

Streets Ahead

Genworth Homebuyer Confidence Index

Genworth 





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Welcome

The stability of Australian housing market continues to be an area of much debate. Regardless of where you sit in this debate one factor that cannot be overlooked is homebuyer sentiment.

Homebuyer sentiment is influenced by numerous factors. As explained in this March 2012 Genworth Streets Ahead report, we gauge current homebuyer sentiment on a range of factors, from the proportion of monthly income that respondents are using to service their debts, to whether or not they feel now is a good time to buy a home.

Homebuyer sentiment drives demand for homes, house sale volumes, pricing, subsequent inflation or deflation of prices and in turn is a key influence on the Reserve Bank of Australia's (RBA) decision to raise or decrease cash rates.

In this our fourth Genworth Homebuyer Confidence Index, the factor most fundamental to homebuyer sentiment is the RBA cash rate.

This might seem an obvious statement to make but when you consider the myriad of other factors that influence sentiment, such as house prices, job security and wider economic conditions, the cash rate's influence on sentiment is worth noting. Its influence goes to the heart of the debate around the key characteristics (note 1) supporting the stability of the

Australian housing market, which in combination are globally quite unique. One of the most important characteristics of the Australian market is that we have one of the largest percentages in the world of homeowners with variable mortgage rates.

This is frequently overlooked yet its importance can be clearly seen in sentiment alone. It does not take much of an increase or in this case decrease of cash rates for this to feed through directly to homebuyers' pockets and homebuyer sentiment. The RBA cash rate, when this research was conducted, stood at 4.25%, down from 4.75% when the September 2011 Genworth HCI report was conducted.

Despite the global macroeconomic uncertainty increasingly influencing our local economy, the Index is up 2%, the same level as March 2011, the first upward movement in sentiment since 2009 when cash rates were last lowered; with 39% of respondents believing that now is a good time to buy a home.

Note 1:

These include:

1. Mortgage insurance – mitigating lender risk
2. APRA's active regulation of the bank lending market
3. A strong focus on prime mortgages
4. Full borrower recourse on mortgage defaults
5. That the majority of residential mortgages are variable rather than fixed rate.



Executive summary

About the Genworth Homebuyer Confidence Index

The Genworth Homebuyer Confidence Index (HCI) measures the sentiment of mortgage holders and would-be mortgage holders about their own mortgage and the overall mortgage market.

The Genworth HCI is based on five factors: the proportion of monthly income used to service debts, maximum loan-to-value ratio (LVR) borrowers comfortable in borrowing, last 12 months repayment history, next 12 months repayment expectation and whether it is a good time to buy a home.

National confidence bounces back to March 2011 levels

- Homebuyer confidence, as measured by the Genworth HCI rose by 2.1% from September 2011 to 96.3—the same level as March 2011—with the key factors driving this being the decrease in mortgage stress and Australians' increasing comfort with debt, due to the recent reduction in RBA cash rates.
- Close to four in ten (39%) respondents believe that now is a good time to buy a home—up from 36% in September 2011.

Mortgage stress eases

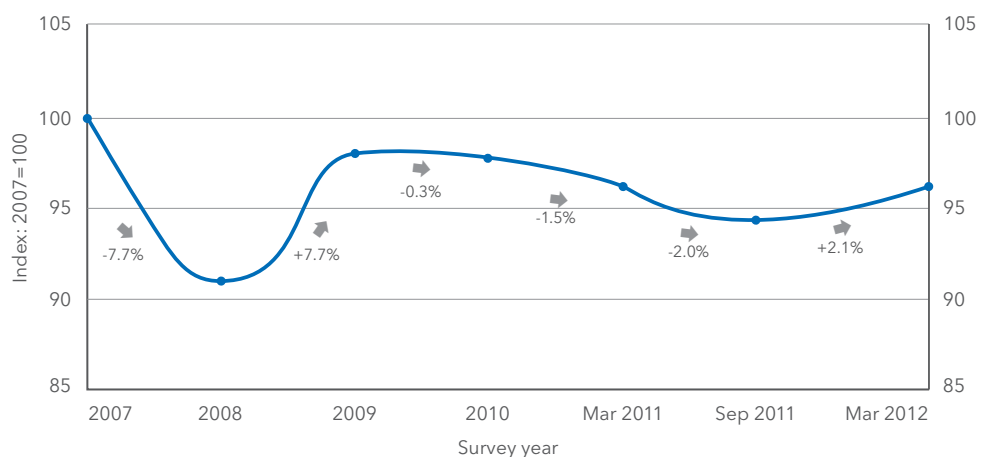
- Twenty-two percent of Australian mortgage holders who took part in the survey have experienced mortgage stress in the 12 months to March 2012 or expect to experience mortgage stress, down from 25% in the last survey.
- The three biggest factors influencing mortgage stress are recognised as being 'a general rise in the cost of living' followed by interest rates and indebtedness from other debt obligations.
- The last time the Reserve Bank of Australia (RBA) cash rate stood at 4.25% (when the Genworth HCI survey was conducted) was in April 2010, although the cash rate continued on the upward trajectory throughout the second half of 2010 ending that year at 4.75%.

First homebuyer confidence grows

- First homebuyer confidence has increased 1.5% to 99.0, which is similar to the national confidence level prior to the Global Financial Crisis (GFC).

Genworth Homebuyer Confidence Index

Source: Genworth



- As at March 2012, first homebuyer (FHB) respondents who are comfortable borrowing over 80% LVR stands at 29%, up from 20% in September 2011.
- One in ten potential FHBs surveyed have not yet started saving for a deposit.
- Fourteen per cent of potential FHBs surveyed have been saving for a deposit for more than five years, over half of those expected to need more than a 20% deposit.

Comfort with debt

- Nationally, 32% of respondents are comfortable borrowing more than 80% of the value of a property—up from 29%. This increase is greatest in Victoria, Western Australia and Queensland, with Western Australia increasing from 29% in September 2011 to 35% in March 2012 and sitting just behind Queensland (36%) as the state most comfortable with debt.

A nation divided: Western Australia Index climbs

- New South Wales confidence has increased by 1.3% and Western Australia saw an 11.2% spike. The latter was driven by stable employment levels and an improving, though still weak property market, with its residents most likely to agree that it is a good time to buy a home and least likely to have experienced, or expect, difficulty making mortgage repayments.
- Queensland confidence decreased by 2.2%, and is likely driven by a continued decrease in property values, particularly in the Gold Coast and Sunshine Coast regions.





Main themes

Affordability improves

- House prices are seen as less of a hurdle for potential FHBs than any other factor—only 7% of respondents said the area they wished to buy in was too expensive, down from 21% in September 2011.
- This finding is supported by the Housing Industry Association (HIA) Affordability Index, which improved 2.3 points between the second and fourth quarters of 2011, and is now at its highest point since December 2009. Falling interest rates and rising wages are likely to have contributed to this increase.
- According to the HIA, Brisbane experienced a large increase in affordability, and is now more affordable than Adelaide.
- The proportion of potential FHBs surveyed who said they were unable to save for a deposit fell to under one third—down 15% from 45%.
- The proportion of FHBs who said they would be unable to afford repayments also fell—to 19%, down from 38% in September 2011. This could be attributed to the standard variable rate on mortgages that fell with the cash rate in the final quarter of 2011.
- While 14% of potential FHBs surveyed had been saving for a deposit for more than five years, over half of those saving for this length of time expected to need more than a 20% deposit.

First homebuyers

- Recent FHBs are more optimistic about meeting mortgage repayments than the average homebuyer—84% of those

surveyed do not expect to have difficulty meeting repayments in the coming year, unchanged from September 2011, compared with the 78% of average homebuyers.

- The proportion of recent FHBs surveyed who have experienced difficulty meeting their repayments has risen from 12% in September 2011 to 14% in March 2012, though this was still well below the average of 22% for all mortgage holders surveyed.

Homebuyer expectation

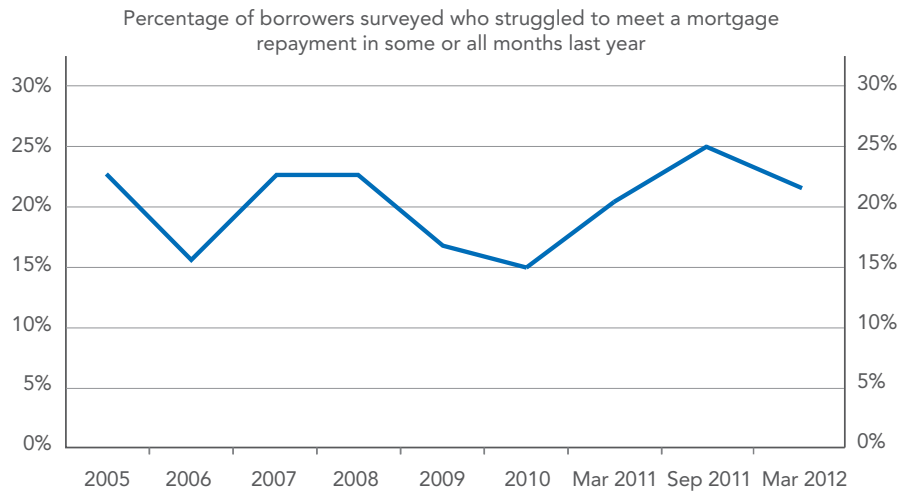
- Around one third of potential FHBs surveyed (30%) think that they need between 11 and 20% of the value of the property to put towards a deposit and over a third (36%) expect to have to save more than 20%. This discrepancy of views demonstrates that consumers need to be better informed about what size deposit is required.

Mortgage stress eases

- Twenty-two per cent of surveyed Australian mortgage holders have experienced mortgage stress in the 12 months to March 2012, down from 25% in September 2011.
- Among those surveyed who had struggled to meet mortgage repayments, only 14% have fallen behind on their repayments.
- Interest rates, as a factor influencing mortgage stress, have fallen from 50% in September 2011 to 32% in March 2012 off the back of the RBA decreasing and then holding rates.
- Over-indebtedness helped contribute to mortgage stress as well as employment factors, such as redundancy or underemployment.

Mortgage stress eases

Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)



- Expectation of mortgage stress decreased, with only 22% of surveyed Australian mortgage holders expecting difficulties making repayments in the next 12 months, down from 25% in September 2011.

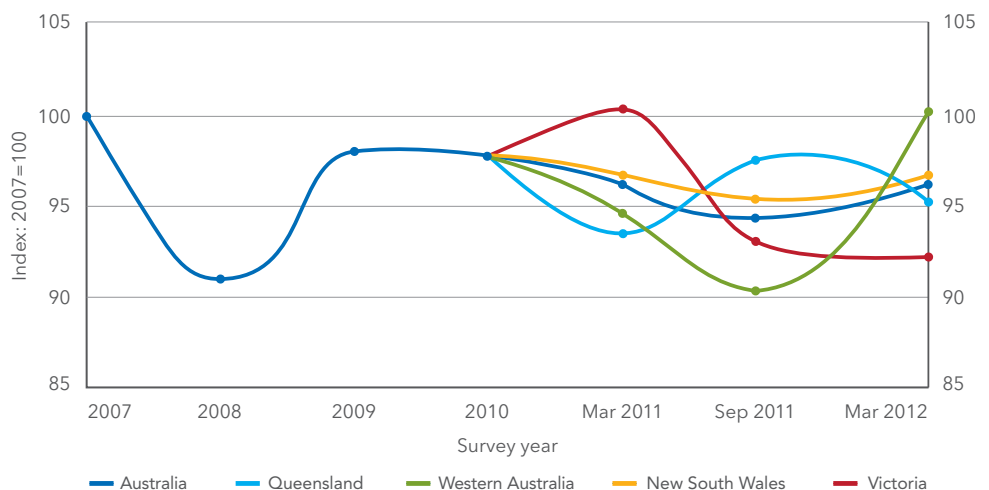
Western Australia going strong

- Western Australia has seen a sharp increase in the Genworth HCl, rebounding 11.2% from a low 90.5 in September 2011 to 100.6 in March 2012. NSW also saw an increase, up 1.3% from 95.5 to 96.7.
- Surveyed Western Australian residents are most confident about the property market, with 50% agreeing it is a good time to buy a home, an increase from 47% in September 2011. Western Australian residents are also least likely to have experienced difficulty meeting repayments at 16% (compared to 20% of New South Wales residents, 22% of Victorian residents, 24% of South Australian residents and 25% of Queensland residents). Recent stabilisation of property prices in Western Australia could be helping to boost confidence.

- Queensland saw a fall in the Index between September 2011 and March 2012, down 2.3% to 95.3, but remained above its March 2011 level of 93.6, when the state was heavily affected by floods. Meanwhile, 46% of Queensland respondents in March 2012 thought it was a good time to buy a home, compared to 39% in September 2011.
- Among potential FHBs, Western Australian respondents are the most likely to expect to need a deposit of 20% or more, despite the high affordability of housing in the state, while Victorian respondents least expect to need this size of deposit.
- New South Wales has the lowest affordability of any state, and 40% of potential FHBs in this state expected to need a deposit of at least 20%.
- Western Australian respondents are divided between expecting to need a large deposit and a small deposit, which may reflect regional differences.

Genworth Homebuyer Confidence Index by state

Source: Genworth





- This demonstrates that there is no correlation between affordability and how much people believe they need to save for a deposit.

Employment

- Confidence is high—65% of employed Australian mortgage holders who were surveyed feel secure or very secure in their jobs, with 12% feeling insecure. Property and business services is the least secure sector, with 19% of those surveyed working these sectors saying they feel insecure or very insecure in their jobs.
- Despite recent well publicised job cuts in finance, only 4% of workers in the finance sector feel insecure or very insecure in their jobs.

Demand for online application is increasing

- Only 5% of home owners surveyed applied for their home loan over the internet, but 19% of potential FHBs surveyed

said they would most prefer to apply through this channel, up from 16% in September 2011. A third of homebuyers applied for their loan through a mortgage broker.

- Forty-six percent of homeowners surveyed and 41% of potential FHBs surveyed said the optimal online mortgage application experience would be “online in conjunction with an in person meeting”.
- The branch remains the most popular application channel for a mortgage, with 47% of home owners surveyed applying through a branch, while 42% of potential FHBs surveyed intend to apply this way.

FHB deposit expectations vs. affordability by state

Source: Mortgage Trends Survey, analysis conducted by RFi, 2012 survey conducted by UMR; HIA



Economic indicators

- Most economic indicators improved between September 2011 and March 2012, with the cash rate and inflation falling and affordability improving.
- Unemployment rose slightly and oil prices saw a dramatic increase, which is likely to place some pressure on households.
- Housing affordability improved despite an increase in the average FHB loan size, as interest rates fell and wages increased.

Key economic indicators

Economic indicators*	2007	2008	2009	2010	Mar 2011	Sep 2011	Mar 2012
Official cash rate	6.25%	7.25%	3.00%	4.50%	4.75%	4.75%	4.25%
Inflation	2.4%	4.5%	2.5%	3.1%	2.7%	3.6%	3.10%
Unemployment	4.3%	4.3%	5.8%	5.1%	5.0%	5.3%	5.20%
Oil prices per barrel US\$	\$66.30	\$127.76	\$67.73	\$75.69	\$96.97	\$91.96	\$109.77
HIA Affordability Index	51.5	47.6	69.7	51.8	51.9	56.2	58.5
Average FHB loan	\$238,600	\$243,100	\$270,200	\$283,300	\$280,800	\$280,200	\$283,100
Genworth HCI	100	91.1	98.1	97.8	96.3	94.4	96.3
Change in Genworth HCI	-^	-7.7%	+7.7%	-0.3%	-1.5%	-2.0%	2.1%
Key drivers in Genworth HCI	-^	Rising interest rates heading into the GFC	Recovering from the GFC and interest rate cuts	Rising interest rates and expectation of mortgage stress	Disasters leading to increased stress and reduced comfort with debt	Rise in cost of living, experience and expectation of mortgage stress	Increasing comfort with debt and declining mortgage stress due to interest rate cuts

*As at June each year, in March 2011 figures are as at February 2011, or the most recent available at time of writing.

^2007 is the baseline year for the Genworth HCI.

Sources: ABS (unemployment rate seasonally adjusted), RBA, HIA, NYMEX, Genworth, RFI analysis



Future outlook

Some economists are predicting further interest rate cuts in the coming year, which may continue to help ease the mortgage strain on borrowers and improve borrower sentiment in the near to medium term, despite some lenders increasing standard variable rates in February. Borrowers themselves are expecting to be less stressed in the coming year, with interest rates less of a concern. Cost of living pressures and unemployment could possibly place some strain on households, but currently these problems are offset by positive factors such as wage growth, low inflation and interest rate cuts.

The Genworth HCI findings also make it clear that the Australian dream of home ownership is not fading, and increasing affordability will make it possible for many. For potential FHBs, affordability is less of a barrier than it was towards the end of last year, and though many FHBs have taken years to save for a deposit (with 14% having saved for a deposit for more than five years), expectations of the required deposit size vary significantly (with over a third expecting to need a deposit of more than 20%). A better understanding of deposit requirements, and tools such as Lenders Mortgage Insurance, could help many potential FHBs into homes sooner.

About Genworth

Genworth is a leading provider of Lenders Mortgage Insurance in Australia. Genworth has customer relationships with over 100 lenders, including three of the four major Australian banks. For almost 50 years, the business has been supporting the Australian mortgage market through prudently getting borrowers into their homes sooner through the provision of Lenders Mortgage Insurance.

For more information visit [genworth.com.au](https://www.genworth.com.au)

 [genworthaustralia](https://www.facebook.com/genworthaustralia)

About RFi

RFi is a strategic research business that delivers research and analysis by identifying and formulating projects within the arena of retail finance. RFi's business model is underpinned by B2B and B2C primary research, a factor which enables RFi to determine the key issues affecting any market.

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genworth.com.au/streetsahead

Head Office and New South Wales
Level 26, 101 Miller Street
North Sydney, NSW 2060
Phone: 1300 655 422

Victoria and Tasmania
Level 15, 500 Collins Street
Melbourne, VIC 3000
Phone: 1300 655 528

Queensland
Level 20, Central Plaza 2
66 Eagle Street
Brisbane, QLD 4000
Phone: 1300 652 864

South Australia and Northern Territory
Suite 6, 79 Pennington Terrace
North Adelaide, SA 5006
Phone: 1300 652 954

Western Australia
Level 2, Unit 3, 22 St George's Terrace
Perth, WA 6000
Phone: 1300 652 853

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