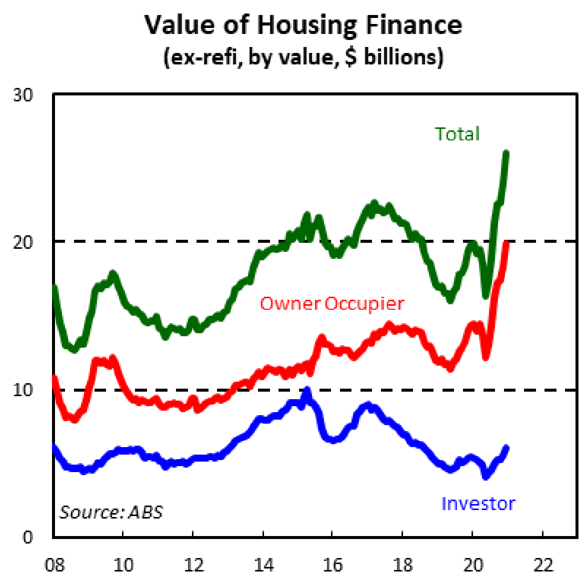
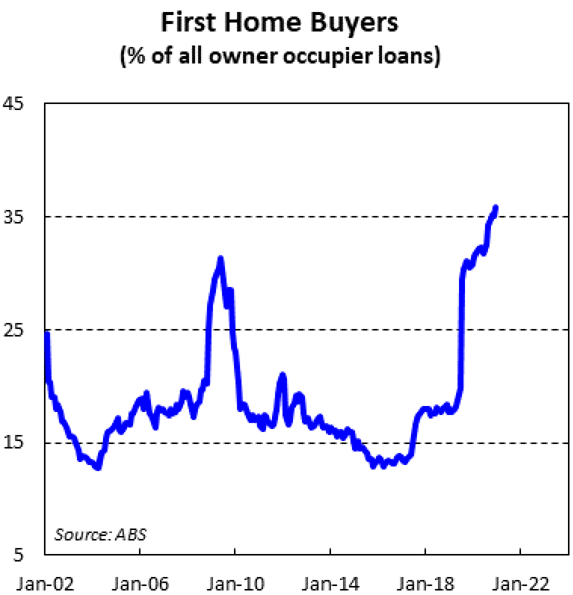
Monday, 1 February 2021

Housing Finance

Home Lending Continues to Surge

- **New lending rose for a seventh consecutive month in December as low interest rates overcame the impact of low population growth and the COVID-19 barriers to activity. The value of new loans (excluding refinancing) rose 8.6% in the month.**
- **Owner occupiers continue to lead the charge with new lending up 8.7% for the month and 38.9% over the past 12 months. By purpose, construction lending was firmest in the month, rising 17.1%. From an economic recovery perspective, it is pleasing to see the strong performance of lending for the construction of new homes. This will add to the demand for labour in this pivotal industry.**
- **Investors are moving back into the market. Demand from investors has been steadily rising for the past seven months, rising 8.2% in December to be up 10.9% on December 2019. Housing is seen by investors as a solid source of income with the potential for capital gain. There are attractive elements in an era of low interest rates.**
- **Low interest rates plus government assistance programs should maintain the growth momentum in home lending for several more months.**
- **The rollout of vaccines and success in containing outbreaks of COVID-19 should lift confidence and lending but it will be the tailwind from a rising population which will be missing in action well into 2021. However, the tailwind from low interest rates is expected to be with us throughout 2021 and well into 2022.**





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The steep declines of April and May are fast becoming a fading memory as monthly lending rose to a record high and stands almost 30% above its pre-COVID-19 level.

Owner occupiers continue to lead the charge with new lending up 8.7% for the month and 38.9% over the past 12 months. By purpose, construction leads the charge; this segment lifted 17.1% in the month. From an economic recovery perspective, it is pleasing to see the strong performance of lending for the construction of new homes. This will add to the demand for labour in this pivotal industry.

There was also strong demand in December, among owner occupiers, for the purchase of new dwellings with lending up 11.0% in the month and up 30.2% on December 2019.

Lending for established homes also picked up, rising 6.8% to be up 24.2% on a year earlier.

Given the solid pace of lending for housing, the recent gains in house prices comes as no surprise. Interest rates are low and the number of established houses coming to market is relatively low. Demand is firm and supply is low. The net result is rising prices.

Investors are moving back into the market. Demand from investors has been steadily rising for the past seven months, rising 8.2% in December to be up 10.9% on December 2019. Housing is seen by investors as a solid source of income with the potential for capital gain. There are attractive elements in an era of low interest rates.

The proportion of first-home buyers among owner occupiers obtaining loans continues to rise. In December they accounted for 35.9% on new loans in this category. In Western Australia, first-home buyers make up 44.3% of the owner occupiers taking up new loans. In Tasmania, that level is 27.4%.

By State and territory

Not all the States and territories saw growth in new home lending. As Victorians emerged from their lockdown, lending to owner occupiers surged 17.4% in November and a further 19.2% in December. However, lending in South Australia slipped back in both November (-7.3%) and December (-4.4%). The Northern Territory also saw a decline in December (-14.4%) but this came after solid growth in the previous three months.

NSW has experienced seven straight months of growth in new home lending with solid demand from both owner occupiers and investors. Lending to owner occupiers was up 6.3% in December and up 35.0% over 12 months. Monthly lending to investors in NSW is up 15.9% on a year ago.

Home lending in Western Australia rose a modest 2.1% in December with a decline in borrowing by investors dragging on the result. Previous months, however, were stronger and overall home lending in Western Australia is up almost 83% on a year ago.

Queensland has also seen solid growth in each of the past seven months. During December, housing lending to investors rose 14.2% while lending to owner occupiers rose 4.3%. Total new housing lending in Queensland is up 44.6% on a year earlier with 50.5% growth in lending to owner occupiers.

The ACT reported 11.4% growth in lending in December for rise of 29.5% over the year. Tasmania posted 19.3% gain December to be up 47% on December 2019.

Historically low interest rates combined with State and Federal government programs have seen lending rise well above its pre-COVID-19 levels in all States and territories. Bankers and borrowers have been busy.

Outlook

Low interest rates plus government assistance programs should maintain the growth momentum in home lending for several more months.

Beyond March, however, there sits the uncertainty associated with the cessation of the JobKeeper program. If this leads to an increase in unemployment, it could erode consumer confidence and erode the desire to borrow.

Recovery in the Australian economy is progressing well but there remain pockets of weakness associated with international travel and the requirements of social distancing.

The rollout of vaccines and success in containing outbreaks of COVID-19 should lift confidence and lending but it will be the tailwind from a rising population will be missing in action well into 2021. However, the tailwind from low interest rates is expected to be with us throughout 2021 and well into 2022.

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