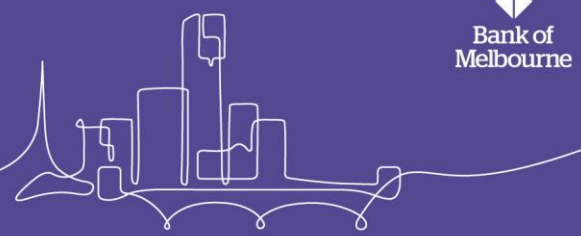


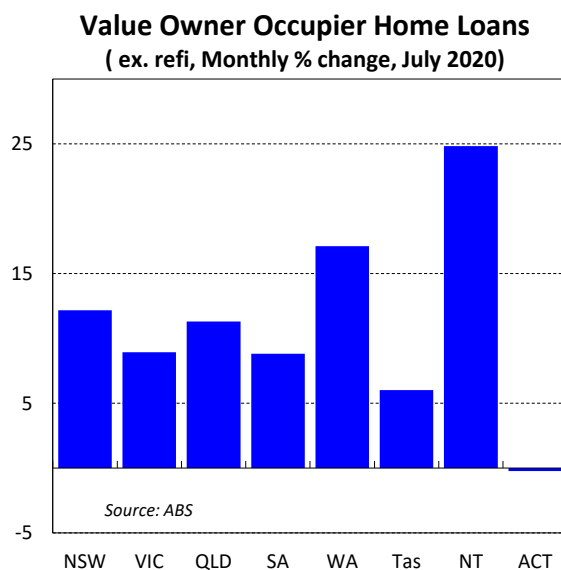
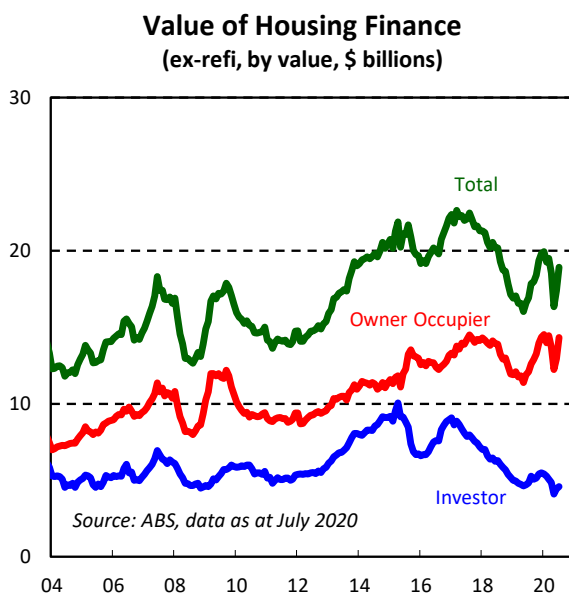


Wednesday, 9 September 2020



Housing Finance Encouraging Signs but Risks Ahead

- New lending rose again in July, as the market continued to recover from the worst of the early COVID-19 lockdowns. As restrictions on activity were eased, total new loans (excluding refinancing) rose 8.9% following a revised 6.4% increase in June. There were sharp declines over April and May of 4.9% and 12.0%, respectively.
- Owner-occupier lending lead the charge in July rising 10.7%. This came after a 5.8% increase in June. These increases follow weak owner-occupier lending activity in April and May.
- Investor lending was positive, with a 3.5% increase in July, but it was softer than the 8.3% lift seen in June. The increase in lending activity in June and July is encouraging given that investor lending had fallen in the previous five months.
- Refinancing continued its retreat, falling 11.8% in July. This followed an 11.5% decline in June. That said, refinancing saw massive increases in April (13.7%) and May (27.4%) as mortgage holders were likely chasing better deals amid historically low interest rates.
- The lift in loans in July points to an encouraging stabilisation in housing conditions, but there are risks ahead. Slower population growth, minimal growth in wages and uncertainty around job security seem likely to dampen demand in the housing market.



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The value of new loans is only 3.1% from its level in March. The lift in loans in July points to an encouraging stabilisation in housing conditions, but there are risks ahead. Slower population growth, minimal growth in wages and uncertainty around job security seem likely to dampen demand in the housing market.

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July's increase in owner occupier lending was strong across the board. Lending associated with the purchase of new dwellings was up 9.8% while lending for established dwellings rose 9.4%. Lending for the construction of new homes rose a solid 8.3%

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Lending to first-home buyers outpaced the overall activity in owner-occupier lending in July. Commitments to first-home buyers for owner-occupied dwellings rose 14.4% building upon a 6.2% rise in June. First-home buyer activity accounted for 32.5% of all owner-occupier loans.

By State and territory

All States and territories recorded a rise in owner-occupier loans (excluding refinancing) in July except the ACT. The recovery across the States follows the dramatic declines in April and May when restrictions on movement and activity severely crimped lending. On an encouraging note, all States and territories have seen growth in lending over a year earlier.

The Northern Territory recorded the largest increase in owner-occupier commitments in July with a 24.8% increase, followed by the Western Australia with a 17.1% rise. Solid increases were also recorded in NSW (12.1%), Queensland (11.3%), Victoria (8.9%), South Australia (8.8%) and Tasmania (6.0%). The ACT recorded a decline of 0.3% over the month.

Investor lending (excluding refinancing) was mixed across States and territories. The largest declines were recorded in the Northern Territory (-22.0%), followed by Victoria (-3.0%) and South Australia (-1.7%). South Australia's small decline came after a 13.6% rise in the previous month. In Western Australia investor lending (excluding refinancing) rose 15% in July. It rose 12.2% in the ACT, 4.4% in NSW, 3.5% in Queensland and 0.2% in Tasmania. Over the year to July, only Western Australia is in positive territory in investor lending.

COVID-19 continues to impact upon the lending numbers. The relative performance of lending among States in the coming months will continue to be highly influenced by the pace of infections and developments in containment measures. Movement restrictions introduced in March had a

marked effect on housing turnover. The even tighter restrictions imposed in Victoria will likely have a substantial negative impact on turnover and lending. Some measures by State governments will provide support. The temporary pause in stamp duty for eligible first-home buyers in New South Wales should support the housing market in NSW although the policy only applies to newly built properties or vacant blocks of land.

Outlook

The housing market has been deeply affected by COVID-19 and the measures to curb its spread. Its fortunes will continue to be impacted by developments around the virus. Turnover has been curtailed by the limits on people's movements and a lack of confidence in general. The rebound in home lending in June and July came with the easing of restrictions nationwide.

There are major headwinds on the horizon for the housing market. The extended lockdown measures in Victoria will sharply dent turnover and its labour market. While we are seeing improvements in COVID-19 infection rates, it will be long road to nation-wide recovery.

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