Data Snapshot

Wednesday, 8 June 2016

Bank of Melbourne

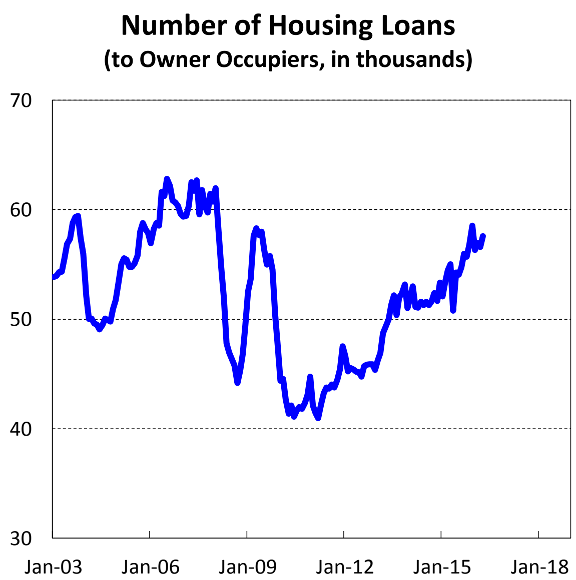
Housing Finance
Still Firm

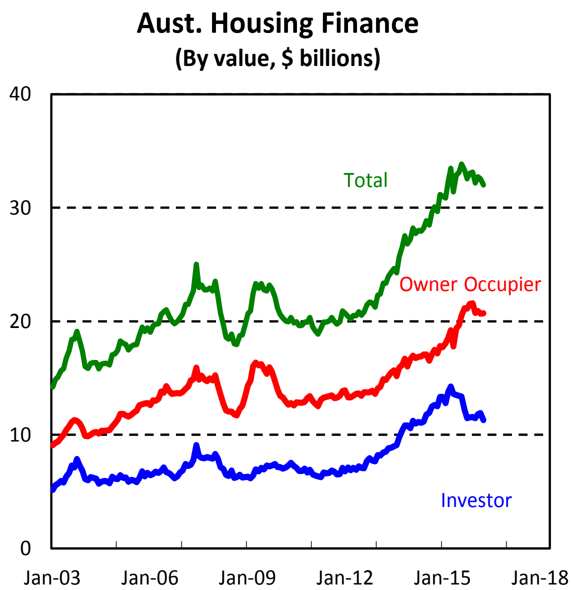
- **The number of new loans to owner occupiers rose 1.7% in April, more than reversing a decline of 0.7% in February. The increase in April was a touch smaller than the market had expected. At over 57,000, the number of new loans remains at a high level per month.**

- **The value of housing loans to investors fell 5.0% in April, following a downwardly revised increase of 0.8% in March (previously reported as a 1.5% increase). The value of new investor housing loans has fallen in eight out of the last 12 months. Housing lending for investors has declined 20.8% over the year April.**

- **Demand for housing lending remains firm despite some recent softness. Low interest rates are expected to provide ongoing support for the housing market this year. We still expect the pace of growth in dwelling prices to ease back but demand seems unlikely to fall away sharply. Dwelling prices have had a strong run-up in recent years limiting the potential for further strong price gains. Lower rental yields and increased supply (particularly in some of the capital cities) will also limit dwelling price growth.**

- **Housing is set to receive a further boost from the rate cut delivered by the RBA in May and the likelihood of another rate cut later in the year.**





Owner Occupier Home Loans by Number

The number of new loans to owner occupiers rose 1.7% in April, more than reversing a decline of 0.7% in February. The increase in April was a touch smaller than the market had expected. At over 57,000, the number of new loans remains at a high level per month. A recent peak of 58,535 was seen in December 2015. Only in the mid-2000s were there more new owner occupier loans taken out with a peak of almost 63,000 seen in July 2006.

In April, the lift in owner occupier housing finance was led by a 4.4% rise in lending for the construction of new dwellings. This however, followed three months of decline. April saw a 3.3% rise in the purchase of new dwellings, the first increase in seven months and a 1.3% lift in the purchase of established dwellings. Excluding refinancing, owner occupier housing finance rose by 1.1% in April.

For the year to April, the number of owner occupier housing loans rose 4.6%, up from a 3.9% increase in the year to March, but down on a recent peak of 10.0% in the year to November 2015. Housing finance remains at an elevated level.

By State

Owner occupier loans across most States and territories rose in April. The number of new owner occupier loans rose in Tasmania (8.4%), the Northern Territory (7.2%), Victoria (1.9%), Queensland (1.5%), NSW (0.7%), Western Australia (0.3%) and South Australia (0.2%). The ACT saw a decline of 1.0% in April following a 7.2% rise in March.

For the year to April, owner occupier loan growth was strongest in Victoria (9.9%) followed by NSW (8.3%) and South Australia (5.4%). There were smaller rises in the ACT (4.3%), Tasmania (2.0%) and Queensland (0.5%). Over the year, the Northern Territory (-15.3%) and Western Australia (-8.6%) have seen the number of owner occupier loans decline.

Housing Finance by Value

The value of housing loans for investors fell 5.0% in April, following a downwardly revised increase of 0.8% in March (previously reported as a 1.5% increase). The value of new investor housing loans has fallen in eight out of the last 12 months. Housing lending for investors has declined 20.8% over the year April.

Measures by APRA to curb investor lending appear to have dampened investor appetites. In addition, falling rental yields and reduced prospects of strong capital growth are also likely weighing on demand. The ABS warned several months ago that the owner occupier/investor lending breakdown is being affected by a reclassification of investor loans towards owner occupier.

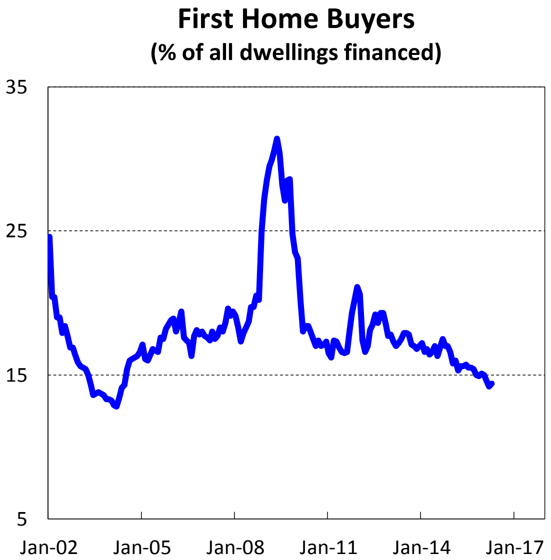
The value of housing loans including both investor and owner occupiers, which would not be impacted by the above-mentioned distortion, fell 1.8% in April. The annual pace has turned negative, for the first time since October 2011, falling 4.4% in the year to April.

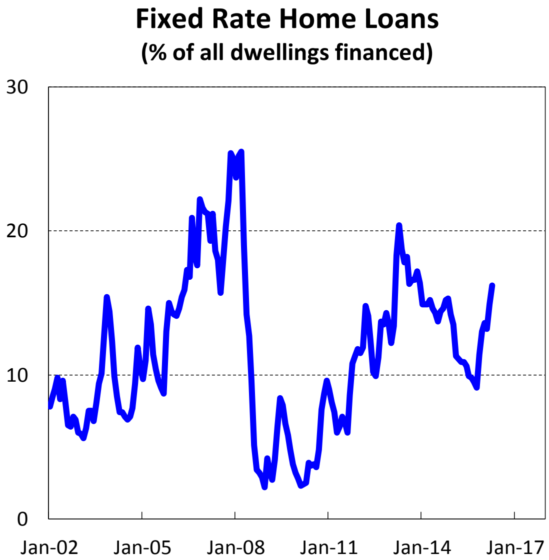
Fixed Home Loans

The proportion of borrowers fixing their loans as a percentage of all dwellings financed rose to 16.2% in April, from 14.9% in March. Since April, the Reserve Bank of Australia (RBA) further cut interest rates and interbank futures have are leaning towards a rate cut later this year, making fixed rate loans increasingly attractive.

First-Home Buyers

As a proportion of total loans, first home buyer loans edged up to 14.4% in April from 14.2% in March. This is close to an 11½ year low, reflecting challenging affordability for first home buyers given strong growth in house prices. Low interest rates are assisting first homebuyers but the hurdle of achieving a deposit continues to climb. It should be noted that figures on first-home buyers do not include those whose first move into the property market is as an investor.





Outlook and Implications

Demand for housing lending remains firm despite some recent softness. Low interest rates are expected to provide ongoing support for the housing market this year. We still expect the pace of growth in dwelling prices to ease back but demand seems unlikely to fall away sharply. Dwelling prices have had a strong run-up in recent years limiting the potential for further strong price gains. lower rental yields and increased supply (particularly in some of the capital cities) will also limit dwelling price gains.

Housing is set to receive a further boost from the rate cut delivered by the RBA in May and the likelihood of another rate cut later in the year. If CPI inflation data for the June quarter, released in late July, is weak, we favour August as the likely timing for a rate cut from the RBA.

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The Detail