Data Snapshot

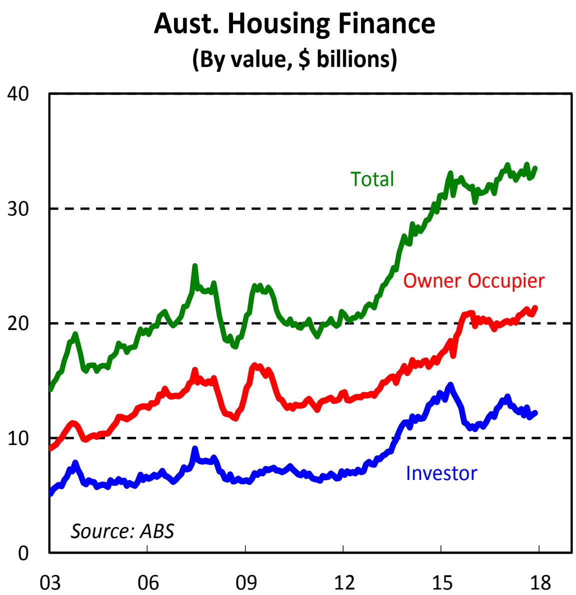
Wednesday, 17 January 2018

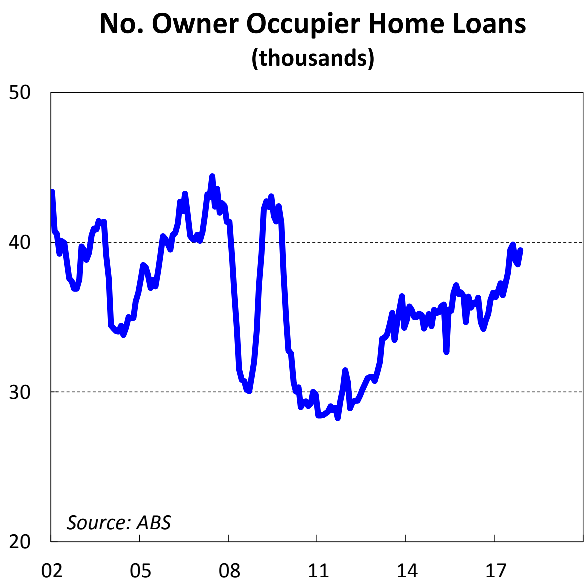
Bank of Melbourne

Housing Finance

Showing Resilience

- **The number of owner occupier loans rose 2.1% in November, following two consecutive months of decline. It might suggest some resilience in owner occupier housing demand despite other indicators, such as house prices and auction clearance rates, suggesting softer conditions.**
- **The value of investor loans rose 1.5% in October, which was the second consecutive monthly increase. The increase also suggests investor lending is holding up well in spite of regulatory measures, but a weakening trend remains intact.**
- **On an annual basis, owner occupier loan growth was strongest in the ACT (26.9%) followed by Victoria (11.6%). NSW (5.1%) and Tasmania (0.3%) also had positive annual growth. Meanwhile, there were declines in the year for Western Australia (-11.7%), the Northern Territory (-8.4%), South Australia (-3.4%), and Queensland (-1.0%).**
- **The proportion of first-home buyers (FHBs) continued to increase, as measures to benefit first home buyers continued to take further effect. The proportion of FHBs increased from 17.6% in October to 18.0% in November, a new five-year high.**
- **Regulatory measures have continued to have had the impact of curbing investor demand and shifting the favour towards owner occupiers and first home buyers. These measures are expected to continue to weigh on housing demand, particularly for investors, and a further moderation in housing conditions is expected to continue. That being said, demand does not appear to be weakening substantially. Indeed, there remains underlying support for housing given the strong pace of population growth and interest rates remaining low.**





Number of Loans to Owner Occupiers

The number of owner occupier loans rose 2.1% in November, following two consecutive months of decline. The monthly gain was more than the flat result expected by consensus and our estimate for a 1.0% increase, and might suggest some resilience in housing demand despite other indicators, such as house prices and auction clearance rates, suggesting softer conditions. Owner occupier demand appears to be holding up relatively well, as APRA's regulatory measures have mostly targeted investors.

The monthly gain saw the annual pace of growth step up from 2.6% in October to 4.0% in November.

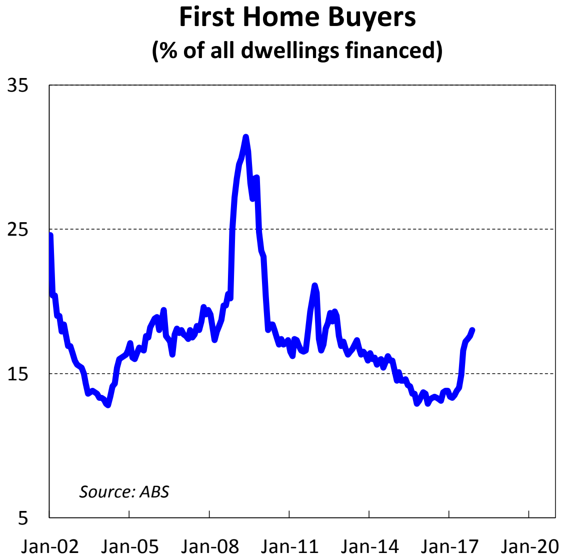
All categories of home lending increased in November including construction of dwellings (2.0%), the purchase of new dwellings (2.6%), the purchase of established dwellings (2.1%) and refinancing of established dwellings (1.5%).

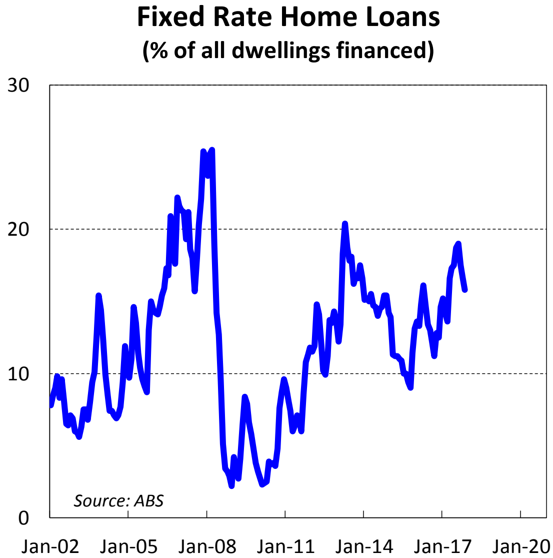
On an annual basis, growth continues to be driven by demand for new homes, and coincides with the high level of apartments hitting the market. The strongest growth was for the purchase of new dwellings (17.8%), followed by the construction of dwellings (7.6%). The purchase of established dwellings grew 2.7% in the year, while refinancing of established dwellings contracted 6.2% in the year.

By State and Territory

There were gains across most States and territories in November, including NSW (2.0%), Victoria (0.5%), Queensland (3.1%), South Australia (1.5%), Tasmania (0.7%) and the ACT (8.6%). Owner occupier lending declined in Western Australia (-3.5%) and the Northern Territory (-8.4%), pointing to further weakness in their respective housing markets.

On an annual basis, growth was strongest in the ACT (26.9%) followed by Victoria (11.6%). NSW (5.1%) and Tasmania (0.3%) had positive annual growth. Meanwhile, there were declines in the year for Western Australia (-11.7%), the Northern Territory (-8.4%), South Australia (-3.4%) and Queensland (-1.0%).





Value of Home Lending

The value of investor loans rose 1.5% in October, which was the second consecutive monthly increase. The increase also suggests some resilience in investor lending. Nonetheless, a weakening trend remains intact. Moreover, the annual pace softened from -5.8% in October to -8.3% in November.

The value of combined lending across both owner occupiers and investors grew 2.3%, for a rather modest annual pace of 0.8%.

Fixed Home Loans

The proportion of borrowers fixing their loans fell for the third consecutive month, to 15.8% in November, the lowest in eight months.

We continue to expect that fixed rates which are tied to market rates (swap rates) will continue to trend higher. While swap rates are impacted by RBA cash rate settings, they are also impacted by overseas developments. As global central banks look towards withdrawing stimulus, global bond yields should grind higher and take swap rates along with them.

First-Home Buyers

The proportion of first-home buyers (FHBs) continued to increase, as measures to benefit first home buyers continued to take further effect. The proportion of FHBs increased from 17.6% in October to 18.0% in November, a new five-year high.

Outlook

Today's data suggests some resilience in housing demand, particularly with owner occupiers. Regulatory measures have continued to have had the impact however, of curbing investor demand and shifting the favour towards owner occupiers and first home buyers. Regulatory measures are expected to continue to weigh on housing demand, particularly for investors, and ongoing moderation in housing conditions is expected to continue. That being said, demand does not appear to be weakening substantially. Indeed, there remains underlying support for housing given the strong pace of population growth and interest rates remaining low.

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