

Australian Mortgage Market Wrap -

A monthly report covering the Australian home and investment mortgage market

September 2012

With compliments of:



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Executive Summary

In July 2012, monthly retail spending fell by 0.8% to \$21.4bn in seasonally adjusted terms, while the RBA kept the cash rate unchanged at 3.5% in September 2012. Unemployment fell to 5.1% in August and The Westpac–Melbourne Institute Index of Consumer Sentiment increased by 1.6% to 98.2 in August.

Housing credit aggregates grew by 0.4% between June and July 2012, to \$1,250.7bn; however the total value of lending commitments decreased by 1.8% to \$20,050.4m in the same period. Also in July 2012, the 3-year fixed lending rate fell 2 basis points to 5.9%, while the proportion of fixed rate home loans fell by 30 basis points, from 10.2% to 9.9%, the first time it has dipped below 10.0% since September 2011. The number of loans refinanced decreased by 2.4%, from 15,432 in June to 15,061 in July 2012, while the value of these loans decreased by 3.2% to \$3,845.7m in the same period.

The value of banks' owner-occupied lending commitments decreased by 1.6%, from \$12,681.2m in June 2012 to \$12,481.7m in July 2012. By volume the banks' share of owner-occupied lending commitments fell by 1.0% to 41,348 in the same period. According to APRA, the total value of the bank-held owner-occupied loans outstanding increased by 0.3% to \$750.9bn in July, up from \$748.4bn in June 2012, while the total value of the bank-held investment property loans rose by 0.5% to \$376.1bn in the same period.

Total building approvals decreased substantially by 17.2% to 11,306 in July 2012, reversing the 27.3% rise seen in May 2012. The proportion of the first home buyer (FHB) loans as a percentage of all housing loans increased by 70 basis points to 19.2% in July 2012. The average home loan size for FHBs saw a 0.2% decrease to \$291,400 in July 2012, while average loan sizes for non-FHBs also decreased, by 0.4% to \$301,600 in the same period.

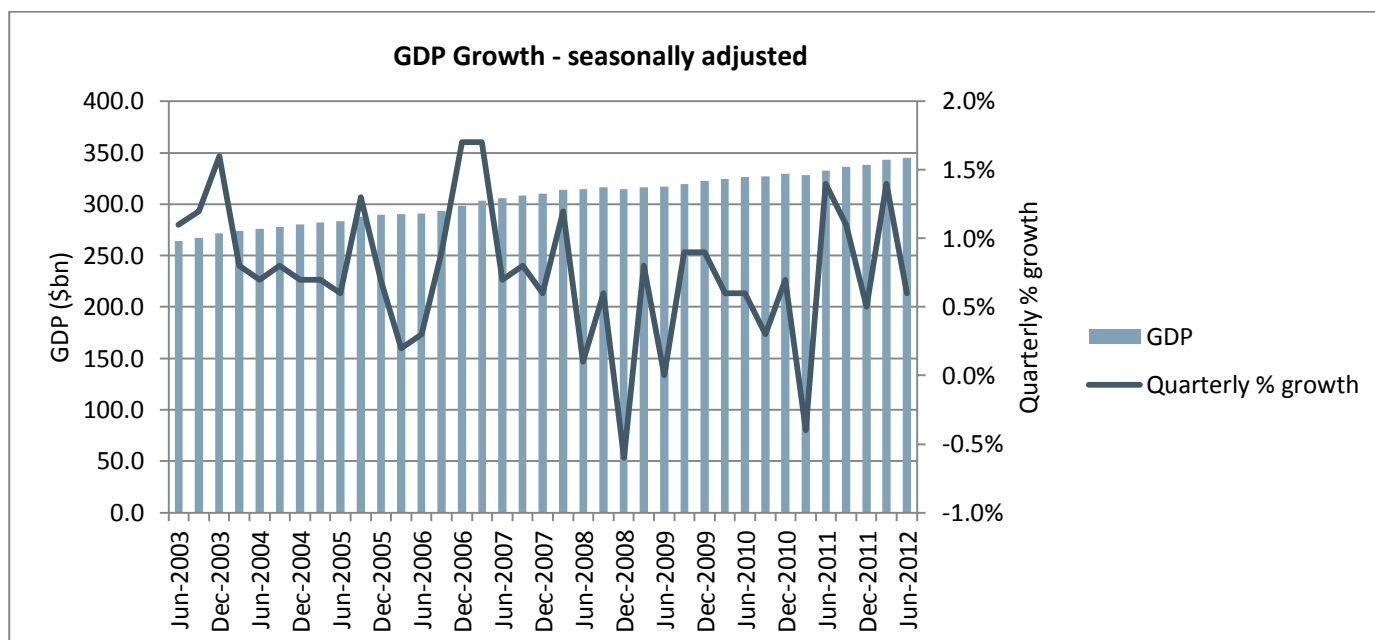
The Australian Economy – a snapshot

GDP

Australian GDP continued to trend upwards for the fourth consecutive quarter, up by 0.6% to \$345.1bn in the June 2012 quarter. Year on year GDP growth for the 12 months to June 2012 was 3.7%, compared to a growth of 2.0% for the 12 months to June 2011.

ABS attributes the increase in GDP to household final consumption expenditure, total public gross fixed capital formation and net exports, adding 0.3 percentage points, 0.2 percentage points and 0.3 percentage points respectively. Mining and finance and insurance services industries were the largest contributors to growth. However, the June quarter saw the terms of trade fall by 0.6%, reflecting a decrease in export prices that may also signal the end of the mining boom. In year-on-year terms, the terms of trade fell 7.1% in the 12 months to June 2012.

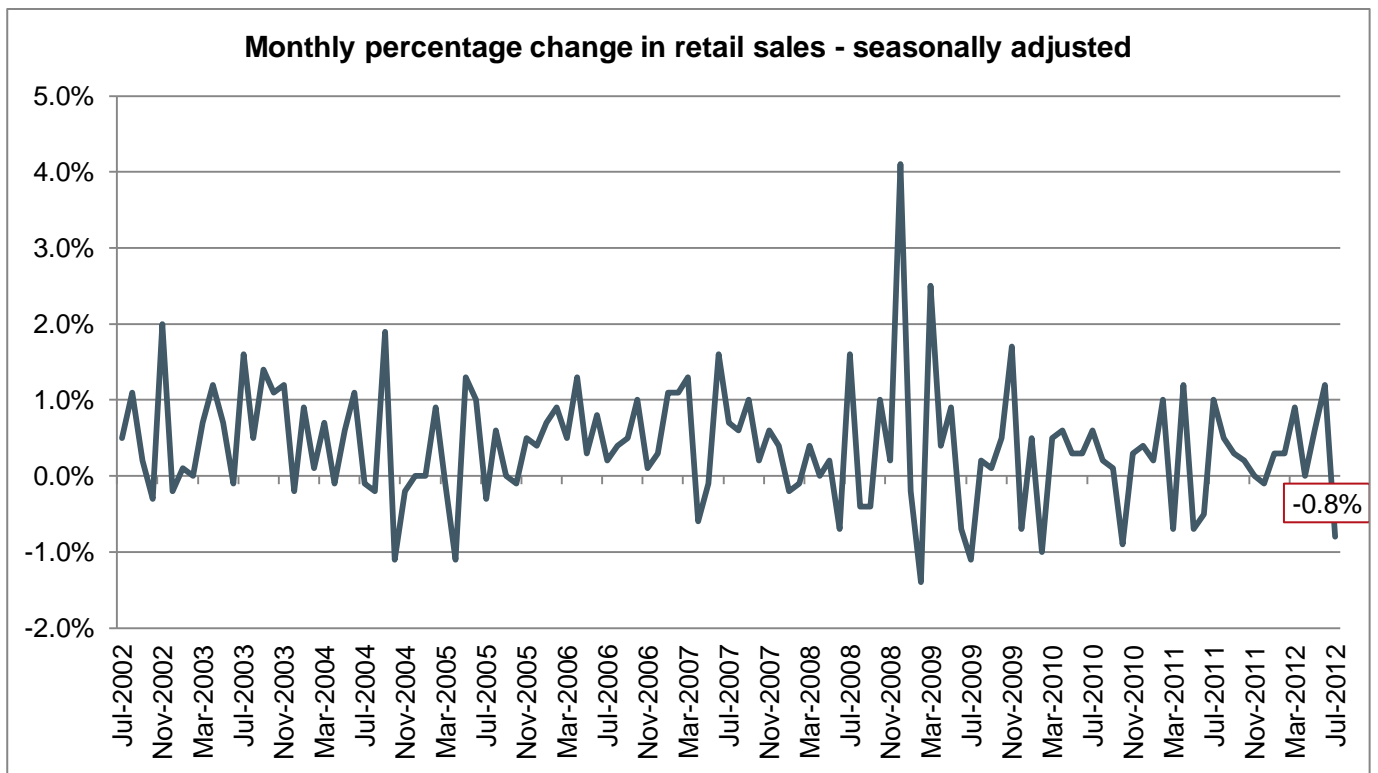
Growth during the quarter was strongest for the Northern Territory, up 12.5%, followed by Queensland, up 3.6%, and Western Australia, up 2.1%. Tasmania was the weakest, falling by 0.8%.



Source: ABS

Retail spending

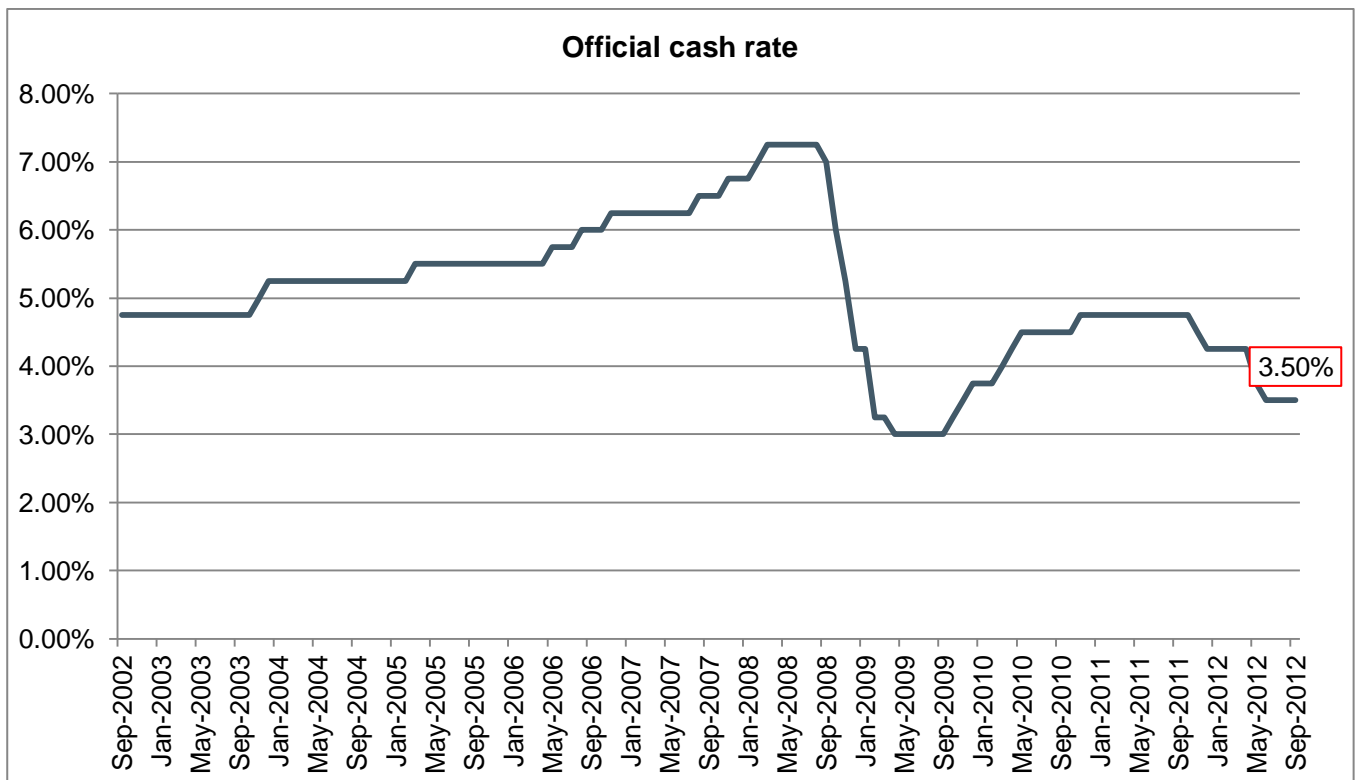
In July 2012, monthly retail spending fell by 0.8% to \$21.4bn in seasonally adjusted terms, following a rise of 1.2% in June and a rise of 0.6% in May 2012. According to the ABS, the largest contributor to the fall were department stores, followed by 'other' retailing and clothing, footwear and personal accessory retailing, which were down by 10.2% to \$1,434.9m, 2.8% to \$3,033.4m and 0.9% to \$1,625.0m respectively. These falls were partially offset by rises in household goods retailing, cafes, restaurants and takeaway food services, and food retailing, up 2.4% to \$3,701.3m, 0.3% to \$2,920.0m and 0.1% to \$8,702.2m respectively. Turnover fell in all states in July 2012. The largest contributor to the fall was New South Wales, which fell by 0.8% to \$6496.4m, its first fall since February 2012.



Source: ABS

Interest rates

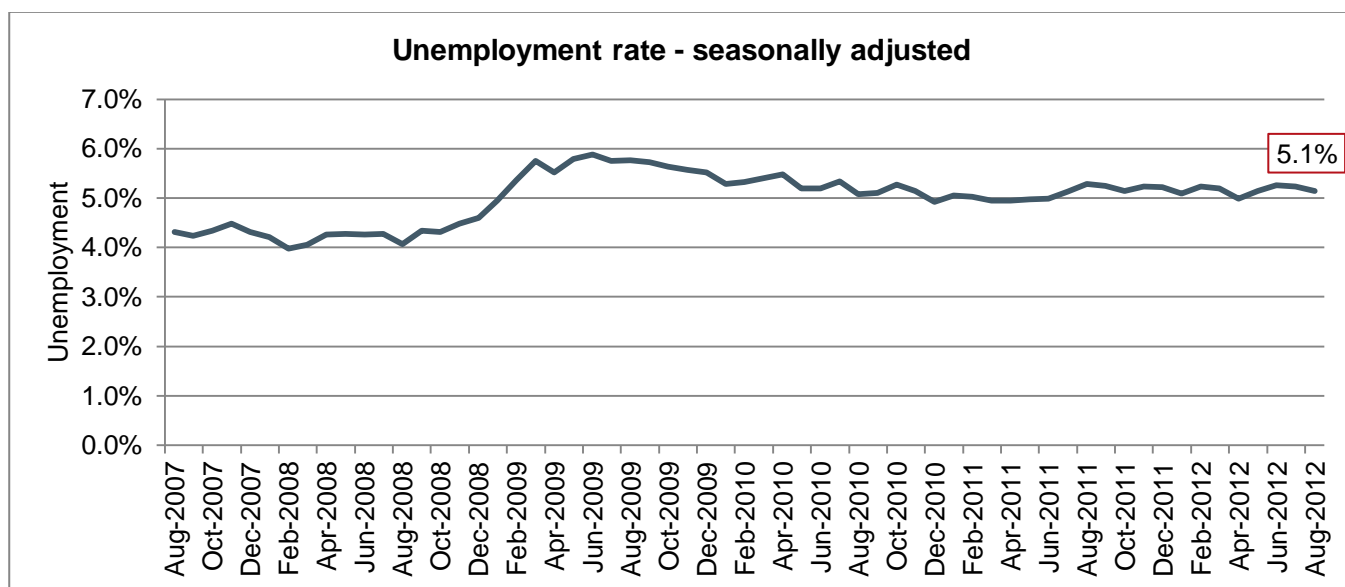
The RBA kept the cash rate unchanged at 3.50% in September 2012. The RBA Governor, Glenn Stevens, commented that with inflation expecting to be consistent with the target and growth close to trend, but with a more subdued international outlook, the monetary policy stance remained appropriate. Stevens also commented that the effect of the previous cuts was still working its way through the economy. While growth in Australia has been running close to trend, growth in the world economy has softened, and this could affect the cash rate in coming months.



Source: RBA

Unemployment

According to the ABS, unemployment fell to 5.1% in August 2012, down from 5.2% in July 2012. The number of people employed decreased by 0.1% to 11,498,100 in August, while the number of people unemployed decreased by 1.7% to 622,600, in the same period. The decrease in employment was driven by decreased part-time employment, down 9,300 people to 3,426,700.



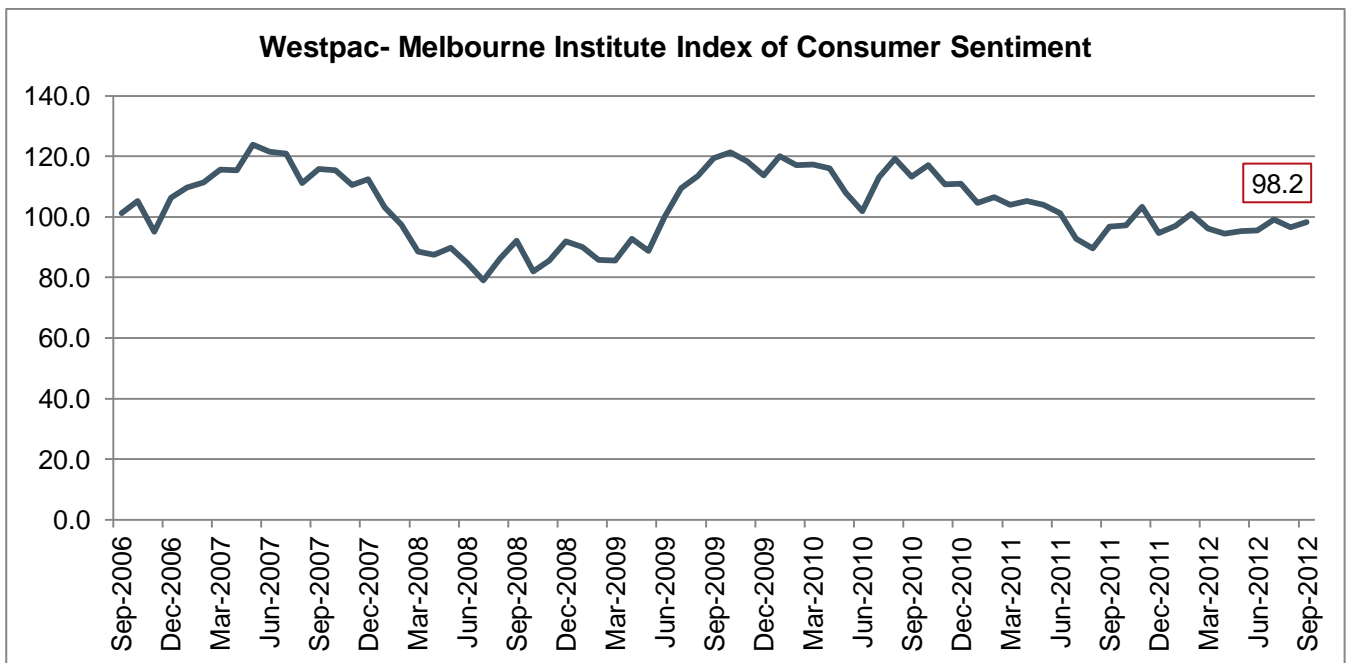
Source: ABS

Seasonally adjusted unemployment rates				
	Jul-12	Aug-12	Monthly change (Jul-12 to Aug-12)	Yearly change (Aug-11 to Aug-12)
Employed persons ('000s)	11,506.9	11,498.1	-0.1%	0.5%
Unemployed persons ('000s)	633.2	622.6	-1.7%	-2.0%
Labour force ('000s)	12,140.0	12,120.7	-0.2%	0.4%
Unemployment rate	5.2%	5.1%	-0.1pts	-0.1pts
Participation rate	65.2%	65.0%	-0.2pts	-0.6pts

Source: ABS

Consumer sentiment

The Westpac–Melbourne Institute Index of Consumer Sentiment increased by 1.6% to 98.2 in September 2012, up from 96.6 in August 2012. Westpac's Chief Economist, Bill Evans commented that this is the seventh consecutive month that the Index has been below 100. Apart from a 16 month period in 2008/2009, this represents the longest run of consecutive months where the Index has been below 100 since the early 1990s. Evans also mentioned that media coverage often helps to shape consumer confidence, including impacting how consumers assess their own financial position and how they evaluate macro-economic issues.



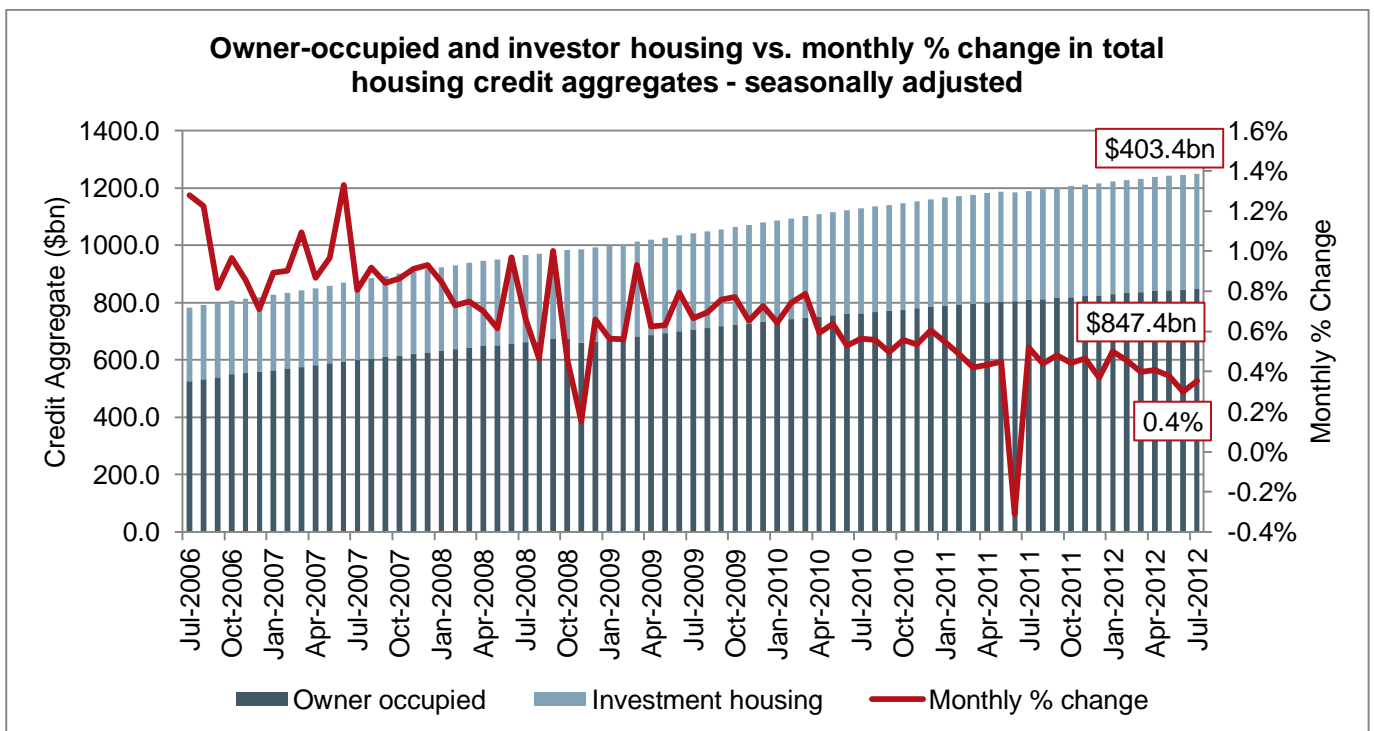
Source: Westpac – Melbourne Institute

Housing market activity

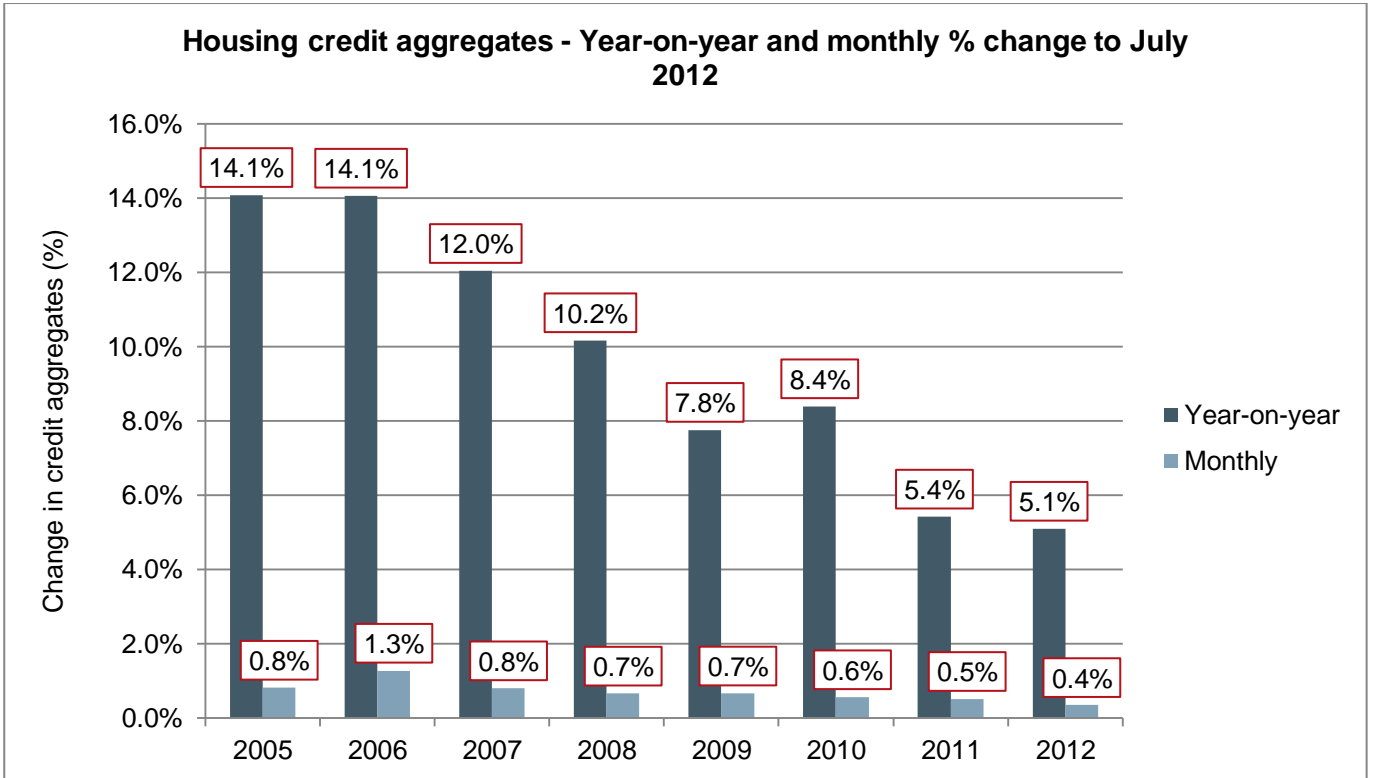
Housing credit aggregates

Housing credit aggregates grew by 0.4% between June and July 2012, to \$1,250.7bn from \$1,246.3bn in seasonally adjusted terms. This increase was driven by owner-occupied housing credit aggregates growing by 0.3% to \$847.4bn and investment housing credit aggregates growing by 0.5% to \$403.4bn. Monthly growth for investment housing has been growing consistently at 0.5% since February 2012, while owner-occupied housing had slowed.

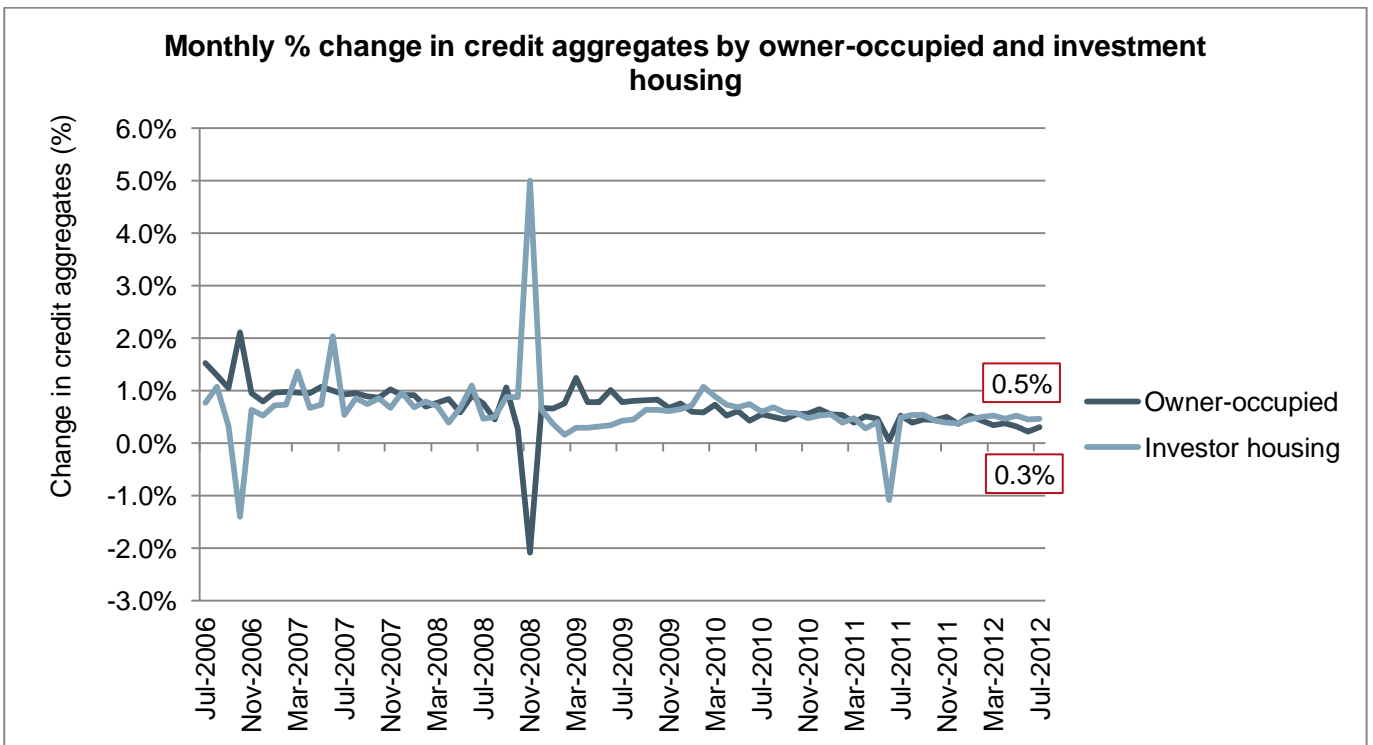
The growth for the year ending July 2012 was 5.1%, which was one of the lowest levels of annual growth seen over the past decade, while ABS figures show only 0.07% average monthly change in building approvals over the past year.



Source: RBA



Source: RBA

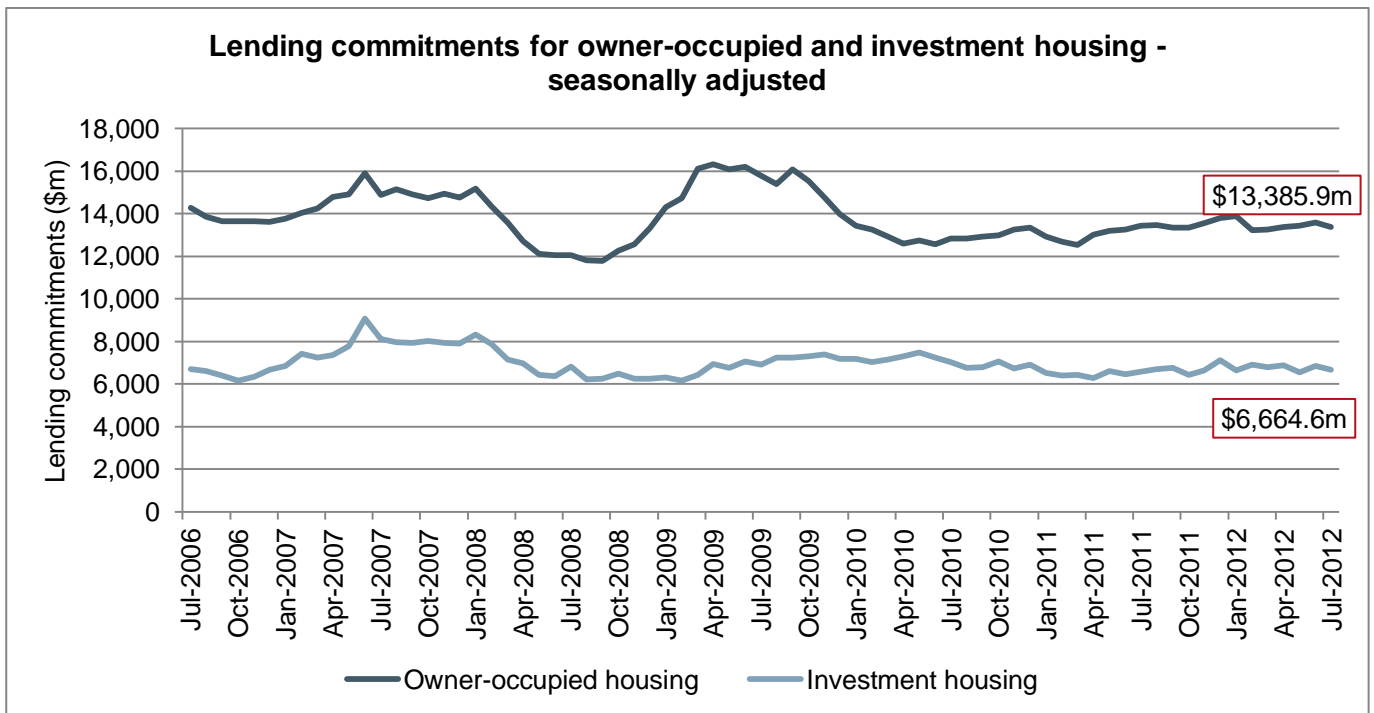


Source: RBA

Lending commitments

In July 2012, the total value of lending commitments decreased by 1.8% to \$20,050.4m, down from \$20,424.4m in June 2012. This decrease was driven by a 2.7% reduction in investment housing lending commitments to \$6,664.6m while owner-occupied housing lending commitments also fell by 1.4% to \$13,385.9m respectively. This reflects the continuing uncertainty about the housing market despite the RBA cash rate cuts and pessimistic perceptions of the carbon tax.

For the year ending July 2012, the total value of lending commitments increased by 0.2%, with the 1.5% increase in investment housing lending commitments offset by a 0.4% decrease in owner-occupied commitments.

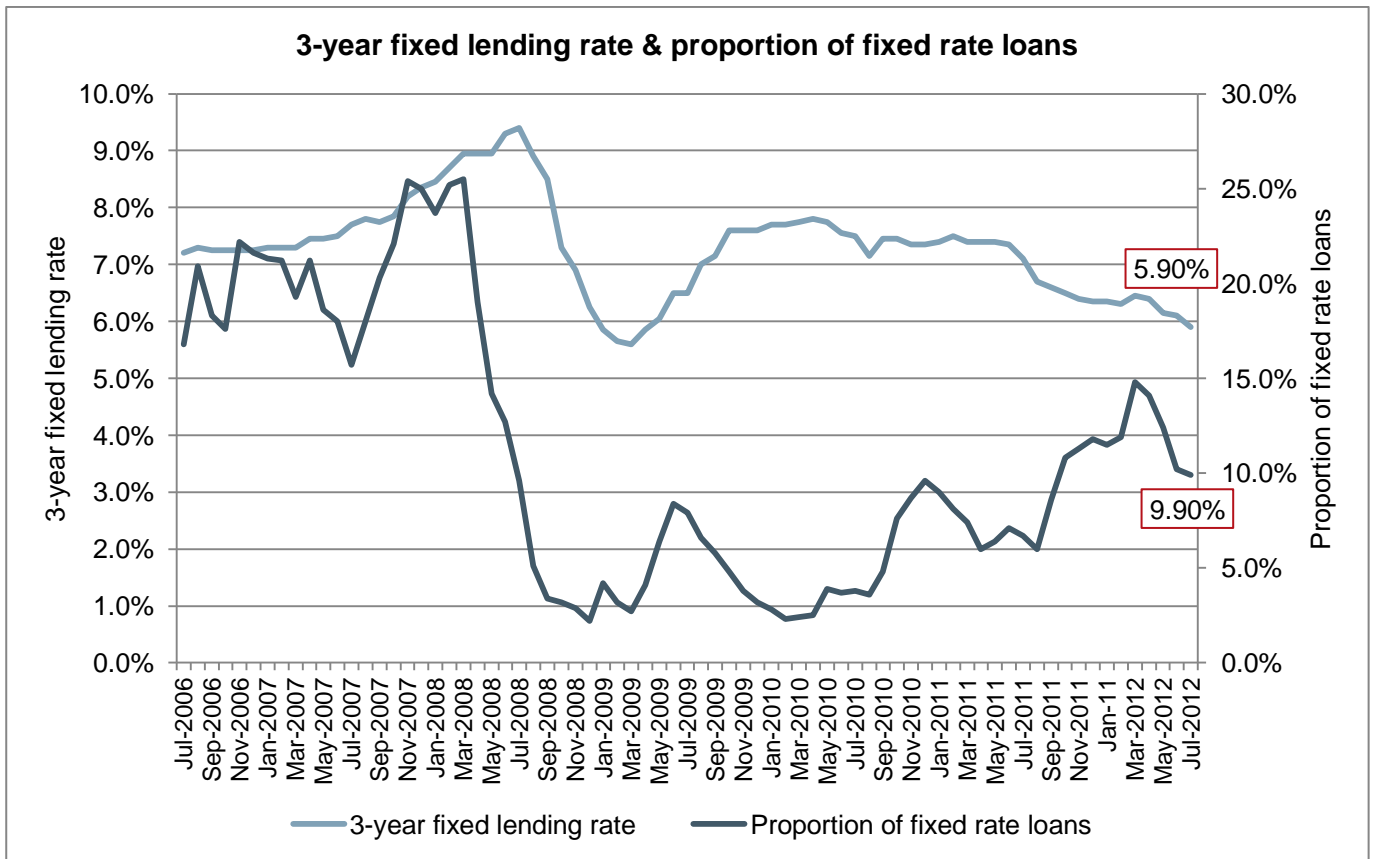


Source: RBA

Fixed and variable loans

In July 2012, the 3-year fixed lending rate fell 20 basis points to 5.90%, while the proportion of fixed rate home loans fell by 30 basis points from 10.2% to 9.90%, the first time it has dipped below 10.0% since September 2011.

The proportion of fixed rate home loans has also been decreasing for successive months since March 2012, where it then held 14.80% of all home loans. The current decline could be caused by anticipation that led to cuts in the cash rate in May and June, and increasing expectation of further future cash rate cuts by the RBA, therefore the option of taking a loan at a fixed rate may become less attractive.

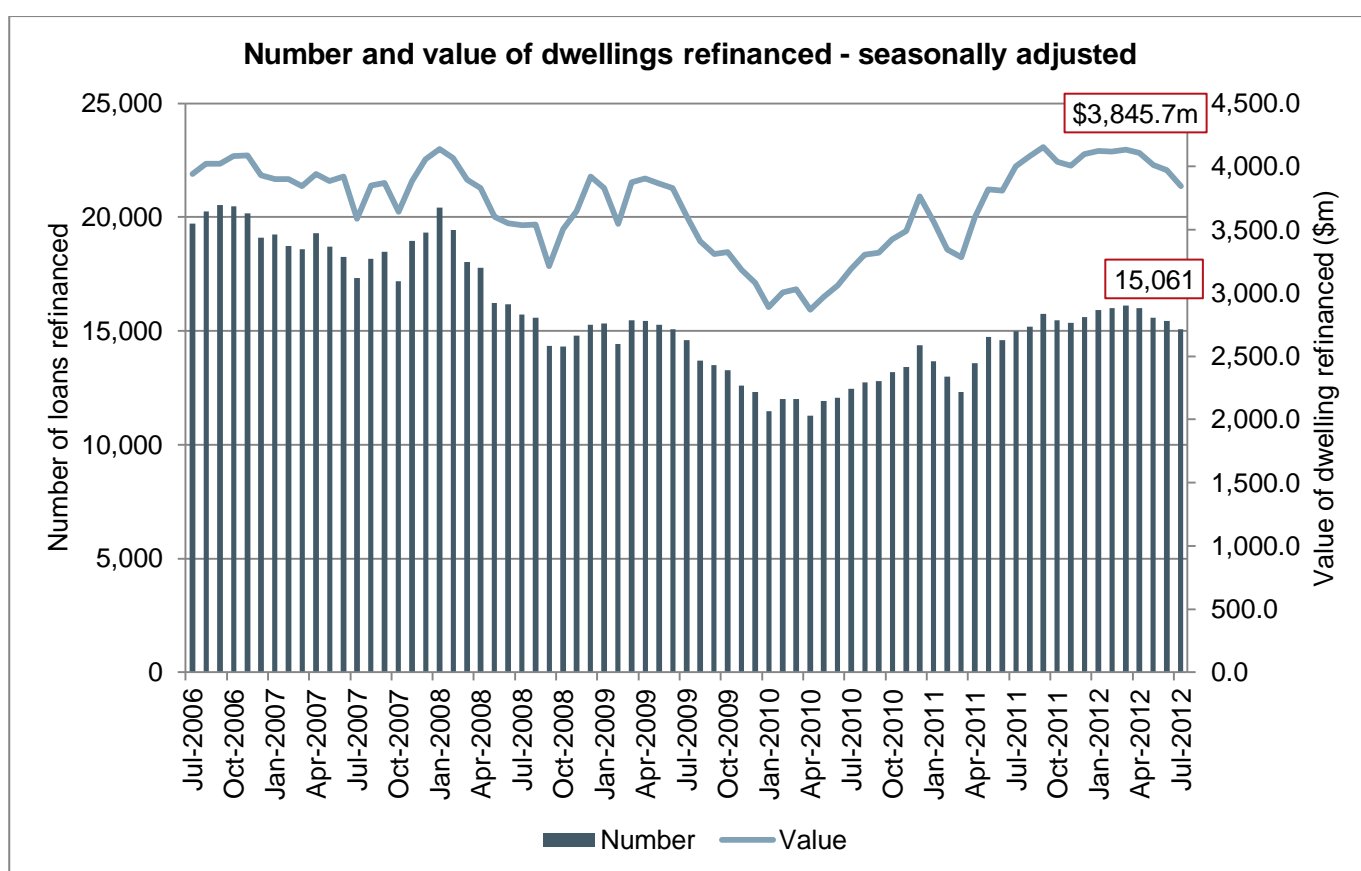


Source: ABS and RBA

Dwellings Refinanced

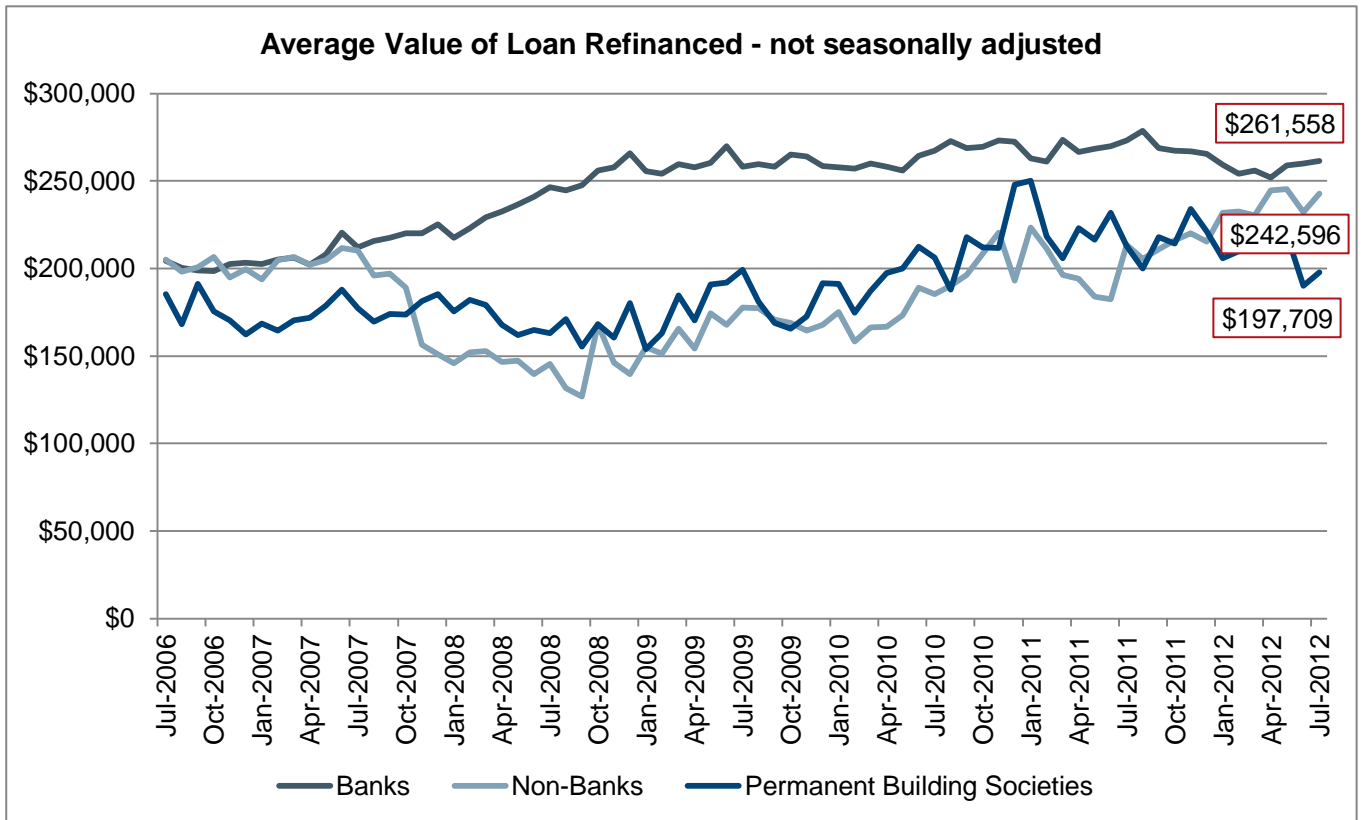
The number of owner occupied loans refinanced decreased by 2.4%, from 15,432 in June to 15,061 in July 2012, while the value of these loans decreased by 3.2% from \$3,971.19m to \$3,845.7m in the same period. It appears that mortgage holders are holding back from refinancing their homes in expectation of further interest rate cuts.

In the year to July 2012, the number of loans refinanced increased slightly by 0.5%, however the value of these loans fell by 3.9%.



Source: ABS

There continued to be movement in the average value of loans refinanced between different types of lenders. Banks recorded an increase in the average value of loans refinanced for the third consecutive month, rising by 0.6% to \$261,558.7 in July 2012, while non-banks and Building Societies recovered from their substantial falls seen in June to report increases of 4.5% and 4.1% to \$242,596.2 and \$197,709.3 respectively.



Source: ABS

Refinancing activity (seasonally adjusted)		
	Number of dwellings refinanced	Value of dwellings refinanced (\$m)
Jul-11	14,985	4,003.70
Jun-12	15,432	3,971.19
Jul-12	15,061	3,845.7
Monthly % change	-2.4%	-3.2%
Year-on-year % change	0.5%	-3.9%

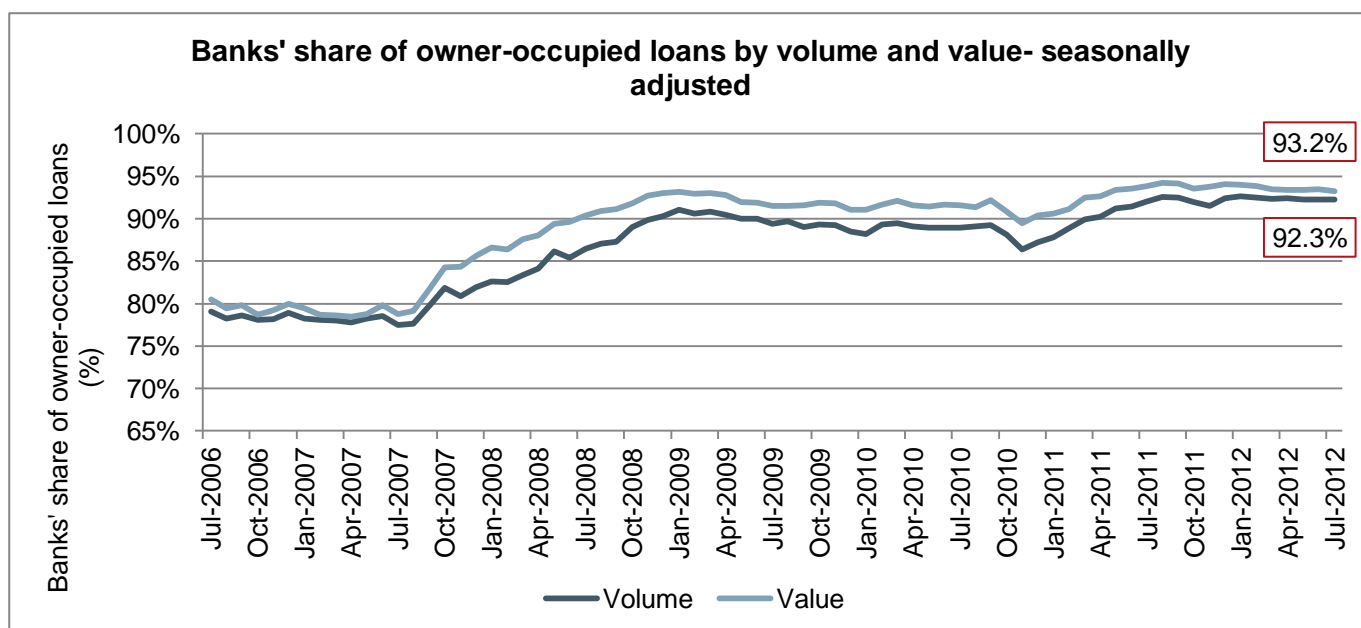
Source: ABS

Market Share

Owner-occupied lending commitments

The value of banks' owner-occupied lending commitments decreased by 1.6% from \$12,681.2m in June 2012 to \$12,481.7m in July. By volume, the number of bank held owner-occupied loans fell by 1.0% to 41,348 in the same period.

Banks' share of the volume of owner-occupied lending commitments was stable at 92.3% in July 2012; however their value fell by 0.2 percentage points, ending a four month period of staying at 93.4% to reach 93.2%. Banks' value of owner-occupied loans is likely to remain steady in the future, reflecting consumer inertia of the stability of larger financial institutions.



Source: ABS

Value of banks' share of owner-occupied loans		
	Banks (\$m)	Total (\$m)
Jul-11	12,611.62	13,444.72
Market share at Jul-11	93.8%	
Jun-12	12,681.23	13,573.49
Jul-12	12,481.68	13,385.85
Monthly % change	-1.6%	-1.4%
Market share at Jul-12	93.2%	

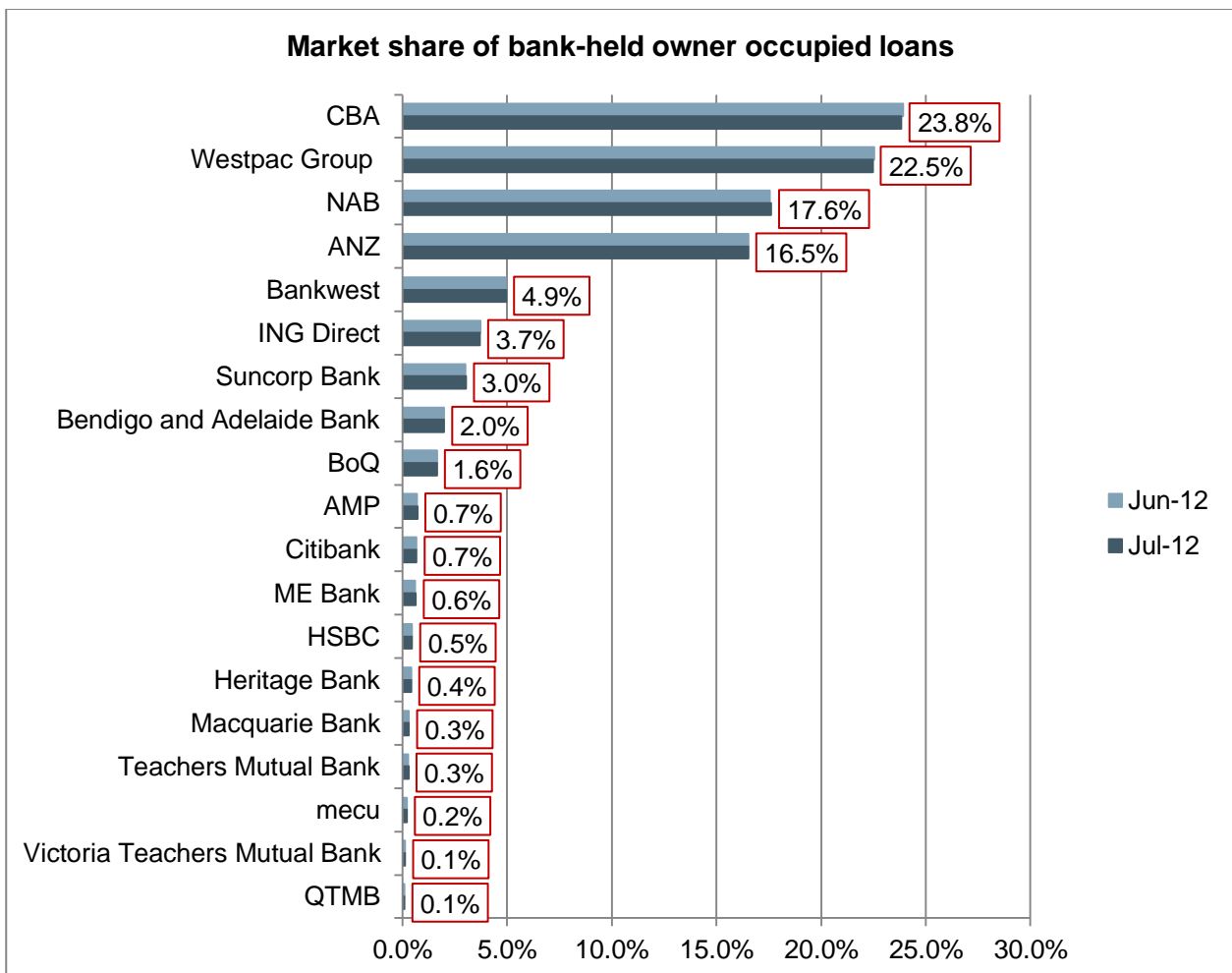
Source: ABS

Bank-held owner-occupied loans

According to APRA, the total value of bank-held owner-occupied loans outstanding increased by 0.3% to \$750.9bn in July up from \$748.4bn in June 2012.

In July, CBA's market share continued to decline, falling by 0.1 percentage point to 23.8%, continuing a trend which has been occurring over the past year. Westpac Group's market share remained steady at 22.5% in July, though it had declined in previous months. NAB's share increased for the second consecutive period to 17.6%, while ANZ's market share remained steady. Despite these changes, the 'Big 4' continued to dominate, holding 80.4% of the bank-held owner-occupied loans market.

Overall, there was little change in the respective market shares of the recorded 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. The Mutuals, including Heritage Bank, Teacher's Mutual Bank, mecu, Victoria Teacher's Mutual Bank and QTMB had a combined market share of 1.2%.

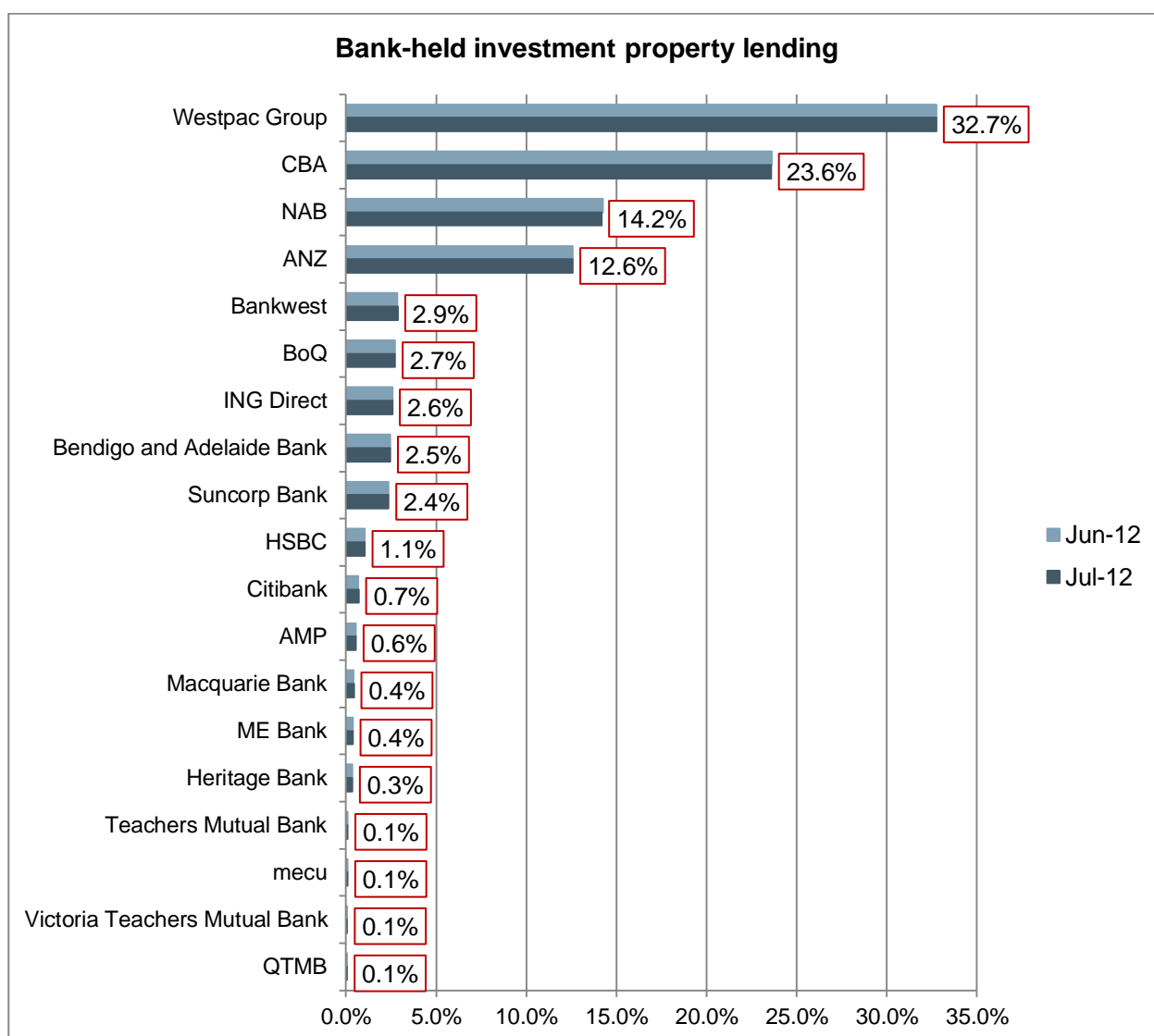


Source: APRA

Bank-held investment property lending

The total value of bank-held investment property loans increased by 0.5% to \$376.1bn in July 2012, up from \$374.2bn in June. The 'Big 4' also continued to dominate the bank-held investment property lending market, holding a combined share of 83.1%. Westpac held the largest market share of bank-held investment property loans at 32.7% in July 2012, although this was 0.1 percentage points lower than June. There was no change in the shares of other leading banks, with CBA the next largest market share at 23.6%, while NAB and ANZ held shares of 14.2% and 12.6% respectively.

The 'Big 4' banks hold the majority of investment property loans between them, while there was a second tier of banks including Bankwest, BoQ, ING DIRECT, Bendigo and Adelaide Bank and Suncorp Bank which had shares ranging from 2.9% to 2.4%. The Mutuals held a combined share of 0.7%, same in July as June 2012.

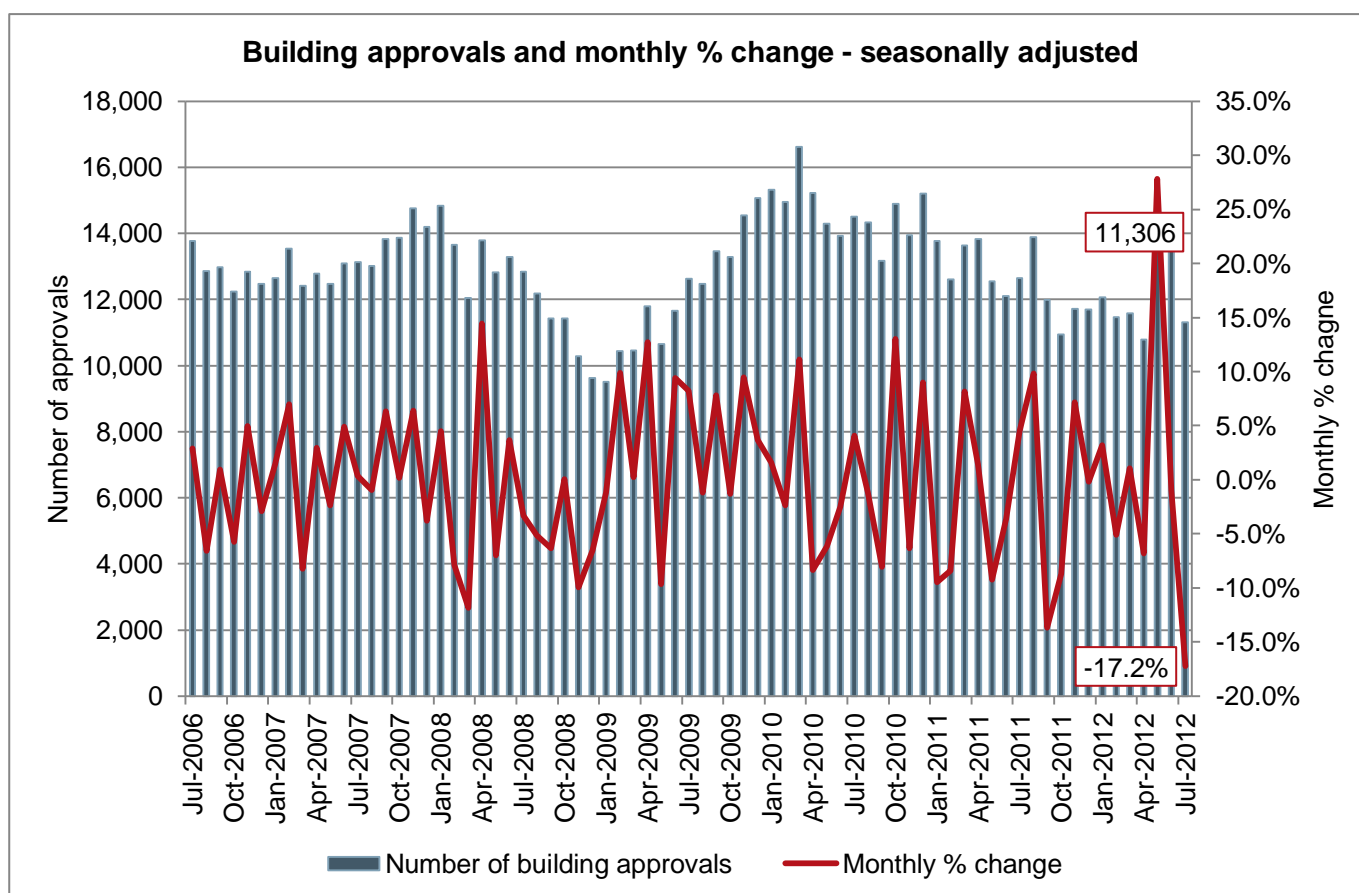


Source: APRA

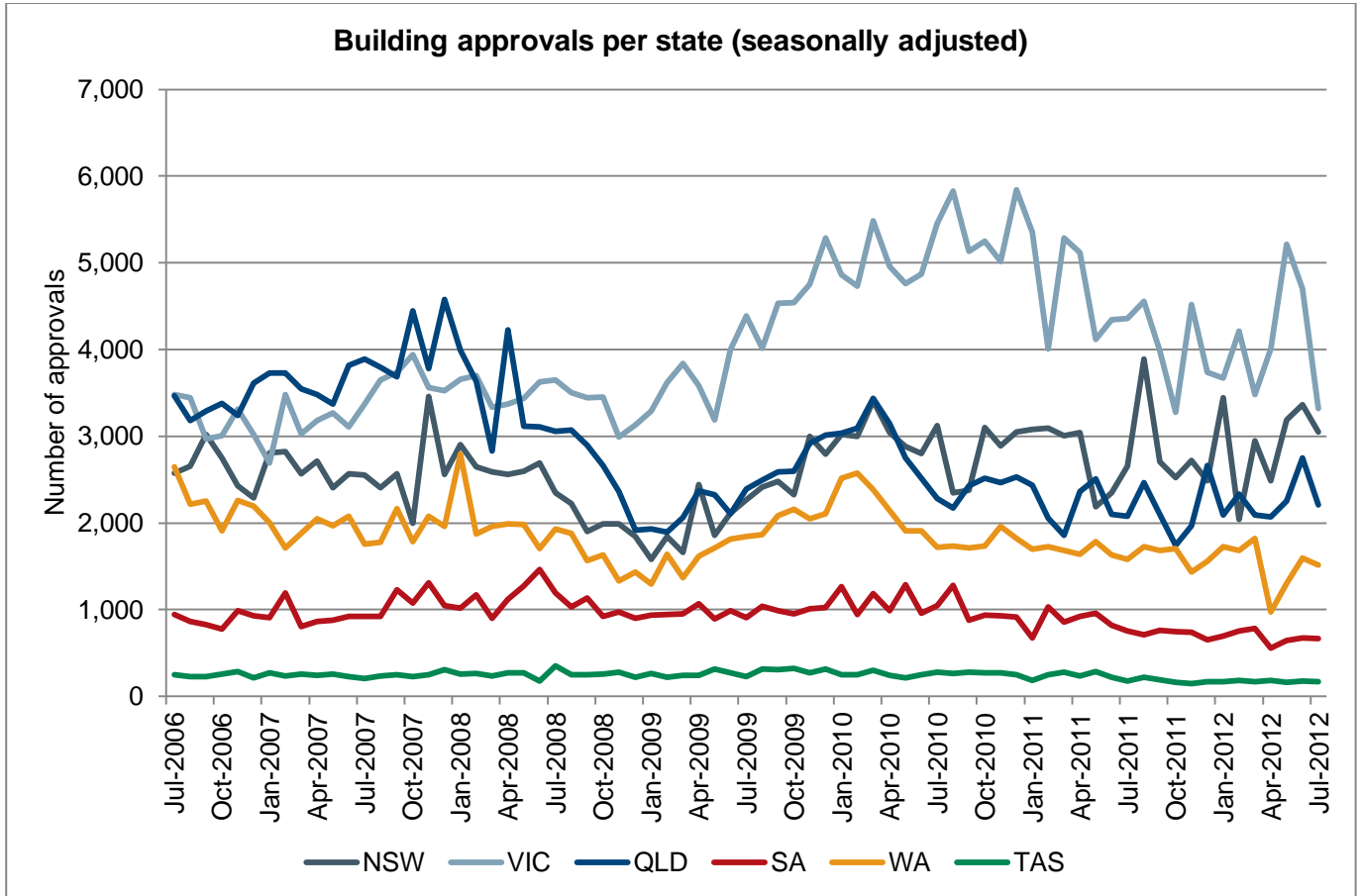
Building approvals

In July 2012, total building approvals decreased substantially by 17.2% to 11,306 in seasonally adjusted terms, offsetting the 27.8% rise seen in May 2012. Falls in building approvals was seen across all states, the largest a 29.4% collapse in Victoria from 4,698 to 3,319 as well as a 19.7% fall in Queensland from 2,752 to 2,210. These two states held two of the highest proportions of building approvals and monthly trends suggest that building activity will continue to be volatile.

Year-on-year trends indicate that long-term, total building approvals have been steady, with a 0.1% average monthly change between July 2011 and July 2012. The stagnation in building activity reflects low demand with the May and June RBA cash rate cuts not boosting building activity in Australia. Recent changes in the first home buyers grant in NSW however, where purchases of new developments would attract a \$15,000 grant, could help boost building activity in the state.



Source: ABS



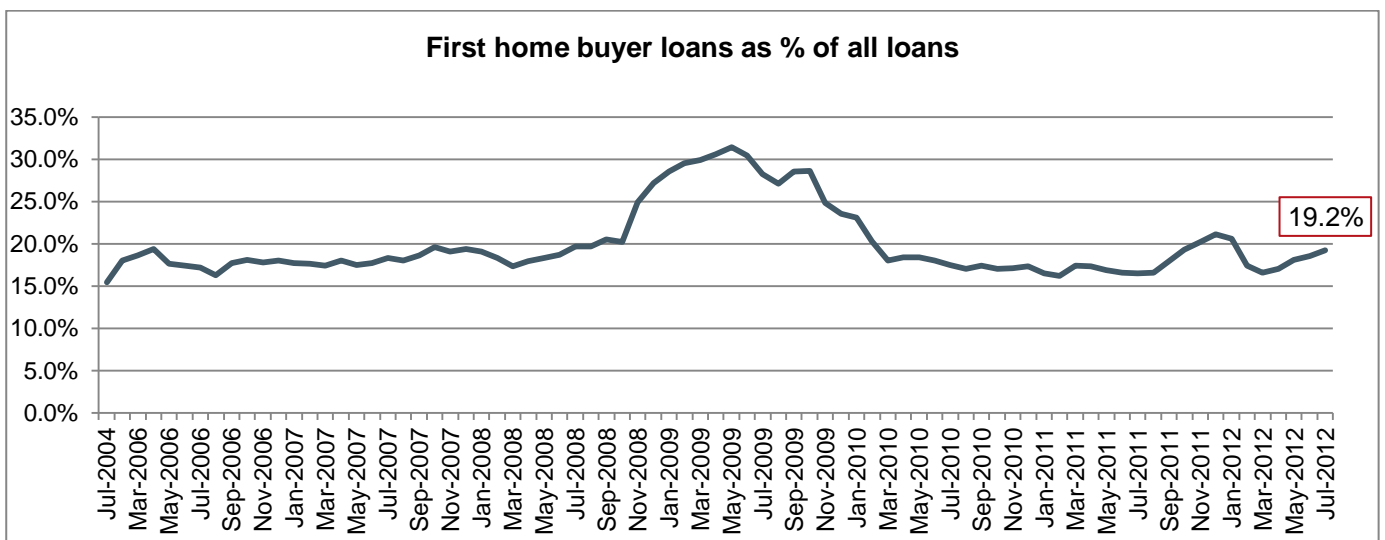
Source: ABS

Building Approvals (seasonally adjusted)						
	NSW	VIC	QLD	SA	WA	TAS
Jul-11	2657	4356	2078	755	1579	174
Jun-12	3366	4698	2752	673	1592	176
Jul-12	3049	3319	2210	664	1515	168
Monthly change	-9.4%	-29.4%	-19.7%	-1.3%	-4.8%	-4.5%
Average monthly change (Past 12 months)	5.6%	-0.2%	1.9%	-1.0%	1.5%	-1.3%

Source: ABS

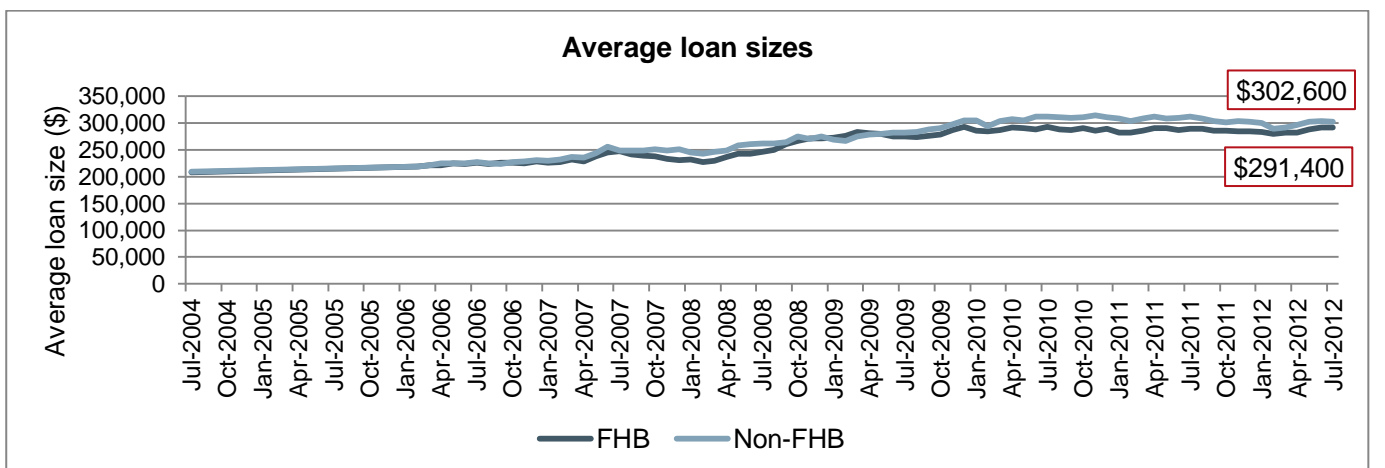
First home buyers

The proportion of first home buyer (FHB) loans as a percentage of all housing loans increased by 70 basis points to 19.2% in July 2012, up from 18.5% in June 2012. It appears recent interest rate cuts may have encouraged more people to enter the housing market for the first time. Additionally some FHBs might be induced to purchase before the FHB grant is phased out in Victoria.



Source: ABS

The average home loan size for FHBs saw a -0.2% decrease to \$291,400 in July 2012, from \$292,000 in June. Loan sizes for non-FHBs also decreased by 0.4% to \$301,600 in the same period. Year-on-year, average home loan size for FHBs increased by 0.6% and average home loan size for non-FHBs decreased by 3.1% between July 2011 and July 2012.



Source: ABS