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Activity Section

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JOINT BANK/TREASURY PAPER ON HOUSING

March/April 1978

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Research Department - Management Section - Joint Bank / Treasury Paper on Housing

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R-71-2209-12



With Compliments

Dan,

Many thanks for yours and Graham's assistance.

Roger F.

7/4

THE TREASURY
CANBERRA, A.C.T

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URGENT

RF.SB

The Treasurer

HOUSING

We received yesterday through your office notification that the Prime Minister has asked for a report from you on housing by the end of this week (copy attached). We understand through Departmental channels that he has made a similar request of Mr Groom.

2. Attached for your consideration is an updated and slightly amended version of the paper which had been prepared earlier as a Treasury/RBA document for the MPC, but which you decided not to circulate. We feel that that paper, under cover of a letter to the Prime Minister, draft attached, would be a suitable response.

3. Submitted for consideration.

C.R. Rye
First Assistant Secretary
7 April 1978

Copies to:

Secretary
Mr Stone
Mr Daniel
Mr Argy
Mr Prowse
Dr. Stammer RBA

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RF.SB

The Rt Hon. Malcolm Fraser, M.P.
Prime Minister
Parliament House
CANBERRA ACT 2600

My dear Prime Minister

In response to your request for a report on housing, I enclose a paper prepared jointly by the Reserve Bank and Treasury.

Yours sincerely

(John Howard)

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OFFICE OF THE PRIME MINISTER
CANBERRA

RECEIVED
TREASURY
-6 APR 1978

SENIOR PRIVATE SECRETARY
TO THE TREASURER

As discussed, the Prime Minister has asked if he could have a report from the Treasurer of the situation in the housing industry. The Prime Minister would like to have this report by the end of this week, please.

(Peter Hand)
Private Secretary

6 April 1978

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HOUSING FINANCE AND ACTIVITY - INFORMATION PAPER

RECENT TRENDS

Private dwelling activity expanded strongly over 1976 but eased in the first half of 1977. This was primarily as a result of a surplus of unsold new dwellings carried over in some states from the high volume of speculative building which had run well ahead of underlying demand in 1976; there was also a reduction in finance approvals in the March quarter 1977. (Activity data are shown in Table C.) Both the number and, more markedly, the value of finance approvals increased in the second half of 1977 but this has not yet translated into stronger activity. In fact commencements of new dwellings fell in each quarter of 1977 and completions have fallen in each of the last three quarters. More details on recent trends follow.

The value of housing loan approvals by major lenders (table A) reached an all-time high in the September quarter of 1977, after recovering from a low level in the March quarter. Permanent building society approvals were very strong in the September quarter then fell away in the December quarter; this largely reflected a reduction in the flow of funds to Queensland societies following a failure of confidence in societies in that State. Savings Bank approvals continued at a high level in the December quarter. In January/February approvals of savings banks were about the same as the December quarter average; building society approvals were above the December quarter average but well below the peak September quarter.

In recent times housing loans outstanding have been growing more rapidly than many other financial aggregates.

As Table A shows, the proportion of finance going into new dwellings fell slightly in the second half of 1977. This new/total ratio has been running a good deal below levels of earlier years (a decline from around 46 per cent in 1968-69 to around 30 per cent in the last few years). The relative importance of funds flowing to new, as opposed to existing housing, while of some importance in assessing the short-term impact of finance on activity, can be easily exaggerated unless due consideration is given to the adequacy of the housing stock for the current and prospective needs of the population. With the large post-war expansion in the stock of houses, the existing housing stock (including alterations and additions) has increasingly satisfied housing needs, in part because of location preferences, the rise in building costs and the uncertainties about the final cost of construction. It should also be noted that finance for the purchase of existing housing flows through to new house purchases when vendors make such purchases with sale proceeds.

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The pattern of finance flows described above for the national totals has been fairly uniform across the states, observed variations in activity trends being due mainly to the different stock situations. Thus the fall in private commencements (Table C) in the first half of 1977, while fairly general, was heaviest in Victoria and South Australia, where the stock carry-over from 1976 was largest. These states recorded further falls in the second half despite increased finance; private commencements also fell in New South Wales, but largely in the 'other' (mainly multi-unit) dwelling segment, and in Western Australia, where excess stocks did not emerge until well into 1977 following a lengthy period of unsustainably high activity. Commencements in Queensland and Tasmania rose in the second half. Overall, the decline in private commencements continued throughout 1977, but abated markedly in the second half.

Government commencements, which of course are unrelated to private mortgage finance flows, were lower in the second half than in the first half of 1977; sizable declines were confined to Victoria and the Northern Territory.

There are signs that the decline in local government approvals for private dwellings is bottoming out, although an upward trend has not yet emerged. Commencements will lag, but the decline could be arrested during the June quarter.

As already noted, more people are satisfying their demand for improved accommodation by modifying existing dwellings. In 1974, work done on alterations and additions (valued at more than $10,000) constituted about 3.5 per cent of new building work; in the first half of 1977 the proportion was almost 8 per cent. (Estimates including smaller jobs are at least twice as large.) To some extent this development has reduced the impact on the construction industry of the declines in commencements of dwellings.

PROSPECTS

With excess stocks of unsold houses apparently close to being worked off in most states, there should be a more direct connection between housing finance and new building in 1978 than in 1977.

Lending by housing finance institutions in the period ahead will depend heavily on their intake of funds and on their liquidity needs. Deposit intakes by housing finance institutions will reflect the overall liquidity growth in the economy and the reaction of investors to the recently changed pattern of interest rates, and their expectations about future interest rate developments.

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In more detail:

- Domestic seasonal influences and external account developments will be important determinants of short-term movements in primary liquidity; beyond this quarter, expansion in primary liquidity seems likely.

- Concerning interest rates, little data are yet available to assess the effect on funds flows of the new relativities. To 3 April, net raisings of Series 11 Australian Savings Bonds have averaged about $3.8 million a week; but the average over the past three weeks has fallen to about $0.5 million. The yield on Australian Savings Bonds is under close review.

- Expectations of falling interest rates could be encouraging some depositors to switch funds from housing finance institutions (most of which are at call and/or carry a variable interest rate) to fixed interest securities although the significance of this effect is hard to judge.

- The February tax reductions will serve to boost household disposable income; some part of this will flow on to deposits with major housing lenders.

- A factor bearing on the lending levels of savings banks will be the speed at which they adjust to the changed prescribed asset ratio. The rapidity of this adjustment will be contingent on the need to maintain a satisfactory level of liquidity, particularly keeping in mind the seasonal rundown in the current half year and on their views about longer-term trends in deposit growth. Expectations about further declines in official interest rates may also have continuing influence.

- Lending by the permanent building societies (especially, of course, in Queensland) will also be influenced by considerations of desirable liquidity levels.

Housing lenders are well aware of the Government's wish to encourage housing lending, particularly in those states and areas where the capacity of the building industry is underutilised. Within this general policy it has been left to individual lenders to determine the extent of their lending in the light of their own balance sheet positions and assessment of the housing situation in their own area of operations.

Overall, with the seasonal liquidity rundown imminent, finance approvals for home buyers seem likely to flatten out at around the level achieved in the last quarter of 1977 before resuming growth in the second half of 1978. The outlook for speculative

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building activity has improved with the rundown in excess stocks of dwellings. Finance companies, which are a major source of funds for builders and developers, appear well placed to meet demand from this segment of the dwelling construction industry.

On the basis of this outlook for lending, the decline in dwelling investment evident in 1977 should be arrested in the first half of 1978 and there should be a moderate expansion in residential construction activity later in the year.

SUMMARY

Recent indicators portray a declining activity picture. This is seen largely as the consequence of the excess stock position which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978 lending has been quite strong. Although lending is likely to level out in the liquidity rundown, anticipated funds flows should be sufficient, in conjunction with the petering out of the stock adjustment, to prevent a further decline in new construction activity. Subject to the funds intake of housing lending institutions, there are prospects for a moderate lift in activity as the year progresses. Of course, the bulk of new finance will, as usual, go to finance transactions in existing houses as people satisfy their changing housing demands in this way.

Funds flows over coming months will be heavily influenced by seasonal and other factors and, as usual, a number of uncertainties surround the various projections. The funds intake and liquidity of the major mortgage finance institutions will require continuing close attention in coming months.

Treasury
Reserve Bank of Australia
7 Apr 1978

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A. FINANCE TO INDIVIDUALS FOR HOUSING [a]
($m - Seasonally Adjusted)

	SAVINGS BANKS	TRADING BANKS	PERMANENT BUILDING SOCIETIES	SUB-TOTAL	FINANCE COMPANIES	TOTAL [b]	NEW[c]	RATIO [c] NEW/TOTAL
1973	1,287	841	975	3,103	na	na	1,170	37.7
1974	1,120	451	550	2,121	na	na	746	35.2
1975	2,086	596	1,388	4,070	na	na	1,217	29.9
1976	2,126	718	1,395	4,239	373	4,612	1,362	32.1
1977	1,999	603	1,703	4,305	344	4,650	1,370	31.8
1976								
Mar Qtr	516	175	397	1,088	75	1,163	338	31.1
Jun Qtr	536	167	279	982	109	1,091	327	33.3
Sep Qtr	544	195	319	1,058	94	1,152	338	31.9
Dec Qtr	534	191	401	1,125	95	1,220	361	32.1
1977								
Mar Qtr	458	137	409	1,004	93	1,097	332	33.1
Jun Qtr	474	139	432	1,045	94	1,139	327	31.3
Sep Qtr	546	163	476	1,185	78	1,263	367	31.0
Dec Qtr	534	173	396	1,103	79	1,182	348	31.6
1978								
Jan	184	57	146	387	na	na	122	31.6
Feb	170p	60p	134	364	na	na	na	na
Half years								
1976 I	1,052	342	676	2,070	184	2,254	665	32.1
II	1,078	386	720	2,183	189	2,372	699	32.0
1977 I	932	276	841	2,049	187	2,236	659	32.2
II	1,080	336	872	2,288	157	2,445	715	31.3

a excluding loans for alterations and additions
b not seasonally adjusted
c banks and permanent building societies
p preliminary
na not available

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B. FINANCE APPROVALS: ALL SOURCES
('000 original figures)

	PRIVATE			TOTAL		
	NEW	TOTAL	RATIO	NEW	TOTAL	RATIO
1976	81,811	251,788	.325	88,857	268,496	.331
1977	75,617	231,262	.327	83,514	246,190	.339
Quarters						
1975 Dec	22,523	72,487	.311	24,768	76,612	.323
1976 Mar	19,766	67,262	.294	21,415	71,207	.301
Jun	19,895	59,935	.332	21,705	64,037	.339
Sep	21,226	61,507	.345	23,052	65,929	.350
Dec	20,924	63,084	.332	22,685	67,323	.337
1977 Mar	17,923	57,332	.313	19,713	61,073	.323
Jun	18,211	55,786	.326	20,031	58,958	.340
Sep	20,216	60,184	.336	22,445	64,341	.349
Dec	19,267	57,960	.332	21,325	61,818	.345
Month						
1978 Jan	5,361	17,412	.308	5,934	18,532	.320
Half years						
1976 I	39,661	127,197	.312	43,120	135,244	.319
1976 II	42,150	124,591	.338	45,737	133,252	.343
1977 I	36,134	113,118	.319	39,744	120,031	.331
1977 II	39,483	118,144	.334	43,770	126,159	.347

Source: ABS 5609 "Housing Finance for Owner Occupation"

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C. INDICATORS OF DWELLING SECTOR ACTIVITY

(Seasonally Adjusted)

	APPROVALS ('000)		COMMENCEMENTS * ('000)												
			PRIVATE												
	PRIVATE AUST	TOTAL AUST	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	AUST	GOVT AUST	TOTAL AUST	PRIVATE DWELLING INVESTMENT ($m, 1974-75 prices)	% Change
1975	117.4	133.1	28.7	31.1	18.3	11.1	13.8	2.7	3.3	na	109.8	18.3	128.0	2,426	
1976	137.6	150.8	31.5	36.5	22.2	14.0	18.7	3.6	3.2	na	130.8	13.1	144.0	3,064	
1977	116.8	130.9	31.4	30.7	22.1	9.2	16.8	2.6	2.2	0.8	115.4	13.8	129.0	2,858	
Quarter:															
1976 Sep	33.9	37.7	8.0	9.2	5.9	3.7	4.2	0.9	0.8	0.3	33.1	3.7	36.8	781	(2.1)
Dec	34.6	38.5	8.7	9.6	5.9	3.5	4.3	1.0	0.6	0.2	33.6	3.9	37.7	788	(0.9)
1977 Mar	30.3	34.5	8.4	8.1	5.4	2.6	4.9	0.6	0.7	0.1	31.0	4.1	35.0	746	(-5.3)
Jun	28.9	31.4	7.9	7.7	5.0	2.3	4.6	0.6	0.4	0.4	28.9	3.6	32.5	728	(-2.4)
Sep	29.2	32.3	8.1	7.4	5.7	2.4	3.7	0.8	0.5	0.2	28.2	3.0	31.1	701	(-3.7)
Dec	28.4	32.8	7.0	7.5	6.0	1.9	3.6	0.6	0.6	0.1	27.3	3.1	30.4	683	(-2.6)
Three months to Nov	28.2	31.8													
Three months to Feb	27.8	30.7													
Half-year:															
1976 II	68.5	76.2	16.7	18.8	11.8	7.2	8.5	1.9	1.4	0.5	66.7	7.6	74.5	1,569	(4.9)
1977 I	59.2	65.9	16.3	15.8	10.4	4.9	9.5	1.2	1.1	0.5	59.9	7.7	67.5	1,474	(-6.1)
II	57.6	65.0	15.1	14.9	11.7	4.3	7.3	1.4	1.1	0.3	55.5	6.1	61.5	1,384	(-6.1)

* Seasonally adjusted by EHCD

R-71-2209-12

Governor

Deputy Governor

HOUSING

Treasury's Mr Freney 'phoned at 11.30 to discuss revisions to the Treasury/Bank paper on housing. The revised paper was to go to the Treasurer at lunch-time.

Most of the changes were of a minor character; I agreed that they be accepted. We initially disagreed over the rewording of an existing paragraph, which we thought looked a bit too rosy, but which Treasury wanted to keep in:

> "Indications are that in most areas both private and government commencements have bottomed out. However, local government approvals for dwellings have not yet begun an upward trend; an increase in commencements may occur during the June quarter."

Eventually, we agreed to replace that paragraph by:

> "There are signs that the decline in local government approvals for private dwellings is bottoming out although an upward trend has not yet emerged. Commencements will lag but the decline could be arrested in the June quarter."

The revised paper was to be typed out in Treasury; a copy will come to us on Monday.

Research Department
7 April 1978

DWStammer/nc

cc. Mr Brady, BFD

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BRJ:GA

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The Treasurer

INFORMATION PAPER ON HOUSING

As foreshadowed, attached is a joint Treasury/Reserve Bank paper on housing finance and activity. Subject to your concurrence we will submit it to the Cabinet Secretariat for distribution to the members of the Monetary Policy Committee as an information paper.

You will probably also wish to send a copy to Mr Groom and a cover letter is attached for that purpose.

You have recently had briefing on the more policy-oriented aspects of this subject. When the item appears on the Agenda we shall resubmit the main points as an aide-memoire for any discussion that might arise.

C.R. Rye
First Assistant Secretary
21 Mar 1978

Copy to:

The Secretary
Mr Stone
Mr Daniel
Mr Prowse
Mr Argy

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HOUSING FINANCE AND ACTIVITY - INFORMATION PAPER

RECENT TRENDS

Private dwelling activity expanded strongly over 1976 but eased in the first half of 1977. This was primarily as a result of a surplus of unsold new dwellings carried over in some states from the high volume of speculative building which had run well ahead of underlying demand in 1976; there was also a reduction in finance approvals in the March quarter 1977. (Activity data are shown in Table C.) Both the number and, more markedly, the value of finance approvals increased in the second half of 1977 but this has not yet translated into stronger activity. In fact commencements of new dwellings fell in each quarter of 1977 and completions have fallen in each of the last three quarters. More details on recent trends follow.

The value of housing loan approvals by major lenders (table A) reached an all-time high in the September quarter of 1977, after recovering from a low level in the March quarter. Permanent building society approvals were very strong in the September quarter then fell away in the December quarter; this largely reflected a reduction in the flow of funds to Queensland societies following a failure of confidence in societies in that

In January/February, approvals of Savings Banks were about the same as the December quarter average; approvals by permanent building societies were above the December quarter average but well below the peak reached in the September quarter. In recent times, loans outstanding for housing have risen more rapidly than many other financial aggregates.

dwellings fell slightly in the second half of 1977. This new/total ratio has been running a good deal below levels of earlier years (a decline from around 46 per cent in 1968-69 to around 30 per cent in the last few years). The relative importance of funds flowing to new, as opposed to existing housing, while of some importance in assessing the short-term impact of finance on activity, can be easily exaggerated unless due consideration is given to the adequacy of the housing stock for the ~~needs and the growth rate~~ of the population. With the large post-war expansion in the stock of houses, ~~people have looked increasingly to the existing housing stock~~ (including alterations and additions) ~~to satisfy their housing needs, in~~ part because of location preferences, the rise in building costs and the uncertainties about the final cost of construction. It should also be noted that finance for the purchase of existing housing flows through to new house purchases when vendors make such purchases with sale proceeds.

current and prospective needs

the existing housing stock has increasingly satisfied housing needs, in

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Lending by housing finance institutions in the period ahead will depend heavily on their intake of funds and on their liquidity needs. Deposit intakes by housing finance institutions will reflect the overall liquidity growth in the economy and the reaction of investors to the recently changed pattern of interest rates~~; interest rate expectations are also relevant~~.

and their expectations about future interest rates.

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The pattern of finance flows described above for the national totals has been fairly uniform across the states, observed variations in activity trends being due mainly to the different stock situations. Thus the fall in private commencements (Table C) in the first half of 1977, while fairly general, was heaviest in Victoria and South Australia, where the stock carry-over from 1976 was largest. These states recorded further falls in the second half despite increased finance; private commencements also fell in New South Wales, but largely in the 'other' (mainly multi-unit) dwelling segment, and in Western Australia, where excess stocks did not emerge until well into 1977 following a lengthy period of unsustainably high activity. Commencements in Queensland and Tasmania rose in the second half. Overall, the decline in private commencements continued throughout 1977, but abated markedly in the second half.

Government commencements, which of course are unrelated to private mortgage finance flows, were lower in the second half than in the first half of 1977; sizable declines were confined to Victoria and the Northern Territory.

~~Indications are that in most areas both private and government commencements have bottomed out. However, local government approvals for dwellings have not yet begun an upward trend: an increase in commencements may occur during the June quarter.~~

In 1974, work done on alterations and additions (valued at more than $10,000) constituted about 3.5 per cent of new building work; in the first half of 1977 the proportion was almost 8 per cent. (Estimates including smaller jobs are at least twice as large.) To some extent this development has reduced the impact on the construction industry of the declines in commencements of dwellings. As already noted, more people are satisfying their demand for improved accommodation by modifying existing dwellings.

PROSPECTS

With excess stocks of unsold houses apparently close to being worked off in most states, there should be a more direct connection between housing finance and new building in 1978 than in 1977.

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In more detail:

- Domestic seasonal influences and external account developments will be important determinants of short-term movements in primary liquidity; beyond ~~the~~ June quarter, a further expansion in primary liquidity seems likely.

- Concerning interest rates, little data are yet available to assess the effect on funds flows of the new relativities. To ~~20 March~~ 3 April 3-8, net raisings of Series 11 Australian Savings Bonds have averaged about ~~$5~~ million; ~~but the~~ ~~week, tapering down in the more recent weeks.~~ ~~A decision was taken on 16 March to lower~~ the yield on the Australian Savings Bond ~~by 0.5 percentage points from 1 April and net subscriptions are likely to be negligible in the months immediately ahead~~ has been kept under close review.

- Expectations of falling interest rates could be encouraging some depositors to switch funds from housing finance institutuions (most of which are at call and/or carry a variable interest rate) to fixed interest securities although the significance of this effect is hard to judge.

- The February tax reductions will serve to boost household disposable income; some part of this will flow on to deposits with major housing lenders.

- A factor bearing on the lending levels of savings banks will be the speed at which they adjust to the changed prescribed asset ratio. The rapidity of this adjustment will be contingent on the need to maintain a satisfactory level of liquidity, particularly keeping in mind the seasonal rundown in the current half year and on their views about longer-term trends in deposit growth. Expectations about further declines in official interest rates may also have ~~an influence.~~ a continuing influence.

- Lending by the permanent building societies (especially, of course, in Queensland) will also be influenced by considerations of desirable liquidity levels.

Housing lenders are well aware of the Government's wish to encourage housing lending particularly in those states and areas where the capacity of the building industry is underutilised. Within this general policy it has been left to individual lenders to determine the extent of their lending in the light of their own balance sheet positions and assessment of the housing situation in their own area of operations.

Overall, with the seasonal liquidity rundown imminent, finance approvals for home buyers seem likely to flatten out at around the level achieved in the last quarter of 1977 before ~~growing again~~ resuming growth in the latter half of 1978. The outlook for speculative

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building activity has improved with the rundown in excess stocks of dwellings. Finance companies, which are ~~the~~ major source of funds for builders and developers, appear well placed to meet demand ~~for~~ from this segment of the dwelling construction industry.

On the basis of ~~the~~ this outlook ~~suggested above~~ for lending, ~~for home purchasers and for speculative building,~~ the decline in dwelling investment evident in 1977 should be arrested in ~~early~~ the first half of 1978 and there should be a moderate expansion in residential construction activity later in the year.

SUMMARY

Recent indicators portray a declining activity picture. This is seen largely as the consequence of the excess stock position which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978 lending has been quite strong. Although lending is likely to level out in the liquidity rundown, anticipated funds flows should be sufficient, in conjunction with the petering out of the stock adjustment, to prevent a further decline in new construction activity. Subject to ~~major~~ lending institutions' intake of funds, ~~receiving an adequate inflow of funds,~~ there are prospects for a moderate lift in activity as the year progresses. Of course, the bulk of new finance will, as usual, go to finance transactions in existing houses as people satisfy their changing housing demands in this way.

Funds flows over coming months will be heavily influenced by seasonal and other factors and, as usual, a number of uncertainties surround the various projections. The funds intake and liquidity of the major ~~lending~~ mortgage finance institutions will require continuing close attention in coming months.

Treasury
Reserve Bank of Australia
~~21 Mar~~ 7 Apr 1978

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A. FINANCE FOR HOUSING BY MAJOR LENDERS (a)
(Seasonally Adjusted - $m)

		SAVINGS BANKS	TRADING BANKS	PERMANENT BUILDING SOCIETIES	TOTAL	NEW	RATIO NEW/TOTAL
1973-74		1,138	722	754	2,614	972	.372
1974-75		1,723	439	707	2,869	897	.313
1975-76		2,082	669	1,549	4,300	1,318	.307
1976-77		1,997	645	1,553	4,195	1,348	.321
1976-77	Sep	535	200	316	1,052	344	.327
	Dec	530	182	389	1,100	350	.318
	Mar	471	136	415	1,022	329	.322
	Jun	478	143	445	1,066	335	.314
1977-78	Sep	532	168	466	1,166	373	.320
	Dec	537	163	384	1,084	337	.311
1976 II		1,065	382	705	2,152	686	.319
1977 I		949	279	861	2,089	668	.320
1977 II		1,069	331	850	2,249	704	.313

(a) Loan Approvals to individuals by Banks and Permanent Building Societies for construction or purchase of dwellings.

Source: Seasonally adjusted series of the Reserve Bank.

Now to incorporate table from our Board paper.

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B. FINANCE APPROVALS: ALL SOURCES
('000 original figures)

	PRIVATE			TOTAL		
	NEW	TOTAL	RATIO	NEW	TOTAL	RATIO
1976 Sep	21 226	61,507	.345	23,052	65,929	.350
Dec	20,924	63,084	.332	22,685	67,323	.337
1977 Mar	17,923	57,332	.313	19,713	61,073	.323
Jun	18,211	55,786	.326	20,031	58,958	.340
Sep	20,250	60,232	.336	22,479	64,389	.349
Dec	19,298	57,991	.333	21,356	61,849	.345
1976 II	42,150	124,591	.338	45,737	133,252	.343
1977 I	36,134	113,118	.319	39,744	120,031	.331
1977 II	39,548	118,223	.335	43,835	126,238	.347

Source: ABS 5609 "Housing Finance for Owner Occupation"

Taken back to 1975

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7. INDICATORS OF DWELLING SECTOR ACTIVITY

(Seasonally Adjusted)

	APPROVALS ('000)		COMMENCEMENTS * ('000)											
			PRIVATE											
	PRIVATE TOTAL AUST	AUST	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	AUST	GOVT AUST	TOTAL AUST	PRIVATE DWELLING INVESTMENT ($m, 1966-67 prices)
1975	117.4	133.1	28.7	31.1	18.3	11.1	13.8	2.7	3.3	na	109.8	18.3	128.0	1,222
1976 *	137.6	150.8	31.5	36.5	22.2	14.0	18.7	3.6	3.2	na	130.8	13.1	144.0	1,539
1977	116.8	131.0	31.4	30.7	22.1	9.2	16.8	2.6	2.2	0.8	115.4	13.8	129.0	na
Quarter:														
1976 Sep	33.9	37.7	8.0	9.2	5.9	3.7	4.2	0.9	0.8	0.3	33.1	3.7	36.8	394 (+27.5)
Dec	34.6	38.5	8.7	9.6	5.9	3.5	4.3	1.0	0.6	0.2	33.6	3.9	37.7	397 (+18.5)
1977 Mar	30.3	34.5	8.4	8.1	5.4	2.6	4.9	0.6	0.7	0.1	31.0	4.1	35.0	375 (+2.5)
Jun	28.9	31.4	7.9	7.7	5.0	2.3	4.6	0.6	0.4	0.4	28.9	3.6	32.5	364 (-4.7)
Sep	29.2	32.3	8.1	7.4	5.7	2.4	3.7	0.8	0.5	0.2	28.2	3.0	31.1	343 (-12.9)
Dec	28.4	32.8	7.0	7.5	6.0	1.9	3.6	0.6	0.6	0.1	27.3	3.1	30.4	na
% mvts in Feb (approvals)														
Half-year:														
1976 II	68.5	76.2	16.7	18.8	11.8	7.2	8.5	1.9	1.4	0.5	66.7	7.6	74.5	791
1977 I	59.2	65.9	16.3	15.8	10.4	4.9	9.5	1.2	1.1	0.5	59.9	7.7	67.5	739
II	57.6	65.1	15.1	14.9	11.7	4.3	7.3	1.4	1.1	0.3	55.5	6.1	61.5	na

* Seasonally adjusted by EMCD

Governor

Deputy Governor

Housing

Mr Freney, Treasury, 'phoned (subsequent to Dr Higgins' call). He'd heard, via PM & C, that the Prime Minister has sought (separately) the views of the Treasurer and Minister for EHCD on the housing situation. The views are required by the end of the week.

Treasury will be having another look at the Treasury/Bank paper on housing prepared for (but not sent to) the Monetary Policy Committee. The Treasurer might be wanting to send this on to the Monetary Policy Committee. Treasury would, if necessary, come back to us.

Research Department
6 April 1978

DWStammer/ss

cc Mr Brady, BFD

Governor

Deputy Governor

Paper on Housing prepared for Monetary Policy Committee of Cabinet

Dr Higgins 'phoned to say the Treasurer did not intend, at this stage, to put the paper on housing activity and prospects to the Monetary Policy Committee of Cabinet. The Treasurer requested that the paper not be circulated to other ~~papers.~~ Departments.

Research Department
6 April 1978

DWS. DWStammer/ss

cc Mr Brady, BFD

R-71-2209-12

CONFIDENTIAL

Deputy Governor

Joint Treasury/Bank Paper on Housing

Dr Higgins phoned to discuss the suggestions we'd made on the revised draft of the paper on housing finance and activity being prepared for the Monetary Policy Committee of Cabinet. (The comments we offered are attached.)

The first seven of our suggestions were incorporated in the new draft, as were the 9th and 12th suggestions. But:

- on p. 4, line 7: he said he'd much prefer "there should be" to "there could be";
- on p. 4, line 16: he said he'd much prefer "should" to "could". We discussed these two suggestions for a while; given the extent to which our earlier suggestions had been taken on board, I said I could agree to adopt his preferred wording in these two instances;
- on p. 4, line 11: he said he'd much prefer "overwhelmingly" to "importantly". I said we wouldn't be keen on that change. We then agreed on the word "largely".

He suggested a change in wording on p. 3 to take on board the decision of the Monetary Policy Committee to lower the yield on ASB. The following sentences on p. 3 are to be deleted: "To date, net raisings of Series 11 Australian Savings Bonds have averaged about $6 million a week. The yield on Australian Savings Bonds is currently under review." The replacement sentences are: "To date, net raisings of Series 11 Australian Savings Bonds have averaged about $6 million a week, tapering down in recent weeks. A decision was taken on 16 March to lower the yield on Australian Savings Bonds and net subscriptions in the weeks ahead are likely to be negligible."

Dr Higgins also let us know that the Treasurer would be sending a copy of the paper to the Minister for Environment, Housing and Community Development.

I asked for a copy of the retyped paper.

Research Department
21 March 1978

DWStammer/ss

cc Mr Brady

R-71-2209-12

Dan,

On the housing paper, Treasury have adopted virtually all of our suggestions, except those about the tables which have been ignored.

The sections on the new/total ratio, alts and adds, prospects and summary are quite almost verbatim.

The tone of the conclusions on prospects (p.4) is still a bit more optimistic/definite than ours though it has been modified since the previous draft - e.g. they still refer to a bottoming out in commencements but qualify it with the recent experience in local govt. approvals.

CT

20/3

NJB: Following are our suggestions to your revised draft:

Governor

JMK

Deputy Governor

Joint Treasury/Bank Paper on Housing

Treasury this morning sent us a revised draft of the paper on housing finance and activity being prepared for the Monetary Policy Committee of Cabinet. A copy is attached.

The redraft incorporates almost all the drafting suggestions we made. However, in a few spots there are changes to our proposed wording which alter the tone of the message; after further discussions with BFD, I've sent the attached list of suggestions to Treasury.

Research Department
20 March 1978

DWStammer/ss

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R-71-2209-12

With Compliments

Don

We learnt yesterday that the 0.5 cut is not being proceeded with at this stage. We are changing the paper as indicated in ms hereon (It was an April Fools joke all along?)

Cheers

Chris

THE TREASURY
CANBERRA, A.C.T

R-71-2209-12

CONFIDENTIAL

To	Facsimile Message from Reserve Bank of Australia Sydney
From	Message No.

HOUSING

The following are our suggestions on your revised draft of paper on housing finance and activity:

1. ✓ p. 1, line 15: replace "lifting sharply" by "recovering"
2. ✓ p. 1, final line: after "confidence" add "in societies"
3. ✓ p. 1(b), line 1: replace "increased" by "continued at a high level"
4. ✓ p. 3(b), line 1: delete colon
5. ✓ p. 3(b), line 3: delete semi-colon; after "year" add "and on"
6. ✓ p. 3(b), line 4: replace semi-colon and "and" by full-stop
7. ✓ p. 3(b), lines 5-7: replace existing words by "(Expectations about further declines in official interest rates may also have an influence)."
8. → p. 4, line 7: after "and" add "there sh could be"
9. ✓ p. 4, lines 8-9: delete "is expected to occur"
10. → p. 4, line 11: replace "overwhelmingly" by "importantly" "largely"
11. → p. 4, line 16: replace "should" by "could" "Could"
12. ✓ Table C: would suggest including series on private approvals

Please Note: Copy should be single spaced typewritten, and kept as close as possible to head line to reduce transmission time.

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R-71-2209-12

BRJ:GA

CONFIDENTIAL

DRAFT

The Treasurer

INFORMATION PAPER ON HOUSING

As foreshadowed, attached is a joint Treasury/Reserve Bank paper on housing finance and activity. Subject to your concurrence we will submit it to the Cabinet Secretariat for distribution to the members of the Monetary Policy Committee as an information paper.

You have recently had considerable briefing on the more policy-oriented aspects of this subject. When the item appears on the Agenda we shall resumbit the main points as an aide-memoire for any discussion that might arise.

C.R. Rye
First Assistant Secretary
17 Mar 1978

Copy to:
The Secretary
Mr Stone
Mr Daniel
Mr Prowse
Mr Argy
Mr Moore

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BRJ:GA DRAFT 17.3.78

The Secretary to Cabinet

INFORMATION PAPER ON HOUSING FINANCE AND ACTIVITY

Attached is a paper on Housing Finance and Activity prepared jointly by Treasury and The Reserve Bank.

The Treasurer has agreed that it be submitted for information to the Monetary Policy Committee of Cabinet. Would you please arrange for its distribution to the members of that Committee.

F.H. WHEELER
Secretary to the Treasury
17 Mar 1978

DRAFT

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R-71-2209-12

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JOB NUMBER
9544.6
3

HOUSING FINANCE AND ACTIVITY - INFORMATION PAPER

RECENT TRENDS

Private dwelling activity expanded strongly over 1976 but eased in the first half of 1977. This was primarily as a result of a surplus of unsold new dwellings carried over in some states from the high volume of speculative building which had run well ahead of underlying demand in 1976; there was also a reduction in finance approvals in the March quarter. (Activity data are shown in Table C). Both the number and, more markedly, the value of finance approvals increased in the second half of 1977 but this has not yet translated into stronger activity. In fact commencements of new dwellings fell in each quarter of 1977 and completions have fallen in each of the last three quarters. More details on recent trends follow.

The value of housing loan approvals by major lenders (table A) reached an all-time high in the September quarter of 1977, after ~~lifting sharply~~ recovering from from a low level in the March quarter. Permanent building society approvals were very strong in the September quarter then fell away in the December quarter; this largely reflected a reduction in the flow of funds to Queensland societies following a failure of confidence in societies in that State.

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...ving Bank approvals ~~increased~~ continued at a high level in the December quarter. This ...flects some taking up of loans that would otherwise have been ...de by permanents; official encouragement for housing lending; ...d gradual portfolio adjustment following the change to a 45 ...er cent prescribed asset ratio.

...s Table A shows, the proportion of finance going into new ...wellings fell slightly in the second half of 1977. This ...ew/total ratio, has in recent years been running a good deal ...elow levels of earlier years (a decline from around 46 per cent ...n 1968-69 to around 30 per cent in the last few years). The ...elative importance of funds flowing to new, as opposed to ...xisting housing, while of some importance in assessing the short ...erm impact of finance on activity, can be easily exaggerated ...nless due consideration is given to the adequacy of the housing ...tock for the needs and the growth rate of the population. ...ncreasingly, with the large post war expansion in the stock of ...ouses, people have looked to the existing housing stock ...including alterations and additions) to satisfy their housing ...eeds, in part because of location, the rise in building costs ...nd the uncertainties about the final cost of construction. It ...ould also be noted that finance for the purchase of existing ...using flows through to new house purchases when, and to the extent that, vendors make ...ch purchases with sale proceeds.

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The pattern of finance flows described above for the national totals has been fairly uniform across the states, observed variations in activity trends being due mainly to the different stock situtations. Thus, the fall in private commencements (table C) in the first half of 1977, while fairly general, was heaviest in Victoria and South Australia, where the stock carry-over from 1976 was largest. These states recorded further falls in the second half despite increased finance; private commencements also fell in New South Wales, but largely in the 'other' (mainly multi-unit) dwelling segment, and in Western Australia, where excess stocks did not emerge until well into 1977 following a lengthy period of unsustainably high activity. Commencements in Queensland and Tasmania rose in the second half. Overall, the decline in private commencements continued throughout 1977, but abated markedly in the second half.

Government commencements, which of course are unrelated to private mortgage finance flows, were lower in the second half than in the first half of 1977; sizable declines were confined to Victoria and the Northern Territory.

Indications are that in most areas both private and government commencements have bottomed out. However, local government approvals for dwellings have not yet began an upward trend and any increase in commencements seems unlikely until the June quarter.

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ROSPECTS

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Domestic seasonal influences and external account developments will be important determinants of short-term movements in primary liquidity; beyond the June quarter, a further expansion in primary liquidity seems likely.

Concerning interest rates, little data are yet available to assess the effect on funds flows of the new relativities. To date, net raisings of Series 11 Australian Savings Bonds have averaged about $6 million a week. The yield on the Australian Savings Bond is currently under review.

Expectations of falling interest rates could be encouraging some depositors to switch funds from housing finance institutuions (most of which are at call and/or carry a variable interest rate) to fixed interest securities although the significance of this effect is hard to judge.

The February tax reductions will serve to boost household disposable income; some part of this will flow on to deposits with major housing lenders.

A factor bearing on the lending levels of savings banks will be the speed at which they adjust to the changed prescribed asset ratio. The rapidity of this adjustment

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building activity has improved with the rundown in excess stocks of dwellings. Finance companies, which are major source of funds for builders and developers, appear well placed to meet demand for this segment of the dwelling construction industry.

On the basis of the outlook suggested above for lending for home purchasers and for speculative building, the decline in dwelling investment evident in 1977 should be arrested in early 1978 and there could be a moderate expansion in residential construction activity ~~is expected to occur~~ later in the year.

SUMMARY

Recent indicators portray a declining activity picture. This is seen overwhelmingly as the consequence of the excess stock position which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978 lending has been quite strong. Although lending is likely to level out in the liquidity rundown, anticipated funds flows should be sufficient, in conjunction with the petering out of the stock adjustment, to prevent a further decline in new construction activity. Subject to major lending institutions receiving an adequate inflow of funds, there are prospects for a moderate lift in activity as the year progresses. Of course, the bulk of new finance will, as usual go to finance transactions in existing houses as people satisfy their changing housing demands

C. INDICATORS OF DWELLING SECTOR

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n this way.

s noted, funds flows over coming months will be heavily
nfluenced by seasonal and other factors and, as usual, a number
f uncertainties surround the various projections. The funds
ntake and liquidity of the major lending institutions will
equire close attention in comming months.

reasury
eserve Bank of Australia
6 Mar 1978

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A. FINANCE FOR HOUSING BY MAJOR LENDERS (a)

(Seasonally Adjusted - $m)

		SAVINGS BANKS	TRADING BANKS	PERMANENT BUILDING SOCIETIES	TOTAL	NEW	RATIO NEW/TOTAL
1973-74		1,138	722	754	2,614	972	.372
1974-75		1,723	439	707	2,869	897	.313
1975-76		2,082	669	1,549	4,300	1,318	.307
1976-77		1,997	645	1,553	4,195	1,348	.321
1976-77	Sep	535	200	316	1,052	344	.327
	Dec	530	182	389	1,100	350	.318
	Mar	471	136	415	1,022	329	.322
	Jun	478	143	445	1,066	335	.314
1977-78	Sep	532	168	466	1,166	373	.320
	Dec	537	163	384	1,084	337	.311
1976 II		1,065	382	705	2,152	694	.322
1977 I		949	279	861	2,089	664	.318
1977 II		1,069	331	850	2,249	710	.316

(a) Loan Approvals to individuals by Banks and Permanent Building Societies for construction or purchase of dwellings.

Source: Seasonally adjusted series of the Reserve Bank.

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. FINANCE APPROVALS: ALL SOURCES

'000 original figures)

	PRIVATE			TOTAL		
	NEW	TOTAL	RATIO	NEW	TOTAL	RATIO
976 Sep	21,226	61,507	.345	23,052	65,929	.350
Dec	20,924	63,084	.332	22,685	67,323	.337
977 Mar	17,923	57,332	.313	19,713	61,073	.323
Jun	18,211	55,786	.326	20,031	58,958	.340
Sep	20,250	60,232	.336	22,479	64,389	.349
Oct	6,621	19,036	.348	7,309	20,324	.360
Nov	7,398	22,359	.331	8,126	23,754	.342
976 II	42,150	124,591	.338	45,737	133,252	.343
977 I	36,134	113,118	.319	39,744	120,031	.331
977 II (e)	41,279	122,324	.337	45,632	130,506	.350

Source: ABS 5609 "Housing Finance for Owner Occupation"

(e) Month of December is estimated by a pro-rata of 2 month to November figures.

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C. INDICATORS OF DWELLING SECTOR ACTIVITY

(Seasonally Adjusted)

	TOTAL APPROVALS	PRIVATE COMMENCEMENTS*									GOVT* COMMS	TOTAL COMMS	PRIVATE DWELLING INVESTMENT
	AUST ('000)	NSW	VIC	QLD	SA	WA	TAS	ACT	NT	AUST	AUST	AUST	($m, 1966-67 prices)
1975	133.1	28.7	31.1	18.3	11.1	13.8	2.7	3.3	na	109.8	18.3	128.0	1,222
1976	150.7	31.5	36.5	22.2	14.0	18.7	3.6	3.2	na	130.8	13.1	144.0	1,539
1977	107.0	31.4	30.7	22.1	9.2	16.8	2.6	2.2	0.8	115.4	13.8	129.0	na
Quarter:													
1976 Sep	37.7	8.0	9.2	5.9	3.7	4.2	0.9	0.8	0.3	33.1	3.7	36.8	394 (+27.5)
Dec	38.5	8.7	9.6	5.9	3.5	4.3	1.0	0.6	0.2	33.6	3.9	37.7	397 (+18.5)
1977 Mar	34.5	8.4	8.1	5.4	2.6	4.9	0.6	0.7	0.1	31.0	4.1	35.0	375 (+2.5)
Jun	31.4	7.9	7.7	5.0	2.3	4.6	0.6	0.4	0.4	28.9	3.6	32.5	364 (-4.7)
Sep	32.3	8.1	7.4	5.7	2.4	3.7	0.8	0.5	0.2	28.2	3.0	31.1	343 (-12.9)
Dec	32.8	7.0	7.5	6.0	1.9	3.6	0.6	0.6	0.1	27.3	3.1	30.4	na
Half-year:													
1976 II	76.2	16.7	18.8	11.8	7.2	8.5	1.9	1.4	0.5	66.7	7.6	74.5	791
1977 I	65.9	16.3	15.8	10.4	4.9	9.5	1.2	1.1	0.5	59.9	7.7	67.5	739
II	65.1	15.1	14.9	11.7	4.3	7.3	1.4	1.1	0.3	55.5	6.1	61.5	na

* Seasonally adjusted by EHCD

Governor,

Deputy Governor,

Housing

1. The Treasury/Bank paper on housing finance and activity for the Monetary Policy Committee of Cabinet:

I 'phoned Mr Freney to inquire about progress with this paper. He said he was glad to have our comments and he and his colleagues had "seen their way clear to taking most of them on board". A revised version was with the typist; this would be sent to us. Mr Freney noted it would be very unlikely that the paper would go to today's meeting of the Monetary Policy Committee.

2. The BFD/RD paper on housing for possible discussion at EPAC next week:

We plan to get a copy of this paper to you late Friday or early Monday morning.

Research Department
16 March 1978

DWStammer/jh

cc. Mr Brady, BFD

DEPUTY GOVERNOR,

HOUSING

Attached is the message* vocadexed to Treasury concerning the information paper on Housing being prepared for the Monetary Policy of Cabinet. The message takes on board the comments you made yesterday and has been agreed with Mr Brady.

Dr Higgins or Mr Freney is to 'phone me this afternoon to discuss the paper. I suspect Treasury will be looking to "brighten" up the message. If that is the case, and their suggestions go beyond the guidelines you outlined to us, would you like me to float the possibility of the paper going forward just as a Treasury piece?

* The more pertinent sections are sidelined

I think we should consult Dep Gov before we live with it.

15/3

Research Department
15 March 1978

DWS

DWStammer/kt

cc. Mr Brady, BFD

Dep. Gov:

NOTED - I don't have a really good position on the whole, but the suggested changes look like an improvement.

15/3

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To	FRENEY, TREASURY, CANBERRA	Facsimile Message from Reserve Bank of Australia Sydney
From	STAMMER, RESERVE BANK, SYDNEY	Message No. 569

The following are our suggestions for changes to the draft paper on housing finance and activity. We would appreciate an opportunity to comment further on the revised draft before it goes forward and on the covering note to be sent with it.

RECENT TRENDS

p.1 para 1

"The value of finance approvals picked up in the second half of 1977 but ..."

Comment:

The value of all finance approvals rose by around 7 per cent in the period, but the number of loans rose by only 3.5 per cent; increases for new housing are slightly lower.

p.1 para 2, 3

"The value of housing loan approvals by major lenders (Table A) was a record in the September quarter of 1977, after recovering from a low level in the March quarter. Permanent building society approvals reached a high level in the September quarter, then fell away in the December quarter; this largely reflected a reduction in the flow of funds to Queensland societies following a failure of confidence in that state. Savings bank approvals continued at a high level in the December quarter. This reflects ... asset ratio."

Comments:

- PBS lending in the September quarter was only about $10 million above that in December quarter 1975; given the problems of seasonally adjusting the series, it might be unwise to claim a record;
- our figures show savings bank lending in the June quarter 1976 was higher than in the December quarter 1977;
- your observation on portfolio adjustment needs rewording (see below) and is better placed in the Prospects section.

p.1b, para 1 (continuing on p.2)

"As Table A shows, the proportion of finance going into new dwellings declined slightly in the second half of 1977. This ratio, which is relevant to the short-term impact of finance on new activity, has in recent years been running a good deal below levels of earlier years (a decline from around 46 per cent in 1968/69 to around 30 per cent in the last few years). Increasingly, people have looked to the existing housing stock (including alterations and additions) to satisfy their housing needs, in part because of (location, the rise in building costs and the uncertainties about the final cost of constructions."

Comment:

The existing paragraph on the ratio of new/total finance is hard to follow and interrupts the flow of the analysis. As far as the short-term impact of finance on new activity is concerned, the ratio is important. Short-run relative price factors could be included in any discussion.

p.2, para 2

Suggest:

"The number of finance approvals also picked up in the second half of 1977."

Comment:

The increase in numbers was quite small - around 3 per cent - and the level did not approach previous records.

p.2(b), para 2

Suggest replacement of "Indications ... out" by

"Local government approvals for dwellings declined in the December quarter and again in January. These falls suggest that private commencements in most areas are likely to remain subdued in the current quarter."

p.2(b), after para 2

We suggest a paragraph be added.

The following is suggested:

"In 1974, work done on alterations and additions, valued at more than $10,000, constituted about 3.5 per cent of new building work; in the first half of 1977 the proportion was almost 8 per cent. (Estimates including smaller jobs are at least twice as large.) To some extent this development has reduced the impact on the construction industry of the declines in commencements of dwellings. As already noted, more people are satisfying their demand for improved accommodation by modifying existing dwellings.

For the Prospects section, our preferred wording runs as follows:

PROSPECTS

With excess stocks of unsold houses about dissipated in most states, there may be a more direct connection between housing finance and new building in 1978 than in 1977. Lending by housing finance institutions in coming heavily periods will depend/on their intake of funds and on their liquidity needs.

Deposit intakes by housing finance institutions will reflect the overall liquidity growth in the economy and the reaction of investors to the recently changed pattern of interest rates; interest rate expectations are also relevant:

- Domestic seasonal influences and external account developments will be important determinants of short-term movements in primary liquidity; beyond the June quarter, a further expansion in primary liquidity seems likely.
- Concerning interest rates, little data are yet available to assess the effect on funds flows of the new relativities. To date, net raisings of Series 11 Australian Savings Bonds have averaged about $6 million a week. The yield on the Australian Savings Bond is currently under review.
- Expectations of falling interest rates could be encouraging some depositors to switch funds from housing finance

institutions (most of which are at call and/or carry a variable interest rate) to fixed interest securities. The significance of this effect is hard to judge.

The February tax changes will serve to boost household disposable income; a part of this will flow on to deposits with major housing lenders.

A factor bearing on the lending levels of savings banks will be the speed at which they adjust to the changed prescribed asset ratio. The rapidity of this adjustment will be contingent on the need to maintain a satisfactory level of liquidity, particularly keeping in mind the seasonal rundown in the current half year, and their views about longer-term trends in deposit growth (it may also be influenced by expectations about further declines in official interest rates). Lending by the permanent building societies (especially, of course, in Queensland) will also be influenced by considerations of desirable liquidity levels.

Housing lenders are well aware of the government's wish to encourage housing lending particularly in those states and areas where the capacity of the building industry is under-utilised. Within this general policy it has been left to individual lenders to determine the extent of their lending in the light of their own balance sheet positions and assessment of the housing situation in their own area of operations.

Overall, with the seasonal liquidity rundown imminent, finance approvals for home buyers seem likely to flatten out at around the level achieved in the last quarter of 1977 before growing again in the latter half of 1978. The outlook for speculative building activity has improved with the rundown in excess stocks of dwellings. Finance companies, which are a major source of funds for builders and developers, appear well placed to meet demand for this segment of the dwelling construction industry.

On the basis of the outlook suggested above for lending for home purchasers and for speculative building, the decline in dwelling investment evident in 1977 ~~should~~ could be at least arrested in the current half year; there could be a

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moderate expansion in residential construction later in the year."

Comment:

This suggested section would:

- avoid giving an overly optimistic view of prospective trends;
- remove the emphasis given to expectations of falls in official yields as a possible restraining influence on lending by savings banks, a point which we feel was overplayed in your draft.

For the final section, we'd suggest wording along the following lines:

"SUMMARY

Recent indicators portray a declining activity picture. This is seen as a consequence of the excess stock situation which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978, lending has been quite strong. Although in the liquidity rundown period, lending is likely to level out, it may be sufficient, in conjunction with the petering out of the stock adjustment, to prevent a further decline in activity. Subject to major lending institutions receiving an adequate inflow of funds, there are prospects for a moderate lift in activity as the year progresses. Of course, the bulk of new finance will, as usual, go to finance transactions in existing houses as people satisfy their changing housing demands in this way.

As noted, funds flows over coming months will be heavily influenced by seasonal and other factors and, as usual, a number of uncertainties surround the various projections. The funds intake and liquidity of the major lending institutions will require close attention in coming months."

Comment:

The changes to the draft would:

- make it less sanguine about prospects for finance and activity;

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- omit the assertion about queues, on which the available evidence is, at best, contradictory.

SOME OTHER POINTS

- Tables A and B do not sit together very well - why not show a number of loans by the major lenders and perhaps a series for average value of loans?
- Table C: No figures are given for private approvals. The data for commencements by states do not correspond to the series we use - what is the source?
- Some figures in Table A do not incorporate recent revisions. An up-to-date table is attached.

HOUSING FINANCE

Seasonally adjusted - $ million

	NEW HOUSING							TOTAL HOUSING						
	Savings banks (b)	Trading banks	Permanent building societies(a)	Sub-total	Major life offices	Other(b)	Total	Savings banks	Trading banks	Permanent building societies(a)	Sub-total	Major life offices	Other(b)	Total
1969/70	204.3	78.2	186.0	468.4	24.3	n.a.		461.4	210.1	368.4	1039.9	61.5	n.a.	
1970/71	237.9	85.4	224.4	547.8	21.6	n.a.		558.2	215.5	421.2	1194.9	56.1	n.a.	
1971/72	262.7	121.7	331.7	716.0	19.5	n.a.		656.6	337.3	671.6	1665.5	57.1	n.a.	
1972/73	400.6	235.4	491.4	1127.4	20.0	n.a.		1076.8	702.4	1146.1	2925.2	62.7	n.a.	
1973/74	420.2	244.0	307.8	971.9	24.7	n.a.		1137.7	722.1	754.4	2614.2	77.9	n.a.	
1974/75	512.9	160.7	223.2	896.8	12.3	n.a.		1723.4	438.5	707.2	2869.0	41.5	n.a.	
1975/76	617.2	230.6	470.5	1318.3	16.5	n.a.		2081.9	669.2	1549.2	4300.3	78.6	n.a.	
1976/77	634.2	225.4	488.0	1347.5	25.6	408.6	1781.7	1997.0	644.6	1552.9	4194.6	96.6	883.3	5174.5
Quarters														
1974/75 D	120.7	34.0	34.6	189.2	2.7	n.a.		434.7	86.7	93.4	614.9	9.1	n.a.	
M	159.5	44.4	47.6	251.5	2.3	n.a.		545.9	124.9	161.0	831.8	8.2	n.a.	
J	157.4	54.2	102.6	314.2	2.2	n.a.		531.8	157.2	362.2	1051.2	8.6	n.a.	
1975/76 S	137.7	52.2	113.2	303.2	2.2	n.a.		493.1	152.0	393.4	1038.6	11.7	n.a.	
D	148.1	54.4	136.5	338.9	4.6	102.1	445.6	511.5	161.5	457.6	1130.7	20.0	190.0	1340.7
M	153.0	59.8	123.4	336.2	4.6	75.7	416.5	528.2	172.9	399.4	1100.5	21.6	175.6	1297.7
J	178.4	60.2	95.3	333.9	5.5	95.7	435.1	543.5	171.5	286.8	1001.8	25.2	218.4	1245.4
1976/77 S	170.0	69.4	104.6	344.0	5.6	109.5	459.1	535.1	200.4	316.0	1051.6	22.6	244.5	1318.7
D	166.2	63.2	120.7	350.0	5.7	103.7	459.4	530.1	181.5	388.5	1100.1	24.4	232.1	1356.6
M	149.9	46.4	132.8	329.1	7.8	93.9	430.8	470.7	136.1	415.4	1022.2	27.2	207.7	1257.1
J	148.1	52.0	134.9	335.0	6.9	101.4	443.3	478.4	142.7	445.2	1066.3	23.1	199.0	1288.4
1977/78 S	167.0	63.1	142.4	372.5	6.2	109.2	487.9	532.1	167.8	465.7	1165.6	24.4	216.4	1406.4
D	165.2	51.7	120.1	337.0	6.9	122.8	466.7	536.5	163.4	383.9	1083.8	30.4	244.1	1358.3
Months														
1976/77 J	44.5	17.2	44.4	106.1	2.1	26.4	134.6	151.8	50.0	136.4	338.2	7.8	56.1	402.1
F	50.1	16.3	41.5	108.0	3.3	31.4	142.7	155.7	46.0	134.7	336.5	10.2	72.1	418.8
M	55.4	12.8	46.9	115.0	2.4	36.1	153.5	163.1	40.0	144.3	347.5	9.1	79.4	436.0
A	42.2	15.8	41.5	99.4	2.0	31.4	132.8	144.4	45.3	136.6	326.2	7.5	62.2	395.9
M	51.8	17.0	44.7	113.5	2.1	32.6	148.2	163.7	46.9	150.0	360.5	8.0	69.0	437.5
J	54.1	19.1	48.8	122.1	2.7	37.5	162.3	170.3	50.6	158.7	379.6	7.7	67.8	455.1
1977/78 J	54.1	21.7	48.8	124.6	2.0	38.8	165.4	178.6	57.5	161.8	397.9	8.1	69.9	475.9
A	59.3	19.5	48.7	127.5	2.2	32.8	162.5	180.4	54.2	158.8	393.4	7.9	69.7	471.0
S	53.6	21.9	44.9	120.4	2.0	37.6	160.0	173.1	56.1	145.1	374.3	8.4	76.8	459.5
O	53.5	17.1	40.5	111.1	2.1	46.2	159.4	174.2	51.6	126.6	352.4	10.3	86.9	449.6
N	66.9	17.8	36.9	121.5	1.7	40.5	163.7	196.1	57.8	118.8	372.7	9.5	86.4	468.6
D	44.8	16.8	42.7	104.4	3.1	36.2	143.7	166.2	54.1	138.6	358.8	10.6	70.8	440.2
J														

(a) Note - this series is subject to large irregular fluctuations and particular care should be exercised in interpreting individual month-to-month movements. (b) Not seasonally adjusted. Includes finance companies, terminating building societies, government and credit unions. (See table EE.)

Deputy Governor

HOUSING

Following the Governor's request at the 9.30 meeting, I phoned Mr Freney in Treasury to inquire about the nature of the Treasurer's interest in the paper on housing finance and activity going as a joint Treasury/RBA paper.

Mr Freney said that, in a paper they had prepared to brief the Treasurer on housing for his meeting on 9 March with the Minister for EHCD, they had suggested the ~~Minister~~ Treasurer offer a paper on housing to the Monetary Policy Committee; Treasury also floated the idea that this might be a joint Treasury/Bank piece. The Treasurer marked on the file " ... I agree with your suggestion regarding a Treasury/RBA paper ... "

On the basis of this, Mr Freney rang me on 10 March (diary note attached).

DWS Research Department
14 March 1978

DWStammer/dj

Deputy Governor

Could I speak to you for a minute on this?

DWS

14/3

Governor
Deputy Governor

Housing

Mr Freney, Treasury, 'phoned. He began by noting that housing trends and housing finance were attracting quite a bit of attention at present.

The Treasurer had received a call from the Minister for Environment, Housing and Community Development last night (there had also been some pressures from HIA and other sources). The Minister for EHCD had outlined a generally depressing view of the housing sector. In response, the Treasurer had said that the situation merited close monitoring but no policy change was ~~merited.~~ warranted.

On a suggestion from Treasury, the Treasurer is to volunteer a paper on the housing situation to the Monetary Policy Committee of Cabinet. It ~~was~~ proposed to have this paper go to the Committee early next week. The Treasurer looked to have this paper a joint Treasury/RBA offering.

Mr Freney said Treasury would vocadex a copy of a draft of the paper to us by close of business today; they would be looking for our reactions early next week.

- Think
- We need to give this some careful attention. The prospect for housing activity looks close thought.

Research Department
10 March 1978

DWStammer/kw

cc. Mr Mallyon, BFD

10/3

R-71-2209-12

Deputy Governor

Possible Information Paper on Housing to Monetary Policy Committee of Cabinet

We've discussed the draft information paper on housing finance and activity with BFD.

We have important reservations about the paper:

- it is not well drafted; but that could be fixed up quickly enough. (See point 1 overleaf);
- some statements need to be tied in more closely with available data. (See point 2 overleaf);
- the "Prospects" section is more sanguine than we are inclined to be. (See point 3 overleaf).

The attached paper is a draft of a possible response to Treasury: we would propose, if you are agreeable, to vocadex our comments to Treasury tomorrow morning.

Research Department
13 March 1978

DWS

DWStammer/kw

I suggest you provide comment to Treasury as arising out of technical considerations of draft in Bank. Bank is not aware of any request for it to be a joint author of such a paper and there was Bank view has been tested. I think the Bank could be asked to give a view of housing if we take it sometime to do so.

14/3

DRAFT

Comments on proposed Information Paper on Housing Finance and Activity

1. As mentioned to us in a 'phone conversation, the paper is an early draft. Presumably, some tidying up of the expression is in hand. As it stands, the paper isn't as clear as it might be. For instance, the activity picture - as distinct from the finance picture - doesn't come out very clearly; the material offered on the split of lending between new and existing dwellings is a little hard to follow; the prospects section could be shortened and tightened.

2. The paper views some recent trends in a favourable light. This might be a useful counterweight to the unreasonably pessimistic view others are taking, but it is important that individual arguments stand up to close scrutiny by others:

(a) on p. 1 there is a comment that "Finance approvals increased strongly in the second half of 1977...". This is not true for the number of finance approvals.

(b) on p. 1 there is a comment that "Savings bank approvals were a record in the December quarter". Our figures suggest a figure for approvals in the June quarter of 1976 higher than in December quarter of 1977.

(c) on p.2 there is a comment that "The number of finance approvals grew strongly in the second half of 1977, approaching previous record levels". This statement is not supported by the ~~data (at least by the~~ seasonally adjusted data we usually make reference to~~)~~.

(d) on p. 3 the net weekly intake of funds into ASB series 11 is compared with net weekly intake into all previous series, including series 1. Others might look for a comparison with more recent series.

(e) on p. 3(b) the comment is made that "speculative building activity should increase since stocks of new houses are at a more normal level". There could be lags here: for confidence and other reasons, activity may take a little while to pick up.

(f) on p. 4 there is the comment that there is "no indication of growing queues of unsatisfied "credit-worthy" borrowers". The "evidence" is, as always, somewhat contradictory, but we suggest deletion of this.

(g) p. 2(b) there is the comment that "Indications are that in most areas both private and government commencements have bottomed out". This could be too strong a statement. Recent figures for local government approvals suggest the possibility of a further small fall in commencements in the March quarter. And, the comment on government commencements is not backed up elsewhere in the paper.

3. The prospects section takes a somewhat more sanguine view than we would be inclined towards. Our suggestions for that section would be:

(a) to be more guarded in claiming (e.g. p. 3b lines 4-8 and p. 4 line 7) that finance is expected to support moderate increases in construction activity. At the

least, these statements need to be tied much more closely to the changed stock situation;

(b) to mention existing policy, which is for an encouragement of an increase in lending for housing; major housing lenders are well aware of this;

(c) to bring out more fully that the level of lending for housing in coming months will depend heavily on funds intake;

(d) to reduce the emphasis given to expectations of falls in official yields as a possible restraining influence on savings bank lending.

4. On some other specifics:

(a) We'd suggest a rewording of the section in brackets in lines 4 to 8 of p. 1b as follows: "(The speed of this adjustment is contingent, however, on the need to maintain a satisfactory level of liquidity, particularly keeping in mind the seasonal rundown in the second half of the year and possibly because of the widely anticipated future reductions in interest rates)." But this observation is a distracting one so near the beginning of the paper; we'd suggest it be incorporated in the Prospects section.

(b) The final sentence seems to suggest that "close watching" alone can "ensure" moderate activity growth.

(c) In Table C, no figures are given for approvals of private dwellings. And, the data by states do not correspond with the seasonally adjusted series we usually refer to. What is the source?

Research Department
13 March 1978

DWStammer/kw

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TO STAMMER

RBA RESEARCH DE

FROM FRENEY

RESERVE BANK OF AUSTRALIA
Recd. 10 MAR 1978
SECRETARY'S DEPT.
SYDNEY

→ Dr Stammer

HOUSING FINANCE AN

RECENT TRENDS

Private dwelling activity expanded strongly over 1976 but eased in the first half of 1977. This was primarily as a result of a surplus of unsold new dwellings carried over in some states from the high volume of speculative building which had run well ahead of underlying demand in 1976; there was also a reduction in finance approvals in the March quarter (Activity data are shown in Table C). Finance approvals increased strongly in the second half of 1977 but this has not yet translated into stronger activity. In fact commencements of new dwellings fell in each quarter of 1977 and completions have fallen in each of the last three quarters. More details on recent trends follow.

The value of housing loan approvals by major lenders (Table A) was a record in the September quarter of 1977, after recovering from a low level in the March quarter. Permanent Building Society approvals reached a record level in the September quarter then fell away in the December quarter following crises in two Queensland societies.

Savings Bank approvals were a record in the December quarter.

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Recd. 10 MAR 1978
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TO STAMMER

RBA RESEARCH DEPARTMENT

FROM FRENEY

HOUSING FINANCE AND ACTIVITY - INFORMATION PAPER

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This reflects some taking up of loans that would otherwise have been made by permanents; official encouragement for housing lending; and gradual portfolio adjustment following the changes to a 45 per cent prescribed asset ratio. (The speed of this adjustment was slowed, however, by a preference to hold Commonwealth Government Securities in anticipation of capital gains consequent upon widely anticipated future reductions in interest rates).

Table A shows that the proportion of finance going into new dwellings fell slightly in the second half of 1977. This new/used ratio is relevant to prospective levels of construction activity. However the relative importance of funds flowing to new, as opposed to existing housing, can be easily exaggerated unless due consideration is given to the adequacy of the housing stock for the needs of the population and its growth rate. The large post war expansion in the stock of houses means that the process of re-shuffling within the existing stock (including alterations and additions) can make a substantial contribution to satisfying housing needs.

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This is reflected in a falling trend in the proportion of housing finance directed to new dwellings, as evidenced by a decline in the ratio from around 46 per cent in 1968-69 to around 30 per cent in the last few years. Also it must be remembered that a significant fraction of new house purchases involve "trading up", and that finance for existing houses is necessary for such transactions to occur.

The number of finance approvals also grew strongly in the second half of 1977, approaching previous record levels.

The pattern of finance flows described above for the national totals has been fairly uniform across the States, observed variations in activity trends being due mainly to the different stock situations. Thus, the fall in private commencements (table C) in the first half of 1977, while fairly general, was heaviest in Victoria and South Australia, where the stock carry-over from 1976 was largest. These States recorded further falls in the second half despite increased finance; private commencements also fell in New South Wales, but largely in the 'other' (mainly multi-unit) dwelling segment, and in Western Australia, where excess stocks did not emerge until well into 1977 following a lengthy period of unsustainably high activity. Commencements in Queensland and Tasmania rose in the second half. Overall, the decline in private commencements continued throughout 1977, but abated markedly in the second half.

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Government commencements, which of course are unrelated to private mortgage finance flows, were lower in the second half than in the first half of 1977; sizable declines were confined to Victoria and the Northern Territory.

Indications are that in most areas both private and government commencements have bottomed out.

PROSPECTS

(A) With the seasonal liquidity run-down imminent, finance approvals seem likely to flatten out at around the ~~high~~ level achieved in the latter part of 1977, before resuming growth in mid 1978. Most observers expect residential construction activity to remain relatively flat in the first half of 1978 and then to resume moderate growth later in the year.

Deposit intakes by housing lending institutions will depend on both the overall liquidity growth in the economy and on the pattern of relative interest rates. Domestic seasonal influences and external account developments will be important determinants of short-term movements in primary liquidity; beyond June the growth in private sector liquidity could be only gradual, as a result of company tax instalments and seasonal influences on private sector foreign exchange transactions.

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Concerning interest rates, little data is available to assess the effect on funds flows of the new relativities. In the first x days, there have been net raisings by series 11 Savings bonds at a weekly rate of $ y million. This compares with an average weekly rate of $ z million up to series 11 introduction. Comparable recent weekly deposit inflow rates have been about $n for savings banks and $m for permanents. Net ASS raisings for the financial year to end February have been $350m.

No basis is yet available for judging the reaction of depositors to the lower rates of the major mortgage institutions. The situation will warrant close attention. The February tax changes will serve to boost household disposable income and in turn deposits with major housing lenders.

Another significant factor bearing on the level of housing finance is the relative rates of return on housing loans and other assets as perceived by the lending institutions. Most housing loan rates were recently reduced by 0.5 per cent, that move in comparative isolation tending to make housing lending relatively less attractive.

As well, anticipated capital gains on Government securities bear importantly on the relative attractiveness to the lender of housing loans. Should there be a strengthening of expectations of further falls in the official rate structure savings banks'

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preference for expanding housing loans in their assets portfolio could be dampened. Obviously that would tend to delay the resumption of growth in housing loans.

However in the absence of such developments, the prospective level of finance in the months ahead is expected to support moderate increases in construction activity, particularly as less of new lending should then be absorbed in reducing stocks of existing new houses. The lengthy pipeline from finance approvals to new dwelling commencements helps to attenuate seasonal bumps in new lending.

Speculative building activity should increase since stocks of new houses are at a more normal level. Finance companies, which are a major source of funds for builders and developers experienced strong balance sheet growth during the second half of 1977 and are now well placed to meet demand from this segment of the dwelling construction industry.

Another factor influencing residential construction is investor confidence which is an important factor in multi-unit dwelling construction.

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SUMMARY

Recent indicators portray a declining activity picture. This is seen as the last stage of the adjustment to the excess stock position which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978 lending has been quite strong. Although, in the liquidity rundown lending is likely to level out, anticipated funds flows will support a moderate lift in new activity. Of course, the bulk of new finance will, as usual go to finance transactions in existing houses as people satisfy their changing housing demands in this way.

The ability of current funds flows to support moderate, sustainable activity growth is matched by no indication of growing queues of unsatisfied "credit-worthy" borrowers.

Funds flows are as noted, seasonally levelling. They do, as usual bear close watching to ensure they support moderate activity growth.

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5

. FINANCE FOR HOUSING BY MAJOR LENDERS (a)

Seasonally Adjusted - $m)

	SAVINGS BANKS	TRADING BANKS	PERMANENT BUILDING SOCIETIES	TOTAL	NEW	RATIO NEW/TOTAL
1973-74	1,138	722	754	2,614	972	.372
1974-75	1,723	439	707	2,869	897	.313
1975-76	2,082	669	1,549	4,300	1,318	.307
1976-77	1,997	645	1,553	4,195	1,348	.321
1976-77 Sep	535	193	316	1,044	337	.323
Dec	530	180	389	1,099	349	.318
Mar	471	140	415	1,026	333	.325
Jun	478	142	445	1,066	335	.314
1977-78 Sep	532	162	466	1,159	366	.316
Dec	537	164	384	1,085	338	.312
1976 II	1,065	373	705	2,143	686	.320
1977 I	949	282	860	2,092	668	.319
1977 II	1,069	326	850	2,244	704	.314

(a) Loan Approvals to individuals by Banks and Permanent Building Societies for construction or purchase of dwellings.

Source : Seasonally adjusted series of the Reserve Bank

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B. FINANCE APPROVALS: ALL SOURCES

('000 original figures)

	PRIVATE			TOTAL		
	NEW	TOTAL	RATIO	NEW	TOTAL	RATIO
1976 Sep	21,226	61,507	.345	23,052	65,929	.350
Dec	20,924	63,084	.332	22,685	67,323	.337
1977 Mar	17,923	57,332	.313	19,713	61,073	.323
Jun	18,211	55,786	.326	20,031	58,958	.340
Sep	20,250	60,232	.336	22,479	64,389	.349
Oct	6,621	19,036	.348	7,309	20,324	.360
Nov	7,398	22,359	.331	8,126	23,754	.342
1976 II	42,150	124,591	.338	45,737	133,252	.343
1977 I	36,134	113,118	.319	39,744	120,031	.331
1977 II (e)	41,279	122,324	.337	45,632	130,506	.350

Source: ABS 5609 "Housing Finance for wner ccupation"

(e) Month of December is estimated by a pro-rata of 2 month to November figures.

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C. INDICATORS OF DWELLING SECTOR ACTIVITY

(Seasonally Adjusted)

TOTAL PRIVATE COMMENCEMENTS*

APPROVALS

	AUST ('000)	NSW	VIC	QLD	SA ('000)	WA	TAS
1975	133.1	28.7	31.1	18.3	11.1	13.8	2.7
1976	150.7	31.5	36.5	22.2	14.0	18.7	3.6
1977	107.0	31.4	30.7	22.1	9.2	16.8	2.6
Quarter:							
1976 Sep	37.7	8.0	9.2	5.9	3.7	4.2	0.9
Dec	38.5	8.7	9.6	5.9	3.5	4.3	1.0
1977 Mar	34.5	8.4	8.1	5.4	2.6	4.9	0.6
Jun	31.4	7.9	7.7	5.0	2.3	4.6	0.6
Sep	32.3	8.1	7.4	5.7	2.4	3.7	0.8
Dec	32.8	7.0	7.5	6.0	1.9	3.6	0.6
Half-year:							
1976 II	76.2	16.7	18.8	11.8	7.2	8.5	1.9
1977 I	65.9	16.3	15.8	10.4	4.9	9.5	1.2
II	65.1	15.1	14.9	11.7	4.3	7.3	1.4

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ACT	NT	AUST	GOVT* COMMS AUST ('000)	TOTAL COMMS AUST ('000)	PRIVATE DWELLING INVESTMENT ($m, 1966-67 prices)
3.3	na	109.8	18.3	128.0	1,222
3.2	na	130.8	13.1	144.0	1,539
2.2	0.8	115.4	13.8	129.0	na
0.8	0.3	33.1	3.7	36.8	394 (+27.5)
0.6	0.2	33.6	3.9	37.7	397 (+18.5)
0.7	0.1	31.0	4.1	35.0	375 (+2.5)
0.4	0.4	28.9	3.6	32.5	364 (-4.7)
0.5	0.2	28.2	3.0	31.1	343 (-12.9)
0.6	0.1	27.3	3.1	30.4	na
1.4	0.5	66.7	7.6	74.5	791
1.1	0.5	59.4	7.7	67.5	739
1.1	0.3	55.5	6.1	61.5	

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TO STAMMER

CONFIDENTIAL

RBA RESEARCH DEPARTMENT

FROM FRENEY

HOUSING FINANCE AND ACTIVITY - INFORMATION PAPER

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This reflects some taking up of loans that would otherwise have been made by permanents; official encouragement for housing lending; and gradual portfolio adjustment following the changes to a 45 per cent prescribed asset ratio. (The speed of this adjustment was slowed, however, by a preference to hold Commonwealth Government Securities in anticipation of capital gains consequent upon widely anticipated future reductions in interest rates).

Table A shows that the proportion of finance going into new dwellings fell slightly in the second half of 1977. This new/used ratio is relevant to prospective levels of construction activity. However the relative importance of funds flowing to new, as opposed to existing housing, can be easily exaggerated unless due consideration is given to the adequacy of the housing stock for the needs of the population and its growth rate. The large post war expansion in the stock of houses means that the process of re-shuffling within the existing stock (including alterations and additions) can make a substantial contribution to satisfying housing needs.

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PROSPECTS

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Very uneven coverage.

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Ref CGSL by 013).

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preference for expanding housing loans in their assets portfolio could be dampened. Obviously that would tend to delay the resumption of growth in housing loans.

However in the absence of such developments, the prospective level of finance in the months ahead is expected to support moderate increases in construction activity, particularly as less of new lending should then be absorbed in reducing stocks of existing new houses. The lengthy pipeline from finance approvals to new dwelling commencements helps to attenuate seasonal bumps in new lending.

Speculative building activity should increase since stocks of new houses are at a more normal level. Finance companies, which are a major source of funds for builders and developers experienced strong balance sheet growth during the second half of 1977 and are now well placed to meet demand from this segment of the dwelling construction industry.

Another factor influencing residential construction is investor confidence which is an important factor in multi-unit dwelling construction.

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R-71-2209-12

FACSIMILE BY VOCADEX

Message no 8

RESERVE BANK OF AUSTRALIA Recd. 10 MAR 1978 SECRETARY'S DEPT.

CONFIDENTIAL

SUMMARY

Recent indicators portray a declining activity picture. This is seen as the last stage of the adjustment to the excess stock position which had built up in 1976 when construction rates ran well ahead of underlying demand. In the latter part of 1977 and into 1978 lending has been quite strong. Although, in the liquidity rundown lending is likely to level out, anticipated funds flows will support a moderate lift in new activity. Of course, the bulk of new finance will, as usual go to finance transactions in existing houses as people satisfy their changing housing demands in this way.

The ability of current funds flows to support moderate, sustainable activity growth is matched by no indication of growing queues of unsatisfied "credit-worthy" borrowers.

Funds flows are as noted, seasonally levelling. They do, as usual bear close watching to ensure they support moderate activity growth.

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A. FINANCE FOR HOUSING BY MAJOR LENDERS (a)

(Seasonally Adjusted - $m)

	SAVINGS BANKS	TRADING BANKS	PERMANENT BUILDING SOCIETIES	TOTAL	NEW	RATIO NEW/TOTAL
1973-74	1,138	722	754	2,614	972	.372
1974-75	1,723	439	707	2,869	897	.313
1975-76	2,082	669	1,549	4,300	1,318	.307
1976-77	1,997	645	1,553	4,195	1,348	.321
1976-77 Sep	535	193	316	1,044	337	.323
Dec	530	180	389	1,099	349	.318
Mar	471	140	415	1,026	333	.325
Jun	478	142	445	1,066	335	.314
1977-78 Sep	532	162	466	1,159	366	.316
Dec	537	164	384	1,085	338	.312
1976 II	1,065	373	705	2,143	686	.320
1977 I	949	282	860	2,092	668	.319
1977 II	1,069	326	850	2,244	704	.314

(a) Loan Approvals to individuals by Banks and Permanent Building Societies for construction or purchase of dwellings.

Source : Seasonally adjusted series of the Reserve Bank

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Table 13 - different basis from Table 4 - why? why both, with govt sector here?

B. FINANCE APPROVALS: ALL SOURCES

('000 original figures)

	PRIVATE			TOTAL		
	NEW	TOTAL	RATIO	NEW	TOTAL	RATIO
1976 Sep	21,226	61,507	.345	23,052	65,929	.350
Dec	20,924	63,084	.332	22,685	67,323	.337
1977 Mar	17,923	57,332	.313	19,713	61,073	.323
Jun	18,211	55,786	.326	20,031	58,958	.340
Sep	20,250	60,232	.336	22,479	64,389	.349
Oct	6,621	19,036	.348	7,309	20,324	.360
Nov	7,398	22,359	.331	8,126	23,754	.342
1976 II	42,150	124,591	.338	45,737	133,252	.343
1977 I	36,134	113,118	.319	39,744	120,031	.331
1977 II (e)	41,279	122,324	.337	45,632	130,506	.350

Source: ABS 5609 "Housing Finance for wner ccupation"

(e) Month of December is estimated by a pro-rata of 2 month to November figures.

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C. INDICATORS OF DWELLING SECTOR ACTIVITY

(Seasonally Adjusted)

	TOTAL APPROVALS	PRIVATE COMMENCEMENTS*					
	AUST ('000)	NSW	VIC	QLD	SA ('000)	WA	TAS
1975	133.1	28.7	31.1	18.3	11.1	13.8	2.7
1976	150.7	31.5	36.5	22.2	14.0	18.7	3.6
1977	107.0	31.4	30.7	22.1	9.2	16.8	2.6
Quarter:							
1976 Sep	37.7	8.0	9.2	5.9	3.7	4.2	0.9
Dec	38.5	8.7	9.6	5.9	3.5	4.3	1.0
1977 Mar	34.5	8.4	8.1	5.4	2.6	4.9	0.6
Jun	31.4	7.9	7.7	5.0	2.3	4.6	0.6
Sep	32.3	8.1	7.4	5.7	2.4	3.7	0.8
Dec	32.8	7.0	7.5	6.0	1.9	3.6	0.6
Half-year:							
1976 II	76.2	16.7	18.8	11.8	7.2	8.5	1.9
1977 I	65.9	16.3	15.8	10.4	4.9	9.5	1.2
II	65.1	15.1	14.9	11.7	4.3	7.3	1.4

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ACT	NT	AUST	GOVT* COMMS AUST ('000)	TOTAL COMMS AUST ('000)	PRIVATE DWELLING INVESTMENT ($m, 1966-67 prices)
3.3	na	109.8	18.3	128.0	1,222
3.2	na	130.8	13.1	144.0	1,539
2.2	0.8	115.4	13.8	129.0	na
0.8	0.3	33.1	3.7	36.8	394 (+27.5)
0.6	0.2	33.6	3.9	37.7	397 (+18.5)
0.7	0.1	31.0	4.1	35.0	375 (+2.5)
0.4	0.4	28.9	3.6	32.5	364 (-4.7)
0.5	0.2	28.2	3.0	31.1	343 (-12.9)
0.6	0.1	27.3	3.1	30.4	na
1.4	0.5	66.7	7.6	74.5	791
1.1	0.5	59.9	7.7	67.5	739
1.1	0.3	55.5	6.1	61.5	

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~~Governor~~
~~Deputy Governor~~

Housing

Mr Freney, Treasury, 'phoned. He began by noting that housing trends and housing finance were attracting quite a bit of attention at present.

The Treasurer had received a call from the Minister for Environment, Housing and Community Development last night (there had also been some pressures from HIA and other sources). The Minister for EHCD had outlined a generally depressing view of the housing sector. In response, the Treasurer had said that the situation merited close monitoring but no policy change was ~~merited~~. warranted.

On a suggestion from Treasury, the Treasurer is to volunteer a paper on the housing situation to the Monetary Policy Committee of Cabinet. It ~~was~~ proposed to have this paper go to the Committee early next week. The Treasurer looked to have this paper a joint Treasury/RBA offering.

Mr Freney said Treasury would vocadex a copy of a draft of the paper to us by close of business today; they would be looking for our reactions early next week.

Research Department
10 March 1978

DWStammer/kw

cc. Mr Mallyon, BFD

R-71-2209-12

F.160

RESERVE BANK OF AUSTRALIA

To Dan

Date _____ Time 10.25

WHILE YOU WERE OUT

M Freney

of Treasury

Phone 632-602 Ext. _____

TELEPHONED	✓	PLEASE CALL	✓
CALLED TO SEE YOU		WILL CALL AGAIN	
WANTED TO SEE YOU		URGENT	

Message Re. Housing Paper.

Joy

Initials.

175

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Deputy Governor,

Housing

Attached is a copy of the draft paper on housing prepared by Treasury. The intention is for a revised version of the paper to go forward from the Treasurer to the Monetary Policy Committee of Cabinet for consideration at the meeting, possibly next Thursday.

Mr Franey in Treasury suggested to me that the Treasurer was ~~suggesting~~ looking to have this a joint Treasury/Bank paper. Has this matter been raised with you?

Not officially, but seems OK.

For discussion (with Mr Mallyon?) on Monday.

DLS 10/3

Generally yes with. Please co-ordinate with [illegible] preparation of material to satisfy RBA part of view.

10/3

Roper:

Treasury

Idea initiated by Treasury.
That Tréa volunteer a paper.
Setting out facts of recent devels in proper context
of 1976

Then went ~~back~~ block with
~~Point made from Tréa in his discussion~~ Rod, I engaging in policy deliberations.
~~c Mr Groom.~~

In response to Tiny minute, Tréa responded
c annotation on Minute.

Tiny piece of paper - briefing for Mr Groom

~~In light of~~
Tiny suggested Tiny/RBA piece on
housing.

"I agree c your comparison regarding
Tiny/RBA paper".

Amenable to heading our views.
Has call to JB. on OK heading