bankSA

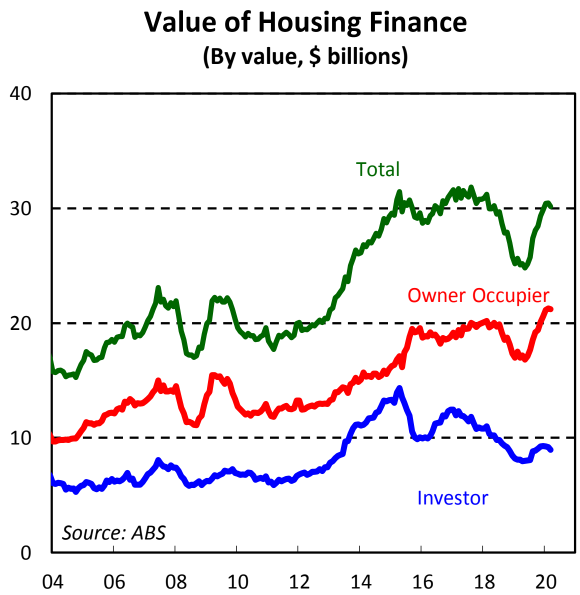
Data Snapshot

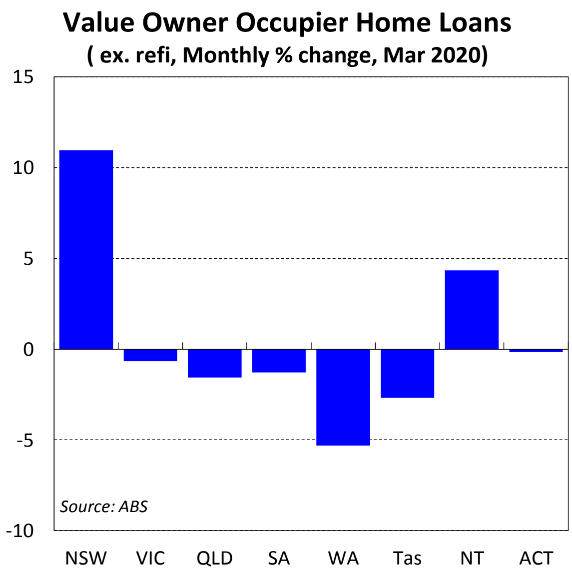
Wednesday, 6 May 2020

Housing Finance

Calm Before the Storm

- **New home lending remained resilient in March, despite escalating concerns over the spread of COVID-19. The total value of new lending (excluding re-refinancing) edged up 0.2% in the month.**
- **The Australian Bureau of Statistics (ABS) reported that the March loan commitments largely reflected applications submitted in February and the first half of March, before major social distancing restrictions were introduced. The ABS also added that "some lending institutions reported a slowdown in new loan applications towards the end of March".**
- **In March, new lending growth was entirely driven by owner-occupier lending, which lifted 1.2% in March after a revised 1.5% fall in February.**
- **There were signs of a further weakening in demand from investors – investor lending declined 2.5% in March, the third consecutive monthly fall. Investors are likely to have greater concerns about the purchase of new residential property given the uncertainty with regards to the impact of COVID-19 on the housing market. Moreover, the expected lift in vacancy rates and likely drop in rents add another layer of concern for investors.**
- **Housing prices were resilient in April, but sales turnover dropped sharply. Stay-at-home restrictions, banning of on-site auctions and public open inspections are deterring both potential buyers and sellers. We expect weakening housing activity to flow through to a softening of lending in April and in coming months.**





New home lending remained resilient in March, despite escalating concerns over the spread of COVID-19. The total value of new lending (excluding re refinancing) edged up 0.2% in the month.

However, the Australian Bureau of Statistics (ABS) reported that the March loan commitments largely reflected applications submitted in February or the first half of March, before major social distancing restrictions were introduced. The ABS also added that “some lending institutions reported a slowdown in new loan applications towards the end of March”. Furthermore, the small rise in March followed a 1.8% decline in February.

On an annual basis, the value of new lending edged up from 18.8% to 20.2%, but this pace of growth is likely to soften in coming months.

There were signs of a further weakening in demand from investors; investor lending declined 2.5% in March, the third consecutive monthly fall. Investors are likely to have greater concerns about the purchase of new residential property given the uncertainty with regards to the impact of COVID-19 on the housing market. Moreover, the expected lift in vacancy rates and likely drop in rents add another layer of concern for investors.

Owner-occupier lending was more resilient, and will likely fare better than investors in the current environment. In March, new lending growth was entirely driven by owner-occupier lending, which lifted by 1.2% in March, but followed a revised 1.5% fall in February.

Owner Occupiers by Category (Value)

The value of owner-occupier loans lifted for the purchase of new dwellings (0.6%) and for the purchase of established dwellings (2.4%). Meanwhile, lending for the construction of dwellings (-4.4%) and refinancing declined (-3.5%).

By State and territory

Owner-occupier loans were the strongest in NSW (11.0%) in March, although this followed a 7.8% decline in February. There was also a gain in owner occupier loans in the Northern Territory (4.3%). All other States reported declines, including Victoria (-0.7%), Queensland (-1.6%), South Australia (-1.3%), Western Australia (-5.3%), Tasmania (-2.7%) and the ACT (-0.2%).

Investor loans were weaker across all States in March, except for South Australia (13.0%) and the ACT (45.7%). Investor lending fell 1.2% in NSW over March, and has declined for four consecutive months. Victoria (-5.6%), Queensland (-3.1%), Western Australia (-5.4%), Tasmania (-9.8%) and the Northern Territory (-28.6%) all saw investor lending fall.

The value of investor loans was weaker on a year ago in NSW (-2.3%), South Australia (-15.8%) and the ACT (-33.4%). Victoria (15.2%), Queensland (19.0%), Western Australia (15.2%), Tasmania (23.8%) and the Northern Territory (44.0%) had increases on a year ago.

Outlook

Housing prices were resilient in April, but sales turnover has dropped sharply. Stay-at-home restrictions, banning of on-site auctions and public open inspections are deterring both potential buyers and sellers, and activity in the housing market has weakened significantly as a result.

We expect this weakness to flow through to a softening of lending in April and in coming months. Moreover, the uncertainty about the economy, rising residential vacancy rates and income loss from rising unemployment should further dent housing demand in coming months.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.