

## **Australian Mortgage Market Wrap -**

A monthly report covering the Australian home and investment mortgage market

November 2012

*With compliments of:*



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## Executive Summary

With more positive economic data both globally and domestically, as well as some surprising inflation figures, the RBA left the cash rate steady in November 2012 at 3.25%. Retail spending was up by more than expected at 0.5%, while unemployment remained steady at 5.4%, despite economists' expectations of virtually no job growth and a slight rise in unemployment. The Westpac–Melbourne Institute Consumer Sentiment Index strengthened, with the index rising from 99.2 in October to 104.3 in November, after eight consecutive months below 100.

In seasonally adjusted terms, housing credit aggregates continued to trend upwards in September 2012, up from \$1,255.2bn in August 2012 to \$1,258.0bn. This increase was driven by increases in both owner-occupied and investment housing credit aggregates, which were up by 0.2% to \$851.6bn and 0.3% to \$406.3bn respectively.

Total lending commitments increased by 3.8% to \$21,202.6bn between August and September 2012. This increase was driven by a 1.5% increase in owner-occupied lending commitments to \$13,901.6bn, and an 8.6% increase in investment housing lending commitments to \$7,300.9bn.

The 3-year fixed lending rate decreased to 5.70% between August and September 2012, while the proportion of fixed rate home loans increased from 11.20% to 13.70% in the same period. The number and value of dwellings refinanced rose between August and September 2012, with refinanced dwellings up by 0.2% to 15,076 in number and by 0.8% to \$3,891m in value. In the same period, banks' share of owner-occupied lending commitments remained steady at 92.7% by volume and increased from 93.6% to 93.8% by value.

According to APRA, the total value of bank-held owner-occupied loans increased by 0.2% from \$750,499m to \$751,656m between August and September 2012, while the total value of bank-held investment property loans increased by 0.3% to \$372,374m in the same period.

The total number of building approvals rose by 7.8% to 13,388 between August and September 2012. This increase was driven by increases in building approvals in New South Wales (22.8% to 3,086), Victoria (5.2% to 4,803), and Queensland (2.6% to 2,306).

The proportion of first home buyer (FHB) loans relative to all housing loans increased from 18.6% to 19.3% between August and September 2012. In line with an increase in the proportion of FHB loans, the average home loan size for FHBs increased by 0.1% to \$289,300 between August and September 2012, while the average home loan size for non-FHBs decreased by 0.1% to \$302,800 in the same period.

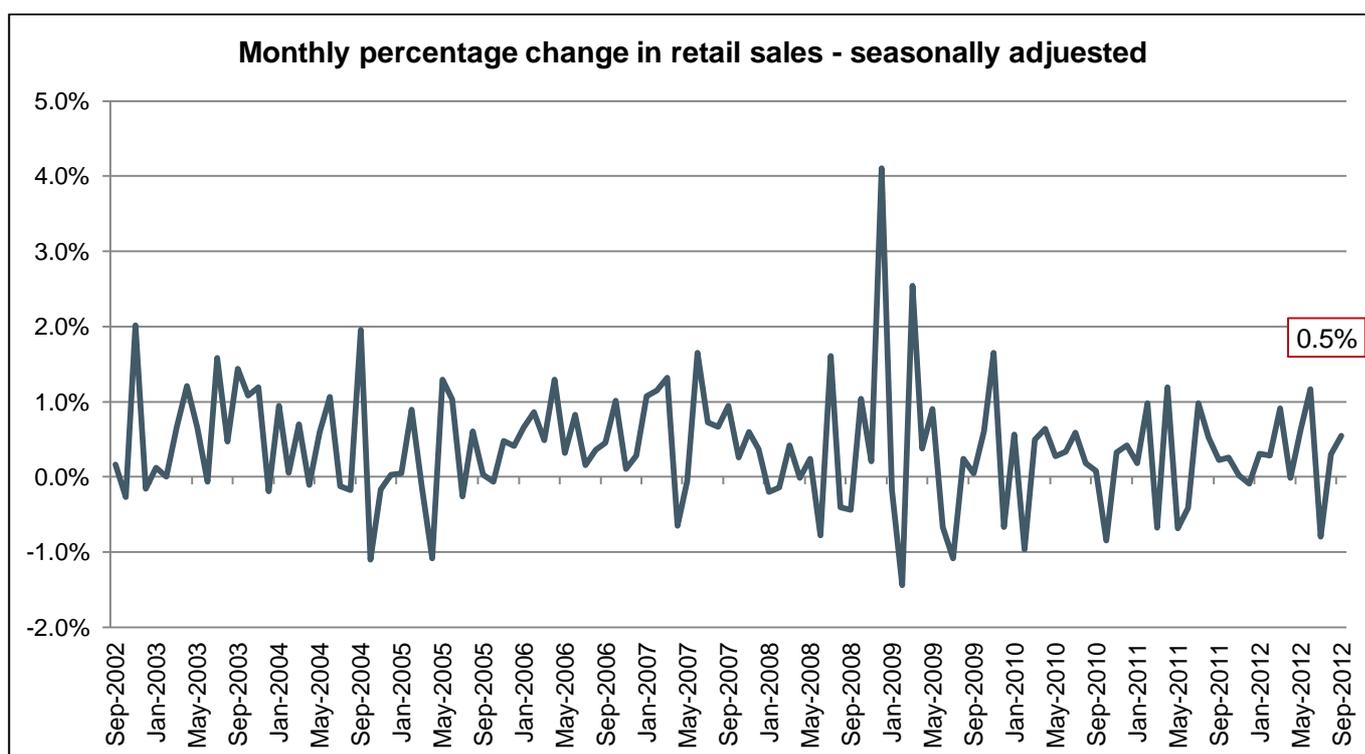
*Note: All publically available data used in this report was the most recently available data at the time of publishing. Revisions may have been made by the RBA, ABS, APRA or the Westpac-Melbourne Institute.*

## The Australian Economy – a snapshot

### Retail spending

On a seasonally adjusted basis, retail sales grew above expectations between August and September 2012, growing by 0.5%, a poll of median expected growth among 15 economists predicted a 0.3% rise. Retail sales also rose in August 2012, by 0.3%. While retail sales grew above expectations, CommSec Chief Economist, Craig James, said that the results were neither overwhelmingly positive nor negative. He noted that if taken over the quarter, retail sales fell by 0.1% in the September 2012 quarter.

The results show some strength in the retail sector, which would be hoping for rate cuts from the Reserve Bank to provide momentum going into the critical Christmas trading period. However, with a strong Australian dollar, there is a strong incentive for Australians to be buying online and offshore. Australians have traditionally been slow compared to international markets to ditch bricks and mortar shops for online shopping. In November, Grant Arnott was the man behind the Click Frenzy campaign, a one day online shopping spree that pulled together deals from many retailers. Given the traditional lack of enthusiasm for online shopping that Australians have shown, the site was designed to cater for half a million Australian shoppers accessing the website at once but buckled under the weight of reportedly 2 million shoppers trying to access the website at once. Click Frenzy's 'failure' from too much demand is a strong indicator of how much retailers could gain from expanding into the online space.



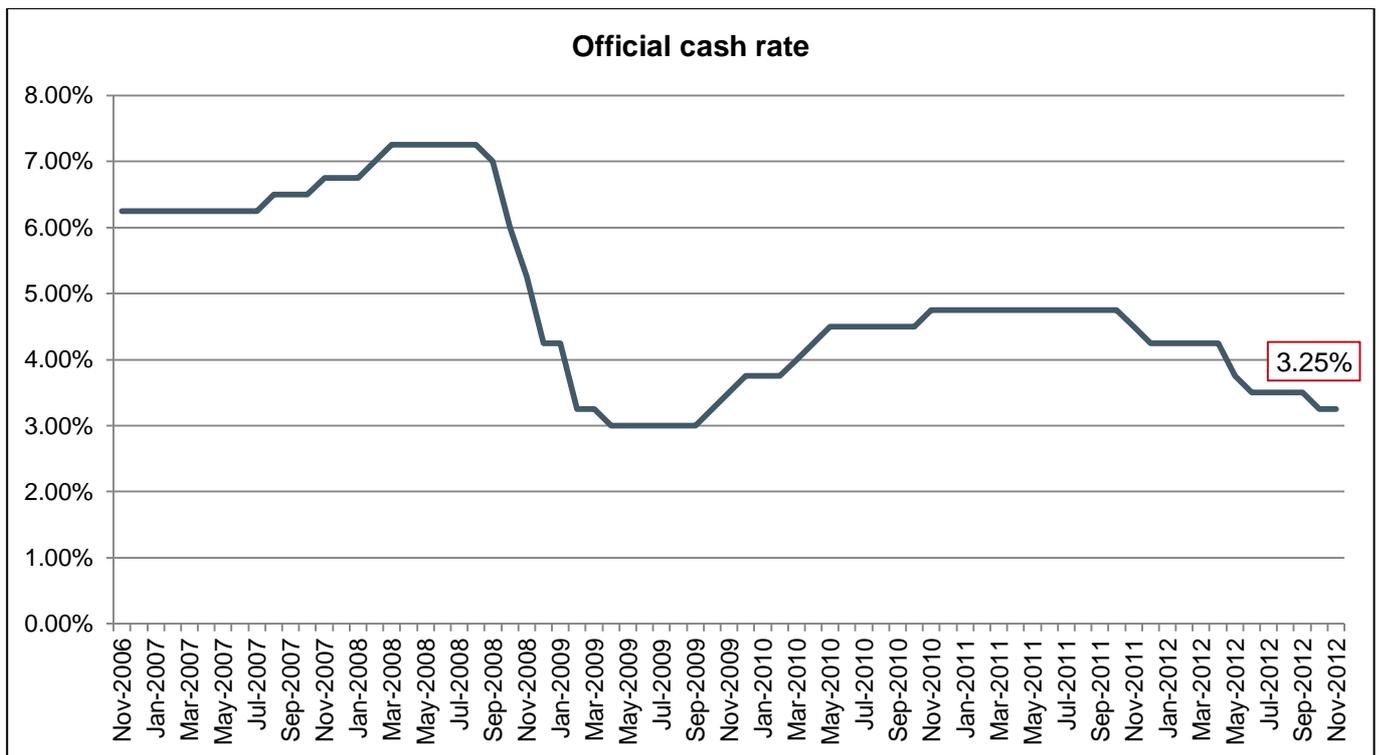
Source: ABS

## Interest rates

For the first time in seven years, the RBA did not adjust the cash rate in November, leaving it steady between October and November 2012 at 3.25%. The RBA cited higher than expected inflation and signs of an improvement in the global economy for its decision to leave rates on hold. The markets had priced in around a 50/50 chance of a rate cut, but, according to Reserve Bank Governor Glen Stevens, “the stance of monetary policy was appropriate for the time being,” especially with positive signs from China and the US.

Macquarie Senior Economist, Brian Redican, said that the RBA was taking on a more reactive stance rather than a proactive one, and that given this complacent tone, there was little to suggest that the RBA would cut the cash rate in its December meeting, although weaker economic data could change this.

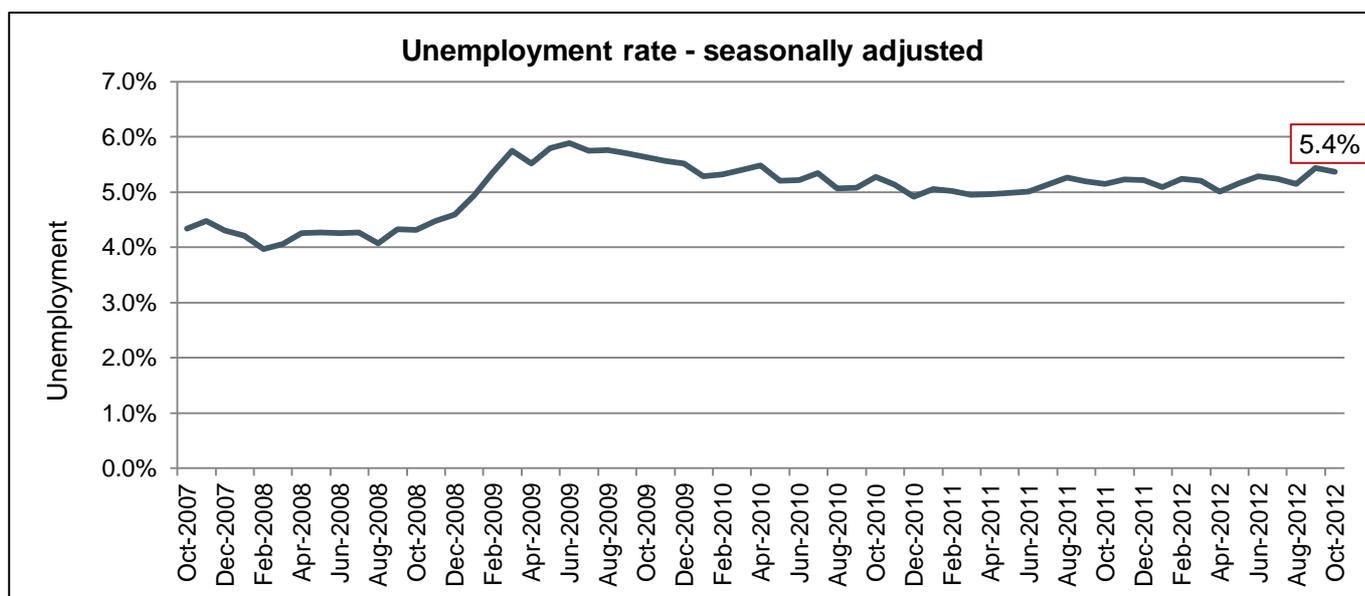
The downward trend in the cash rate as seen in the chart below has meant that borrowers have been experiencing positive effects, and have been able to save more on their repayments or make overpayments. However, savers have seen returns on their cash holdings diminishing.



Source: RBA

## Unemployment

The unemployment rate remained steady at 5.4% between September and October 2012. The participation rate eased slightly, however, falling by 0.1% to 65.1%. The majority of economists had expected virtually no job creation and a rise in unemployment to 5.5%. However, according to the ABS, 18,700 full time jobs were created in October, with a strong 8,000 decline in part-time jobs. There were four straight months of rising full time employment, which was particularly surprising to some given weak leading indicators, such as job advertising. Of note, however, was the rise in unemployment in Western Australia, which increased by 0.6 percentage points in October, and has gone from 3.5% in June to 4.6% last month, consistent with the slowdown in mining expenditure in that area. The relatively stable unemployment rate adds further to the argument that the RBA will leave the cash rate on hold in its next meeting.



Source: ABS

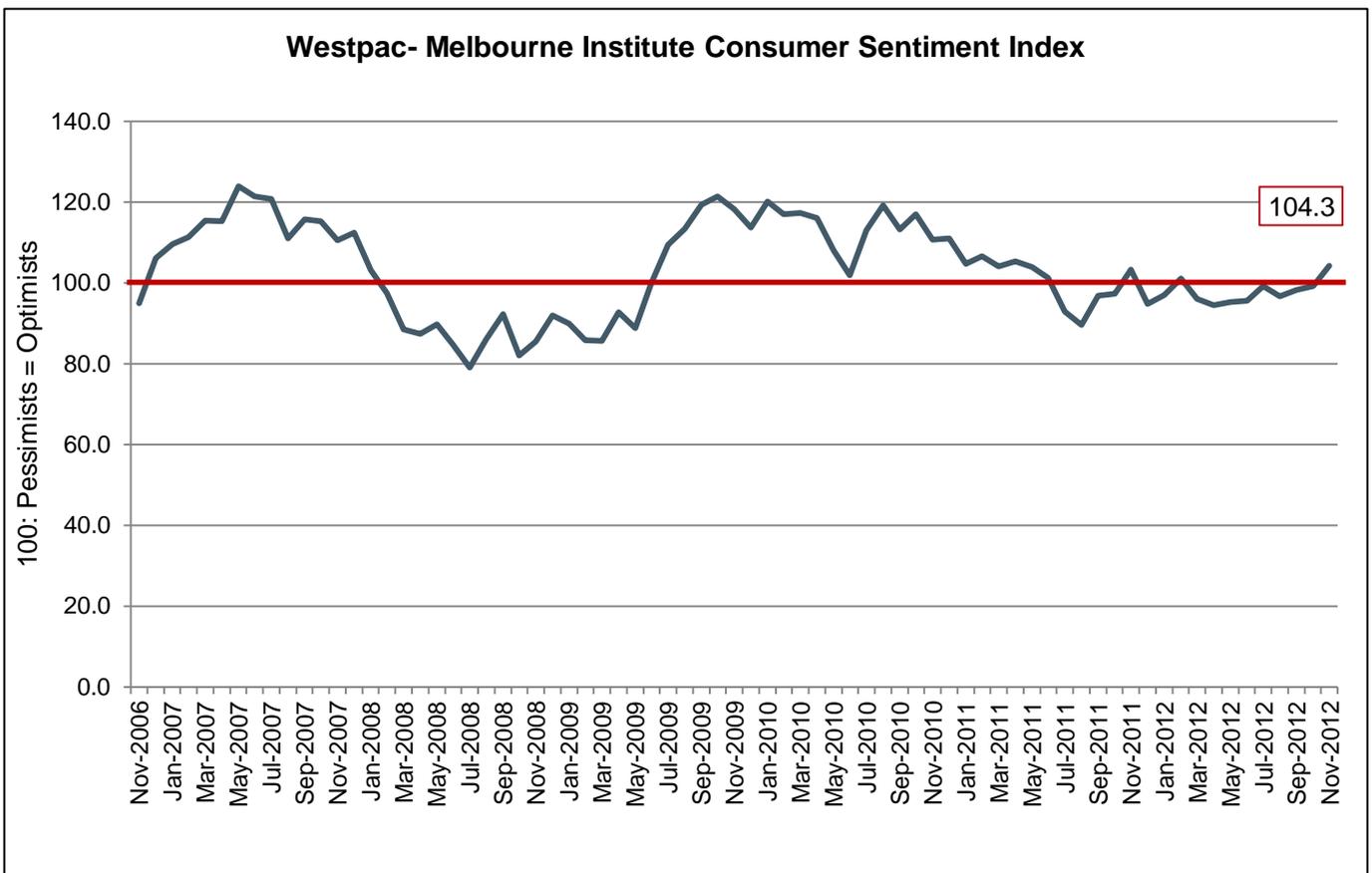
Seasonally adjusted unemployment rates				
	Sep-12	Oct-12	Monthly change (Sep-12 to Oct-12)	Yearly change (Oct-11 to Oct-12)
<b>Employed persons ('000s)</b>	11,512.6	11,523.2	0.1%	0.6%
<b>Unemployed persons ('000s)</b>	662.0	653.2	-1.3%	5.2%
<b>Labour force ('000s)</b>	12,174.6	12,176.5	0.0%	0.8%
<b>Unemployment rate</b>	5.4%	5.4%	-0.1pts	0.2pts
<b>Participation rate</b>	65.2%	65.1%	0.1pts	-0.4pts

Source: ABS

## Consumer sentiment

After eight consecutive months below the index level of 100, the Westpac-Melbourne Consumer Sentiment Index increased by 5.2% in November 2012, from 99.2 in October to 104.3 in November. In the previous 16 months, the index showed that pessimists outweighed optimists for 14 months, but this rise indicates that the RBA's decision to cut the cash rate by 150bp over that period has finally started to have an impact. Despite the welcome result, the index is only 0.9% above its level in November of last year, which means that the result of the rate cuts has really been to successfully keep consumer sentiment at the same levels as last year.

When broken down by state, confidence fell sharply in Western Australia by 5.2%, as well as in South Australia by 8.7%. As seen in the previous section, there was quite a notable rise in unemployment in Western Australia in the month to October, and, while consumers are becoming more comfortable with the global economic outlook, Westpac's Chief Bill Evans commented that a major negative factor was the extensive media coverage around the vulnerabilities of Australia's mining boom, which is likely to have unnerved households.



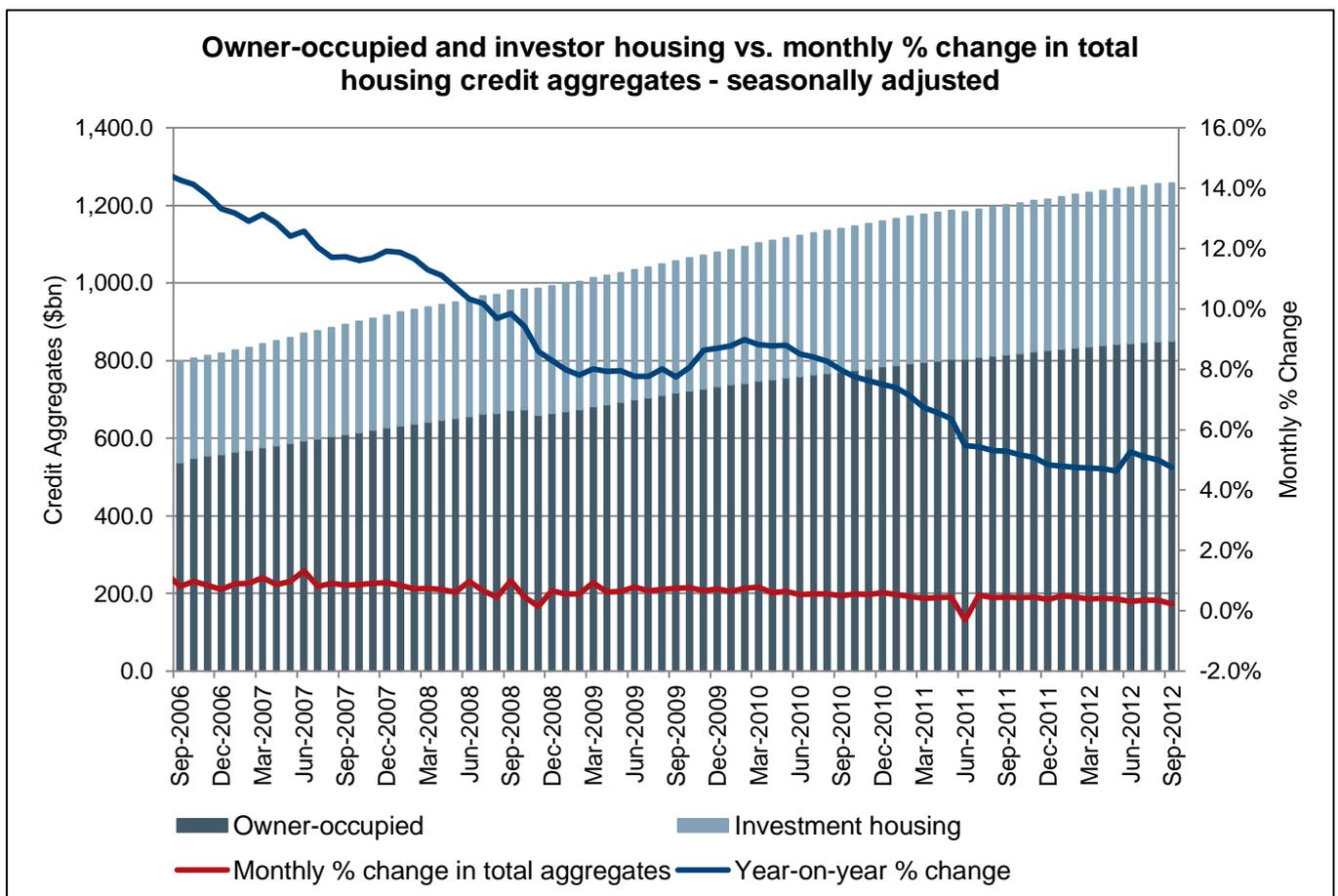
Source: Westpac – Melbourne Institute

## Housing market activity

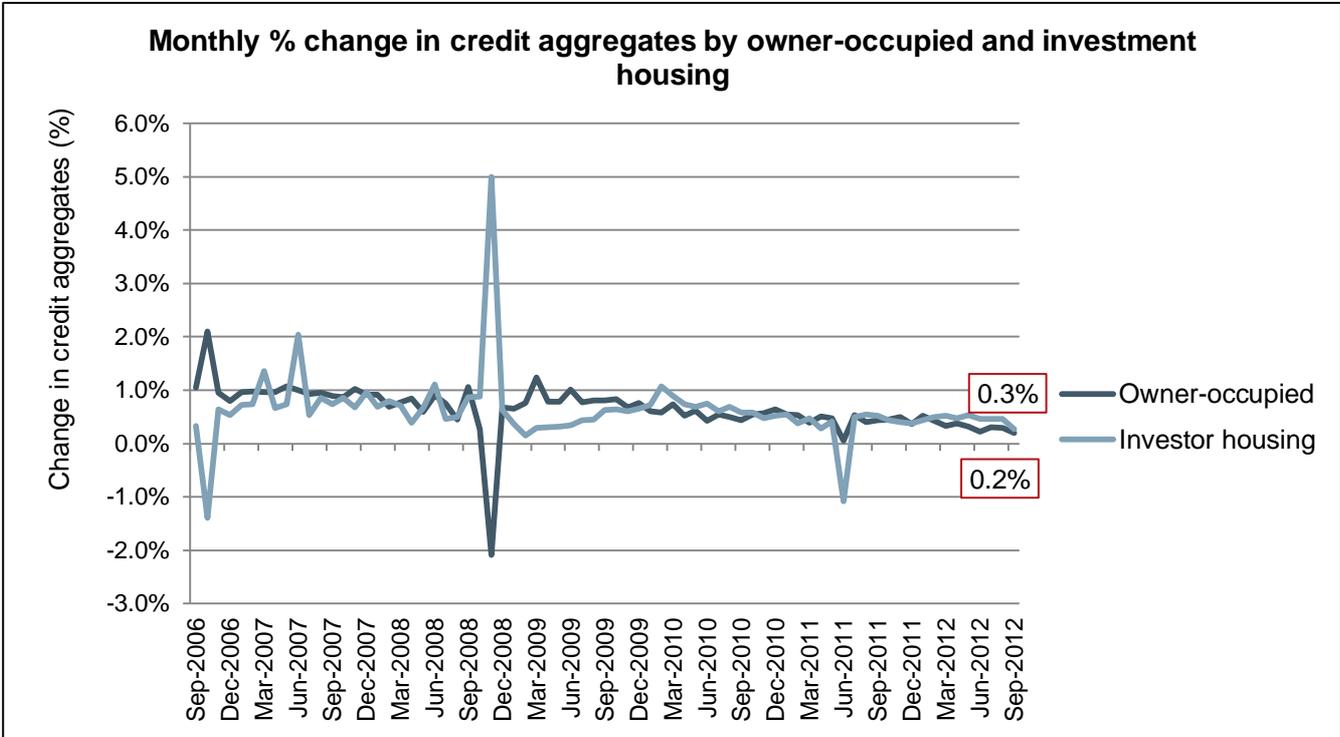
### Housing credit aggregates

In seasonally adjusted terms, housing credit aggregates continued to trend upwards in September 2012, up from \$1,255.2bn in August 2012 to \$1,258.0bn. This increase was driven by increases in both owner-occupied and investment housing credit aggregates, which were up by 0.2% to \$851.6bn and 0.3% to \$406.3bn respectively. Growth in investment housing credit aggregates between August and September 2012 was lower than the growth seen between July and August 2012, perhaps reflecting high property prices making investment housing less desirable.

For the year ending September 2012, housing credit aggregates grew by 4.8%, which was lower than the growth seen the previous year. This may reflect that fewer non-home owners are entering the property market.



Source: RBA

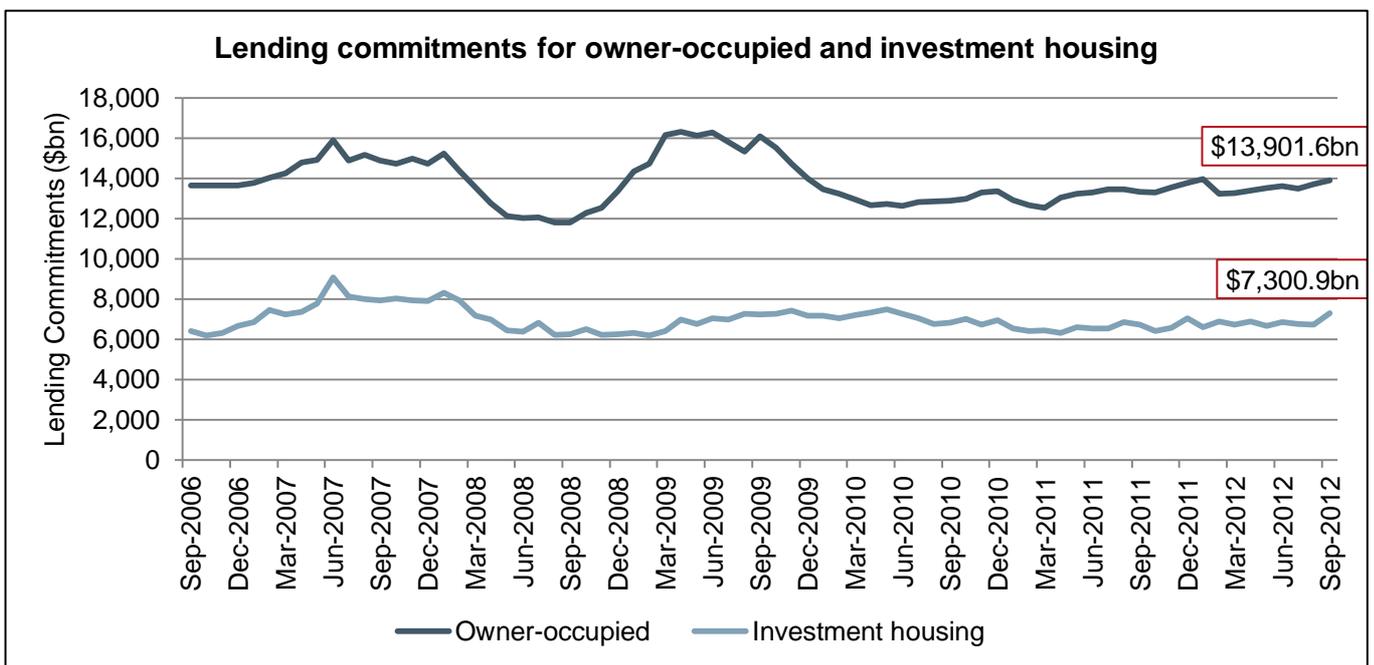


Source: RBA

## Lending commitments

Total lending commitments increased by 3.8% to \$21,202.6bn between August and September 2012. This increase was driven by a 1.5% increase in owner-occupied lending commitments, to \$13,901.6bn, and an 8.6% increase in investment housing lending commitments, to \$7,300.9bn.

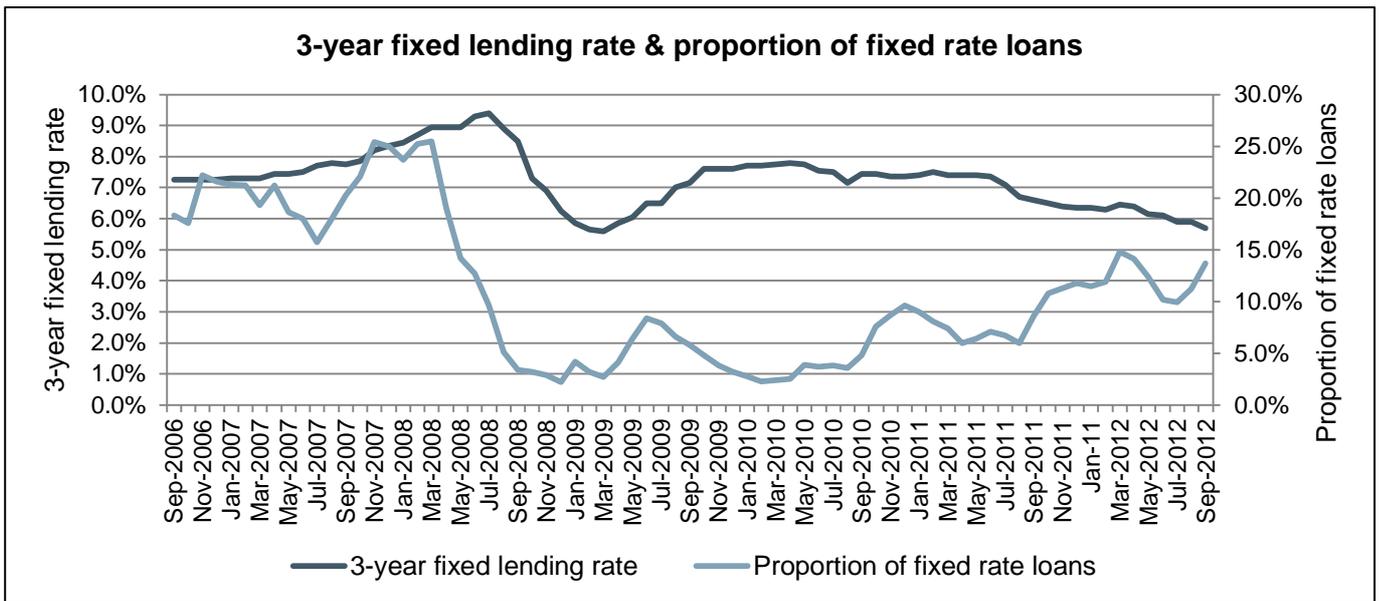
In year-on-year terms, total lending commitments rose by 5.9% from September 2011, with owner-occupied lending commitments up by 4.4% and investment housing lending commitments up by 8.8%.



Source: RBA

### Fixed and variable loans

The 3-year fixed lending rate decreased from 5.90% to 5.70% between August and September 2012, while the proportion of fixed rate home loans increased from 11.20% to 13.70% in the same period. It appears that more borrowers want to take advantage of the lower rates.

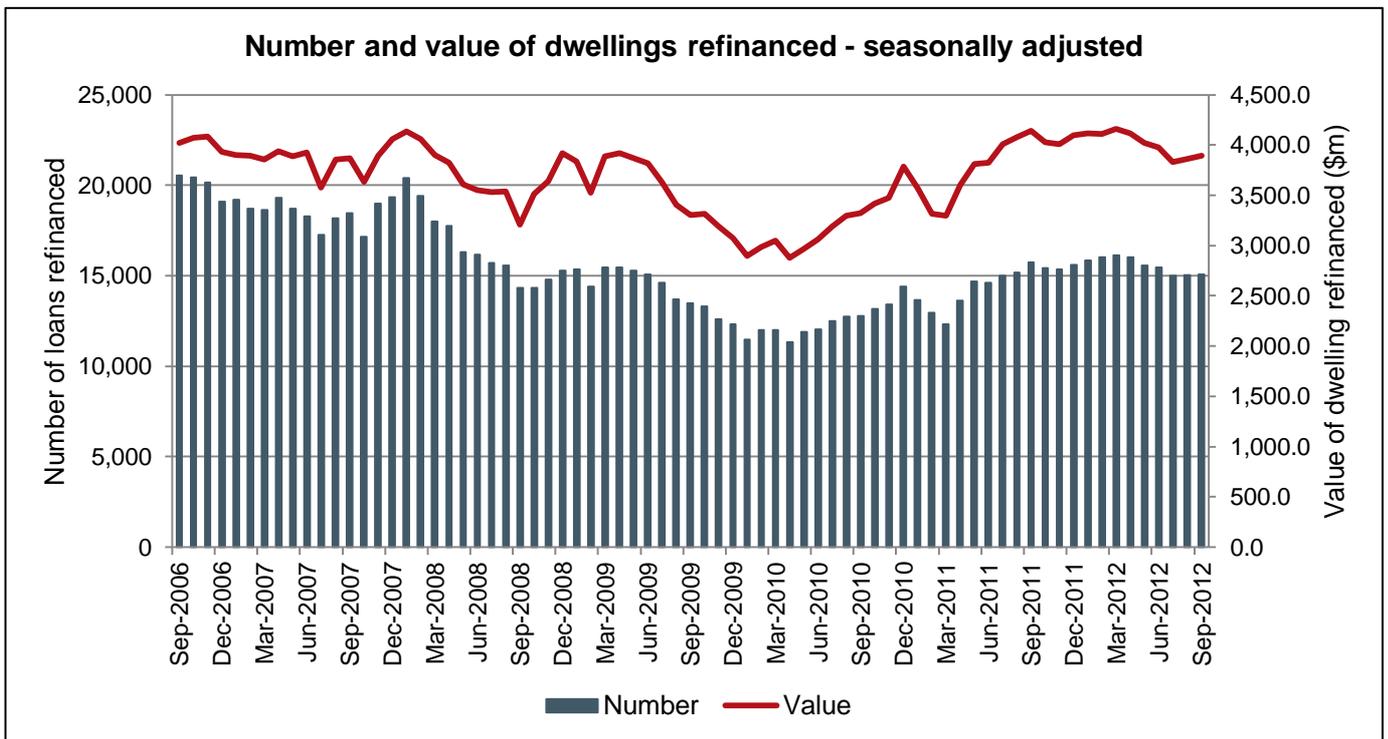


Source: ABS and RBA

## Dwellings Refinanced

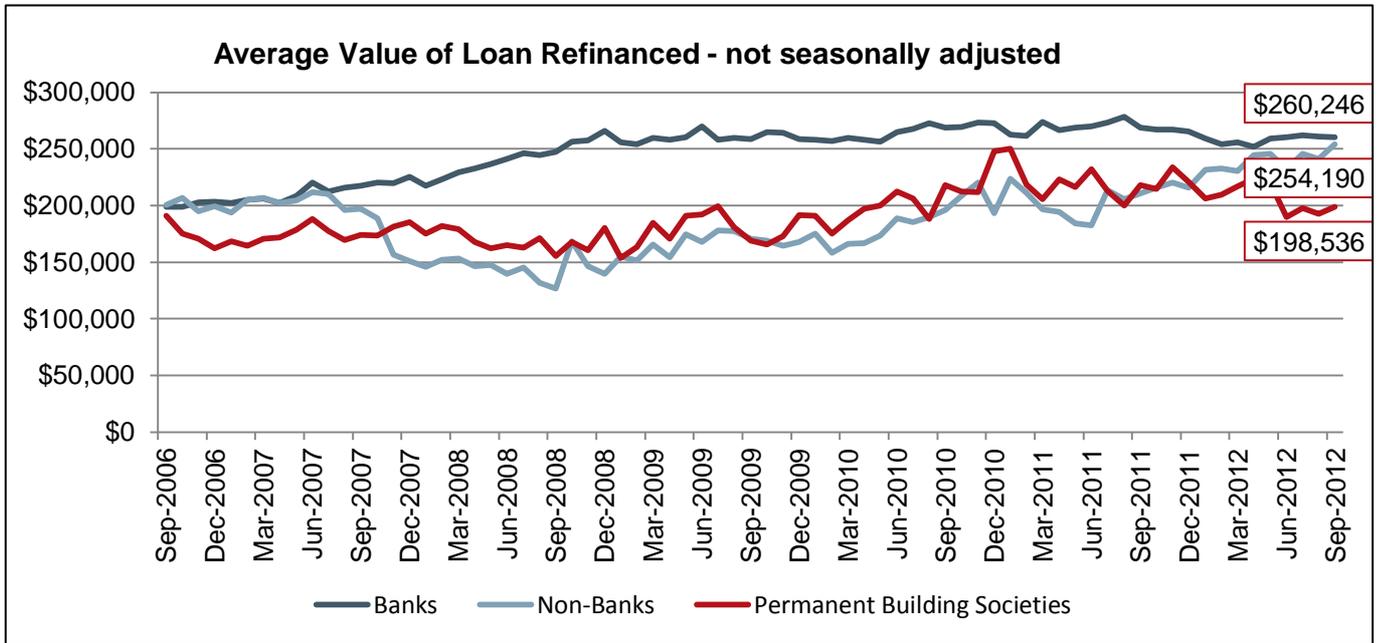
The number and value of dwellings refinanced rose between August and September 2012, with refinanced dwellings up by 0.2% to 15,076 in number and by 0.8% to \$3,891m in value.

In year-on-year terms, the number and value of refinanced dwellings fell by 4.3% and 6.0% respectively between September 2011 and 2012.



Source: ABS

Between August and September 2012, the average value of loans refinanced with banks fell by 0.2% to \$260,246, while the average value of loans refinanced with Non-Banks and Building Societies increased by 5.3% and 3.2% to \$254,190 and \$198,536 respectively.



Source: ABS

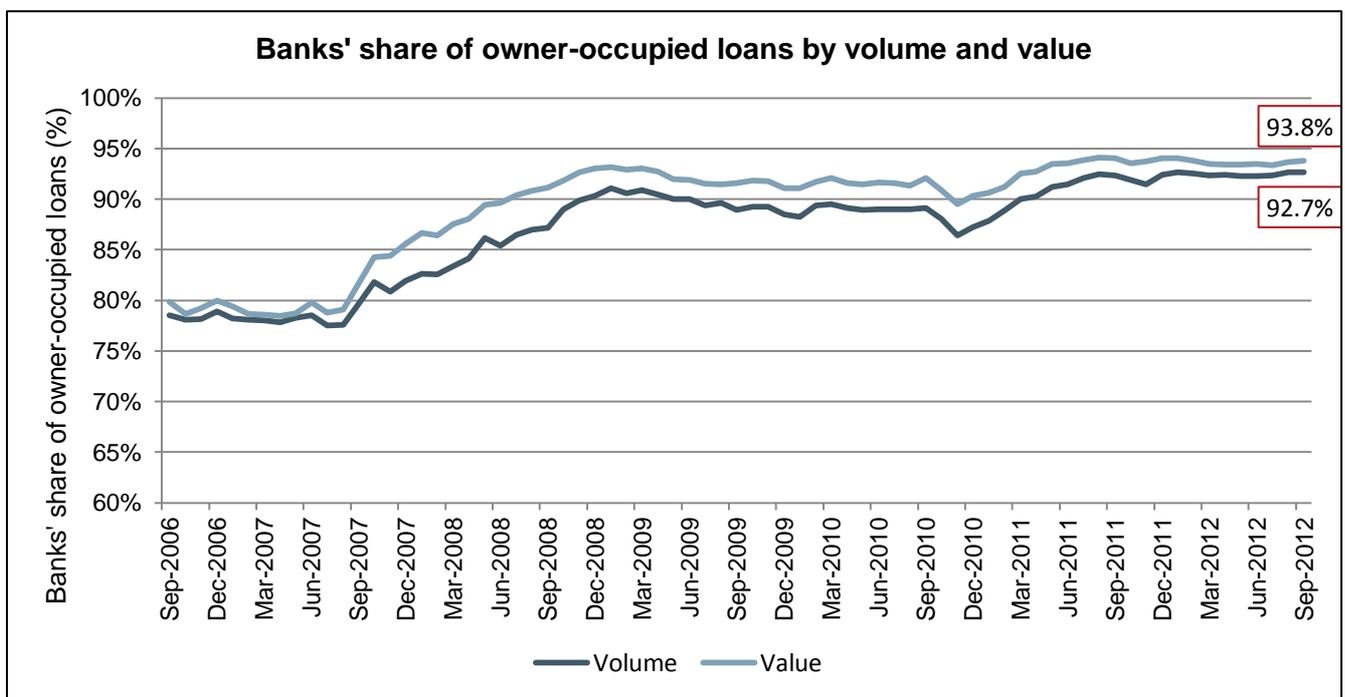
Refinancing activity (seasonally adjusted)		
	Number of dwellings refinanced	Value of dwellings refinanced (\$m)
Sep-11	15,749	4,140.0
Aug-12	15,045	3,859.4
Sep-12	15,076	3,891.4
Monthly % change	0.2%	0.8%
Year-on-year % change	-4.3%	-6.0%

Source: ABS

## Market Share

### Owner-occupied lending commitments

Between August and September 2012, banks' combined share of owner-occupied lending commitments remained steady at 92.7% by volume and increased from 93.6% to 93.8% by value. The value of banks' owner-occupied loans grew faster than the total value of owner-occupied loans.



Source: ABS

Value of banks' share of owner-occupied loans		
	Banks (\$m)	Total (\$m)
Sep-11	12,542.0	13,319.8
Market share at Sep-11	94.0%	-
Aug-12	12,829.8	13,701.7
Sep-12	13,037.9	13,901.6
Monthly % change	1.6%	1.5%
Market share at Sep-12	93.8%	-

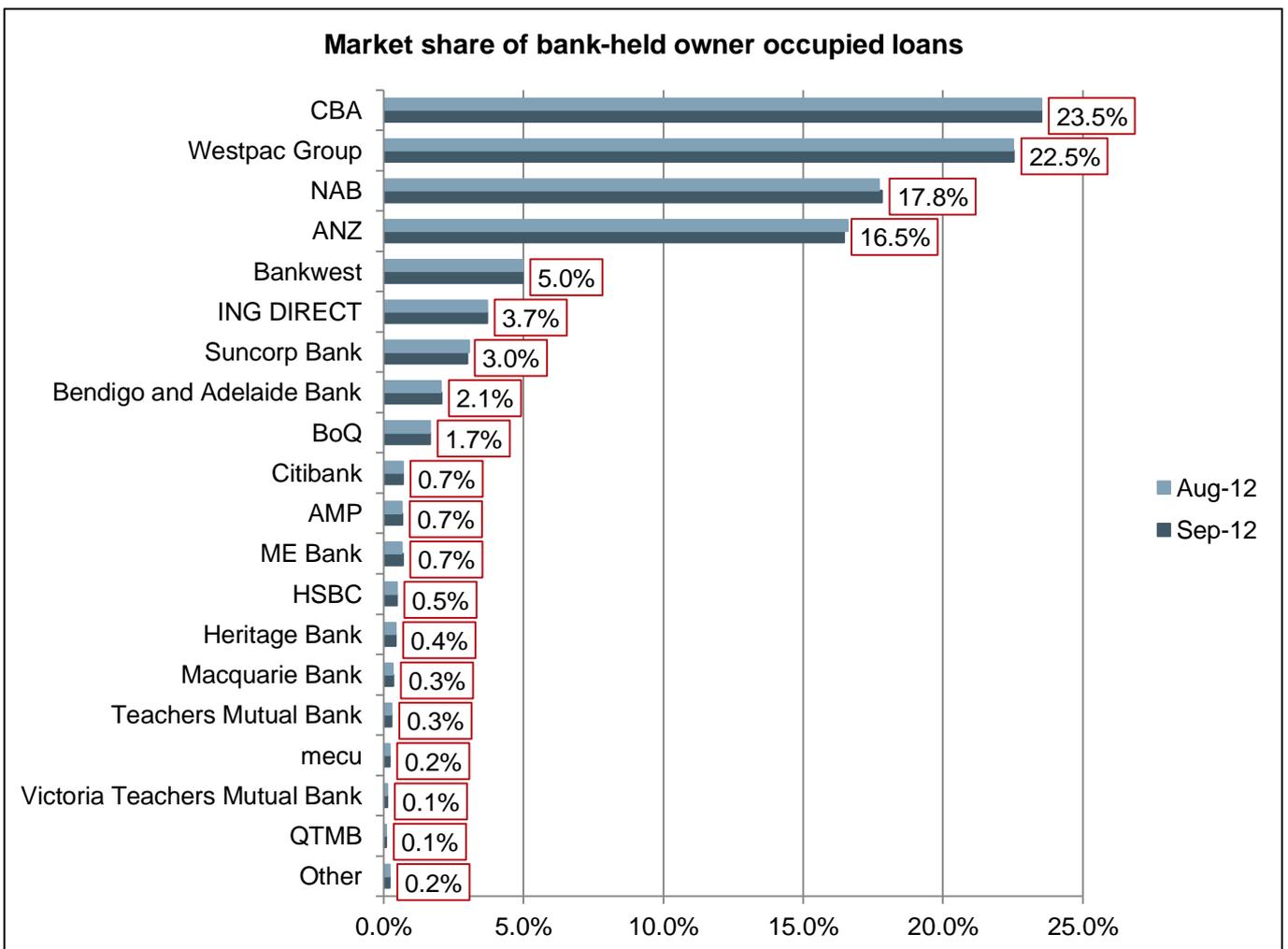
Source: ABS

### Bank-held owner-occupied loans

According to APRA, the total value of bank-held owner-occupied loans increased by 0.2% from \$750,499m to \$751,656m between August and September 2012.

The combined market share of the 'Big 4' decreased from 80.4% to 80.3%. While the market shares of CBA and Westpac Group remained steady, NAB's market share increased by 0.1 percentage point to 17.8%, while ANZ's market share decreased by 0.1 percentage point to 16.5%.

The other lenders saw their individual market share of bank-held owner-occupied loans remain steady between August and September 2012, apart from Suncorp Bank which saw its share decrease by 0.1 percentage point to 3.0%. There was also a lack of bank-held owner-occupied loans market share movement among the mutual banks.



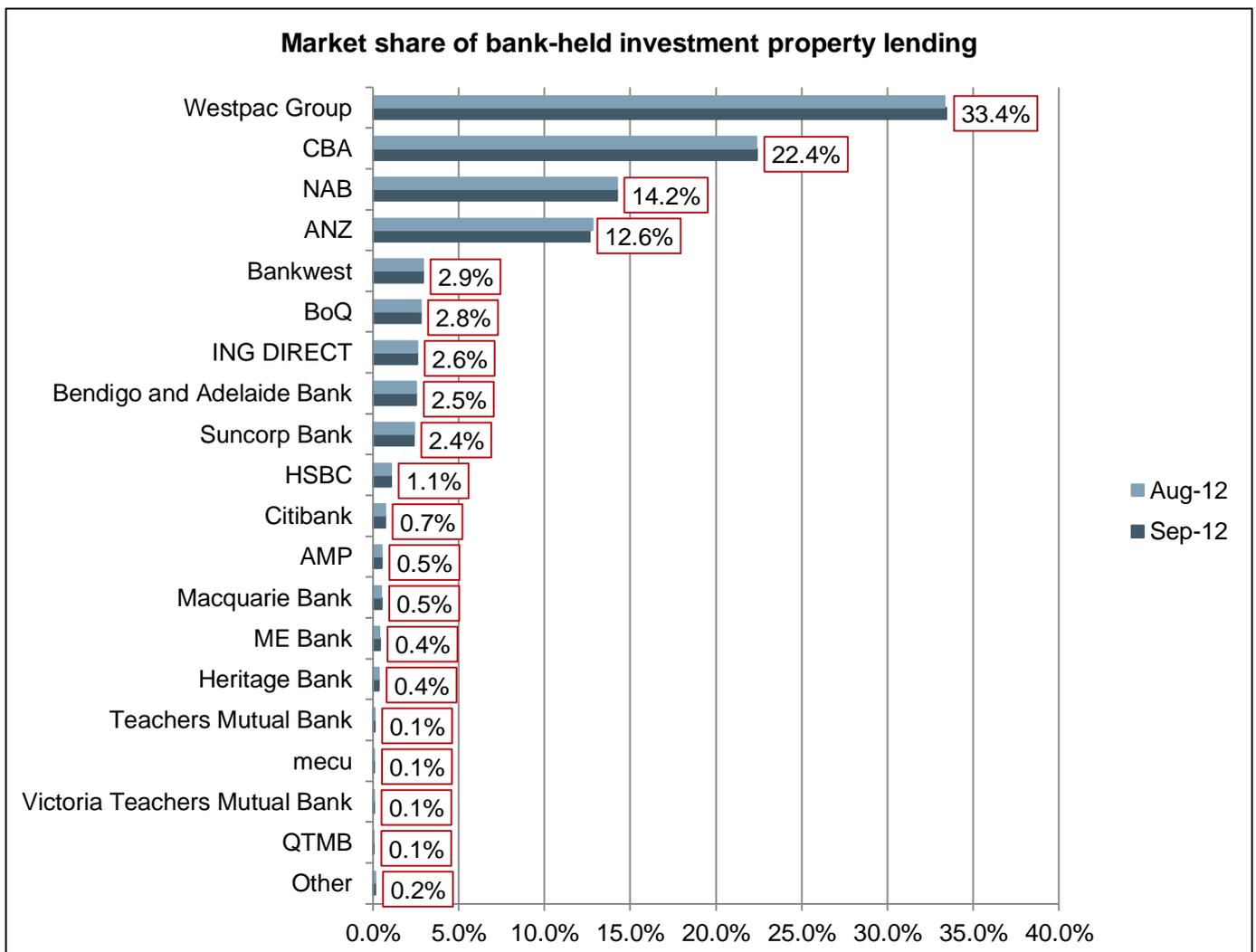
Source: APRA

## Bank-held investment property lending

Between August and September 2012, the total value of bank-held investment property loans increased by 0.3% to \$372,374m.

Among the lending institutions, the combined share of the 'Big 4' remained unchanged at 82.7%. Westpac Group's market share increased by 0.1 percentage point to 33.4%, while ANZ's share decreased by 0.2 percentage points to 12.6%. CBA and NAB's shares of the bank-held investment property lending market remained steady. The 'Big 4' have a stronger grip on the bank-held investment property lending market than bank-held owner-occupied property lending market.

Meanwhile, the non-majors saw their market shares remain steady between August and September 2012.

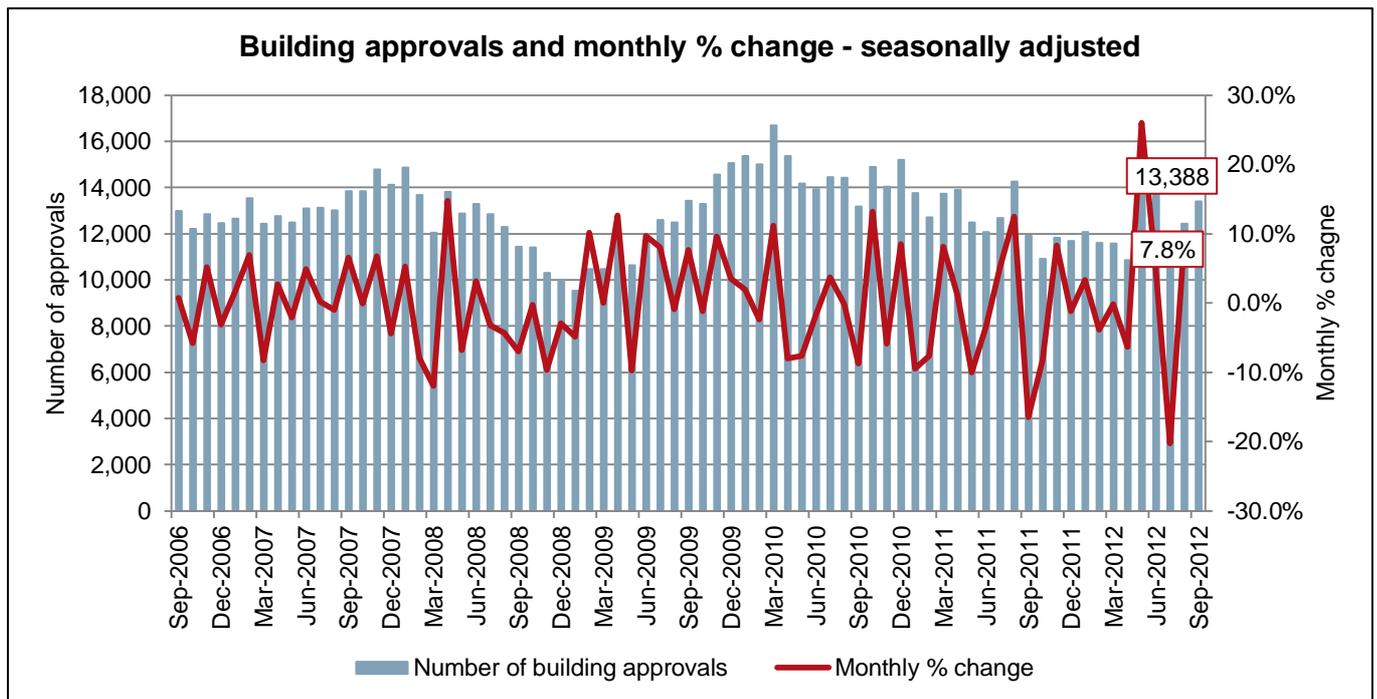


Source: APRA

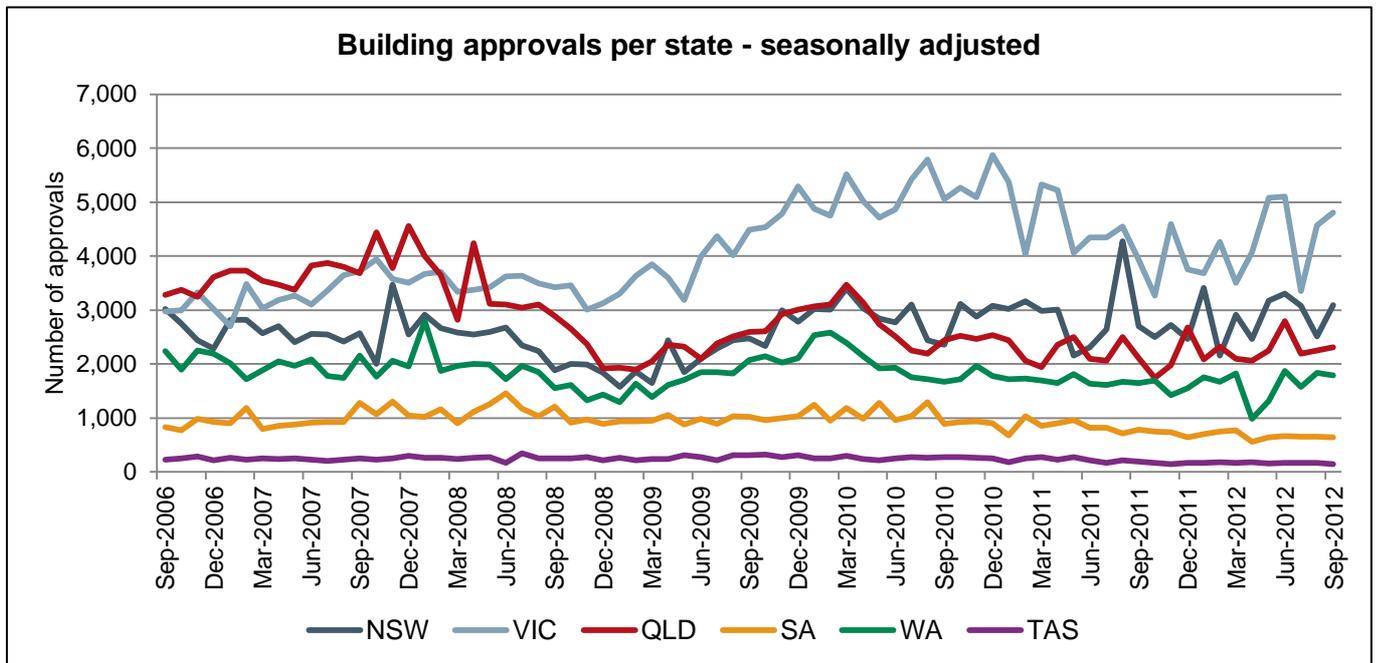
## Building approvals

The total number of building approvals rose by 7.8% to 13,388 between August and September 2012. This increase was driven by increases in building approvals in New South Wales (22.8% to 3,086), Victoria (5.2% to 4,803), and Queensland (2.6% to 2,306). Decreases in building approvals in South Australia, Western Australia and Tasmania partially offset these increases.

The average monthly growth for building approvals across Australia between September 2011 and 2012 was 0.2%, indicating that residential property construction activity is relatively stationary. Interestingly, despite having a smaller population, Victoria has more building approvals than New South Wales, indicating more confidence in new building activity in Victoria.



Source: ABS



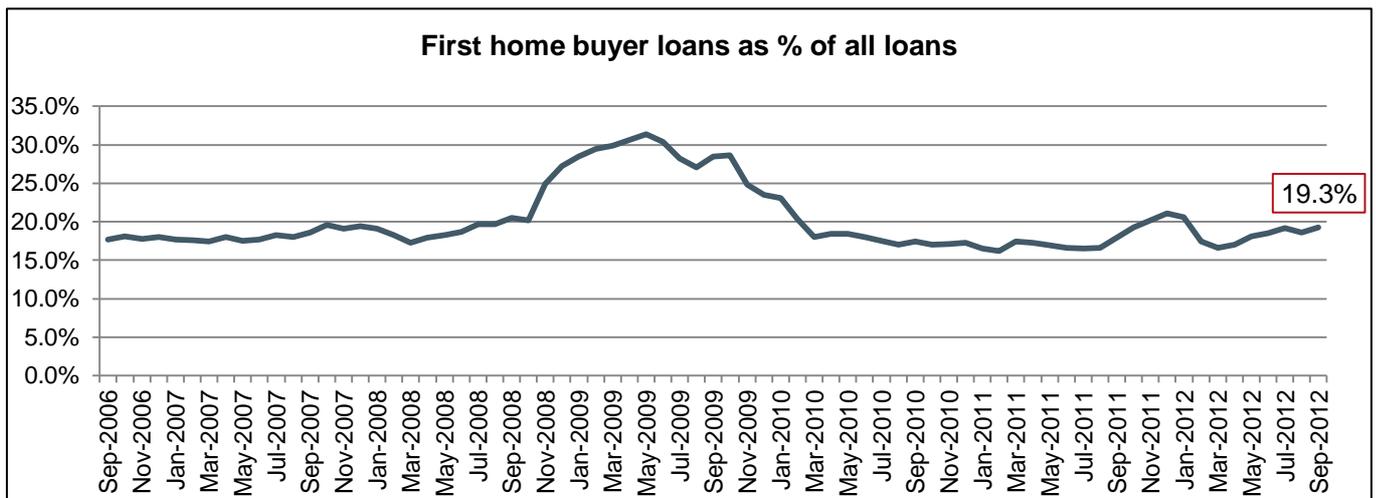
Source: ABS

Building approvals (seasonally adjusted)						
	NSW	VIC	QLD	SA	WA	TAS
Sep-11	2,695	3,932	2,108	784	1,643	194
Aug-12	2,514	4,564	2,247	653	1,834	166
Sep-12	3,086	4,803	2,306	644	1,790	150
Monthly change	22.8%	5.2%	2.6%	-1.4%	-2.4%	-9.6%
Average monthly change (Past 12 months)	0.5%	2.8%	0.8%	-0.2%	3.1%	-2.4%

Source: ABS

## First home buyers

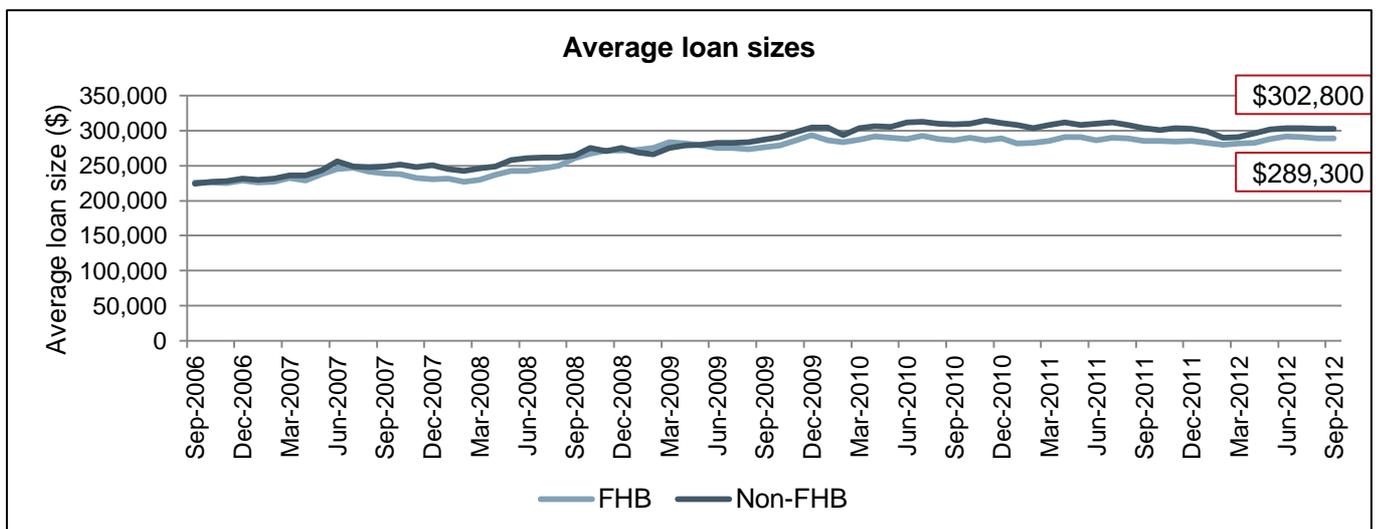
The proportion of first home buyer (FHB) loans relative to all housing loans increased from 18.6% to 19.3% between August and September 2012. This rise reflects an increase in consumer confidence in the same period.



Source: ABS

In line with an increase in the proportion of FHB loans, the average home loan size for FHBs increased by 0.1% to \$289,300 between August and September 2012, while the average home loan size for non-FHBs decreased by 0.1% to \$302,800 in the same period.

In terms of year-on-year growth, the average home loan size for FHBs increased by 1.4%, while the average loan size for non-FHBs decreased by 0.4% between September 2011 and 2012.



Source: ABS