

12 July 2013

Housing Finance – May 2013

- Total housing lending rose by 2.0% in May and is 15.5% higher over the year.
- Owner-occupied lending continues to trend upwards. The number of loans to owner-occupiers rose by 1.8% in May. The value of these loans rose by 2.3%.
- Investor lending rose by 1.5% in May and is 23.7% higher than a year ago.
- First Home Buyer activity remains soft, making up 14.6% of the market in May with an average loan size of \$290K.
- The pick-up in housing activity is tracking in-line with the RBA's (and our) forecasts.

Total lending activity continues to edge higher. The 1.8% increase in the number of loans financed to owner-occupiers was just under market expectations of a 2.2% lift (CBA (f): +2.3). The housing finance data is another confirmation that parts of the Australian economy are responding to lower interest rates.

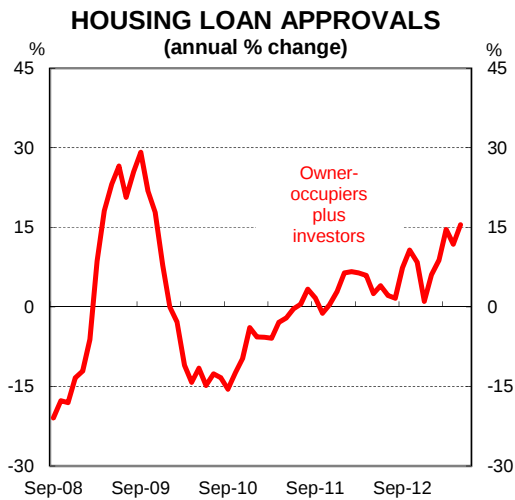
Both construction-related and established owner-occupied lending rose in May. The number of loans for established dwellings rose by 2.1% in May. And the number of construction-related loans was 0.6% higher over the month. Construction lending has increased significantly over the past twelve months. This is positive for the growth transition and our residential construction forecasts. The trend in Australian demographics is one of rising migrant inflows and a lift in the birth rate. These factors have favoured a lift in residential construction activity for a while. The improving trend in housing affordability is unlocking this demographic demand and points to a significant lift in construction over 2013.

Lending to investors also continued to edge higher in May. The construction component of investor lending has been the stronger part of the story recently, with construction lending surging by 17.2% in May. This also bodes well for our residential construction forecasts. Total construction-related lending is up by 26.5% over the past year.

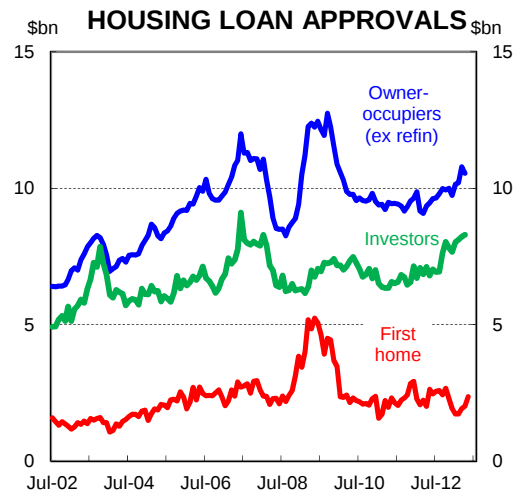
It was encouraging to see a pick-up in lending across all the States in May. In the month, lending was the strongest in QLD rising by 3.9% followed by Vic (+2.6%). Over the near-term we see the strongest growth in housing lending occurring in NSW and WA. The number of loans to owner-occupiers rose by 1.0% in NSW and by 3.4% in WA over the month.

The pick-up in housing activity is in line with the RBA's (and our) forecasts. The 25bpt rate cut in May is likely to provide further support to housing activity in the near-term. The slowdown in the mining part of the economy will be partly offset with a stronger housing market. Part of the baton pass that the RBA wanted to achieve with looser monetary policy settings is on track. Non-mining business investment remains subdued and we will need to see stronger activity in this sector to ensure that the growth transition to the non-mining economy is more even. We expect that the RBA will cut the cash rate to 2.5% in August, if the QII CPI data prints towards the bottom end of the 2-3% target band (as we expect).

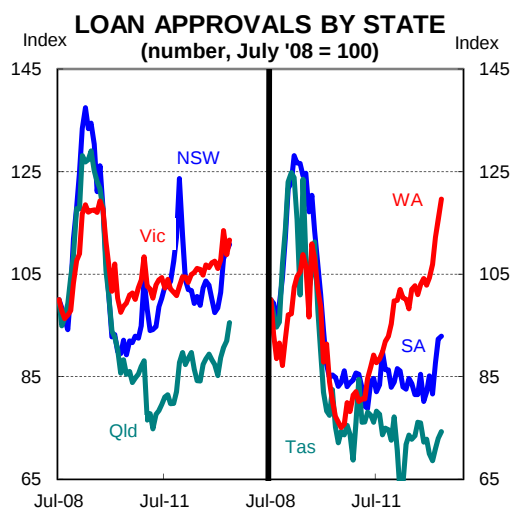
Total housing lending continues to trend upwards, rising by 2.0% in May and 15.5% over the past year.



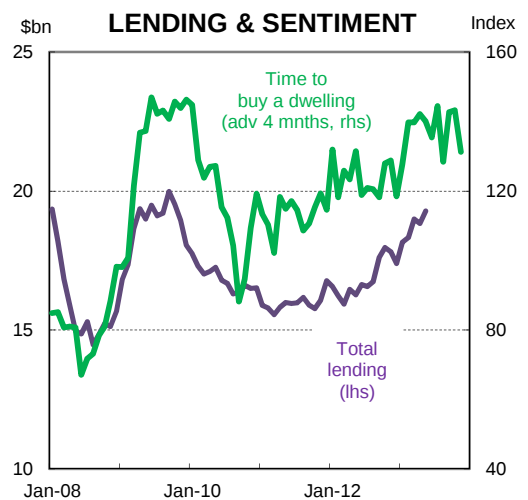
The value of housing lending to owner-occupiers rose by 2.3% and investor lending was 1.5% higher in May.



Lending rose across all the States in May.

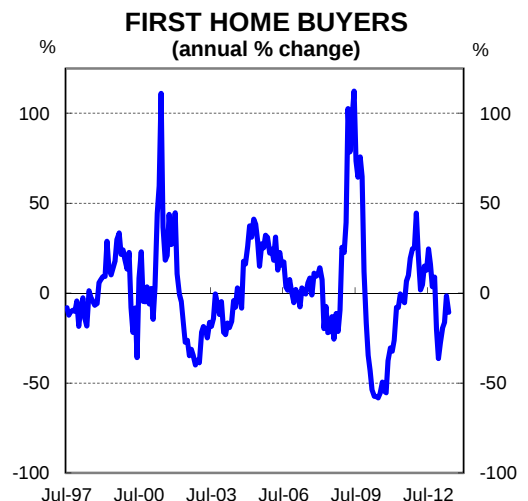
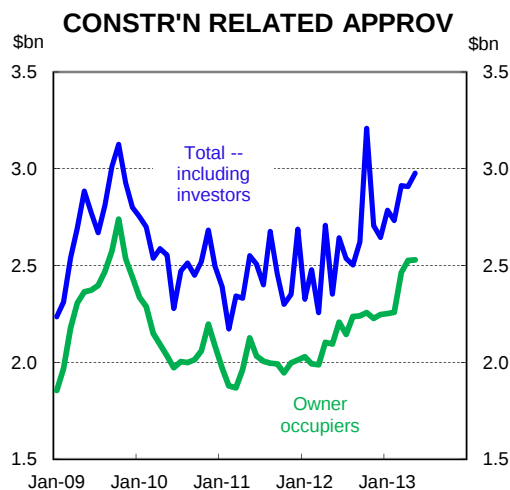


Higher lending activity is in line with the improvement in housing affordability.



Higher levels of owner-occupied and investor construction related lending are positive for residential construction.

First home buyer activity remains soft but the share of lending to this group is slowly moving higher.



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