Housing Finance
Are Investors Making a Comeback?

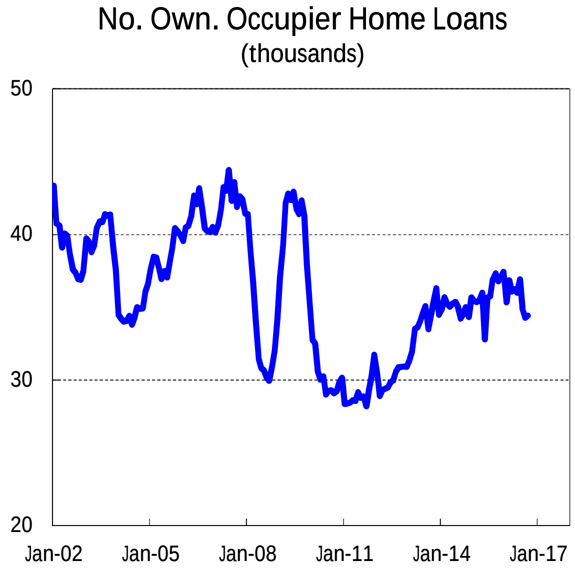
- The number of loans to owner occupiers rose 0.9% in September, and was the first gain in loans in three months. That said, the underlying trend remains weak. On an annual basis, total owner occupier loans fell 3.7% in the year to September, which was the weakest result since December 2012.

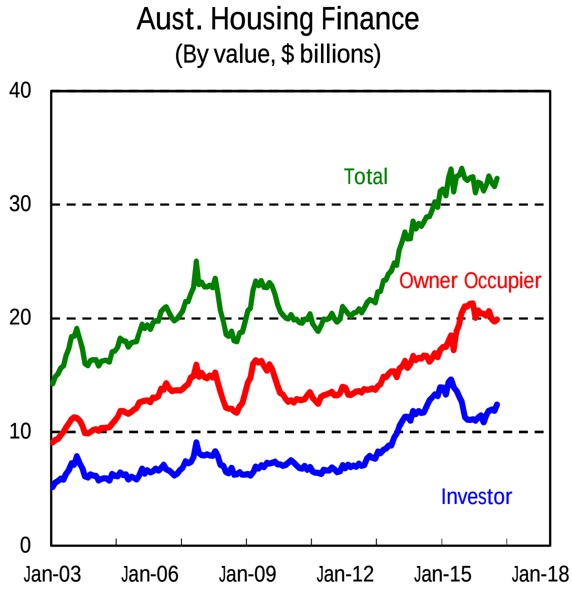
- The value of housing loans for investors jumped 4.6% in September, the strongest gain in four months. Investor lending has gained some traction after weakening over much of 2015. On an annual basis, investor home lending lifted 9.6% in the year to September, which was the strongest since June 2015.

- On an annual basis, loan growth has continued to weaken in NSW, and remains soft in Victoria, WA, and the NT. Loans in the ACT fell for the first time this year. Annual growth was positive in Tasmania, Queensland and SA.

- The RBA will be mindful of a revival in home lending for investors, although it should not be of significant concern at its current pace. This is a development that the RBA will be watching closely. A resurgence in investor home lending would raise the risk that financial stability will become an issue once again.

- While low turnover seems to be keeping a lid on lending growth, the lift in auction clearance rates and healthy gains in house prices could translate into stronger activity over the near-term.





Owner Occupier Home Loans by Number

Lending to owner occupiers rose 0.9% in September, a better result than the decline that we and markets had expected. It was the first gain in loans in three months. However, the underlying trend remains weak. There have been only three months when owner occupier loans have gained over the past nine months.

On an annual basis, total owner occupier lending fell 3.7% in the year to September, which was the weakest result since December 2012.

Low turnover is likely responsible for recent weakness in home lending. While house prices continue to rise and auction clearance rates remain elevated, it appears that housing conditions are less frenetic than this time last year. That being said, there remains a risk that recent rate cuts this year by the RBA will lead to a further pickup in activity.

Most categories of owner occupier lending rose in September, recovering some of the weakness in past months. Refinancing of established dwellings (3.7%), the purchase of established dwellings (2.0%) and the purchase of new dwellings (1.0%) all rose in the month. The number of loans for the construction of dwellings (-0.8%) was the only category to decline in the month.

On an annual basis, the construction of dwellings (-5.2%) and the purchase of established dwellings (-3.8%) weakened in the year. Meanwhile, refinancing (4.2%) and the purchase of new dwellings (0.8%) were stronger in the year to September.

By State

The number of owner occupier loans was up in September across the majority of States. This increase was led by both Victoria (3.9%) and Tasmania (3.9%), followed by Queensland (2.8%), Northern Territory (2.4%), NSW (2.3%) and South Australia (2.3%). The number of loans were down in the ACT (-3.9%) and Western Australia (-3.0%).

On an annual basis, loan growth has slowed considerably in many of the States. The number of loans in NSW fell 9.2% in the year to September, weakening from the 7.5% decline in August, and the weakest in 3½ years. Loan growth in Victoria has slowed from a double-digit pace last year to be down 2.1% in the year to September. The annual rate remained weak in the Northern Territory (-10.1%) and Western Australia (-10.9%). The ACT (-12.5%) fell for the first time this year. Meanwhile, Tasmania's loan growth grew noticeably in September by 17.0%, the strongest growth in almost two years. Annual growth was also positive in Queensland (5.5%) and South Australia (5.4%).

Housing Finance by Value

The value of housing loans for investors jumped 4.6% in September, the strongest gain in four months. Investor lending has gained some traction after weakening over much of 2015. On an annual basis, investor home lending lifted 9.6% in the year to September, which was the strongest since June 2015.

The RBA and APRA have been relatively relaxed about housing conditions and the pace of lending to housing investors. Today's jump in investor home lending is just one month of data in a volatile series, and not enough to seriously alarm the RBA or APRA. However, if growth continues at its current pace, it may cause greater concern.

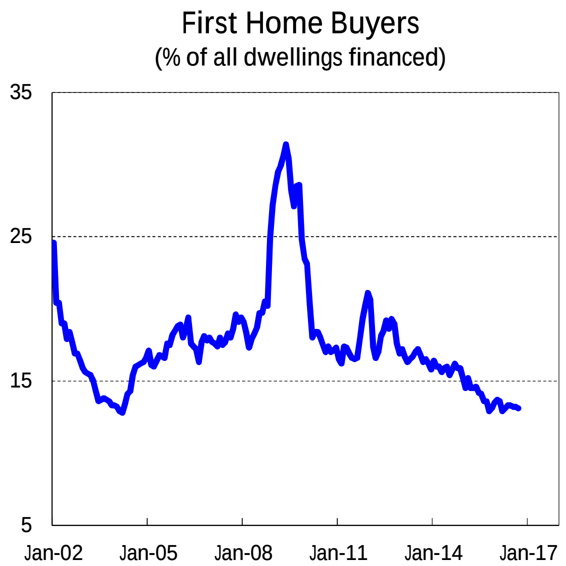
Fixed Home Loans

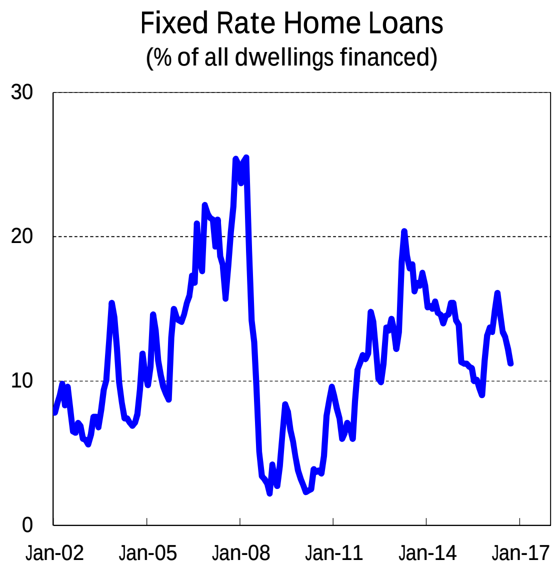
The proportion of borrowers fixing their loans as a percentage of all dwellings financed fell for the fifth consecutive month in September to 11.2%. This is an unsurprising result given the rate cuts by the RBA in May and August this year.

Nonetheless, recent developments in financial markets suggest that a bottom in swap rates (on which fixed rates are based on) may have passed, as global government bond yields have risen in recent months. However, we expect rates will remain at low levels while inflation stays subdued, and there remains a prospect the RBA will lower official interest rates again.

First-Home Buyers

As a proportion of total loans, first home buyer loans fell from 13.2% in August to 13.1% in September. The proportion of first home buyers remains very low by historical standards. While mortgage repayments are becoming more affordable, saving for a deposit is becoming an increasingly high hurdle for potential first home buyers as house price growth outstrips growth in wages.





Outlook and Implications

The RBA will be mindful of a revival in home lending for investors, although it should not be of significant concern at its current pace. This is a development the RBA will be watching closely. A resurgence in investor home lending would raise the risk that financial stability will become an issue once again.

The lift in auction clearance rates and further gains in house prices suggests that housing demand remains healthy and could still translate into stronger activity over the near-term. Activity could pick up over the next few months, although at present, low turnover seems to be keeping a lid on lending growth.

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