Data Snapshot

Wednesday, 10 August 2016

Bank of Melbourne

Housing Finance
The Tide Continues To Rise

- The number of new loans to owner occupiers rose by 1.2% in June following a revised 0.8% decline in May. Following this increase, loans were 6.7% higher than a year ago. While this reasonably firm it is well down on the 13.1% growth seen over the year to May. The number of new loans to owner occupiers has been on an upward trend since 2011 and continued in June 2016.

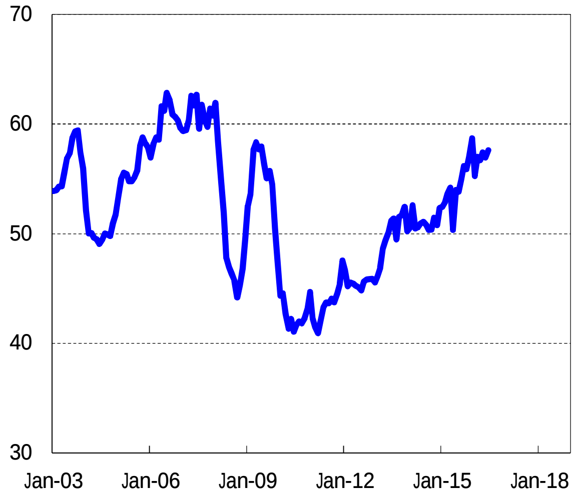
- The value of housing loans for investors rose 3.2% in June. In four of the past six months, the value of investor loans has risen.

- As a proportion of total loans, first home buyer loans edged higher, from 14.2% in May to 14.3% in June. As such, they remain very close to the 12-year low set in May.

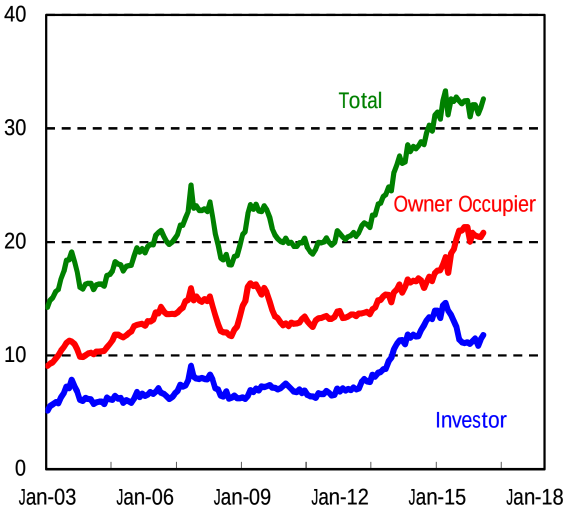
- On an annual basis, solid growth has continued in Victoria, South Australia and the ACT. Annual growth was firm in Tasmania, Queensland and NSW but contracted in Western Australia and in the Northern Territory.

- Demand for housing loans remains firm but has lost some of the zest seen over the past few years. This cooling of the home loan market is part of the reason why the RBA felt it could reduce its cash rate in August. That rate cut seems likely to support demand for home lending but is unlikely to unleash the surging levels of demand seen in earlier years.

Number of Housing Loans
(to Owner Occupiers, in thousands)



Aust. Housing Finance
(By value, $ billions)



Owner Occupier Home Loans by Number

The number of new loans to owner occupiers rose by 1.2% in June following a revised 0.8% decline in May. Following this increase, loans were 6.7% higher than a year ago. While this reasonably firm, it is well down on the 13.1% growth seen over the year to May. The number of new loans to owner occupiers has been on an upward trend since 2011 and continued in June 2016.

In June, there were an increased number of loans across three of the four major categories. Loans for the construction of new dwellings rose 2.1%; for the purchase of new dwellings they rose 2.7% and loans for the purchase of established dwellings rose 1.0%. There was a small, 0.4% decline in the number of number of owner occupiers refinancing established dwellings.

On an annual basis, growth is being led by the purchase of new dwellings (19.6%) and refinancing (12.4%). Annual growth in the number of loans for the purpose of constructing new dwellings (1.1%) turned positive for the first time since April 2015 while loans for the purchase of established dwellings rose 6.7%.

While this series is volatile month-to-month, it appears as if the RBA rate cut in May, combined with ongoing population growth, is providing support for the home loan market. The RBA rate cut in August is also likely to add support over the remainder of 2016.

By State

Owner occupier loans were mixed across States and Territories in June. The number of new owner occupier loans rose in the Northern Territory (3.9%), Queensland (2.4%), Tasmania (1.2%) and Victoria (0.5%). There were declines in Western Australia (-3.0%), NSW (-1.3%), the ACT (0.9%) and South Australia (-0.4%). WA has now seen six consecutive months of decline while Queensland has reported three consecutive months of growth.

On an annual basis, solid growth has continued in Victoria (12.4%), South Australia (11.4%) and the ACT (9.7%). Annual growth was firm in Tasmania (9.6%), Queensland (7.5%) and NSW (5.1%) but contracted in Western Australia (-10.7%) and in the Northern Territory (-1.7%).

Housing Finance by Value

The value of housing loans for investors rose 3.2% in June. In four of the past six months, the value of investor loans has risen. This follows a seven month run during which the monthly value of investor loans declined. On an annual basis, the pace of decline eased from -18.1% in May to -13.1% in the year to June.

Much like owner occupier lending, investor lending data is volatile. It is too early to discern how much the May monetary easing by the RBA has boosted investor lending. With the RBA further easing the cash rate in August it is possible investor demand may lift although it may be dampened by the lift in some term deposit rates. Measures taken by APRA will continue to keep a lid on demand by investors.

The value of housing loans, including investor and owner occupiers, rose 2.3% in June. Annual growth was flat, suggesting that the surge in demand for home loans seen over the past three years is winding back. That said, it could be rekindled by the further easing of monetary policy.

Fixed Home Loans

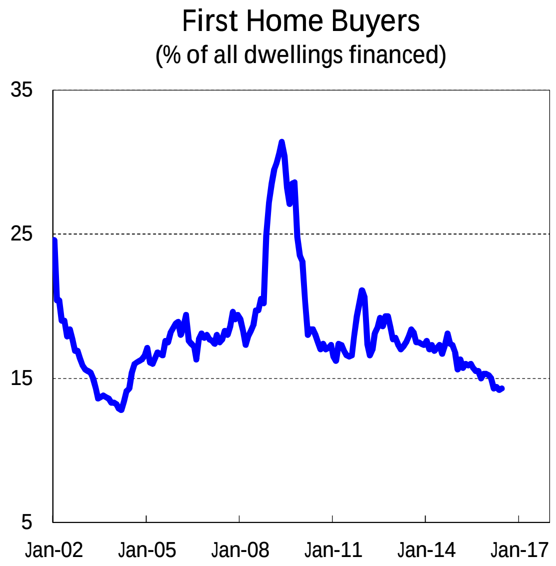
The proportion of borrowers fixing their loans as a percentage of all dwellings financed fell to

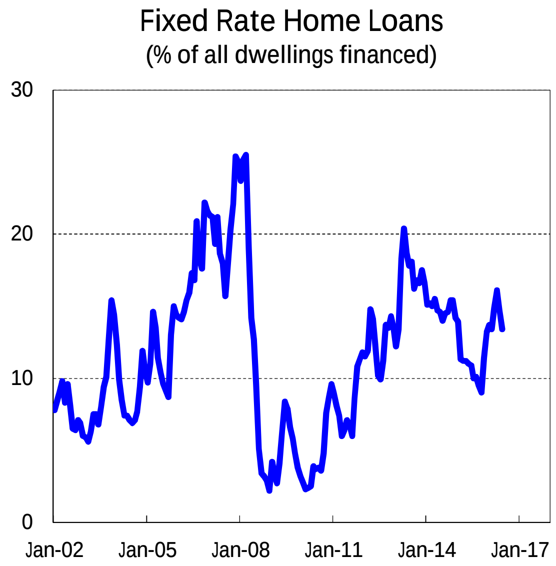
13.4% from 14.7% previously. The rate cut from the RBA in May and speculation about another rate cut later in the year (which occurred in August) appears to have reduced the appetite to fix lending rates.

The heightened uncertainty facing the global economy, which has lifted following the Brexit vote in the UK, ongoing low inflation and the unspectacular outlook for the global economy suggests that interest rates will remain low for some time.

First-Home Buyers

As a proportion of total loans, first home buyer loans edged higher, from 14.2% in May to 14.3% in June. As such, they remain very close to the 12-year low set in May.





Outlook and Implications

Demand for housing loans remains firm but has lost some of the zest seen over the past few years. This cooling of the home loan market is part of the reason why the RBA felt it could reduce its cash rate in August. That rate cut seems likely to support demand for home lending but is unlikely to unleash the surging levels of demand seen in earlier years.

While ongoing low interest rates will keep housing demand well supported among owner occupiers and investors, we expect that house price growth will continue to moderate. Measures by APRA should continue to keep a lid investor demand and the increased supply of dwelling units should also limit further price gains.

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