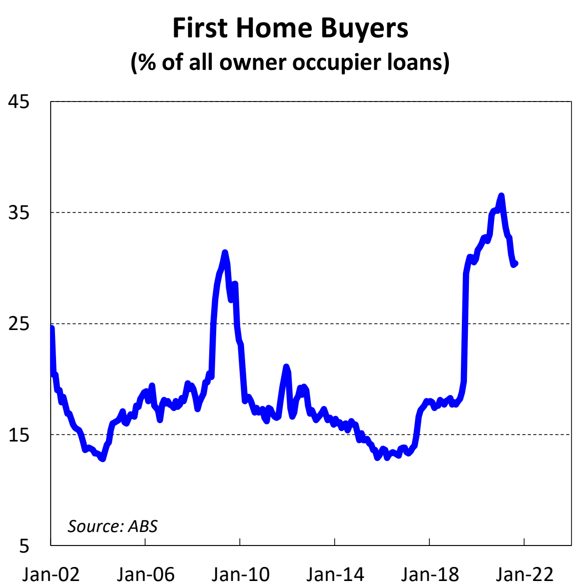
Data snapshot

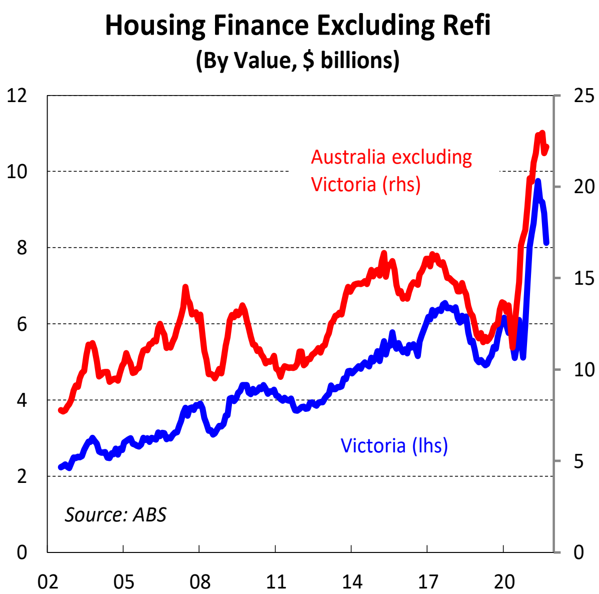
Monday, 1 November 2021

Housing Finance

Weak Lending in Victoria Clouds the National Picture

- **Housing lending ex refinancing fell by 1.4% in September, marking the third decline in four months. The decline was led by falls in lending to Victorians. Indeed, excluding Victoria, lending would have revealed a different picture – lending would have been up 1.5% in the month.**
- **Lending to Victoria contracted 8.8% in September, led by the deepest fall on record for loans to owner-occupiers of 12.7%. The fall illustrates that the extended lockdown in Victoria hit housing market activity. Notably, physical housing inspections were banned in Victoria.**
- **There was also a divergence in the type of lending. Lending to owner occupiers ex refinancing fell by 2.7% in September – the fourth consecutive monthly drop. However, lending to investors lifted 1.4% in September and has risen for 11 straight months.**
- **The divergence reflects the acceleration of investor lending activity. The share of investors of all loans, excluding refinancing, rose to 31.7% in September – the highest since April 2018. While it has picked up, the share of investor lending is still well below the peak around of 45% in 2015.**
- **The share of lending to first-home buyers dropped marginally in September to 30.3%, well down on last year's peak of 36.5% in January. Macroprudential tightening was introduced last month and could cause more first-home buyers to join the sidelines.**
- **We expect affordability pressures, possible further macroprudential tightening and upward pressure on fixed home loan rates will cause a slowdown in the growth rate of lending over the next 12-15 months.**





Housing lending ex refinancing fell by 1.4% in September, marking the third decline in four months. The decline was led by falls in lending to Victorians. Indeed, excluding Victoria, lending would have revealed a different picture – lending would have been up 1.5% in the month.

Lending to Victoria contracted 8.8% in September, led by the deepest fall on record for loans to owner-occupiers of 12.7%. The fall illustrates that the extended lockdown in Victoria hurt lending appetites. Investor lending was less impacted in Victoria; it rose 1.4% in September.

Other states across the country recorded rises in lending in the month, led by WA where lending jumped 10.1% - the largest gain in 13 months. SA also recorded a firm gain, of 7.3%, the sharpest lift in seven months. Elsewhere, NSW rose 0.6%, QLD 1.5% and the ACT recorded monthly growth of 0.7%. NT joined Victoria in recording a decline. Lending in the NT fell 25.0% in the month.

There was a divergence in the type of lending also. Lending to owner occupiers excluding refinancing fell by 2.7% in September – the fourth consecutive monthly drop. However, lending to investors lifted 1.4% in September and has risen for 11 straight months.

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Across all states excluding NSW, growth for investor loans was up 2.2% in the month.

The share of lending to first-home buyers dropped marginally in September to 30.3%, well down on last year's peak of 36.5% in January. The sharp rise in dwelling prices over the past year has stretched affordability, especially for first-home buyers.

Lending to first-home buyers was hit harder in states impacted by lockdowns. The number of first home buyers declined in September by 29.5% in the ACT, 16.7% in Victoria and 3.1% in NSW.

Macroprudential tightening was introduced last month and could spur some investors and more first-home buyers to join the sidelines. The regulators widened the buffer applied when assessing a borrower from 2.5 percentage points to 3.0 percentage points. More tightening is likely to follow over the coming year.

Another shift is in refinancing activity. It fell 9.6% in September – the biggest pull back in 10 months, as upward pressures on fixed home loan rates have emerged across all authorised deposit institutions (ADIs), reflecting the rise in swap rates. The rise in swap rates reflects the building momentum in inflation pressures and the pull forward in the money market's timing for the start of a rate hike cycle from the Reserve Bank (RBA).

Across the categories of owner-occupier lending, falls were evident in loans for construction (-5.0% in September), new dwellings (-6.0%) and established dwellings (-2.4%). The fall in lending for construction reflects the ongoing unwind of the pull-forward from the HomeBuilder program.

Outlook

Low interest rates and a tightening labour market should continue to spur activity in housing lending. Victoria emerged from its lockdown in October while the lockdown in NSW ended in September. Together, these two large states should support housing lending in the coming months. However, the unwinding of the HomeBuilder effect is still being played out.

However, affordability pressures, the threat of more macroprudential tightening and upward pressure on fixed home loan rates will cause a slowdown in the growth rate of lending over the next 12-15 months. We expect new housing lending will contract in 2023, as we anticipate the RBA will start raising the cash rate in early 2023.

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