

Streets Ahead

Genworth Homebuyer Confidence Index
July 2013 | Pulse Check



About the Genworth Homebuyer Confidence Index

The Genworth Homebuyer Confidence Index (HCI) is based on five components:

- The proportion of monthly income used to service debts
- The maximum loan-to-value ratio (LVR) borrowers are comfortable borrowing
- Their repayment history over the last 12 months
- Their repayment expectations for the next 12 months
- Whether they consider now a good time to buy a home.

Definitions of the types of consumers referred to in this report:



First homebuyer (FHB):

Someone who purchased their first property to live in (with a mortgage) in last 12 months



Prospective FHB:

Someone who intends to purchase a property in the next 12 months



Homeowner:

Someone who currently has a mortgage on a property



Non-property owner:

Someone who does not currently have mortgage on a property.

National homebuyer confidence sees a dramatic rise in July 2013

- The Genworth HCI increased by 7.2% between March 2013 and July 2013, from 93.4 to 100.1, the highest increase the Genworth HCI has seen to date, after a 5.1% decrease between September 2012 and March 2013.
- In July 2013, FHB confidence increased to the highest recorded level at 99.9, up from 85.9 in March 2013. While the July figure reflects a marked increase of 16.3%, it also reflects a return in the Index to its long-term level and mirrors the overall rebound in confidence regarding future repayments.
- Since March, the Australian Bureau of Statistics (ABS) has reported gradual increases in the proportion of FHB loans in relation to all loans, the first signs of positive movement since the removal of some First Home Owner Grants, indicating that the impact of the changes to the grants is waning.
- Increases in the Genworth HCI were recorded across all the major states. New South Wales confidence saw the highest increase of 9.6% from 91.8 in March 2013 to 100.6 in July 2013, while WA recorded the lowest increase of 0.8% from 96.5 in March 2013 to 97.2 in July 2013.
- Western Australia moved from the highest confidence score amongst the major states in March 2013 to the lowest in July 2013. This result could be partially attributed to the relative pessimism amongst WA homeowners towards expectations of hardship, driven by concerns about unemployment, with 60% citing job security as a driver of expected mortgage stress, compared to a national average of 44%. This is in line with softening job growth in the state. Western Australia had the lowest proportion of homeowners who thought the standard variable rate would decrease in the next 12 months, at 25% compared to a national average of 29%.

Australian homeowners generally optimistic about their ability to pay down debt

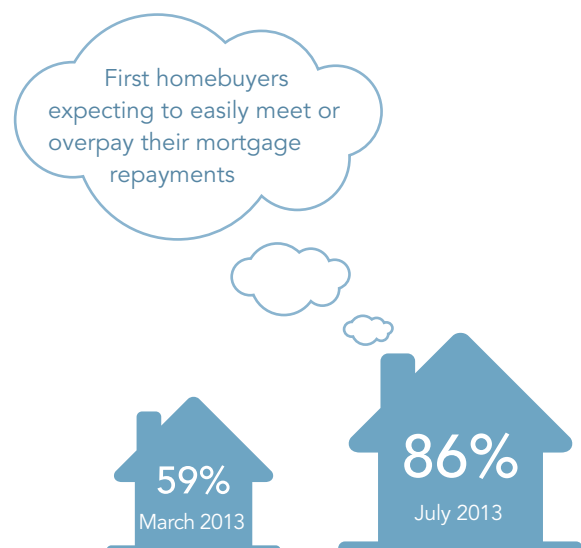
- The biggest change in Index factors between March 2013 and July 2013 was in homeowners' perceived ability to repay in the next 12 months, with the proportion who expected hardship having decreased from 27% to 17%, and more than half expecting to overpay. Though, notably, there was little change in sentiment amongst WA homeowners, with 21% expecting hardship in July 2013.
- The increase in FHB confidence was also driven by a positive outlook. Nearly nine in 10 of FHBs expect to be able to easily meet or overpay their mortgage repayments in the next 12 months (86%), compared with 59% in March 2013.
- Increased optimism surrounding borrowers' ability to repay their mortgage is likely driven by the Reserve Bank of Australia's (RBA) cash rate cut in May 2013, by 0.25 basis points. This saw the official interest rate and average three-year fixed standard variable rate, as reported by the RBA, fall to historic lows of 2.75% in May 2013 and 5.15% in June 2013 respectively.
- There is a general expectation that the RBA will make further cuts to the cash rate in the second half of 2013, which may be heightening borrower confidence about their ability to pay down debt. One in three surveyed homeowners expected the standard variable rate to decrease in the next 12 months (29%), up from 12% in March 2013. Similarly, amongst FHBs, 22% expected the standard variable rate to decrease in the next 12 months, up from 13% in March 2013.
- The proportion of surveyed homeowners who would be comfortable borrowing more than 80% of the property value also increased from 28% in March 2013 to 32% in July 2013, back to 2012 levels. This may reflect heightened expectations of future property price increases resulting in homeowners being more likely to believe the equity in their home is going to increase.
- The majority of borrowers who were anticipating hardship in the next 12 months were concerned about the rising cost of living, with 57% of those anticipating hardship having reported this as a driver of mortgage stress, up from 49% in March 2013. The increase in the cost of living as a cause of expected financial hardship may be partially explained by views on the falling AUD (from USD1.04 as at 14 March 2013 to USD0.91 as at 15 July 2013), the increase in the unemployment rate (from 5.6% in March 2013 to 5.7% in June 2013, in seasonally adjusted terms) and the rise in petrol prices (from \$1.43 per litre as at 14 March 2013 to \$1.54 per litre as at 14 July 2013, according to the Australian Competition and Consumer Commission).

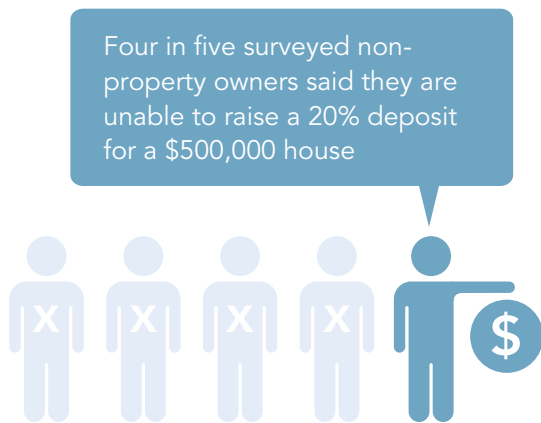
Self-employed continue to struggle

- Surveyed self-employed homeowners (22%) were almost as likely as unemployed homeowners (26%) to have struggled to have met mortgage repayments in the last 12 months. Only 13% of homeowners in full-time employment reported similar hardship.
- Almost one in four self-employed homeowners expects mortgage stress in the next 12 months (22%), compared to a national average of 17%. Hardship amongst the self-employed segment may be partially explained by the recent slump in business conditions, with NAB's monthly business survey posting a four year low in June 2013.

Increased concern over the election

- Since the end of 2012, surveyed homeowners have become more concerned about how the federal election will affect them in the next 12 months. Between December 2012 and March 2013, the proportion of homeowners who reported being concerned about the impact of the election increased from 36% to 44%. This result likely reflected Julia Gillard's February 2013 announcement that she would hold an election in September 2013 and the encroachment of this date.
- In July 2013 the proportion of homeowners concerned about how the election will impact them was up further, sitting at 46%. During this time we saw Kevin Rudd taking over the Labor leadership. Queensland and South Australian homeowners were the most concerned, with 50% of those surveyed from these states having expressed concern about how the election will affect them.





- There is a perception among non-property owners that they are locked out of homeownership. Over half of surveyed non-property owners did not believe they would qualify for a mortgage (58%).
- Non-property owners were concerned about rising living costs (38%), followed by their ability to save (18%) and pay debts (14%).
- Around half of surveyed prospective FHBs believed the Australian economy was heading in the wrong direction (51%), compared to only 39% of current homeowners.

Housing affordability is holding back would-be homeowners

One in three prospective FHBs optimistic about impact of potential change in government

- Most prospective FHBs surveyed believed the upcoming federal election would impact their ability to buy property. Over a third (37%) of surveyed prospective FHBs believed a change in government will improve their ability to buy property, compared to 23% who believed a change will worsen it. Most prospective FHBs agreed the government should be doing more to help them afford a home (63%). Two in five (40%) of those surveyed also reported they would enter the market earlier if changes were introduced to further help FHBs.
- Most non-property owners (54%) believed it is important for the federal government to make sure FHBs have a realistic chance of entering the property market. Since the removal of FHOs on established properties in some states in late 2012, the proportion of all housing loans accounted for by FHBs has fallen from 18.7% in October 2012 to 14.6% in May 2013, according to ABS figures.
- Four in five surveyed non-property owners said they are unable to raise a 20% deposit for a \$500,000 house (80%), 47% said they are concerned about unemployment, and 38% indicated concern about rising living costs. One in four prospective FHBs have not yet bought a property because they have not secured enough money for a deposit (25%), while around one in three reported they would enter the market earlier if they could secure enough money for a deposit (35%), or did not need to save a deposit (34%).

- Housing affordability (34%), followed by the difficulty to save a deposit (26%), were the biggest barriers to homeownership among prospective FHBs. Around half of surveyed prospective FHBs would enter the property market earlier if property prices decreased (49%).
- Housing affordability has not stopped prospective FHBs from having high expectations. More than three quarters of surveyed prospective FHBs expected to buy a house (77%), followed by 22% who expected to buy an apartment with at least two bedrooms. Despite 14% of surveyed prospective FHBs in March 2013 having considered studio apartments appealing, only 2% of those surveyed in July 2013 expected to buy one.
- Rising property prices and high expectations have not encouraged those prospective FHBs surveyed to save longer for a deposit. The proportion of prospective FHBs intending to purchase property within the next year, but who have not yet started saving, rose from 11% in March 2013 to 26% in July 2013. Some prospective FHBs surveyed may be underestimating the time it takes to save a deposit, as the proportion of those aiming for more than 10% of the property value also rose slightly in the same period, from 60% to 63%.
- Higher property prices are likely to increase FHB loan size values. On average, prospective FHBs planned to borrow \$296,667 when they take out their mortgage, approximately in line with the average FHB loan size of \$290,000 in May 2013, according to the latest ABS figures.

Homeownership considered unrealistic by most Australians

- The Australian dream of homeownership was considered unrealistic among most non-property owners (70%) and current homeowners (65%). Even those closest to buying property or who have recently bought property were inclined to agree, with 53% of prospective FHBs and 49% of current FHBs believing homeownership was unrealistic for most Australians.

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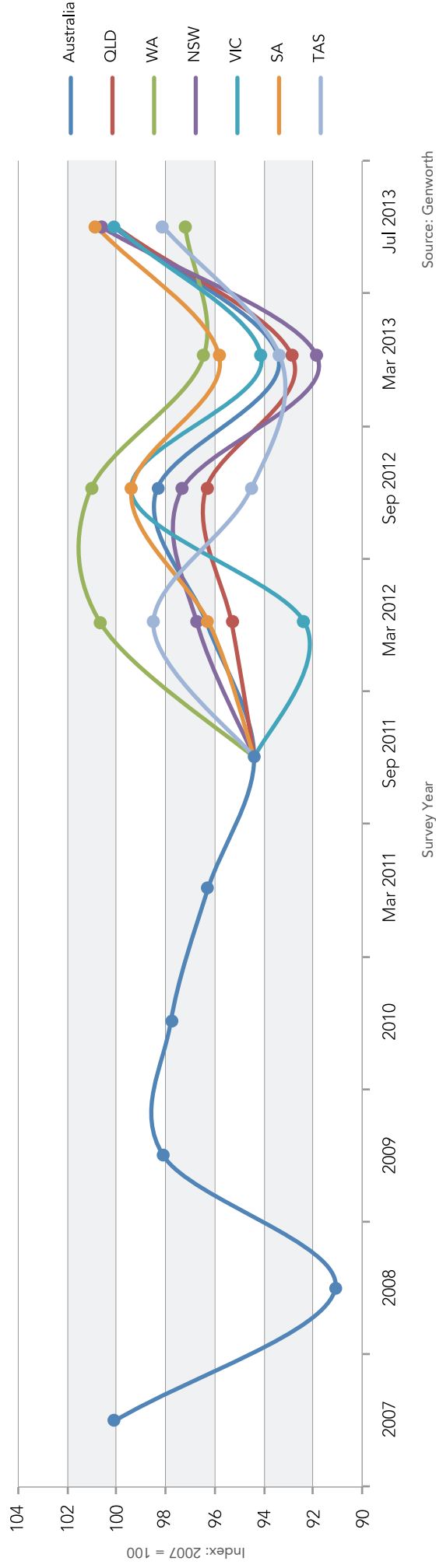
Pulse Check - July 2013

9.6%
NSW saw the biggest increase in consumer confidence from 91.8 in March 2013 to 100.6 in July 2013

100.1
The Genworth HCI increased by 7.2%, the highest increase the Genworth HCI has seen to date

37%
The proportion of homeowners who expect to experience hardship in the next 12 months decreased from 27% in March 2013 to 17% in July 2013

Genworth Homebuyer Confidence Index by state



About Streets Ahead Pulse Check: Genworth Homebuyer Confidence Index

The July edition of the Streets Ahead Pulse Check discusses the results of the Genworth Homebuyer Confidence Index. This Pulse Check provides a snapshot of the sentiment and perspectives of over 2540 existing homeowners and potential homebuyers throughout Australia. To interact with the Streets Ahead Pulse Check infographic and download your own copy of this report visit us at genworth.com.au/streetsahead



Genworth Homebuyer Confidence Index: Key indicators

Economic indicators	2007	2008	2009	2010	Mar 2011	Sep 2011	Mar 2012	Sep 2012	Mar 2013	Jul 2013
Official cash rate ¹	6.25%	7.25%	3.00%	4.50%	4.75%	4.75%	4.25%	3.50%	3.00%	2.75%
Inflation ²	2.40%	4.50%	2.50%	3.10%	3.30%	3.40%	1.60%	2.00%	2.50%	2.40%
Unemployment ³	4.30%	4.30%	5.80%	5.10%	4.90%	5.20%	5.20%	5.50%	5.60%	5.70%
Oil prices per barrel US\$ ⁴	\$66.30	\$127.76	\$67.73	\$75.69	\$97.88	\$85.37	\$109.77	\$96.47	\$93.13	\$106.45
HIA Housing Affordability Index ⁵	52.9	48.7	69.5	52.5	55.7	57.2	61.8	65.8	69.7	-
Average FHB loan ⁶	\$239k	\$243k	\$270k	\$283k	\$285k	\$285k	\$282k	\$289k	\$291k	\$290k
Genworth HCI⁷	100	91.1	98.1	97.8	96.3	94.4	96.3	98.4	93.4	100.1
Change in Genworth HCI	-	-8.9%	7.7%	-0.3%	-1.5%	-2.0%	2.0%	2.2%	-5.1%	7.2%
Key drivers in Genworth HCI		Rising interest rates heading into the GFC	Recovering from the GFC and interest rate cuts	Rate rises, expected stress	Disasters leading to increased stress, less comfort with debt	Rise in cost of living, experience and expectation of stress	Increasing comfort with debt and falling mortgage stress due to interest rate cuts	Increasingly see now as a good time to buy due to rising affordability	Increasingly expect mortgage stress and unwilling to borrow more than 80% LVR due to debt aversion.	Increased comfort in ability to make mortgage repayments over both the next and the last 12 months.

Genworth Homebuyer Confidence Index: Component indices and affordability

	NATIONAL		NEW SOUTH WALES		QUEENSLAND		SOUTH AUSTRALIA		TASMANIA		VICTORIA		WESTERN AUSTRALIA		FIRST HOMEBUYERS	
	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13	Mar 13	Jul 13
Confidence	93.4	100.1	91.8	100.6	92.8	100.0	95.8	100.8	93.3	98.1	94.1	100.0	96.5	97.2	85.9	99.9
Over 50% of income spent on debt	28%	25%	31%	26%	32%	24%	22%	21%	24%	28%	24%	25%	24%	32%	25%	28%
Comfort with debt (LVR over 80%)	28%	32%	27%	30%	26%	36%	27%	35%	31%	27%	29%	30%	28%	37%	27%	30%
Experienced mortgage stress	23%	17%	22%	14%	25%	20%	20%	15%	25%	24%	23%	17%	17%	19%	29%	13%
Expectation of mortgage stress	27%	17%	29%	15%	27%	18%	27%	19%	30%	18%	26%	17%	23%	21%	41%	21%
Good time to buy a home	47%	47%	43%	46%	53%	54%	40%	46%	48%	45%	49%	47%	49%	43%	49%	57%
Unemployment ⁸	5.4%	5.7%	5.5%	5.4%	5.9%	6.4%	5.8%	6.0%	7.4%	8.9%	5.7%	5.8%	4.7%	4.6%	-	-
Average house price ⁹	\$488k	\$491k	\$590k	\$580k	\$431k	\$425k	\$382k	\$385k	-	-	\$470k	\$512k	\$485k	\$500k	-	-
Average deposit size ¹⁰	16%	-	16%	-	15%	-	14%	-	11%	-	17%	-	14%	-	16%	-

¹Source: RBA. 2007-2010 as at Jun of that year. Mar 2011, Mar 2012 and Mar 2013 as at Mar of that year. Sep 2011 and Sep 2012 as of Sep that year. ²Source: RBA. 2007 as at Mar 2007, 2008 as at Jun 2008, 2009 as at Mar 2009, 2010 as at Jun 2010, Mar 2011, Mar 2012 and Sep 2012 in seasonally adjusted terms as at Mar 2013. Mar 2013 represents the latest ending figures in seasonally adjusted terms as at Mar 2013. Mar 2013 represents the latest figure available (Dec 2012) as at Mar 2013. ³Source: ABS. 2007-2010 as at Jun of that year. Mar 2011, Sep 2011, Mar 2012 and Sep 2012 in seasonally adjusted terms as at Mar 2013. Mar 2013 represents the latest figure available (Feb 2012) as at Mar 2013. ⁴Source: NYMEX. 2007 as at Apr 2007, 2008 as at May 2008, 2009 as at Aug 2009, 2010 as at Aug 2010 (approximations only), Mar 2011 as at Feb 2011, Sep 2011 as at Jun 2011, Mar 2012 as at Aug 2012, Mar 2013 as at Mar 2013. ⁵Source: HIA-Commonwealth Bank Affordability Report. 2007-2010 as at Jun of that year, figures based on figures published in Dec 2010, Mar 2011, Sep 2011, Mar 2012 and Sep 2012 figures based on figures published in Dec 2012. Mar 2013 Housing Affordability figure unavailable. ⁶Source: ABS. 2007-2008 as at May of that year, 2009 as at Jun 2009, 2010 as at Aug 2010, Mar 2011 as at Dec 2010, Sep 2011 as at Jun 2011, Mar 2012 as at Dec 2012. ⁷Source: Genworth. Analysis conducted by RFI. ⁸Data not available. ⁹Source: ABS. HIA-Commonwealth Bank Affordability Report. March figures are based on the index for capital cities in the March 2013 report. ¹⁰Source: The Advisor. RP Data median house price for capital cities. National price is average of all capital cities. ¹¹Source: ABS. House price index of established homes in capital cities. National price is the average of all capital cities.

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Genworth Australia is a leading mortgage insurance expert and thought leader in the Australian residential mortgage market, actively engaging on residential mortgage policy development with the key lending institutions, government bodies, local and international regulators and industry bodies. Genworth works in close partnership with over 100 lenders, including three of the four major Australian banks, and has been an important part of the Australian residential mortgage market for many years. Genworth has AUD3.6 billion of investments under management in Australia.

For more information visit genworth.com.au

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Methodology

This survey was conducted in July 2013. The survey was conducted online and sent out to respondents who are part of a panel of active participants signed up to take surveys. A total of 2124 mortgage holders and 416 non-mortgage holders took part and they were nationally representative of the mortgage market by: age, gender, state/ territory.

Disclaimer

The report is based on a survey of 2540 adults within Australia and while the information contained in this report is current as at the date of publication, it may change without notice. Genworth is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Genworth does not take any responsibility for any reliance on the information contained in this report or for its accuracy and completeness.

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