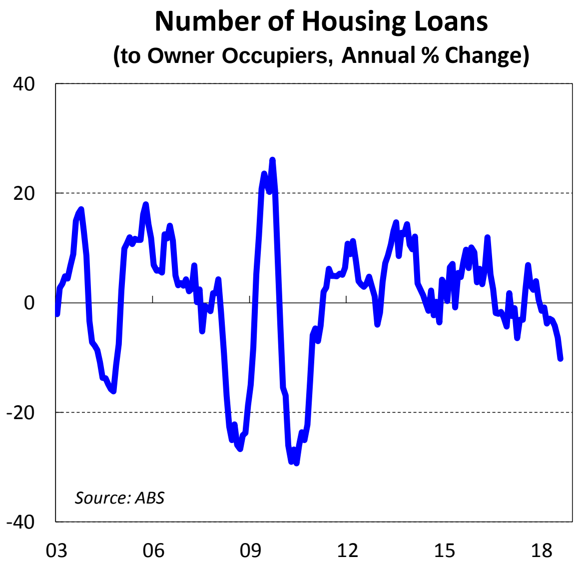
Friday, 12 October 2018

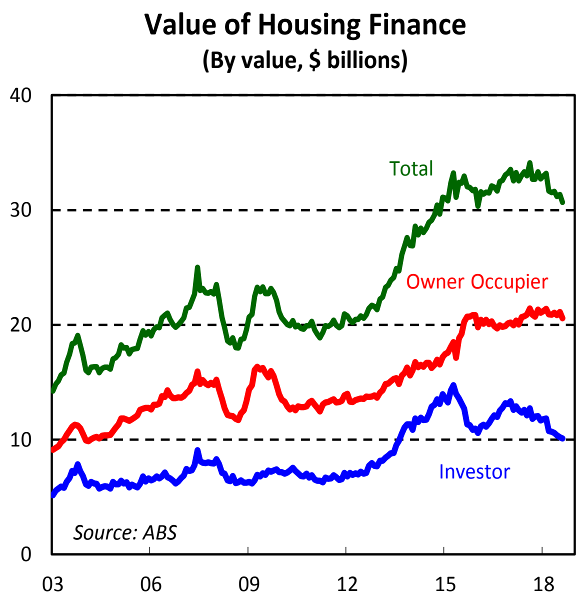
Bank of Melbourne

Housing Finance

Slippery Slope

- **The number of owner occupier loans was down 2.1% in August from July, which saw the annual rate step down from -6.4% to -10.2%. It was the weakest annual pace since late 2010.**
- **The weakness in investor demand is gathering pace. Investors have borne the brunt of regulatory tightening in recent years. In August, the value of investor lending was down 1.1%, and has weakened for six consecutive months. On an annual basis, the value of home lending to investors was down 10.1%, the weakest annual pace in almost eight years.**
- **On an annual basis, the number of owner-occupier loans in all States and territories were in decline with the exception of Tasmania. Housing prices in Hobart are outperforming all other capital cities.**
- **A downturn in housing is continuing. The weakness is likely to extend further reflecting tightening credit conditions amid higher funding costs and regulatory measures. While investor lending continues to be impacted more deeply than for owner occupiers and first home buyers, demand for housing overall is softening.**





Number of Loans to Owner Occupiers

Demand for housing is continuing to soften. The number of owner occupier loans was down 2.1% in August from July, which saw the annual rate step down from -6.4% to -10.2%. It was the weakest annual pace since late 2010.

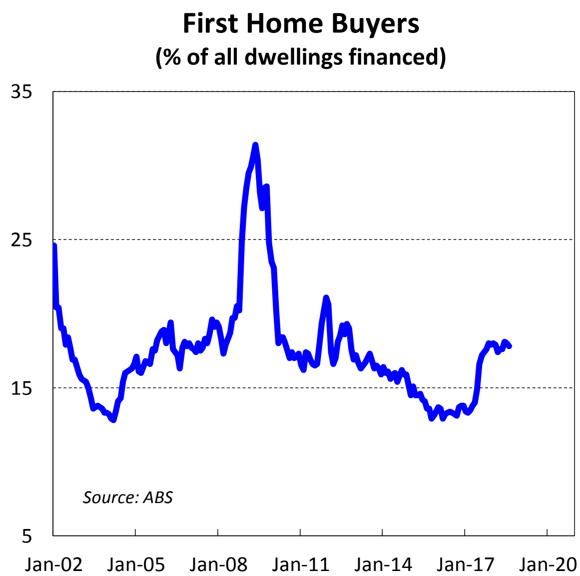
The weakness in August was concentrated in construction of dwellings, which fell 6.2% in the month, and suggests a larger downturn in residential construction in months to come. There was also weakness in for the purchase of established dwellings (-1.8%) and refinancing (-0.6%). The purchase of new dwellings (0.3%) was the only category of owner-occupier lending increasing in the month.

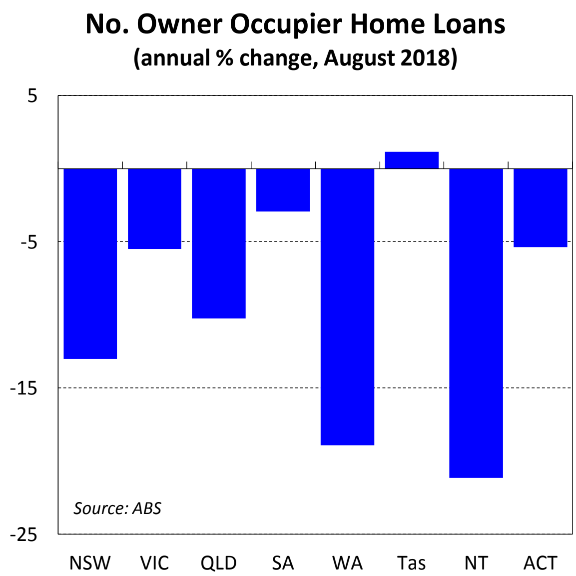
On an annual basis, all categories of lending were in decline. Weakness was being led by the purchase of new dwellings (-15.5%), followed by the construction of dwellings (-13.0%), then the purchase of established dwellings (-9.5%). Refinancing was also down in the year (-1.8%), but to a lesser extent.

By State and Territory

The number of owner-occupier loans was down across most States and territories in August, including Northern Territory (-10.5%), Queensland (-4.8%), Victoria (-3.0%), Tasmania (-2.2%), NSW (-1.0%), Western Australia (-0.3%). There were increases in the ACT (2.6%) and South Australia (1.9%) in the month.

On an annual basis, most States and territories were in decline. Tasmania was the exception (1.1%). Housing prices in Hobart are outperforming all other capital cities. In annual percentage terms, owner-occupier loans was weakest in the Northern Territory (-21.2%), followed by Western Australia (-18.9%), NSW (-13.0%), Victoria (-5.5%), the ACT (-5.4%) and South Australia (-2.9%).





First-Home Buyers

The proportion of first home buyers (FHB) eased from 18.0% in July to 17.8% in August. While first home buyers are relatively less impacted by regulatory changes over the past year, lending conditions for all home borrowers are likely to be affected.

Value of Home Lending

The weakness in investor demand is gathering pace. Investors have borne the brunt of regulatory tightening in recent years. Investors are also more likely to pull out of the market at this stage of the housing cycle. In August, the value of investor lending was down 1.1%, and has weakened for six consecutive months. On an annual basis, the value of home lending to investors was down 10.1%, the weakest annual pace in almost eight years.

Outlook

A downturn in housing is continuing. The weakness is likely to extend further reflecting tightening credit conditions amid higher funding costs and regulatory measures. While investor lending continues to be impacted more deeply than for owner occupiers and first home buyers, demand for housing overall is softening.

The housing sector is becoming an increasing source of weakness in the domestic economy. It has negative consequences for household wealth and could deter consumer spending. Today's data also provides evidence that residential construction will weaken further. Nonetheless, there continue to be key pillars of support for housing demand through firm population growth, and strength in the labour market.

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