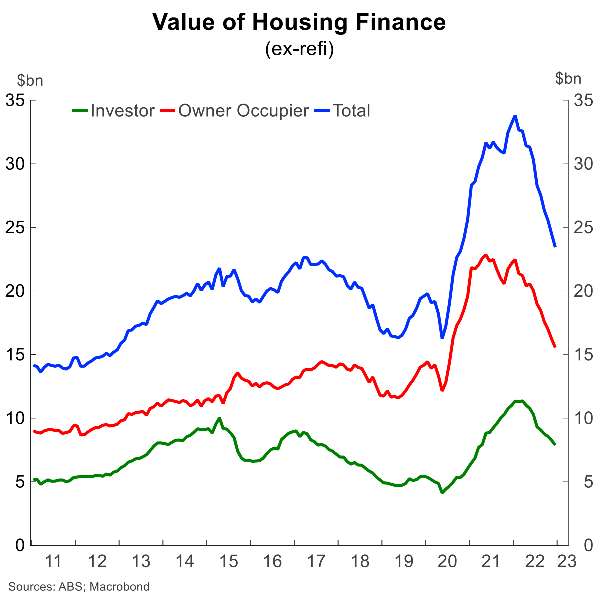
Data Snapshot

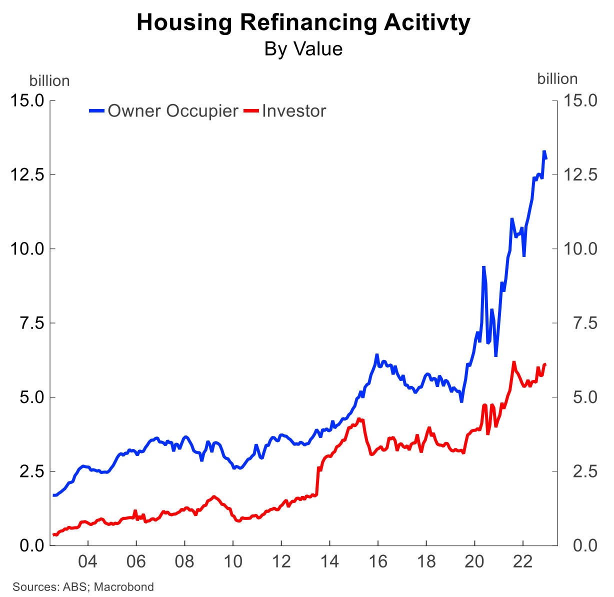
Friday, 3 February 2023

Housing Finance

Sharpest Annual Fall On Record

- **The value of new housing finance (excluding refinancing) declined by 4.3% over the month of December. Both new lending for owner occupiers (down 4.2%) and investors (down 4.4%) contributed to the monthly decline.**
- **In annual terms new housing finance was 29.3% lower than a year ago, the sharpest annual decline on record (since the early 2000s).**
- **Looking at owner occupiers alone, new housing finance was 29.8% lower than a year ago, the sharpest fall since March 1986 (a longer sample is available). Australia had a deep recession in the early 1990s underpinned by interest rates increasing to close to 20% – it is telling that new finance for owner occupiers has declined by a faster rate this cycle.**
- **Furthermore, new finance for the construction of properties and to buy new properties is at its lowest level since 2020. This points to continued weakness in construction.**
- **Despite easing this month, refinancing activity remains at close to record high levels, sitting 18.0% higher than a year ago. Refinancing activity by both owner occupiers (up 21.2% in annual terms) and investors (up 11.7%) have increased. We expect refinancing activity to remain elevated as higher interest rates continue to bite and more fixed rate mortgages roll over on to much higher variable rates.**
- **New housing finance activity is echoing the sentiment across the broader housing market. That is, a material slowdown is underway. Today's result suggest that a trough is still some way away and financing activity is expected to continue to decline.**





The value of new housing finance declined for a eleventh consecutive month in December as the Reserve Bank's (RBA) tightening cycle continued to weigh on housing market activity.

$23.4 billion of new housing loans were extended to borrowers in December, excluding refinancing activities. This was a 4.3% decline on the value of new housing loans written in November and 29.3% below a year earlier.

By Borrower

New Finance for owner occupiers was $15.6 billion, 4.2% lower than November and 29.8% lower than a year ago. When looking at the drivers, new finance to buy established properties was $11.7 billion in December – the lowest level since August 2020 after falling by 31.7% compared with December 2021.

New finance for the purchase or construction of new dwellings was $2.8 billion – the lowest level since June 2020 and 22.9% lower than a year ago. Borrowing to buy new houses or to build new housing is a good forward indicator for construction activity. The falls recorded point to continued weakness in construction. This outcome is particularly concerning when you consider that the price of constructing a new house has increased by close to 20% over the past year.

New investor lending also pulled back in the month, declining 4.4% to be 28.3% lower in annual terms. New housing finance for investors has now fallen for nine consecutive months.

Refinancing

While new lending has taken a hit, refinancing activity is running hot as borrowers try and lock-in the best deal as rates go up. At $19.1 billion, the value of refinancing in December was almost 20% higher than a year ago. Given elevated interest rates and large loan balances, the marginal benefit for households and investors of a better rate on their mortgage is significantly larger than previously, which means refinancing activity is likely to remain elevated.

States and Territories

New Lending By State (Excluding Refinancing)	Owner-Occupier		Investor		Total	
	Monthly Chg. %	Annual Chg. %	Monthly Chg. %	Annual Chg. %	Monthly Chg. %	Annual Chg. %
New South Wales	-4.7	-35.3	-5.9	-33.8	-5.1	-34.7
Victoria	-4.5	-31.4	-5.4	-27.1	-4.7	-30.1
Queensland	-5.8	-24.4	-5.1	-32.8	-5.6	-27.5
South Australia	-2.2	-19.1	2.3	-16.2	-0.8	-18.2
Western Australia	-1.7	-19.5	5.3	11.4	0.2	-12.4
Tasmania	0.0	-12.9	18.2	-32.7	4.3	-19.2
Australian Capital Territory	-15.1	-27.2	1.4	-12.1	-9.7	-22.3
Northern Territory	3.9	-13.1	-4.0	-27.9	2.2	-16.6
Total	-4.2	-29.8	-4.4	-28.3	-4.3	-29.3

Outlook

New housing finance activity is echoing the sentiment across the broader housing market. That is, a material slowdown is underway. The RBA's tightening cycle is weighing on borrowing capacity which is stalling new housing demand, and this is expected to continue. However, increasing migration and higher rents may help to bring investors back into the market. Despite this, a trough is still some way away and financing activity is expected to continue to decline.

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