Housing Finance
A Temporary Blip

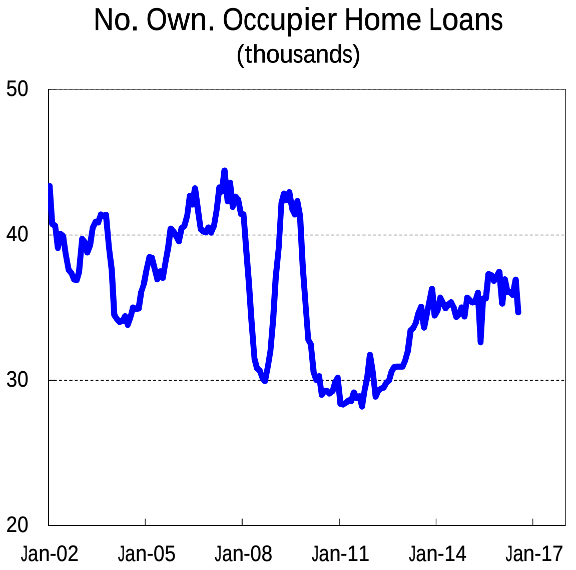
- The number of new loans to owner occupiers fell 4.2% in July, a surprisingly large drop given the RBA interest rate cut delivered in May, and recent housing indicators. On an annual basis, total owner occupier lending rose just 1.8% in July, the slowest annual growth in 14 months.

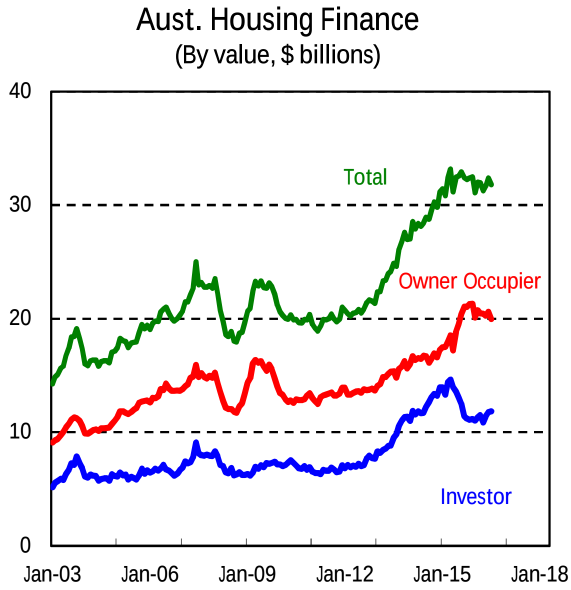
- High auction clearance rates and further increases in house prices continue to point to buoyant activity in the housing market and strong housing demand. However, lower housing turnover might account for the moderate pace of growth in lending.

- The value of housing loans for investors rose 0.5% in July, increasing for three consecutive months. The annual pace of decline eased to 9.3%, which was the best result in a year, since measures by APRA to curb investor lending took effect. Despite the improvement, investor lending remains muted.

- Annual growth moderated across most States. It contracted in NSW for the first time since November 2014, and also contracted in WA. A healthy pace of annual growth continued in Vic, SA and the ACT and there was just modest growth in Tas, QLD and the NT.

- This data tends to be volatile month-to-month and July's decline is very unlikely to be the beginning of a downward trend. We expect lending growth will regain momentum to a relatively moderate pace given the recent pickup in recent housing indicators, and particularly since today's data predates the RBA rate cut delivered in August.





Owner Occupier Home Loans by Number

The number of new loans to owner occupiers fell 4.2% in July, a surprisingly large drop given the RBA interest rate cut delivered in May, and recent housing indicators. High auction clearance rates and further increases in house prices continue to point to buoyant activity in the housing market. However, lower housing turnover might account for the moderate pace of growth in lending.

In July, all categories of owner-occupier lending declined. Lending for construction of new dwelling (4.9%) led the way, followed by purchase of established dwellings (-4.1%), purchase of new dwellings (-3.3%), and refinancing (-0.7%).

On an annual basis, total owner occupier lending rose just 1.8% in July, the slowest annual growth in 14 months. Annual growth is being driven by refinancing (10.5%), the purchase of new dwellings (8.4%) and there was more modest growth in the purchase of established dwellings (2.2%). Loans for the construction of dwellings declined 3.9% in the year.

By State

In July, the slowdown in owner occupier loans was across most of the major States including NSW (-2.2%), Victoria (-1.3%), Queensland (-4.9%) and South Australia (-0.5%). Western Australia (1.2%) and Tasmania (1.4%) were the only states to witness a gain, while lending in the Northern Territory (-6.5%) and the ACT (-8.7%) contracted in July.

Annual growth similarly moderated across most States. The pace of lending in NSW slipped into contraction (-0.1%) for the first time since November 2014. Lending also contracted in Western Australia (-8.4%). A healthy pace of annual growth continued in Victoria (9.6%), South Australia (11.0%) and the ACT (8.0%) and there was just modest growth in Tasmania (4.4%), Queensland (2.1%) and he Northern Territory (1.6%).

Housing Finance by Value

The value of housing loans for investors rose 0.5% in July, increasing for three consecutive months. The annual pace of decline eased to 9.3%, which was the best result in a year, when measures by APRA to curb investor lending took effect. Despite the improvement, investor lending remains muted.

The RBA seems relatively relaxed that APRA's measures will continue to keep a lid on investor lending growth. Nonetheless, there remains a risk that investor lending growth could accelerate, particularly if the RBA lowers official interest rates further.

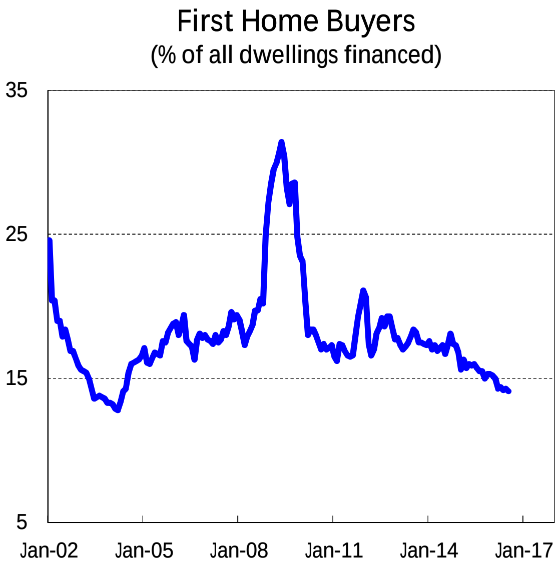
Fixed Home Loans

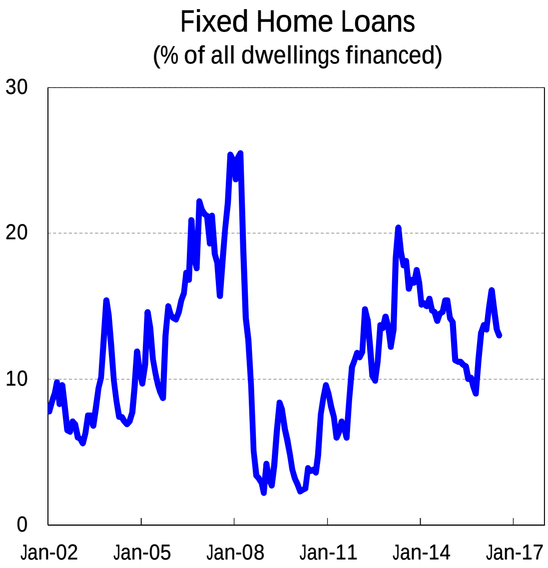
The proportion of borrowers fixing their loans as a percentage of all dwellings financed fell to 13.0% in July, the lowest in nine months. This is likely in anticipation of the rate cut that occurred in August.

Swap rates (on which fixed rates are based on), have rebounded from record lows in August, but will likely remain at low levels while inflation stays subdued and the possibility of global monetary easing remains heightened.

First-Home Buyers

As a proportion of total loans, first home buyer loans edged lower from 14.3% in June to 14.1% in July, the lowest in over 12 years. While mortgage repayments are becoming more affordable, saving for a deposit is likely becoming an increasingly high hurdle for potential first home buyers.





Outlook and Implications

The weakness in July's home lending is somewhat surprising particularly following the RBA rate cut in May. However, this release tends to be volatile month-to-month. The lift in auction clearance rates and further gains in house prices suggests that housing demand remains healthy, and that the month's decline is not the beginning of a downward trend.

We expect lending growth will regain momentum to a relatively moderate pace given the recent pickup in recent housing indicators, and particularly since today's data predates the RBA rate cut delivered in August. While we do not expect home lending growth to be as strong as last year, there is chance that the risks to financial stability will become uncomfortable once again. The RBA will be watchful on these developments.

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