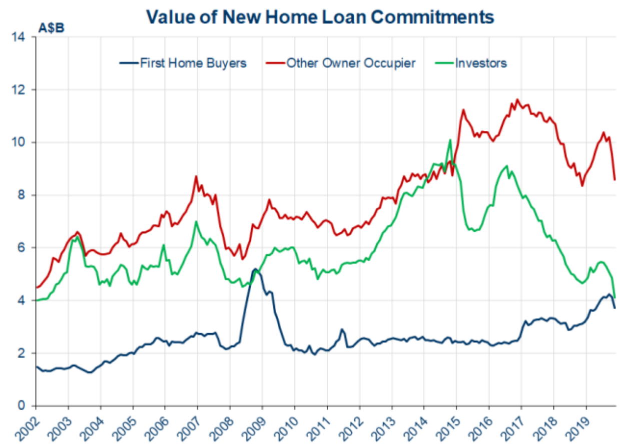
Housing Finance May 2020

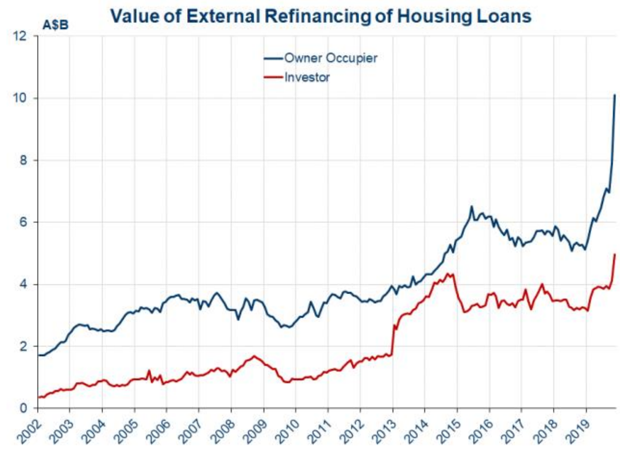
Value of New Loans

The value of new loan commitments for housing (excluding refinancing) dropped by 11.6% in May 2020. The fall was the sharpest on record (since 2002) and twice as much as expected by market participants (5.5%).

Seasonally Adjusted Ex Refinancing (%)	MoM	YoY
Owner Occupier	-10.2	7.3
Investor	-15.6	-11.9
Total	-11.6	1.8

The May drop in loan commitments was broad-based across property purposes and reflected restrictions on home opens and auctions during the partial lockdown in March and April. The fall was particularly sharp for investment loans, which retreated to levels of almost two decades ago.





The value of external refinancing of housing loans surged to the highest level on record, helped by very low interest rates and the RBA's loan support program.

Fixed-term personal loan commitments saw the second largest increase on record, following a huge drop in April caused by pandemic-related restrictions. Business loan commitments also picked up after a 40% fall in April, helped by a surge in construction loans.

Number of New Loans

The fall in number of new loan commitments was led by loans for established house purchases. For newly built dwellings, commitments remained higher than a year ago, though, according to the ABS, some of them are incorrectly reported purchases of existing houses.

Owner Occupier Ex Refinancing (%)	MoM	YoY
Construction	-3.2	-3.3
Newly Built	-3.8	16.8
Established Houses	-9.1	-12.4

States

The May slump in housing loan commitments was led by New South Wales, which was the only state to see a record fall. In other states, including Western Australia, declines were not the largest on record, yet still significant.

Owner Occupier Ex Refinancing (%)	MoM	YoY
Western Australia	-7.9	-9.8
New South Wales	-18.8	10.5
Victoria	-6.8	15.8
Queensland	-1.6	-4.5
South Australia	-4.5	-2.0
Tasmania	-9.4	-8.6

Comment

The May housing finance report showed a lagged impact of COVID-19 restrictions on the real estate market. It also provided some evidence that the RBA policies helped reduce debt service costs and ease the financial distress of Australian households to some extent.

While the June report might show a technical rebound, there are large downside risks to housing demand going forward. Apart from the re-imposition of restrictions in Victoria, they include the stagnation in the labour market and heightened uncertainty about the evolution of the pandemic, which is not conducive to making long-term investment decisions.

9 July 2020

Head Office: Level 12, 225 St Georges Terrace, Perth WA 6000
Postal Address: PO Box 7282, Perth Cloisters Square WA 6850
Phone: (+61) 8 9235 9100
Facsimile: (+61) 8 9235 9199
Email: watc@watc.wa.gov.au
Website: www.watc.wa.gov.au