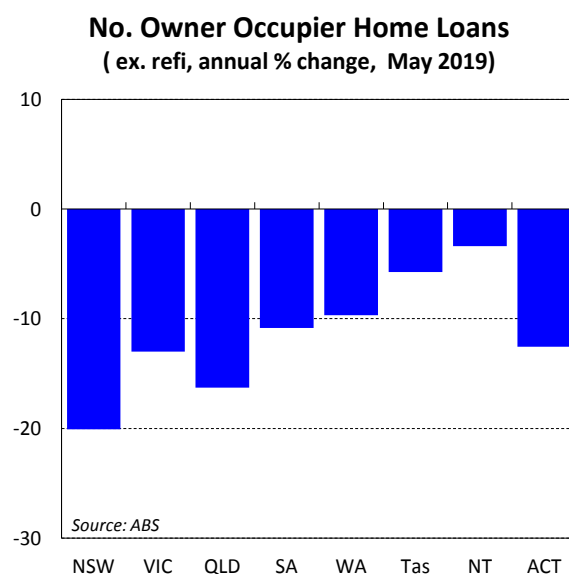
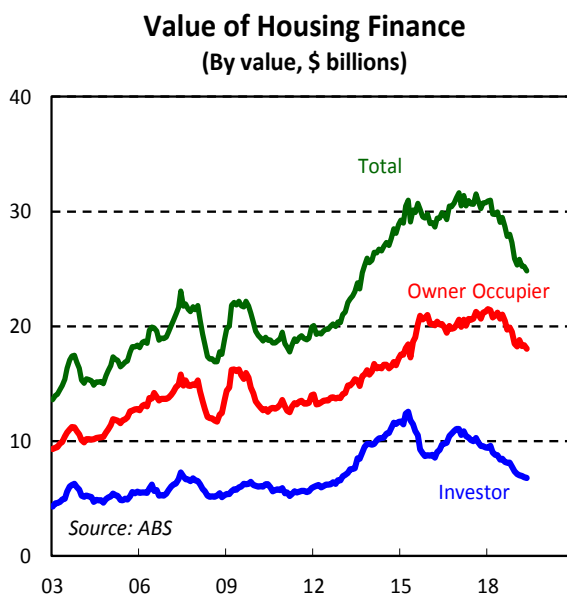


Thursday, 11 July 2019



Housing Finance As Bad as it Gets?

- Home lending continued to be sluggish in May. The number of owner-occupier home loans (excluding refinancing) edged down 0.1%. It was the third consecutive month owner occupier lending has declined. On a year ago, the number of owner-occupier loans was down 15.0%, the weakest since November 2010.
- On an annual basis, lending in all States and territories contracted. For NSW, it was the steepest annual decline since December 2012.
- Loans to investors excluding refinancing fell 1.7% in May, and have been in decline for ten consecutive months.
- Over the last few months, a number of factors have provided support to the housing market. Uncertainty from the Federal election has passed, two rate cuts from the RBA have been delivered and APRA has recently dropped the guideline of at least 7% for assessing the serviceability of home loans.
- There have also been increasing signs that sentiment in the housing market has improved. This improvement has been most evident in Sydney and Melbourne where auction clearance rates have continued to lift. Dwelling prices in these two capital cities lifted in June, the first monthly increase since 2017. Given these signs of a pick up in demand, we expect that home lending will also stabilise in coming months in these key cities.



Number of Loans to Owner Occupiers

Home lending continued to be sluggish in May, prior to recent rate cuts from the RBA, recent changes by APRA to borrowing guidelines and with the Federal election held on May 18.

In the month, the number of owner-occupier home loans (excluding refinancing) edged down 0.1%. It was the third consecutive month owner occupier lending has declined. On a year ago, the number of owner-occupier loans was down 15.0%, the weakest since November 2010.

Loans for the purchase of new dwellings (-0.6%) and the purchase of established dwellings (-0.8%) drove the decline in May. It was offset by a gain in loans for the construction of dwellings (3.5%). Loans for refinancing of established dwellings rose 0.3%.

On an annual basis, lending was weak across all categories. Loans for the purchase of new dwellings were down sharply (-25.8%), as was the purchase of established dwellings (-16.0%). Refinancing (-6.9%) and the construction of dwellings (-4.6%) were also down in the year.

No. of Owner Occupier Loans by State

There were mixed results across the States and territories. In May, owner-occupier loans (excluding refinancing) lifted in the ACT (3.5%), Victoria (2.7%) and Tasmania (2.4%) and edged slightly higher in Queensland (0.1%), following gains in the previous month. Loans declined in other States, including NSW (-1.6%), South Australia (-2.7%), Western Australia (-0.8%) and the Northern Territory (-13.4%).

On an annual basis, all States and Territories remained in decline. It was the steepest annual decline in NSW (-20.1%) since December 2012. The annual pace was also weak in Queensland (-16.3%), Victoria (-13.0%), the ACT (-12.6%), South Australia (-10.8%), Western Australia (-9.7%), Tasmania (-5.7%) and the Northern Territory (-3.4%).

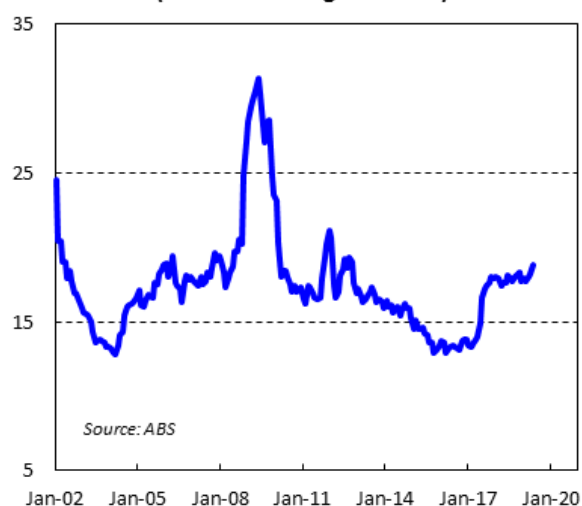
Value of Housing Finance

In value terms, home lending fell 2.4% in May, and has not grown for three consecutive months.

The value of owner-occupier lending fell 1.7%. The larger fall comparative to the number of loans suggest a smaller average loan size as prices weakened across the country.

Loans to investors fell 1.7% in May, and have been in decline for ten consecutive months. With signs that sentiment in the housing market improved from June, we expect to see some improvement in coming months.

First Home Buyers
(% of all dwellings financed)



First-Home Buyers

First-home buyers as a proportion of all dwellings increased to 18.8% in May, the highest in 6½ years. The improvement in affordability as a result of moderating dwelling prices is enticing first-home buyers back into

the market.

The increased activity among first-home buyers supports the view that the housing market could be bottoming.

Outlook

In recent months, there have been a number of supportive factors for the housing market. Uncertainty from the Federal election has passed, two rate cuts from the RBA have been delivered and APRA has recently dropped the guideline of at least 7% in assessing serviceability of home loans.

There have also been increasing signs that sentiment in the housing market has improved. This improvement has been most evident in Sydney and Melbourne, where auction clearance rates have continued to lift. Dwelling prices in these two capital cities lifted in June, the first monthly increase since 2017. Given these signs of a pick up in demand, we expect that home lending will also stabilise in coming months in these key cities.

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