bankSA

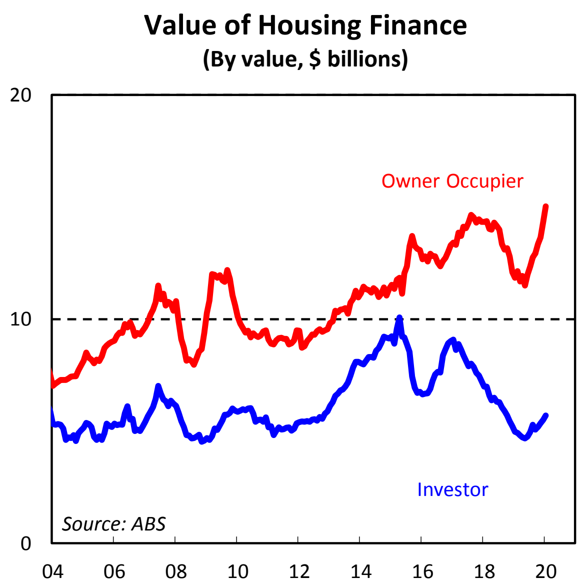
Data Snapshot

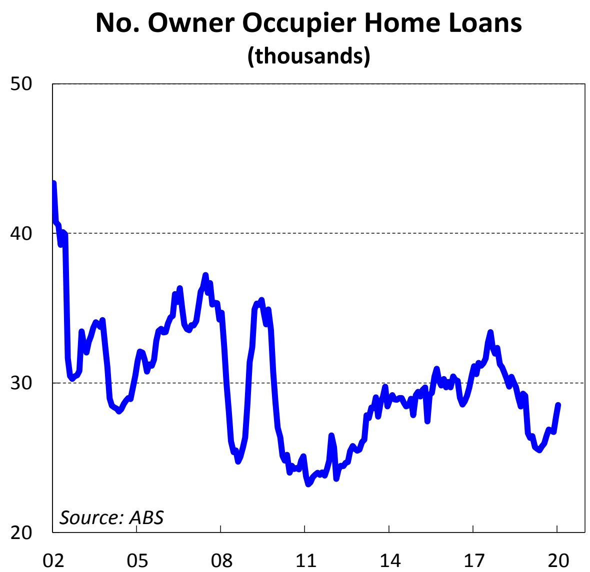
Wednesday, 11 March 2020

Housing Finance

Housing lending growth gathers speed

- **New home loans surged in January across both volumes and values.**
- **The uplift in home lending was broad based, but owner-occupiers led the increase, as they have done for much of the recent recovery. Lending in NSW and Victoria also led the rise in January.**
- **The number of loans to owner-occupiers (excluding refinancing) jumped 3.6% in January, after a gain of 3.1% in December. These back-to-back gains are the strongest since July 2015.**
- **The volume of loans growth to purchase new dwellings was especially strong in January – up 14.1% in the month and up 48.4% on a year ago.**
- **The value of all new home loans (excluding refinancing) surged 4.6% in January; for owner occupiers, the gain was 5.0% in January and for investors it was 3.6%.**
- **Compared with the trough for loan values in May 2019, owner-occupier loans are 30.8% higher and investor loan values are 21.8% higher. The value of owner-occupier loans struck a new peak in January but the value of investor loans are still 43.4% away from the peak in April 2015.**
- **Fears among households and businesses about the coronavirus and economic outlook could disrupt the upturn in housing lending, despite another rate cut from the Reserve Bank last week and another one likely to come by early April.**
- **Auction rates remain elevated, especially in Sydney and Melbourne. These elevated auction rates suggest further gains in house prices and loans growth in the months ahead. But auction rates in coming weeks should be closely watched for any signs of a coronavirus-related pullback.**





Summary and Outlook

January was characterised by bushfires and the rapid spread of the coronavirus in China. Today, we received updated housing finance data for January and it showed a ramp up in lending growth, especially for owner-occupier lending. Investor lending continued to grow, but the recovery is more muted than in past cycles. The upturn in lending also continued to be led NSW and Victoria.

Moreover, the uplift in housing lending is across both values and volumes and across upgraders and first-home buyers.

But a lot has happened since January. In particular, this month we have witnessed the escalation of coronavirus cases in Australia and the rest of the world, which has been accompanied by disruption to global-supply chains and travel. There is a rising risk that Australia will record its first technical recession in nearly 30 years. A contraction in economic activity for the March quarter is almost assured. If the coronavirus continues to deepen and spread in Australia and the rest of the world, the risks of another contraction in the June quarter and a recession grows.

Fears among households and businesses about the coronavirus and economic outlook could see demand for housing loans wane, despite another rate cut from the Reserve Bank last week and another one likely to come by early April. Business confidence (data released yesterday) and consumer confidence (released today) both fell this month and suggest both businesses and consumers are feeling fragile about economic conditions.

Auction rates for now remain elevated, especially in Sydney and Melbourne. These elevated auction rates suggest further price gains and loans growth in the months ahead. But auction rates in the coming weeks should be closely watched for any signs of a pullback.

Number of Loans to Owner Occupiers

The number of loans to owner-occupiers (excluding refinancing) jumped 3.6% in January, after a gain of 3.1% in December. These back-to-back gains are the strongest since July 2015. On a year ago, the number of owner-occupier loans ex refinancing is 8.4% higher, representing the fastest annual rate since November 2017.

The purchase of new dwellings surged 13.4% in January and is 48.4% higher compared with one year ago. Other data and anecdotes reveal the demand for new dwellings continues to be led by detached housing and low-rise apartments.

Loans to construct a dwelling and loans for established dwellings also gained ground in January, rising by 4.2% and 1.1%, respectively.

Refinancing was also sharply higher in January, up 6.0% in the month.

Value of Housing Finance

The value of new home loans (excluding refinancing) surged 4.6% in January. Annual growth was 23%. The increase has been driven by owner occupiers. The value of loans to owner occupiers rose by 5.0% in January, representing the eighth consecutive gain. The value of loans to investors also rose, but was more restrained. Investor lending values rose 3.6% in January, which is the fourth consecutive monthly gain.

Compared with the trough for loan values in May 2019, owner-occupier loans are 30.8% higher and investor loan values are 21.8% higher. The value of owner-occupier loans are at a new peak in January but the value of investor loans are still 43.4% away from the peak struck in April 2015.

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