Fewer take out mortgages as interest rates bite

The West Australian - 9th July 2008

The number of home loan approvals fell for the fourth straight month as 12-year high interest rates continue to bite, economists say.

The result should give the central bank greater confidence that its monetary policy is working, and could deter it from making further rate hikes.

Finance commitments for owner-occupied housing fell 7.9 per cent in May, seasonally adjusted, to 52,006, the Australian Bureau of Statistics said today.

Total housing finance by value fell 6.1 per cent in May, seasonally adjusted, to $18.141 billion.

This was the fourth consecutive month total approvals for home loans fell across the nation.

Economists had forecasted a two per cent fall for the month.

Total approvals for home loans have fallen 23 per cent in the past four months.

Westpac senior economist Andrew Hanlan said interest rates were certainly hurting borrowings.

“No doubt the Reserve Bank's very aggressive monetary policy has had a substantial impact,” he said.

“Lending now to occupiers - new lending - is down 23 per cent over the four months.

“That exceeds the downturn we saw in 2003/04.”

The Reserve Bank of Australia (RBA) lifted interest rates four times between August and March, in a bid to slow domestic demand and fight inflationary pressures.

The official cash rate now stands 12-year high of 7.25 per cent.

The fall in home loan approvals followings other data showing a 6.5 per cent fall in building approvals in May.

Mr Hanlan said there was no need for the RBA to raise rates again, as the current level was slowing the economy.

“There has been a substantial pullback in demand for housing finance, as a result of the Reserve Bank's tighter monetary policy,” he said.

“But it is premature to call for rate cuts.”

Lehman Brothers chief economist Stephen Roberts said high official interest rates and the global credit crunch are to blame for the sharp decline in housing finance commitments.

“The hefty declines: that suggests that first of all, high mortgage rates are dampening demand for housing finance,” he said.

“Secondly, banks and other providers have found it very difficult to extend finance because of the credit crisis.”

Mr Roberts said the RBA's own lending data was likely to show further falls in coming months.

“Housing finance will feed into housing credit data,” he said.

“Already, credit growth is very, very soft.

“We'll see weaker credit over the next few months.”