Housing crunch

Home loans languish

MICHAEL MEHR
FINANCE

THE amount of money banks are lending to homebuyers is growing at its slowest rate since records began more than 40 years ago.

Housing credit grew an anaemic 3.7 per cent in the year to May, according to official figures released yesterday.

The figures are the first on credit growth since the federal election on May 18 and analysts have said the property market has since shown signs of recovery.

Lending to businesses and property buyers grew only marginally in May, while a fall in personal loans accelerated, the Reserve Bank data shows.

Private sector credit grew 0.2 per cent — meeting market expectations and equalling April's result — while mortgage credit growth slowed to 0.2 per cent in May, from the previous month's 0.3 per cent.

Credit to businesses rose 0.1 per cent and personal credit fell 0.6 per cent.

Overall credit growth slowed to 3.6 per cent over the past year, below market expectations of 3.7 per cent.

The 3.7 per cent growth in housing credit was the lowest for any 12-month period since records began in 1976. Business credit grew 4.5 per cent and personal credit fell 3.2 per cent.

Loans to property investors remained flat for the fifth consecutive month, also reaching an all-time low, edging up just 0.5 per cent over the past year.

Economists said property investors had been most affected by falls in house prices, tighter bank lending restrictions and reduced access to refinancing.

But commentators differed on whether the pace of lending would pick up.

"Although a disappointing monthly result for housing credit, we still see housing credit improving later this year as the impacts of further anticipated rate cuts and changes to the mortgage affordability floor start to have an effect," ANZ analysts Hayden Dimes and Richard Yetsenga said in a research report.

JP Morgan analyst Ben Jarman said: "In our view, housing credit is stabilising at low levels, but we don't expect an acceleration following (an) easing of interest servicing buffers, given the distribution of buyers satisfying all relevant lending criteria hasn't changed."

Owner-occupier credit grew 0.3 per cent in May compared with the previous month, and the 5.3 per cent annual increase was the weakest since June 2015.

AAP

RIDLEY'S CHIEF DEPARTS

AGRICULTURE

RIDLEY corporation has announced the departure of managing director and chief executive Tim Hart as the animal-feed producer warned full-year profit would fall short of analysts' forecasts.

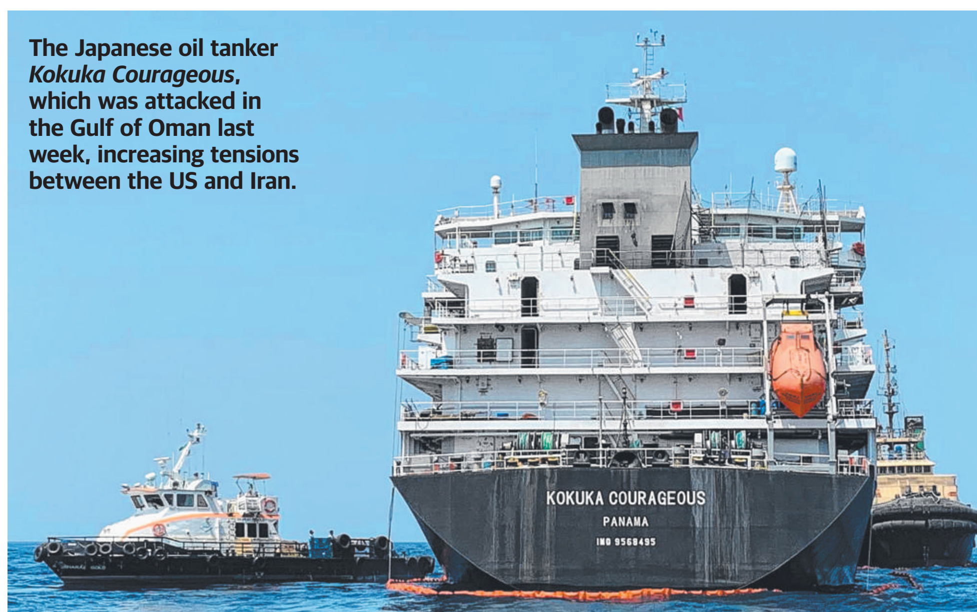
The company yesterday said its board had decided it was "the right time for a leadership change". Mr Hart had been in the role for more than six years.

Ridley did not detail the circumstances surrounding Mr Hart's departure.

He will be replaced on an interim basis until a successor is appointed, by non-executive Ridley director David Lord — who also chairs the company's remuneration and nominations committees.

In a separate statement, the company said it was expecting full-year net profit of between $22 million and $24 million — below market expectations for $25 million.

Shares in the group fell 4.5 per cent during trade to $1.17 after it made the announcements and closed 2.9 per cent lower at $1.19.



The Japanese oil tanker *Kokuka Courageous*, which was attacked in the Gulf of Oman last week, increasing tensions between the US and Iran.

US-Iran angst on OPEC radar

ENERGY

OPEC is on red alert over the escalating tensions between the US and Iran that have fuelled strong oil-price gains.

But the cartel and other crude-producing nations are unlikely to end output cuts at a meeting on Tuesday.

The Organisation of the Petroleum Exporting Countries, a cartel of 14 countries pumping one third of the world's oil, is aware a faltering global economy is sapping crude demand, helping to offset fears of potential supply disruptions in the Middle East.

OPEC member-nation ministers meet in Vienna on Monday, before gathering a day later for the OPEC+, which is a group of 24 oil-producing countries.

"The weak demand outlook, primarily due to escalating (US-China) trade tensions, warrants continued production restraint," Barclays analyst Amarpreet Singh said.

The banking group expects OPEC "to roll over the existing agreement" struck at the end of 2018, she added.

The cartel and its oil-producer nation allies opted in December to trim daily crude output by 1.2 million barrels due to abundant world supplies.

That reduction contributed to oil prices soaring by almost one third in the first quarter of 2019, with European benchmark contract Brent crude currently trading at just under $US66 per barrel, up 7 per cent since the last meeting.

Oil futures have jumped in recent weeks also on the US-China trade war — but mainly because of the fast-developing crisis between Tehran and Washington.

MARKET WRAP

FALLS MARK AN END TO FINANCIAL YEAR

THE Australian share market fell across the board yesterday ahead of a meeting between the US and Chinese leaders at the G20 summit in Japan.

The benchmark ASX 200 index fell 47.5 points, or 0.7 per cent, to 6618.8, while the broader All Ordinaries was down 43.8 points, or 0.6 per cent, at 6699.2.

"A sluggish end to what has been a relatively quiet week," CommSec market analyst Steven Dahglian said.

The worst hit sector was tech stocks, down 1.8 per cent, with **Afterpay Touch** falling $3 in the final hour of trading to finish down $2.76, or 9.9 per cent, to $25.07. There was no announcements to explain the sudden drop — the biggest among ASX 200 shares — although several hours earlier Visa said it would enter the buy-now, pay-later space.

The big four banks were mostly down, with **ANZ** falling 0.6 per cent to $28.21, the **Commonwealth Bank** 0.3 per cent to $82.78 and **National Australia Bank** 0.1 per cent to $26.72. However, **Westpac** gained 0.8 per cent to $28.36.

In the materials sector, mining titan **BHP** fell 1.9 per cent to $41.16, **Rio Tinto** 2.3 per cent to $103.76 and **Fortescue Metals** 1.7 per cent to $9.02.

Overall the ASX 200 rose for the sixth consecutive month to finish the June quarter up 7.1 per cent.

It ended the financial year up 7 per cent, having gained 19 per cent so far in 2019 following a 10 per cent dip from September to December.

Nearmap was the best performing stock among the ASX 200 for the financial year, up 230 per cent, while **Eclipx** was the worst, down 60 per cent. Iron ore was up 70 per cent for 2018/19 and gold up 12 per cent, while oil prices fell 20 per cent, Mr Daghlian said.

The Aussie dollar rose above US70c for the first time in three weeks, buying US70.12c from US69.94c on Thursday.

Looking ahead, traders will be keeping an eye on the G20 summit in Japan to see whether US President Donald Trump and Chinese counterpart Xi Jinping can work out of a trade deal over the weekend.

Australia's market will be one of the first to react to whatever happens in Osaka.

PAIN ON THE WAY FOR DISCRETIONARY RETAIL SECTOR

THE SHORT CUT
ROGER MONTGOMERY

SINCE we alerted investors two years ago that an oversupply of property would result in a collapse of residential construction, additional nails have been hammered into the coffin for companies exposed to housing and retailing.

As predicted, the tightening of credit conditions following the financial services inquiry and the subsequent royal commission had major consequences for both new and established residential property.

For vendors of established properties, prices weakened from record highs. For developers of new properties such as multi-level apartments and house-and-land packages, prices not only declined, but a cliff in approvals emerged.

That cliff has now arrived. Approvals have collapsed roughly 40 per cent from a peak annual run rate of 280,000 dwellings Australia-wide.

Of course, nothing is built without first obtaining approval, so a collapse in approvals must soon be followed by a collapse in construction of new dwellings.

Our conversations with builders suggests for them a 50 per cent decline in activity by Christmas.

That will probably mean a jump in the national unemployment rate because the construction industry is the third-largest employer after healthcare and retailing.

And the residential construction industry employs 3.5 per cent of the workforce.

Tradies of course own properties and have mortgages. They and their families also shop.

With the boom times over, tradies will be earning less income and will have to focus on the mortgage like everyone else. That means less shopping. Meanwhile with fewer people buying new and established properties there are even fewer requiring new furniture and accessories.

Businesses that retail homewares such as manchester must be ground zero for the slowdown.

Between the beginning of April and the end of May this year, investors in homewares retailer Adairs enjoyed a 30 per cent jump in the share price.

It made little sense, and more recently the company made the unsurprising announcement that profits for 2019 would be 10 per cent lower than previous guidance of $48 million.

But it is the rapid decline in conditions in the second half of the financial year combined with the known slowing in construction of new dwellings that bodes ominously for the 2020 financial year.

We have long warned investors to steer clear of retail companies and while many have guided to flatter growth rates for 2019 profits, we believe the writing is on the wall and more serious downgrades for 2020 are on their way.

Retail businesses such as Nick Scali, Harvey Norman, JB Hi-Fi, Flight Centre, Adairs, Temple & Webster and other discretionary retailers are in the firing line.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER WITH MONTGOMERY INVESTMENT MANAGEMENT

NUMBERS GAME
with Shane Oliver

$1080

THIS is the extra tax refund those on $48,000 to $90,000 will get after they fill in their tax returns for 2018-19.

Already passed into law is $530 — and the remaining $550 from this year's Budget looks likely to be passed too.

The economy has been slowing since mid last year as the housing downturn weighed on spending.

So it needs help. Threats from President Trump's trade wars and tensions with Iran are adding to the risks.

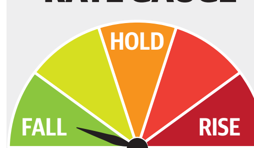
The $1080 is not huge but, as we saw with stimulus payments in the GFC, it will help retail sales. On its own it's not enough and the RBA will likely cut rates further — probably down to 0.5 per cent by early next year.

Bringing forward the promised 2022-23 tax cuts might also be a good idea!

Ultimately, tax cuts, rate cuts, strong infrastructure spending, the lower $A and an improving outlook for mining investment should help Australia avoid the much feared recession.

Shane Oliver is AMP Capital chief economist

RATE GAUGE



The Reserve Bank will cut the cash rate again, analysts say — it's just a question of when. Futures markets put the chances of a rate cut next week at 70 per cent.