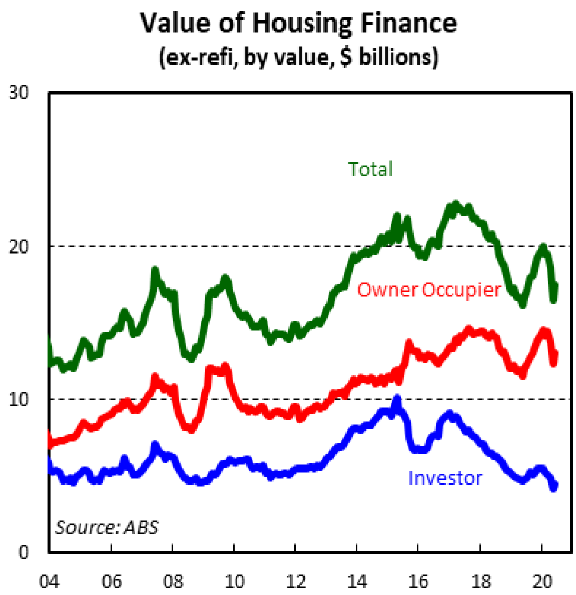
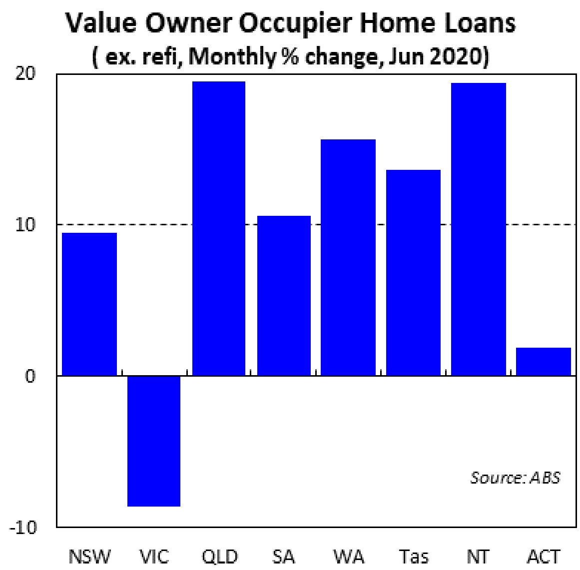
Wednesday, 5 August 2020

Housing Finance
Rebound Short-Lived

- **New lending partially recovered in June, reflecting the easing in COVID-19 restrictions. Improved confidence and increased movement of people have allowed activity to pick up within the housing market. Total new loans (excluding refinancing) rose 6.2% in June, following sharp declines over April and May of 5.0% and 10.2%, respectively.**
- **Investor lending led the recovery in June, rising 8.1%. It was the first increase in six months and the largest in nearly four years. A further sign of housing conditions stabilising in June was a fall in rental vacancy rates, including Sydney and Melbourne.**
- **Owner-occupier lending also rebounded, lifting 5.5% in June after a 10.2% decline in May. It was the biggest monthly increase in nearly five years.**
- **The trend of strong growth in refinancing partly reversed in June. Refinancing fell 11.9% in the month, after rising to a record high in May. Mortgage holders have been searching for a better deal amid low interest rates.**
- **There are major headwinds on the horizon for the housing market. The new and stricter lockdown measures will sharply dent turnover in Victoria and to a greater extent than over the June quarter. It will also result in a large loss of jobs. Moreover, there remains a long road to recovery as unemployment will remain high for some time.**





New lending partially recovered in June, reflecting the easing in COVID-19 restrictions. Improved confidence and increased movement of people have allowed activity to pick up within the housing market. Total new loans (excluding refinancing) rose 6.2% in June, following sharp declines over April and May of 5.0% and 10.2%, respectively.

However, the value of new loans remains 10.6% down from its level in March. The lift in loans in June points to an encouraging stabilisation in housing conditions, but a recovery is unlikely to be sustained. There remain headwinds for the housing market. Demand will continue to be buffeted by weakness in the labour market, soft incomes and slower population growth, although low interest rates are providing support.

Investor lending led the recovery in June, rising 8.1%. It was the first increase in six months and the largest in nearly four years. A further sign of housing conditions stabilising in June was a fall in rental vacancy rates, including Sydney and Melbourne (according to SQM research). The solid gain followed a 15.6% decline over May.

Owner-occupier lending also rebounded, lifting 5.5% in June after a 10.2% decline in May. It was the biggest monthly increase in nearly five years. June's increase was led by the purchase of established dwellings (7.5%), partly recovering from a 12.4% fall in May. In contrast, there was some further weakness for the construction of dwellings (-3.0%) and the purchase of new dwellings (-0.9%) although falls in these areas of lending were more muted when restrictions were tightest.

Meanwhile, the trend of strong growth in refinancing partly reversed in June. Refinancing fell 11.9% in the month, after rising to a record high in May. Mortgage holders have been searching for a better deal amid low interest rates.

Lending to first-home buyers outpaced the overall activity in owner-occupier lending in June. Commitments to first-home buyers for owner-occupied dwellings rose 6.2% after falling 9.3% in May. First-home buyer activity accounted for 31.3% of all owner-occupier loans.

By State and territory

All States and territories recorded a rise in owner-occupier loans (excluding refinancing) in June except Victoria. The partial recovery across most States following dramatic declines in April and May reflects the gradual easing of restrictions, with the notable exception of Victoria. Loans to owner-occupiers in Victoria declined 8.6% in June.

Queensland recorded the largest increase in owner-occupier commitments in June with a 19.5% increase, closely followed by the Northern Territory with a 19.4% rise. Solid increases were also recorded in Western Australia (15.7%), Tasmania (13.6%), South Australia (10.6%) and New South Wales (9.5%). The ACT recorded a more muted 1.9% increase over the month.

Investor lending (excluding refinancing) also recovered among all States and territories except for the ACT. The largest increases were recorded in Tasmania (27.0%) and the Northern Territory (45.7%). Queensland and Western Australia also performed well, recording gains of 15.1% and 14.3%, respectively. New South Wales recorded growth in investor lending for the first time this calendar year, with a 13.7% increase. Victoria eked out a 2.7% increase. Investor lending commitments fell 5.8% in the ACT, but the ACT was the only State or territory to record an increase in May, rising 7.5%.

The relative performance of lending among States in the coming months will be highly influenced by the pace of infections and the likelihood of renewed 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 is the latest policy to support the housing market in NSW. It should provide some support to lending in the State, 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 has come with the easing of restrictions nationwide.

There are major headwinds on the horizon for the housing market. The new and stricter lockdown measures will sharply dent turnover in Victoria and to a greater extent than over the June quarter. It will also result in a large loss of jobs. A risk remains that further restrictions will be imposed in other States. Moreover, there remains a long road to recovery as unemployment will remain high for some time.

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