Intelligence to bank on

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

October 2012

With compliments of:

australian mortgage brokers®

Contents

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Executive Summary

Amidst a slowing global economy and waning mining activity, the RBA decided to cut the cash rate by 25 basis points in October 2012, bringing the cash rate to 3.25%. Despite this rate cut, consumer sentiment is still weak, with the October 2012 Westpac-Melbourne Institute Consumer Sentiment Index remaining below the 100 index (meaning pessimists outweigh optimists) for the eighth consecutive month.

In seasonally adjusted terms, housing credit aggregates continued to trend upwards in August 2012, from $1250.7bn in July 2012 to $1,255.0bn. The increase was driven by increases in both owner-occupied and investment housing credit aggregates, which were up by 0.3% to $849.8bn and 0.5% to $405.2bn respectively.

Total lending commitments were also up by 0.6% to $20,301.1bn. This was the result of an increase in owner-occupied lending commitments, which was partially offset by a decrease in investment housing lending commitments.

While the 3-year fixed lending rate remained steady at 5.90% between July and August 2012, the proportion of fixed rate home loans rose from 9.90% to 11.20%. This may explain why the number and value of owner-occupied loans refinanced rose in August 2012, with refinanced dwellings up by 0.1% to 15,013 in number and 0.5% to $3,850 in value.

According to APRA, the total value of bank-held owner-occupied loans increased by 0.3% from $748,058m to $750,499m between July and August 2012. Despite this increase, most banks saw their bank-held owner-occupied remain steady.

Following the increase in bank-held owner-occupied loans, the value of bank-held investment property loans also increased, by 0.5% to $376.1bn. Similar to the bank-held owner-occupied loans market, all lending institutions saw their investment property loans market share remain steady between July and August 2012.

The total number of building approvals rose by 6.4% to 12,046 in August 2012, with Victoria, Queensland and Western Australian seeing an increase in building approvals, while all the other states saw decreases. However, despite this increase in total number, the average monthly growth for building approvals for the year ending August 2012 was only 0.3%, indicating that residential property construction activity is stationary.

The proportion of first home buyer (FHB) loans relative to all housing loans fell by 0.4 percentage points to 18.6% between July and August 2012. Additionally, the average loan size of FHBs and non-FHBs fell, by 0.8% to $288,900 and 0.1% to $303,100 respectively, between July and August 2012.

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’.

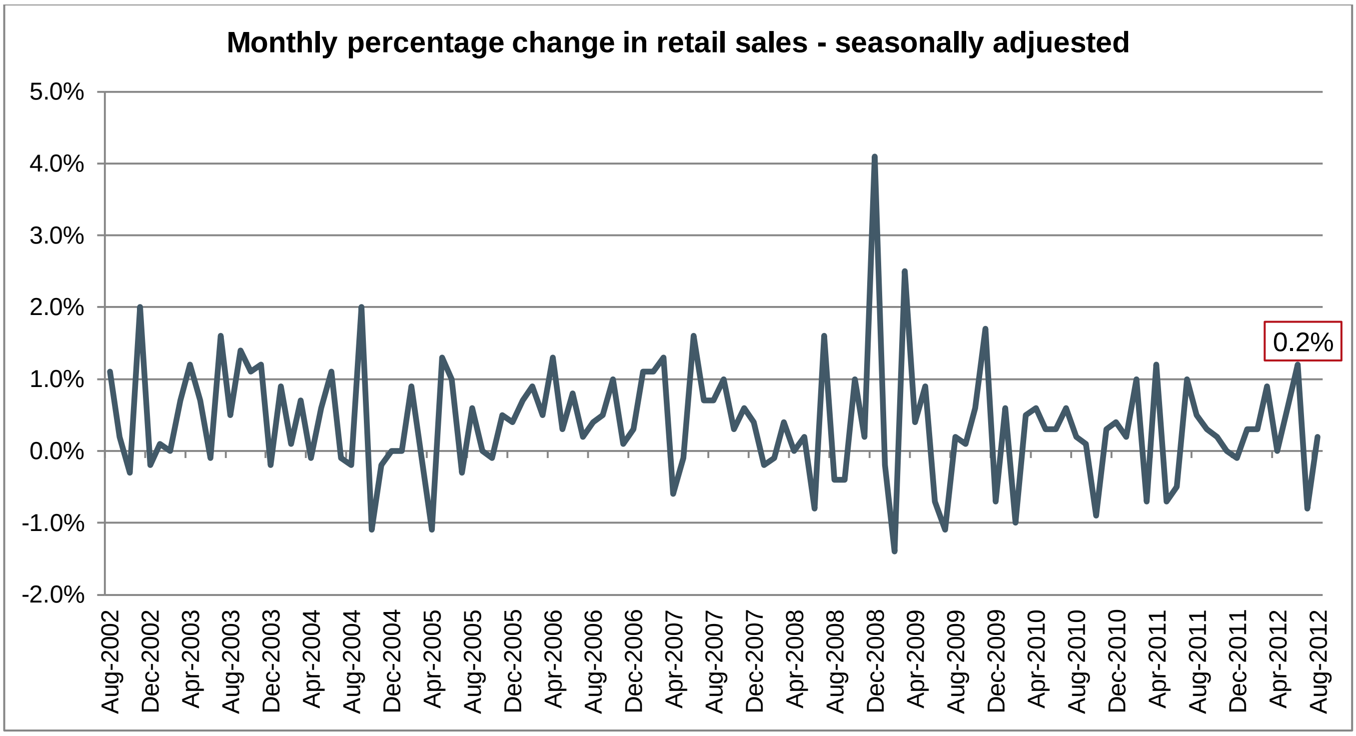
The Australian Economy – a snapshot

Retail spending

After falling by 0.8% in July 2012, retail spending grew by 0.2% to $21.5bn in August 2012 in seasonally-adjusted terms. This moderate growth was driven by an increase in consumer spending at department stores, with sales up by 6.9% to $1.5bn. Despite this increase, department stores contributed the least to the overall retail spending figure.

While at first glance the moderate growth in retail spending appears to depict a weak retail industry, the Business Spectator argues that, in terms of volume, retail spending is still growing and that the reason for seemingly weak retail data is slow growth in the prices of retail goods[1]. This is supported by the fact that yearly inflation was only 1.2% in the June 2012 quarter.

However, if retail prices were to rise, retail spending in terms of volume may fall given the poor consumer sentiment.



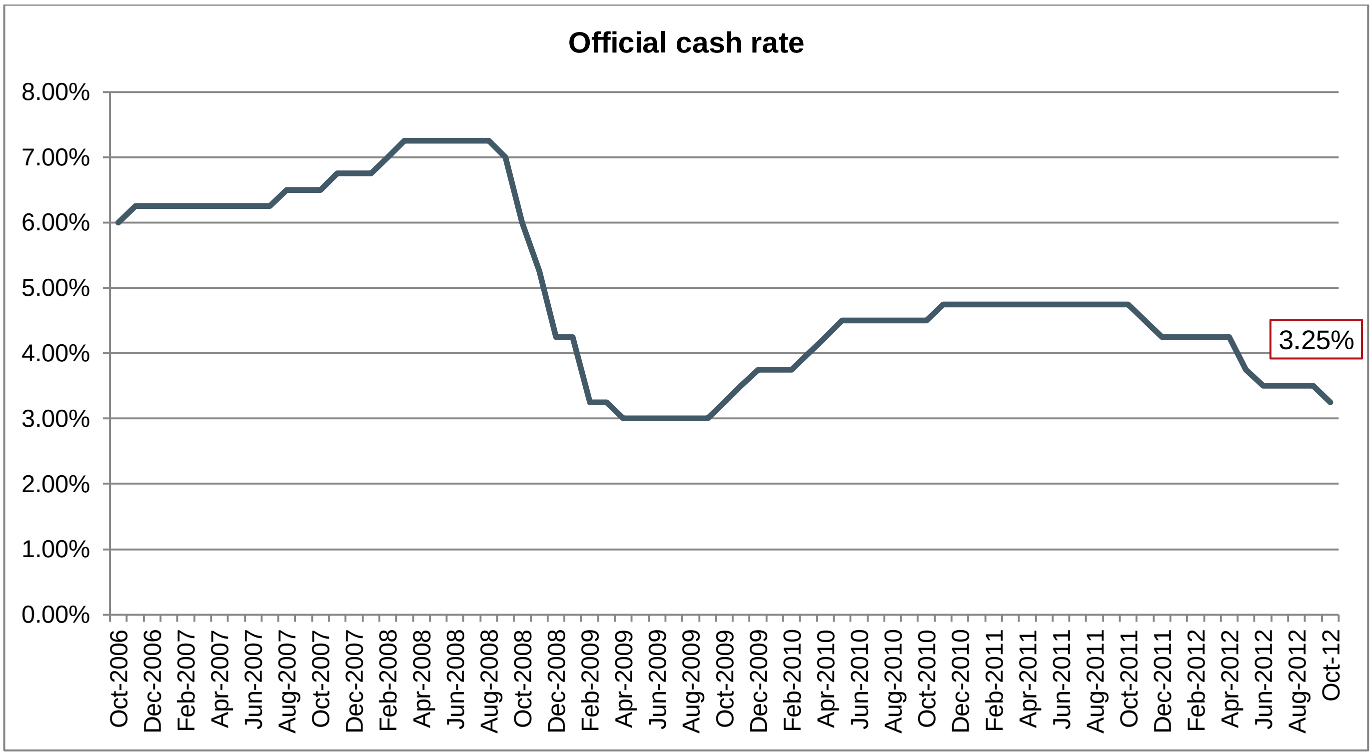
Source: ABS

[1] Consumer spending firm despite retail data, Business Spectator, http://www.businessspectator.com.au/bs.nsf/Article/Consumer-spending-firm-despite-retail-data-YRC2J?OpenDocument&src=hp7.

Interest rates

After keeping the cash rate steady between July and September 2012, the RBA cut the cash rate by 25 basis points in October 2012, to 3.25%. The RBA's decision to ease monetary policy was influenced by international developments, as it believed that the contracting European economy, uncertain US economy and slowing Chinese economy would result in weaker mining activity, impacting Australia's economic growth prospects. Therefore, the RBA cut the cash rate in a bid to strengthen demand in other sectors of the Australian economy to buffer the slowdown in mining.

This cut was the RBA's third cash rate cut for the year, with the cash rate having fallen by 100 basis points since the start of 2012, from 4.25% to 3.25%. Additionally, this is highest number of cash rate cuts made by the RBA since 2008, where the cash rate was cut four times during the year by a total of 300 basis points, from 7.25% to 4.25%, between March and December 2008.

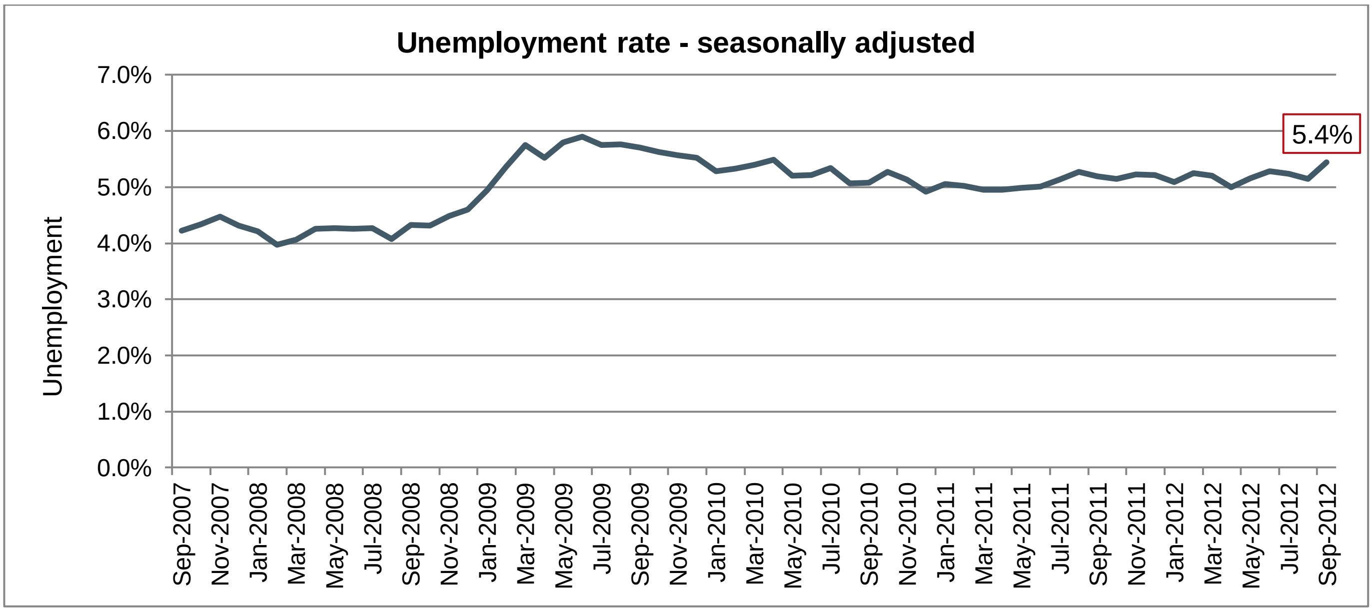


Source: RBA

Unemployment

The unemployment rate rose by 0.3 percentage points to a two-year high of 5.4% between August and September 2012, with the rise in the number of full-time employed workers, by 1.4% to 8.1m, partially offset by the decrease in the number of Australians working part-time by 0.5 percentage points to 3.4m. However, the two-year high in unemployment (with unemployment not having reached 5.4% since March 2010), was also driven by an increase in the participation rate, from 65.0% to 65.2%.

The increase in the participation rate could indicate two different scenarios; one being that consumers are regaining confidence in the Australian economy, and the other being that consumers are looking to increase their income due to the rising cost of living (i.e. rising utility and fuel costs).



Source: ABS

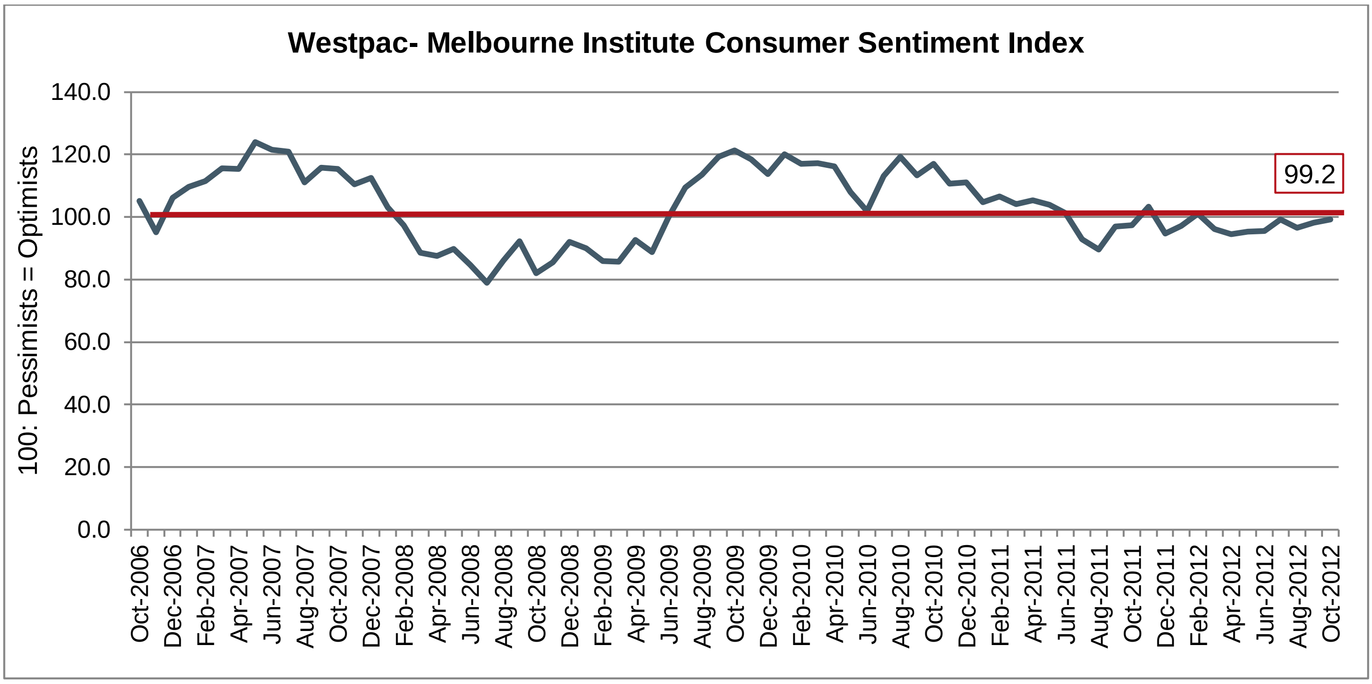
Seasonally adjusted unemployment rates				
	Aug-12	**Sep-12**	**Monthly change (Aug-12 to Sep-12)**	**Yearly change (Aug-11 to Aug-12)**
Employed persons ('000s)	11,497.4	11,511.9	0.1%	0.5%
Unemployed persons ('000s)	623.8	662.7	6.2%	5.6%
Labour force ('000s)	12,121.2	12,174.5	-0.2%	-0.6%
Unemployment rate	5.1%	5.4%	0.3pts	0.2pts
Participation rate	65.0%	65.2%	0.2pts	-0.4pts

Source: ABS

Consumer sentiment

Despite rising from 98.2 to 99.2 between September and October 2012, the Westpac-Melbourne Institute Consumer Sentiment Index remained below 100 for the eighth consecutive month, which is the second longest period of time pessimists have outweighed optimists since May 2009. According to the Westpac-Melbourne Institute, this slight increase is a disappointing result, given that the survey was conducted after the RBA cut the cash rate[2].

On a more positive note, the Westpac-Melbourne Institute did record increases in spending intention, with both increases related to household purchases. One such increase was seen in the proportion of consumers who thought now was a good time to buy a dwelling, from 9.6% to 17.9% between August and October 2012, while the other increase was a 3.7% increase in the proportion who thought now was a good time to buy a major household item. The greater intention to purchase a dwelling or household item suggests that the RBA's rate cuts are stimulating economic activity.



Source: Westpac – Melbourne Institute

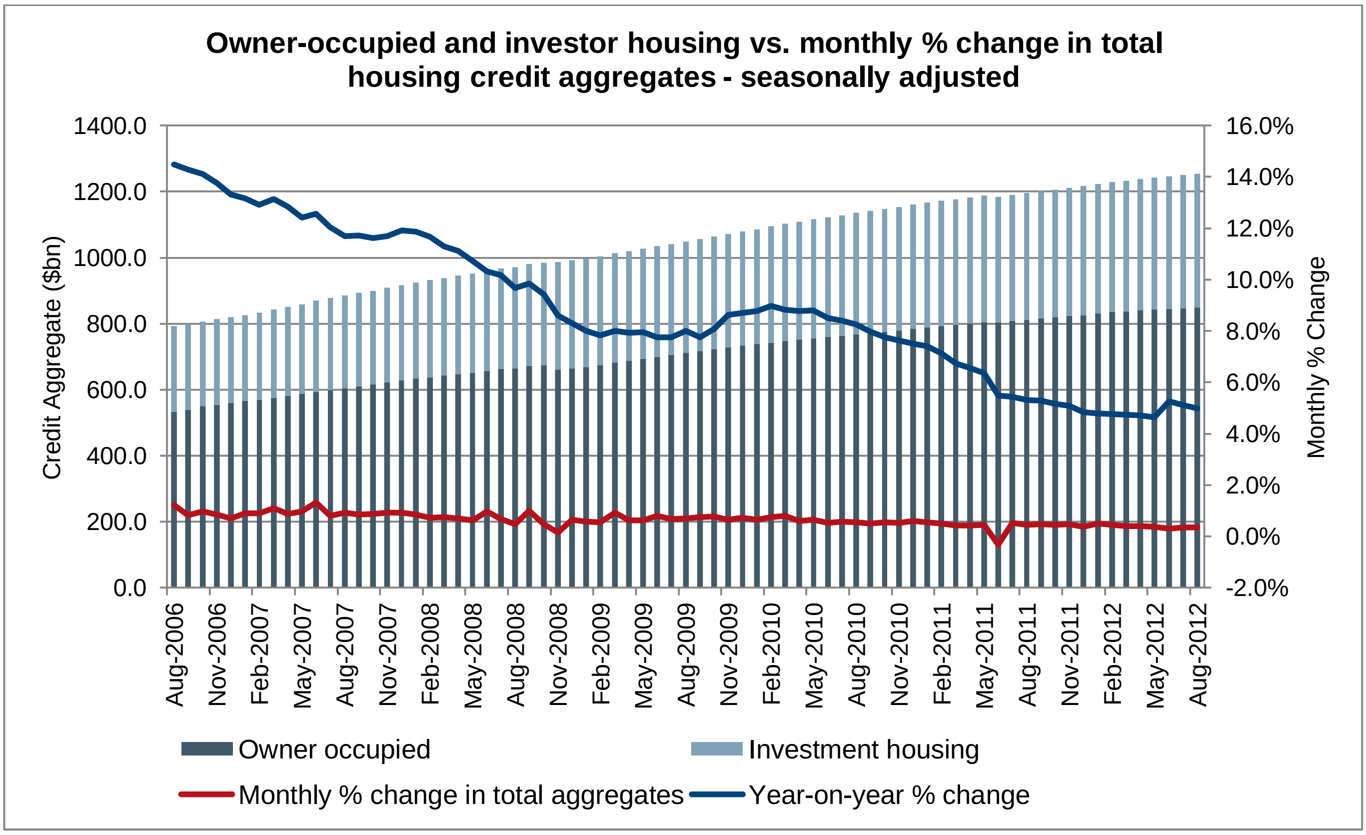
[2] Westpac Consumer Sentiment Bulletin – October 2012

Housing market activity

Housing credit aggregates

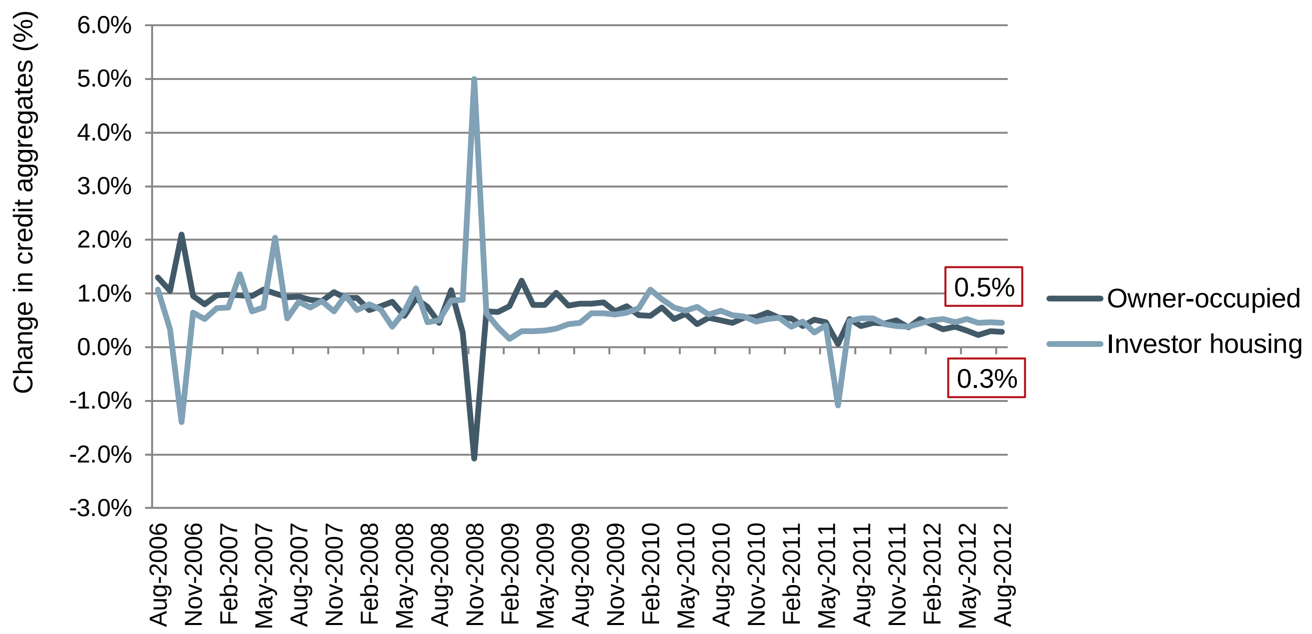
In seasonally adjusted terms, housing credit aggregates continued to trend upwards up from $1,250.7bn in July 2012 to $1,255.0bn in August 2012. This resulted from increases in both owner-occupied and investment housing credit aggregates, which were up by 0.3% to $849.8bn and 0.5% to $405.2bn respectively. Investment housing credit aggregates appear to be experiencing steady growth, as August was the seventh consecutive month for these aggregates to have increased by 0.5%.

For the year ending August 2012, housing credit aggregates grew by 5.0%, which is the lower than the growth seen between August 2010 and 2011. This may reflect that fewer non-home owners are entering the property market due to the high property prices in desirable living locations.



Source: RBA

Monthly % change in credit aggregates by owner-occupied and investment housing

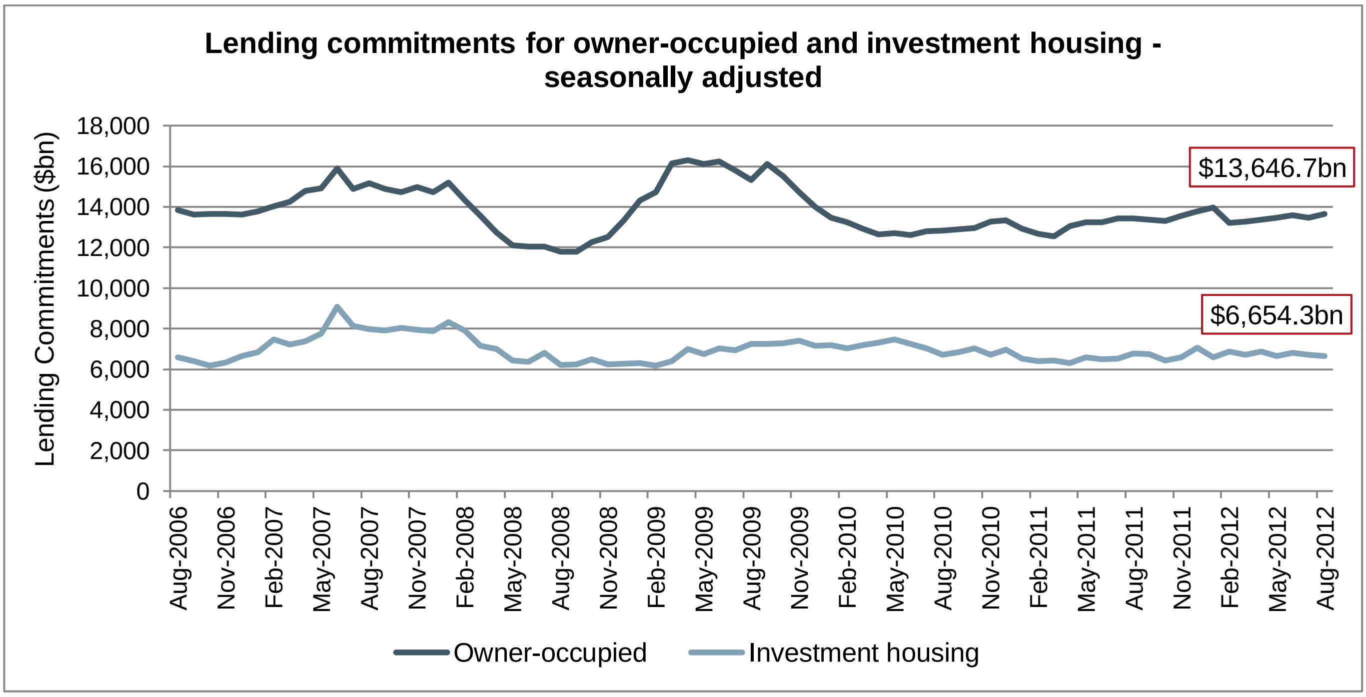


Source: RBA

Lending commitments

Total lending commitments increased by 0.6% to $20,301.1bn between July and August 2012. This increase was driven by an increase in owner-occupied lending commitments, which grew from $13,476.7bn to $13,646.7bn, a growth of 1.3%. However, this increase was partially offset by a decrease in investment housing lending commitments, which fell by 0.8% from $6708.8bn to $6,654.3bn.

In year-on-year terms, total lending commitments rose by 0.5% from August 2011, with owner-occupied lending commitments up by 1.6% and investment housing lending commitments down by 1.9%.

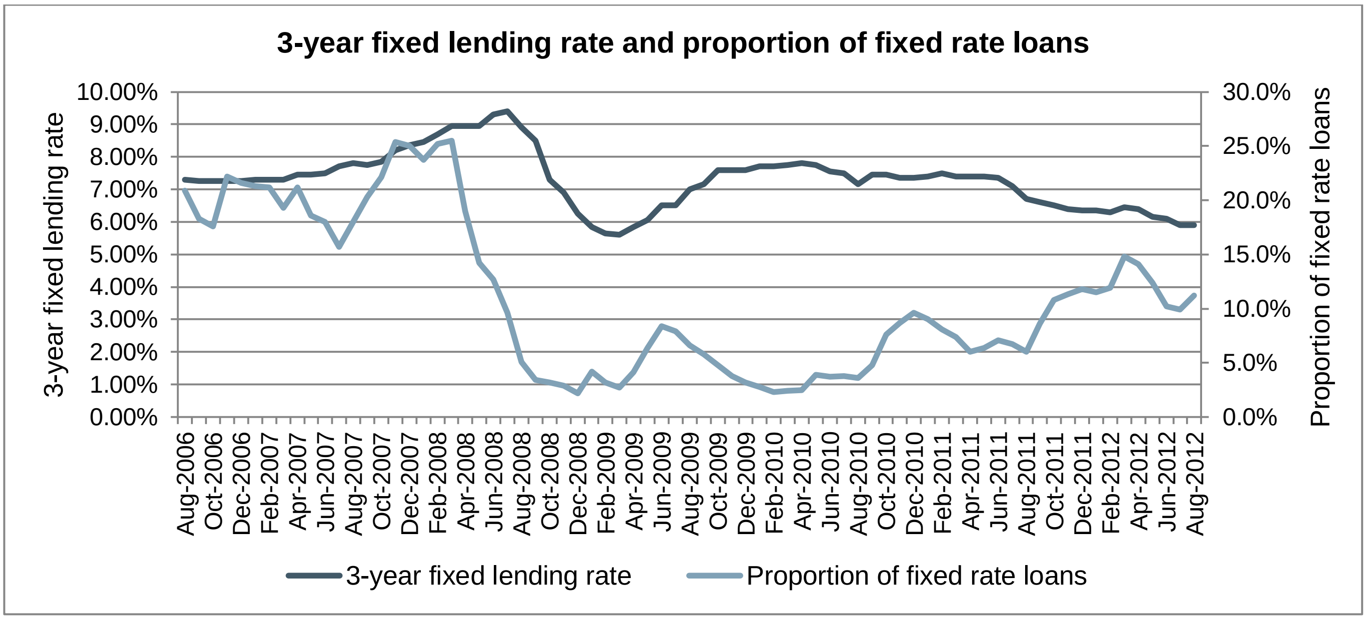


Source: RBA

Fixed and variable loans

The 3-year fixed lending rate remained steady at 5.90% between July and August 2012, while the proportion of fixed rate home loans rose from 9.90% to 11.20%. Three conclusions could be made from the increase in the proportion of fixed rate home loans:

1. In August 2012 home loan borrowers did not expect the RBA to further cut the cash rate before the end of the year and decided to fix their rate
2. During a time of rising utility costs home loan borrowers are more likely to want a pay a fixed amount each month
3. Borrowers may be looking to secure the lowest interest rate. Therefore, given that the 3-year fixed lending rate is lower than the standard variable rate (SVR) of 6.85%, borrowers may be more likely to fix their interest rate

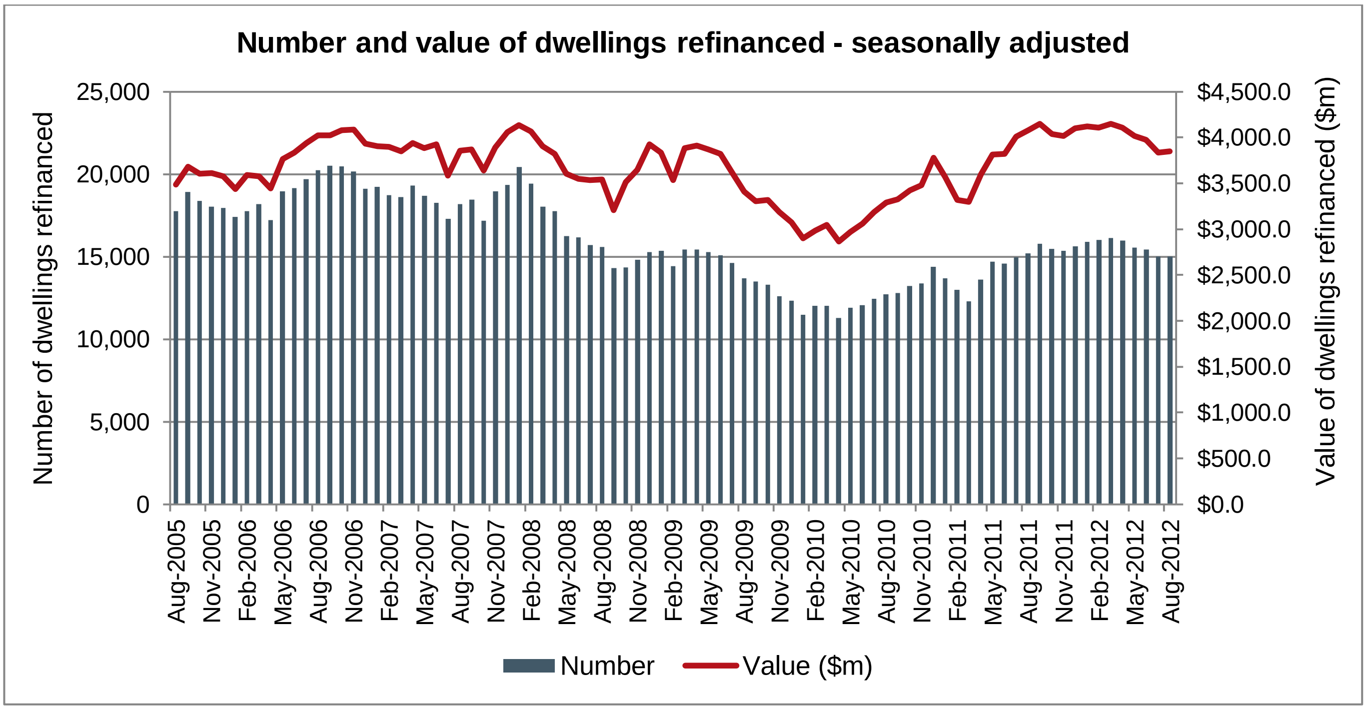


Source: ABS and RBA

Dwellings Refinanced

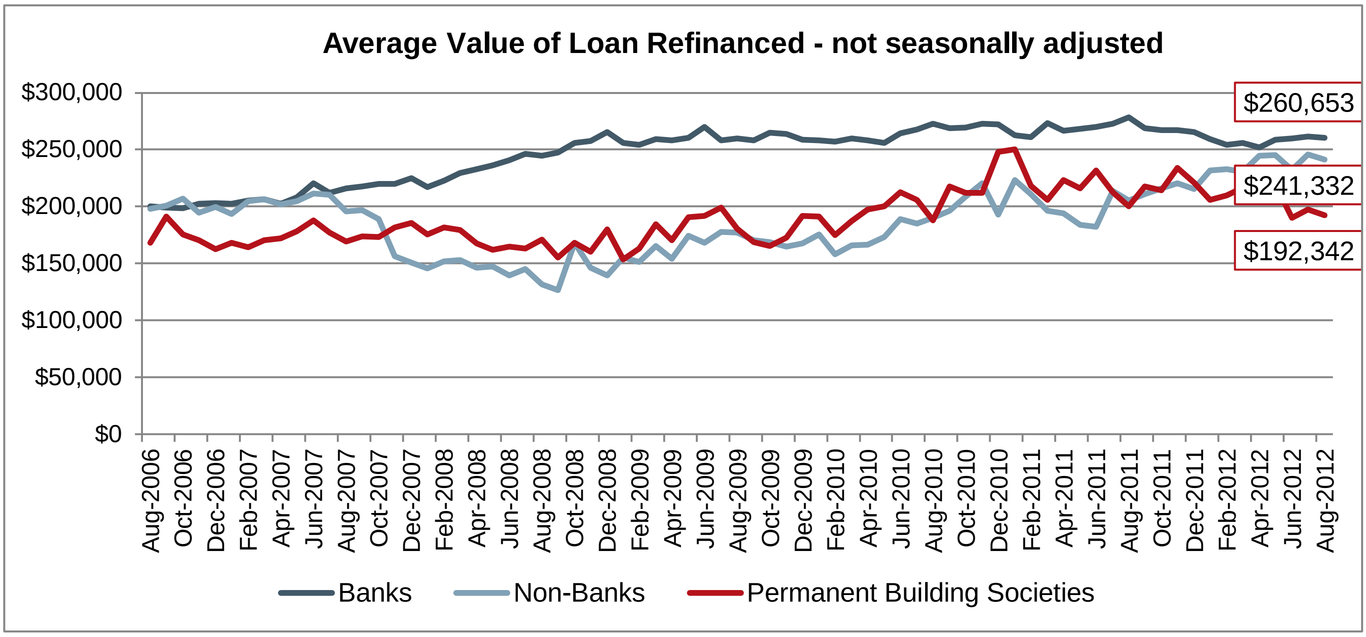
After decreasing between April and July 2012, the number and value of dwellings refinanced rose in August 2012, with refinanced dwellings up by 0.1% to 15,013 in number and 0.5% to $3,850m in value. Given that the cash rate remained steady in both July and August 2012 after falling in May and June 2012, the increase in refinancing activity may indicate that consumers were unsure of future cash rate movements and wanted to take advantage of the May and June rate cuts.

In year-on-year terms, the number and value of refinanced dwellings fell by 1.1% and 5.6% respectively between August 2011 and 2012.



Source: ABS

Despite increasing in July 2012, the average value of loans refinanced with banks, non-banks and Building Societies all fell in August 2012. Building Societies saw their average value of loans refinanced fall by 2.7% to $192,342, while non-banks and banks saw smaller falls of 1.8% to $241,332 and 0.4% to $260,653 respectively.



Source: ABS

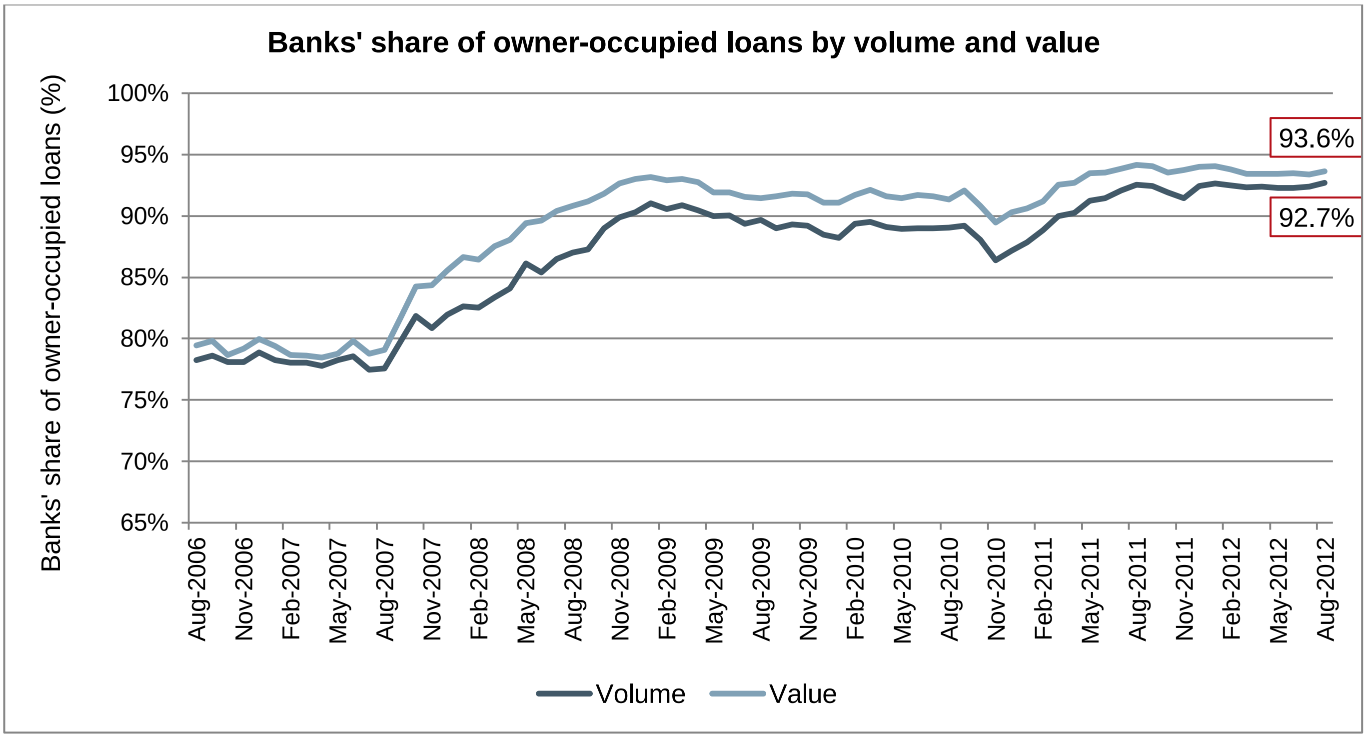
Refinancing activity (seasonally adjusted)		
	Number of dwellings refinanced	**Value of dwellings refinanced ($m)**
Aug-11	15,186	4,080.0
Jul-12	15,005	3,831.4
Aug-12	15,013	3,850.4
Monthly % change	0.1%	0.5%
Year-on-year % change	-1.1%	-5.6%

Source: ABS

Market Share

Owner-occupied lending commitments

Growth in the number and value of bank-held owner-occupied lending commitments experienced greater growth than total owner-occupied lending commitments between July and August 2012. Consequently, banks' share of the volume and value of owner-occupied lending commitments rose from 92.4% to 92.7% and 93.4% to 93.6% respectively.



Source: ABS

Value of banks' share of owner-occupied loans		
	Banks ($m)	**Total ($m)**
Aug-11	12,638.7	13,425.9
Market share at Aug-11	94.1%	-
Jul-12	12,587.0	13,476.7
Aug-12	12,776.1	13,646.7
Monthly % change	1.5%	1.3%
Market share at Aug-12	93.6%	-

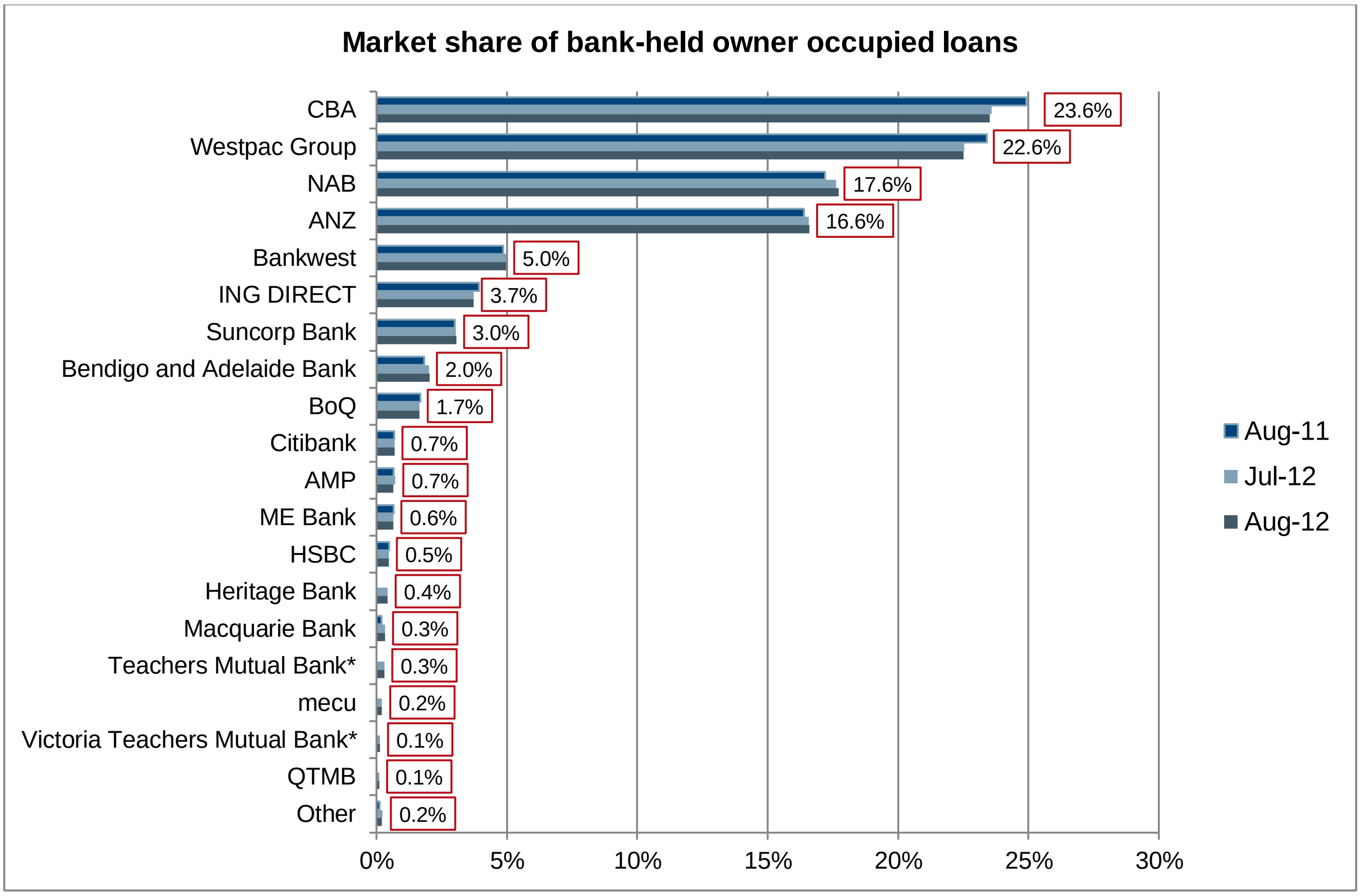
Source: ABS

Bank-held owner-occupied loans

According to APRA, the total value of bank-held owner-occupied loans increased by 0.3% from $748,058m to $750,499m between July and August 2012.

The 'Big 4' continued to have a combined market share of 80.4%, with CBA's market share falling by 0.1 percentage point to 23.5%, NAB's market share increasing by 0.1 percentage points to 17.7%, and the market shares of both Westpac Group and ANZ remaining steady, at 22.5% and 16.6% respectively. Similar to Westpac Group and ANZ, the other lenders also saw their individual market share of bank-held owner-occupied loans remain steady between July and August 2012. There was also a lack of bank-held owner-occupied loans market share movement among the mutuals, with Heritage Bank still holding the largest market share among the mutuals with a share of 0.4%.

For the year ending August 2012, CBA and Westpac saw their bank-held owner-occupied loans market shares fall by 1.4 percentage points and 0.9 percentage points respectively, while NAB and ANZ saw their market shares rise by 0.5 percentage points and 0.2 percentage points respectively. NAB's market share growth may be attributed to the fact that it has the lowest mortgage interest rates among the 'Big 4'.



Source: APRA

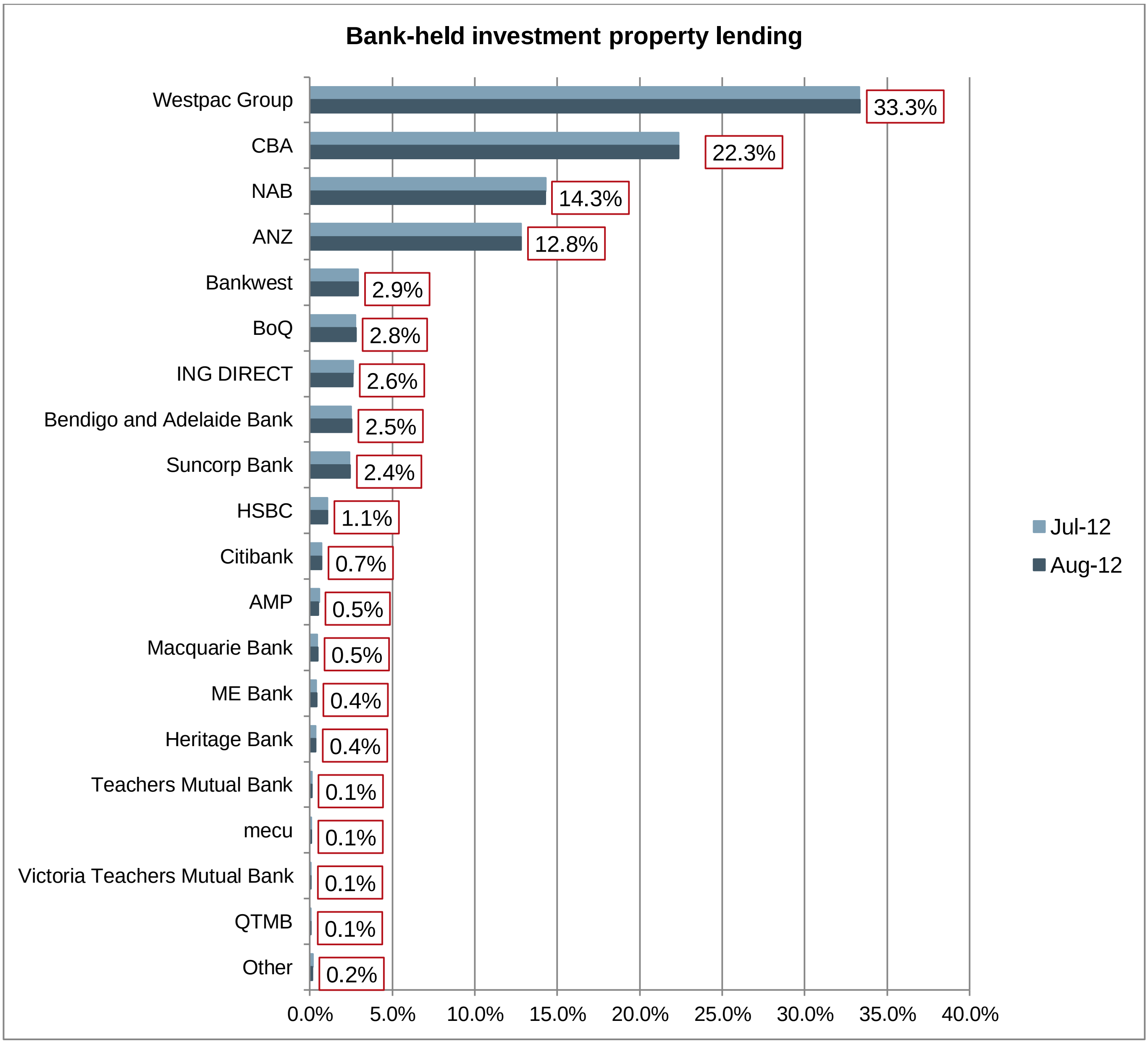
*Not available in August 2011

Intelligence to bank on

Bank-held investment property lending

Between July and August 2012, the total value of bank-held investment property loans increased by 0.5% to $376.1bn.

Among the lending institutions, the ‘Big 4’ continued to lead the bank-held investment property loans market, with a combined share of 82.7%. However, despite dominating the market, the individual market shares of the ‘Big 4’ remained steady, with Westpac Group, CBA, NAB and ANZ having shares of 33.3%, 22.3%, 14.3% and 12.8% respectively. Meanwhile, the non-majors also saw their market shares remain steady between July and August 2012.

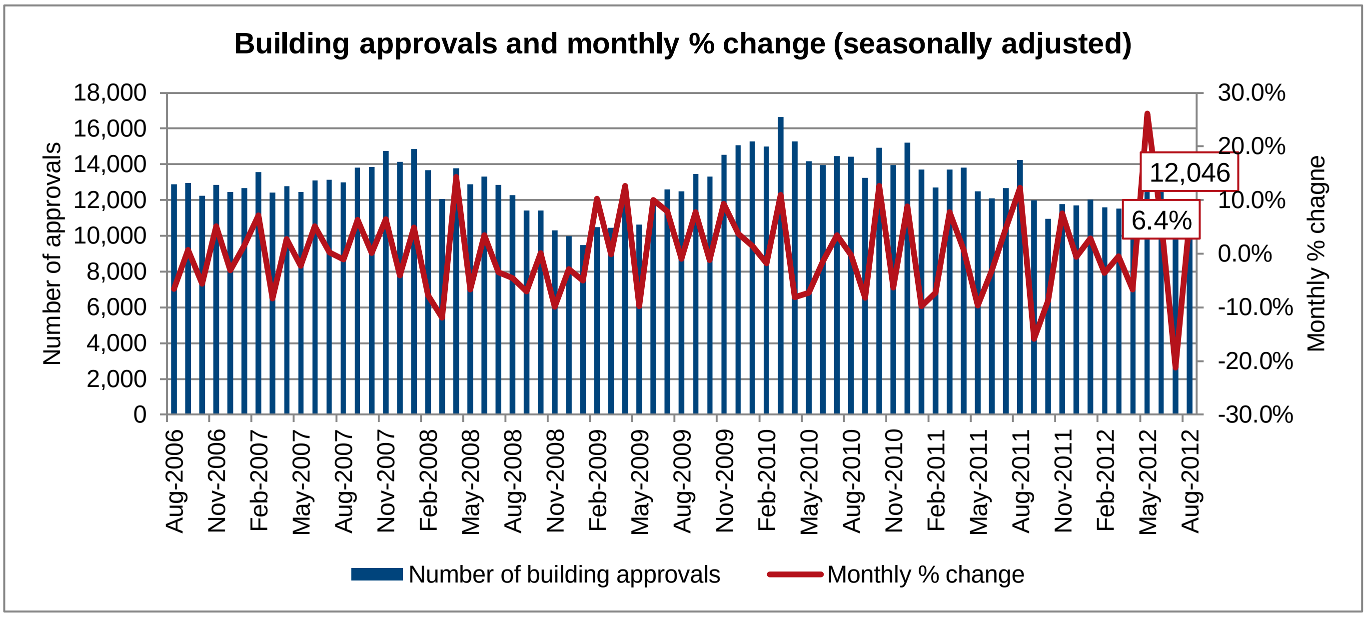


Source: APRA

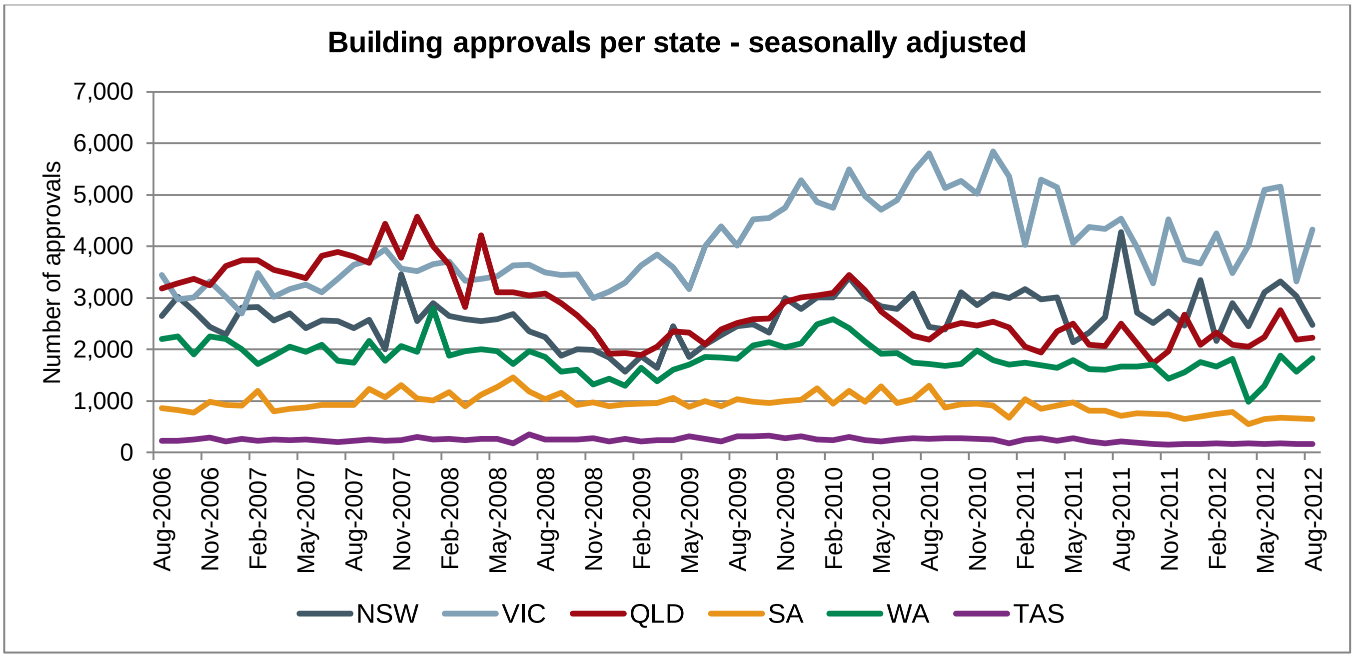
Building approvals

After falling by 21.2% in July 2012, the total number of building approvals rose by 6.4% to 12,046 in August 2012. This increase was mainly driven by an increase in building approvals in Victoria, up by 30.3% to 4,322, and also increases in Queensland and Western Australia, which saw building approvals rise by 1.8% to 2,228 and 16.1% to 1,828 respectively. Falls in building approvals in New South Wales, South Australia and Tasmania between July and August 2012 offset these increases. New South Wales saw the largest drop, with building approvals falling by 18.3% to 2,476, while South Australia and Tasmania saw building approvals drop by 1.1% to 654 and 1.2% to 167 respectively.

The average monthly growth for building approvals between August 2011 and 2012 was 0.3%, indicating that residential property construction activity is stationary. Given that the construction of new homes often occurs in new sub-divisions, it is likely that the lack of construction activity reflects that consumers want to live in suburbs where established dwellings already exist and are still in good condition. Additionally, the economic climate would also impact the level of construction activity.



Source: ABS



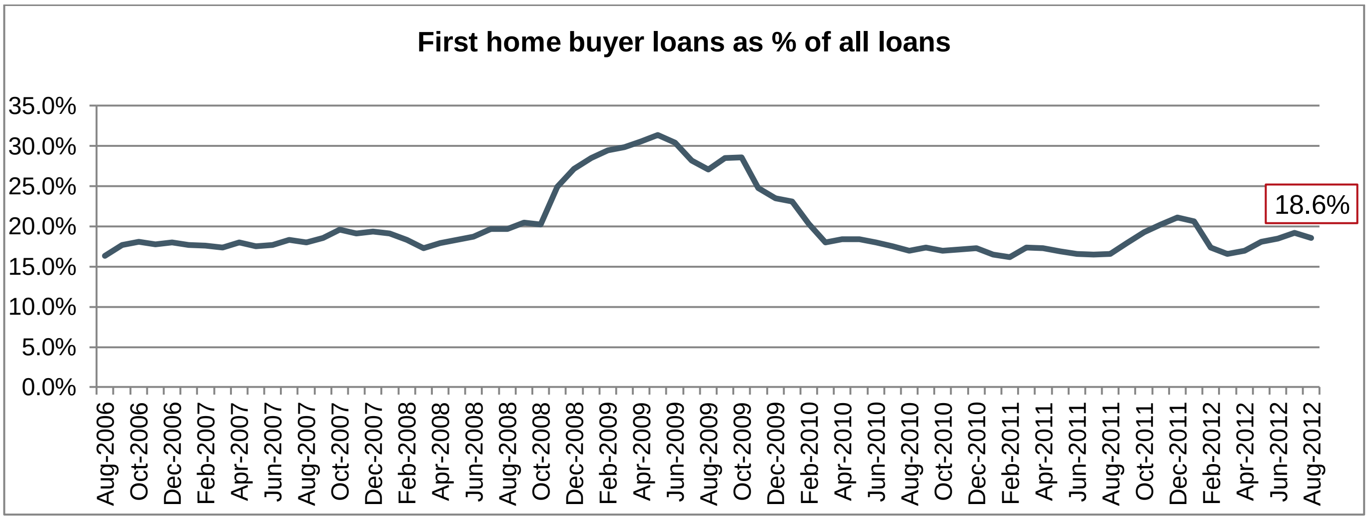
Source: ABS

Building approvals (seasonally adjusted)						
	NSW	**VIC**	**QLD**	**SA**	**WA**	**TAS**
Aug-11	4,281	4,536	2,495	7,15	1,669	2,18
Jul-12	3,029	3,318	2,188	661	1,575	169
Aug-12	2,476	4,322	2,228	654	1,828	167
Monthly change	-18.3%	30.3%	1.8%	-1.1%	16.1%	-1.2%
Average monthly change (Past 12 months)	3.3%	2.2%	2.2%	-1.0%	3.6%	0.3%

Source: ABS

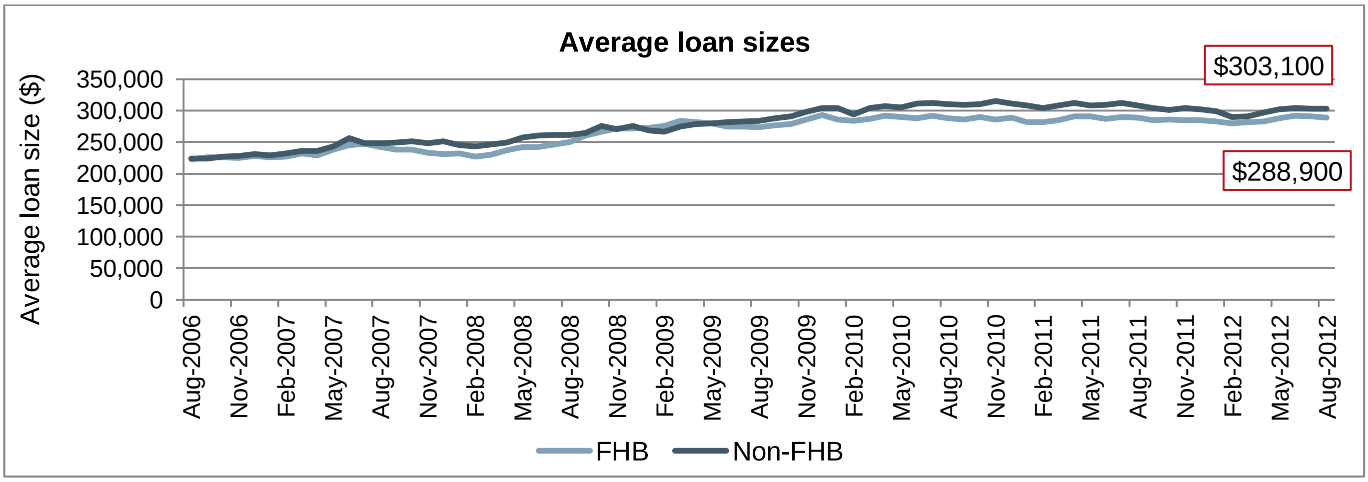
First home buyers

The proportion of first home buyer (FHB) loans relative to all housing loans fell from 19.2% to 18.6% between July and August 2012. Aside from reflecting that the Victorian $13,000 First Home Buyers Grant available on newly built homes ended on the 1st of July 2012, the fall in the proportion of FHBs entering the market may also reflect that prospective FHBs believe that the RBA could cut the cash rate further in the next few months.



Source: ABS

The average home loan size for FHBs and non-FHBs continued to drop, with the average loan sizes down by 0.8% to $288,900 and 0.1% to $303,100 respectively between July and August 2012. In terms of year-on-year growth, average home loan size for FHBs and non-FHBs also fell between August 2011 and 2012. The drop in the average loan size for non-FHBs was larger than that of FHBs, at 1.8% compared to 0.2% among FHBs. This may indicate that house prices have fallen for the year ending August 2012.



Source: ABS