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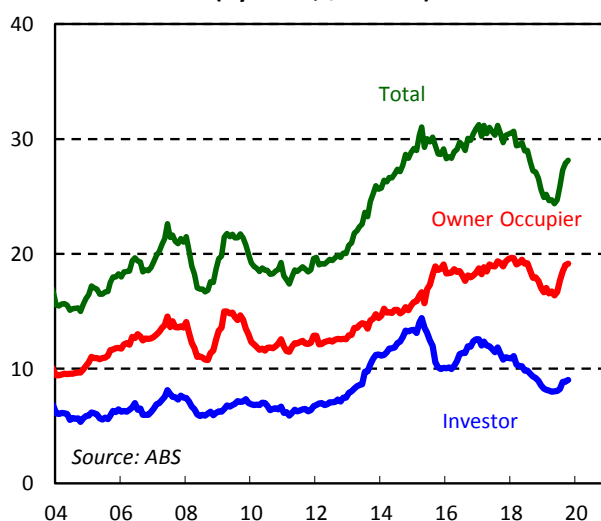


Housing Finance

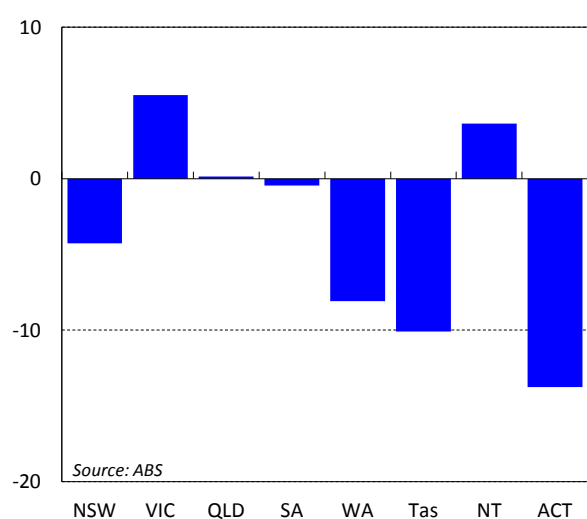
Owner Occupiers Drive Lending Higher

- Lending to the housing market showed further signs of expansion in October, according to the latest lending data.
- The Australian Bureau of Statistics (ABS) has updated its methodology for the latest release. The updated numbers show that the value of new lending (excluding refinancing) rose 2.0% in October, after a 0.4% fall in September.
- New lending has been trending higher since June, averaging 2.9% growth per month since the Reserve Bank (RBA) began cutting the cash rate. On an annual basis, new lending rose 0.9% in October, its first positive outturn in two years.
- Both owner occupiers and investors increased their borrowing over the month. Growth in new lending to owner occupiers outpaced investor growth, registering a 2.2% increase over the month in value terms compared with a 1.4% rise in investor lending.
- The number of new loans to owner occupiers saw more modest growth of 0.6%, its slowest increase since May.
- The RBA's rate cuts this year have helped boost the demand for new loans and pushed up house prices. The current low interest rate environment and the prospect of more rate cuts to come suggest that growth in new lending will continue.

Value of Housing Finance
(By value, \$ billions)



No. Owner Occupier Home Loans
(ex. refi, annual % change, Oct 2019)



Note that a change in procedure for collection of data by the ABS has meant that the availability of data for new loans has changed. However, the trend of new lending remains the same. That is, both owner occupier and investor lending has recovered following three rate cuts by the RBA since June, with owner occupier lending outpacing growth in new loans to investors.

Number of Loans to Owner Occupiers

The number of new loans to owner-occupiers (excluding refinancing), rose 0.6% in October compared with a 2.2% increase in September. Growth over the month was the slowest since May, before the RBA began cutting interest rates. On an annual basis, the number of new loans to owner occupiers contracted 1.0%, its 22nd consecutive decline.

By type of loan, growth was strongest for the construction of new dwellings. At 5.5% over the month, it was the biggest increase since July 2018. The number of loans for the construction of new dwellings has risen for two months in a row, a positive sign for residential construction which has been languishing over the past year.

Loans for the purpose of purchasing new dwellings rose 1.3% while the loans for established dwellings recorded their first fall in five months, contracting 0.3%. There was also a reversal in the number of refinances, despite three rate cuts since June. Refinancing for owner occupier loans fell 1.4%, the first fall since June after growing strongly in the interim months.

No. of Owner Occupier Loans by State

Solid lending growth to owner occupiers was recorded across all States and territories (excluding refinancing). The fastest lending rates occurred in NSW, Victoria and the ACT, where dwelling prices have also recorded a deeper recovery than typical at this stage in the cycle. Victoria was the fastest at 17.8% in the month, followed by the ACT at 17.1% and NSW at 11.8%. Other States and territories recorded monthly growth of 2.6-10.6%.

The annual rates of change in each State and territory consequently improved in October, however, remained in decline for ACT (-13.8%), Tasmania (-10.1%), WA (-8.1%), NSW (-4.3%) and SA (-0.5%). Annual growth turned positive in October in Victoria (+5.5%), NT (+3.6%) and QLD (+0.1%).

Value of Housing Finance

In value terms, lending to all borrowers (excluding refinancing) rose 2.0% in October, which is the fourth monthly gain in the past six months. Both owner-occupier and investor loans recorded strong rises in the month, of 2.2% and 1.4%, respectively. However, the trend has revealed the growth in owner-occupier lending has been stronger than for investor lending. Indeed, on a year ago, the pace is up 5.7% for owner-occupier lending, which is the fastest since January 2018. But investor lending is still contracting on a year ago (-9.7%), although the size of the contraction has been shrinking since May 2019. The annual pace is also the best outcome since August 2017, despite being in negative territory.

Outlook

Record low interest rates and the prospects of more cuts by the RBA to come have resulted in a resurgence in the housing market. Demand for new loans from both investors and owner occupiers has been robust, with the latter driving much of the increase.

Against the backdrop of continued softness in residential construction, the increase in latest month for loans for the purpose of construction of new dwellings is a positive. However, investment into the sector is expected to remain soggy with turnover still at historically low levels and lingering concerns around building integrity in the high-rise segment.

We expect the recovery in the housing market to continue, especially with the prospect of further monetary easing on the cards.

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