Housing Finance
Investor Demand Lifts

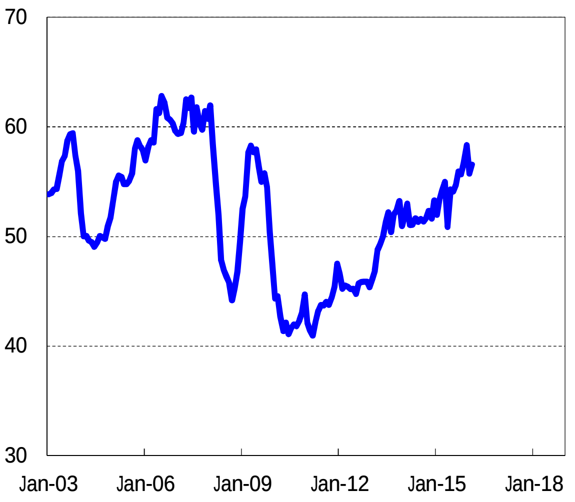
- The number of new loans to owner occupiers rose 1.5% in February. This was a smaller increase than expected and follows a downwardly revised 4.4% decline in January (previously reported as a 3.9% fall). The number of new loans, however, remains at a high level per month.

- The value of housing loans for investors jumped 4.1% in February, more than reversing January's 1.6% decline. The value of new investor housing loans has fallen in seven out of the last 12 months. Despite the rebound in the month of February, housing lending for investors declined 7.3% over the year to February.

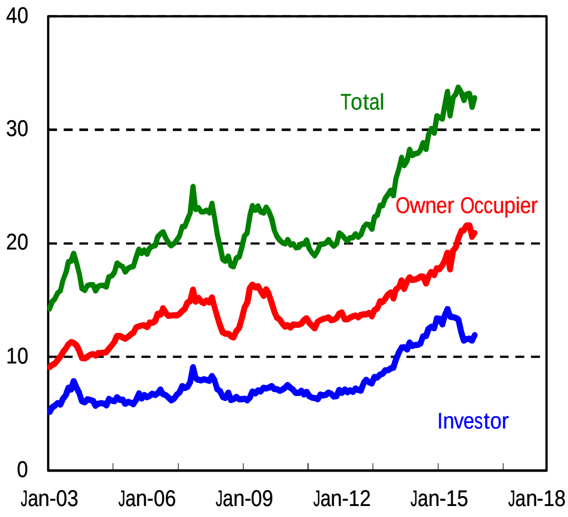
- In February, occupier loans rose in South Australia, Victoria, NSW and Western Australia, but declined in the Northern Territory, Tasmania, the ACT and Queensland. This followed declines in most States and territories (except the Northern Territory) in January.

- Demand for housing lending remains at an elevated level. This is reflected in today's housing finance data, in addition to firm auction clearance rates in many of the capital cities. We expect dwelling price growth to plateau this year. The outlook for housing will remain supported, however, by low interest rates, a firm labour market and a rising population.

Number of Housing Loans
(to Owner Occupiers, in thousands)



Aust. Housing Finance
(By value, $ billions)



Owner Occupier Home Loans by Number

The number of new loans to owner occupiers rose 1.5% in February. This increase was smaller than expected and follows a downwardly revised decline of 4.4% in January (previously reported as a 3.9% fall). The number of new loans, however, remains at a high level per month.

In the month of February, loans for the purchase of established dwellings rose (3.0%), while there were fewer loans for construction of dwellings (-1.9%) and purchase of new dwellings (-15.4%).

On an annual basis, growth in the number of new loans continues at a solid pace, suggesting firm owner occupier demand. Annual growth in owner occupier loans was 5.9% in February.

By State

Owner occupier loans across all States and territories were mixed in February. The number of new owner occupier loans rose in South Australia (1.6%), Victoria (1.2%), NSW (0.7%) and Western Australia (0.4%). There were declines in February, however, in the Northern Territory (-8.5%), Tasmania (-6.6%), the ACT (-3.7%) and Queensland (-1.9%). This followed declines in most States and territories (except the Northern Territory) in January.

In terms of annual growth, the pace of new owner occupier loan growth in Victoria (11.2%) overtook that of NSW (9.9%) for the first time since May 2015. Growth was more moderate in South Australia (5.6%), the ACT (3.2%) and Queensland (2.5%), but declined in the Northern Territory (-16.1%), Western Australia (-7.3%) and Tasmania (-6.7%).

Housing Finance by Value

The value of housing loans for investors jumped 4.1% in February, more than reversing January's 1.6% decline. The value of new investor housing loans has fallen in seven out of the last 12 months. Despite the rebound in the month of February, housing lending for investors declined 7.3% over the year to February.

Measures by APRA to curb investor lending may have dampened investor appetite, but also falling rental yields and reduced prospects of strong capital growth are also likely weighing on demand. Additionally, the ABS has warned that the owner occupier/investor lending breakdown is being affected by a reclassification of investor loans towards owner occupier. Despite these negatives in the investor housing market, today's data indicates that investors continue to borrow and invest in the housing market.

The value of housing loans including both investor and owner occupiers, which would not be impacted by this distortion, rose 2.6% in February. The annual pace rose to 6.0% in the year to February, from 2.9% in the year to January. This, however, remains well below the double-digit growth in the value of all housing lending though most of 2013, 2014 and 2015.

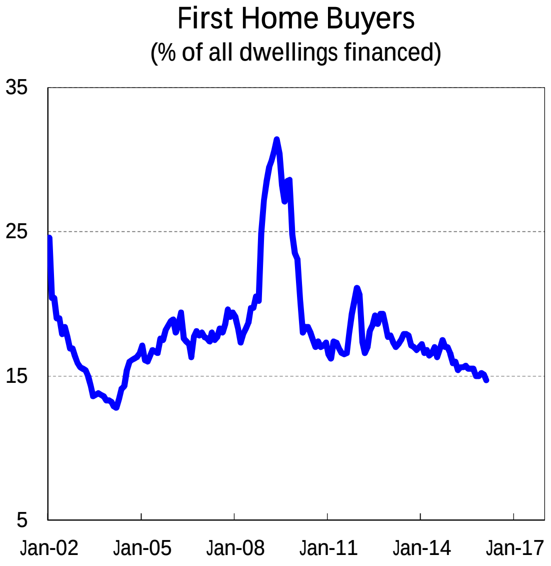
Fixed Home Loans

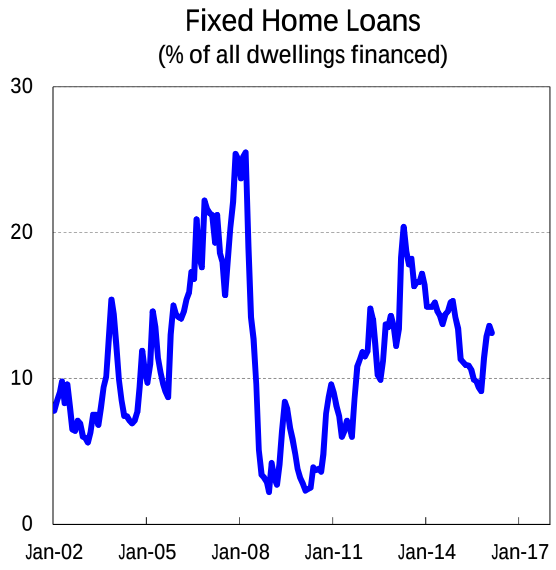
The proportion of borrowers fixing their loans as a percentage of all dwellings financed fell to 13.1% in February, from 13.6% in January. This is up from 9.1% in October 2015, suggesting mortgage holders remain somewhat concerned about the possibility of higher interest rates.

We continue to expect the RBA will leave official interest rates unchanged throughout 2016, and that swap yields (fixed interest rates) will remain at attractively low levels.

First-Home Buyers

As a proportion of total loans, first home buyer loans fell to 14.7% in February, from 15.1% in January. This is an 11½ year low, reflecting challenging affordability for first home buyers given strong growth in house prices, although interest rates remain at low levels. Additionally, the small proportion of first-home buyers is being masked to some extent by those whose first move into the property market is as investors.





Outlook and Implications

Demand for housing lending remains at an elevated level. This is reflected in today's housing finance data, in addition to firm auction clearance rates in many of the capital cities. Low interest rates are expected to provide further support for the housing market this year. Despite this, the pace of growth in dwelling prices has eased and we expect this to continue this year. Dwelling prices have had a strong run-up in recent years limiting the potential for further strong price gains.

Despite the pickup in investor lending in February, the trend will remain soft as moves by APRA impact the market further. Additionally falling rental yields, increased supply (particularly in some of the capital cities) and reduced prospects of capital growth will continue weigh on demand.

Despite our expectation for dwelling prices to plateau this year, outlook for housing is supported by low interest rates, a firm labour market and a rising population.

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