Data Snapshot

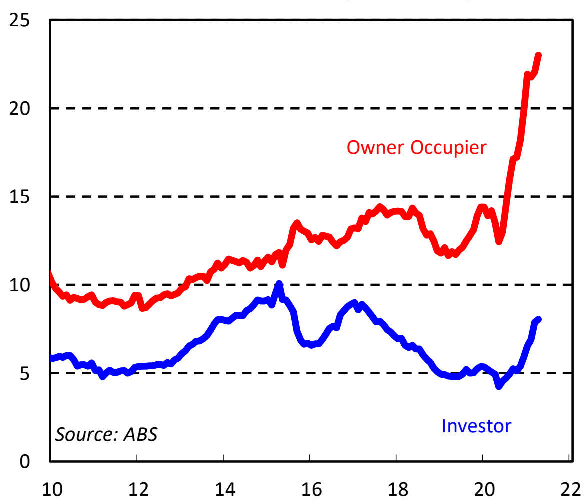
Friday, 4 June 2021

Housing Finance

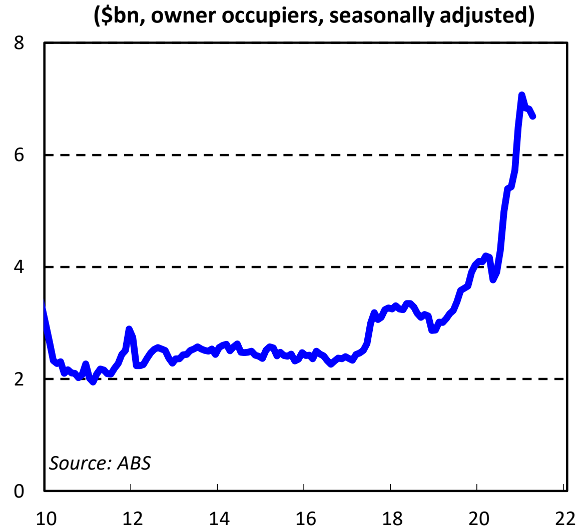
Lending Up But Affordability Pressures Mounting

- **The residential property boom continues to drive growth in housing finance with the value of new loans, excluding refinancing, increasing 3.7% in April. Over the year, housing loan commitments are up 68.2% - the fastest rate on record.**
- **Owner-occupiers continue to lead the housing upturn. New lending to owner-occupiers increased 4.3% in the month, although construction-related spending continued to drop, declining 11.4%. This fall follows the expiry of the HomeBuilder scheme in April.**
- **Investor lending rose 2.1% in April, the slowest pace in six months, after leaping 14.3% in March. Policymakers will be keeping a close eye on developments in investor lending. We cannot rule out a tightening in macroprudential controls in 2022.**
- **In further evidence of mounting affordability pressures, lending to first home buyers declined for the third month in a row, and are now 5.4% below the peak in January 2021. First home buyers tend to be more sensitive to affordability pressures than other cohorts. And with dwelling prices expected to increase further, the affordability crunch looks set to intensify.**
- **The increase in lending was broad-based across the country. The biggest increase was in the Northern Territory (7.0%), followed by Victoria (6.8%) and New South Wales (6.6%).**
- **We expect the momentum in housing finance will carry forward. Low interest rates, elevated consumer confidence and the ongoing recovery in the labour market will continue to provide support over the coming period.**

Housing Loan Commitments
($ billions, excluding refinancing)



First Home Buyer Housing Finance
($bn, owner occupiers, seasonally adjusted)



The residential property boom continues to drive growth in housing finance. The value of new loans excluding refinancing increased 3.7% in April. Over the year, housing loan commitments are up 68.2% - the fastest rate since the data begins in the early 2000s.

Owner-occupiers continue to lead the housing upturn. New lending to owner-occupiers increased 4.3% in the month. The uptick was driven entirely by lending to purchase established dwellings, up 9.2%.

Meanwhile, construction-related spending continued to drop, declining 11.4% in April after a 14.8% fall in March. This fall reflects the expiry of the HomeBuilder scheme in April. The program underpinned a bring-forward in construction lending and so we are likely to see a further drop over the coming months as its impact unwinds.

Investor lending rose 2.1% in April, the slowest growth in six months, after leaping 14.3% in March. Policymakers will be keeping a close eye on developments in investor lending. A sustained pickup in lending to investors could prompt a tightening in macroprudential policy. Indeed, the Reserve Bank acknowledged the acceleration in lending to investors in their statement following the June Board meeting.

In further evidence of mounting affordability pressures, lending to first home buyers declined for the third month in a row, and are now 5.4% below the peak in January 2021. First home buyers tend to earn lower incomes than the average household, and so are more sensitive to affordability pressures. We recently published research estimating that national house prices reached around seven times average annual earnings in April. And with dwelling prices expected to increase further, the affordability crunch looks set to intensify.

States and Territories

The increase in lending was broad-based across the country. The biggest increase was in the Northern Territory (7.0%), followed by Victoria (6.8%) and New South Wales (6.6%). South Australia (6.7%) and Queensland (2.7%) also posted gains. There were modest declines in Tasmania (3.7%) and the Australian Capital Territory (3.2%).

Lending declined 6.7% in Western Australia although this comes off the back of a period of very strong growth where the state government provided additional support to home buyers on top of the Federal government's HomeBuilder package. In annual terms, Western Australia still has the strongest lending growth across the country; housing finance in the Sand Gropers state is up a whopping 121.3% in the year to April.

Outlook

We expect the momentum in housing finance will carry forward. Low interest rates, elevated consumer confidence and the ongoing recovery in the labour market will continue to provide support over the coming period.

In the near term, the expiry of HomeBuilder is likely to weigh on construction-related financing, as the associated bring-forward in lending unwinds. Housing affordability pressures may also drive a further slowdown in lending to first home buyers. One key uncertainty over the longer term is whether policymakers will tighten macroprudential policy. If this materialises, it would likely considerably slow lending growth. We cannot rule out a tightening in macroprudential controls in 2022.

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