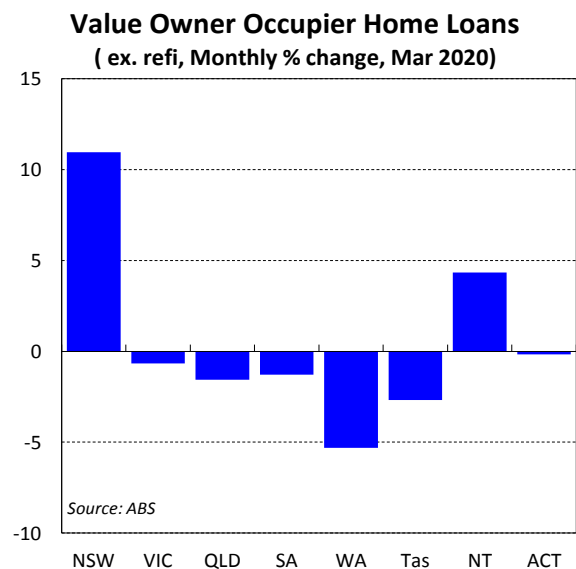
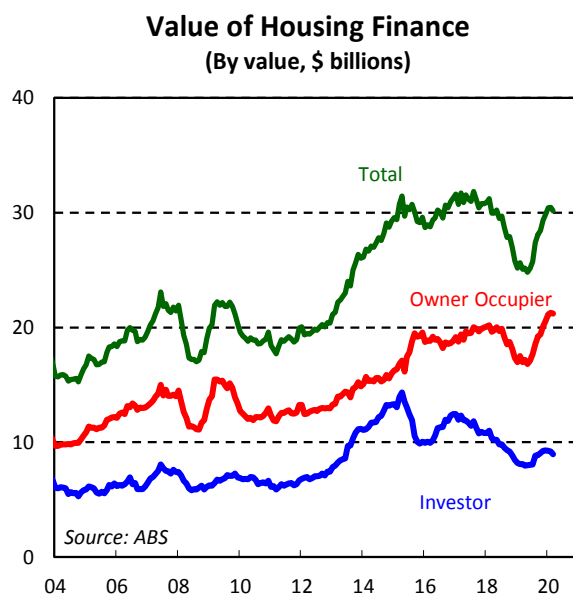


Wednesday, 6 May 2020

## Housing Finance Calm Before the Storm

- New home lending remained resilient in March, despite escalating concerns over the spread of COVID-19. The total value of new lending (excluding re-refinancing) edged up 0.2% in the month.
- The Australian Bureau of Statistics (ABS) reported that the March loan commitments largely reflected applications submitted in February and the first half of March, before major social distancing restrictions were introduced. The ABS also added that “some lending institutions reported a slowdown in new loan applications towards the end of March”.
- In March, new lending growth was entirely driven by owner-occupier lending, which lifted 1.2% in March after a revised 1.5% fall in February.
- There were signs of a further weakening in demand from investors – investor lending declined 2.5% in March, the third consecutive monthly fall. Investors are likely to have greater concerns about the purchase of new residential property given the uncertainty with regards to the impact of COVID-19 on the housing market. Moreover, the expected lift in vacancy rates and likely drop in rents add another layer of concern for investors.
- Housing prices were resilient in April, but sales turnover dropped sharply. Stay-at-home restrictions, banning of on-site auctions and public open inspections are deterring both potential buyers and sellers. We expect weakening housing activity to flow through to a softening of lending in April and in coming months.



New home lending remained resilient in March, despite escalating concerns over the spread of COVID-19. The total value of new lending (excluding re refinancing) edged up 0.2% in the month.

However, the Australian Bureau of Statistics (ABS) reported that the March loan commitments largely reflected applications submitted in February or the first half of March, before major social distancing restrictions were introduced. The ABS also added that “some lending institutions reported a slowdown in new loan applications towards the end of March”. Furthermore, the small rise in March followed a 1.8% decline in February.

On an annual basis, the value of new lending edged up from 18.8% to 20.2%, but this pace of growth is likely to soften in coming months.

There were signs of a further weakening in demand from investors; investor lending declined 2.5% in March, the third consecutive monthly fall. Investors are likely to have greater concerns about the purchase of new residential property given the uncertainty with regards to the impact of COVID-19 on the housing market. Moreover, the expected lift in vacancy rates and likely drop in rents add another layer of concern for investors.

Owner-occupier lending was more resilient, and will likely fare better than investors in the current environment. In March, new lending growth was entirely driven by owner-occupier lending, which lifted by 1.2% in March, but followed a revised 1.5% fall in February.

### **Owner Occupiers by Category (Value)**

The value of owner-occupier loans lifted for the purchase of new dwellings (0.6%) and for the purchase of established dwellings (2.4%). Meanwhile, lending for the construction of dwellings (-4.4%) and refinancing declined (-3.5%).

### **By State and territory**

Owner-occupier loans were the strongest in NSW (11.0%) in March, although this followed a 7.8% decline in February. There was also a gain in owner occupier loans in the Northern Territory (4.3%). All other States reported declines, including Victoria (-0.7%), Queensland (-1.6%), South Australia (-1.3%), Western Australia (-5.3%), Tasmania (-2.7%) and the ACT (-0.2%).

Investor loans were weaker across all States in March, except for South Australia (13.0%) and the ACT (45.7%). Investor lending fell 1.2% in NSW over March, and has declined for four consecutive months. Victoria (-5.6%), Queensland (-3.1%), Western Australia (-5.4%), Tasmania (-9.8%) and the Northern Territory (-28.6%) all saw investor lending fall.

The value of investor loans was weaker on a year ago in NSW (-2.3%), South Australia (-15.8%) and the ACT (-33.4%). Victoria (15.2%), Queensland (19.0%), Western Australia (15.2%), Tasmania (23.8%) and the Northern Territory (44.0%) had increases on a year ago.

### **Outlook**

Housing prices were resilient in April, but sales turnover has dropped sharply. Stay-at-home restrictions, banning of on-site auctions and public open inspections are deterring both potential buyers and sellers, and activity in the housing market has weakened significantly as a result.

We expect this weakness to flow through to a softening of lending in April and in coming months. Moreover, the uncertainty about the economy, rising residential vacancy rates and income loss

from rising unemployment should further dent housing demand in coming months.

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