

RECENT TRENDS IN CONSTRUCTION AND FIRST HOME BUYERS FINANCE

INTRODUCTION

The 38 months from January 1999 to February 2002 saw considerable movements in the trend series for construction of dwellings finance and the first home buyers component of housing finance commitments, with large swings in both series coinciding with changes in government policy concerning tax, First Home Buyers (FHBs) and dwelling construction activity.

In July 2000, The New Taxation System (TNTS) was introduced, and with it a First Home Owners Grant (FHOG) of \$7,000 was payable to all first time buyers of a home, either new or existing. The grant was introduced to compensate for an anticipated increase in house building costs associated with the implementation of the Goods and Services Tax.

The FHOG was foreshadowed many months in advance, with a noticeable effect on the trend series for finance commitments to first home buyers in the months before and after its introduction. FHBs delayed demand for housing finance for some months before flooding back into the market in July 2000.

The next milestone of interest occurred on 9 March 2001, from which time the FHOG was extended to provide an additional \$7,000 if building or purchasing a new dwelling rather than an existing dwelling. The announcement of the supplement to the grant was made suddenly, with an effect on both the construction of dwellings finance series and the first home buyer series occurring from May 2001.

On 1 January 2002, the FHOG was scaled back so that a lesser amount of \$3,000 was granted to eligible builders or purchasers of a new dwelling in addition to the \$7000 available to all FHBs. When the scaleback was imminent, there was some strength in both the first home buyers and construction finance series in December 2001, with the strong activity spilling into January 2002. To qualify for the higher amount of the FHOG, a binding contract must have been signed, or building commenced (in the case of owner builders) by 31 December 2001. Generally it would be expected that a home buyer has obtained the commitment to finance the construction before its commencement, although it is conceivable that in the hurry to qualify for the higher grant, the finance commitment was organised later than usual. However, in February 2002 both the construction and first home buyer series saw sharp falls in activity, with the trend series indicating that the growth of the previous year was over.

This article examines the series for construction of dwelling finance and finance to first home buyers from January 1999, comparing across the States. As the analysis is of developments over time, it is based on trend series. Most of the series used in this article are not seasonally adjusted or trended for regular publication, so were adjusted especially. All series used in this article can be accessed through spreadsheets on the ABS website at www.abs.gov.au. For more information on seasonal adjustment and trending, see paragraphs 15 to 21 of the Explanatory Notes of this publication.

NATIONAL SERIES

There was a close relationship between the first home buyer and the construction finance trends from January 1999 until February 2002. Both grew to seven year highs in the eleven months to November 1999, with the FHB trend growth around 1.3% per month, and the construction finance trend growing at around 1.7% per month. From November 1999 until June 2000, both series declined as the introduction of TNTS approached. For the construction series, the introduction of TNTS was expected to add to the cost of building a new home, tending to bring forward construction finance commitments from early 2000 into late 1999, as owner builders sought finance for construction work which needed to be completed by June 2000 to avoid attracting the GST. At the same time, first home buyers were anticipating the introduction of

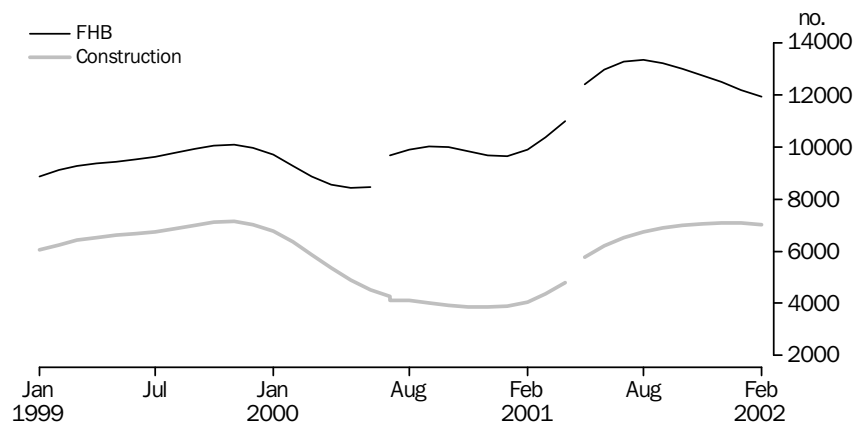
NATIONAL SERIES *continued*

the FHOG in July 2000, and so appeared to delay demand for finance until after June 2000. The two series diverged in July 2000, with the first home buyers trend jumping by around 14% to a new level (illustrated by a trend break in the graph below), while the construction series continued to decline, indicating that much of the first home buyer strength was directed towards established dwellings.

The construction series hit a 13 year low in December 2001, before beginning to recover in early 2001. In March 2001, the FHOG was extended for purchasers of new homes. While both the FHB and the construction finance series were growing from early 2001, two months later in May 2001, both series jumped to new levels, illustrated below by trend breaks in both series. There was an 8% jump for FHBs and a 14% jump for construction finance.

The construction finance trend series growth has only recently ended, with the trend having declined marginally from December 2001. The first home buyers series strength ended some months earlier, with the trend peaking in August 2001 and declining since.

1 AUSTRALIA, Trend for Construction Finance and First Home Buyers



STATE ANALYSIS

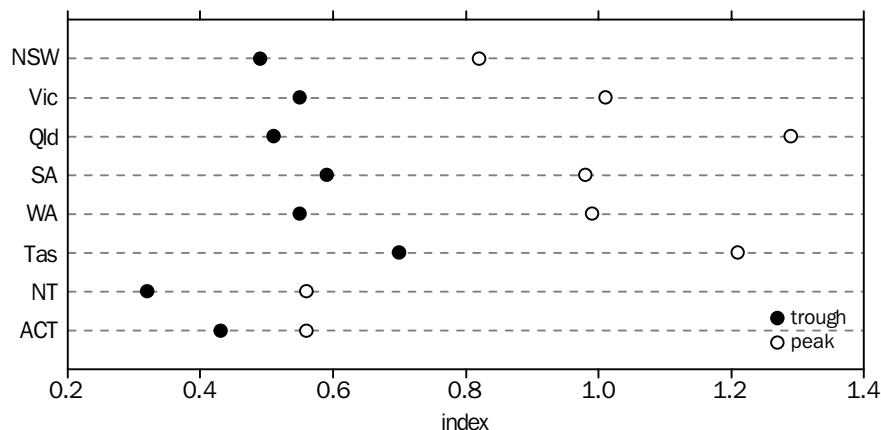
Reflecting the national trend, most States' construction finance trends declined from very high levels in late 1999 to troughs in late 2000, before rising to new peaks between October 2001 (NSW) and February 2002 (for Tasmania, West Australia, and South Australia, where the trend continued to rise). The Tasmanian construction finance trend has been unusual, with its cycle delayed by several months compared with most states, peaking in March 2000 and then declining until May 2001.

To illustrate the depth of the construction finance trough in 2000, an index was formulated for each State, where the peak level of the construction finance trend in late 1999 was scaled to 1.00, and then two relative indexes created: one for the following trough, and another for the subsequent peak (or the most recent month where the series was still increasing). As illustrated in Graph 2, most States declined to a level of between 0.50 and 0.60 times the late 1999 peak, with the depth of the trough greatest in the NT and the ACT (0.32 and 0.43 times the 1999 peak respectively). The two territories had barely emerged from the low point of late 2000, with the most recent peak at a level just 0.56 times the high of late 1999.

STATE ANALYSIS *continued*

On the other hand, Queensland responded most strongly to the construction finance stimulus throughout 2001, climbing to a recent high which was 1.29 times its previous peak in November 1999. The Tasmanian construction finance trend was still increasing, and at February 2002 was 1.21 times its March 2000 peak, although the first peak was a three year high, compared with a five year high for the December 1999 national peak.

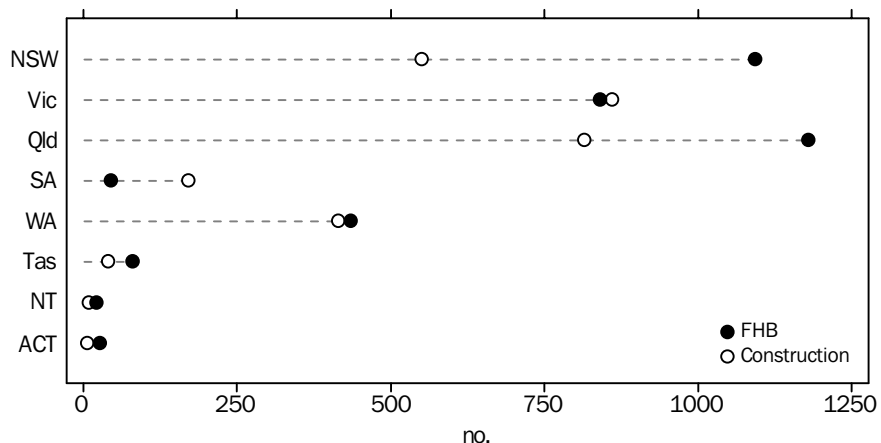
2 CONSTRUCTION FINANCE INDEXES, Relative depth of the 2000 trough and the 2001 peak



The Housing Finance collection does not require lenders to report on construction finance commitments by FHBs. Total commitments by lenders are reported by the purpose of the commitment (construction finance or some other purpose), and by the type of borrower (FHB or not). Therefore definitive statements about commitments to FHBs for construction finance cannot be made.

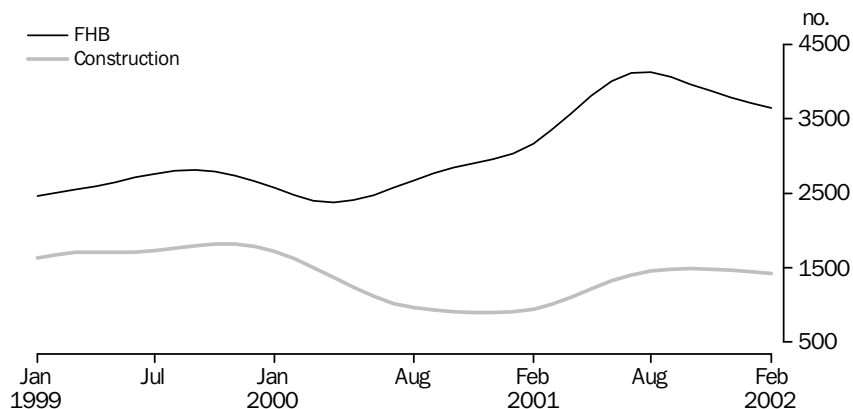
Graph 3 shows that NSW and Queensland stand out for the much larger increases in the FHB trend compared with the increases in the construction finance trend from January 2001 until the month in which the FHB trend peaked in the respective States. The bigger increases in the FHB trends are likely to be due to increases in non-construction finance, which is dominated by established dwelling finance. South Australia was unusual in that strength in the FHB trend in the months from January 2001 to its peak was minimal relative to growth in the construction finance trend over the same period. This suggests that increases in construction finance commitments drew more heavily on non-FHBs than FHBs in that State.

3 INCREASE IN COMMITMENTS, Change from January 2001 to peak



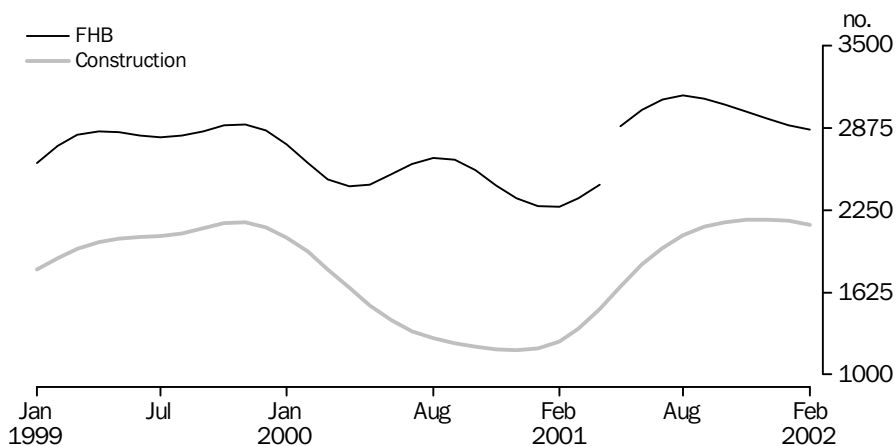
NEW SOUTH WALES The FHB series trend increased steadily and with some strength from April 2000 until a peak at August 2001, although it did not respond as quickly as in some other States to the stimuli of July 2000 and March 2001. The construction finance trend fell to a low in December 2000, in line with other States, although its recovery since then reached just 0.82 times its high of October 1999.

4 NEW SOUTH WALES, Trend for Construction Finance and First Home Buyers



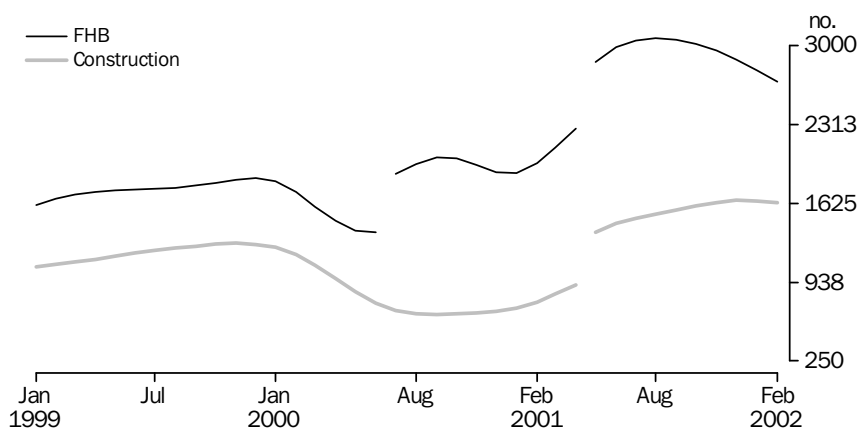
VICTORIA The FHB trend series for Victoria rose strongly from April 2000, mainly due to the unusual strength in the original series in July and August 2000, with the introduction of the GST. There was a jump to a new level in May 2001, occurring just after the extension of the FHOG in March 2001. The construction trend increased strongly from its low in December 2000, to surpass the previous peak of December 1999.

5 VICTORIA, Trend for Construction Finance and First Home Buyers



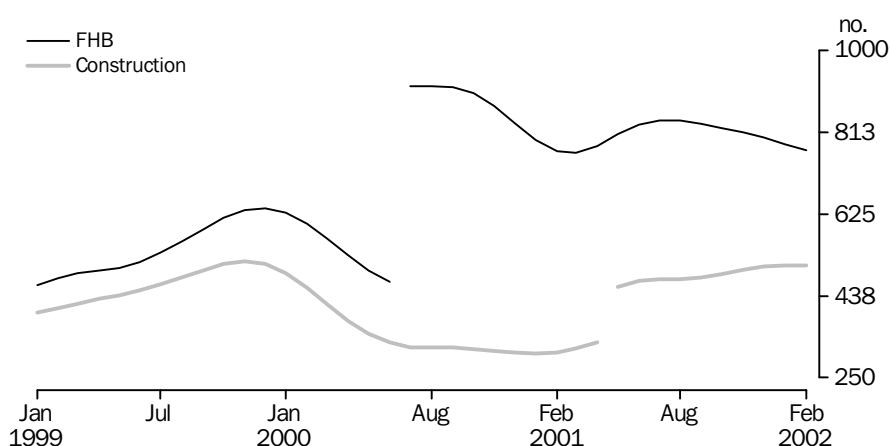
QUEENSLAND The Queensland FHB trend reacted very strongly to the July 2000 introduction of the FHOG, and again in May 2001 after the extension of the FHOG, with trend breaks evident in these months. The construction finance trend declined from January 2000 to September 2000, then increased slowly until jumping to a new level in May 2001. The Queensland construction finance trend series increased most strongly of all the States from its September 2000 low, reaching a level 1.29 times the December 1999 peak in February 2002.

6 QUEENSLAND, Trend for Construction Finance and First Home Buyers



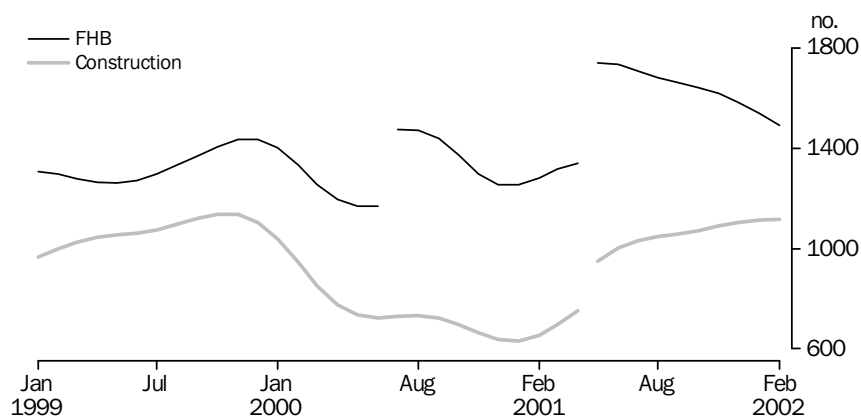
SOUTH AUSTRALIA The South Australia FHB trend reacted extremely strongly alongside the July 2000 introduction of the FHOG, increasing by 448 commitments (95%). While the construction finance trend increased by 128 commitments (39%) in May 2001, the corresponding growth in the FHB trend was weak relative to other States, increasing by just 74 commitments (9.7%) from the low of March 2001 to the high of July 2001.

7 SOUTH AUSTRALIA, Trend for Construction Finance and First Home Buyers



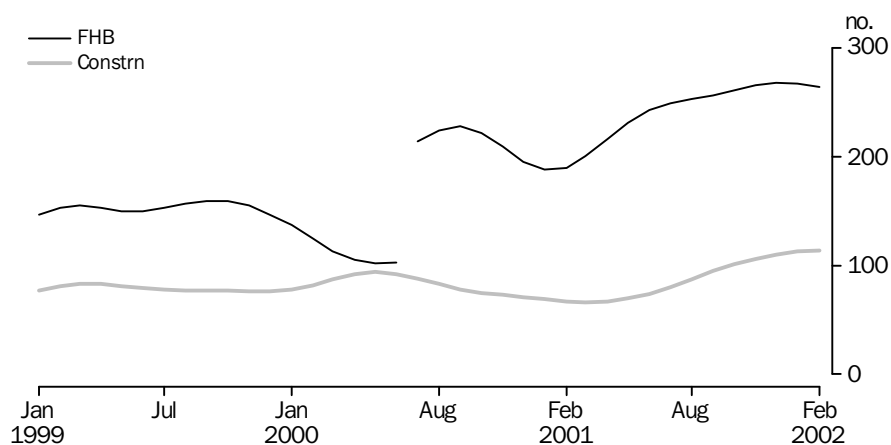
WESTERN AUSTRALIA The Western Australia FHB trend saw two large increases at July 2000 and May 2001, coinciding with the introduction of the FHOOG and its extension. The state graphs mirrored the national trend, although their relative strength was greater. The jump in May 2001 was accompanied by a sharp increase in the construction finance trend.

8 WESTERN AUSTRALIA, Trend for Construction Finance and First Home Buyers



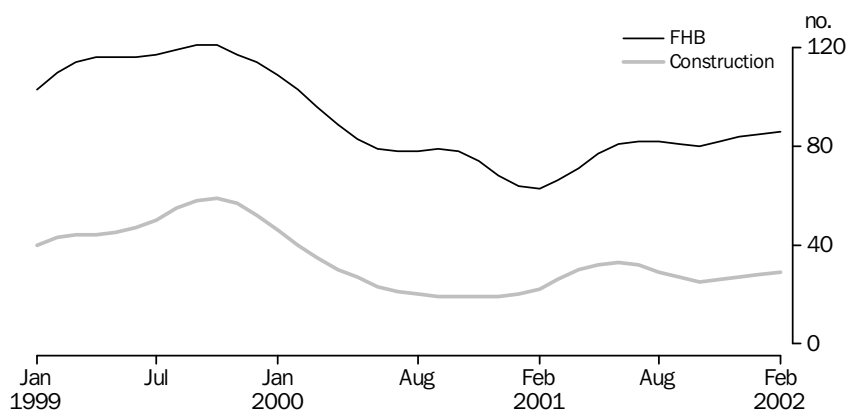
TASMANIA The Tasmania FHB trend increased by 109 commitments (108%) in July 2000, and then increased strongly from January 2001. The construction finance trend behaved unusually in Tasmania, peaking later (in May 2000) and then reaching its low several months later than most other States (in March 2001). As illustrated in Graph 2 above, the construction finance trough was the least deep of all the States, and the trend then outgrew the previous peak by a factor of 1.21 times.

9 TASMANIA, Trend for Construction Finance and First Home Buyers



NORTHERN TERRITORY and ACT The pattern of the FHB and the construction finance trends for the NT and the ACT were very similar. In neither territory was any sustained increase in the FHB trend observed in July 2000, with the trend falling continuously from late 1999. The construction finance trend peaked in October 1999 (NT) and December 1999 (ACT) and then declined relatively more than for any other State, to a level just 0.32 (NT) and 0.43 (ACT) times the previous peak. The recovery from late 2000 has been weakest in the NT and the ACT, with the construction finance trend increasing to a level of just 0.56 times the previous peak.

10 NORTHERN TERRITORY, Trend for Construction Finance and First Home Buyers



11 ACT, Trend for Construction Finance and First Home Buyers

