans for the construction of dwellings rose by 1.0 per cent in December – the fourth consecutive increase.
- Overall, the value of housing loans rose by 2.5 per cent in December with the number of loans to owner occupiers up 2.1 per cent. But the number of home loans is 2.8 per cent lower than a year ago.
- Fixed rate loans accounted for 8.9 per cent of all loans in December – the highest reading in 30 months and up from the recent lows of 3.4 per cent in August.
- **Credit card balances are growing at the slowest annual pace in 13 months.** The average credit card balance in December was up just 1.9 per cent on a year ago. The average balance recorded the usual seasonal lift in the month, up \$34.10 to \$3,314.90.
- **Petrol prices are tracking sideways.** According to the Australian Institute of Petroleum, the national average Australian price of unleaded petrol remained unchanged at 26 month highs of 135.2 cents a litre in the week to February 13.

What does it all mean?

- The latest housing finance figures certainly builds on the good news of last month. The home construction market one of the key forward-looking indicators is lending for construction of homes and apartments and the latest news is certainly encouraging. Lending grew by 1.0 per cent in December – marking the fourth consecutive increase, albeit off a very low base.
- The fact that home prices have softened over the past few months is no doubt attracting potential home buyers. In fact the average mortgage size has only risen by 0.3 per cent in the past year – marking the slowest growth rate in almost 10 years.
- The Reserve Bank rate hikes over 2010 have led to more cautious buyers. At the same time increased building of homes in the first half of the year pushed more stock onto the market. With demand slowing and supply increasing, vendors have been forced to be more realistic about the value of their properties.
- It is still very early days and the double-whammy rate hike in November is yet to filter through the economy,



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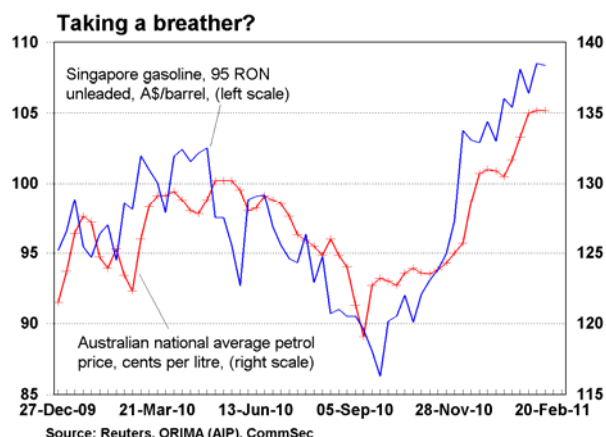
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especially given the latest housing finance data is for December. However a sustained modest improvement in activity levels in coming months would be a welcome result.

- Clearly what is required is an extended period of interest rate stability. If the Reserve Bank holds off on any further rate hikes – as we anticipate – a modest improvement in activity levels should continue to be part of the economic landscape.
- Interestingly given the rate hike that took place in November the number of loans to potential home buyers wanting to fix interest rates has picked up pace. Fixed rate loans accounted for 8.9 per cent of all loans, up from the recent low of 3.4 per cent of loans in August and at a 30 month high.
- Consumers continue to remain ultra conservative. The average credit card balance is barely growing at present with consumers much preferring to live within their own means. The average balance is up just 1.9 per cent on a year ago, the slowest annual pace in 13 months. And once inflation is taken into account, the average credit card balance is actually going backwards.
- Motorists can thank competition in the petrol market and a higher Australian dollar for the fact that petrol prices have been relatively stable over the past couple of weeks. But it is unlikely that petrol prices will remain at these levels in the medium term.
- Competition and a stronger dollar can only do so much. With regional fuel prices at fresh highs, motorists will continue to see pump prices tick higher over the coming fortnight by a few cents a litre. The Singapore gasoline price fell by more than 2 per cent in US dollar terms but the slide in Aussie dollars was a much more sedate 0.1 per cent. And we still anticipate that petrol prices are likely to rise by around 1-2 cents a litre in the following fortnight.

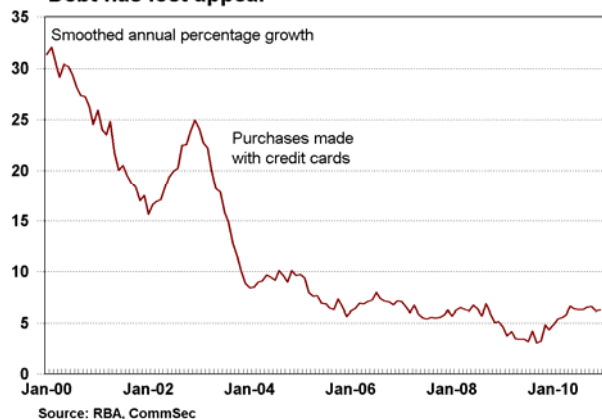


What do the figures show?

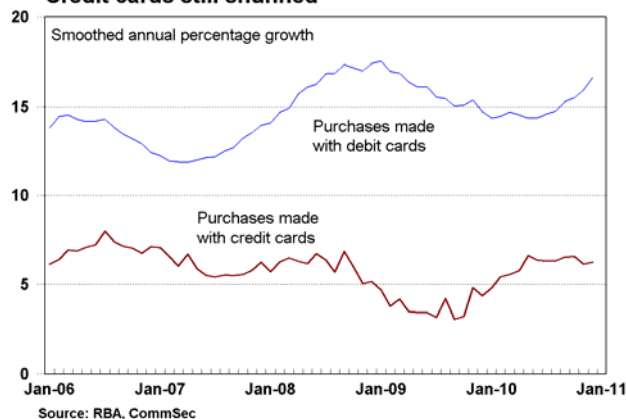
Housing Finance

- The number of new owner-occupier housing loans lifted by 2.1 per cent to 51,706 new commitments. The number of loans is 2.8 per cent lower than a year ago.
- Loans for the construction of homes rose by 1.0 per cent in December, marking the fourth consecutive month of increases. Loans for the purchase of established dwellings (ex refinancing) rose by 1.2 per cent, while loans for the purchase of newly erected dwelling slumped by 10.1 per cent after rising by 9.2 per cent in November. Refinancing commitments were higher by 6.2 per cent.
- The value of new housing commitments (owner occupier and investment) rose by 2.5 per cent in December. Owner-occupier loans rose by 2.3 per cent while investment loans rose by 3.0 per cent.
- Banks accounted for 88.7 per cent of all loans taken out in December up from the three year low of 87.4 in November.
- The proportion of first home buyers** in the market rose marginally from 15.6 per cent to 15.8 per cent of all lending in December – still well below the record high of 28.5 per cent set in May 2009. **Fixed rate loans**

Debt has lost appeal



Credit cards still shunned



accounted for 8.9 per cent of all loans, up from 8.1 per cent of loans in November. And the **average home loan** across Australia stood at \$286,100, up 0.3 per cent on a year ago.

Credit & debit card activity:

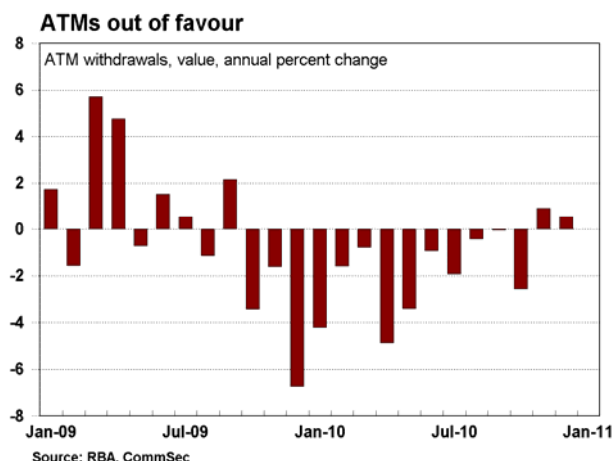
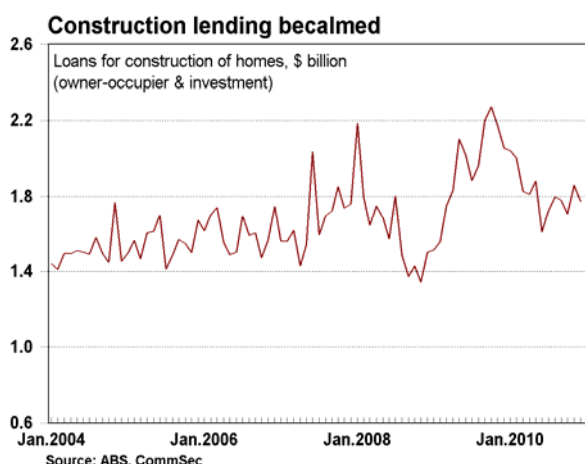
- Figures released from the Reserve Bank show that the **average credit card balance** recorded its usual seasonal increase in December, lifting by \$34.10 to \$3,314.90. But the average credit card balance is only up 1.9 per cent on a year earlier – the slowest annual growth in 13 months.
- Of **credit cards attracting interest charges**, the average outstanding balance again recorded the usual seasonal increase in December, down by \$5.40 to \$2,390.10. The average balance accruing interest is up 3.8 per cent on a year ago (slowest growth in ten months).
- The number of **credit card cash advances** fell by 6.5 per cent in December – the biggest fall in 8 months. Credit card advances have been largely falling in annual terms for four years.
- The number of **purchases made on credit cards** soared by 10.3 per cent in December after rising 13.1 per cent in November.
- The number of **purchases made on debit cards** rose by 14.7 per cent in December to stand 19.7 per cent higher than a year ago.
- There was a record 216.7 million purchases made with EFTPOS cards in December up 19.7 per cent on a year ago. There was also a record 159 million transactions made with credit cards in December, but this was only up 5.2 per cent on a year ago.

Petrol prices:

- According to the Australian Institute of Petroleum, the national average Australian price of unleaded petrol remained unchanged at 135.2 cents a litre in the week to February 13. The metropolitan price fell by 0.7 c/l to 134.7 c/l, while the regional average price rose by 0.3 c/l to 135.0 c/l.
- Petrol prices across states in the past week were: Sydney (down 2.0 cents to 133.5 c/l), Melbourne (down 0.2 cents to 134.3 c/l), Brisbane (up 0.8 cents to 138.7 c/l), Adelaide (down 0.6 cents to 132.7 c/l), Perth (up 0.3 cents to 134.5 c/l), Darwin (up 0.1 cents to 138.1 c/l), Canberra (down 3.5 cents to 135.1 c/l) and Hobart (down 0.4 cents to 140.7 c/l).
- The national average wholesale (terminal gate) rose by 0.6 cents a litre to 126.70 cents on February 13. The wholesale price hit a 26-month high of 127.1 cents on January 26.
- Last week, the key Singapore unleaded petrol price fell by US\$2.26 (2.1 per cent) to US\$108.24 a barrel. And in Australian dollar terms the Singapore gasoline price fell by \$0.10 (0.1 per cent) over the week to \$108.38 a barrel.

What is the importance of the economic data?

- Housing Finance** data is produced monthly by the Bureau of Statistics and shows commitments by lenders, such as banks, to provide finance for housing purposes. The lending figures relate to those looking to buy or build homes to live in as well as those seeking to buy or build homes for investment purposes. Generally people get their finance organised first, so the figures are regarded as a leading indicator on the housing market.
- The Reserve Bank releases data on **credit and debit card** transactions each month. The credit card figures are useful in highlighting consumer borrowing and spending trends.
- Weekly figures on petrol prices** are compiled by ORIMA Research on behalf of the Australian Institute of Petroleum. National average retail prices are calculated as the weighted average of each State/Territory's



metropolitan and non-metropolitan retail petrol prices, with the weights based on the number of registered petrol vehicles in each of these regions.

What are the implications for interest rates and investors?

- The latest figures on home lending are certainly encouraging. However a couple more months of improving figures would be needed to claim a full blown turnaround in the fortunes of the housing sector, especially given the last interest rate hike is yet to have a profound impact.
- The good news is that the soft domestic economic conditions and tame inflation should ensure an extended period of interest rate stability. Certainly we believe that the RBA will stay on the sidelines until mid 2011.
- The recent flooding across Eastern Australia and the resulting rebuilding will be beneficial for the building materials sector. Added to which a modest pickup in housing demand should continue to occur over the coming year. Our industrial analysts have buy recommendations on CSR and Adelaide Brighton.

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