Data Snapshot

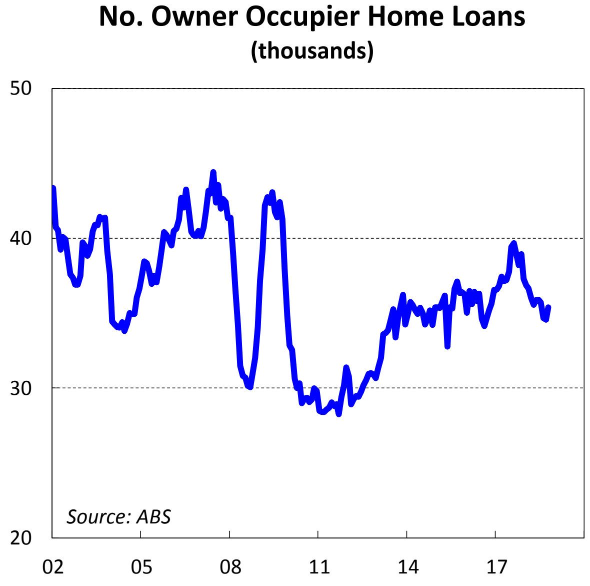
Monday, 10 December 2018

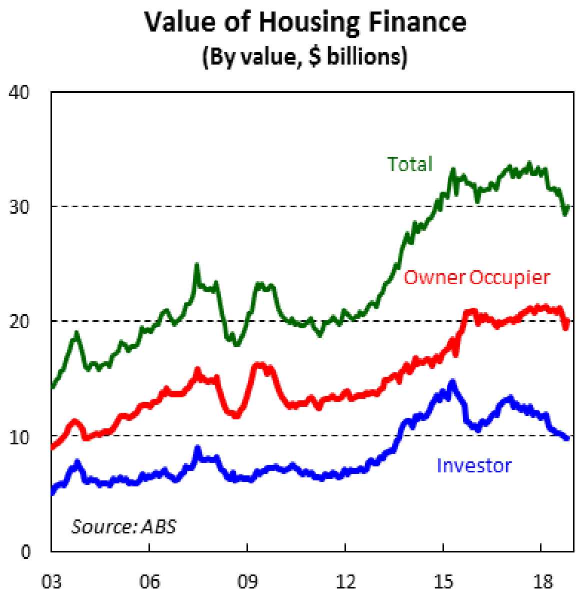
Bank of Melbourne

Housing Finance

Dead Cat Bounce

- **Housing lending rose in October both in terms of the number and value of loans extended. However, we expect the rise will be short-lived, especially given the weakness in other leading indicators. The underlying downtrend in housing lending remains intact.**
- **The underlying slowdown continues to be largest among investors, loans for new dwelling purchases, construction-related loans and for lending in NSW and Victoria.**
- **The number of owner-occupier loans rose by 2.2% in October, which is the first rise in three months. The annual rate for these loans fell by 4.8% in October. Lending to buy new dwellings posted the biggest decline in annual terms (-19.4%).**
- **The value of all loans lifted 2.6% in October, after two consecutive monthly declines. The annual rate remains in decline, down 8.6%. Investor lending remains the weakest segment.**
- **Today's housing-finance data does not change the narrative of a housing downturn that has further to run. Softening trends in pre-sales activity, auction rates, dwelling approvals and dwelling prices add to the evidence that we should expect more declines in housing lending and dwelling prices.**
- **Policymakers will be keeping a watchful eye on the housing market; the potential wealth effects from housing to the consumer pose downside risks to the economy. These downside risks are a key reason why we expect the Reserve Bank to leave rates on hold for an extended period.**





Number of Loans to Owner Occupiers

Housing lending to owner occupiers rose by a stronger-than-expected 2.2% in October. This reprieve from recent monthly declines is likely to prove short-lived, with the underlying trend in housing lending in decline. The increase in October was led by a recovery in financing for construction of dwellings (3.2%), lending for the purchase of established dwellings (2.2%) and refinancing activity (1.9%). Financing for the purchase of new dwellings (-0.6%) contracted further in October.

In the year to October, home loans for the purchase of new dwellings have declined most sharply (-19.4%), followed by loans for the construction of dwellings (-5.4%) and loans for the purchase of established dwellings (-3.7%). Refinancing lifted by 0.9% in the year to October.

Regulatory changes, the slowdown in the housing market, soft wages growth and high levels of household debt are weighing on housing lending.

By State and territory, the rise in lending to owner occupiers was led by the ACT (10.1%) and South Australia (7.1%) in October. The annual pace of owner-occupier loan growth was strongest in Tasmania, followed by the ACT and South Australia. The number of home loans has declined in all other States and territories in the year to October.

Housing Finance - Number of Owner Occupier Loans - by State and Territory

	NSW	VIC	QLD	SA	WA	Tas	NT	ACT	Australia
Month on Month % Change	0.3	5.1	0.8	7.1	-0.4	8.7	-10.0	10.1	2.2
Year on Year % Change	-7.8	-6.7	-5.2	4.0	-7.3	16.6	-24.8	8.1	-4.8

Source: ABS

First-Home Buyers

The proportion of first-home buyers edged up from 18.0% in September to 18.1% in October, the highest in four months. Conditions for first-home buyers are becoming relatively more favourable, given the moderation in dwelling prices and a range of incentives implemented by State governments in recent years.

Value of Home Lending

The total value of all loans (investor and owner-occupier) rose by 2.6% in October, which is the first increase in three months. Lending for owner-occupiers drove the increase, lifting 3.5% in the month. However, loans for investor housing also rose, edging 0.6% higher. It was the first increase in investor lending in eight months. Nonetheless, both forms of lending are continuing to trend downwards.

Annual rates for loans on owner occupiers and investors continued to be in decline. On a year ago, the value of owner-occupier loans was down 3.2%. For investor housing, it was down 17.9% in the year to October. Weakness in investor lending has been driven by the regulatory tightening in recent years, although owner-occupier lending is also becoming negatively impacted.

Outlook

Despite today's bounce in lending, there continues to be other signs that the housing downturn has further to run. Moreover, the next few months will be difficult to read, given turnover and activity falls in the holiday season. Weakness in the housing market remains a key downside risk to the economic outlook, particularly with regards to the wealth impact on consumer spending.

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