

Active first home buyers; Investors on strike

Lending

- **Home loans:** The value of owner-occupier home loans rose by 1.0 per cent in April with investment loans down 2.2 per cent to decade lows. In seasonally-adjusted terms, the share of first-home buyers in the home lending market hit a near 7-year high of 28.2 per cent in April.
- **Construction activity:** The Performance of Construction index from AiGroup fell 2.2 points to 40.4 points in May. Any reading below 50 indicates contraction in activity in the sector. It is the ninth reading below 50 and steepest rate of decline in the sector in six years.

The lending figures have implications for builders, housing-reliant businesses, finance providers, retailers, and companies dependent on consumer and business spending. The Performance of Construction index highlights activity in the sector and is important for building and construction firms and related firms.

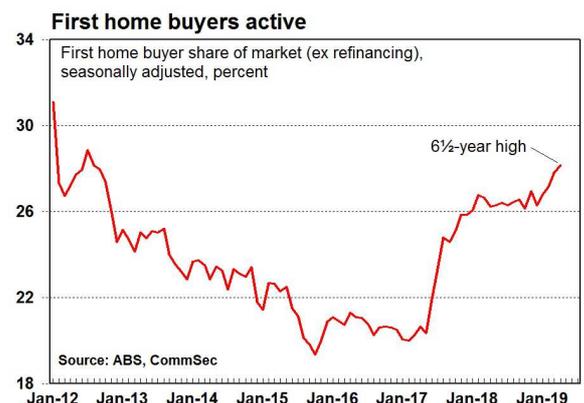
What does it all mean?

- The 'new' economy began on May 19 – the first day after the election. The latest economic data is effectively too old to be of assistance in driving monetary policy.
- First-home buyers were active before the election and they have every reason to be out in full force post-election. Understandably investors were effectively on strike in April ahead of the election. The \$4.43 billion in investor loans was a decade low. But the anecdotal evidence is that investors will again provide competition for first home buyers now that the election is out of the way.
- The latest data shows that buyers are responding to cheaper home values and low interest rates by taking out bigger loans. In April the average loan for an established dwelling was at a 12-month high of \$422,500.

What do the figures show?

Lending: April 2019

- **Total lending** rose by 6.1 per cent in April. Lending to **households** rose by 0.6 per cent and loans to business climbed 11.3 per cent.
- **The number of owner occupier home loans** (excluding refinancing) fell by 1.1 per cent. Including refinancing, loans fell 1.2 per cent. The number of loans to first home buyers rose 0.1 per cent.
- Excluding refinancing, the **value of owner-occupier housing** rose by 1.0 per cent with **investment loans** down 2.2 per cent to a 10-year low and **other personal loans** were up by 4.3 per cent. Alterations & additions fell 0.4 per cent.
- **Commercial lending** rose by 11.5 per cent with **lease loans** up 3.3 per cent.
- **The share of first home buyers (excluding refinancing)** rose from 27.8 per cent to 28.2 per cent in seasonally-adjusted terms in April, close to a 7-year high.



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- **Excluding refinancing**, the number of owner-occupier home loans across States & territories were: NSW (+0.3 per cent); Victoria (-0.2 per cent); Queensland (-2.4 per cent); South Australia (-0.4 per cent); Western Australia (-0.9 per cent); Tasmania (-4.2 per cent); NT (+23.5 per cent); ACT (-7.8 per cent).
- **The average loan value of an established dwelling** (excluding refinancing) rose from \$399,900 to \$422,500, and this was just 0.3 per cent lower than a year ago. It was the sixth month that the average loan fell in annual terms.

Performance of Construction

- AiGroup reported: *“House building activity (34.4 points trend) contracted for a 10th month in May, although the rate of decline was broadly unchanged from April. Also weighing heavily on overall industry conditions was a 14th consecutive month of contracting apartment building activity (37.7 points trend). Across the major project areas, commercial construction (44.7 points trend) recorded a tenth consecutive month of contraction in May amid a further overall fall in demand for commercial building projects. Engineering construction (50.3 points trend) remained stable in May although there were reports of rising tender opportunities.”*
- **“Construction highlights:** *Across the residential construction sectors, falls in approvals, commencements and work in the pipeline is continuing to weigh on workloads for residential builders. Commercial construction is also detracting from industry-wide performance, although its rate of contraction has not accelerated over the past six months. Businesses operating in the engineering construction sector have experienced more subdued conditions in recent months due to a shortfall of new contracts to replace completed infrastructure projects. Although engineering construction conditions remained stable in May there were indications of some improvement in new orders as more planned projects moved through to construction.”*

What is the importance of the economic data?

- **Lending to Households and Businesses** is released monthly by the Bureau of Statistics and contains figures on new housing, personal, commercial and lease finance commitments. The importance of the data lies in what it reveals about the appropriateness of interest rate settings, confidence and spending levels in the economy.
- Australian Industry Group releases the monthly **Performance of Construction Index** survey report. The report assesses conditions in the construction sector and is important for building and construction firms, material providers and related service providers.

What are the implications for interest rates and investors?

- The housing market continues to rebalance. First-home buyers continue to take a greater share of the market. And the average home loan, while down a touch over the year, is still at historically-high levels. With purchase prices lower and interest rates at generational lows, some budding buyers may be using the current conditions to trade up. The number of loans to owner-occupiers fell in April but the value of loans rose.
- Business lending can be volatile. But the big lift in lending in April is encouraging. After the Reserve Bank rate cut, businesses have more reason to seek finance and embrace the stronger times ahead.
- CommSec has pencilled in another rate cut for August but it depends on post-election economic data.

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Average Home Loan

Established dwelling, April 2019

	\$'000	Annual %
Australia	422.5	-0.3
NSW	503.4	-1.1
Victoria	446.3	1.1
Queensland	363.1	3.8
South Australia	326.5	3.7
Western Australia	335.8	-6.5
Tasmania	275.3	2.4
ACT	410.2	3.6
Northern Territory	317.7	-4.0

Source: ABS, CommSec

