Data snapshot

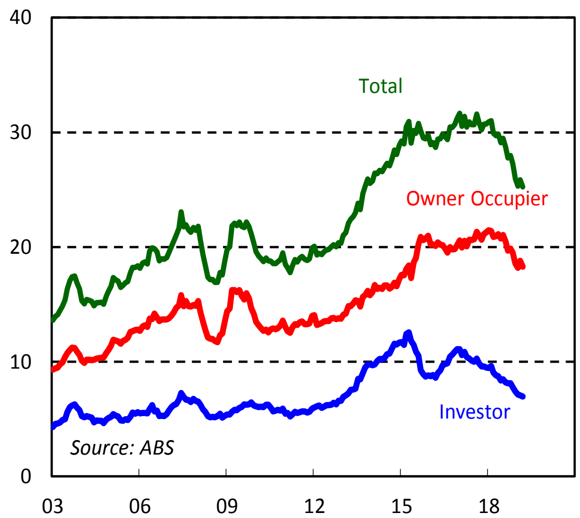
Bank of Melbourne

Monday, 13 May 2019

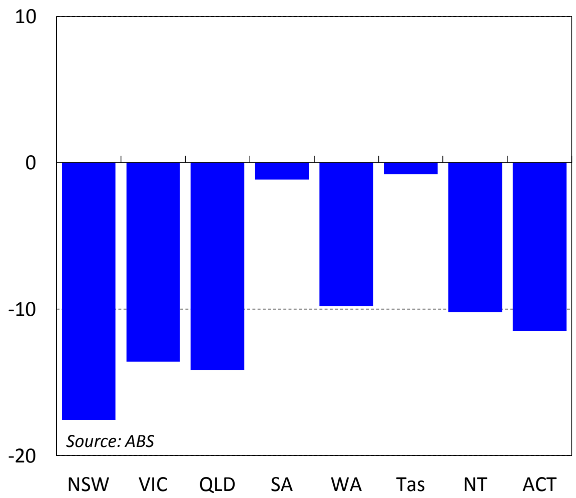
Housing Finance
Downward Momentum Resumes

- **Owner-occupier home lending (excluding refinancing) resumed its decline, falling 2.8% in March. It was the fourth drop in five months. A lift in lending over February proved to be a dead cat bounce. Today's data indicates that demand for housing is continuing to moderate.**
- **On an annual basis, all States and Territories were in decline. NSW (-17.6%), Queensland (-14.1%), Victoria (-13.6%), the ACT (-11.5%), Northern Territory (-10.2%), Western Australia (-9.8%), South Australia (-1.1%) and Tasmania (-0.8%) weakened in the year.**
- **Loans for investor housing (excluding refinancing) declined 2.7%. Investor loans have not increased for eight consecutive months. Investors have borne the brunt of tightening measures in recent years. APRA have recently ended their cap on investor loan growth, but other measures remain in place for lending. At this stage in the housing cycle, where house prices are continuing to fall, investors are unlikely to jump back into the market any time soon.**
- **While there have been some tentative signs of improvement in the housing market such as higher auction clearance rates and an easing in price declines in Sydney and Melbourne, today's data suggests that housing demand remains weak.**
- **Negative sentiment and entrenched expectations of further declines in house prices suggest that soft conditions in the housing market is likely to persist for a while longer.**

Value of Housing Finance
(By value, $ billions)



No. Owner Occupier Home Loans
(ex. refi, annual % change, Mar 2019)



Number of Loans to Owner Occupiers

Owner-occupier home lending (excluding refinancing) resumed its decline, falling 2.8% in March. It was the fourth drop in five months.

A lift in lending over February proved to be a dead cat bounce. Today's data indicates that demand for housing is continuing to moderate.

In the month, weakness was concentrated in the purchase of new dwellings (-4.7%) and the purchase of established dwellings (-3.3%). Refinancing of established dwellings (-2.0%) was also down in March. The construction of dwellings (0.1%) was the only category of loans to increase, and it was up only marginally.

On an annual basis, loans for the purchase of new dwellings were down sharply (-33.5%), the weakest since late 2008. It coincides with a large drop in approvals, particularly for apartments. All other categories were in decline in the year, including the purchase of established dwellings (-14.2%), refinancing of established dwellings (-5.9%) and for the construction of dwellings (-1.8%).

No. of Owner Occupier Loans by State

There were declines across all States and territories (excluding refinancing), with the exception of the Northern Territory, where loans rose 6.0% in March. Loans in Tasmania (-8.4%), NSW (-3.7%), Queensland (-2.7%), Western Australia (-2.4%), South Australia (-2.1%), Victoria (-1.2%) and the ACT (-0.3%) were weaker in the month.

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Value of Housing Finance

In value terms, lending also fell in March, down 3.2%. It more than retraced a 2.0% increase in February, and has declined in 7 out of the last 8 months. For owner occupiers (excluding refinancing), loans fell 3.4%, while loans for investor housing (excluding refinancing) declined 2.7%. Investor loans have not increased for eight consecutive months. Investors have borne the brunt of tightening measures in recent years. APRA have recently ended their cap on investor loan growth, but restrictive measures remain in place for lending. At this stage in the housing cycle, where house prices are continuing to fall, investors are unlikely to jump back into the market any time soon.

The annual pace remained weak across both owner-occupier and investor. Owner occupier lending contracted 15.2% in the year, while investor housing fell 25.9% in the year.

First-Home Buyers

First-home buyers as a proportion of all dwellings increased to 18.0% in March, just 0.3 percentage points lower than its recent peak in November 2018. Falling prices is resulting in an improvement in affordability. An increase in first home buyers in the market would provide a positive signal for demand, however it is too early to say there is a convincing upward trend. First home buyers could assist in stabilising the market as affordability improves further.

Outlook

While there have been some tentative signs of improvement in the housing market such as higher auction clearance rates and an easing in price declines in Sydney and Melbourne, today's data suggests that housing demand remains weak. The process of tightening credit conditions over last year may have passed, however negative sentiment and entrenched expectations of further declines in house prices suggest that soft conditions in the housing market is likely to persist for a while longer.

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