

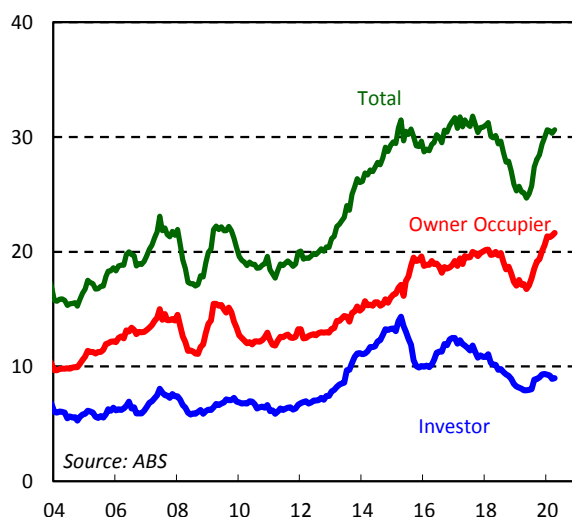
Wednesday, 10 June 2020

Housing Finance & Consumer Sentiment

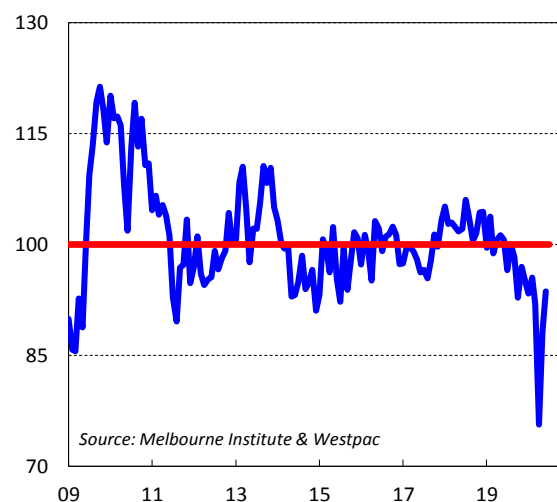
Not as Weak as Feared

- The impact of COVID-19 on the economy is weighing on the outlook for housing. New home lending (excluding refinancing) declined 4.8% in April.
- The decline in lending was not as bad as feared, given the weight of COVID-19 restrictions in the month (similar to other housing indicators - building approvals and dwelling prices). However, the ABS has reported that April loan commitments largely reflected loan applications submitted in March, before major restrictions were introduced.
- With housing turnover sharply lower and the loss of jobs and incomes and uncertainty over the outlook suggests that home lending will likely remain weak in coming months.
- Owner-occupier lending (excluding refinancing) fell 5.0% in April. However, refinancing surged 13.8% in April, the biggest monthly rise since January 1990.
- Lending to investors fell 4.2%. It was the fourth consecutive monthly fall in investor lending. COVID-19 has brought a wide array of uncertainty for investors. Rising vacancy rates and concerns on the impact of slower migration flows on population are likely factors weighing on investor demand.
- In separate data released today, the Westpac-Melbourne Institute consumer sentiment index rose 6.3% to 93.7 in June. The index is at its highest since February, and has fully recovered from the massive fall over March and April. Consumers are increasingly encouraged by the containment of COVID-19 and the lifting of restrictions. The index is still suggesting consumers are pessimistic, but indicates that a recovery is likely to be underway.

Value of Housing Finance
(By value, \$ billions)



Consumer Sentiment Index



The impact of COVID-19 on the economy is weighing on the outlook for housing. New home lending (excluding refinancing) declined 4.8% in April.

The decline in lending was not as bad as feared, given the weight of COVID-19 restrictions in the month. The consensus estimate was for a 10.0% fall in the month. However, the Australian Bureau of Statistics (ABS) has reported that April loan commitments largely reflected loan applications submitted in March, before major restrictions were introduced. With housing turnover sharply lower and the loss of jobs and incomes and uncertainty over the outlook suggests that home lending will likely remain weak in coming months.

Annual growth in total home lending edged down from 17.5% in March to 11.2% in April, the weakest annual pace in five months.

Both owner-occupier and investor lending were weaker in April. Owner-occupier lending fell 5.0% while lending to investors fell 4.2%. It was the fourth consecutive monthly fall in investor lending. On an annual basis, growth in investor lending eased from 5.2% in March to 2.4% in April. COVID-19 has brought a wide array of uncertainty for investors. Rising vacancy rates and concerns on the impact of slower migration flows on population are likely factors weighing on investor demand.

Owner Occupiers by Category (Value)

Within owner occupier lending, the decline was driven by the purchase of established dwellings (-6.6%) and the purchase of new dwellings (-2.4%). However, refinancing surged 13.8% in April, the biggest monthly increase since January 1990, reflecting the impact of COVID-19. Loans for the construction of dwellings also increased, lifting 2.0% in April.

By State and territory

Owner-occupier loans (excluding refinancing) weakened across all States and territories in April, except for Victoria where lending increased 3.0%. Loans in NSW declined 1.5%, although this followed a 12.9% increase in March. Owner-occupier demand has been resilient in NSW and Victoria over recent months, despite the relatively large impact of COVID-19 in these States. Queensland (-19.3%), Western Australia (-18.1%) and the Northern Territory (-12.2%) had double-digit falls. Owner-occupier lending also weakened in Tasmania (-8.0%), South Australia (-5.1%) and the ACT (-0.3%).

Investor loans were weaker across all States in April, except for Victoria (8.7%) and the Northern Territory (13.6%). Investor lending had sizable declines in Western Australia (-30.9%), Queensland (-30.1%), Tasmania (-24.8%), the ACT (-22.5%). Investor loans in South Australia (-8.1%) and NSW (-4.5%) also weakened.

Outlook

The fall in home lending was not as large as expected, despite the impact of COVID-19. However, the sharp fall in turnover points to further weakness in housing demand in coming months. The uncertainty about the economy, rising residential vacancy rates and income loss from rising unemployment should further dent housing demand.

Nonetheless, most indicators on housing have been better than expected and suggests that price falls in housing may not be as large as previously thought. At the height of the crisis, we estimated

the average price falls this year would be 5-10%; we favour the low end of this range.

Consumer Sentiment

In separate data released today, the Westpac-Melbourne Institute consumer sentiment index rose 6.3% to 93.7 in June. The index is at its highest since February, and has fully recovered from the massive fall over March and April. Consumers are increasingly encouraged by the containment of COVID-19 and the lifting of restrictions. The index is still suggesting consumers are pessimistic, but indicates that a recovery is likely to be underway.

A surge in the “time to buy a major household item” also points to a recovery in consumer spending. This index rose 10.1% in June, and followed a 26.7% increase in May.

Consumers were also more upbeat on the labour market. The unemployment expectations index fell 7% in June following a 13.4% drop in May. A fall in the index indicates more consumers expect unemployment to fall. The index at 127 is just slightly below its long-run average of 130.

Sentiment relating to the housing market was mixed. The “time to buy a dwelling” index fell 0.5% in June, but this followed a strong 31.8% gain in May. The index measuring expectations on house prices improved, lifting 10.5%. However, the index, at 80.6, is still suggesting pessimism among consumers.

The rebound in consumer sentiment adds weight to the view that a recovery in economic activity is occurring sooner than expected, although it continues to suggest some caution persisting among consumers.

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