

Australian Mortgage Market Wrap:

A monthly report covering the Australian home and investment mortgage market

May 2012

With compliments of:



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Executive Summary

Retail spending continued to rise for the third consecutive month in March 2012, increasing by 0.9% to \$21.23bn in seasonally adjusted terms, the strongest level of growth seen since April 2011.

In May 2012, the RBA reduced the official cash rate by 50 basis points, from 4.25% to 3.75% due to weaker than expected economic growth and moderate inflation.

In April 2012, the unemployment rate fell from 5.2% to 4.9%, largely driven by the growth in part-time employment. Conversely, over 10,530 full-time positions were lost while the participation rate also fell by 0.1% to 65.2%.

The Westpac-Melbourne Institute Consumer Sentiment Index rose by 0.8% to 95.3 in May 2012. However, in year-on-year terms, consumer sentiment is 8.3% lower, indicating that consumer confidence levels are still poor.

Housing credit aggregates continued to grow in March 2012, with both the owner-occupied and investor markets experiencing growth. However, year-on-year growth was 5.2%, the lowest level seen since 2005, reflecting continuing weak sentiment in the housing market.

The total value of new lending commitments fell for the third consecutive month in February 2012, decreasing by 1.3% from \$20,568m to \$20,295m.

In March 2012, the three-year fixed lending rate increased by 15 basis points. Despite this, the proportion of fixed-rate home loan borrowers increased by 2.6%, from 11.9% to 14.5%.

The number and value of dwellings refinanced continued to grow in March 2012, both rising by 1.1% respectively.

In April 2012, the total number and value of bank-held lending commitments increased, rising by 4.6% and 6.9% respectively. However, this has not affected the banks' market share of the number of owner-occupied loans while their share of the value of owner-occupied loans has increased by 0.2%.

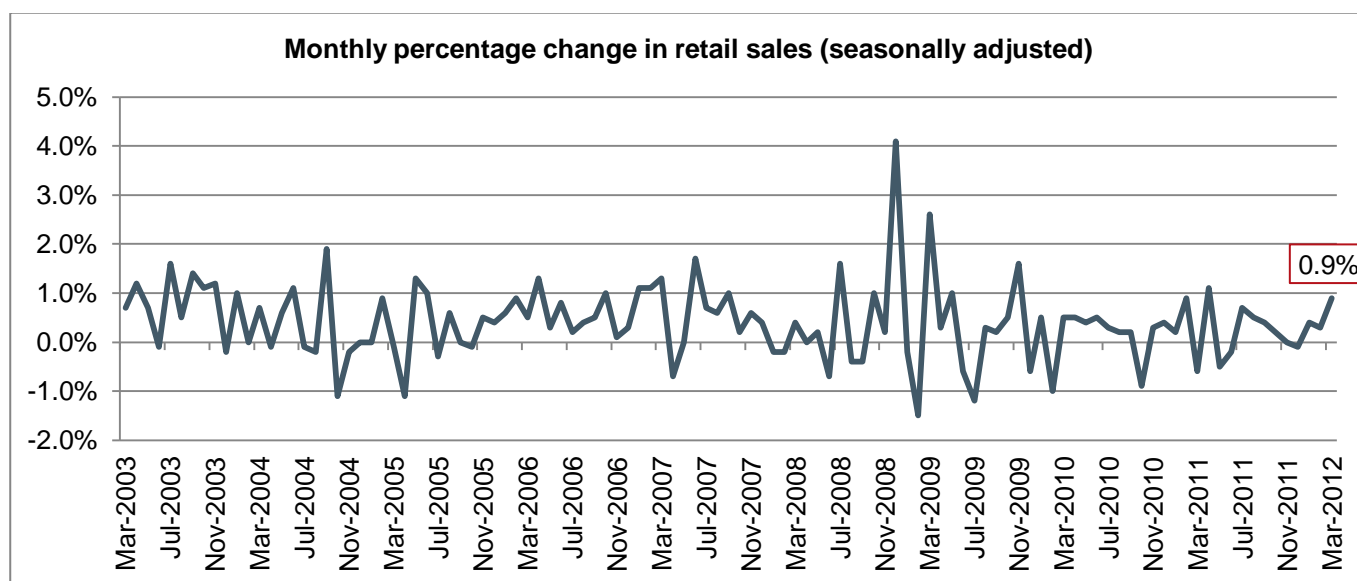
In March 2012, building approvals increased by 12.8%, off-setting the 7.8% decrease in the previous month. However, in year-on-year terms, total building approvals has decreased by 10.5% since March 2011.

The proportion of first home buyer loans of all housing loans decreased for a third consecutive month, falling to 16.4% in March 2012.

The Australian economy – a snapshot

Retail spending

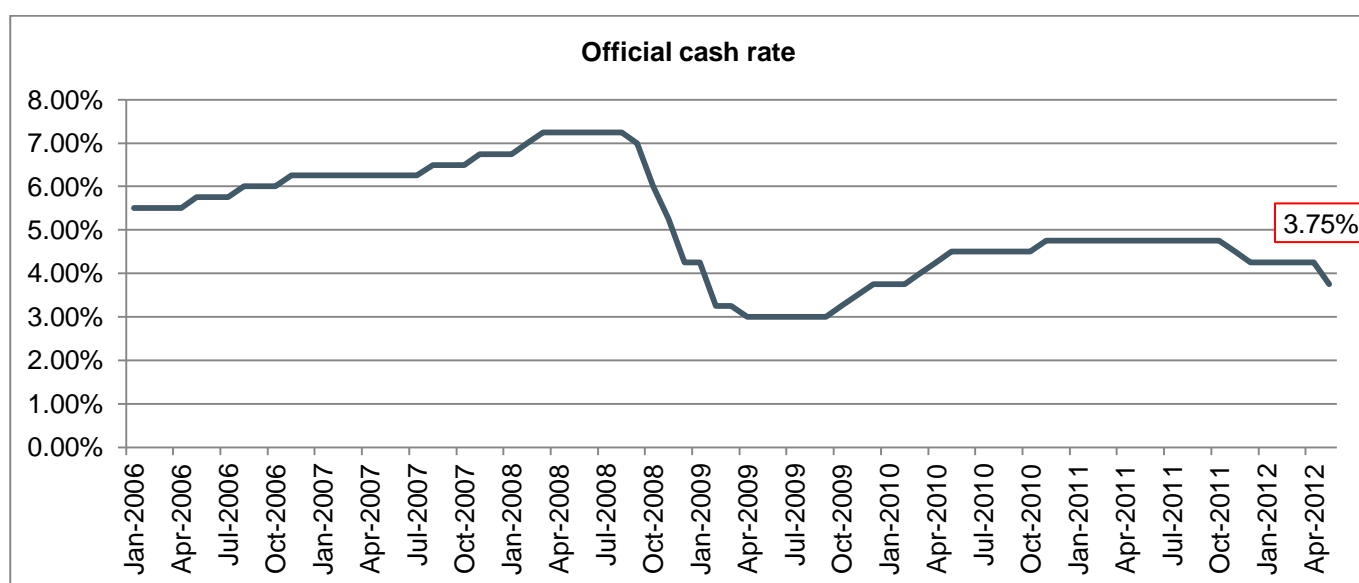
According to the ABS, monthly retail spending continued to trend upwards for the third consecutive month in March 2012, up by 0.9% to \$21.2bn, in seasonally adjusted terms, which is the largest growth seen since April 2011. Consequently, quarterly growth was also the strongest since September 2011, with retail spending up by 1.6% in the March quarter 2012, which is 1.5% greater than the growth experienced in the December 2011 quarter. Despite these strong levels of growth, according to the Australian National Retailers Association (ANRA) retailers have recorded a 0.9% drop in profits. This suggests that the increase in retail spending was driven by store sales, although, another possible driver for the increase in retail spending may be the lower Australian dollar in March 2012 compared to January and February 2012, indicating that retail spending could continue to improve in the coming months



Source: ABS

Interest rates

The RBA surprised many by lowering the cash rate by 50 basis points in May 2012, bringing the cash rate down from 4.25% to 3.75%. The RBA cited that a looser monetary policy stance was needed based on information regarding lower than expected economic growth and moderate inflation. The size of the cash rate reduction was also deemed appropriate by the RBA in order to lower lending interest rates to a level that would encourage borrowing, while also providing financial relief for current borrowers.

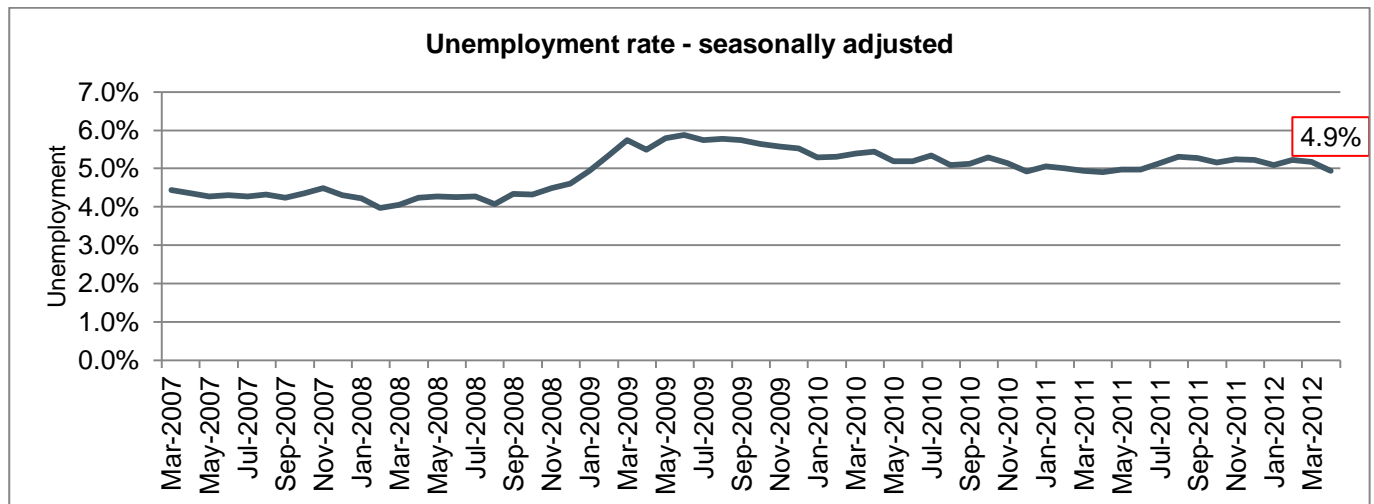


Source: RBA

Unemployment

The unemployment fell from 5.2% to 4.9% between March and April 2012, which is the lowest level of unemployment seen since April 2011. This fall was driven by a surge in part-time employment, with the number of people employed part-time increasing by 0.8%, which offset the 0.1% fall in the number of people employed full-time.

However, the fall in unemployment was also partially driven by a 0.1% decrease in the participation rate between March and April 2012, bringing the participation rate to 65.2%, which is 40 basis points lower than it was 12 months ago. This indicates that despite the improvement in the unemployment rate, poor conditions still exist within the labour market as it appears some of the unemployed have chosen to stop looking for work.



Source: ABS

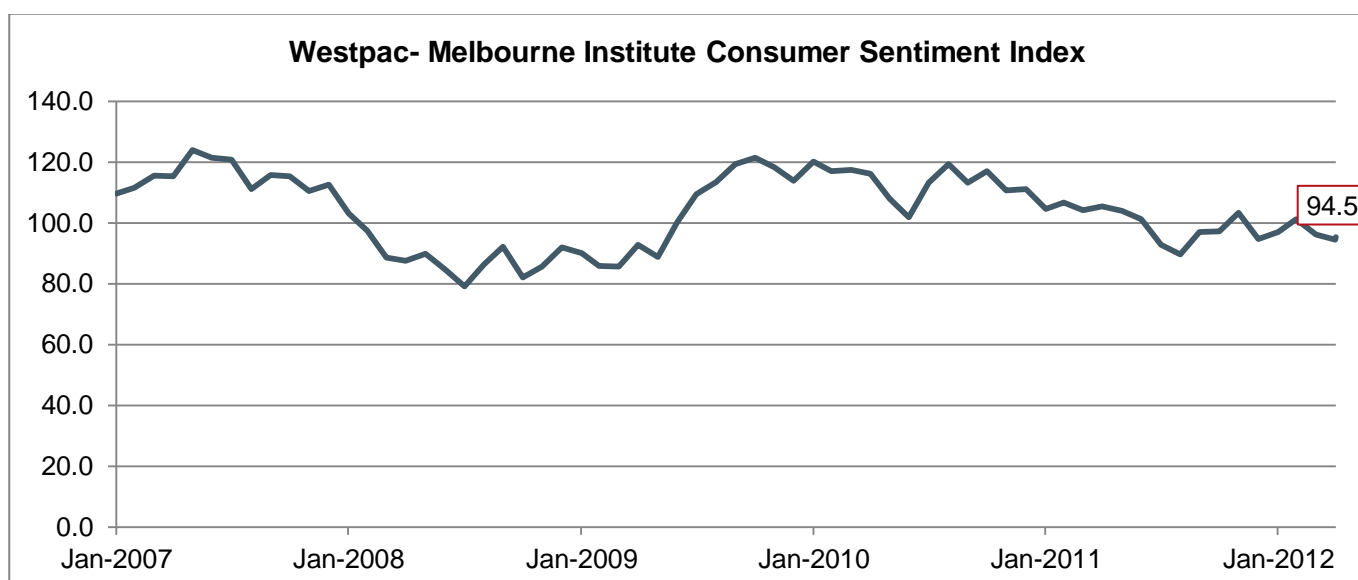
Seasonally adjusted unemployment rates				
	Mar-12	Apr-12	Monthly change (Mar- 12 to Apr-12)	Yearly change (Apr- 11 to Apr-12)
Employed persons ('000s)	11,485.5	11,501.0	0.1%	0.6%
Unemployed persons ('000s)	627.0	598.2	-4.6%	1.4%
Labour force ('000s)	12,112.5	12,099.2	-0.1%	0.6%
Unemployment rate	5.2%	4.9%	-0.3pts	0.0pts
Participation rate	65.3%	65.2%	-0.1pts	-0.4pts

Source: ABS

Consumer sentiment

In May 2012, the Westpac-Melbourne Institute Consumer Sentiment Index rose by 0.8% to 95.3 after reaching its lowest of 94.5 since August 2011 in April 2012, with the improvement in consumer confidence driven by the 50 basis point cash rate reduction and the fall in the unemployment rate. Nonetheless, the index is 8.3% lower than it was a year ago, indicating that sentiment is low among the Australian population.

According to Westpac's chief economist Bill Evans, the soft rise in consumer confidence is attributable to growing concerns about the European debt crisis, with the media coverage focusing on the situation in Greece. Also adding to consumer woes is the introduction of the 2012-2013 Federal Budget, which has been dubbed the 'Battler's Budget', with Westpac finding that over 80% of consumers do not expect the Federal government's budget to improve their family finances.



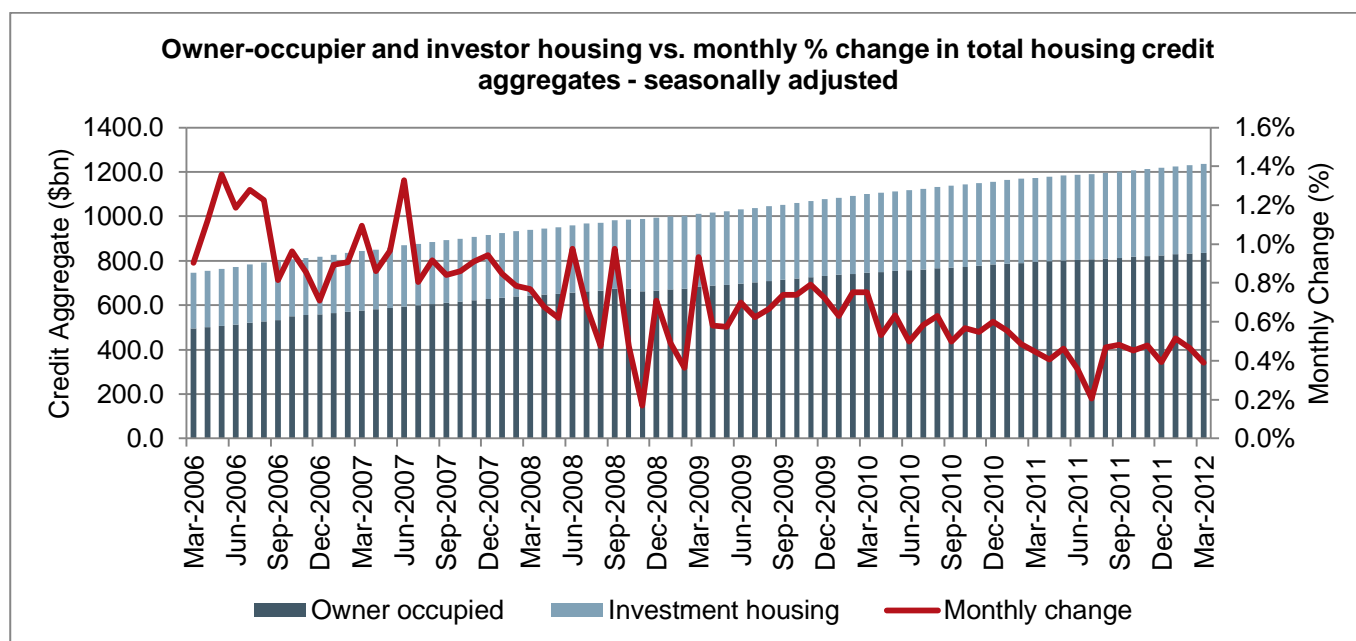
Source: RBA

Housing market activity

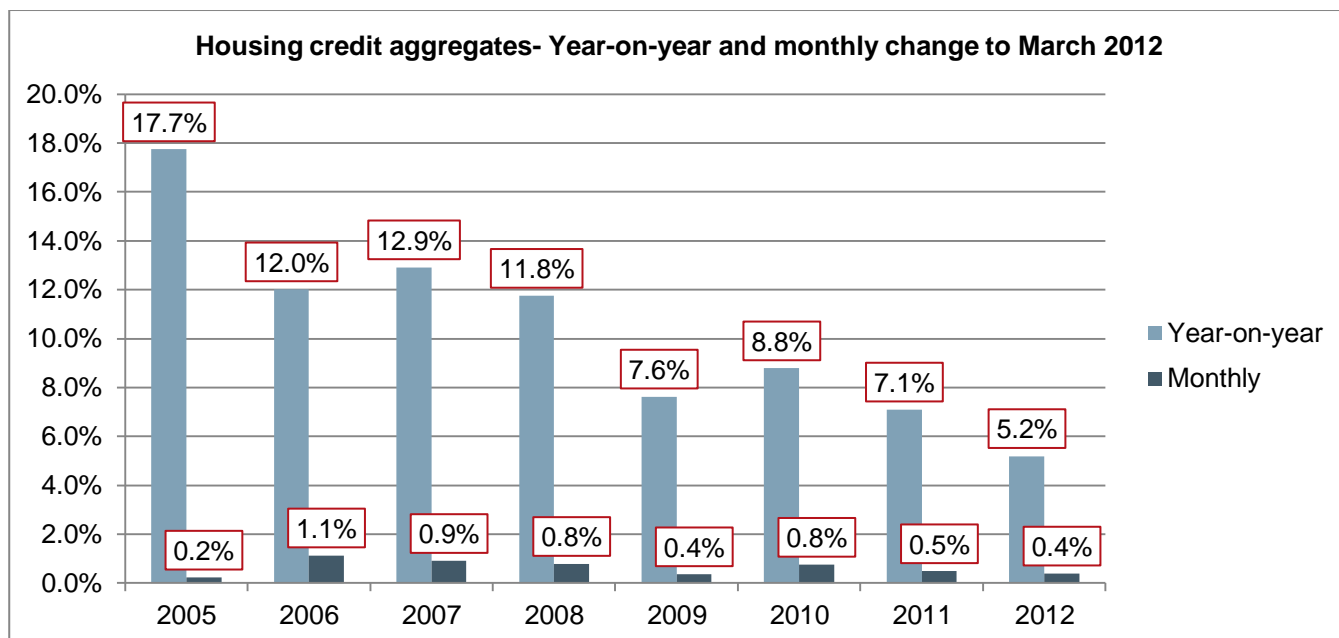
Housing credit aggregates

Housing credit aggregates grew by 0.4% between February 2012 and March 2012, rising from \$1,230.1bn to \$1,234.9bn. Growth in the owner-occupier and investor markets was 0.3% and 0.5%, bringing credit aggregates to \$835.9bn and \$399.0bn in each segment respectively.

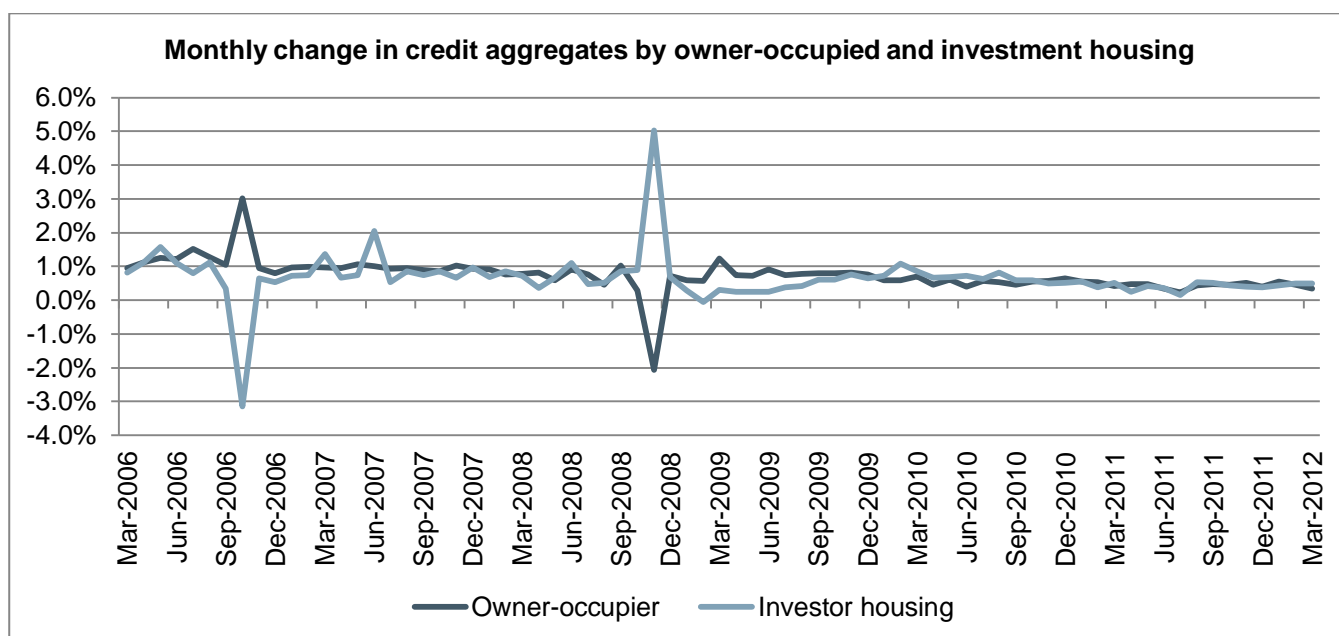
While housing credit aggregates grew by 0.4%, growth for the year ending March 2012 was 5.2%, which was 0.1% lower than the annual growth seen in February 2012, and was also the lowest level seen since 2005. The modest growth in housing credit aggregates can be associated with weakness in the housing market, where weaker public demand is reflected in declining property prices.



Source: RBA



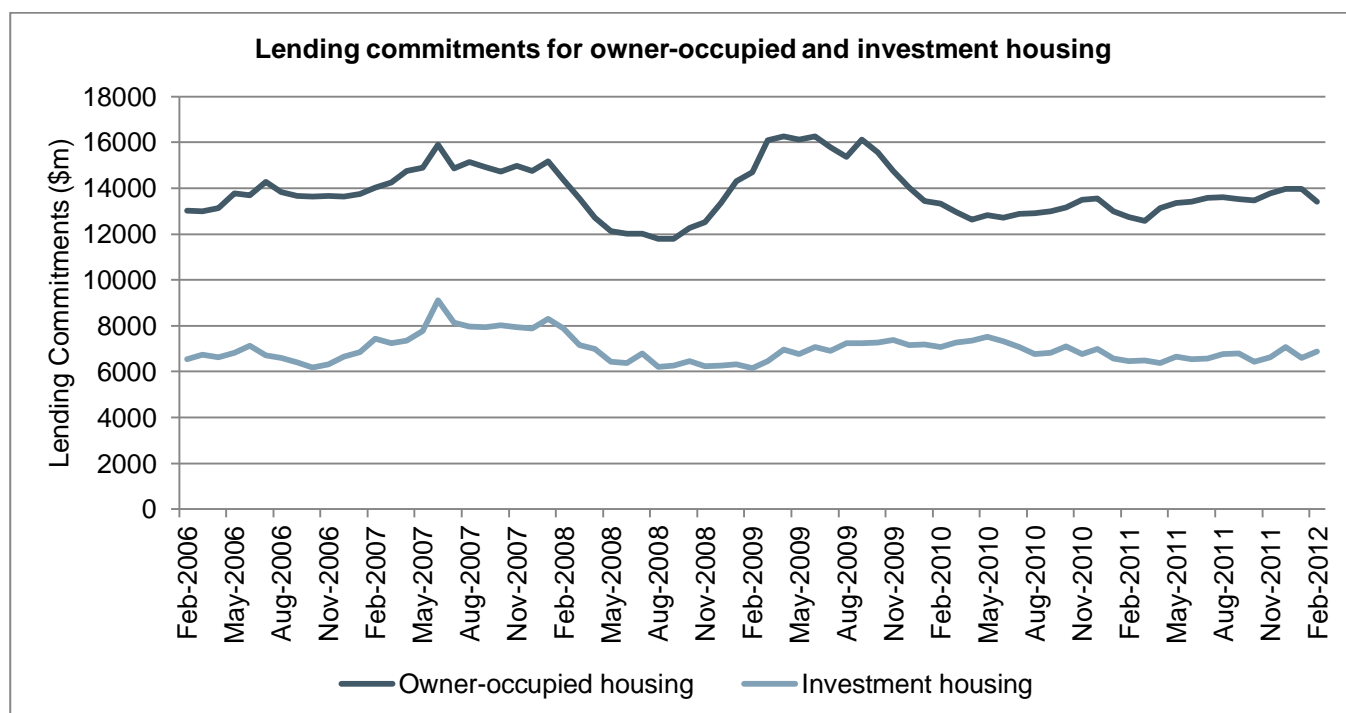
Source: RBA



Source: RBA

Lending commitments

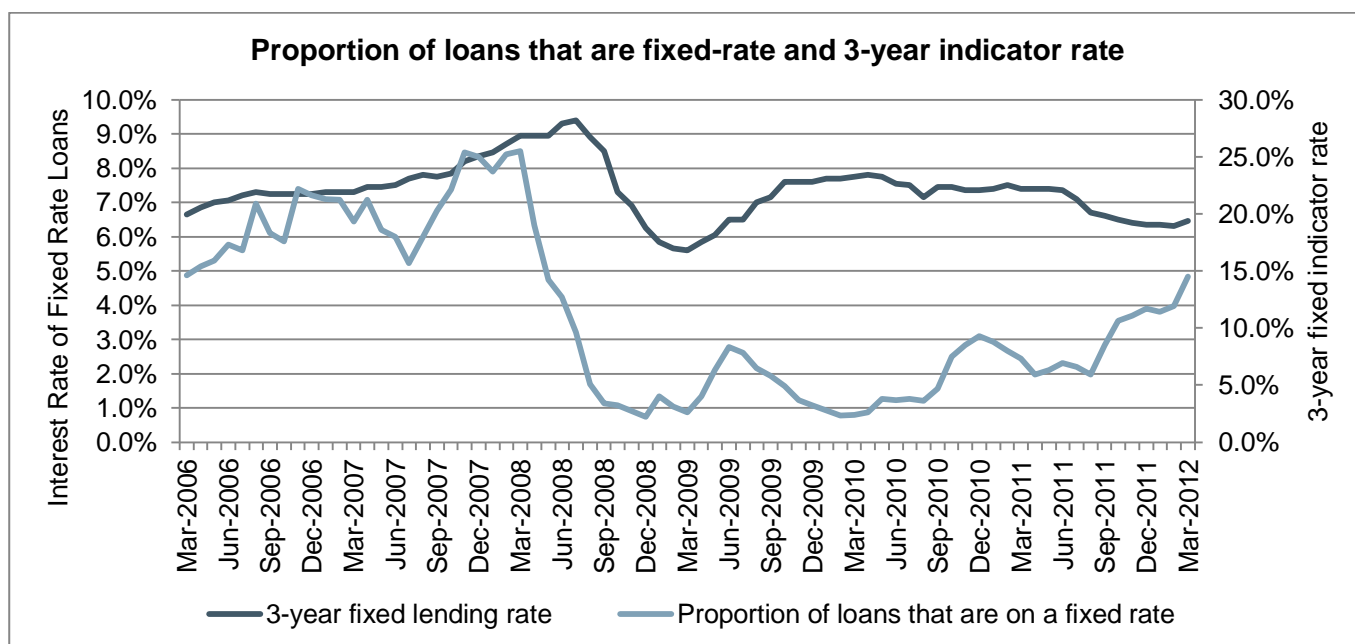
The total value of new lending commitments fell for the third consecutive month in February 2012, decreasing by 1.3%, from \$20,568m to \$20,295m. This is largely driven by a fall in lending commitments for owner-occupied home loans, with lending commitments falling by 4.0% to \$13,410m. However, this was offset by the increase in investment home loans, with lending commitment increasing from \$6,593m to \$6,885.



Source: RBA

Fixed and variable loans

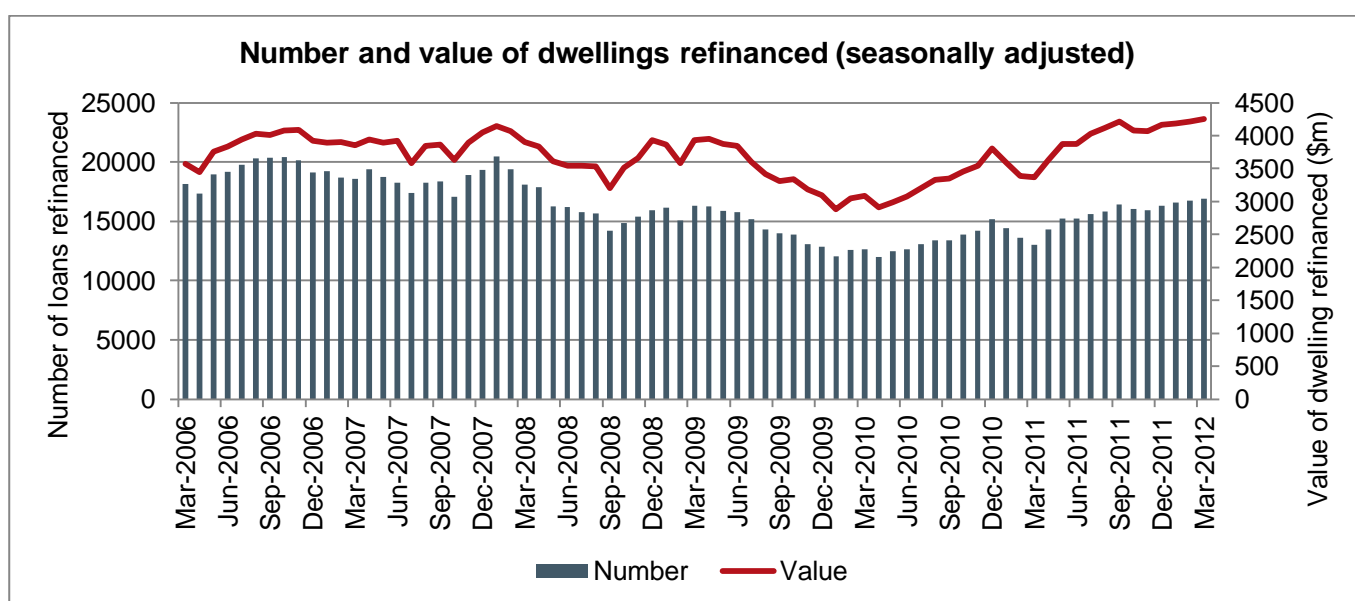
In March 2012, the 3-year fixed lending rate increased by 15 basis points to 6.45%. Despite this, the proportion of fixed-rate home loan borrowers increased by 2.6%, from 11.9% in February 2012 to 14.5% in March 2012. These figures suggest that home loan borrowers were concerned and uncertain about future official cash rate movements, after banks lifted their variable rates despite the RBA holding the cash rate steady in March 2012.



Source: ABS and RBA

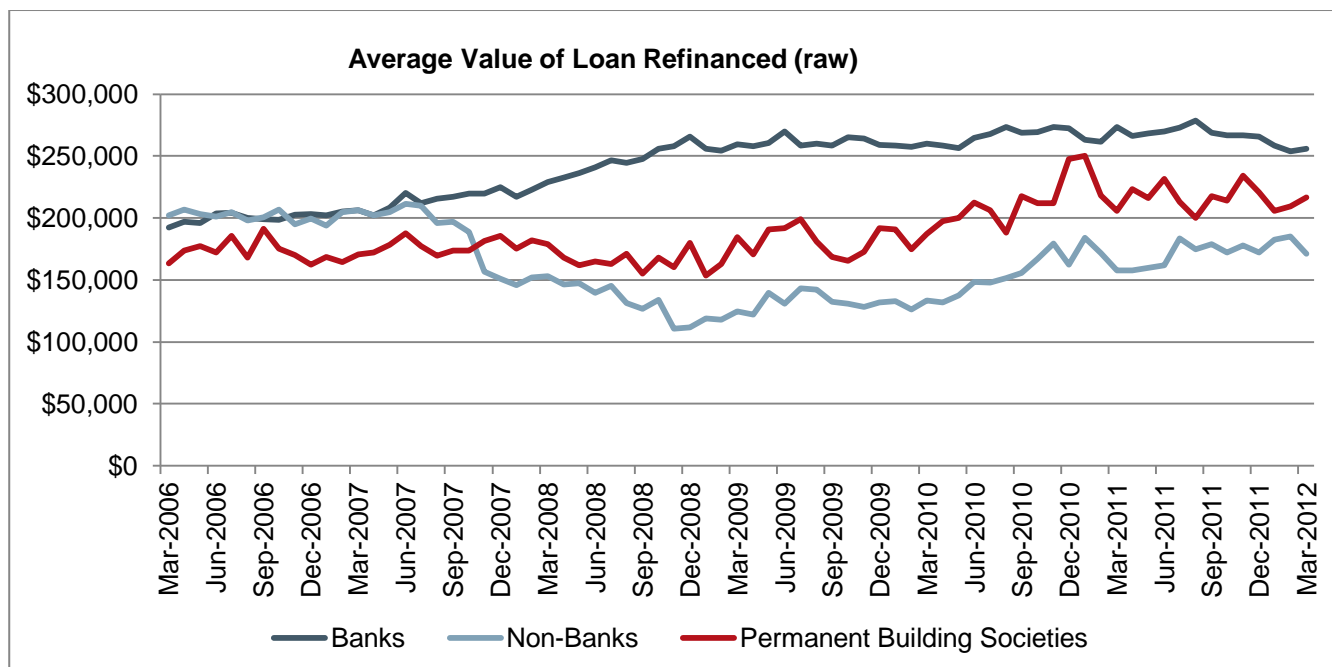
Dwellings refinanced

The number of loans refinanced increased by 1.1%, in seasonally adjusted terms, from 16,720 in February 2012 to 16,906 in March 2012. The value of loans refinanced also increased by 1.1%, rising to \$4257.4m. The continued upward trend of dwellings refinanced is largely driven by the new Australian Banking reforms, which stipulated the banning of mortgage exit fees on new home loans in 2011. Consequently, this has increased competition amongst home loan lenders, thereby enabling borrowers to search for better rates from other lenders.



Source: ABS

As the overall value of dwellings refinanced increased between February and March 2012, home loan lenders have also experienced an increase in the average value of loans refinanced. The average value of loans refinanced with Building Societies saw the largest increase, rising by 3.4% to \$216,773. This is the second consecutive month that the average value of loans refinanced with Building Societies has increased, after a 1.8% increase between January and February 2012. Banks also experienced an increase in the average value of loans refinanced, with an increase of 0.9% to \$255,884, after experiencing a decrease in the average value for 6 consecutive months. On the other hand, the average value of loans with non-banking financial institutions sharply decreased, falling by 7.39% to \$171,279.



Source: ABS

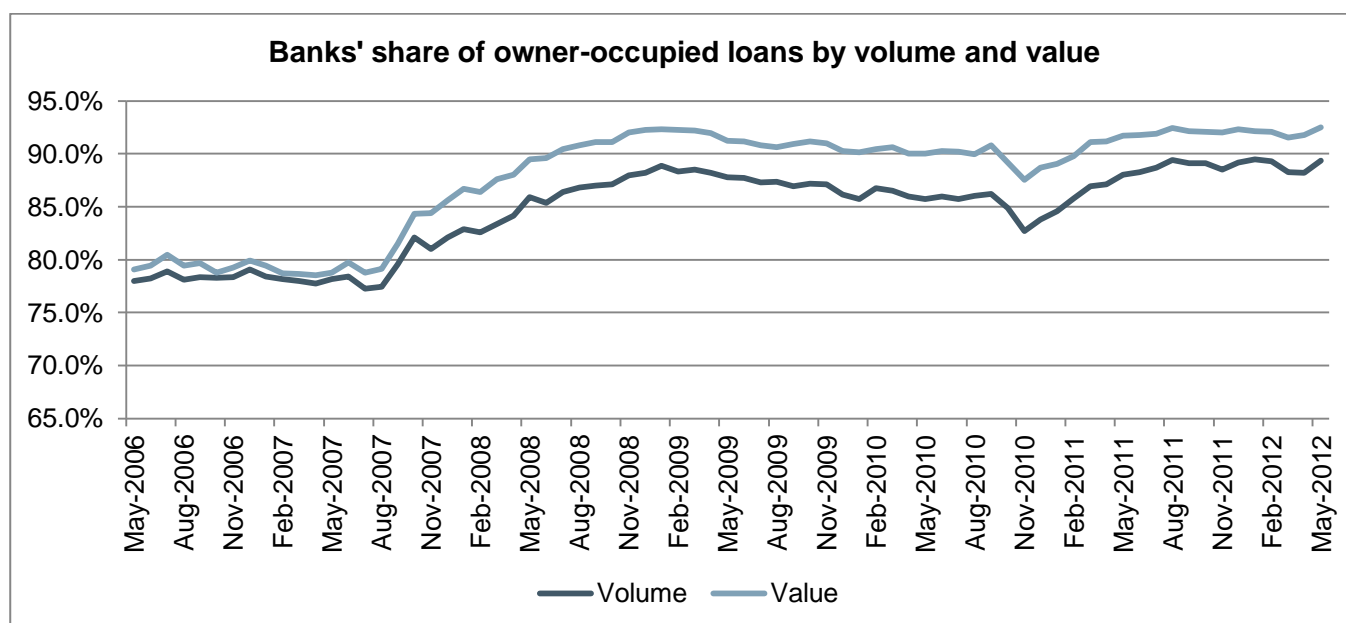
Refinancing activity (s.a.)		
	Number of dwellings refinanced	Value of dwellings refinanced (\$m)
Mar-11	10,325	3,373.0
Feb-12	16,720	4,209.6
Mar-12	16,906	4,257.4
Year-on-year % change	28.9%	26.2%
Monthly % change	1.1%	1.1%

Source: ABS

Market share

Owner-occupier lending commitments

The total number of owner-occupied loans fell for three consecutive months between January and March 2012. Between March and April 2012, the total number of owner-occupied loans sharply increased by 4.6%, from 45,304 loans to 47,369 loans, while the total value increased by 6.7%, from \$12978.9m to \$13843.4m. The number and value of bank-held lending commitments also increased, rising by 4.5% and 6.9% respectively. Interestingly, this has not affected banks' market share of the number of owner-occupied loans while their share of the value of owner-occupied loans increased by 0.2%.



Source: ABS

Value of banks' share of owner-occupier loans		
	Banks (\$m)	Total (\$m)
April-11	11,968.5	13,127.6
Market share at April-11	91.2%	-
March-12	11,882.7	12,978.9
April-12	12,700.9	13,843.4
Monthly % change	6.89%	6.66%
Market share at April-12	88.2%	-

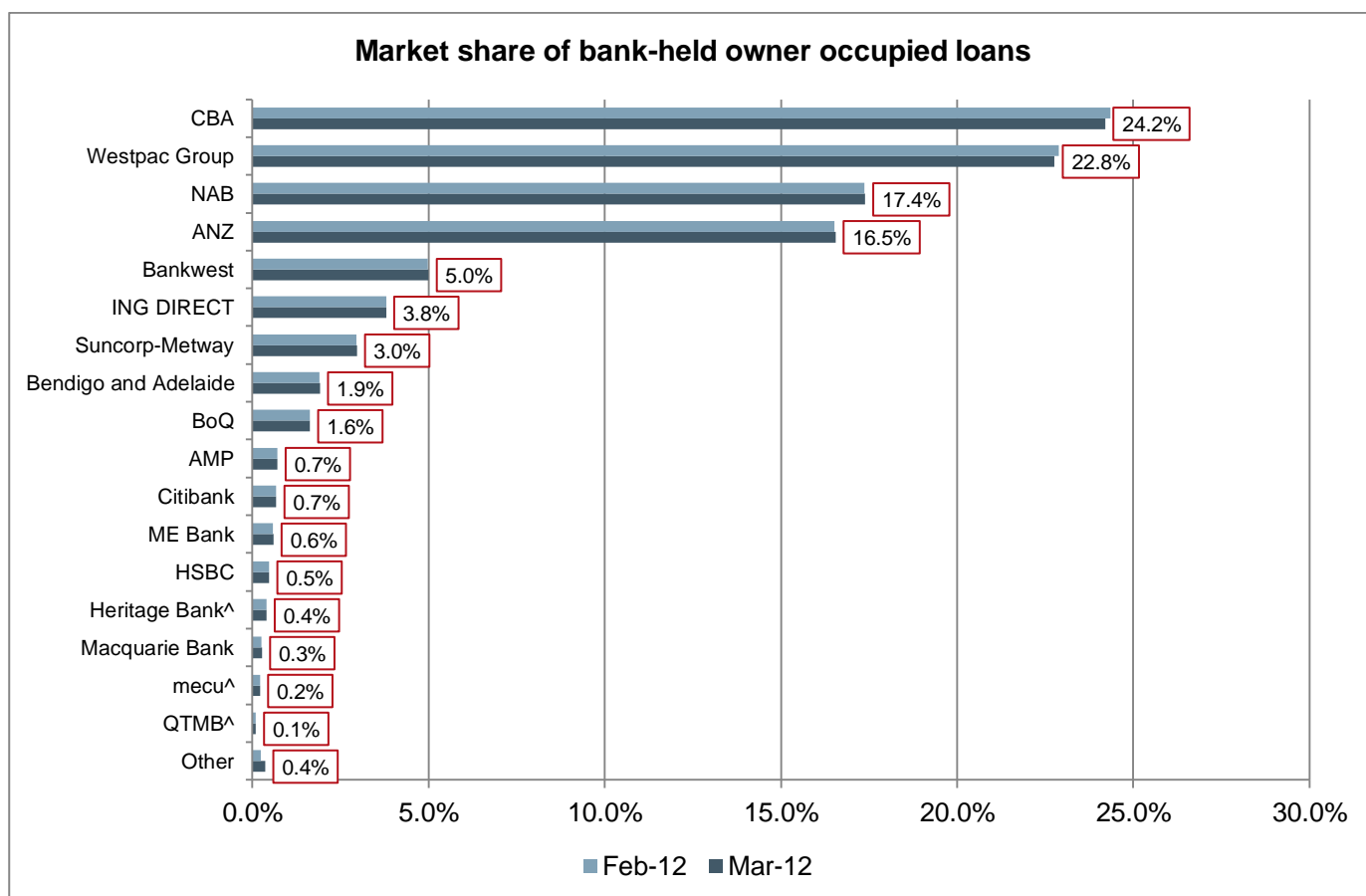
Source: ABS

Bank-held owner-occupied loans

According to APRA, the total value of bank-held owner-occupied loans outstanding increased by 0.6% for a consecutive month, rising from \$729.6bn to \$733.9bn between February and March 2012. The CBA continued to hold the largest market share, though its market share fell by 0.1% for the fourth consecutive month from 24.3% to 24.2%.

Westpac continued to hold the second largest market share, though also experienced a 0.1% fall in its market share of bank-held owner-occupied loans for the second consecutive month, from 22.9% to 22.8%. While CBA's and Westpac's market share fell, the market share of bank-held owner-occupied loans held by NAB and ANZ remained steady at 17.4% and 16.5% respectively.

In terms of market share, there was no change in the respective position of the banks. Bankwest continued to have the largest market share outside of the 'Big 4' while ING Direct continued to have the largest market share amongst the foreign banks. However, Suncorp Bank and Macquarie increased their market share of bank-held owner-occupied loans by 0.1%, from 2.9% to 3% and from 0.2% to 0.3% respectively.



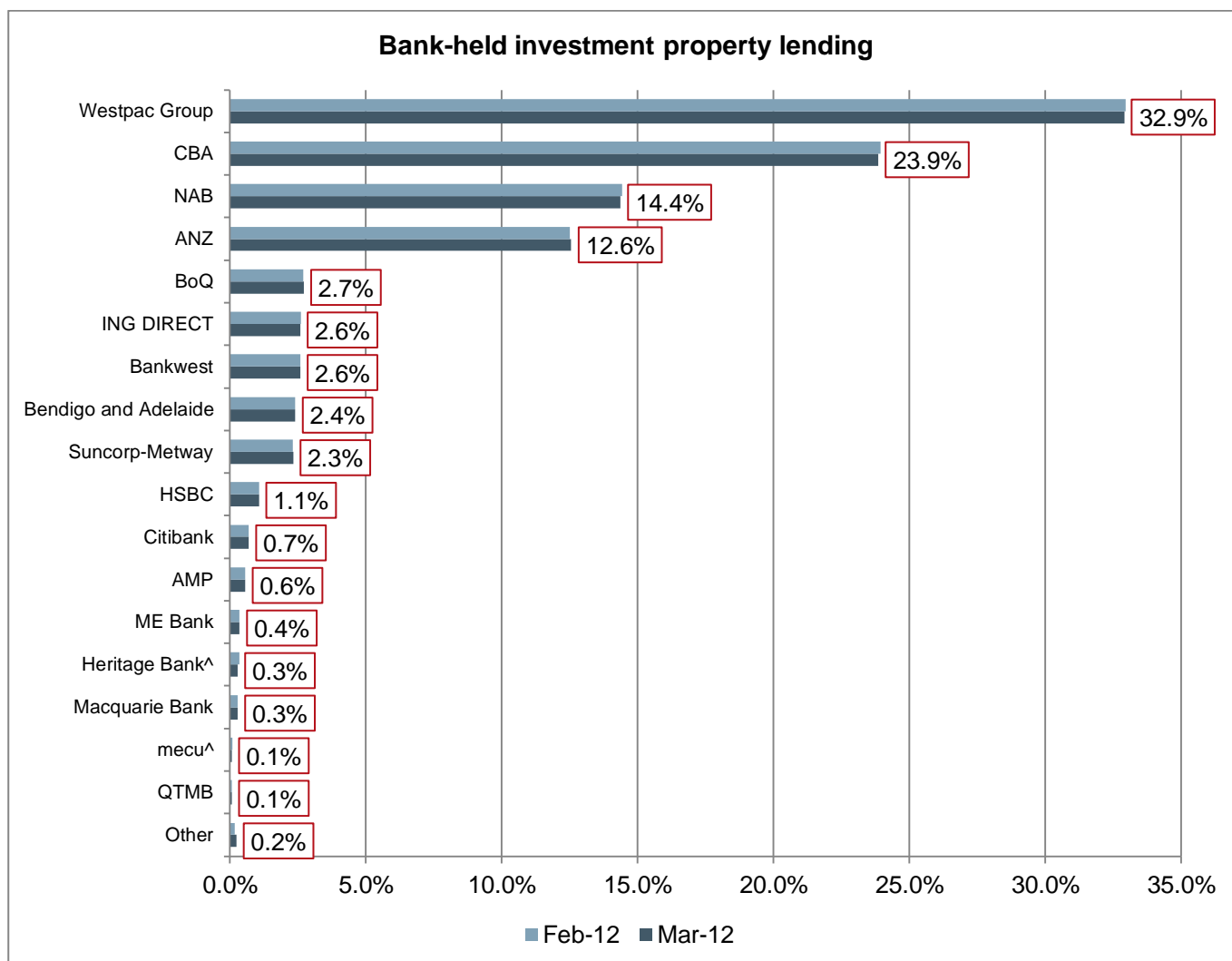
Source: APRA

^ First measured in January 2012

Bank-held investment property lending

Between February and March 2012, the total value of bank-held investment property lending rose by 0.7% from \$362.3bn to \$364.9bn. Westpac continued to hold the largest share of bank-held investment property loans, though its market share has decreased for the first time in four months, falling from 33.0% to 32.9%. CBA continued to hold the second largest market share of bank-held investment property loans, with its market share remaining steady at 23.9%.

Overall, there was little movement in terms of market share between February and March 2012. ANZ increased its market share of bank-held investment loans by 0.1% for a second consecutive month, from 12.5% to 12.6%. AMP and ME Bank also increased their market share by 0.1%, from 0.5% to 0.6% and from 0.3% to 0.4% respectively.

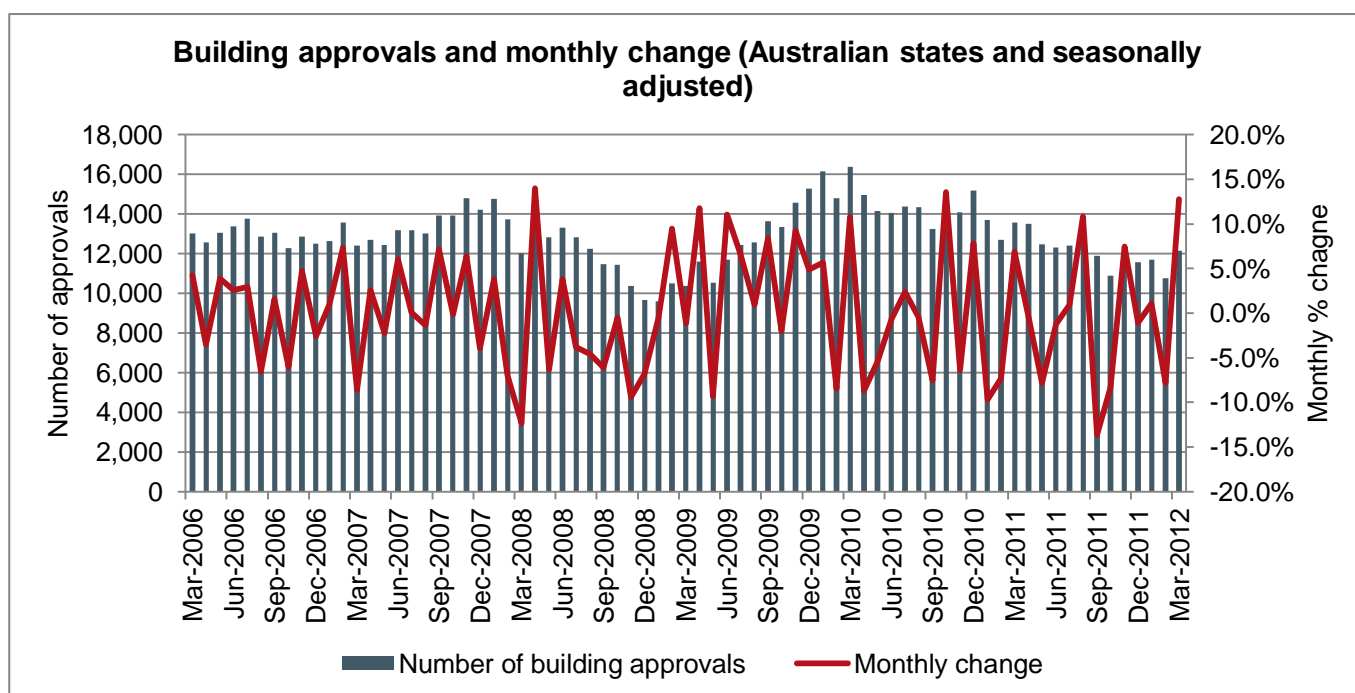


Source: APRA

^ First measured in January 2012

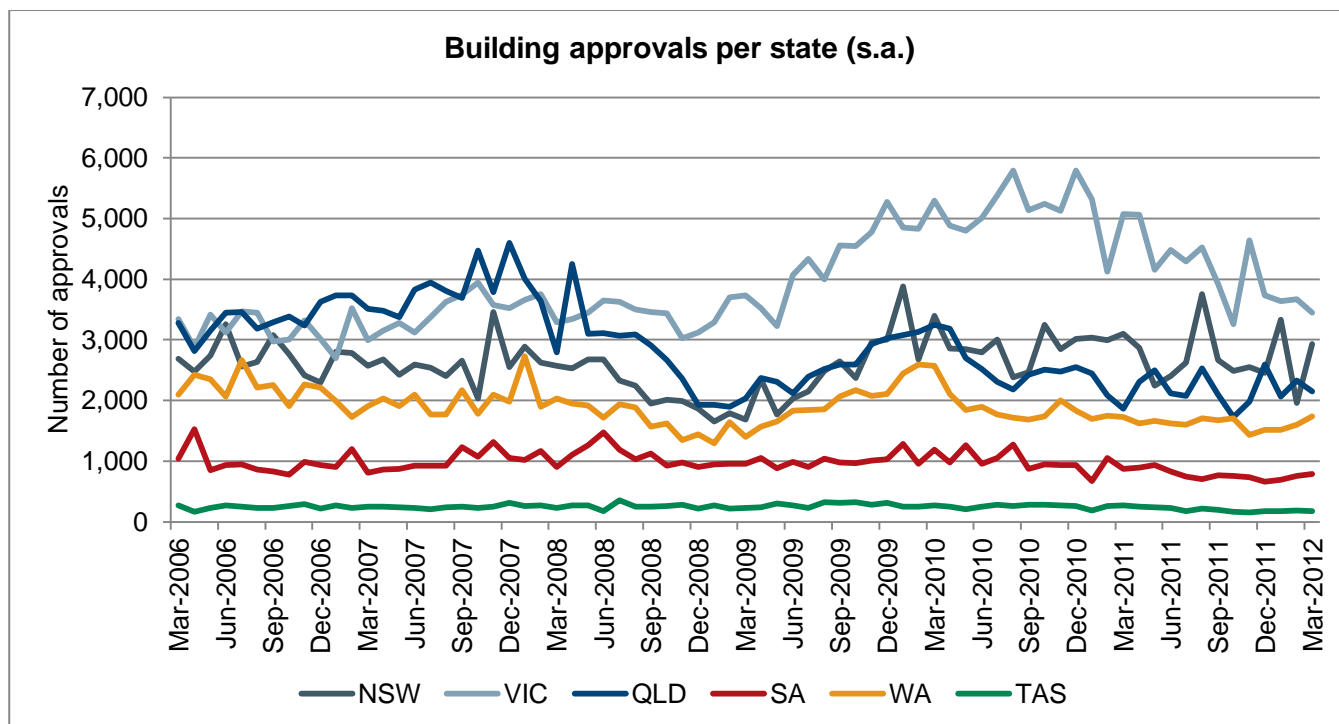
Building approvals

Between February and March 2012, total building approvals increased by 12.8% from 10,771 to 12,148, offsetting the 7.8% decrease in the previous month. However, in year-on-year terms, total building approvals have decreased by 10.5% since March 2011, reflecting the continuing trend of weak demand and low workload of building activity.



Source: ABS

New South Wales had the largest increase of building approvals in March 2012 with an increase of 49.4%, from 1,962 in February 2012 to 2,932 in March 2012. This offsets the 41.2% decrease in number of building approvals New South Wales experienced in February 2012. South Australia and Western Australia experienced an increased number of building approvals for the third consecutive month, with increases of 4.1% and 8.6% respectively. Queensland and Tasmania experienced the largest decreases, as the number of building approvals in both states fell by 7.9%.



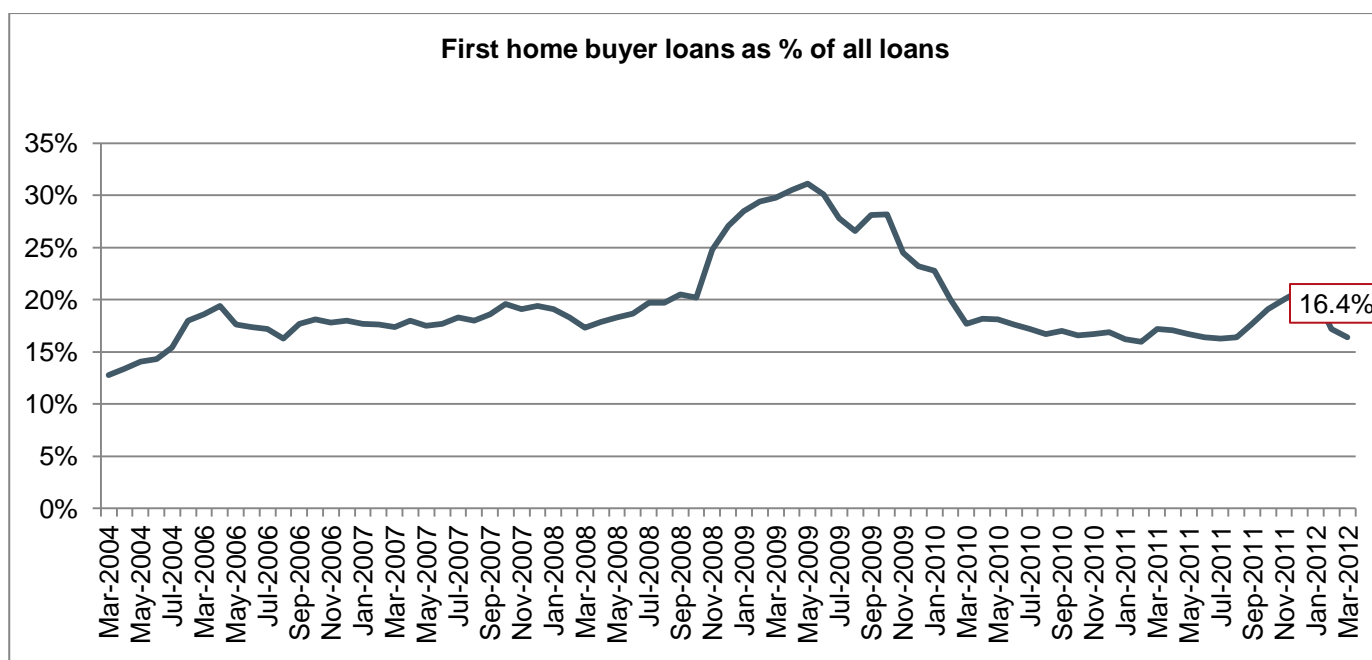
Source: ABS

Building Approvals (s.a.)						
	NSW	VIC	QLD	SA	WA	TAS
Mar-11	3,101	5,073	1,861	867	1,725	270
Feb-12	1,867	3,658	2,340	742	1,590	191
Mar-12	2932	3450	2148	790	1740	174
Monthly change	49.4%	-6.0%	-7.9%	4.1%	8.6%	-7.9%
Average Monthly Change (Past 12 Months)	3.5%	0.1%	2.1%	-1.6%	0.3%	-2.7%

Source: ABS

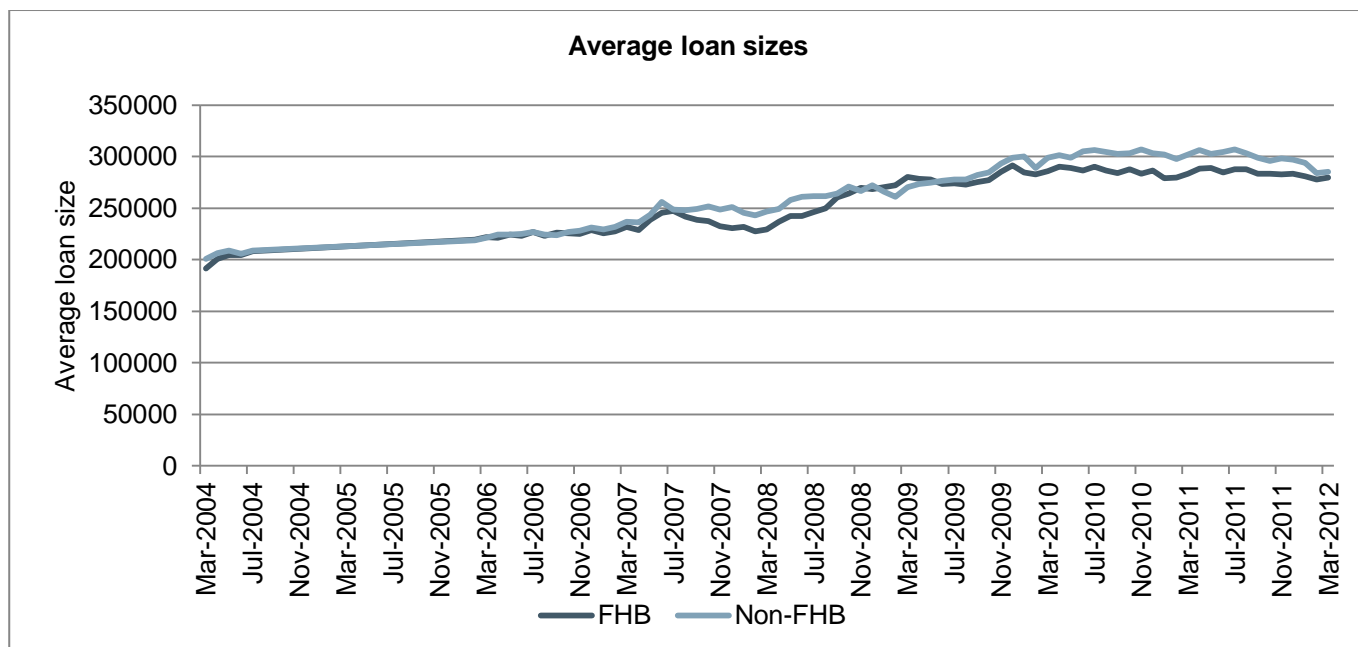
First home buyers

The proportion of first home buyer (FHBs) loans of all housing loans decreased for the third consecutive month, falling from 17.2% in February 2012 to 16.4% in March 2012. These consecutive falls come after the proportion of home loans for FHBs had trended upwards between August 2011 and December 2011, rising from 16.4% to 20.9%. This was largely driven by increased activity in New South Wales after it was announced that stamp duty exemptions for FHBs would expire on 31 December 2011.



Source: ABS

Conversely, the average home loan size for FBs increased between February 2012 and March 2012, rising by 0.7% from \$277,600 to \$285,500. The average home loan size for Non-FHBs also increased, rising by 0.6%.



Source: ABS