



Streets Ahead

Genworth Homebuyer Confidence Index
September 2013 | Edition 7

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

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 a mortgage on a property nor own property. Includes prospective FHBs.

Methodology:

This report is based on an online survey of 2498 Australian adults conducted in September 2013. Survey respondents are sourced from a panel of individuals who have signed up to participate in online surveys.

The sample consisted of:

- 2253 people with a mortgage on their own home and/or an investment property (property owners) including 197 people who have bought their first property to live in (with a mortgage) in the last 12 months (FHBs)
- 245 people who neither have a mortgage nor who own property (non-property owners) including 169 people who intend to buy their first property in the next 12 months (prospective FHBs).

The overall sample includes respondents surveyed both before the election (September 7 2013) and after the election to gauge changes in consumer attitude, behaviour and sentiment.

The sample consisted of:

- 1719 people surveyed in the last week pre-election (1590 property owners and 129 non-property owners)
- 779 people surveyed in the first week post-election (663 property owners and 116 non-property owners).

Key research findings

This is the seventh edition of the Genworth Homebuyer Confidence Index (HCI), a measurement of Australian homeowners' and would-be homeowners' sentiment towards the mortgage market.

In September 2013, the key findings include:

- **National homebuyer confidence has fallen:** The Genworth HCI decreased by 1.1%, from 93.4 to 92.4, between March and September 2013, its second lowest level since 2007.
- **Homeowners struggle to meet repayments:** Around one in four homeowners (26%) have struggled to meet their mortgage repayments at least some months in the past year, up from 22% in March 2013. This was a direct result of a four percentage point increase in the proportion of homeowners who have found it difficult to meet their repayments every month in the past year, to 9% in September 2013 up from 5% in March.
- **...but remain optimistic about the coming year:** Despite the increased level of mortgage stress, homeowners are optimistic about their ability to meet future repayments. The proportion of homeowners who anticipated mortgage stress at least some months in the coming year fell from 27% to 25% between March and September 2013.
- **Despite an increase in homeowners who struggled to meet their mortgage repayments over the last 12 months, the proportion of homeowners who believed now to be a good time to buy a home remained relatively stable in September 2013 at 46% (47% in March).**
- **First homebuyer confidence remains subdued:** The FHB Index slipped marginally from 85.9 in March 2013 to 85.0 in September 2013, largely driven by the increased proportion that experienced mortgage stress in the past year.
- **Would-be FHBs see deposits as a bigger hurdle than mortgage repayments:** Only 11% of prospective FHBs said they have never bought property because they are unable to afford repayments, down from 21% in March 2013. However, deposit sizes have become a hurdle for 29% of those surveyed, up from 24% in March 2013.

1 in 4 homeowners
struggled to meet
repayments



A reality check on July 2013

While the Pulse Check in July 2013 showed signs of recovering homebuyer confidence, the September 2013 HCI result comes as a reality check on current sentiment towards both the housing market and the broader economy. The Genworth HCI fell by 7.7% between July and September 2013, from 100.1 to 92.4.

New South Wales sees largest marginal decrease

- In September, New South Wales saw the largest decrease in the HCI from 100.6 to 91.6, in parallel with the state-wide unemployment rate rising to 6.0%.
- While holding the lowest state score in confidence in July 2013, Western Australia, while still seeing a decrease, had the lowest marginal decrease in September 2013 of 5.3%, from 97.2 to 92.1.

Underemployment overshadowed by rate cuts in July

- Off the back of the cash rate cut in May 2013, the July HCI Pulse Check saw the highest reading in homebuyer confidence to date at 101.1. Yet the rising share market and falling interest rates that momentarily boosted confidence in July were outweighed by a number of factors in September, specifically underemployment, the election outcome regardless of which side of politics they sat and slower economic growth, to bring the HCI down to the level seen in March.

Job security concerns fuel mortgage stress

- The proportion of homeowners who struggled to meet mortgage repayments in some or all months over the past year rose to 26% in September 2013, the highest figure recorded for experienced mortgage stress since 2007, up from 17% in July.
- There was a notable increase in the proportion of homeowners who believed they would have trouble meeting mortgage repayments every month in the coming year, with almost one in 10 (9%) homeowners believing this to be the case, up from 3% in July.
- The proportion of homeowners who were expecting mortgage stress in the coming 12 months due to job security concerns rose from 44% to 50% between July and September, explaining the increase in anticipated difficulty regarding mortgage repayments.

Confidence in ability to pay down debt falls

- The proportion of homeowners who believed they would make an overpayment to their mortgage in the next 12 months fell 10 percentage points in September 2013, from 63% in July, to 53%. This fall was driven by employment-related concerns, as the August 2013 cash

rate cut coincided with a fall in job advertisements, which supported government forecasts of a rise in unemployment in the coming year. This was reflected in the proportion of homeowners expecting mortgage stress because of job insecurity, as outlined above.

Struggling FHBs cause Index to slip

- In September 2013, around seven in 10 FHBs expected to easily meet their repayments in some/all months in the coming year (68%), as opposed to more than eight in 10 who had believed this to be the case in July 2013 (85%).
- The FHB HCI decreased to a record low of 85.0 in September 2013, down from 99.9 in July, reflecting the increased proportion of FHBs who experienced mortgage stress in the last 12 months.

Prospective FHBs less concerned about property affordability

- Property affordability decreased greatly as a barrier to homeownership in September, with only 22% not entering the property market earlier because of property affordability, compared to 34% who held these beliefs in July.

Increase in homeowners who believed homeownership to be realistic



A shift in confidence: Genworth HCI falls in September 2013

Mortgage stress climbs

- The drop in homebuyer confidence was driven by the increase in homeowners who have experienced mortgage stress in the past year. The proportion of all surveyed homeowners who have found it difficult to meet repayments in at least some months of the past year rose to 26% in September 2013, the highest level since 2007. Mortgage stress has now increased for two consecutive Genworth HCI surveys.
- Nearly one in two homeowners who have found it difficult to meet repayments in the past year (struggling homeowners) reported changes in their employment circumstances as causes of mortgage stress (47%). While the proportion of struggling homeowners who experienced unemployment fell by 2%, the proportion who reported a new job with less pay, the same job for less pay or fewer hours, or a change from full-to-part-time work increased from 28% to 32% between March and September 2013.
- This reflects the latest ABS labour force statistics. In seasonally adjusted terms, the underemployment rate was 7.8% as at August 2013, compared to 7.1% in both February 2013 and August 2012. The ABS also shows the labour force utilisation rate, which measures unemployment and underemployment, rose to 13.7% in August 2013, from 12.6% in March 2013 and from 12.3% in August 2012.
- Despite the upward trends in unemployment and underemployment, the proportion of homeowners who anticipated mortgage stress in the coming year fell slightly, from 27% to 25% in September 2013. However, of those who did anticipate difficulty in meeting repayments at least some months in the coming year, 50% reported changes in their employment circumstances as a possible cause, up from 46% in March 2013.
- It is likely that recent headlines on the strong recovery of the property market and expectations of further interest rate cuts have boosted some homeowners' confidence in their ability to meet future repayments. At the same time, it is likely that the rising unemployment rate, which reached a four-year high in August 2013, has increased the proportion of struggling homeowners who anticipated job insecurity in the next year.
- Struggling homeowners who have been seeking employment may have also noticed a decline in jobs advertised. According to the latest ANZ job advertisement figures, the number of job advertisements declined for the sixth consecutive month in August 2013.

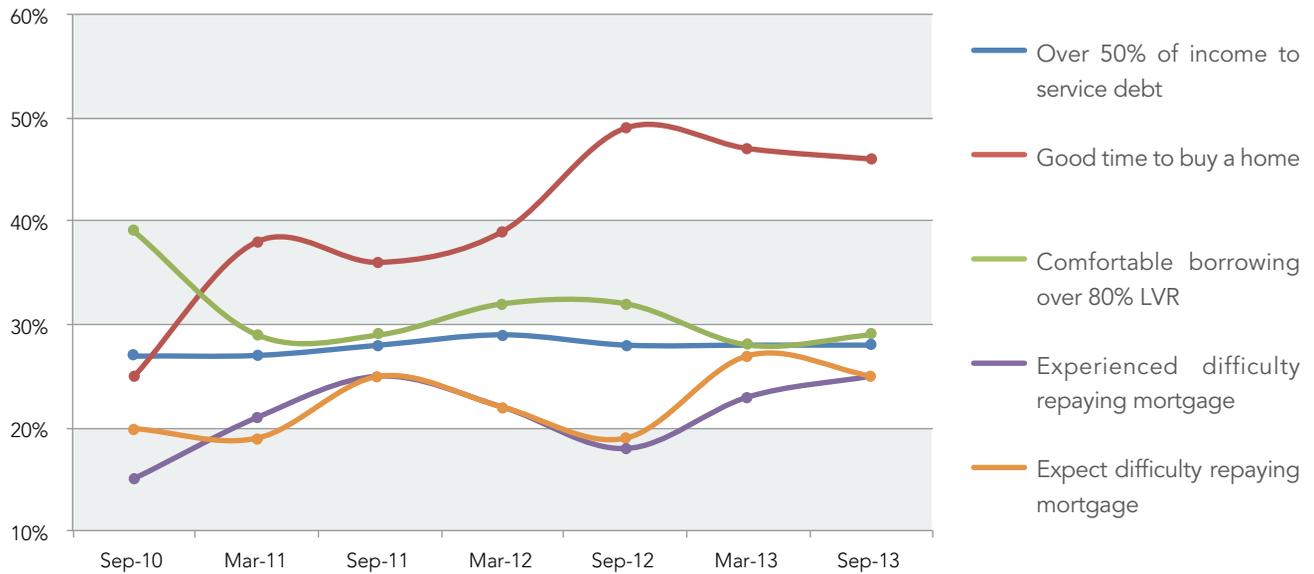
More homeowners behind on mortgage repayments

- Despite cuts to the official cash rate, a growing proportion of homeowners were behind on their mortgage repayments. Of those who have experienced mortgage stress (struggling homeowners) in the past year, 29% were at least one month behind on their repayments, up from only 13% in March 2013.
- Surveyed strugglers who were at least one month behind in repayments were more likely report other debt obligations as a cause of stress, at 30% compared to 26% of all struggling homeowners.

First homebuyer confidence remains subdued

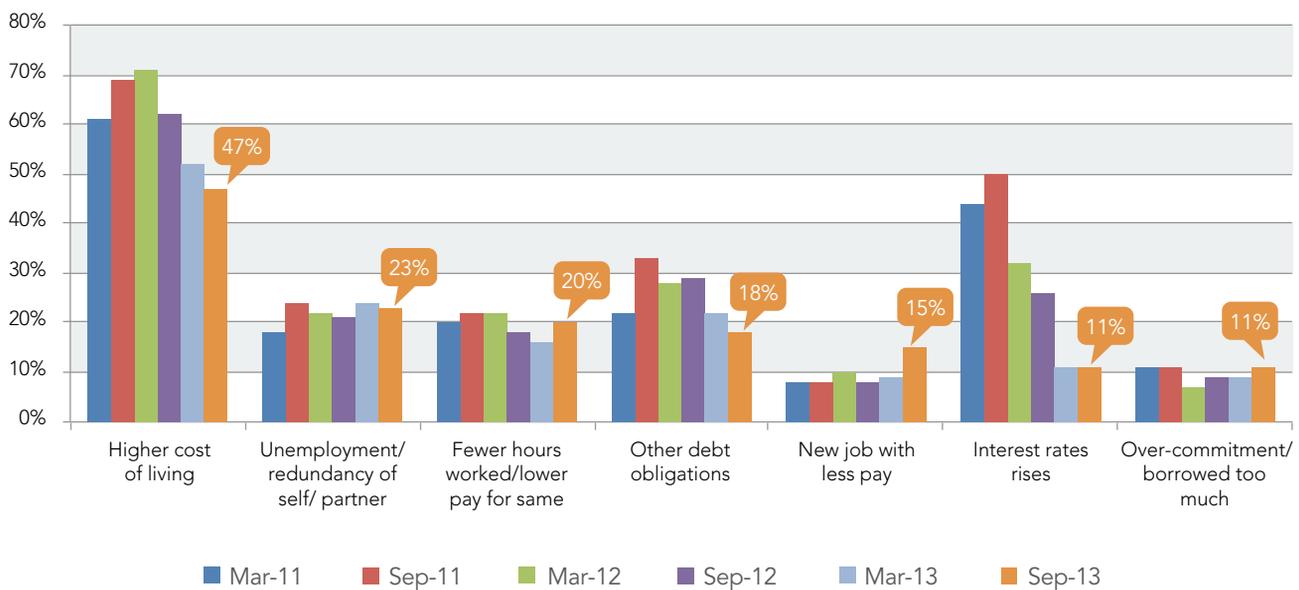
- The FHB Index slipped very slightly from 85.9 in March 2013 to 85.0 in September 2013. This is the lowest figure recorded to date and reflects the increased proportion of FHBs who experienced mortgage stress in the past year.
- The proportion of FHBs who found it difficult to meet repayments at least some months in the past year rose from 29% in March 2013 to 38% in September 2013.
- The proportion of struggling FHBs who were under stress because of higher living costs increased to 46% in September 2013 from 30% in March 2013. Of this proportion, 42% were from Victoria, followed by 35% who were from New South Wales.
- Around one in two struggling FHBs (49%) were under stress because of changes in their employment conditions, up from 30% in March 2013. This was driven by sharp increases in the proportions who reported unemployment (from 15% to 25%) and having worked fewer hours or earned less pay at the same job (from 12% to 21%) as causes of mortgage stress.

Genworth HCI drivers



Source: Genworth Homebuyer Confidence Index, September 2013

Drivers of mortgage stress



Source: Genworth Homebuyer Confidence Index, September 2013

Western Australia loses its lead

- All major states saw decreases in the HCI between March and September 2013. After holding the lead since March 2012, **Western Australia** saw the largest decrease in its HCI, falling from 96.5 to 92.1 in September 2013. This was driven by the jump in homeowners who were spending more than 50% of their income on servicing debt (from 24% to 33%), as well as the drop in those who believed it is a good time to buy a home (from 49% to 39%). Western Australian homeowners were also the least likely to be comfortable with borrowing more than 80% of the value of a property (24%).
- The volatility of the Western Australia HCI can be somewhat explained by erratic movements in the state-wide unemployment rate. According to the ABS, the Western Australia unemployment rate increased from 4.7% to 5.3% between March and April 2013, then decreased to 4.6% in July and now, as of August 2013, sits at 5.0%.
- **Victoria** saw a 2.4% decrease in its HCI, the second largest in September 2013, from 94.1 to 91.8. Victoria homeowners were the most likely to have experienced mortgage stress in the past year (29%), and were among the most likely to anticipate stress in the next year (26%). This may reflect the underemployment rate in Victoria jumping from 7.5% to 8.5% in less than a year (between February and August 2013), according to ABS data.
- According to the RP Data-Rismark Home Values Index, house prices in Melbourne rose by 4.8% in the three months to end-August 2013.
- **Queensland** saw a higher than average fall in confidence in the six months to September 2013, by 1.3% to 91.6. Queensland homeowners continued to be the most likely to anticipate mortgage stress in the coming year (35%), as well as the most likely to believe it is a good time to buy a home (52%). Surveyed Queensland homeowners were more likely to believe it was a good time to buy a home as the RP Data-Rismark Home Value Index has reported that house prices in Queensland decreased by 0.7% over the quarter to July 2013.
- **South Australia** saw the second smallest fall in the HCI, by 1.0% to 94.8 in September 2013. This was driven largely by sharp increases in the proportions of homeowners who experienced mortgage stress in the past year (from 5% to 9%) and who anticipated stress in the next year (1% to 7%).
- Of the major states, South Australian homeowners were the least indebted, with only 25% of those surveyed spending more than 50% of their income to service debt. ABS recorded retail spending in South Australia has outperformed other states, with a 0.3% growth between March and August 2013.
- **New South Wales** homeowners saw the smallest decrease in its HCI, falling by only 0.2% to 91.6 in September 2013. They were also among the most indebted, after Western Australian homeowners, with 30% spending more than half of their income on debt.
- Despite having the lowest level of confidence, New South Wales homeowners were among the most likely to believe it is a good time to buy a home (47%). This has been led by the combination of low interest rates and increased investor activity. According to the RP Data-Rismark Home Values Index, house prices in Sydney rose by 5.4% in the three months to end-August 2013.

Almost **one in two** Australians think that now is a good time to buy a home



Labor supporters less confident in their ability to pay down debt

- More than half of Labor supporters who were surveyed pre-election (51%) anticipated they would make an overpayment on their mortgage in the coming year, compared to 53% of Greens supporters and of Coalition supporters.
- Of homeowners who were surveyed post-election, the proportions of Labor and Greens supporters who anticipated overpaying or easily meeting repayments their repayments dropped to 45% and 41% respectively, while the proportion of Coalition supporters rose to 62%.
- The proportion of Labor supporters who anticipated mortgage stress because of rising living costs increased by nearly 10 percentage points after the election outcome, from 45% pre-election to 55% post-election. On the other hand, the proportion of Coalition supporters who expected mortgage stress because of rising living costs fell from 39% pre-election to 26% post-election.
- The drop in the proportion who reported the higher cost of living as a possible cause of mortgage stress may reflect the Coalition's announcement on the abolition of the Carbon Tax, as it has been associated negatively with living costs.

Would-be homeowners voice concerns about saving for a deposit

- There is conflicting information on housing affordability, and the ease with which prospective FHBs should be entering the property market and servicing their mortgage debt. This conflict was also reflected in the nearly equal proportions of prospective FHBs who considered homeownership realistic, at 46%, and unrealistic, at 54%.
- The most recent figures from the Housing Industry Association (HIA)-Commonwealth Bank Housing Affordability Index, for the quarter ending June 2013, show the HIA Index increased 16.7% over the past 12 months. The HIA Index measures housing affordability by borrowing costs and earnings, and with the cash rate at a historic low of 2.50%, the average monthly mortgage repayment has fallen by 10% in the 12 months to end-June 2013.
- Prospective FHBs surveyed in September 2013 tend to agree with the improved affordability of repayments, with the proportion who said they have never entered the property market because they are unable to afford repayments falling from 21% to only 11% in September 2012.
- However, while the affordability of mortgage repayments has improved, the affordability of house prices has remained low. According to the latest ABS figures, the seasonally adjusted average weekly earnings of a full-time employee have increased by 2.0% in the six months to end-May 2013, while the 8-capital city aggregate RP Data-Riskmark House Values Index shows house prices have grown by 2.3% in only three months, as at end-August 2013.
- Most surveyed prospective FHBs reported 'affording property' as the biggest barrier to homeownership (27%), followed by the difficulty of saving for a deposit (21%).
- Prospective FHBs are taking longer to save a deposit. The proportion of prospective FHBs who have been saving more than three years for a deposit has increased from 18% to 25% between March and September 2013. Not only are prospective FHBs more likely to be saving longer, but they are also more likely to expect to need more than 20% of the property purchase price as a deposit.



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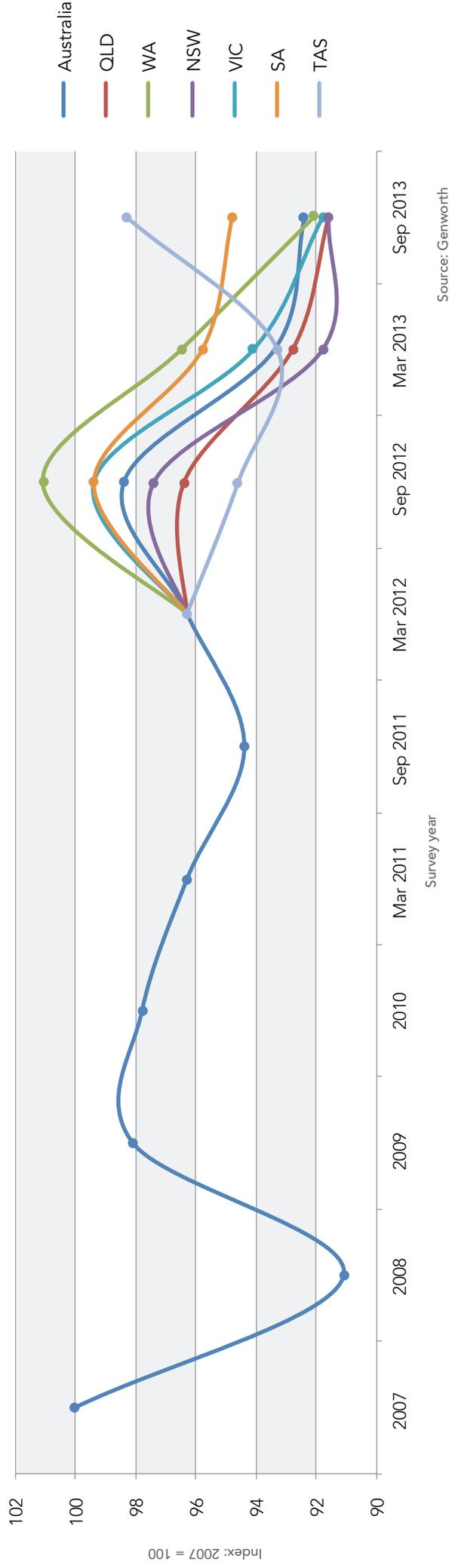
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▲ **1.1%**
 Genworth Homebuyer Confidence Index drops by 1.1% from 93.4 in March to 92.4 in September

▲ **51%**
 of non-property owners believe homeownership to be realistic

▼ **0.9%**
 FHB confidence slipped marginally from 85.9 in March to 85.0 in September

Genworth Homebuyer Confidence Index by state



About Streets Ahead: Homebuyer Confidence Index

The September edition of Streets Ahead discusses the results of the Homebuyer Confidence Index.

Streets Ahead is released biannually and measures the sentiments of 2498 existing homeowners and potential homebuyers about their mortgage and the overall mortgage market.

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Genworth

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