Tuesday, 13 March 2018

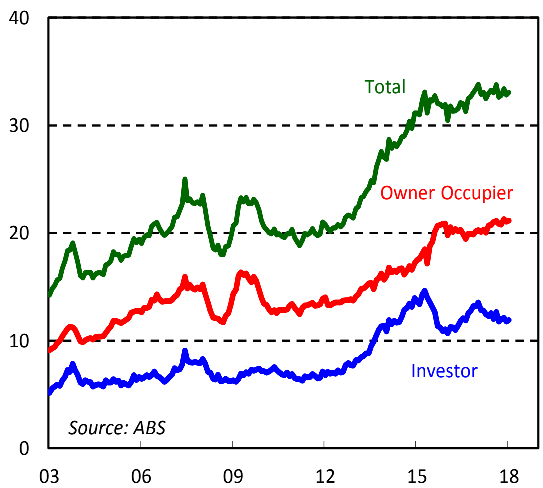
Bank of Melbourne

Housing Finance

Steady Slowdown Continues

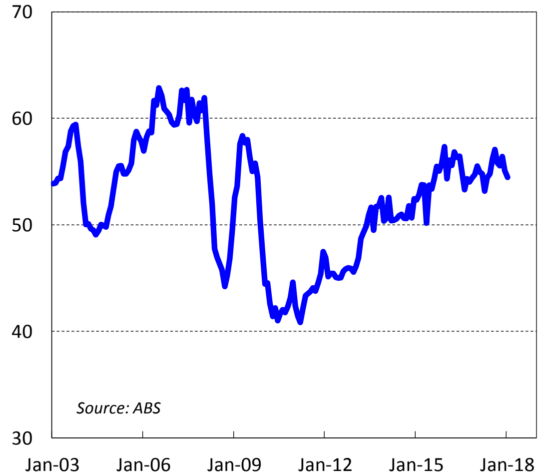
- **The housing cycle has entered a slowdown phase, as evidenced by the moderating trend in loans advanced to borrowers. It is also evidenced by the easing in pre-sales activity and weaker auction rates since early 2017.**
- **The slowdown has been steady to date, but also uneven across States and territories, types of borrowers and types of loans.**
- **The number of loans extended to owner occupiers in Victoria in January is only 2.1% away from its most recent cyclical peak compared with 8.4% in NSW and rates of well over 30% in WA and NT where the slowdowns have been sharper.**
- **Both lending to owner occupiers and investors is easing, but the downward shift is more noticeable in investor lending. The value of all loans rose 0.7% in January, after a decline of 1.7% in December 2017. The value of owner-occupier loans grew by 0.5% in January and the value of loans extended to investors grew by 1.1% in the month. But on a year ago, investor lending is down 12.1% while owner-occupier lending is up 4.4% in value terms.**
- **For the month of January, the number of owner occupier loans declined 1.1%, representing the fourth decline in the past five months. But is down just 1.9% on a year ago and is the first annual contraction in seven months.**
- **All types of loans are slowing, but again the slowdown is uneven across categories. The slowing is sharpest with refinancing, which is down 15.0% from its most recent peak. On the other hand, construction-related loans have held up best, down just 3.2% from the peak struck in July 2017.**
- **First-home buyers are returning to the housing market, as house prices have moderated and State and territory governments have offered greater incentives for first-home buyers. First-home buyers as a share of all loans stood at 18.0% in January, equal to November 2017's ratio, which was a five-year high. WA and NT have the highest shares of first-home buyer activity while SA and NSW have the lowest ratios.**
- **While there is a slowing underway in residential lending, it is clear it is currently gradual in nature. It is also clear that first-home buyer activity is recovering. The return of first-home buyers, low interest rates and population growth will help limit the downside in this housing slowdown.**

Value of Housing Finance
(By value, $ billions)



Number of Loans to Owner Occupiers

Number of Housing Loans
(to Owner Occupiers, in thousands)



The number of owner occupier loans fell 1.1% in January, representing the fourth fall in the past five months. The weakness in January was not broad based. Loans for construction lifted 3.1% in January and refinancing loans edged up 0.3% in the month. Other categories fell; lending for new homes dropped 4.7% and lending for established dwellings fell 1.5%.

All forms of lending are slowing, but the slowdown is gradual. The number of loans to owner occupiers peaked at the end of 2015 and is down 5.0% from this peak. If we were to exclude refinancing, the peak was struck much later (in August 2017).

The slowing is sharpest with refinancing, which is down 15.0% from its most recent cyclical peak. Lending to purchase new dwellings is down 9.9% from its peak (in November 2017) and loans for established dwellings are 7.3% off their recent cyclical high (recorded in December 2015). Construction loans have been the most resilient, down just 3.2% from the peak struck in July 2017.

Construction lending has only slowed more recently and only modestly, so the annual growth rate remains high at 14.2% in January. Annual rates for all the other loan categories are contracting (new loans down 0.6%, established loans down 3.9%, refinancing down 6.0%). All loans contracted 1.9% in January, the first annual rate of contraction in seven months.

By State and Territory

The slowdown in lending in past months is across all States and territories, but it is uneven. The slowdown in NSW is having a bigger drag on the total because the NSW lending market accounts for the biggest share of loans Australia-wide at about 30%. Victoria also accounts for a large share, at nearly 30%, and in the past two months lending has slowed in the Garden State. Lending has been slowing for longer in NSW. Indeed, lending in January is off 8.4% from its peak in NSW compared with 2.1% in Victoria.

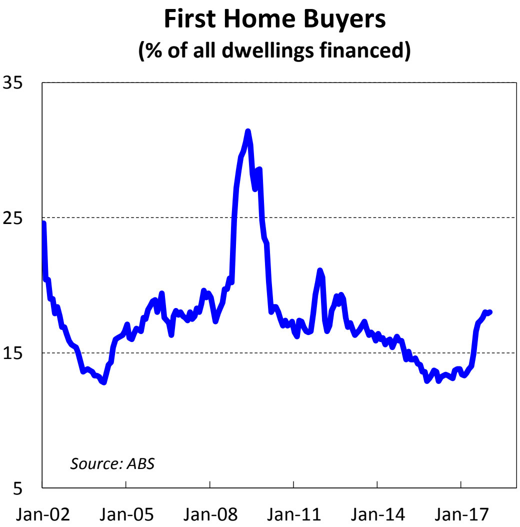
In terms of shifts from the most recent cyclical peaks, the regions that are further in the slowdown part of the cycle are WA and NT (at 36.7% and 34.3%, respectively). These two regions had housing markets that have suffered more deeply from the unwinding of the mining investment boom. QLD was also at the coalface of the mining investment phase. But QLD’s lending market has recovered modestly in recent months, as QLD economic activity has picked up traction and its job market has improved considerably.

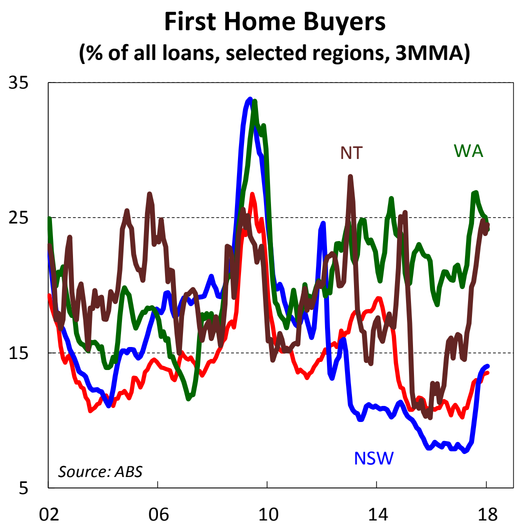
For January alone, all States and territories recorded declines in lending in January except Victoria and NT. These two regions recorded rises of 0.7% and 5.5%, respectively.

First-Home Buyers

First-home buyers are returning to the housing market, as house prices have eased slightly and State and territory governments have offered greater incentives or extensions of existing policies for first-home buyers. First-home buyers as a share of all loans stood at 18.0% in January, equal to November 2017’s ratio, which was a five-year high.

While the slowdown in lending is sharper in WA and NT, these regions also have the highest share of first-home buyer activity at 22.6% and 26.8%, respectively. South Australia has the lowest share at 13.1% in January, followed by NSW at 13.9%.





Value of Home Lending

The value of all loans rose 0.7% in January, after a decline of 1.7% in December 2017. Excluding refinancing, the value of loans recorded stronger growth of 1.2% in January. On a year ago, lending is down 2.2% in value terms, which is the second consecutive monthly contraction.

The value of owner-occupier loans grew by 0.5% in January and the value of loans extended to investors grew by 1.1% in the month. While the value of loans extended to investors had a reprieve in January, the annual rate is significantly lower compared with a year ago (down 12.1%, which is also the fifth consecutive monthly decline). The value of loans to owner occupiers is up 4.4% on a year ago.

The difference in the lending trends to the two types of borrowers highlights the shifts underway in the housing market. Lending is shifting towards owner occupiers, away from investors.

Outlook

The trends in housing lending confirm a slowdown is underway in the housing market. The softening in pre-sales activity and auction rates also build on this evidence. Both lending to owner occupiers and investors is easing, but the downward shift is more noticeable in investor lending.

While there is a slowing underway, it is clear it is gradual. It is also clear that first-home buyer activity is recovering. The return of first-home buyers, low interest rates and population growth will help limit the downside in this housing slowdown.

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