Wednesday, 11 May 2016



# Housing Finance

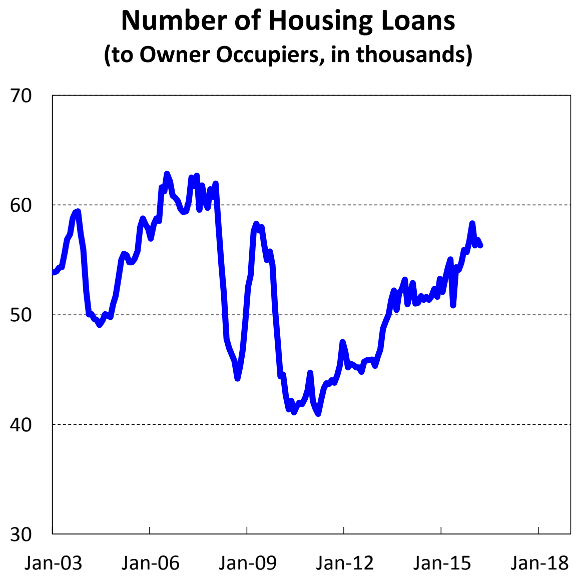
## Down But Not Out

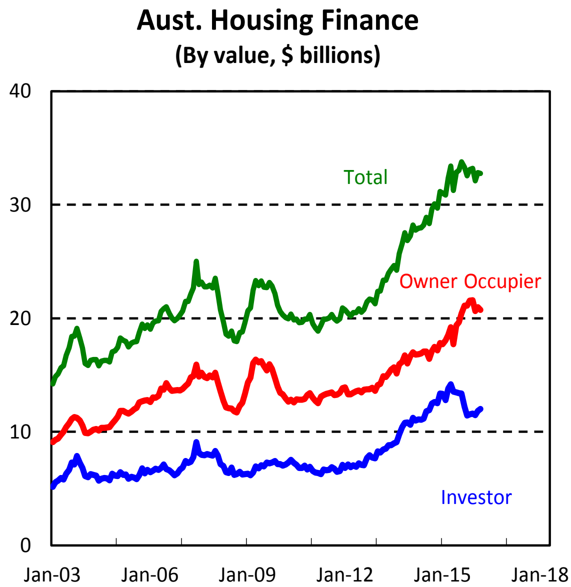
- **The number of new loans to owner occupiers fell 0.9% in March, reversing February's downwardly revised increase of 0.9% (previously reported as a 1.5% increase). The fall in March was smaller than expected. The number of new loans remains at a high level per month.**

- **The value of housing loans for investors was stronger than expected, rising 1.5% in March. This followed a downwardly revised increase of 3.1% in February (previously reported as a 4.1% increase.) The value of new investor housing loans has fallen in seven out of the last 12 months. Despite the strength in February and March, the value of investor loans fell 13.0% over the year to March.**

- **Demand for housing lending remains at an elevated level, despite some heat coming out of the market. We expect the pace of growth in dwelling prices to slow this year, although the interest rate cut earlier this month will help support demand.**

- **In other data, consumer sentiment jumped by 8.5%, to a reading of 103.2 in May, according to the Westpac-MI index. The reading is at its highest since January 2014 and comfortably above 100, indicating more consumers are optimistic than pessimistic. The Reserve Bank of Australia's rate cut earlier this month was likely the driving force behind the jump in consumer confidence.**



**Owner Occupier Home Loans by Number**

The number of new loans to owner occupiers fell 0.9% in March, reversing a downwardly revised increase of 0.9% in February (previously reported as a 1.5% increase). The fall in March was smaller than expected. Despite some heat coming out of the market, the number of new loans remains at a high level per month.

In March, the decline in owner occupier housing finance was led by a fall in finance for the purchase of new dwellings (-5.2%), finance for the construction of dwellings (-2.0% and the third consecutive monthly decline) and purchase of established dwellings (-0.5%). Refinancing of established dwellings rose 0.4%. Excluding refinancing, owner occupier housing finance fell by 1.6% in March.

For the year to March, the number of owner occupier housing loans rose 3.8%. Although the annual pace of growth has slowed, housing finance remains at an elevated level.

**By State**

Owner occupier loans across all States and territories were mixed in March. The number of new owner occupier loans rose in the ACT (7.2%), the Northern Territory (1.0%), South Australia (0.7%) and Victoria (0.3%). There were declines in March, however, in Tasmania (-3.2%), Queensland (-1.2%), NSW (-1.1%) and Western Australia (-1.0%).

For the year to March, owner occupier loan growth was strongest in the ACT (14.3%), followed by Victoria (8.3%), NSW (7.6%), South Australia (7.1%) and Queensland (0.5%). The number of new loan declined in the Northern Territory (-14.1%), Western Australia (-9.1%) and Tasmania (-8.0%).

**Housing Finance by Value**

The value of housing loans for investors rose 1.5% in March, following a downwardly revised increase of 3.1% in February (previously reported as a 4.1% increase). The value of new investor housing loans has fallen in seven out of the last 12 months. Despite the gains in February and March, housing lending for investors declined 13.0% over the year to March.

Measures by APRA to curb investor lending may have dampened investor appetites. 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.

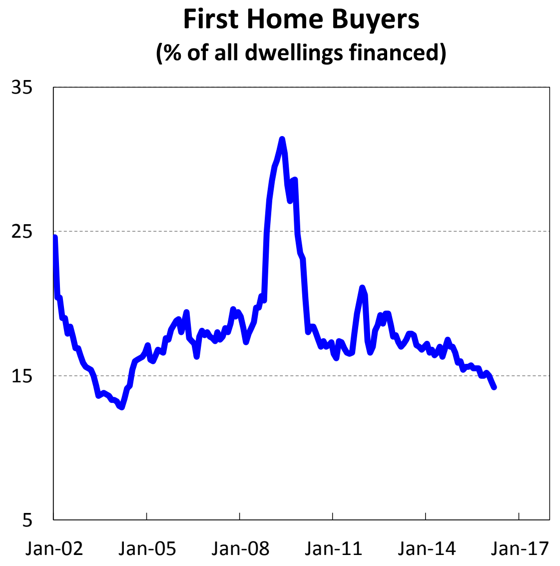
The value of housing loans including both investor and owner occupiers, which would not be impacted by this distortion, slipped 0.2% in March. The annual pace slowed to an increase of 1.2% in the year to March, from 6.4% in the year to February. It is well below the double-digit growth in the value of all housing lending though most of 2013, 2014 and 2015.

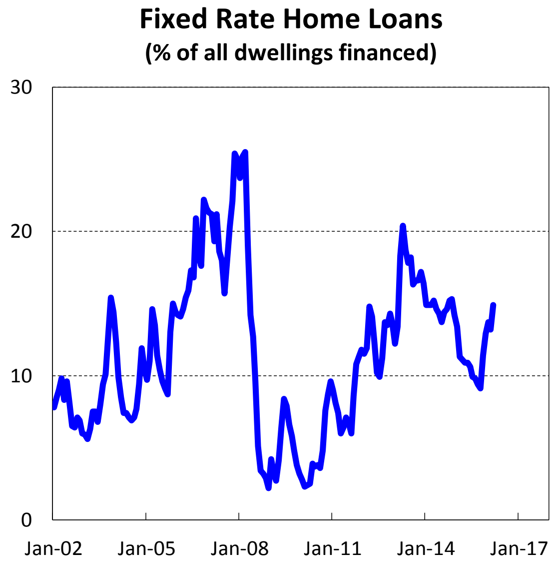
**Fixed Home Loans**

The proportion of borrowers fixing their loans as a percentage of all dwellings financed rose to 14.9% in March, from 13.2% in February. This was a couple of months ahead of the Reserve Bank of Australia's (RBA) rate cut in early May. Fixed interest rates were reflecting market speculation about the possibility of a rate cut ahead of the May RBA meeting. Since the May rate cut, interbank futures have moved to fully price in a rate cut in August, with another cut partially priced in for later in the year. If both of these do occur, it would leave the RBA's official cash rate at 1.25%.

## First-Home Buyers

As a proportion of total loans, first home buyer loans fell to 14.2% in March, from 14.6% in February. This is an 11½ year low, reflecting challenging affordability for first home buyers given strong growth in house prices, although interest rates are at historical lows. Additionally, figures on first-home buyers do not include those whose first move into the property market is as an investor.




## Outlook and Implications

Demand for housing lending remains at an elevated level. Low interest rates are expected to provide further support for the housing market this year. Despite this, we expect the pace of growth in dwelling prices to ease 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 and March, 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.

Housing is set to receive a further boost from a rate cut delivered by the RBA in May and the likelihood of another rate cut in coming months. Following the release of weak inflation data in late April and a rate cut in early May, we expect the RBA to lower interest rates again in August.

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**The Detail**