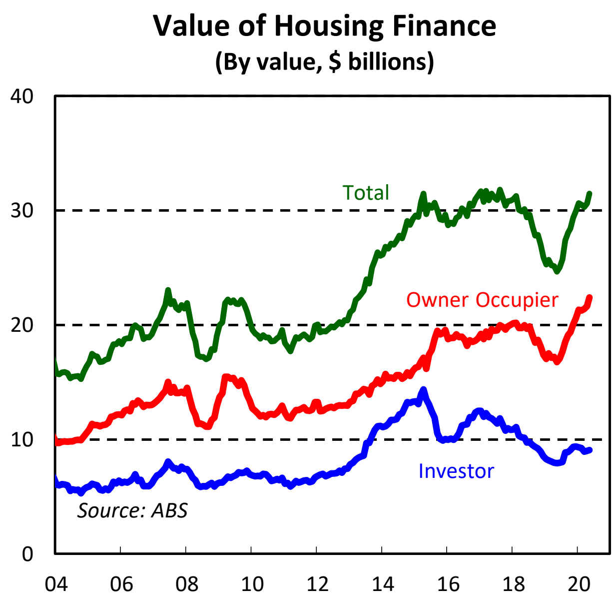
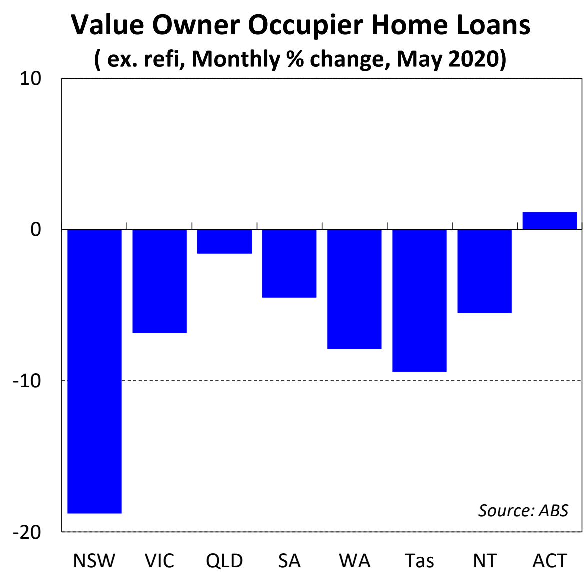
Thursday, 9 July 2020

Housing Finance

New Lending Not Immune to COVID-19

- **Further evidence of the dramatic impact of COVID-19 on the housing market emerged today. New home lending (excluding refinancing) to owner-occupiers and investors fell by the most in decades.**
- **Excluding refinancing, new home lending fell 11.6% in May following a 4.8% decline in April. There has been a delayed impact from the pandemic on lending statistics due to the lag between the sale of a property and having the loan approved.**
- **Lending to owner-occupiers fell 10.2% (excluding refinancing) in May following a 5.0% decline in April. Owner-occupiers had formed the bedrock of the housing market recovery that started in June last year, however, potential buyers appear to have crawled into their shells.**
- **Excluding refinancing, investor lending plunged 15.6% following a 4.2% fall in April. It was the fifth consecutive monthly decline in investor lending.**
- **Debtors continued to take advantage of reduced interest rates in May, especially fixed interest rate loans. Despite the plunge in lending for new activity, the value of refinancing surged 25.1% – the highest on record – following an 11.4% increase in April.**
- **The plunge in new lending in May reflects the ramping up of restrictions that occurred in April. While restrictions have eased somewhat, new lending activity is likely to remain anaemic and prone to downside risks. The re-imposition of lockdowns in metropolitan Melbourne and the Mitchell Shire in recent days is a prime example.**





Further evidence of the dramatic impact of COVID-19 on housing market activity emerged today. New home lending (excluding refinancing) to owner-occupiers and investors fell by the most in decades. Excluding refinancing, new home lending fell 11.6% in May following a 4.8% decline in April. There has been a delayed impact from the pandemic on lending statistics due to the lag between the sale of a property and having the loan approved. Containment measures introduced since late March have brought housing sales volumes to a halt, despite the large-scale stimulus measures introduced in the subsequent period.

The pandemic has abruptly halted momentum in a burgeoning housing market recovery. At 1.8% in May, new lending (excluding refinancing) remains positive on an annual basis, but only just. Annual gains were running at 17.5% and 11.2% in March and April, respectively.

Owner-occupiers had formed the bedrock of the housing market recovery that started in June last year. Potential buyers appear to have gone into their shells, with lending to this category down 10.2% in May following a 5.0% fall in April. It was the largest monthly decline since October 1996.

Lending to investors experienced an even more pronounced decline, despite coming from a relatively low base. Excluding refinancing, investor lending plunged 15.6% following a 4.2% fall in April. It was the fifth consecutive monthly decline in investor lending.

Both owner-occupier and investor lending are expected to decline in the coming months. Heightened uncertainty caused by the pandemic will cause further reticence to invest. There may be some level of pent-up demand released by owner-occupiers as prices fall, however, reduced incomes, lower population growth and the reintroduction of movement restrictions in metropolitan Melbourne and the Mitchell Shire will further limit demand for new loans.

On an annual basis, owner-occupier lending was up 7.3% in May compared with a 14.8% increase in April. Investor lending was down 11.9% on an annual basis in May following a 2.4% increase in April.

Loan holders continued to take advantage of reduced interest rates in May, especially fixed interest rate loans. Despite the plunge in lending for new activity, the value of refinancing surged 25.1% – the highest on record – following an 11.4% increase in April.

Owner Occupiers by Category (Value)

Within owner occupier lending, the decline was driven by the purchase of established dwellings (-12.4%) and the purchase of new dwellings (-4.1%). Loans for the construction of new dwellings fell by a more muted 2.2%.

Refinancing among owner-occupiers posted a 27.5% increase in May, as homeowners shopped around for a better deal amid record low interest rates. The Australian Bureau of Statistics (ABS) reported that there was sharp increase in the number of fixed-rate loan refinances during the month.

By State and territory

The decline in owner-occupier loans (excluding refinancing) was driven by New South Wales, which recorded a record 18.8% decline in May. Owner-occupier demand in New South Wales had been resilient before May's drop, with new loans recording a sharp increase of 12.9% in March and falling by just 1.5% in April. Lending to owner-occupiers fell 6.8% in Victoria in May. New restrictions in metropolitan Melbourne and the Mitchell Shire is likely to put further downward pressure on new lending in Victoria over the coming months.

Some of the States that recorded large declines in April saw smaller falls in May. Queensland's decline in owner occupier loans slowed to 1.6% (from 19.3% previously) and Western Australia recorded a 7.9% fall (from 18.1% previously). Commitments fell 4.5% in South Australia and 9.4% in Tasmania. The Northern Territory recorded a 5.5% fall and the ACT was the only State or territory to register an increase in owner-occupier lending (excluding refinancing) in May, with a 1.1% rise.

Investor loans (excluding refinancing) were weaker across all States and territories except for the ACT in May. The Northern Territory (-35.2%) and Victoria (-21.3%) recorded a sharp pullback following increases in April while investor lending continued its run of weakness in New South Wales (-17.2%). Queensland (-8.2%), South Australia (-9.3%), Tasmania (-2.9%) and Western Australia (-1.0%) also experienced a decline in investor lending over the month. Investor lending the ACT rose 7.5% in May.

Outlook

The full extent of the COVID-19 pandemic finally revealed itself in the housing finance data in May, reflecting the lags in the application process. The dramatic decline resulted from the widespread containment measures in place in April. New lending is likely to remain anaemic in the wake of the shock to housing market fundamentals, including weaker population growth, higher unemployment, softer household incomes and uncertainty for the outlook.

The announcement earlier this week that the banking industry will extend loan deferrals for up to another four months for eligible borrowers will help minimise mortgage stress whilst the economy is still facing very challenging conditions. The measure also help to reduce the size of the looming financial cliff at the end of September.

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