Data Snapshot

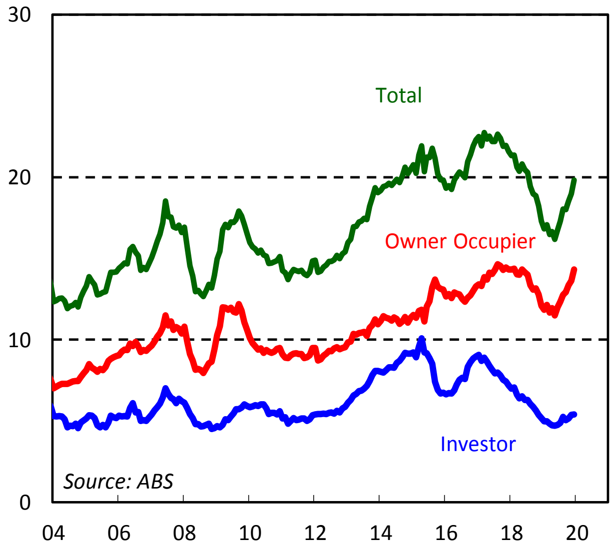
Wednesday, 8 April 2020

Housing Finance

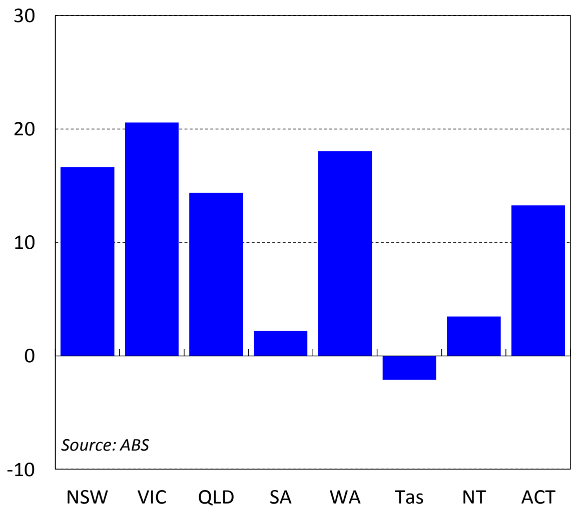
Warning Signals Ahead

- **Home lending took a step back in February. The value of owner-occupier lending weakened 5.9% in the month, while the value of investor lending dropped 1.9%. It was the first drop in owner-occupier lending in 9 months.**
- **The value of total lending across owner occupiers and lenders fell 6.2% in February (excluding refinancing).**
- **In normal circumstances, we would be wary of concluding that one month of decline was the beginning of a weakening trend. However, activity in the housing market is set to soften substantially and this is the just the start.**
- **Across States, sizeable declines in owner occupier loans in NSW (-8.7%) and Victoria (-3.8%) in February could suggest an early sign of softer conditions in Sydney and Melbourne.**
- **Stay-at-home restrictions, banning of on-site auctions and public open inspections will deter potential buyers. Although private inspections and online auctions are still allowed, activity is likely to be hit. Moreover, uncertainty about the economy and substantial job losses will further dent demand to buy dwellings.**
- **Housing prices continued to rise in March, but this likely reflected earlier in the month, prior to containment measures taking place. Auction rates have continued to fall over the past few weeks and suggest a softening of dwelling prices ahead. Further, weakness is expected in coming months as the contraction in the economy takes hold and incomes take a hit.**

Value of Housing Finance
(Ex-refi, By value, $ billions)



Value Owner Occupier Home Loans
(ex. refi, annual % change, Feb 2019)



Summary and Outlook

Home lending took a step back in February among both owner occupiers and investors. The value of owner-occupier lending weakened 5.9% in the month, while the value of investor lending dropped 1.9%. It was the first drop in owner-occupier lending in 9 months.

The value of total lending across owner occupiers and lenders fell 6.2% in February (excluding refinancing) and was up 14.0% on a year ago. Annual growth slowed from 23.3% in January. Including refinancing, the fall in February was only 3.3%, as the value of refinancing jumped 2.1% as consumers took advantage of lower rates.

In normal circumstances, we would be wary of concluding that one month of decline was the beginning of a weakening trend. However, activity in the housing market is set to soften substantially and this is the start of a trend.

Stay-at-home restrictions, banning of on-site auctions and public open inspections will deter potential buyers. Although private inspections and online auctions are still allowed, activity is likely to be hit. Moreover, uncertainty about the economy and substantial job losses will further dent activity.

For the moment, housing prices continued to rise in March, but this was likely driven by strong demand in the early part of March. Auction rates in recent weeks have fallen and suggest softer demand and prices in the period ahead. Weakness is also likely in coming months as the contraction in the economy takes hold and incomes take a hit.

Owner Occupiers by Category (Value)

The value of owner-occupier loans decreased across all major categories, except for refinancing (2.3%), suggesting some broad weakness for new housing demand in the month. The purchase of new dwellings (-15.3%) and the purchase of established dwellings (-5.4%) declined sharply in the month. The construction of dwellings also saw a modest decline (-1.4%).

By State and territory

The largest percentage decline in the value of owner-occupier loans was in NSW (-8.7%). Victoria (-3.8%) also witnessed a sizeable fall, which could suggest an early sign of softer conditions in Sydney and Melbourne. South Australia (-1.5%), the Northern Territory (-5.2%) and the ACT (-2.7%) also had falls. Queensland (4.7%), Western Australia (5.9%) and Tasmania (6.6%) were the only States where the value of owner occupier loans increased.

The value of investor loans were 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.

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