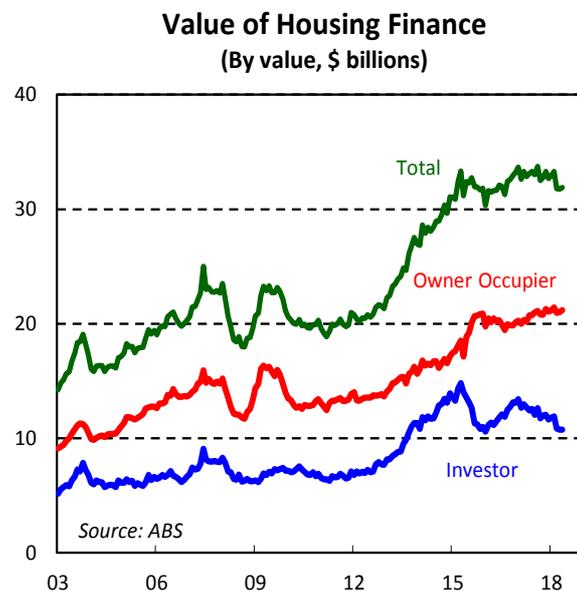
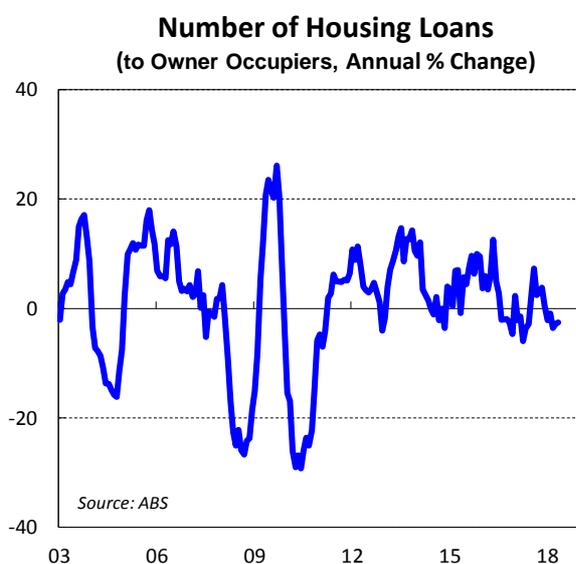


Housing Finance Slowdown Tempered

- Home lending had a reprieve in May, tempering the recent weak trend. The number of owner occupier loans rose 1.1% in May, following five consecutive months of decline. On an annual basis, owner occupier loans were down 2.5% in May.
- Annual rates were negative across most States and Territories in May, including NSW, South Australia, Queensland, the ACT, the Northern Territory and Western Australia. The annual pace of loans was modestly higher in Victoria and Tasmania.
- The weakness in home lending continued to be most pronounced among investors. The value of investor lending edged down 0.1% in May, which was the third consecutive monthly decline. On an annual basis, investor housing was down 13.4% from a year ago, while the value of owner occupier loans increased 2.1% over the same period.
- Today's data indicates that housing lending is showing some resilience, suggesting that population growth and strength in the labour market are helping temper the housing market slowdown. Nonetheless, softness in the housing market is expected to continue, with further modest price declines likely.
- In other data today, the Westpac-MI consumer sentiment measure jumped 3.9% to 106.1 in July. The reading is the highest since November 2013 and is further above 100 indicating more consumers are optimistic than pessimistic.



Number of Loans to Owner Occupiers

Home lending had a reprieve in May, tempering the recent weak trend. The number of owner occupier loans rose 1.1% in May, following five consecutive months of decline. While the number of owner occupier loans has declined 7.4% from its December 2015 peak, it remains above the long-term (10-year) average. On an annual basis, owner occupier loans were down 2.5% in May, an improvement from a 2.8% annual decline in April.

In May, finance for construction of dwellings rose by 1.2%, as did financing for the purchase of established dwellings. Finance for the purchase of new dwellings edged up 0.1%, following two months of decline.

The annual pace of owner occupier loans for construction of dwellings fell 6.3% in May, its third consecutive month of decline. All other key categories were weaker including purchase of new dwellings (-2.7%), purchase of established dwellings (-2.0%) and refinancing of established dwellings (-2.1%).

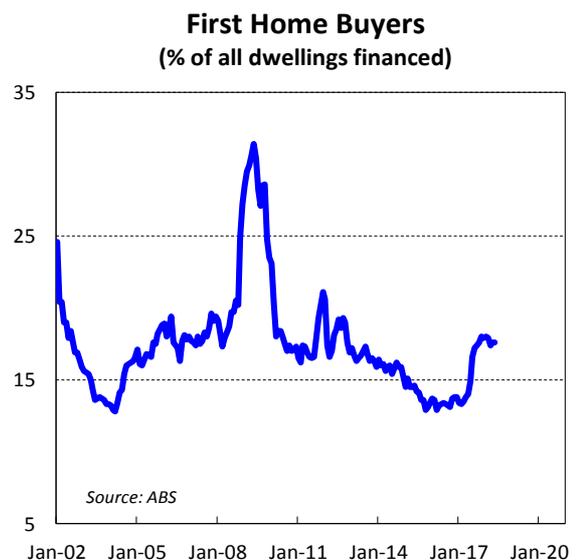
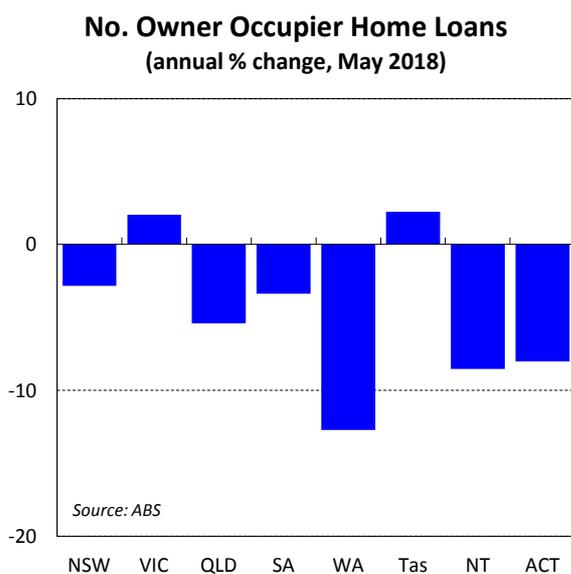
While housing finance improved in May, falling auction clearance rates and dwelling prices indicate that housing conditions are continuing to soften.

By State and Territory

In May, the number of owner-occupier loans rose in Victoria (3.5%), Tasmania (3.0%), NSW (1.3%), Queensland (0.8%) and South Australia (0.6%). The number of owner occupier loans declined in the ACT (-8.2%), the Northern Territory (-3.4%) and WA (-0.2%).

Annual rates were negative across most States and Territories, including NSW (-2.8%), South Australia (-3.4%), Queensland (-5.4%), the ACT (-8.0%), the Northern Territory (-8.5%) and Western Australia (-12.7%).

The annual pace of loans was modestly higher in Victoria (2.0%) and Tasmania (2.2%). In the case of Tasmania, this reflects the outperforming housing market, with dwelling prices up 12.7% in the year to June, according to RPData.



First-Home Buyers

First-home buyers (FHB) as a proportion of dwellings financed held at 17.6% in May, with increases in both first home buyers and non-first home buyers. The proportion of FHB appears to have stabilised at close to five-year highs after policy changes in NSW and Victoria last year.

Value of Home Lending

The value of investor lending edged down 0.1% in May, which was the third consecutive monthly decline. The value of owner occupier lending rose 0.7% in May, rising for the second month. The proportion of investors in May, at 33.7%, was the lowest since January 2012.

On an annual basis, investor housing was down 13.4% from a year ago, while the value of owner occupier loans increased 2.1% over the same period. Regulatory measures and tighter lending standards have had a larger negative impact on investors relative to owner occupiers and first home buyers.

The value of all loans rose 0.5% in May. In annual terms, all loans contracted 3.7% in the year to May.

Outlook

While housing finance improved in May, falling auction clearance rates and dwelling prices indicate that housing conditions are continuing to soften. Regulatory measures and tighter lending standards have impacted investor lending more noticeably, relative to owner occupier and first home buyers. Nonetheless, the number of loans to owner-occupiers has also eased over the past year. Softness in the housing market is expected to continue, with further modest price declines likely. Today's data indicates that housing lending is showing some resilience, suggesting that population growth and strength in the labour market are helping temper the housing slowdown.

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