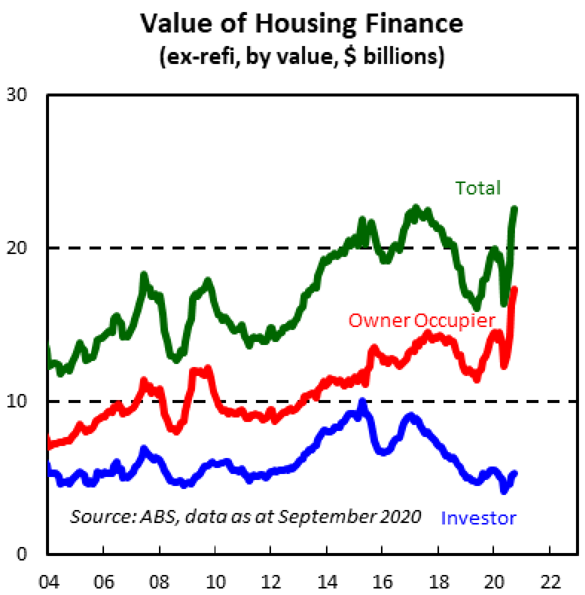
Data snapshot

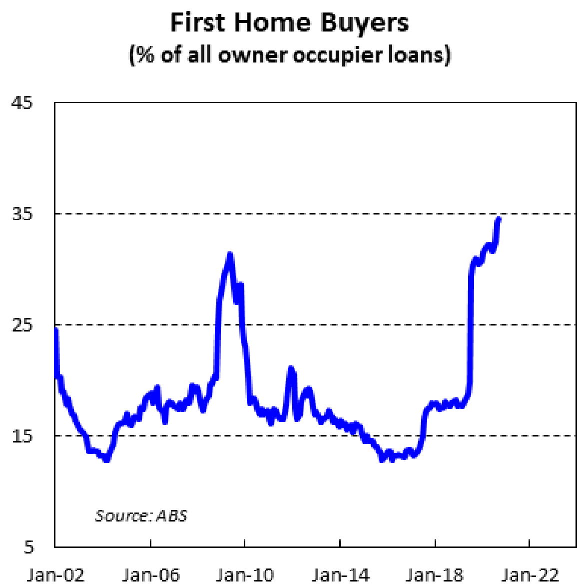
Monday, 2 November 2020

Housing Finance

Home Lending Sees Solid Growth

- **New lending rose for a fourth consecutive month in September as the market more than recovered from the worst of the early COVID-19 lockdowns. As restrictions on activity were eased, total new loans (excluding refinancing) rose 5.9% following a 12.6% increase in August.**
- **The value of new loans (excluding refinancing) is now 13.5% above its pre-lockdown level in March and up 25.5% on a year earlier.**
- **The solid rise in housing loans during September points beyond the rebalancing in June and July and towards a new phase of growth in the housing market.**
- **Owner-occupier lending continues to lead the charge, rising a further 6.0% in September. This came after a 13.6% increase in August. These increases now overshadow the weak owner-occupier lending activity seen in April and May. The ongoing rise in owner-occupier lending suggests there has been significant pent-up demand in the sector.**
- **First-home buyer activity accounted for 34.5% of all owner-occupier loans in September, marginally up on the 34.2% share seen in August.**
- **We still see risks to the housing market from slow population growth and job uncertainty. However, these are being outweighed by historically low interest rates – rates that could go still lower after the Reserve Bank Board meets tomorrow.**





New lending rose for a fourth consecutive month in September as the market more than recovered from the worst of the early COVID-19 lockdowns. As restrictions on activity were eased, total new loans (excluding refinancing) rose 5.9% following a 12.6% increase in August. The steep declines of April and May are fast becoming a fading memory.

The value of new loans (ex-refinancing) is now 13.5% above its immediate pre-lockdown level in March and up 25.5% on a year earlier.

The solid rise in housing loans during September points beyond the rebalancing in June and July and towards a new phase of growth in the housing market.

There are risks ahead for the housing market. These include slower population growth, minimal growth in wages and uncertainty around job security. At present, the housing sector appears to be discounting these risks and taking a very positive view.

Today's release, being for the month of September reflects lending prior to the stimulatory Federal Budget in October. The Budget sought to mitigate uncertainty in the labour market, but its measures will take time to unfold. That said, the housing market appears to be following overseas experience where activity has been strong on the back of historically low interest rates.

Owner-occupier lending continues to lead the charge, rising a further 6.0% in September. This came after a 13.6% increase in August. These increases now overshadow the weak owner-occupier lending activity seen in April and May. The ongoing rise in owner-occupier lending suggests there has been significant pent-up demand in the sector.

The September increase in owner occupier lending was positive across the board. Lending associated with the construction of new homes rose an eye-watering 25.3% following a 19.2% increase in August. Lending for the purchase of established dwellings rose a more subdued 3.2% while lending for new dwellings was up 1.3%.

Investor lending (ex-refinancing) was also positive, with a 5.2% increase in September. This followed a 9.3% rise in August. The increase in lending to investors since June is encouraging the decline in investor demand in the first five months of the year.

The dominance of new lending to owner-occupiers (ex-refinancing) over that to investors can be seen in the annual growth figures. New lending to owner occupiers is up 33.8% on September 2019 while new lending to housing investors is up just 4.2%.

After three months in retreat, refinancing among owner-occupiers turned positive in September, rising 9.4%. If the RBA cuts rates further on Tuesday, the months ahead could see a fresh surge in refinancing.

Lending to first-home buyers was broadly in line with the overall increase in home lending. New lending to first home buyers rose 6.0% in September. This came after a 17.7% increase in August and a 14.4% rise in July. First-home buyer activity accounted for 34.5% of all owner-occupier loans in September, marginally up on the 34.2% share seen in August.

By State and territory

There were mixed performances across the States and territories in September. Queensland (12.7%) and the Northern Territory (10.8%) saw double-digit growth and have seen monthly growth in housing lending in each of the past four months.

Growth was also solid in South Australia (9.8%), NSW (9.7%) and the ACT (7.4%). Western Australia

(0.1%) saw very little growth but this came on the back of a 22.7% rise in August.

Victoria (-7.2%) and Tasmania (-0.2%) suffered setbacks. The decline in lending in Victoria follows a 13.9% rise in August and came as the lockdown in Melbourne continued. Tasmania's pause in growth also came after a surge in the previous month.

On a very encouraging note, all States and territories have seen growth in lending well over that of a year earlier.

Historically low interest rates combined with State and Federal government programs have seen lending rise well above its pre-COVID-19 levels. Pent up demand appears to have been released.

Outlook

The Federal Budget saw an extension of the First Home Loan Deposit Scheme by providing an additional 10,000 places to first-home buyers to buy a new home. This will allow first home buyers to secure a loan to build a new home or purchase a newly built home with a deposit of as little as 5%, with the Government guaranteeing up to 15% of a loan.

The $25k HomeBuilder grants were not extended in the Budget and will be phased out in December.

We still see risks to the housing market from slow population growth and job uncertainty. However, these are being outweighed by historically low interest rates – rates that could go still lower after the Reserve Bank Board meets tomorrow.

With the lockdown in Victoria coming to an end, further improvements in home lending seem likely.

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