Data Snapshot

Friday, 9 December 2016

Bank of Melbourne

Housing Finance
Turning Back the Tables

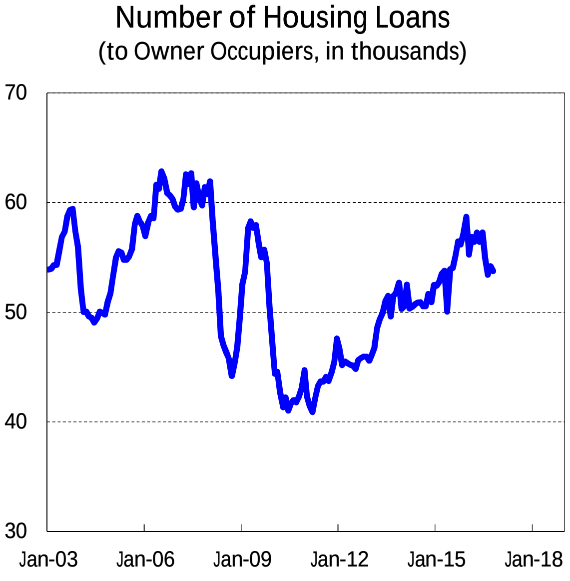
- Lending to owner occupiers declined 0.8% in October, following a 1.5% increase in the previous month. As a trend, growth in owner occupier lending is moderating. On an annual basis, the number of owner occupier loans contracted 4.3% in the year to October, the largest decline since December 2012.

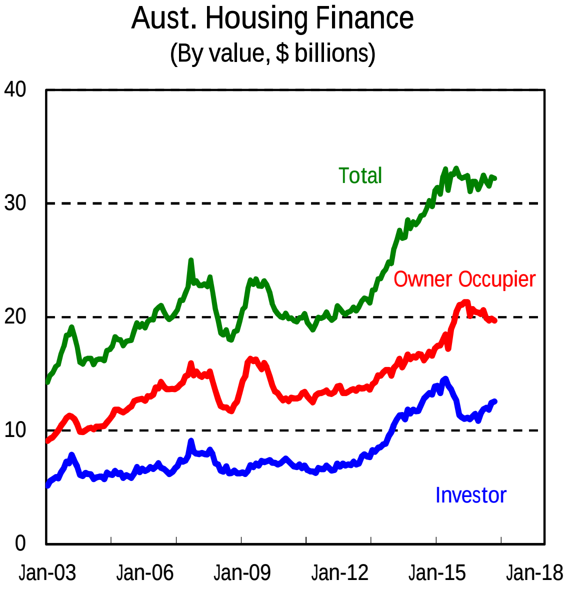
- In contrast, the value of housing loans for investors rose 0.7% in October the second consecutive monthly gain. Investor lending growth has almost been a mirror image of owner occupier growth over the past year and has continued to gain traction after measures by APRA acted to crimp demand. On an annual basis, investor home lending was its strongest in 16 months.

- The value of all loans slipped 0.2% in October and was up 0.1% in the year, suggesting that overall lending has plateaued at a high level.

- On an annual basis, the number of owner occupier loans contracted in NSW, Victoria, Western Australia and the Northern Territory. There were gains in the year for Queensland, South Australia and Tasmania.

- The RBA has been relatively relaxed about the state of the housing market, and today's data confirms a moderation in housing conditions from earlier years. That said, home loans remain at a high level and suggest that housing demand is still elevated. This would continue to provide support to house prices.





Owner Occupier Home Loans by Number

Lending to owner occupiers declined 0.8% in October, following a 1.5% increase in the previous month.

The weakness for the month was largely driven by refinancing which fell 3.6%. When excluding refinancing, the number of loans rose 0.9%, which provides a better reflection of housing demand. There were also declines in loans for the purchase of established dwellings (-0.8%), and the construction of dwellings (-0.8%), while the purchase of new dwellings increased (0.8%).

As a trend, growth in owner occupier lending is moderating. On an annual basis, the number of owner occupier loans contracted 4.3% in the year to October, the largest decline since December 2012.

On an annual basis, the purchase of new dwellings was the only category of loans to increase, lifting 4.0%. The construction of dwellings declined 5.2% in the year to October, while the purchase of established dwellings (-4.6%) and refinancing of established dwellings (-1.5%) also contracted.

A number of indicators are suggesting that housing conditions are moderating. The pace of house price growth has slowed in recent months. Indeed, there could be early signs that the housing construction cycle is beginning to turn.

By State

In October, the number of owner occupier loans fell across the majority of States, including NSW (-2.3%), Queensland (-1.7%), South Australia (-1.9%), Western Australia (-0.2%) and the Northern Territory (-6.3%). Loans in Victoria were flat while in Tasmania they rose 2.9%.

On an annual basis, loan growth continued to slow in NSW (-10.4%) and Victoria (-2.9%), suggesting a further moderation in demand and a more moderate pace of house price growth in Sydney and Melbourne. The number of loans in both these States continues to sit above their long-run average. In Western Australia (-9.7%) and Northern Territory (-13.2%), lending also contracted, as mining construction continues to weigh on activity. There were gains in the year for Queensland (3.4%), South Australia (3.9%) and Tasmania (18.9%) and contracted in the ACT (-2.5%).

Housing Finance by Value

The value of housing loans for investors rose 0.7% in October the second consecutive monthly gain. Investor lending has continued to gain traction after measures by APRA acted to crimp demand. On an annual basis, investor home lending lifted 12.4% in the year to October, which was the strongest in 16 months.

The RBA and APRA have been relatively relaxed about housing conditions and the pace of lending to housing investors, and will unlikely be too alarmed by the recent pickup in growth given overall housing conditions are appearing to ease.

The value of all loans slipped 0.2% in October and was up 0.1% in the year, suggesting that overall lending has plateaued at a high level.

Fixed Home Loans

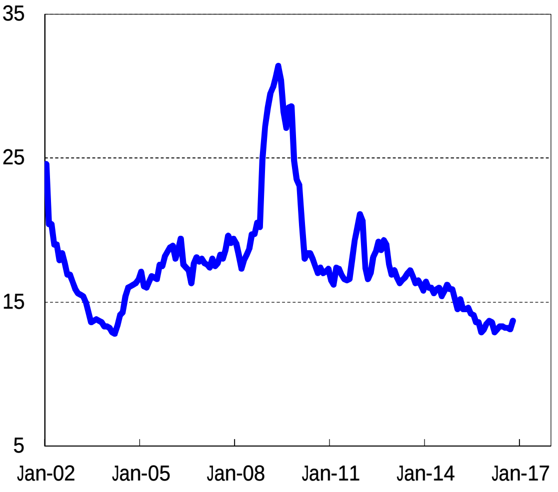
The proportion of borrowers fixing their loans lifted to its highest in nine months.

Recent developments in financial markets suggest that a bottom in swap rates (fixed rates) may have passed, which have moved in step with the rise in government bond yields globally in recent months.

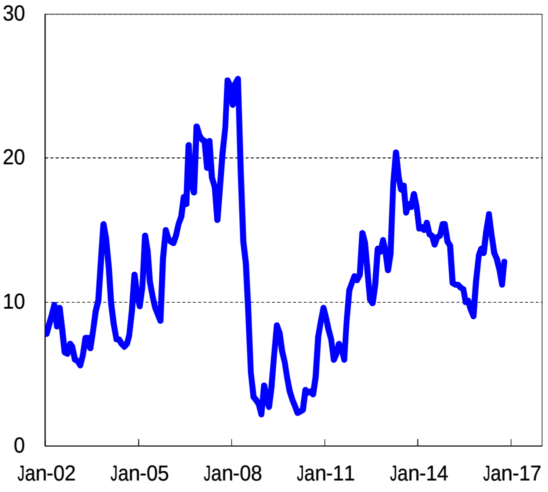
First-Home Buyers

As a proportion of total loans, first home buyer loans edged up from 13.1% to 13.7% in October, the highest in nine months, although the lift more reflected a fall in the number of non-first home buyers. The proportion of first home buyers remains low by historical standards.

First Home Buyers
(% of all dwellings financed)



Fixed Rate Home Loans
(% of all dwellings financed)



Outlook and Implications

The RBA has been relatively relaxed about the state of the housing market, and today's data confirms a moderation in housing conditions from earlier years. That said, home loans remain at a high level and suggest that housing demand is still elevated. This would continue to provide support to house prices.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
kunnenh@bankofmelbourne.com.au
(02) 8254 8322

Senior Economist
Josephine Horton
hortonj@bankofmelbourne.com.au
(02) 8253 6696

Senior Economist
Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898