Intelligence to bank on

Australian Mortgage Market Wrap: A monthly report covering the Australian home and investment mortgage market

February 2013

With compliments of

australian mortgage brokers®

Contents

Executive Summary

The RBA decided to leave the cash rate on hold at 3.00% in February 2013, indicating that mixed domestic data combined with an improving global economy had influenced its decision to wait and see how previous rate cuts would continue to affect the economy before making any further cuts. Supporting the RBA's statement about an improving Australian economy, the beginning of 2013 saw the release of some positive domestic data, with unemployment remaining flat between December 2012 and January 2013, despite predictions of an increase. The Westpac-Melbourne Consumer Sentiment Index also rose, by 7.7%, from 100.6 in January to 108.3 in February 2013, the strongest sentiment reading since December 2010 and the largest monthly increase since September 2011. However, retail sales decreased 0.2%, despite predictions of an increase.

In seasonally adjusted terms, housing credit aggregates continued to trend upwards in December 2012, increasing by 0.3% to $1,265.9bn between November and December 2012. The rise was driven by growth in both owner-occupied and investment housing credit aggregates, which increased by 0.3% to $857.7bn, and 0.4% to $408.3bn respectively. Total lending commitments receded by 2.6% between November and December 2012. This decline was driven by a 2.7% and 2.4% fall in lending commitments for owner occupied housing and investment property housing, respectively.

The 3-year fixed lending rate fell by 0.05% between November and December 2012, to end the year at 5.50%, while the proportion of fixed rate home loans declined by 0.7% over the same period, to sit at 13.60%. The number and value of dwellings refinanced declined between November and December 2012, with the number of dwellings refinanced falling by 4.3% to 14,555, and the value of dwellings refinanced similarly receding by 4.3% to $3.8bn. The banks' combined market share of owner-occupied lending commitments remained relatively steady in value at 94.0%, while in terms of volume their market share increased by 0.3%, to 92.9% – a historic high.

According to APRA, the total value of bank-held owner-occupied loans increased by 0.6%, from $757.0bn to $761.9bn, between November and December 2012, while the total value of bank-held investment property loans increased by 0.6% to $375.0bn.

Following an increase of 3.4% between October and November 2012, building approvals declined by 4.4% to 12,767 between November and December 2012. This sharp fall was driven by falls in building approvals in Tasmania, Victoria and New South Wales, which declined by 21.7%, 12.3% and 1.3%, respectively.

The proportion of first home buyer (FHB) loans relative to all housing loans continued to trend downwards between November and December 2012, ending the year at 14.9% – the lowest figure since June 2004. Despite the decline FHB loans as a proportion of all loans, the average home loan size for FHBs increased by 2.1% to $293,900, while the average home loan size for non-FHBs increased by a more modest 0.2%, to $310,800 over 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.

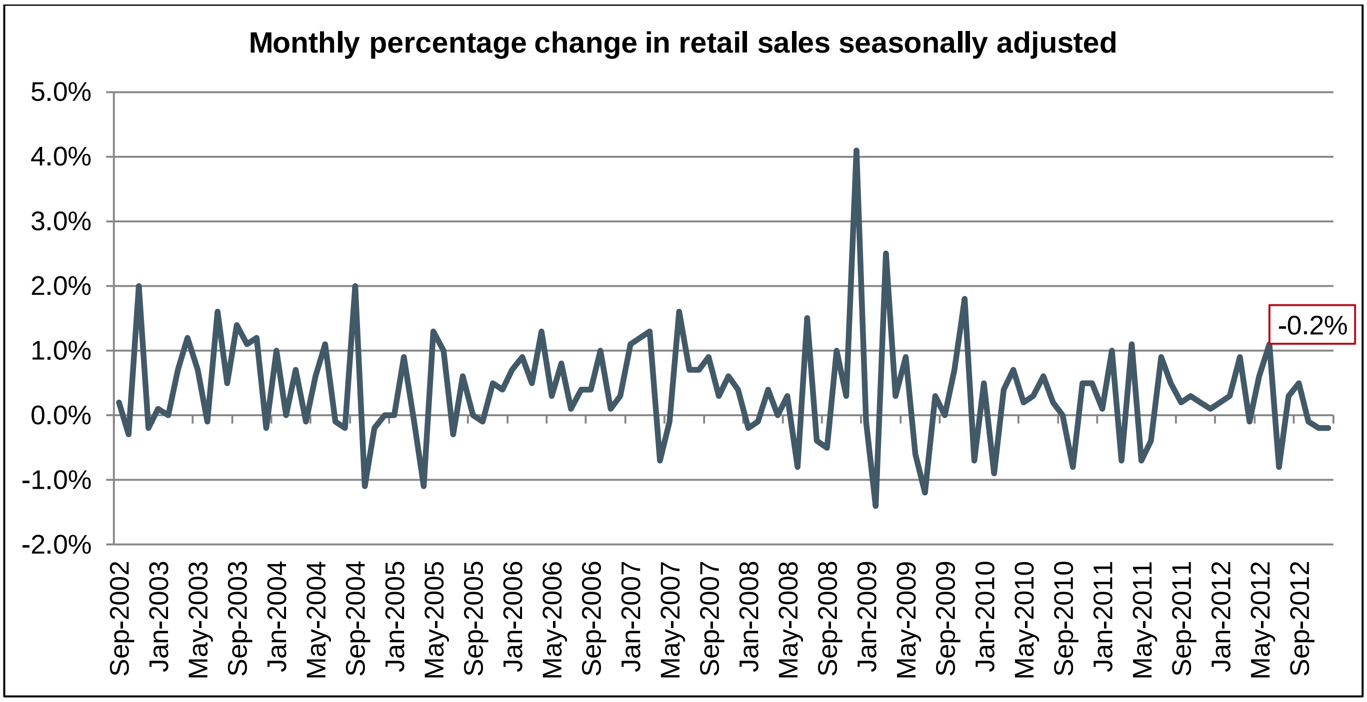
The Australian Economy – a snapshot

Retail spending

On a seasonally adjusted basis, retail sales fell by 0.2% between November and December 2012. The December decrease was the third consecutive decrease, following decreases in retail sales of 0.1%, in October 2012, and 0.2% in November 2012. The December fall was unexpected, with analysts expecting a 0.3% rise in retail sales in this period, and suggests that consumers remained cautious when it came to spending in late 2012.

The only industries to see increased sales in December 2012 were clothing, footwear and personal accessories, which rose 2.1%, household goods retailing, which rose 0.8%, and department stores, which rose 0.8%. However, this growth was offset by falls in other industries.

Retail sales in mining state Western Australia decreased 0.3%, while sales in Queensland were unchanged. New South Wales saw the largest decrease, of 0.7%, Victoria and the Australian Capital Territory also saw decreases.

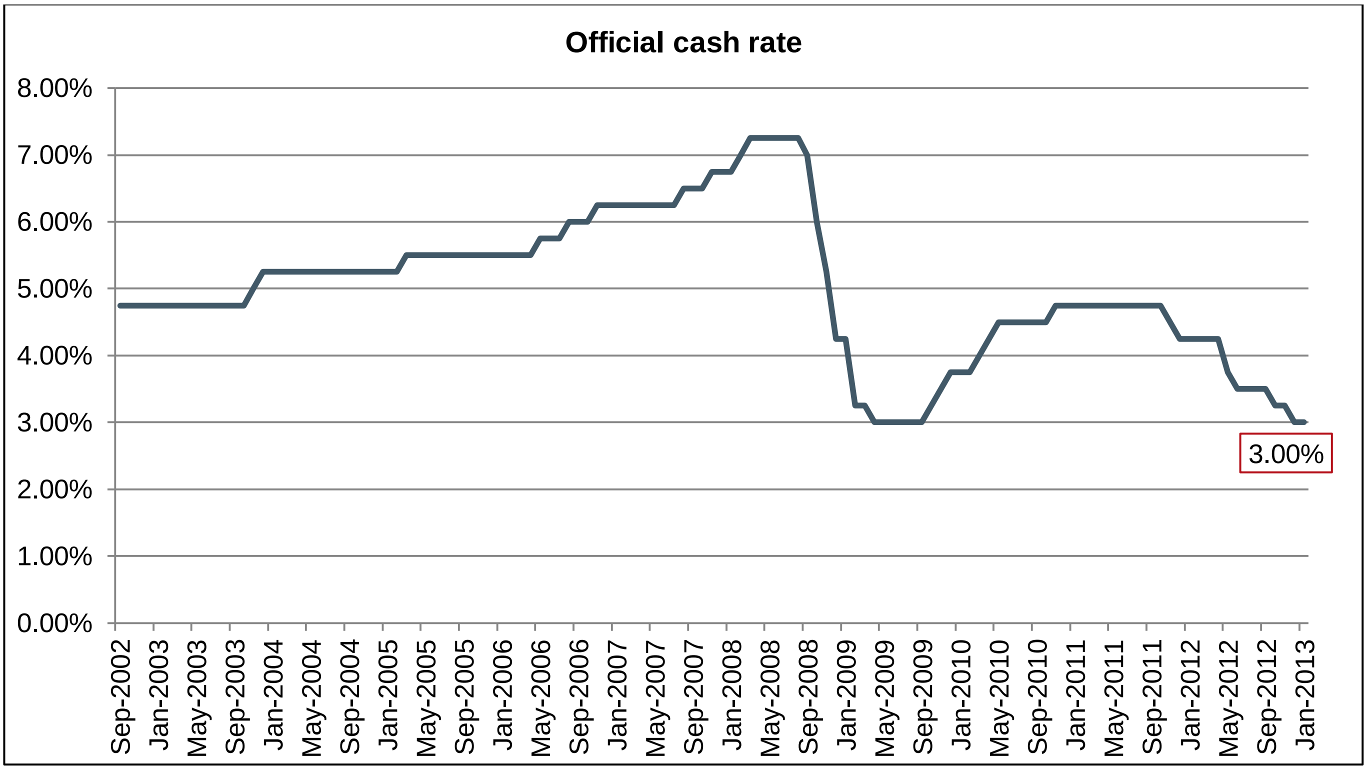


Source: ABS

Interest rates

The RBA decided to leave the cash rate on hold at 3.00% in February 2013, indicating that mixed domestic data combined with an improving global economy had influenced their decision to wait and see how previous rate cuts would continue to affect the economy before making any further cuts. Improvement in the US and European economies, improved sentiment in financial markets, growth close to trend and inflation consistent with the medium-term target were cited as reasons for leaving the cash rate on hold. The RBA also commented that previous rate cuts have had positive effects on the market, despite the full impact of the rate cuts not yet becoming apparent. As a result of the six cash rate cuts over the past 16 months, mortgage rates are close to historic lows and house prices have been rising since May 2012.

RBA Governor, Glen Stevens, hinted that further cash rate cuts may be warranted, especially if demand in the non-mining sector does not pick up. Stevens commented that the peak of investment in the resources sector is close and, while a rapid decline is not expected, it appears that resource sector investment will not be adding to demand for much longer.

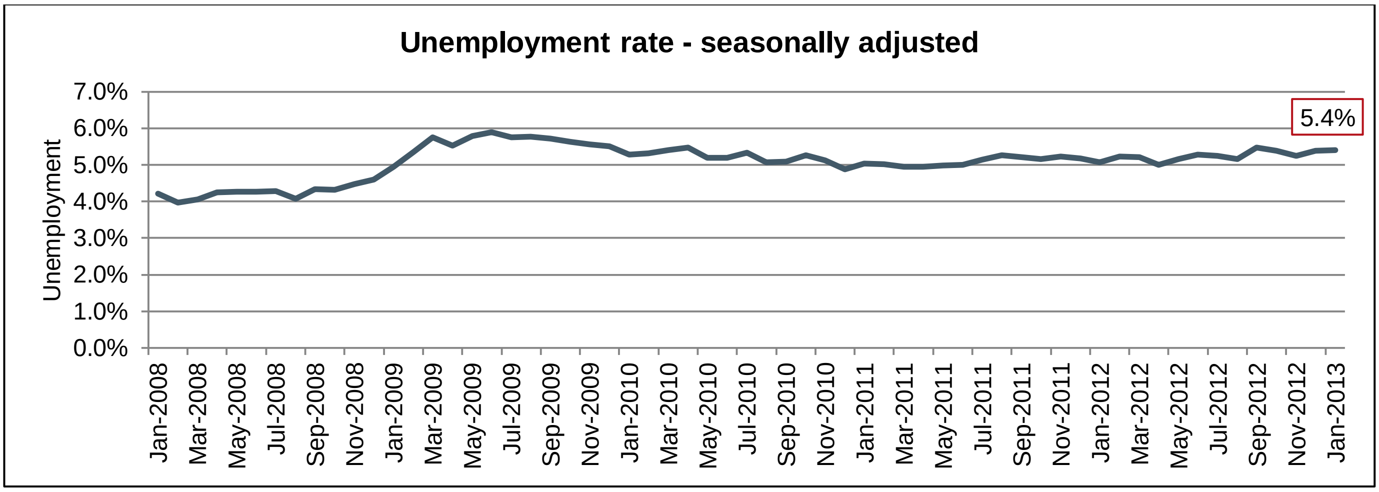


Source: RBA

Unemployment

The unemployment rate remained steady at 5.4% between December 2012 and January 2013, while the participation rate decreased slightly over the same period, from 65.1% in December 2012 to 65.0% in January 2013. The ABS reported that the number of people employed increased by 10,400 between December 2012 and January 2013. This increase was mainly driven by increased part-time employment, which was up 20,200 people, and partially offset by a decrease in full-time employment, which was down 9,800 people. The ABS also reported a decrease in the number of people looking for full-time work, down 5,800 people, and an increase in the number of people looking for part time work, up 7,700.

The steady unemployment rate came as a surprise to many economists, with AAP's survey of 14 economists predicting the unemployment rate would rise 0.1% to 5.5% and the participation rate would remain flat at 65.1% in January 2013. However, economists expect the unemployment rate to increase to 6.0% over 2013, due to a weak job market and a slowdown in the resource boom. While an interest rate cut in coming months remains likely, the stronger than expected employment figures reduce the likelihood of a rate cut in March.



Source: ABS

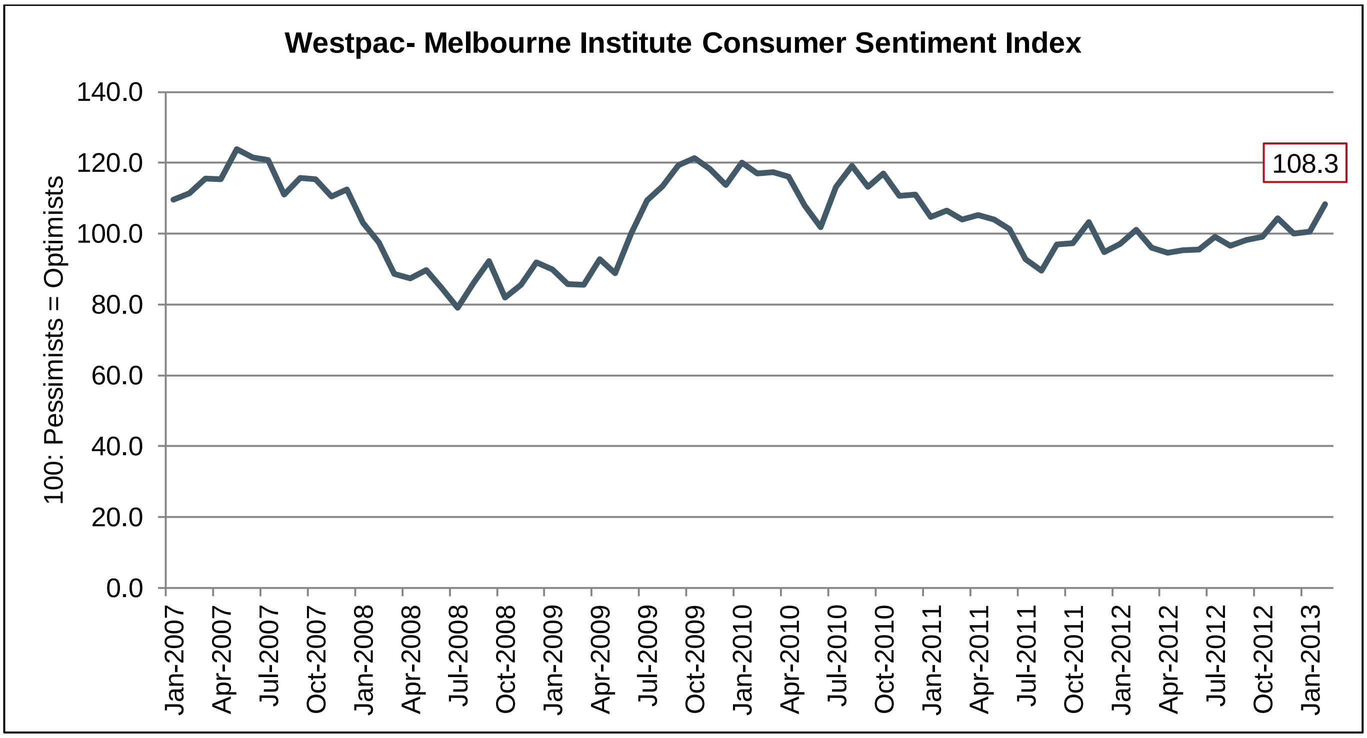
Seasonally adjusted unemployment rates				
	Dec-12	Jan-13	Monthly change (Dec-12 to Jan-13)	Yearly change (Jan-12 to Jan-13)
Employed persons ('000s)	11,538.7	11,549.1	0.1%	0.9%
Unemployed persons ('000s)	657.6	659.6	0.3%	7.8%
Labour force ('000s)	12,196.3	12,208.7	0.1%	1.2%
Unemployment rate	5.4%	5.4%	0.0pts	0.3pts
Participation rate	65.1%	65.0%	-0.1pts	-0.3pts

Source: ABS

Consumer sentiment

The Westpac-Melbourne Consumer Sentiment Index rose 7.7%, from 100.6 in January to 108.3 in February 2013. This is the strongest sentiment reading since December 2010 and the largest monthly increase since September 2011. Furthermore, it is also the third consecutive increase in the Index since December 2012. Westpac chief economist, Bill Evans, commented that the positive February reading suggests that lower interest rates are finally having an effect on consumers. However, confidence remains much lower than readings during the last rate easing cycle in 2008-2009. Evans also noted that, while the February consumer sentiment report is evidence that lower interest rates are having positive effects on consumers, the improvement in consumer confidence will have to be maintained and spending activity must be encouraged to ensure that non-mining sectors will be strong enough to counteract the downturn in mining investment which is expected to begin in the second half of 2013.

Despite the increase in consumer sentiment, and the positive implications of this increase, Evans believes that there remains a strong case for a further rate cut in March.



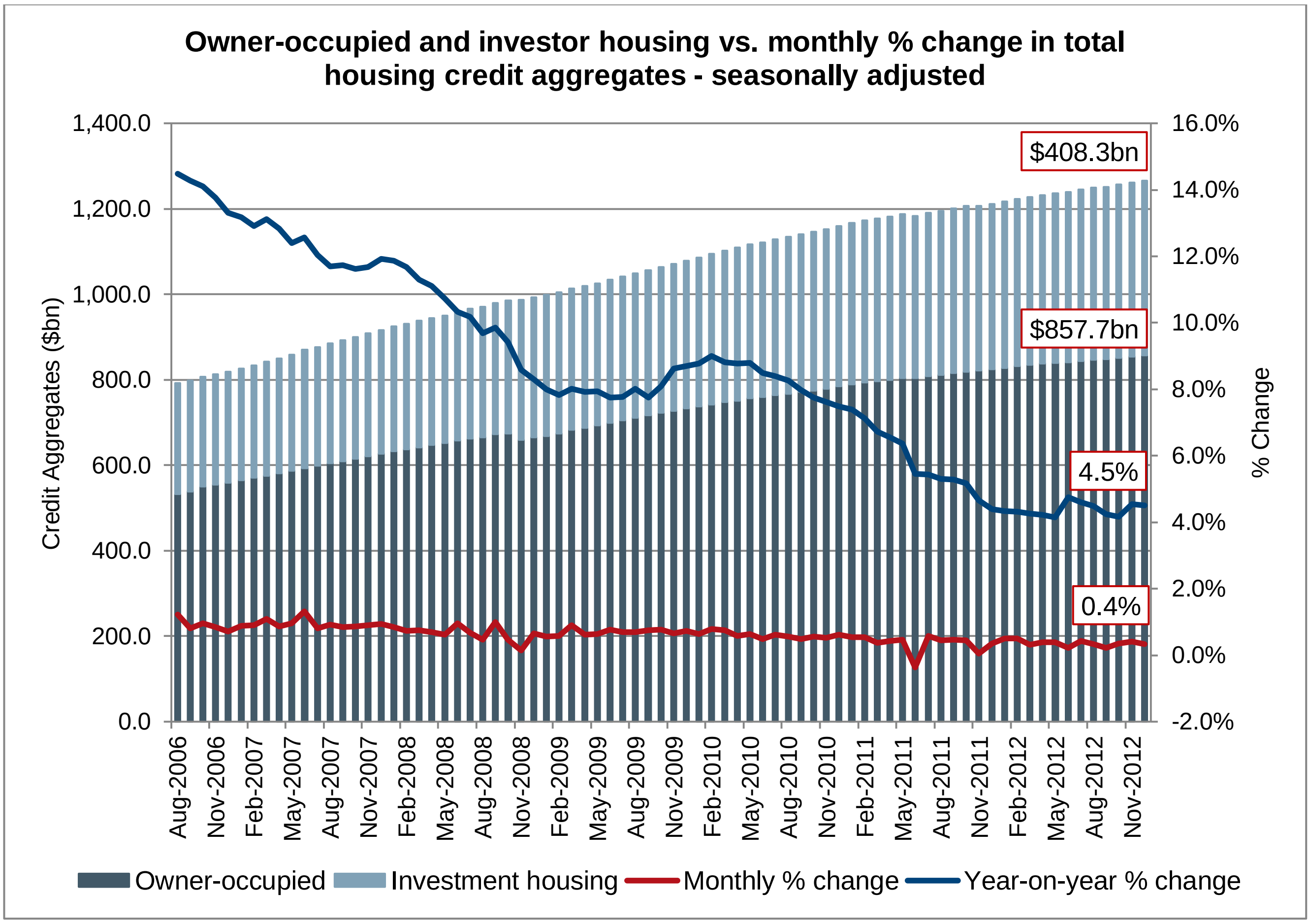
Source: Westpac – Melbourne Institute

Housing market activity

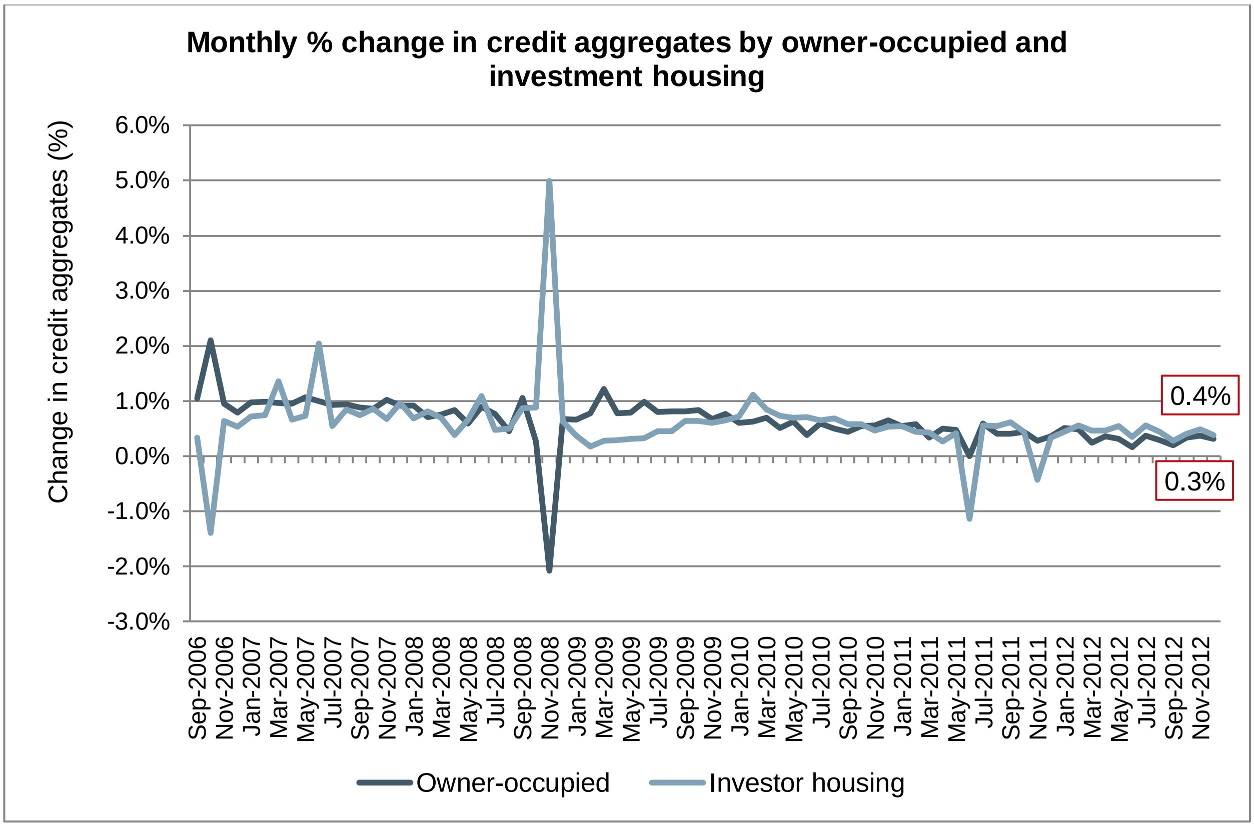
Housing credit aggregates

In seasonally adjusted terms, housing credit aggregates continued to trend upwards in December 2012, increasing by 0.3% to $1,265.9bn between November and December 2012. This was the fourth lowest recorded result in the series' history, but it has recovered from an all-time low in June, which recorded a monthly growth of 0.20%. The rise was driven by growth in both owner-occupied and investment housing credit aggregates, which increased by 0.3% to $857.7bn, and 0.4% to $408.3bn, respectively. For the year ending December 2012, housing credit aggregates grew by 4.5%, which was steady with the 4.5% annualised growth seen in the previous month, and slightly higher than the 4.4% seen in the year to December 2011.

The deceleration of housing credit growth comes despite 1.75% of cuts to official interest rates by the RBA since November 2011, indicating that monetary policy has lost some of its potency, and is likely to lead to further cuts in interest rates by the RBA in 2013.



Source: RBA



Monthly % change in credit aggregates by owner-occupied and investment housing
Change in credit aggregates (%)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%
0.4%
0.3%
Sep-2006
Nov-2006
Jan-2007
Mar-2007
May-2007
Jul-2007
Sep-2007
Nov-2007
Jan-2008
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May-2008
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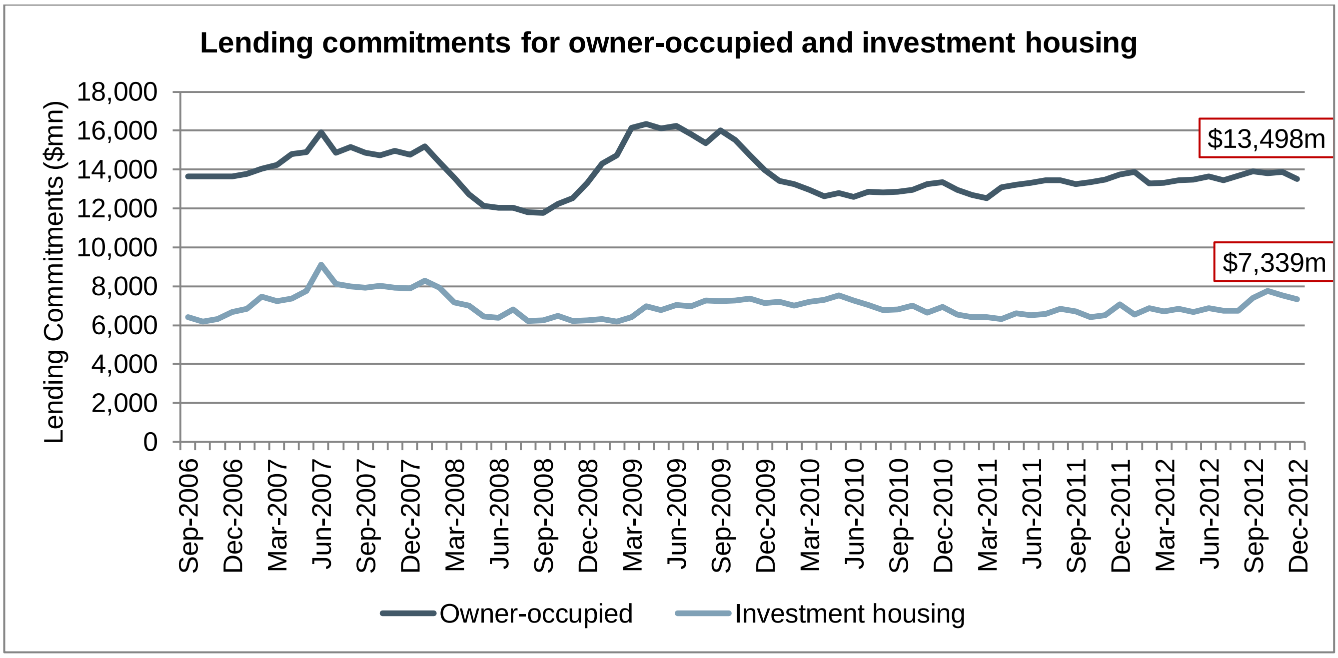
May-2011
Jul-2011
Sep-2011
Nov-2011
Jan-2012
Mar-2012
May-2012
Jul-2012
Sep-2012
Nov-2012
Owner-occupied
Investor housing

Source: RBA

Lending commitments

Total lending commitments receded by 2.6% between November and December 2012. This decline was driven by 2.7% and 2.4% falls in lending commitments for owner occupied housing and investment property housing, respectively.

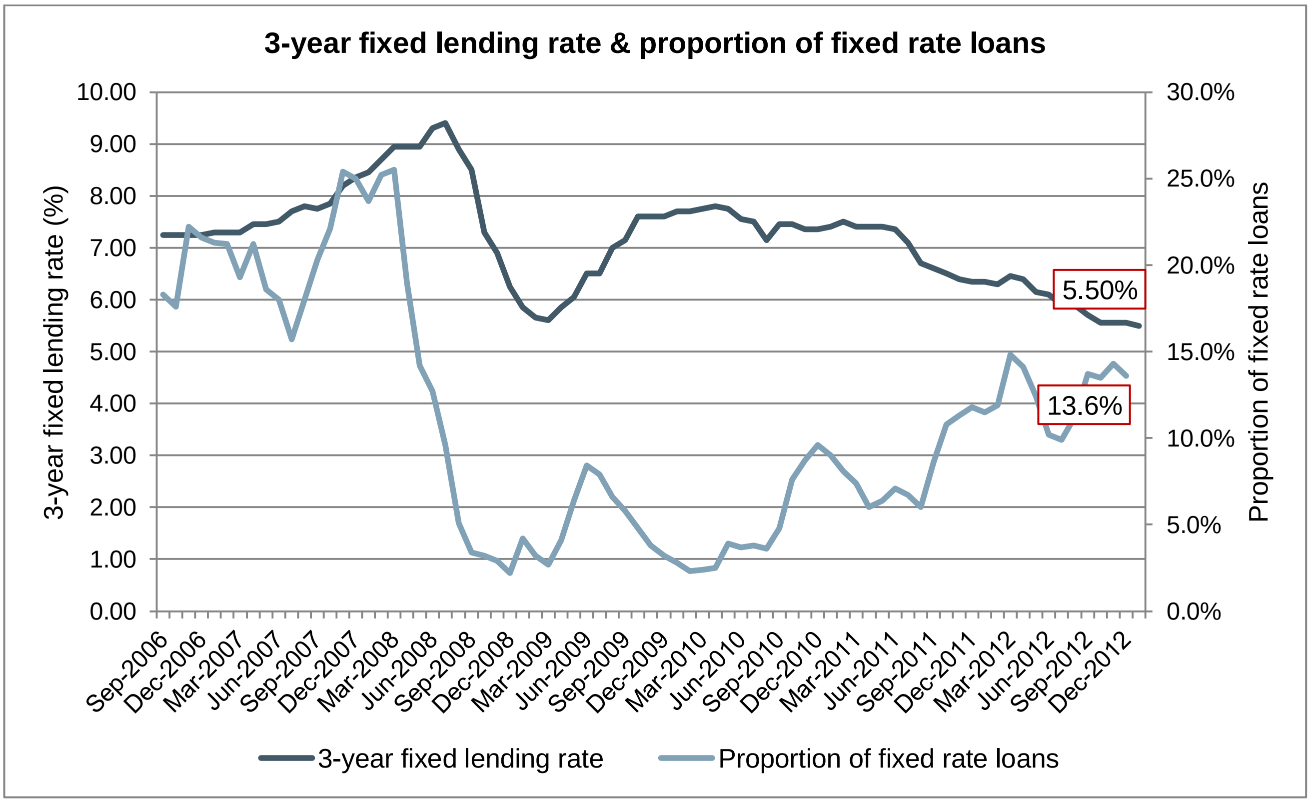
In year-on-year terms, total lending commitments grew by 0.2%. Year-on-year growth to December 2012 was notably lower than the 7.7% three month-annualised growth seen between September and November 2012. Despite the fall in investment housing lending commitments between Novemeber and December 2012, investment housing lending commitments were up 4.0% in the year to December 2012, as owner-occupied housing lending commitments decreased by 1.8% over the same period.



Source: RBA

Fixed and variable loans

After falling from 5.70% to 5.55% between September and October 2012, the 3-year fixed lending rate remained steady for 3 consecutive periods, before dropping to 5.50% in January 2013. The January 2013 fixed lending rate was the lowest figure in 23 years, and an indication that the banks are expecting further rate cuts in the coming months. Fixed rate loans as a proportion of all loans increased from 13.5% to 14.3% between October and November 2012, before dropping to 13.60% in December 2012, in line with the RBA's 0.25% rate cut.

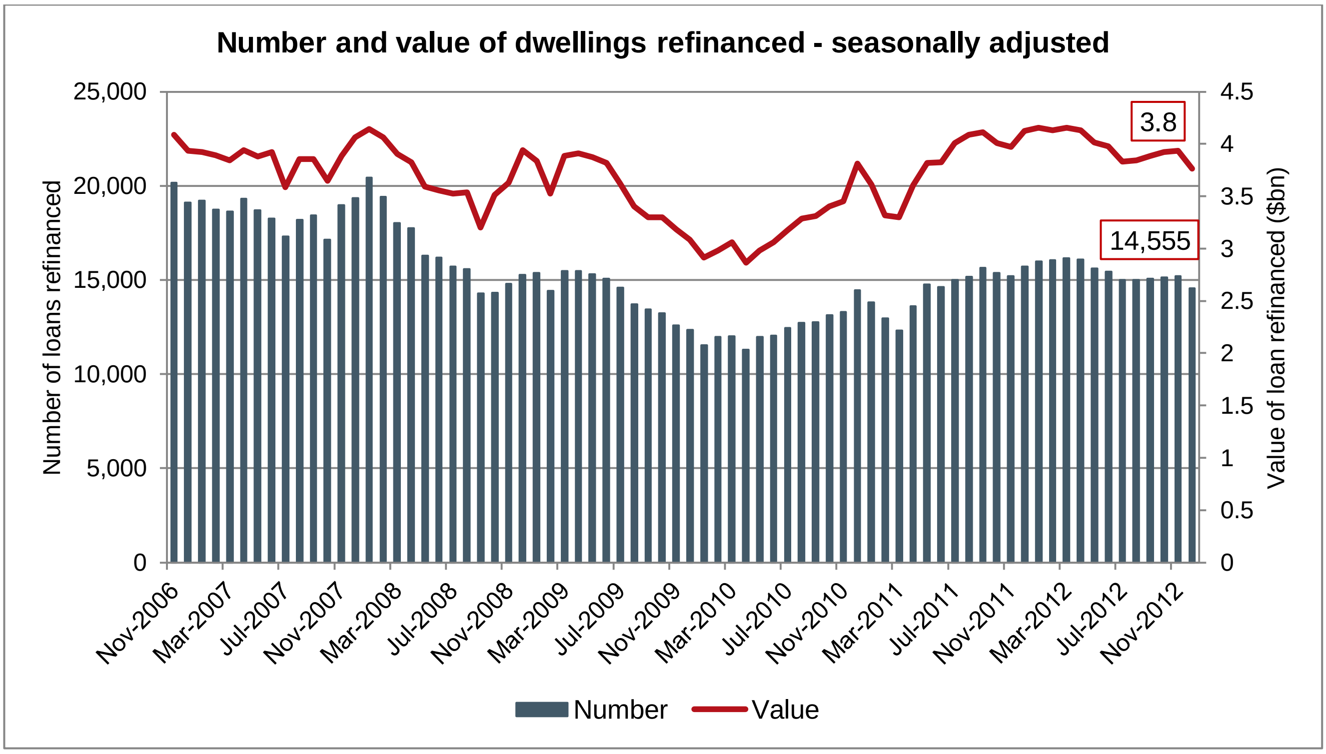


Source: ABS and RBA

Dwellings Refinanced

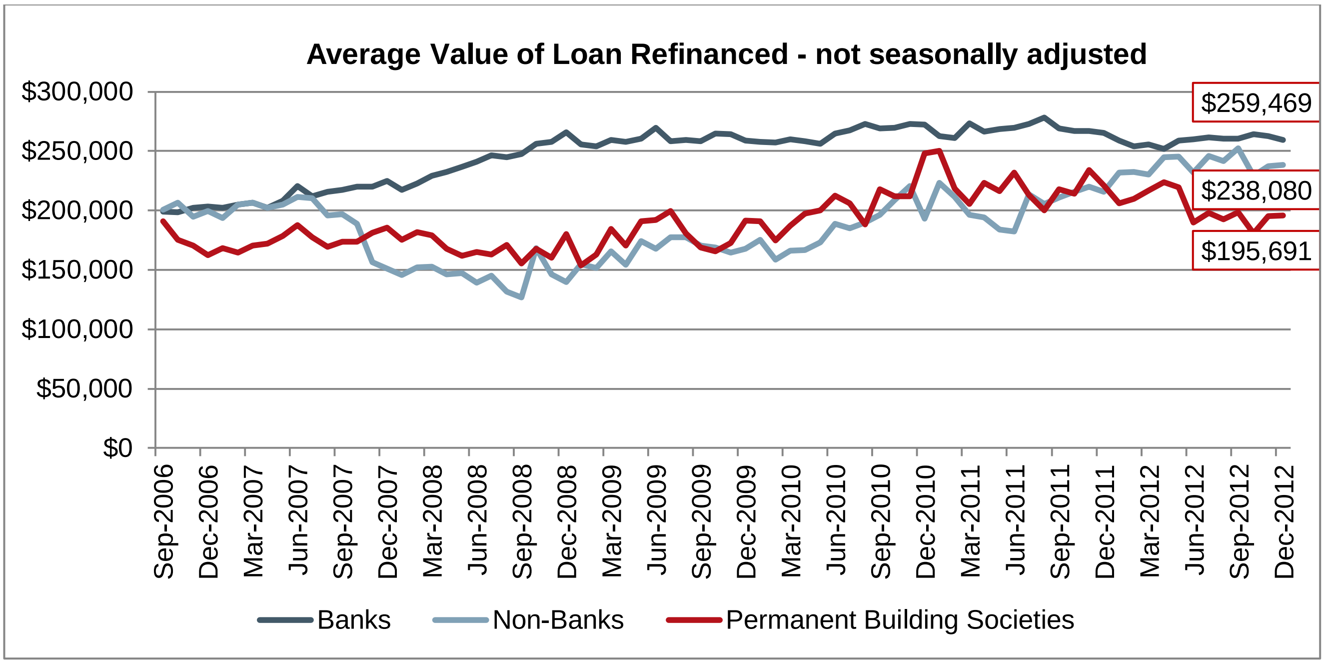
In seasonally adjusted terms, the number and value of dwellings refinanced declined between November and December 2012, with the number of dwellings refinanced falling by 4.3% to 14,555, and the value of dwellings refinanced similarly falling by 4.3% to $3.8bn.

In year-on-year terms, between December 2011 and Decemberr 2012, the number of refinanced dwellings fell by 7.3%, and the value of dwellings refinanced fell by 8.7%. This result may be partly attributed to the decline in interest rates, which has cut the average SVR by 0.85% over 2012, and in turn, discouraged switching by decreasing borrowers' monthly repayaments.



Source: ABS

Between November and December 2012, the average value of loans refinanced with banks fell by 1.1% to $259,469, while the average value of loans refinanced with non-banks and Building Societies increased by 0.3% and 0.4% to $238,080 and $195,691 respectively.



Source: ABS

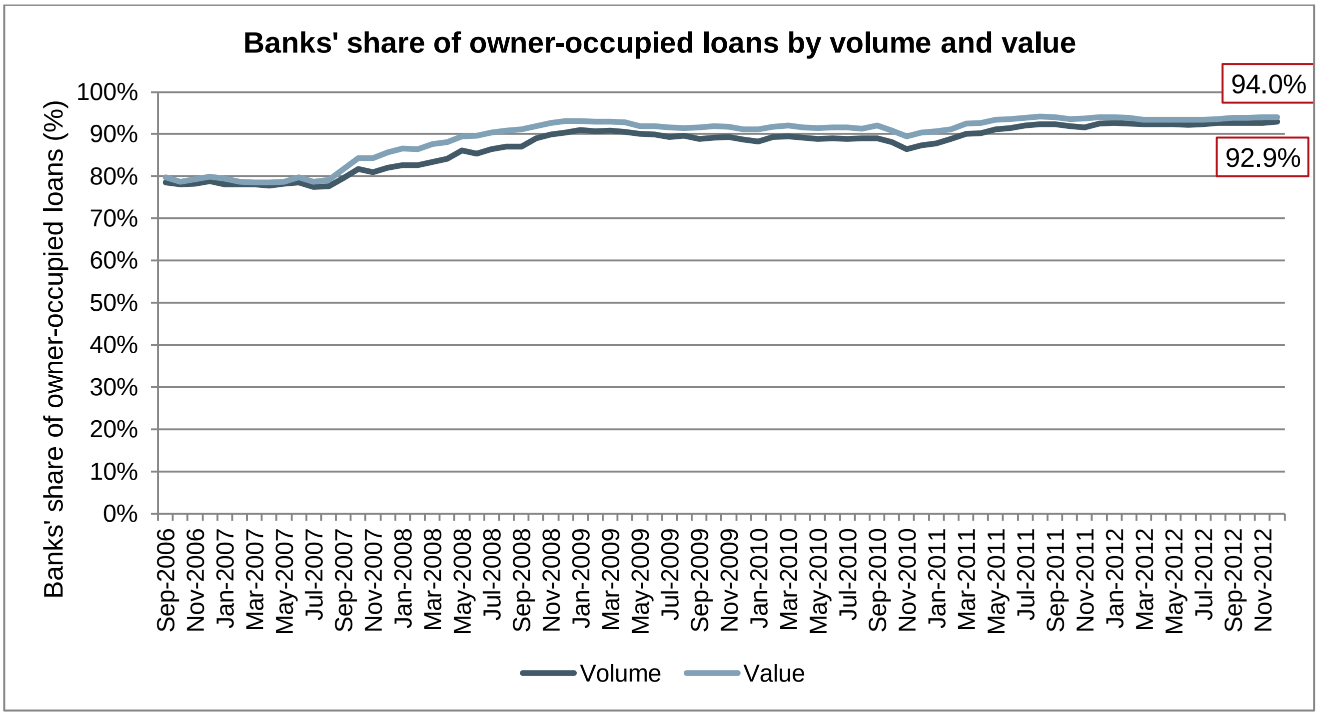
Refinancing activity (seasonally adjusted)		
	Number of dwellings refinanced	**Value of dwellings refinanced ($m)**
Dec-11	15,704	4,124.5
Nov-12	15,212	3,934.9
Dec-12	14,555	3,765.5
Monthly % change	-4.3%	-4.3%
Year-on-year % change	-7.3%	-8.7%

Source: ABS

Market Share

Owner-occupied lending commitments

Between November and December 2012, banks' combined market share of owner-occupied lending commitments remained relatively steady in terms of value at 94.0%, while in terms of volume their share increased by 0.3%, to 92.9%. December 2012 recorded a historic high for banks' share by volume of owner-occupied lending commitments, as the number of banks' owner occupied lending commitments fell at a slower pace than the total volume of owner-occupied loans.



Source: ABS

Value of banks' share of owner-occupied loans		
	Banks ($m)	**Total ($m)**
Dec-11	12,923.7	13,741.2
Market share at Dec-11	94.1%	-
Nov-12	13,049.3	13,876.2
Dec-12	12,684.0	13,497.7
Monthly % change	-2.8%	-2.7%
Market share at Dec-12	94.0%	-

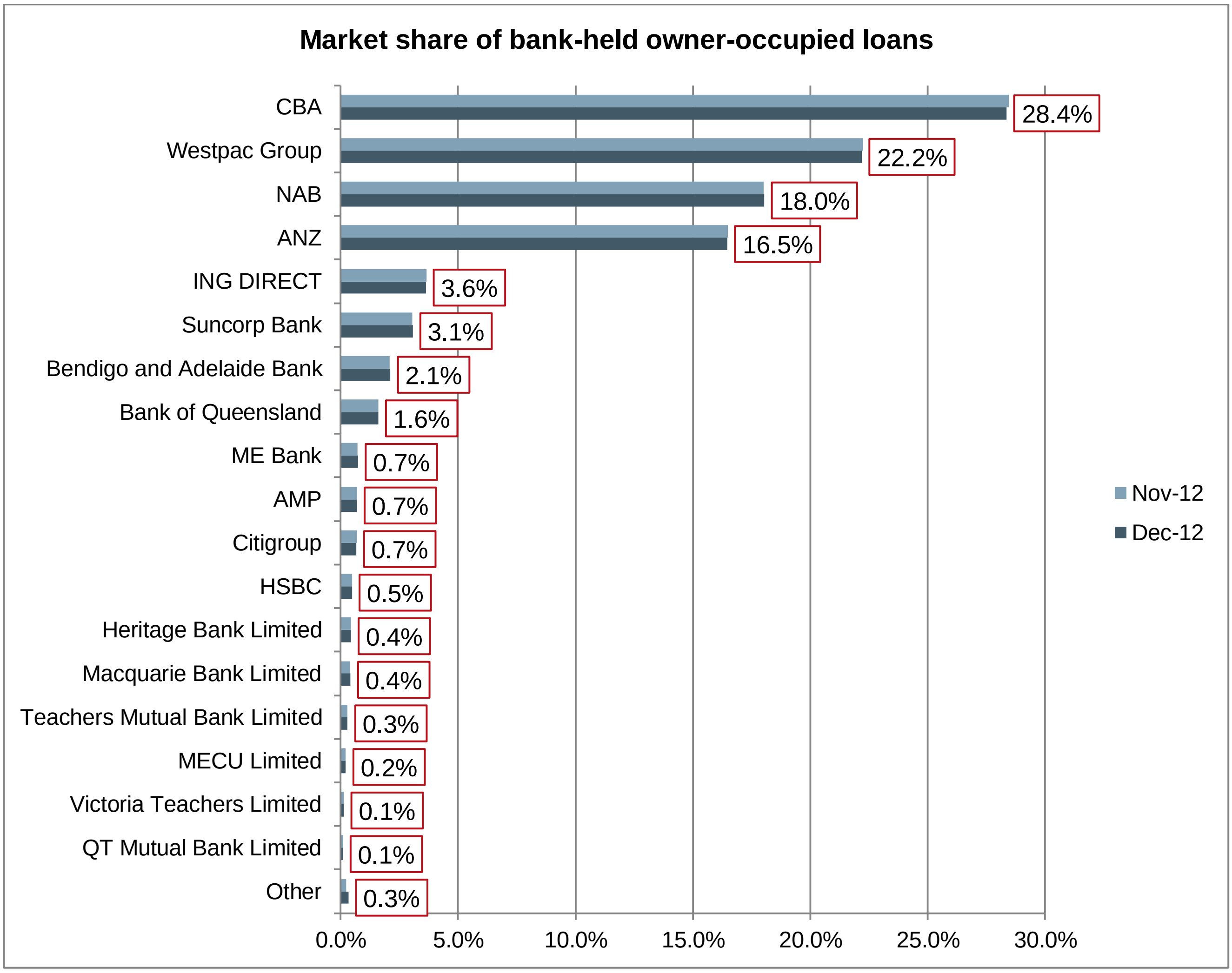
Source: ABS

Bank-held owner-occupied loans

According to APRA, the total value of bank-held owner-occupied loans increased by 0.6% between November and December 2012, from $757.0bn to $761.9bn.

The combined market share of the 'Big 4' declined by 0.1%, to 85.1%, between November and December 2012. This fall was driven by a slight decline in CBA and Westpac Group's penetration of bank held owner-occupied loans, while market share remained steady for NAB and ANZ.

Among the other lenders and mutual banks, there was little movement in bank-held owner-occupied loans over this period.



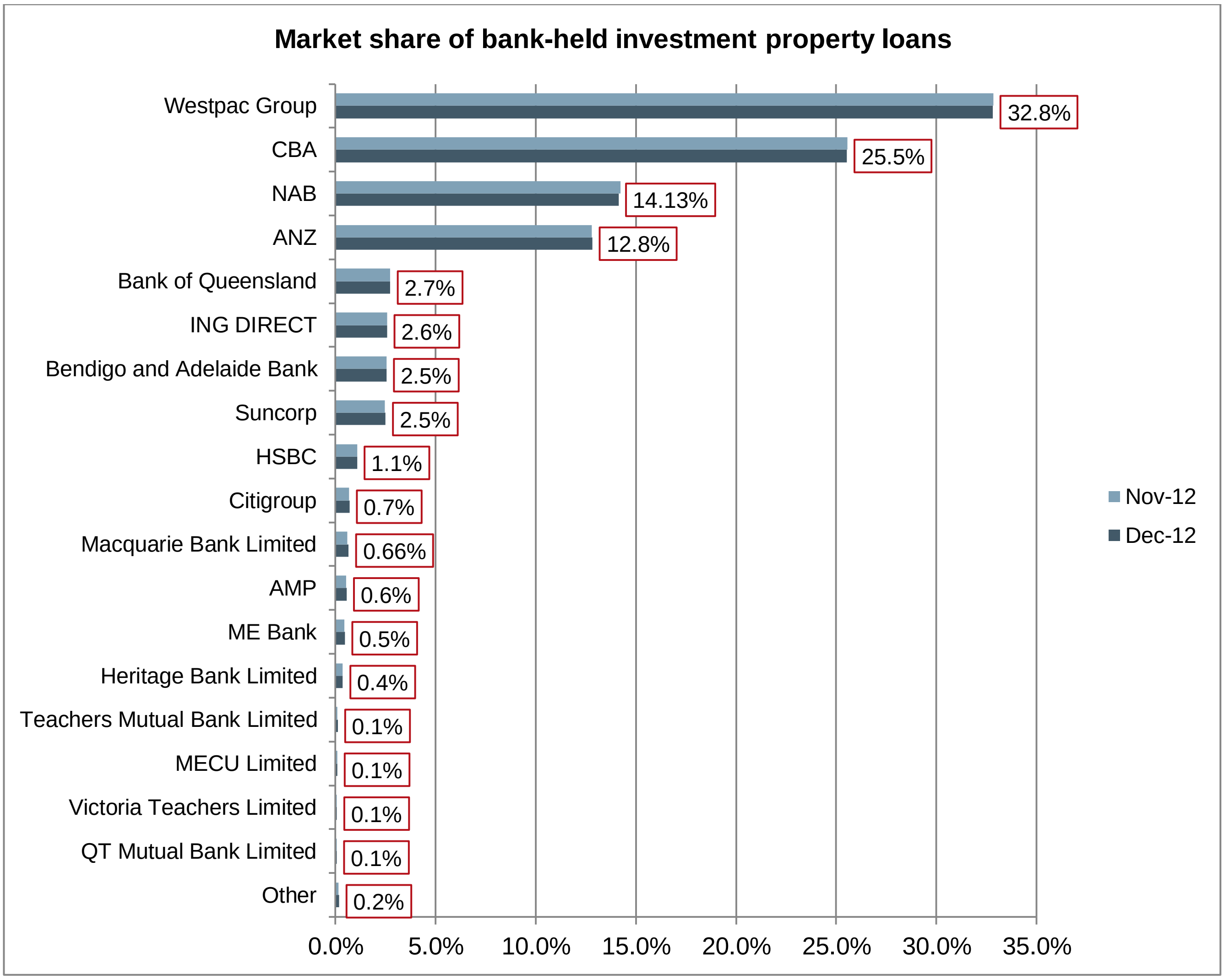
Source: APRA

Bank-held investment property lending

Between November and December 2012, the total value of bank-held investment property loans increased by 0.6% to $375.0bn.

Among the lending institutions, the market share of the 'Big 4' decreased by 0.1%, to 85.3%. The decline was driven by NAB's 0.1% loss in penetration of bank held investment property loans, with limited market share movement from ANZ, CBA and the Westpac Group.

Aside from Macqurie Bank, which saw a 0.1% increase in market share over the month, mutual banks and other lenders saw their market shares remain relatively steady between November and December 2012.

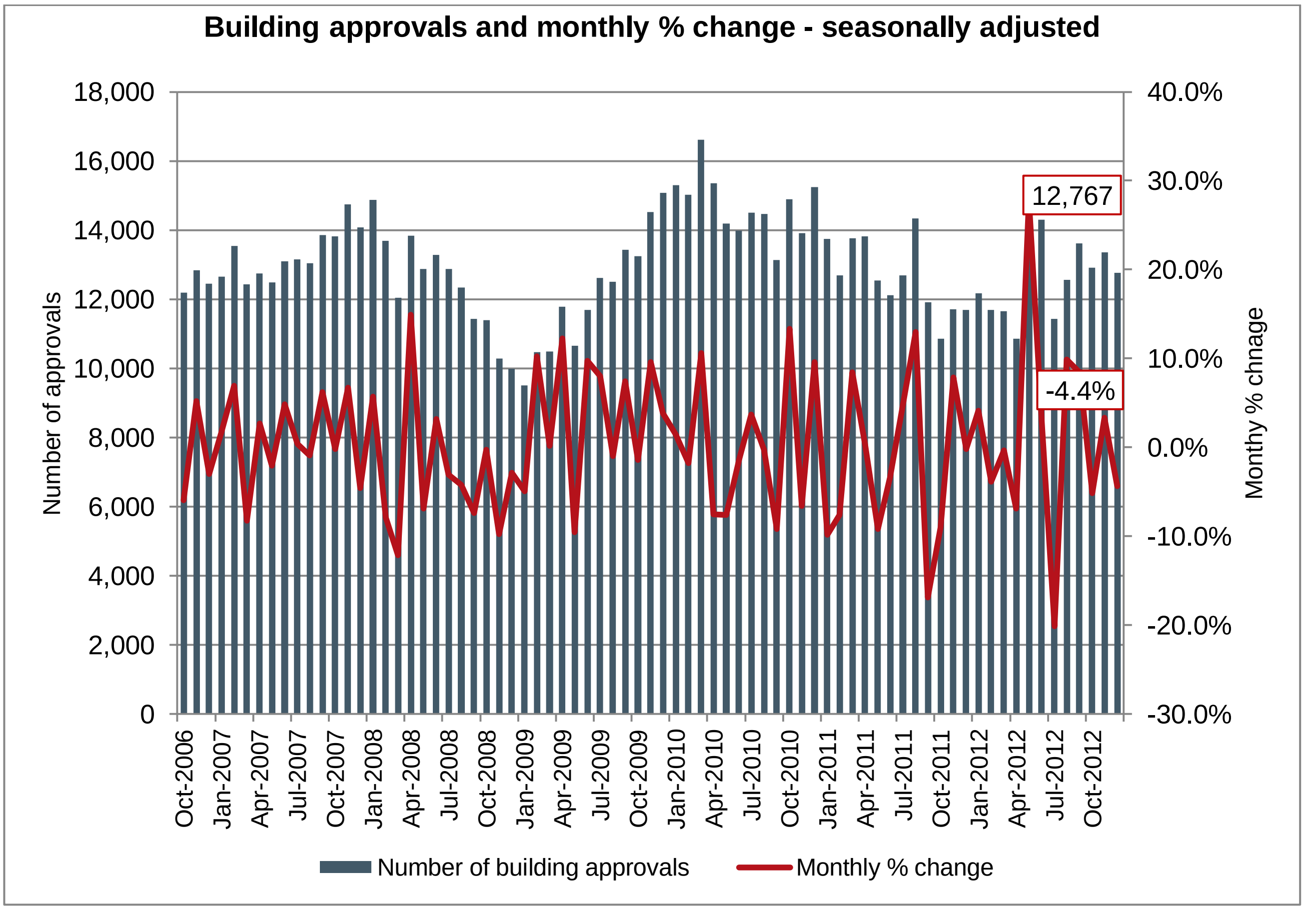


Source: APRA

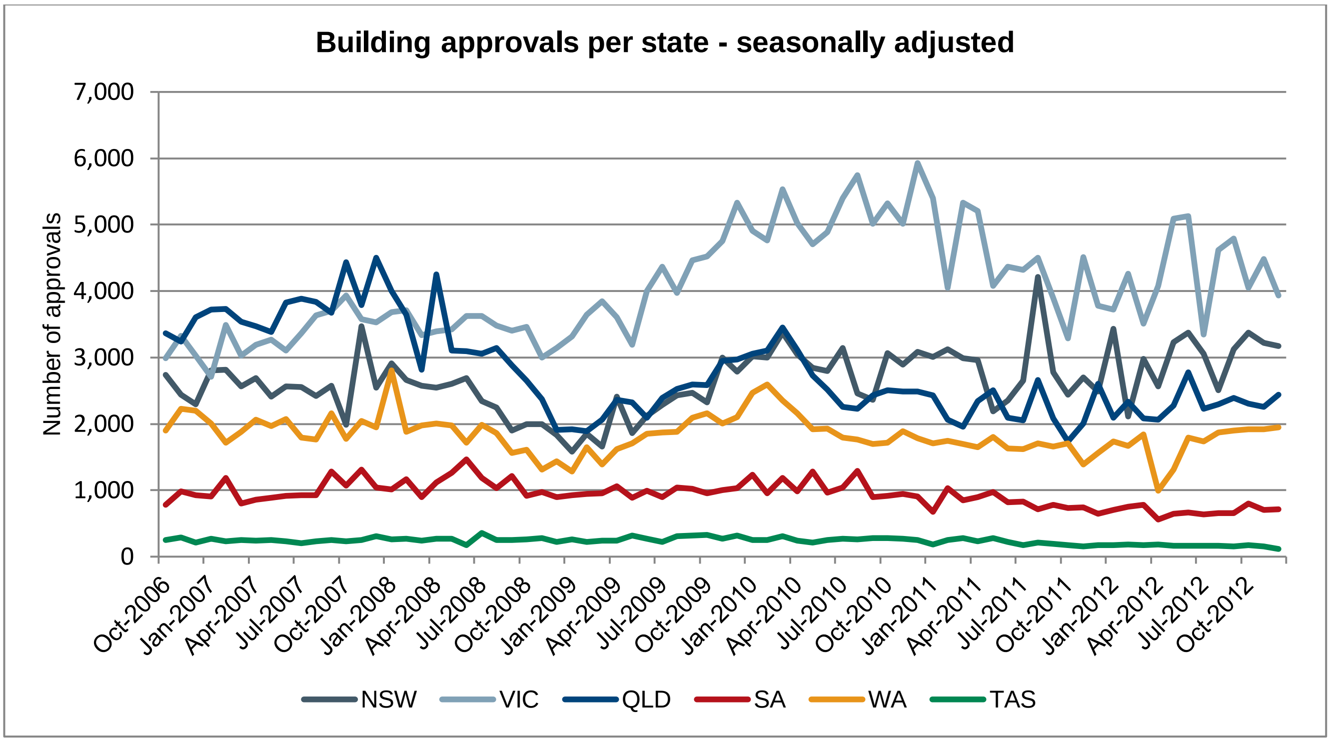
Intelligence to bank on

Building approvals

Following an increase of 3.4% between October and November 2012, building approvals declined by 4.4% to 12,767 between November and December 2012. The sharp fall was driven by falls of growth in building approvals in Tasmania, Victoria and New South Wales, which declined by 21.7%, 12.3% and 1.3%, respectively. The receding growth in these states was partially offset by an accelation of growth in Queensland, South Australia and Western Australia, where building approvals increased by 7.9%, 1.7% and 1.3% in building approvals, respectively.



Source: ABS



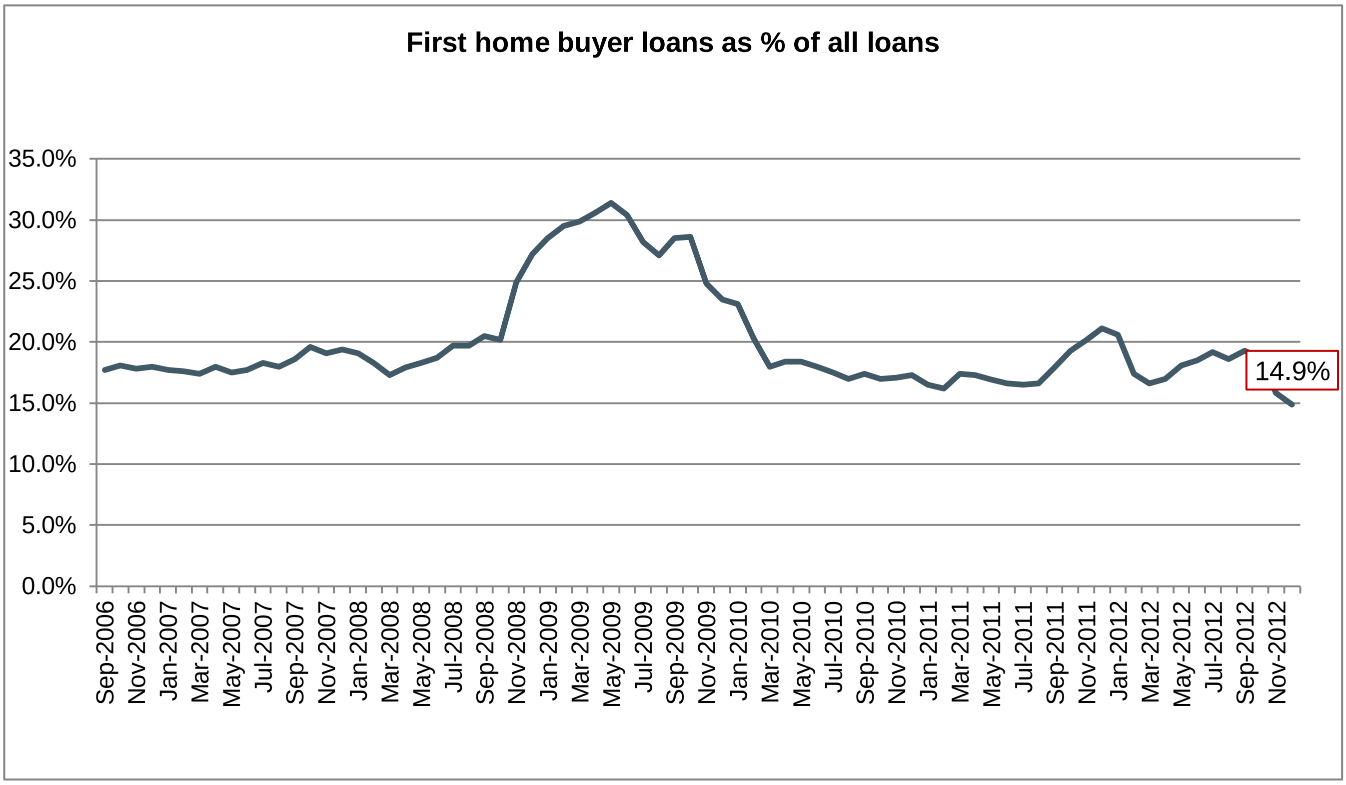
Source: ABS

Building approvals (seasonally adjusted)						
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**
Dec-11	2,487	3,780	2,605	646	1,557	173
Nov-12	3,217	4,480	2,256	703	1,919	152
Dec-12	3,176	3,930	2,435	715	1,944	119
Monthly change	-1.3%	-12.3%	7.9%	1.7%	1.3%	-21.7%
Average monthly change (Past 12 months)	3.7%	0.8%	2.5%	0.6%	4.7%	-1.1%

Source: ABS

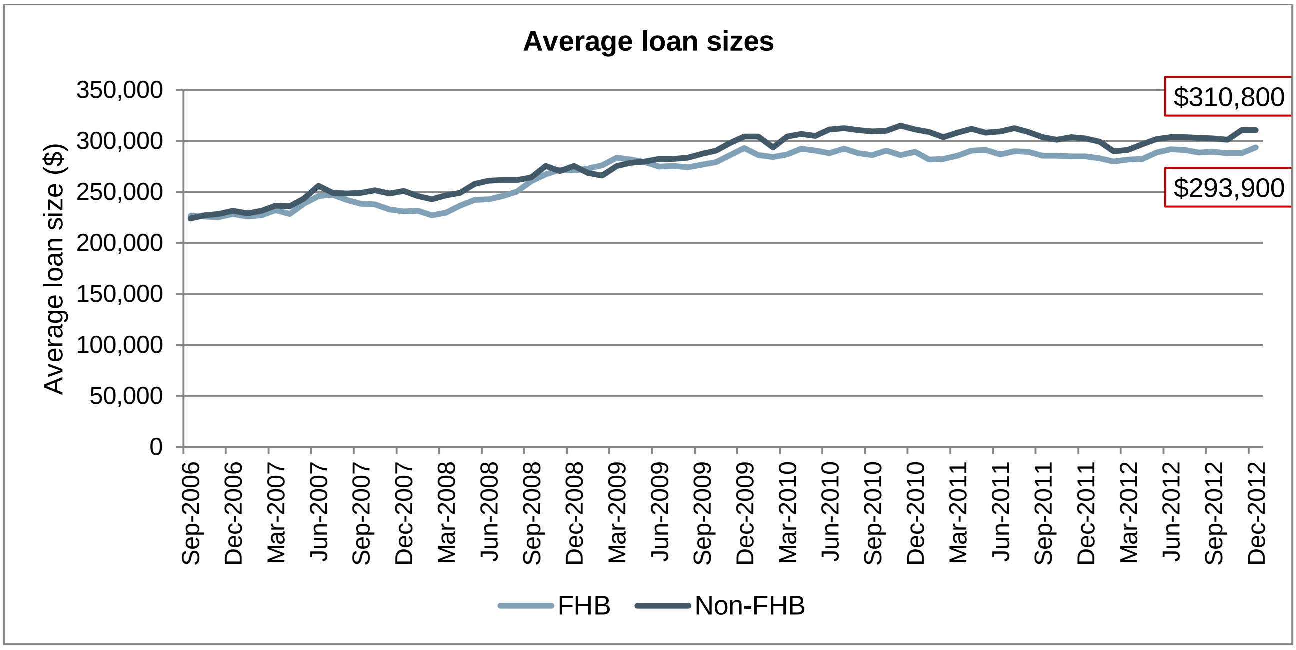
First home buyers

The proportion of first home buyer (FHB) loans relative to all housing loans continued to trend downwards between November and December 2012, ending the year at 14.9% - the lowest figure since June 2004. FHB loans as a proportion of all loans has been declining since October 2012, when changes were made to FHB incentives in New South Wales and Queensland.



Source: ABS

Between November and December 2012, despite the decline in the proportion of FHB loans as a proportion of all loans, the average home loan size for FHBs increased by 2.1% to $293,900, while the average home loan size for non-FHBs increased by a more modest figue of 0.2%, to $310,800. In terms of annualised growth, in the year to December 2012, the average home loan size for FHBs grew by 3.1%, while the average size of non-FHB loans increased by 2.7%.


Average loan sizes
Average loan size ($)
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
$310,800
$293,900
Sep-2006
Dec-2006
Mar-2007
Jun-2007
Sep-2007
Dec-2007
Mar-2008
Jun-2008
Sep-2008
Dec-2008
Mar-2009
Jun-2009
Sep-2009
Dec-2009
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Jun-2010
Sep-2010
Dec-2010
Mar-2011
Jun-2011
Sep-2011
Dec-2011
Mar-2012
Jun-2012
Sep-2012
Dec-2012
FHB
Non-FHB

Source: ABS