Data Snapshot

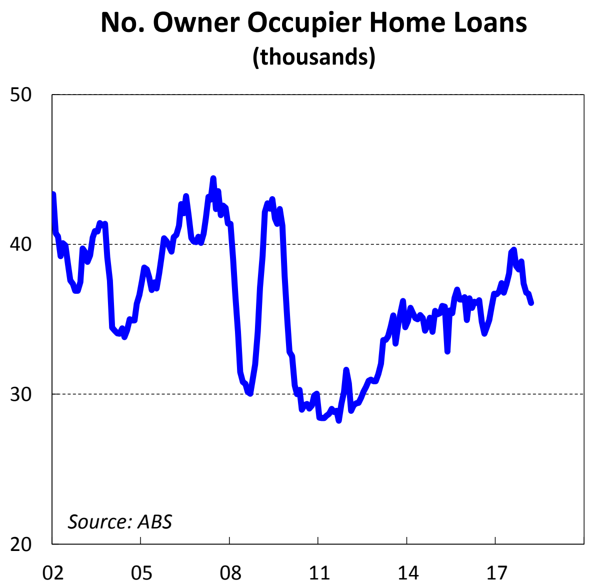
Friday, 11 May 2018

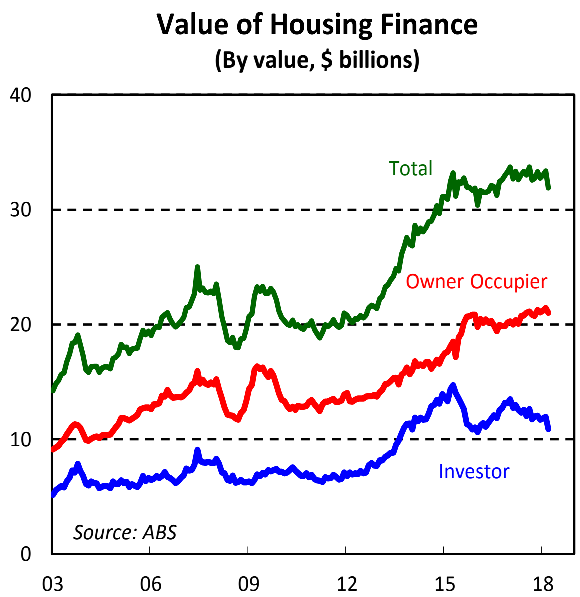
Bank of Melbourne

Housing Finance

Slip and Slide

- **A clearer trend of a softer home lending is establishing. The number of loans to owner occupiers fell 2.2% in March, the fourth consecutive month of decline. On an annual basis, owner occupier loans were down just a modest 3.5%, but this was the weakest in just under a year.**
- **Lending for the construction of dwellings and the purchase of new dwellings has moderated substantially from a double-digit pace in mid-2017. It suggests that residential construction is also likely to weaken further.**
- **There was weakness across most States. On an annual basis, owner-occupier lending was down in NSW (-3.4%), Queensland (-4.1%), South Australia (-12.2%), Western Australia (-11.2%), Tasmania (-2.9%) and the Northern Territory (-26.9%). Only Victoria (3.8%) and the ACT (8.4%) had positive annual growth.**
- **The weakness in home lending continued to be most pronounced among investors. In March, investor lending was down 9.0% on February, the biggest monthly percentage fall since September 2015.**
- **Today's data highlights a risk that the recent tightening in lending standards could curb home lending more substantially, however, this data tends to be volatile month-to-month. Further weakness is likely in coming months but we continue to expect only modest price declines in the housing market.**





Number of Loans to Owner Occupiers

A clearer trend of a softer home lending is establishing. The number of loans to owner occupiers fell 2.2% in March, the fourth consecutive month of decline. On an annual basis, owner occupier loans were down just a modest 3.5%, but this was the weakest in just under a year.

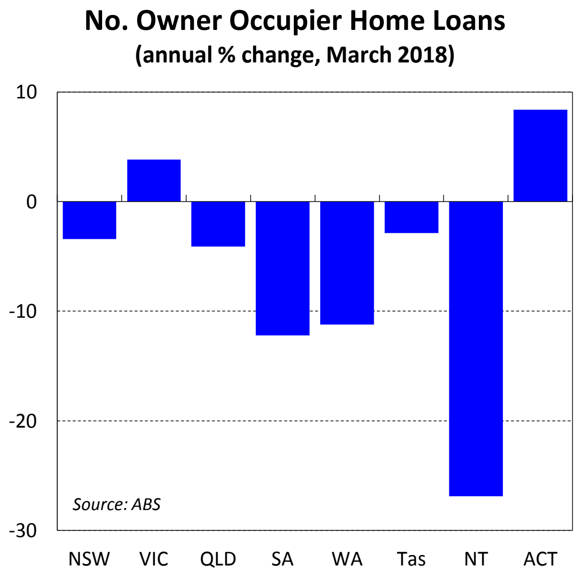
In March, weakness was broad-based with declines across loans for construction of dwellings (-4.4%), refinancing (-3.2%), purchase of established dwellings (-1.9%) and the purchase of new dwellings (-1.4%).

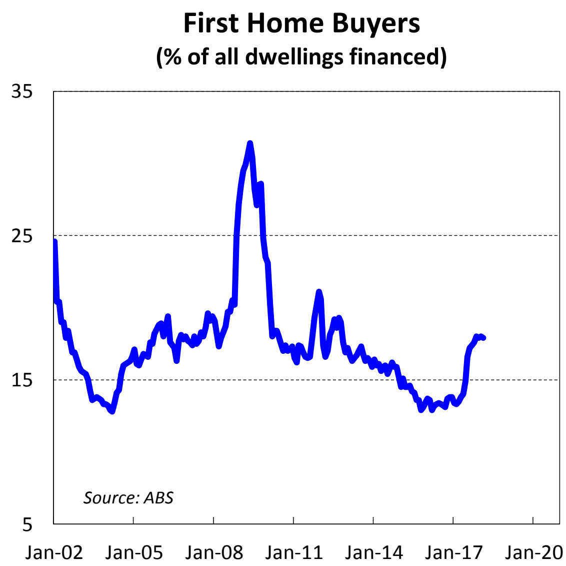
On an annual basis, there were also contractions across all categories with the exception of the purchase of new dwellings (5.3%). Loans for the construction of dwellings (-4.3%), the purchase of established dwellings (-4.0%) and refinancing (-3.5%) were all weaker on a year ago. Lending for the construction of dwellings and the purchase of new dwellings has moderated substantially from a double-digit pace in mid-2017. It suggests that residential construction is also likely to weaken further.

By State and Territory

In March, the number of owner-occupier loans fell in all States and territories except for Tasmania (1.9%) and the ACT (2.7%). A moderation in lending in NSW (-2.9%), Victoria (-1.5%) corresponds with softer dwelling prices in Sydney and Melbourne. Owner occupier lending was also weaker in Queensland (-0.3%), Western Australia (-2.3%), South Australia (-8.6%) and the Northern Territory (-10.3%).

The weakness across States was evident in the annual rates. Owner-occupier lending was down in NSW (-3.4%), Queensland (-4.1%), South Australia (-12.2%), Western Australia (-11.2%), Tasmania (-2.9%) and the Northern Territory (-26.9%). Only Victoria (3.8%) and the ACT (8.4%) had positive annual growth.





First-Home Buyers

First-home buyers (FHB) as a proportion of dwellings financed edged down from 17.9% in February to 17.4% in March. FHBs appear to have stabilised at close to five-year highs after policy changes in NSW and Victoria since last year.

Value of Home Lending

The weakness in home lending continued to be most pronounced among investors. In March, investor lending was down 9.0% on February, the biggest monthly percentage fall since September 2015.

On an annual basis, investor housing was down 16.1% from a year ago, which was the largest annual percentage decline in just under two years. Regulatory measures, tighter lending standards along with weaker confidence in the housing market have had a larger negative impact on investors relative to owner occupiers and first home buyers.

The value of all loans fell -4.4% in March after a 1.2% increase in February. It saw the annual rate fall from growth of 2.1% to a decline of 4.3%, suggesting a softening trend in overall lending.

Outlook

The sharp decline in investor lending is somewhat worrisome. While there is a risk that the recent tightening in lending standards could curb home lending more substantially, this data does tend to be volatile month-to-month. Further weakness is likely in coming months; however we continue to expect only modest price declines in the housing market. Housing demand should still be supported by low interest rates, population growth and strength in the labour market.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda	Josephine Horton	Janu Chan
dedab@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 3251	(02) 8253 6696	(02) 8253 0898