Summer 2021 Newsletter

MORTGAGE & FINANCE

- UPDATE -

Better Choice Mortgage Services

AUSTRALIAN BANKS LIFT FIXED INTEREST HOME LOAN RATES DESPITE RBA KEEPING OFFICIAL RATE AT RECORD LOW

Reserve bank expects to raise the cash rate in 2024 but says it could start to creep up earlier if inflation and wages growth pick up.

Banks are starting to raise fixed interest home loan rates, pointing to higher wholesale funding costs despite the RBA's record-low official cash rate

The big banks have begun jacking up fixed interest home loan rates even though the Reserve Bank of Australia has not increased official rates in a decade and on Friday signalled it was unlikely to do so until 2024.

Even with official rates frozen at record lows, banks say wholesale funding costs are increasing, in part because of the RBA's decision earlier this year to stop lending them money at concessional rates.

Interest rates could start to creep up in 2023, a year earlier than previously expected, but only if inflation and wages growth exceed its current expectations, the RBA said.

The RBA said that its "central scenario" remained that wages will be growing by more than 3% a year by 2023, ending a pattern of stagnation that has seen growth stuck below that level since March 2013.

> *It predicted underlying inflation would be about 2.25% next year, increasing to 2.5% by 2023.*

"Similar to wages growth, this would represent a meaningful pickup in underlying inflation relative to the experience of recent years," the RBA said.

However, it said there were "other plausible scenarios" where wages growth and inflation were higher. "If this were to eventuate, an increase in the cash rate in 2023 could be warranted," it said. "However, in the board's view, the latest data and forecasts do not warrant an increase in the cash rate in 2022."

It said that the economic outlook could also be grimmer than expected if Australia is hit by a new Covid-19 variant, or vaccines wearing off.

Banks have not waited for an increase in the official rate, which the RBA board left unchanged at a record low of 0.1% when it met on Melbourne Cup Day.

NAB was the first bank to charge more for home loans, raising fixed rates by up to 0.2 percentage points.

Westpac followed, then Commonwealth Bank hiked its fixed rates, ahead of the RBA's statement.

Bankers say that money has become more expensive even though the RBA has not raised the official cash rate in a decade and has kept it at 0.1% since November last year.

This is partly because in July the RBA shut down its Term Funding Facility, which provided $188bn in cheap money to the banks during the Covid-19 pandemic.

Wholesale rates are also increasing because traders expect the RBA to raise the cash rate in the future, with the ASX's cash rate tracker pointing to a rate above 1.2% by April 2023.

> *CBA raised its fixed rates by between 0.1 percentage points, for a five-year fixed term, and 0.5 percentage points, for a four-year one.*

"These changes reflect the steep increase in funding costs over the past few weeks as well as upgraded economic forecasts," a CBA spokesperson said.

In early November Westpac increased its fixed rates by between 0.1 percentage points, for 4-5-year fixed periods, and by 0.21 percentage points for loans with a 3 year fixed period.

"In making these decisions, we consider multiple factors including the need to manage pricing changes in a sustainable way," a Westpac spokesperson said.

NAB increased its fixed rates by 0.1 percentage points for all terms between one and four years and increased five-year rates by 0.2 percentage points. At the same time, it lowered its standard variable rate by 0.4 percentage points, to 2.29%.

- MPA MAGAZINE -

WELCOME TO OUR SUMMER EDITION

Western governments now have a delicate balancing act of keeping the post Covid recovery going without letting the inflation 'genie' out of the bottle for too long.

Higher inflation leads to higher interest rates.

Many western countries have taken on an eye watering amount of debt to kick start their economies post-Covid.

Australia's debt, which was $0 in 2007, is now starting to edge up toward $1 trillion.

The US will inject $3-4 trillion of stimulus into their economy since Covid started. This means that there has been a huge amount of liquidity in western economies. A huge amount of liquidity coupled together with supply chain problems (stock hard to come by) and workers to fill jobs thin on the ground.

With a huge demand on the resources within an economy, this ultimately leads to higher prices and wages.

We have all seen fuel at nearly $2.00 per litre, but probably most of us are unaware the price of a shipping container has increased 5 times to approx. $25,000.

Higher transportation costs lead to higher prices for goods and services. Most of us are seeing this every day with what we buy and the services we are utilising.

The RBA is comfortable with Australian inflation at 2-3%, but recent US inflation is running at 6.2%.

Whilst the RBA says that they will not increase official interest rates until 2024, we believe this is wishful thinking. The RBA will have to pull the trigger early and all depends upon whether its 2022 or 2023.

A national residential real estate market that continues with double digit annual price growth is adding to the case for higher interest rates. Wholesale fixed interest rates have already started climbing with some lenders increasing their fixed interest rates three times in four weeks.

Now more than ever you need to be realistic in the amount of debt you take on and ask your Better Choice Mortgage Broker to give you repayments based upon a hypothetical interest rate of 2% or 3% higher than what you are paying.

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PARENTS AND CHILDREN DIVIDED WHEN TO LEAVE THE NEST

When are children expected to move out of their parents' homes?

Bankwest's latest survey on 1,800 Australians has parents and children divided on the answer, with results likely linked to housing affordability.

Parents with children still living at home expect them to move out by 23 years old, while children who still lived with their parents have no intentions to leave until they are 27 years old.

This gap in expectation came from residents in metropolitan areas, with the divide halving to two years for those living outside of Australia's five major capital cities to 22 years old for parents and 24 years old for children.

Peter Bouhlas, general manager of homebuying at Bankwest, said the older generation might be unfamiliar with the market their children are attempting to enter.

> *"The reasons behind the significant difference in expectations is likely one of genuine affordability consideration for younger Australians aspiring to own their own home," Bouhlas said.*

Interestingly, the answer also differed between mums and dads. Dads want children gone by 22 years old, while mums provide an extra year of grace for them until 23 years old.

Bankwest created the survey to understand the needs and preferences of those who own – or aspire to own – their own home. Previous Bankwest research found that the most common living situation for Gen Z is "living rent-free" with their parents as they saved for a deposit.

"The housing market is currently incredibly competitive, and data from the Bankwest Curtin Economics Centre has shown how equally challenging it is for people in the rental market, leaving many young Australians homebound," Bouhlas said. "That inevitably means a longer spell in the family home as aspiring homeowners save for greater deposits, face lengthy construction delays, or encounter increased competition in entering the market."

- THE ADVISER -

HOW MUCH DOES A HOUSE DEPOSIT COST COMPARED TO THE AVERAGE WAGE

Home buyers looking to get into Australia's pricey property market would need to save more than a year's pay to scrape together a deposit on a house in any capital city, with deposits in some locations costing up to three times annual incomes.

Even to purchase an apartment, buyers would need more than a year's pay in expensive capitals and close.

House prices have soared on the back of low interest rates, while wage growth has been sluggish until recently, amid an uncertain economic outlook.

> *Buyers are now being pushed harder towards government assistance schemes or the Bank of Mum & Dad to get into the property market sooner, experts say.*

The biggest deposit needed is in Sydney, where those looking to buy a house at the median price of $1,499,126 would need $299,825 for a 20% deposit. That is more than triple the average yearly wage in NSW, which is $91,743.60 for full-time workers, according to the latest Australian Bureau of Statistics figures.

Melbourne house prices jumped to a $1,037,923 median in the September quarter, meaning buyers need to save $207,584 for a deposit – more than double the average Victorian annual wage of $91,036.40.

Economists say the road to property ownership has become much harder to travel, particularly over the past two years when prices have boomed as Australians have been stuck at home during the coronavirus pandemic and taking advantage of cheap debt to bid for more spacious accommodation.

Figures last week showed that, even though wage growth has picked up slightly, it remains far below the pace of house price growth.

"The deterioration of affordability has been quite noticeable over the past 12 months but it's been building on top of what's been happening since 2017," AMP Capital chief economist Shane Oliver said.

So much financial pressure is being added to buyers, particularly first-time buyers, that Australia could soon have a property market that only the privileged few are able to get into, with help from the Bank of Mum and Dad.

"If you're lucky, you have a good Bank of Mum and Dad you can borrow from, or get a gift, but it's not entirely fair to think that is the solution."

While schemes like the Federal Government's First Home Loan Deposit Scheme allowed buyers to get a mortgage with a 5% deposit, they were still left with an "enormous amount of debt" and a longer time to pay it off.

Buyers agents say buyers are now more reliant on help from their parents, or are going back to the banks to ask for more money while interest rates remain so low.

Homebuying hopefuls are faced with the prospect of large deposits.

Aus Property Professionals director and buyers agent Lloyd Edge said Sydney buyers were asking parents to act as guarantors on loans, to use the property equity which they had built over some years.

"Some people are moving back in with their parents – and that includes couples with young children who are moving back home – to allow them to save for a deposit," Mr Edge said.

It was no surprise, he said given the amount of money needed to buy a property in today's market.

> *"Back in the 1980s buying a house was around four times the average wage, now it's around 12 times," Mr Edge said, referring to Sydney housing.*

In Melbourne, buyers were going back to banks or to mortgage brokers to see if they could qualify for a larger loan, Buyer's agent Wendy Chamberlain said.

But it could also backfire, with the Australian Prudential Regulation Authority changes to loan assessments meaning some people were now not able to borrow as much, she said.

Others were going to the Bank of Mum and Dad to get a cash gift to help buy a home.

"They go bank guarantor or they can get an advance on their inheritance to get into the market – they're the lucky ones," Ms Chamberlain said.

- DOMAIN.COM.AU -

HOUSE DEPOSITS COMPARED TO INCOMES

	MEDIAN HOUSE $	20% DEPOSIT	ANNUAL INCOME
SYDNEY	$1,499,126	$299,825	$91,743.60
MELBOURNE	$1,037,923	$207,584	$91,036.40
BRISBANE	$702,455	$140,491	$85,628.40
ADELAIDE	$667,888	$133,578	$81,634.80
CANBERRA	$1,074,187	$214,837	$99,247.20
PERTH	$598,601	$119,720	$97,744.40
HOBART	$698,212	$139,642	$79,076.40
DARWIN	$640,068	$128,013	$88,150.40

We wish you have a very merry Christmas and a happy, prosperous new year.

WE ARE OPEN

Better Choice Mortgage Services will be closed for the public holidays but open for the rest of the holiday period, so feel free to call or visit to discuss your 2022 finance goals.

APRA STANDS BY ITS RECENT DIRECTIVE TO INCREASE SERVICEABILITY BUFFER

The Australian Prudential Regulation Authority (APRA) has published its opening statement from Renée Roberts, executive director for policy and advice division, to the Standing Committee on Tax and Revenue. It addresses the APRA's latest move to increase the serviceability buffer.

Last month, APRA instructed banks to assess new borrowers' repayment capacity, with lending rates at least three percentage points higher than the prevailing interest rate – up from its previous 2.5%. The move comes after house prices spiked 20% over the past year, marking the fastest growth rate since 1989.

Warren Hogan, chief economist at Judo Bank, said this increased buffer is considered as a "warning shot" that could be followed by additional macroprudential measures in the first half of 2022.

In his speech, Roberts reassured lenders and borrowers alike that although the current requirements can influence the terms, amount and price at which banks extend housing finance, it will not target matters of affordability.

> *"APRA seeks to ensure that banks are making sound credit decisions that are appropriate, individually and in aggregate, in the context of broader housing market and economic trends," Roberts said.*

However, the change will only make it more challenging for over-committed borrowers to obtain a loan. John Manciameli of Hunterwood Solutions said the measures only represent a 5% reduction in borrowing power, which has minimal impact on a typical borrower.

"We all have to remember that for 4 out of 5 borrowers, these changes won't affect them," Manciameli said. "We're looking at the margins of things. It's those people in Sydney and Melbourne on average incomes that were buying the $1.3 million property for the first time – it's really going to affect them."

Analysts also warned of a price war between lenders as they compete for market share by slashing variable interest rates for new home loan customers. Meanwhile, those who trend toward the lower variable could soften the impact of APRA's approach.

> *Manciameli believes that house prices won't decline until interest rates go up as he expects the banks to move independently ahead of a change in cash rate.*

Still, APRA stood by its approach. *"APRA's objective is to ensure the financial system remains safe, with banks lending to borrowers who can afford the level of debt they are taking on – both today and into the future," Roberts said. "We expect the overall impact on aggregate housing credit growth flowing from this change to be fairly modest, since many borrowers do not borrow at their maximum capacity."*

- MPAMAGAZINE.COM.AU -

HERE ARE SOME LESS KNOWN FACTS ABOUT CHRISTMAS

from an article in Good Housekeeping, that we thought you might enjoy:

1 ST. NICK WAS MORE GENEROUS THAN JOLLY

You probably already knew that the idea of Santa Claus came from St. Nicholas. The saint wasn't a bearded man who wore a red suit; that tradition came much later. In the fourth century, the Christian bishop gave away his large inheritance to the poor and rescued women from servitude. In Dutch, his name is Sinter Klaas, which later morphed into Santa Claus in English.

2 YOU CAN THANK PRINCE ALBERT FOR YOUR CHRISTMAS TREE

Brew a cup o' tea when trimming your tree this year to pay homage to its origins. When Prince Albert of Germany got a tree for his new wife, Queen Victoria of England, it really took off across the pond. A drawing of the couple in front of a Christmas first tree appeared in *Illustrated London News* in 1848. To use modern parlance, the idea went viral.

3 TINSEL HAS A STORIED HISTORY

Tinsel was invented in 1610 in Germany and was originally spun from real silver, making it far from the chintzy decoration it is now. The U.S. government also once banned tinsel because it used to contain poisonous lead. But never fear; now it's just plastic. It should still be kept away from young kids and pets though, since they could still choke on it

4 THIS CHRISTMAS GIFT HELD A LIFESAVING SECRET

During World War II, The United States Playing Card Company joined forces with American and British intelligence agencies to create a very special deck of cards. They distributed them as Christmas gifts, but they also helped allied prisoners of war escape from German POW camps. When wet, individual cards peeled apart to reveal maps of escape routes. Sometimes truth really is stranger than fiction.

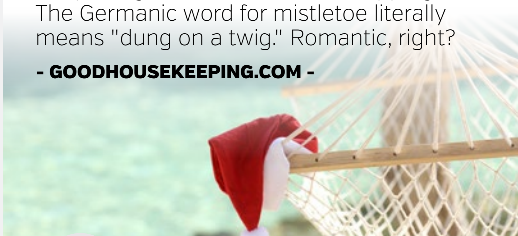
5 CANDY CANES ORIGINATED IN GERMANY

The National Confectioners Association says a choirmaster originally gave the red-and-white-striped candies to young children to keep them quiet during marathon church services. Grandmas who still sneak the kids sweets during droning sermons, history is on your side. It wasn't until a German-Swedish immigrant decorated his tree with candy canes in 1847 that they became popular as a Christmas candy.

6 MISTLETOE'S NAME ISN'T AS SWEET

Mistletoe's name might not inspire such a warm meeting once one learns its origin. Mistle thrush birds eat the plant's berries, digest the seed, and then help the plant germinate with their droppings. The Germanic word for mistletoe literally means "dung on a twig." Romantic, right?

- GOODHOUSEKEEPING.COM -



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OWNER OCCUPIER

1.98%

VARIABLE WITH FEE FREE REDRAW

(LOAN TO VALUE RATIO <70%)

*CONDITIONS APPLY

COMPARISON RATE

2.15%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

HOUSE PRICE GROWTH 3RD FASTEST IN AUSTRALIAN HISTORY

An analysis has found Australian house prices have grown at the third-highest rate since 1880, as big four economists have tipped they will hit their peak next year.

The research from REA Group data business PropTrack has shown capital city house prices have surged by 22% over the past year, one of the fastest rates of growth in Australian history.

The current rate was beaten by a 29% rise in the 80s, as financial deregulation came into effect.

Foreign banks were introduced into the local market, bringing competition and improving access to credit and facilitating the house price boom in 1989.

However the rapid price growth culminated in a financial crisis, REA noted, which weighed on house prices in the following years.

Meanwhile the top recorded price growth took place in 1950, with prices more than doubling, skyrocketing by 111%, with the end of the government's wartime price and rent controls.

PropTrack economist Paul Ryan commented that while the previous episodes of strong price growth have been followed by falls, it is "hard to see the same downturns befalling the current market, at least in the near-term".

> *"The outlook for price growth in the coming period appears solid, if unlikely to be as exceptional as we've seen over the past year," Mr Ryan said.*

HOUSE PRICES TO FALL IN 2023

While PropTrack believes an incoming price correction is unlikely, economists from CBA have projected a 10% fall in house prices in 2023, to coincide with a cash rate rise to 1.25%.

Similarly, Westpac released a forecast in November, tipping price growth will moderate from a 22% gain in 2021, to a more sedate 8% rise in 2022, before a 5% correction in 2023. Meanwhile, ANZ has forecast a price fall of 4% in 2023, to follow a 6% rise in 2022 and a 21% surge in 2021. The bank has forecast roughly 22% price growth for dwellings over the 2021 year, with a 7% rise tipped to follow in 2022.

But CBA economists expect the Reserve Bank will begin to raise the cash rate from November next year, which will dampen prices.

> *If true, property prices will hit their peak in 2022.*

"The price that someone is willing and able to pay for a home is predominantly influenced by two things – income and borrowing rates. As home prices move higher, affordability becomes stretched. said Gareth Aird, head of Australian economics at CBA.

CommBank economists expect the cash rate will lift as Australia reaches full employment and wages growth are pushed to 3%.

Apartments are also tipped to overtake house price growth, as the borders reopen and there is a shift in demand. CBA has tipped 9% growth for units and 6% for houses next year, compared to their respective 14% and 25% forecasts for 2021.

2022 PREDICTION		
+7%	+8%	+6%
CBA	WESTPAC	ANZ

2023 PREDICTION		
-10%	-5%	-4%
CBA	WESTPAC	ANZ

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