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Rate rises, living costs, housing affordability, savings... 2009 Mortgage Choice Consumer Sentiment Survey

More than one third of Australians plan to buy a property in the next two years despite concerns over rising interest rates, higher living costs and doubts over job security, according to the annual Consumer Sentiment Survey commissioned by Australia's largest independently-owned mortgage broker, Mortgage Choice.

The results indicate the country's more positive economic outlook is prompting almost half (40%) of Australians to revisit their financial plans, and a key piece of data shows 40% of responding mortgage holders believed they could afford to make repayments at an interest rate of over 11%.

Notwithstanding, the independent online survey conducted by Veda Advantage in early November 2009 and completed by 1,025 Australians found their biggest concern for 2010 is interest rates.

Mortgage Choice senior corporate affairs manager, Kristy Sheppard said, "Since the global financial crisis hit home, more borrowers are taking ownership over their financial situation and although many see rates as concerning, a high percentage are prepared for rate rises of at least five percentage points, which is much higher than is being predicted for the next couple of years. This suggests many borrowers can comfortably repay their home loan sooner, if they put their mind and budget to it."

"Improved sentiment from Australians around their livelihoods is also terrific to see. When compared to last year's results, job security slipped from the top of the 'biggest concern' list to third place this year, behind interest rates rises and other costs of living."

Concerns, rate rise affordability and property vs. shares

The survey data shows that for 2010, respondents were most concerned by interest rates (19% of respondents) and other costs of living such as utility bills and clothing (17%) than they were about their job security (16%) and economic management at Federal Government level (15%). Last year, the major personal concerns were job security (20%), followed by economic management at Federal Government level (18%) and other costs of living (17%).

This aside, almost three quarters of this year's respondents were very or fairly confident the Australian economy would be strong during 2010 (14% and 59% respectively), so much so that almost half of those without a mortgage (41%) planned to take the leap into property ownership within the next two years.

When asked to an answer with a mortgage interest rate of 6% in mind, 40% of mortgage holders said they could afford a rate increase of more than five percentage points before they would need to consider selling their property. 17% of those said they could afford 'any' increase - the second most popular response. On the lower end of the scale, 14% could afford four to five percentage points, 13% between three and four points, 15% between two and three, and 6% between 1.5 and 2 percentage points. 6% said they couldn't afford any rate rise before considering selling.

The majority of respondents (67%) anticipated rates to rise by 0.25% to 1.5% before June 2010.

Over half of all respondents (57%) felt the global financial crisis had made investing in property seem safer than shares. Generation Y was the most comfortable investing in property, with 62% believing property is safer. 58% of Baby Boomers agreed and 56% Generation X. Western Australia had the highest percentage of respondents who believed this to be the case, at 61%.

"As a housing market service provider, Mortgage Choice is pleased to see 41% of respondents planning to buy property in the next two years and 43% of them planning on an investment property. Hopefully, increasing demand from this buyer group will stimulate more housing construction," Ms Sheppard said.

"As we all know now, the Australian housing market has emerged from the financial crisis relatively unscathed compared to its global counterparts, which would probably be part of the reason why 64% of respondents believe house prices will rise in the period to November 2010. In turn, this trend may be influencing the 35% of respondents with an existing property planning to renovate rather than purchase a new one."

Spending, saving and budgets

A sign of the changing times, 44% of respondents said they would alter their budget in the next year to save more, while 32% say imminent rate rises and the economic recovery would not affect their savings plans. 16% were unsure whether changing conditions would impact their plans and 9% did not have savings and had no intentions to start in 2010.

"Given the economic turmoil they have just witnessed, we are surprised to see Gen X are the least likely to have a savings plan. 14% said they had no plan and no intentions to start in the new year, compared to only 8% Gen Ys and 6% of Baby Boomers," said Ms Sheppard.

Australians are taking a cautious approach to their 2010 spending, according to this year's survey. 40% of mortgage holders planned to make changes to their financial situation in 2010, while 30% were not expecting to make any and 31% were unsure. The top four changes were:

- 58% - Review my budget (compared to 47% in 2008)
- 55% - Review my mortgage/s (compared to 50% in 2008)
- 44% - Cut back on my spending (equal to the 2008 result)
- 40% - Pay off my credit cards (compared to 36% in 2008)

"Proving just how financially savvy they can be, 53% of Gen Ys with a mortgage planned to review their financial situation over the course of the year ahead and investigate the potential to purchase additional property. The majority of Gen Ys were focusing on reviewing their budget and cutting back on their spending, at 63% and 59% respectively. In comparison, only 40% of Gen X mortgagors and 34% of Baby Boomer mortgagors planned to review their finances, with their main focus on reviewing the budget followed by the mortgage."

The personal budget was under review by non-mortgage holders also, with 49% planning to alter their financial situation over the coming year. 21% did not expect to make any changes and a further 30% were unsure. The top areas non-mortgage holders planned to review were:

- 59% - Review my budget
- 42% - Take out a mortgage
- 40% - Cut back on my spending
- 36% - Pay off my credit cards

"It is pleasing to see more Australians giving their financial planning an overhaul ahead of interest rate rises and potentially higher living costs expected during 2010. Regular budget reassessment and actually managing your finances is much more effective in keeping financial distress at bay than simply maintaining the status quo. This is especially important for mortgage holders or those looking to take one out." Ms Sheppard said.

Interest rate and housing price predictions

Almost all survey respondents saw interest rates increasing between November 2009 and June 2010 (99%). These respondents predicted the following rate rises:

- 27% said a rise of between 0.5% and 1%
- 26% said a rise of between 1% and 1.5%
- 15% said a rise between 1.5% and 2%
- 14% said a rise between 0.25% and 0.5%
- 9% said a rise between 2% and 3%
- 5% said a rise of up to 0.25%
- 3% said a rise of between 3% and 5%

Cash rate rises almost certainly indicate the Australian economy is improving, which is supported by 59% of survey respondents saying they were fairly confident the economy will be strong during 2010. A further 14% were very confident, 16% said they were not confident but not worried, 10% were not confident but only a little worried and only 2% were not confident and very worried.

The changing economy has reversed expectations for housing prices in the year between surveys. Increased house prices over the next 12 months were anticipated by 64% of 2009 respondents, compared to 15% in 2008. A further 21% expected prices to remain stable (26% in 2008), 8% were unsure (equal with 2008) and only 7% expected a fall in prices (51% in 2008).

With housing prices predicted to rise, 55% of those planning to purchase in the next two years would make sacrifices to do so. The most likely sacrifices were:

1. Cut back on spending (Gen X the most likely, Baby Boomers the least likely)
2. Miss out on an overseas trip (Baby Boomers most likely, Gen X least likely)
3. Remain in their current job (Gen X most likely, Baby Boomers least likely)
4. Purchase a less expensive property than desired (Gen Y most likely, Baby Boomers least likely)
5. Purchase property in a non-ideal location (Gen X most likely, Baby Boomers least likely)

Other key statistics

- VIC is most likely to cope better with higher interest rate rises, with 21% able to afford a rise of 'any' percentage point. This was followed by NSW/ACT at 19% and QLD at 15%.
- 5% of respondents believed the expiry of the First Home Owner Boost would definitely improve affordability for first homebuyers, 18% said that was somewhat likely, 28% were unsure, 23% said it was highly unlikely, 22% said 'somewhat unlikely' and only 4% said it would not make a difference.
- Almost half of the Gen Y respondents had a mortgage (47%).
- Of those looking to purchase property in the next two years, males were more likely to consider an investment property than females (49% of males vs. 38% of females).
- Almost half of Gen Y respondents (45%) will spend time at work - before, during and after - researching their property and/or mortgage needs whereas all other generations are much more likely to research their options at home or elsewhere.
- 65% of Australians will consider using a mortgage broker in future.

Call the customer service centre on 13 MORTGAGE, visit www.mortgagechoice.com.au.

For further information or to arrange an interview, please contact:

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About the Survey

Mortgage Choice commissioned the independent nationwide survey in November 2009, asking a range of questions about sentiment to 1,025 respondents. The last consumer sentiment survey was conducted in November 2008. Please note, due to South Australian and Northern Territory being underrepresented these results have excluded. For the purpose of this survey, the key to generations is as follows: Generation Y refers to those aged 18-29 years, Generation X to 30-49 years and Baby Boomers to people aged 50 years and over.

About Mortgage Choice

Mortgage Choice, Australia's largest independently-owned mortgage broker, has a national network of hundreds of franchises and loan consultants supported by Group and State Offices. It provides loan advice on, and choice of, products offered by an extensive panel of Australia's leading lending institutions.

A number of the company's consultants provide a broader service offering, also helping customers source personal and commercial loans, asset finance and risk insurance.

Importantly, Mortgage Choice head office pays franchisees the same commission rate for home loans they write, regardless of the rate paid by the lender selected by a new customer - and has been doing so for most of its 17-year history. The company has no products of its own and works in each customer's interests to source a loan that suits their individual needs.

Mortgage Choice has no balance sheet or funding risk, and consistently delivers strong profits and attractive yields. The company listed on the Australian Stock Exchange in August 2004 (ASX sign: MOC) and is a member of the Mortgage & Finance Association of Australia (MFAA).