September 2021

RESPONSE TO COVID-19

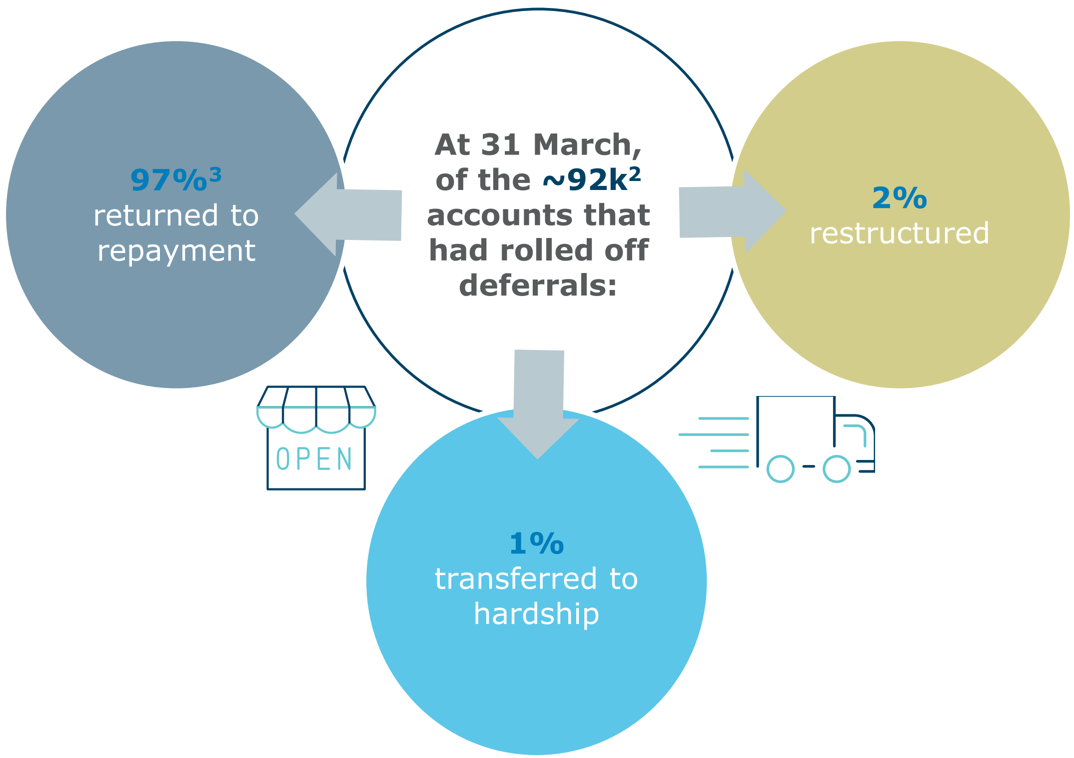
REPORT TO HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

Public

AUSTRALIA HOME LOANS 2020 DEFERRALS OUTCOMES

DEFERRAL ROLL-OFFS

ANZ provided deferral support through 2020 and early 2021 for ~96k home loan accounts. Our deferral support for these accounts ended on 31 March 2021[1]



As at 31 July 2021, of those accounts that had a 2020 loan deferral
~99% were not in default[4]
~1% are being managed by our hardship team[5]
~42% had a savings buffer[6] of >3 months

Refer to last page for footnotes.

AUSTRALIA SME & COMMERCIAL LOANS 2020 DEFERRALS OUTCOMES AND ADDITIONAL SUPPORT

DEFERRAL ROLL-OFFS

ANZ provided deferral support through 2020 and early 2021 for ~23.8k business loan accounts. Our deferral support for these accounts ended on 31 March 2021[7]

At 31 March, of the ~23.8k accounts ($9.6b[8] in lending) that rolled off deferrals:

90% returned to repayment

6% restructured

4% transferred to hardship

As at 31 July 2021, of those accounts that had a 2020 loan deferral

- **~97.5%** were not in default[4]
- **~5%** are now being managed by our hardship team
- **~74%** had a savings buffer of >3 months

SME Loan Guarantee Scheme (I-III)

Over 9.5k business accounts supported; ~$980m in lending provided[9]

Refer to last page for footnotes.

HARDSHIP SUPPORT FOR RETAIL AND COMMERCIAL CUSTOMERS

We provide customers with a range of options to help address their circumstances

- Reducing payments to minimum amount
- Access to redraw and/or offset
- Change to an interest only period
- Refinancing / consolidating debt
- Temporarily reducing or pausing repayments

We listen to customers to understand their situation and can refer them to external support

- National Debt Helpline – independent free financial counselling
- CareRing program (Uniting) – support in tackling issues facing a household, including family and domestic violence
- Fitted for Work – a program providing women with the skills to become job ready
- Way Forward Debt Solutions – independent free debt advice and help working with creditors

Refer to last page for footnotes.

2021 LOCKDOWN ASSISTANCE

Further support for Home Loans and SME & Commercial Loans

From 8 July 2021 hardship options expanded for customers affected by lockdowns. Offered following assessment of customer circumstances

May include up to 60 days of zero or partial loan repayments with interest capitalised and no record of arrears on return to repayment

Requests managed by our Customer Connect (hardship) teams

As at 24 August 2021

The volume of applications for 2021 Lockdown Assistance is **<4%** of that for 2020 Deferral Support over the analogous period. **1.5%** of those on 2020 Deferral Support have been provided 2021 Lockdown Assistance

	2021 Lockdown Assistance	2020 Deferral Support
Take-up	Very low inquiry rates and application volumes[10]	Significant volumes in early months
Length of deferral	60 days, then review and if required consider other hardship support options	6 months offered, with a later four month extension where needed
Assessment	Conversation with each customer to understand financial situation	No assessment. Available to all affected customers on request if account in good order (<30 days past due)

Refer to last page for footnotes.

CORPORATE RESPONSE TO COVID-19

ANZ is taking action to support the wellbeing of our employees and customers in Australia and around the region.

Approx 95% of non-branch staff working from home

Staff are returning to the office in some states (WA, SA, QLD) in line with COVID-19 workplace requirements

Protecting our employees and customers in our branches

Perspex screens, enhanced cleaning, hand sanitiser & masks available

COVID workplace vaccination pilot from 26 Aug, 12 hotspot NSW LGAs

CovidSafe plans for our branches and buildings, visiting customers, domestic travel, meetings, events & recruitment

Regular webcasts from ANZ's Chief Medical Officer on COVID-19 and vaccinations

Staff support for medical care and vaccinations in multiple countries including PNG, India, Fiji, Philippines

A range of wellbeing resources including: a wellbeing app; programs to support mental & financial wellbeing of staff and their families; and reimbursement of equipment for home workspaces

Physical distancing in offices: every second desk not in use, meetings via video conferencing & limiting people in elevators

Customer Support Program rolling out across Australia providing counselling to distressed customers

NOTES

1. Prior to 8 October 2020, COVID-19 loan deferrals were available to customers if either their repayments were less than 30 days past due, or if their repayments were less than 90 days past due and they were up to date at 1 March 2020. From 8 October 2020, loan deferrals were available to customers that are less than 90 days past due.
2. Remaining customer accounts given a loan deferral either did not roll off deferral until the next payment fell due, or had a decision pending e.g. on a restructure.
3. Percentage refers to share of customer account volume.
4. Default defined as where a repayment is 90 days or more past due.
5. As at 31 July 2021, 81% (1,173 accounts) of those managed by our hardship team were not in default.
6. Buffers for home loan customers at 31 July 2021 are calculated at customer level, incorporating all retail debts within the customer cluster at ANZ, and all funds available in ANZ redraw, offset and transaction and savings accounts.
7. Prior to 1 October 2020, COVID-19 loan deferrals were available to all Commercial customers if the excess and arrears for all group linked business accounts was less than 30 day past due. From 1 October 2020, loan deferrals were available to Small Business customers that were less than 90 days past due.
8. EAD is as at time of deferral; account numbers as at 31 March 2021
9. Volumes and EAD as at 31 July 2021 for lending under SME Loan Guarantee Schemes phase one, two and three.
10. ANZ had received 4,794 applications for home loan assistance and 365 applications for business lending support as at 24 August 2021. Less than 50% of applications result in a Lockdown Assistance deferral.

September 2021

Delta downgrade

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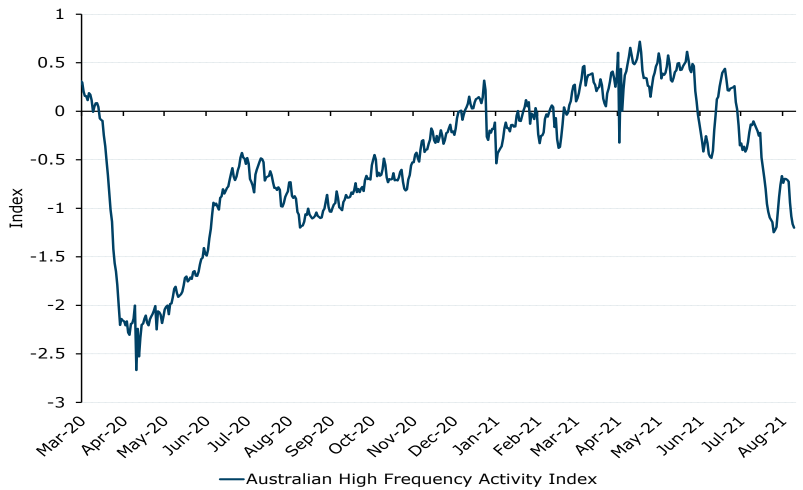
The following was originally published within the ***Australian Macro Weekly: Delta blow delays the RBA*** on 20 August 2021.

Delta blow delays RBA

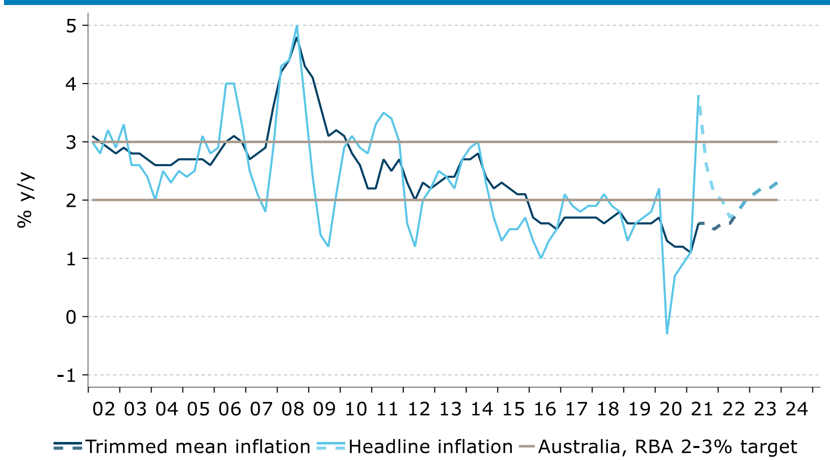
- As a consequence of Delta, we don't see the combination of inflation above 2% and wages growth at 3% or higher being achieved until around mid-2023. This is some six months later than we previously expected. With the RBA wanting to see inflation sustained within the target band for a couple of quarters before it acts, we've pushed our forecast for the first rate hike into H1 2024. Whether the taper in weekly bond purchases is delayed in September is still up in the air and will depend on how things evolve before the RBA's meeting.
- The efforts to combat Delta will push GDP down more than 3% q/q in Q3. With the NSW lockdown expected to extend until November and at least some other states/territories likely to experience movement restrictions, we have scaled back the expected rebound in Q4. This takes our expectation for growth over the year to December 2021 down to 1.4%. But we think the easing of restrictions through 2022, enabled by the vaccine rollout, will combine with fiscal and monetary stimulus to push growth to 5% next year.
- While we see sizeable employment losses over the next few months, the hit to the labour market is expected to be much smaller than GDP might imply. We expect the unemployment rate to average 5.1% over the December quarter and then trend lower in 2022 and 2023. This is enough to delay the lift in wages growth to 3% or more until around mid-2023. In turn, this restricts inflation from moving meaningfully above 2% until that year.
- The risks around this outlook are much larger than usual given the uncertainties in how the pandemic will play out.

Lockdowns are reducing physical movement and economic activity



Source: Apple, Google, OpenTable, ANZ Research

We expect inflation to be in the RBA's 2-3% target band in 2023



Source: ABS, Macrobond, ANZ Research

Delta downgrade

We now expect GDP to fall 3.3% q/q in the September quarter (down from our previous forecast of -1.3%). We expect a modest rebound of 2.4% in Q4, given our assumption of ongoing rolling lockdowns. A negative result in Q4 (which would then put Australia into technical recession) seems unlikely at this stage, as it would require that restrictions are heavier (and hence economic activity lower) across the whole quarter. This seems unlikely given the acceleration in vaccination rates and the increased supply of Pfizer and Moderna vaccines expected in Q4. For the year to December, growth is now expected to be 1.4%, down from our previous forecast of 3.8%. We then see growth rebounding strongly to 5% over 2022 as movement restrictions beome less frequent and intense.

We have downgraded our growth and labour market forecasts as the third wave of COVID infections in Australia worsens. Australia's third big wave of COVID-19 infections is proving harder to quash than the first two. Movement restrictions will weigh on economic activity for some months.

The assumptions underpinning our forecasts have a significant bearing on the outlook and on the risks around it.

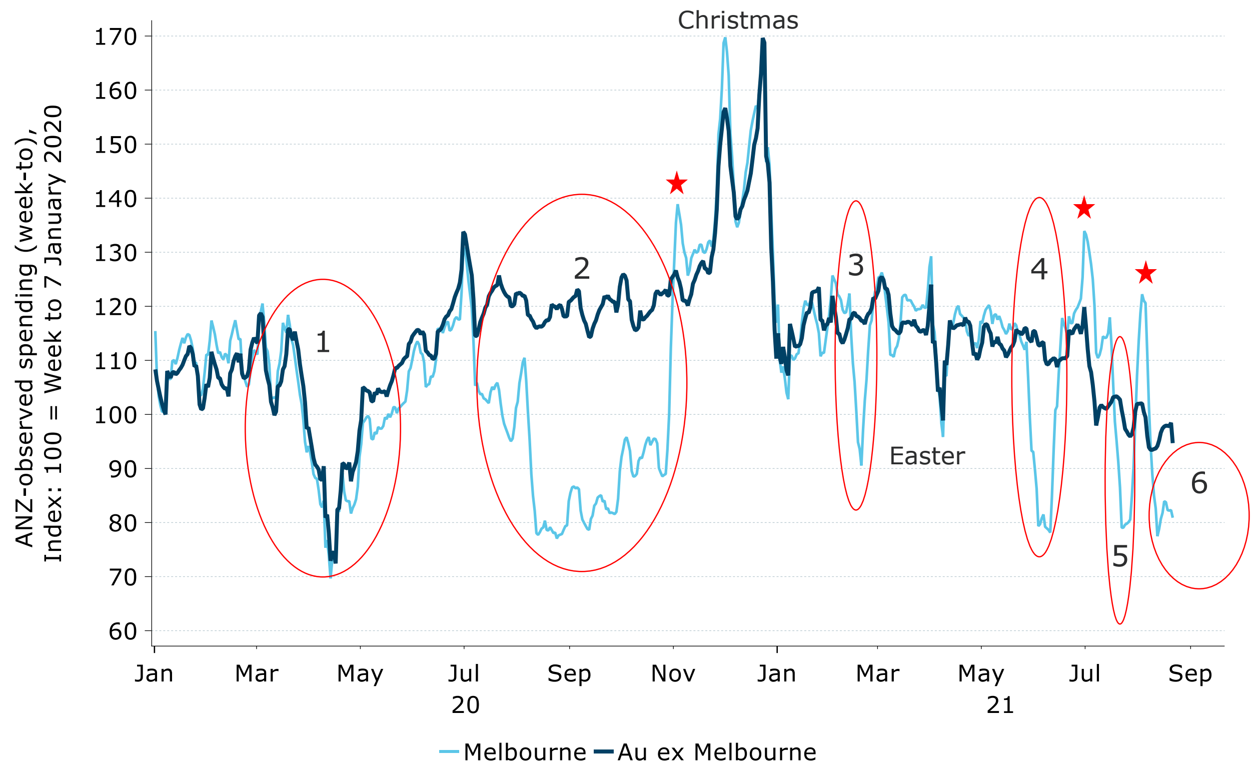
- In NSW, we assume the state will remain largely locked down until mid-to-late November when vaccinations are expected to reach the critical 80% level the Doherty Institute has nominated as a target. After that we expect to see a gradual easing of restrictions, although intermittent shorter lockdowns are likely to be required for some months.
- In Victoria, we expect the current lockdown to be extended until at least the end of September, with restrictions very gradually lifted thereafter, with the risk of short sharp lockdowns extending into the December and March quarters.
- For other states, we expect ongoing rolling lockdowns, but of shorter duration, extending into 2022.

Even after vaccinations reach 80% (which is estimated to be somewhere between mid-November to mid-December across the states), there will continue to be restrictions. The Doherty report highlighted this issue, and international experience shows that the virus continues to spread even amongst the most highly vaccinated populations. Mask use, social distancing and limited numbers at venues are all measures which are likely to be used in some form while COVID is still circulating.

Lockdowns across Australia have caused gaps in spending, but haven't left scars. Melbourne, which is now in the midst of its sixth lockdown, has generally seen spending fall by around 30% during lockdowns, but these declines only last as long as the lockdowns themselves.

ANZ observed spending during Melbourne's lockdowns

Circles denote Melbourne's 6 lockdowns so far, whereas stars show where residents have "made up for lost time" by spending far more than the national average after lockdowns end.



Source: ANZ Research

Temporary lift in unemployment

We are forecasting a net 200,000 workers (-1.5%) will lose employment over the next couple of months but unemployment is only expected to rise to a little over 5% as participation falls.

The employment losses will unfortunately impose hardships on many households and they will again be disproportionate in the lowest earning occupations. But if we do see a loss of around 200,000, this would be a much smaller number than experienced last year, despite the current lockdowns being much longer. For comparison, 462,000 workers in NSW and Victoria lost employment during last year's national lockdown.

We think there are three reasons for this.

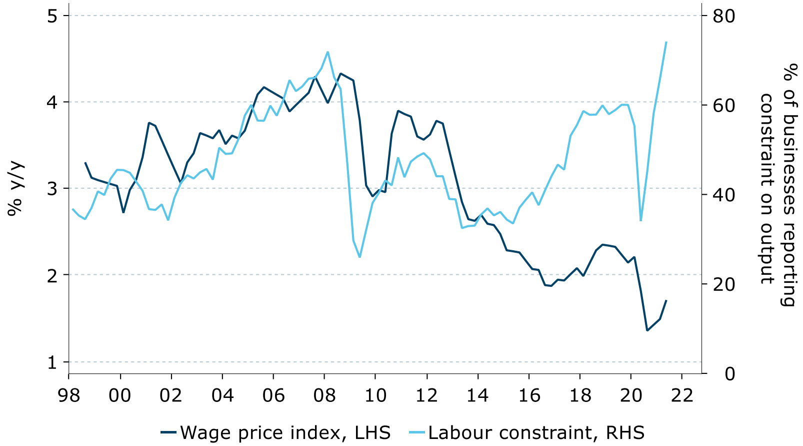
- First, greater resilience of the labour market and economic activity more broadly, as discussed above. ANZ Job Ads only declined marginally in July and is showing no signs of its 59% plunge within two months last year. And while newly lodged job ads in NSW fell more than 10% in July, according to the National Skills Commission, they were still up almost 25% on the pre-pandemic level.
- Second, policy support, including JobSaver, which requires businesses to maintain their staffing levels.
- Third, heightened competition for workers prior to the lockdowns is encouraging businesses to hold onto their workers, even if they can't be fully utilised, to avoid the costs and delays of rehiring once restrictions ease.

We see risks to the downside though. In particular, labour hoarding will make less sense for businesses the longer restrictions continue. And we have not assumed a spread of Delta cases triggering longer lockdowns outside of NSW, Victoria and ACT.

We expect a temporary lift in unemployment

Source: ABS, Bloomberg, Macrobond, ANZ Research

Difficulty to find labour may curb job losses but isn't leading to much wages growth yet



Source: NAB, ABS, Macrobond, ANZ Research

25 August 2021

Housing: Delta unlikely to derail strength

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House price strength continues despite Delta, but building approvals coming back to earth

- The housing sector remains in very good shape. National house prices continue to rise strongly, even in Sydney where increasing levels of mobility restrictions have been in place since June in response to the rising number of Delta COVID cases. Ultra-low interest rates, high savings buffers and ongoing fiscal support are likely to continue to support the market.

- We've bumped up our 2021 forecasts a little. Since March we've been forecasting house price gains of between 15-20% across the capital cities, but recent performance has been stronger than we expected. We now forecast average capital city housing prices to rise just over 20% in 2021. We expect, however, that price gains will moderate from the hectic pace of H1 2021, given the increased uncertainty around the outlook, slightly higher fixed mortgage rates, and the prospect of macroprudential measures. We're expecting average price gains of 7% in 2022.

- The market remains tight, with the combination of strong demand and low supply pushing prices higher. Housing finance rose 83% in the year to June, investors are returning to the market, auction clearance rates remain in the mid-70s and households continue to report expectations of significant price rises. Sales continue to outpace new listings, leaving stock levels very low compared with history.

- **Housing construction activity** is rebounding sharply, and there is still a substantial amount of work in the pipeline, but the impact of the federal HomeBuilder program and other government support schemes is now unwinding, and approvals are falling rapidly. The large pipeline of activity will underpin strong growth in housing construction through to the end of 2021 and H1 2022, before activity brought forward by government incentives dries up.

- Government stimulus, superannuation withdrawals and mortgage repayment deferrals have lowered the risk of **financial stress** by providing assistance to some borrowers. Households have very significant buffers. Credit growth, however, is accelerating and this is likely to keep the regulators on alert. We continue to expect the Australian Prudential Regulation Authority (APRA) to step in with macroprudential controls, although heightened uncertainty around the impact of the third wave of COVID and associated shutdowns may delay implementation until 2022.

- Not surprisingly, housing affordability has deteriorated. Across all metrics and all states, buying or renting a home has become less affordable.

Prices

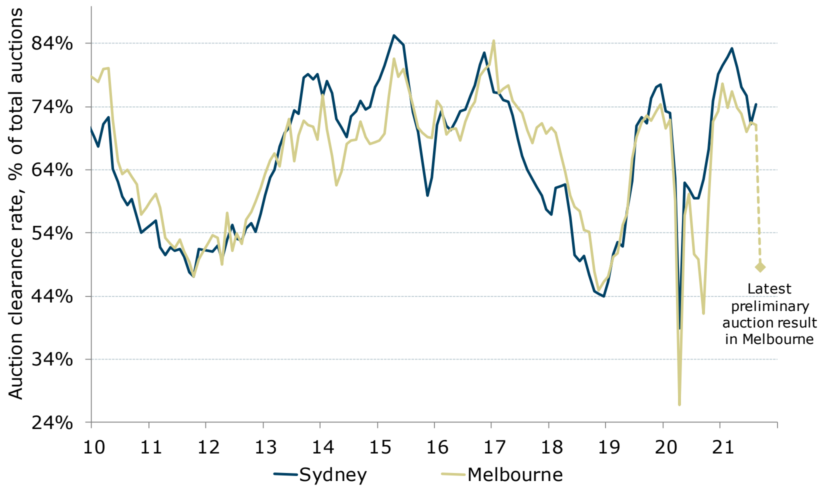
House prices remain firmly on an upward trajectory

- We have bumped up our housing price forecasts a little and now see prices rising just above 20% in 2021 on average across the capital cities. We still anticipate some slowdown in price growth over coming months, driven by slightly higher mortgage rates, decreasing affordability and the potential for macroprudential tightening.
- The risks to the outlook appear evenly balanced. While the current momentum in prices suggests that growth in both 2021 and 2022 could outpace our forecasts, particularly if macroprudential tightening is delayed, the increased uncertainty around Delta and extended lockdowns pose some offsetting downside risk.
- Prices rose a rapid 1.9% m/m in July, and were up 6.6% over the previous three months. Strength was broadly based, with Sydney (+2.1% m/m) and Brisbane (+2.1%) leading the pack. Momentum was also evident in Hobart (+1.9%), Melbourne (+1.8%) and Adelaide (+1.8%), while Perth* made the smallest gain (+0.8%). Prices are now well above year-ago levels across all capital cities.
- Recent growth in housing finance suggests that prices will continue to rise solidly in coming months. While owner-occupiers were early drivers of the market, investor lending is now surging. Over the six months to June, investor lending rose 55% and has more than doubled since June last year. While still running at a solid clip, owner-occupier lending has slowed a little, largely because of a pull-back by first home buyers. Over the six months to June, lending to first home buyers fell 3%, while lending to other owner-occupiers rose 23%. Overall, though, momentum in housing finance is slowing after a year of stellar growth.
- As we discuss later, affordability constraints are now biting, and these are likely to see first home buyer lending continue to drift lower.

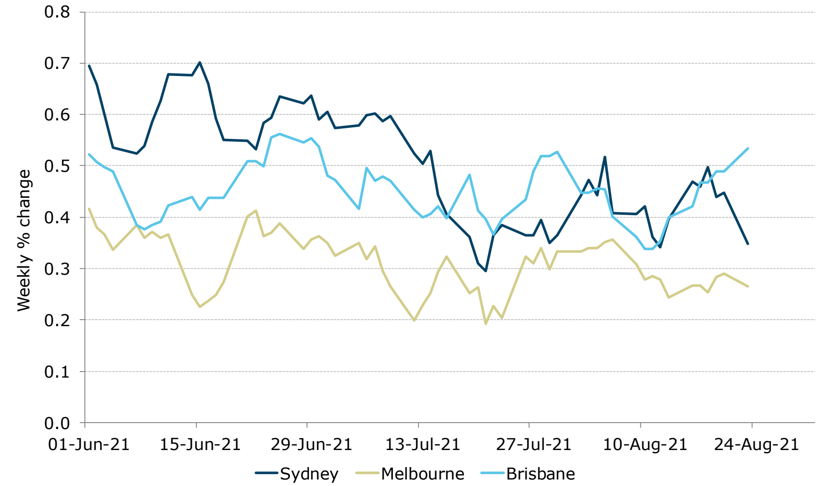
* Perth prices subject to revisions from CoreLogic

Delta is having an impact, but not enough to reverse the trend

The ban on in-person inspections has seen clearance rates drop sharply in Melbourne

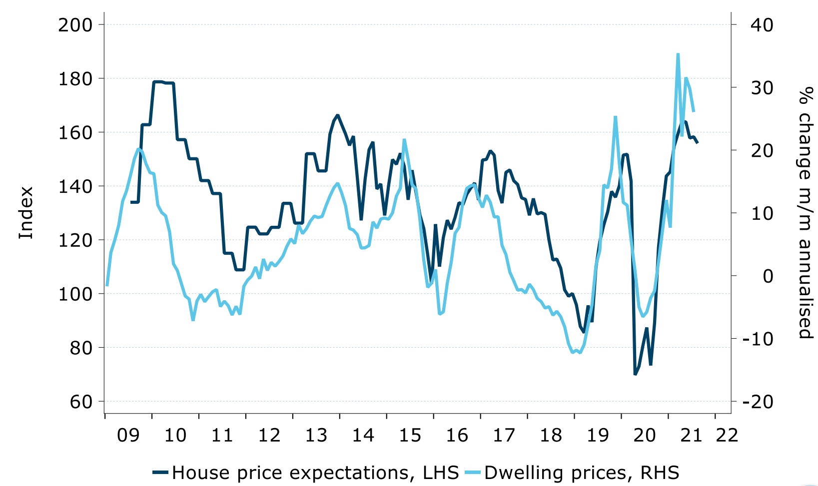


But daily data show that prices continue to rise solidly, albeit at slower rates to Brisbane



Despite two months of lockdown, Sydney sales remain very high

House price expectations remain elevated despite the uncertainty

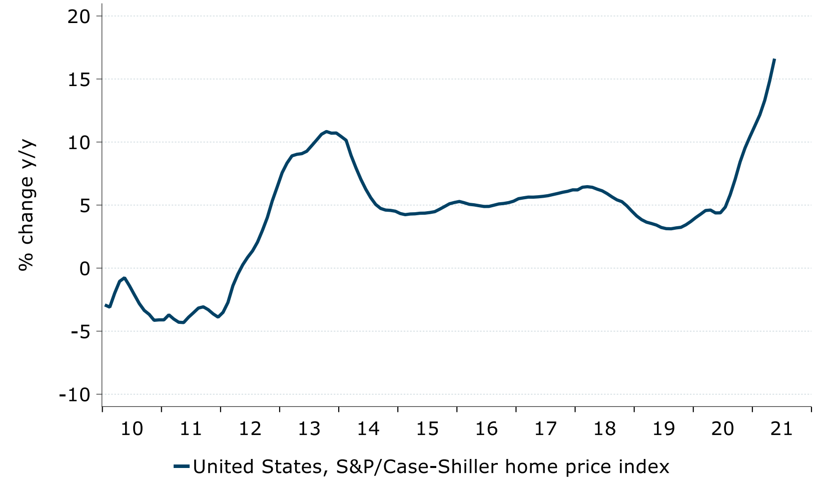


Source: CoreLogic, Westpac-Melbourne Institute, Macrobond, ANZ Research

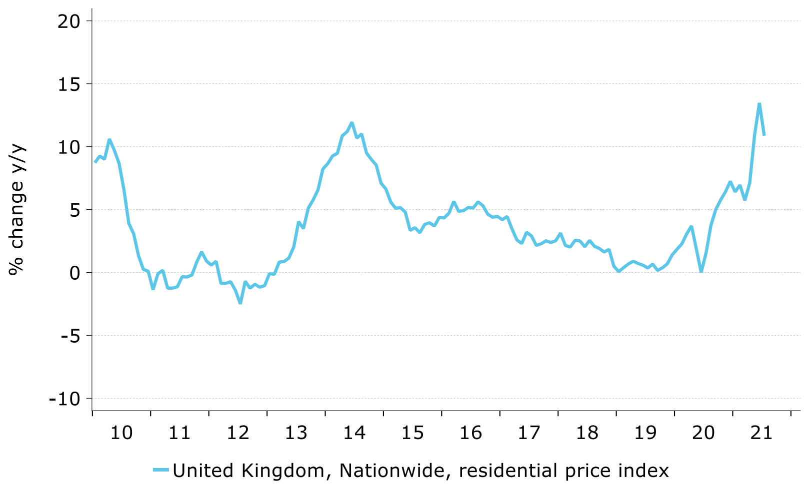
It's not just Australia. Record low interest rates are pushing up house prices around the world.

New Zealand

United States



United Kingdom



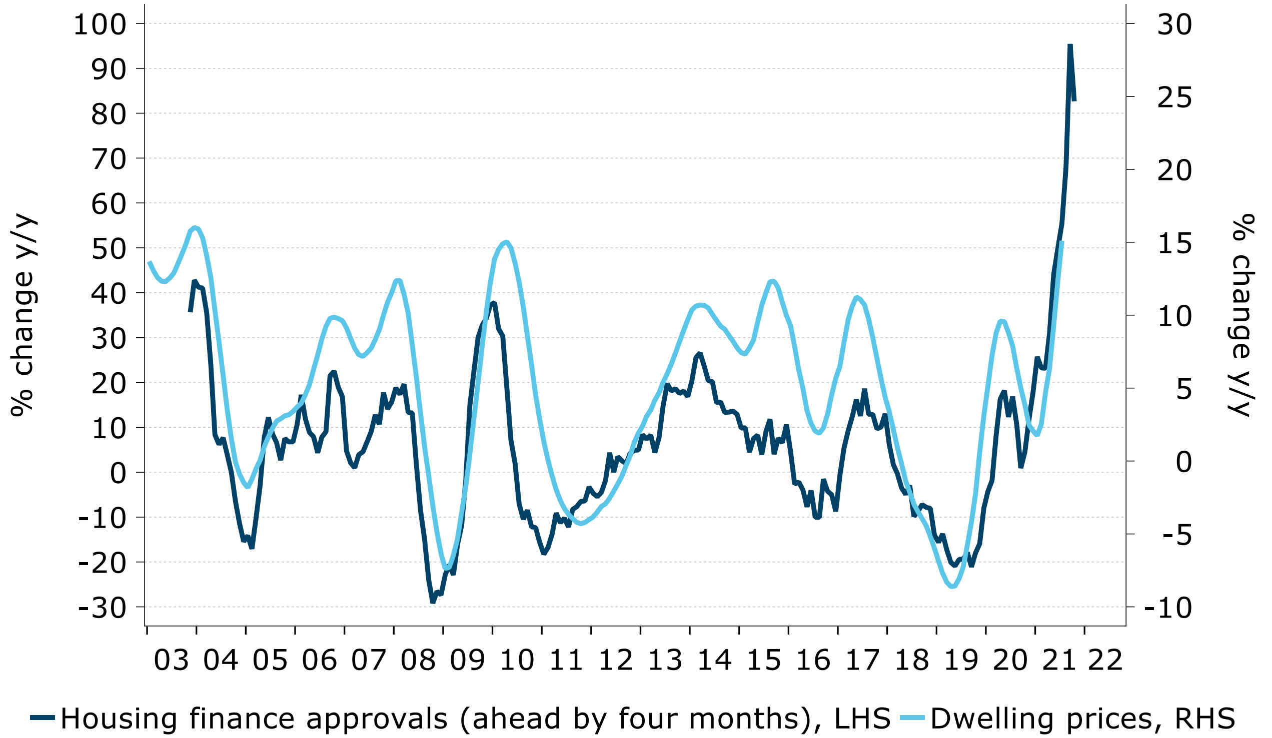
Canada

Source: SPDJI, Nationwide, REINZ, Federal Reserve Bank of Dallas, Macrobond, ANZ Research

Growth in new housing finance commitments looks to have peaked

While housing finance is coming off the boil, house prices look set to continue to rise solidly.

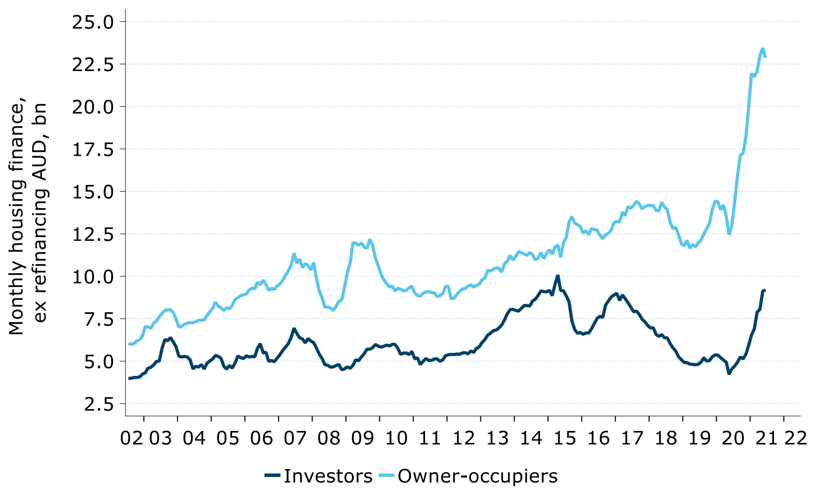
Housing lending and prices



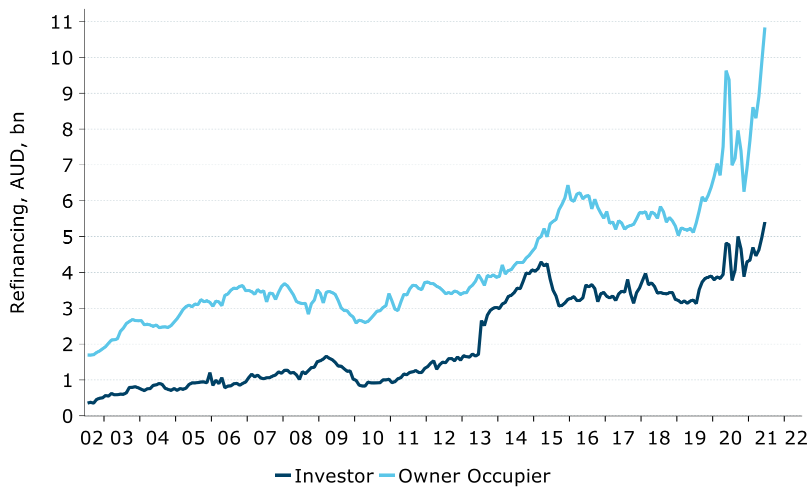
Source: ABS, CoreLogic, Macrobond, ANZ Research

Housing finance: at or close to a peak, with first home buyers passing the baton to investors

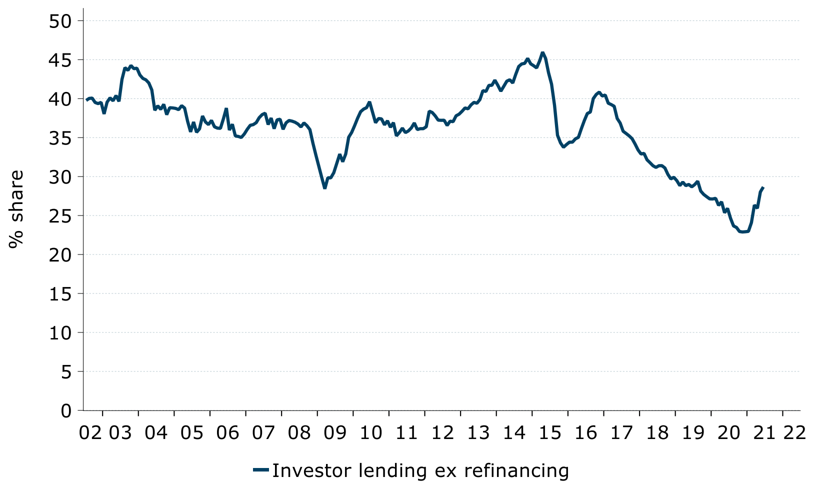
Housing finance has risen rapidly



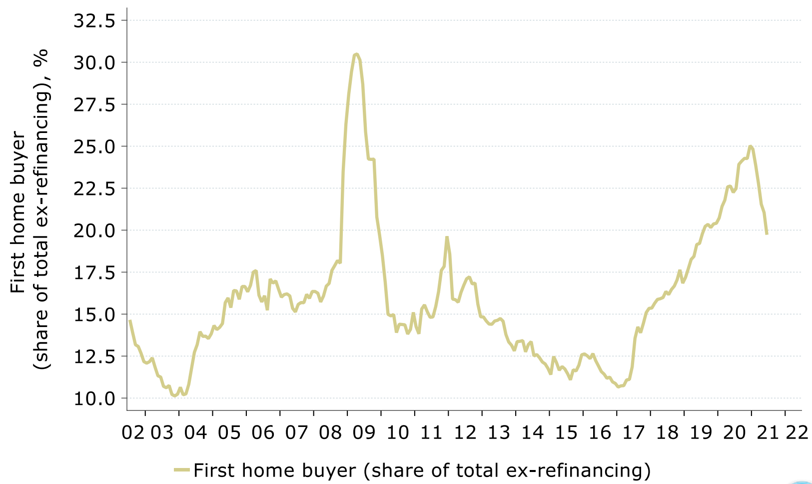
Refinancing has picked up again



The investor share of finance is picking up quickly…



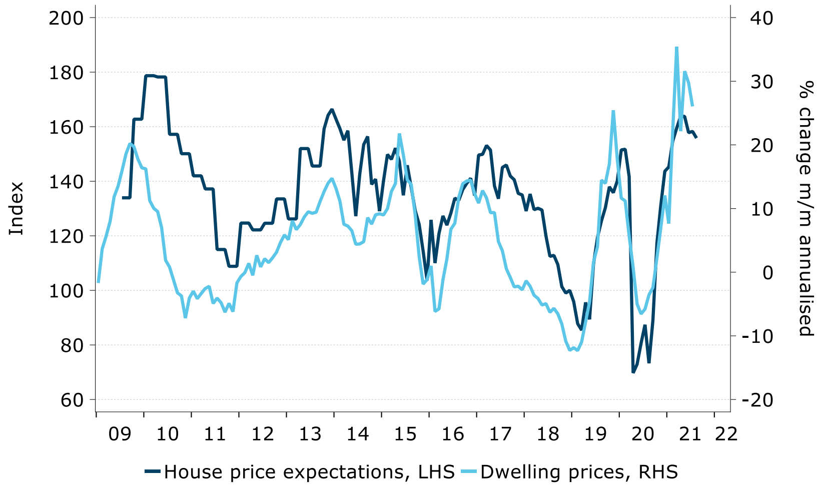
…while the share of first-home buyer finance has declined



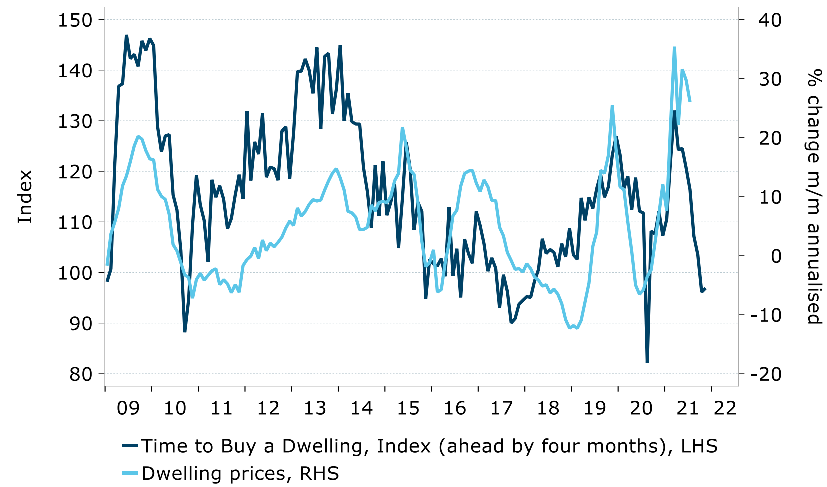
Source: ABS, Macrobond, ANZ Research

Households and businesses remain upbeat about the house price outlook, but worries about affordability are rising

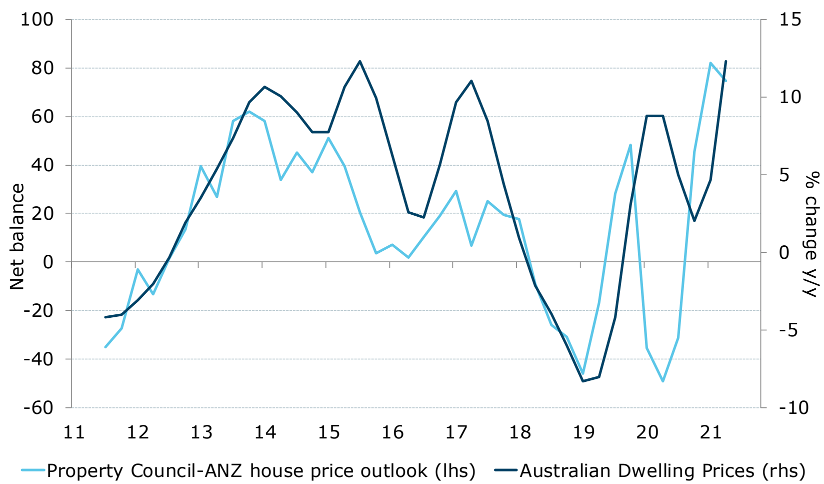
House price expectations remain elevated…



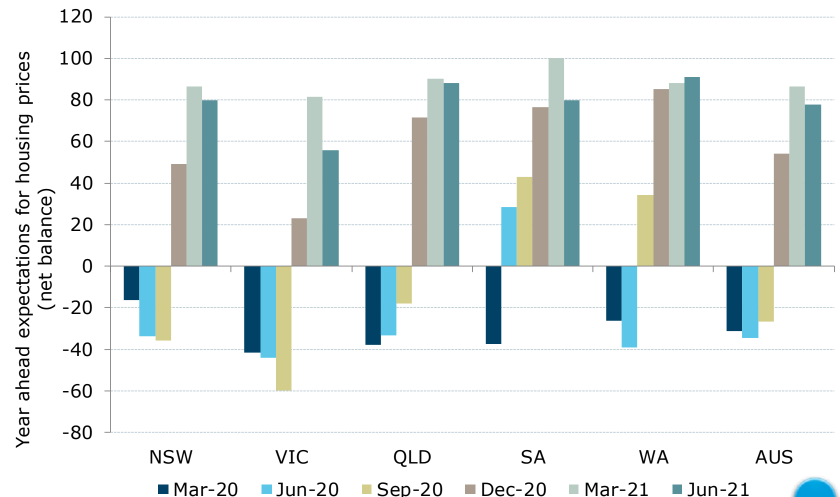
…as affordability constraints bite - “time to buy a dwelling” down sharply



Property industry participants continue to expect strong house price gains



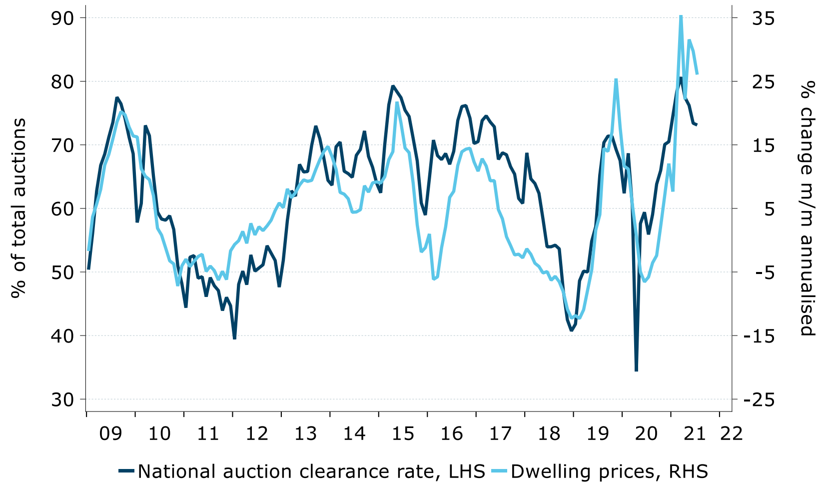
…with expectations still very positive across the states



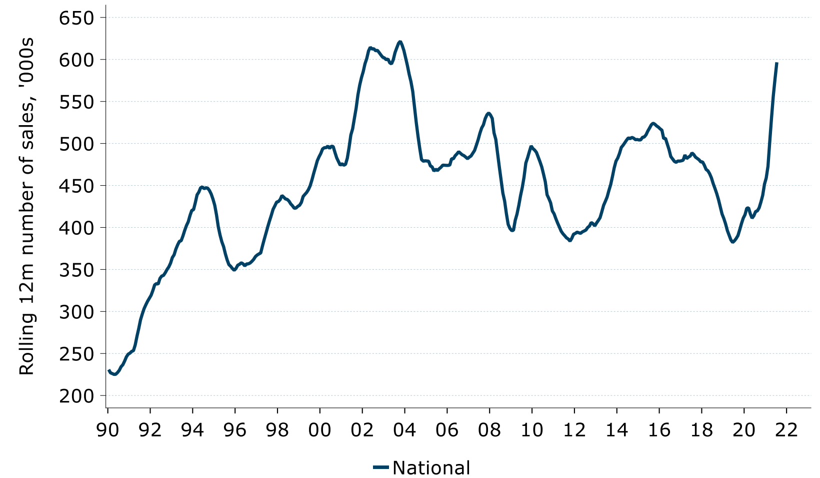
Source: ANZ-PCA, CoreLogic, Macrobond, Westpac-Melbourne Institute, ANZ Research

The market remains very tight: auction clearance rates and sales are elevated, but new listings aren't keeping pace with sales

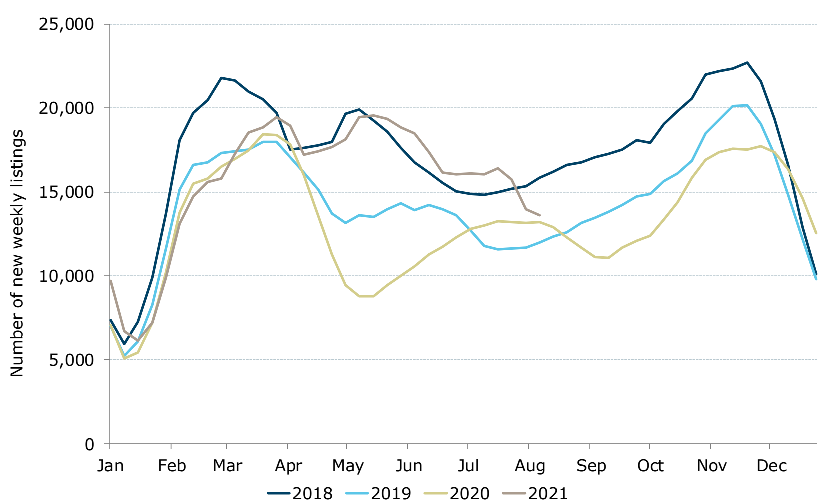
Auction clearance rates have eased slightly, but remain high



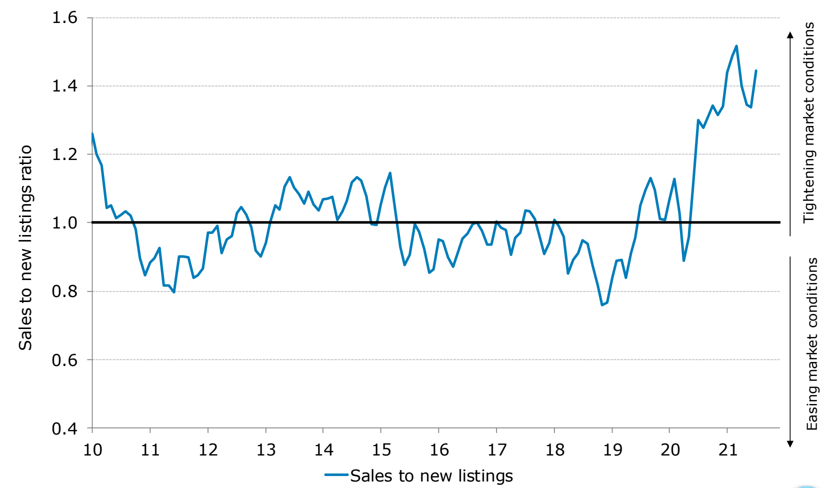
Sales activity remains very strong



New listings have fallen recently



The sales-to-new-listings ratio points to a very tight market



Source: CoreLogic, Macrobond, ANZ Research

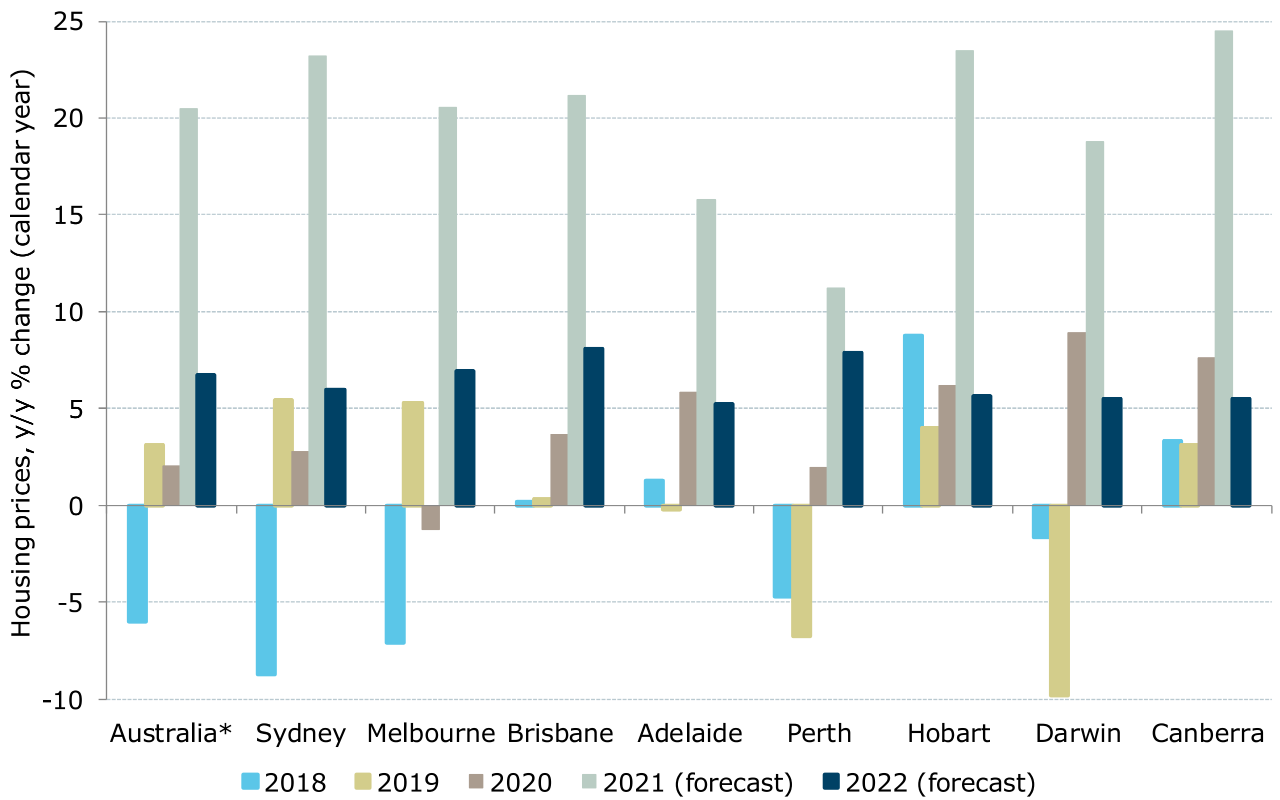
We expect price gains to moderate in 2022

We have upgraded our forecasts for 2021 to reflect stronger than expected performance to date.

We now expect capital city prices to rise just over 20% on average in 2021.

Canberra (+24%), Hobart (+23%) & Sydney (+23%) are the best performers, with Brisbane (+21%), Melbourne (+20%) and Darwin not far behind.

Housing price forecasts, by capital city#



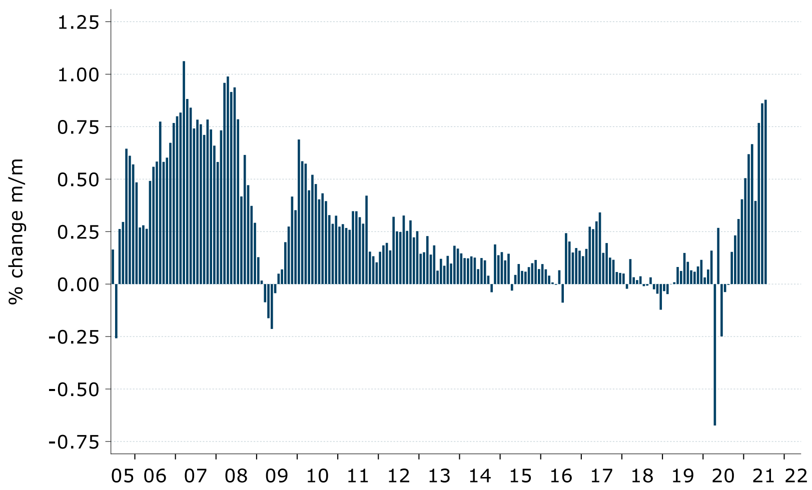
* Capital city weighted average

Perth prices subject to revisions from CoreLogic

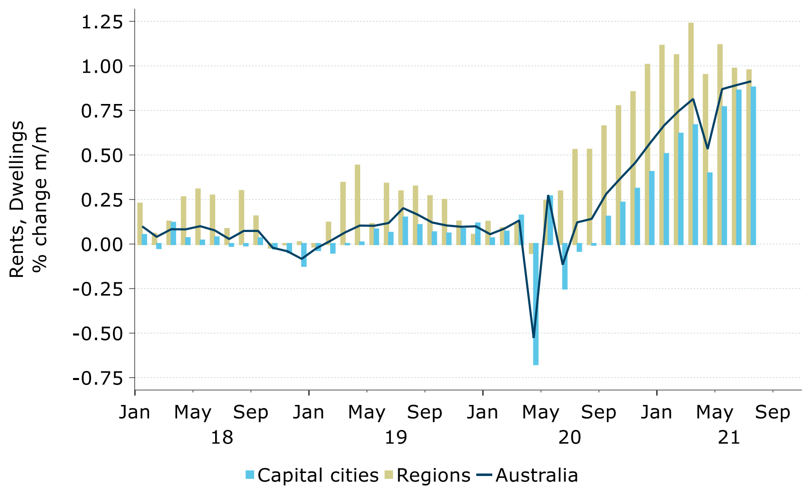
Source: CoreLogic, ANZ Research

Rental markets are strengthening, with Sydney and Melbourne catching up quickly

Rental growth is accelerating...



...as capital city markets recover



- The rental market is recovering strongly. After a mixed performance through 2020, with regions outperforming capital cities, and houses outperforming units, the market is now showing broad-based strength. The strong economic recovery and fast reduction in unemployment is likely to bolster the rental market.
- After falling sharply through 2020, growth in unit rents has largely caught up with house rents. Capital city rents have picked up strongly in recent months, helped by a robust recovery in Sydney and to a lesser extent Melbourne. This strength is largely being driven by the unit markets in each city.
- Residential vacancy rates continue to trend down. At a national level, vacancies are near a decade low, but this masks divergent performance across capital cities. In Melbourne and Sydney, vacancy rates have turned down, but remain high compared to history. In Perth, Hobart and Adelaide vacancy rates are below 1%.

Source: CoreLogic, Macrobond, ANZ Research

Construction activity

Housing construction strength unwinding after stimulus boost

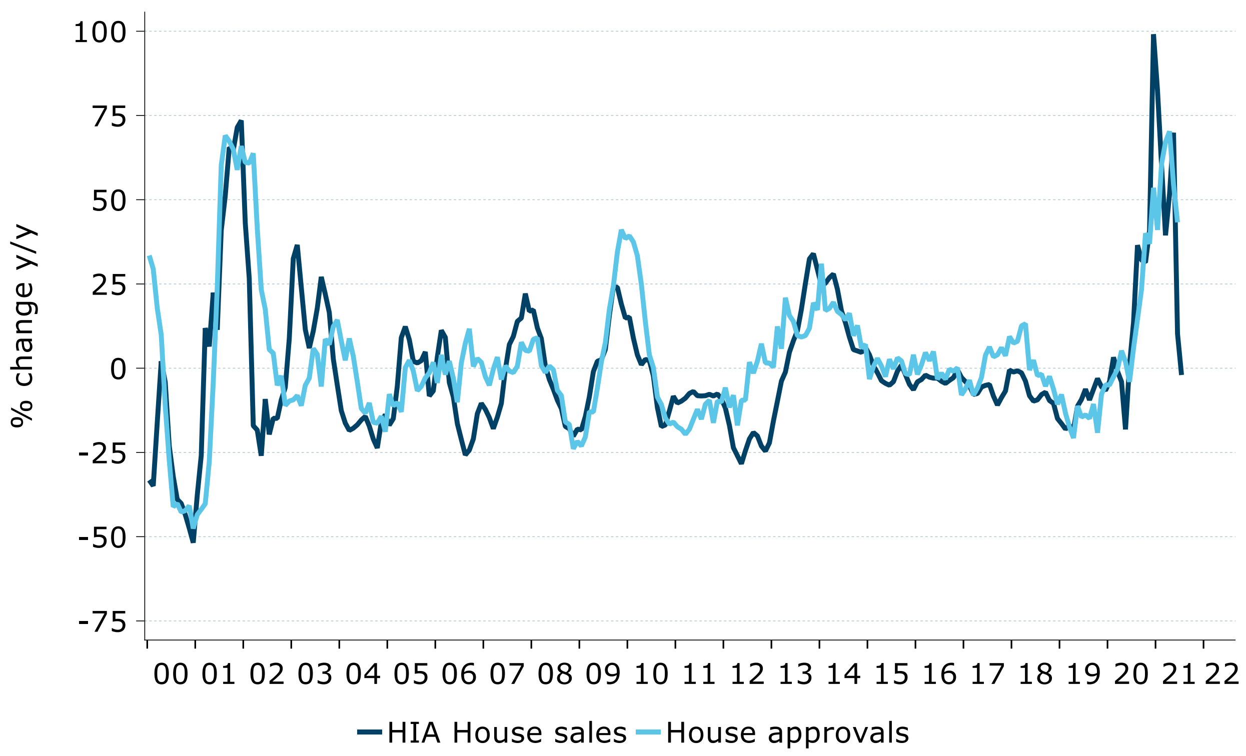
We expect housing construction to grow close to 15% this year, before activity brought forward by government incentives dries up. Low interest rates will keep a floor under activity in 2022.

- After a massive gain, building approvals are now coming back down to earth. They fell 18% in three months from the peak in March. Leading indicators suggest further solid falls in coming months. HIA house sales have largely returned to pre-pandemic levels, and housing finance for the construction of new homes is down nearly 40% from the peak in February.
- Houses have been the main beneficiary of the strength. They have trended up as a share of new building approvals across all states, other than NSW. While the HomeBuilder program was undoubtedly a factor, the persistence of working from home has increased the appeal of larger dwellings at the expense of proximity of the CBD.
- Very low interest rates and continued fiscal support for home buyers should underpin housing demand going forward, although slow population growth will be a headwind.
- While building approvals have turned down, there is still a significant amount of construction activity in the pipeline. This will keep home builders busy for the rest of 2021 and into 2022, with activity set to continue to rise through this period. Reduced capacity on building sites in NSW and Victoria given social distancing requirements may push some activity from 2021 into 2022. Once that pipeline dries up, construction activity looks set to decline, although ongoing low mortgage rates and a rise in apartment approvals should cushion the fall.

After a huge stimulus boost, house approvals are now unwinding

The boost from the HomeBuilder program and other state-based schemes is now unwinding, and building approvals are falling.

New house sales and building approvals

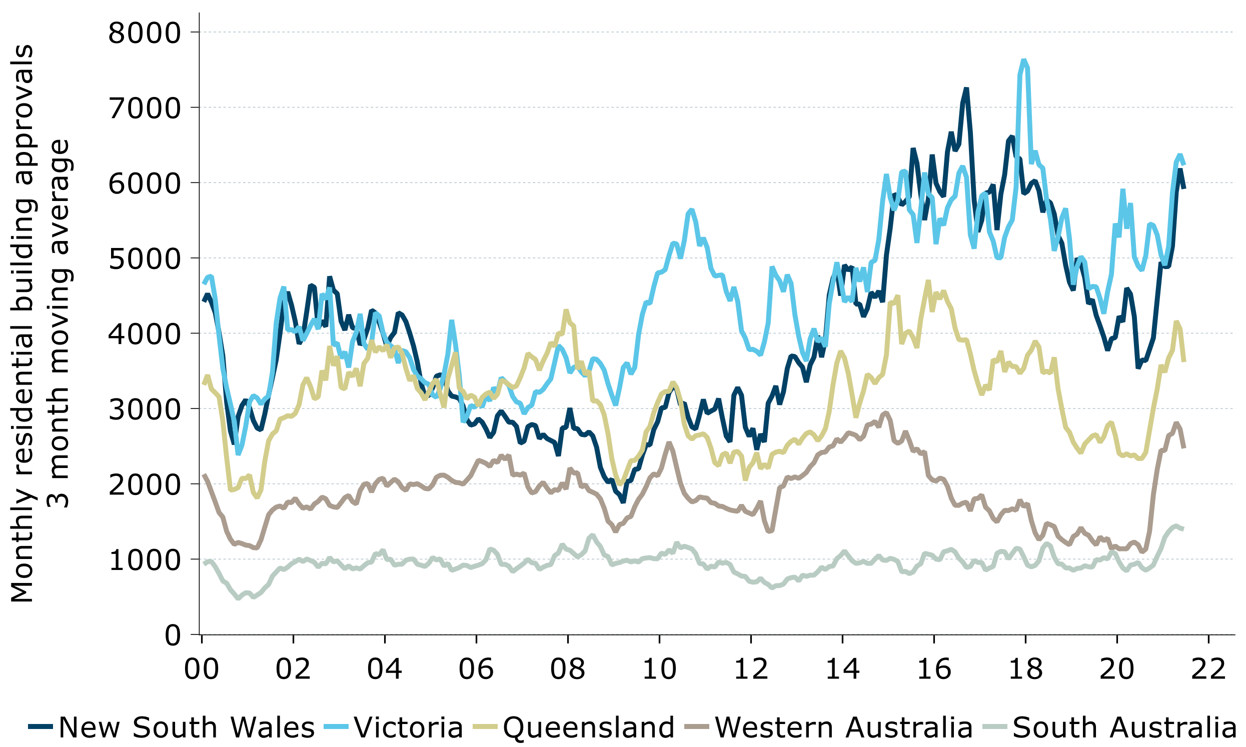


Source: ABS, HIA, Macrobond, ANZ Research

Approvals are rolling over in all states

The Homebuilder scheme, combined with preferences for larger homes by remote workers pushed up the number of house approvals in 2021, but they are now turning lower.

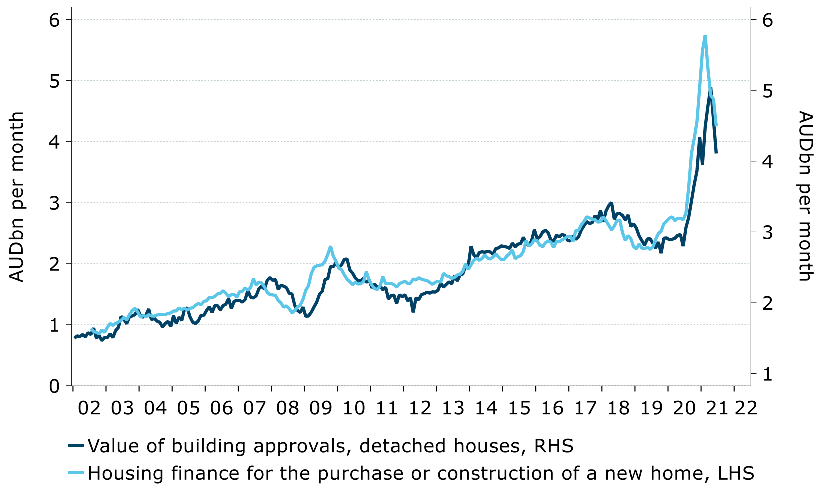
Building approvals by state



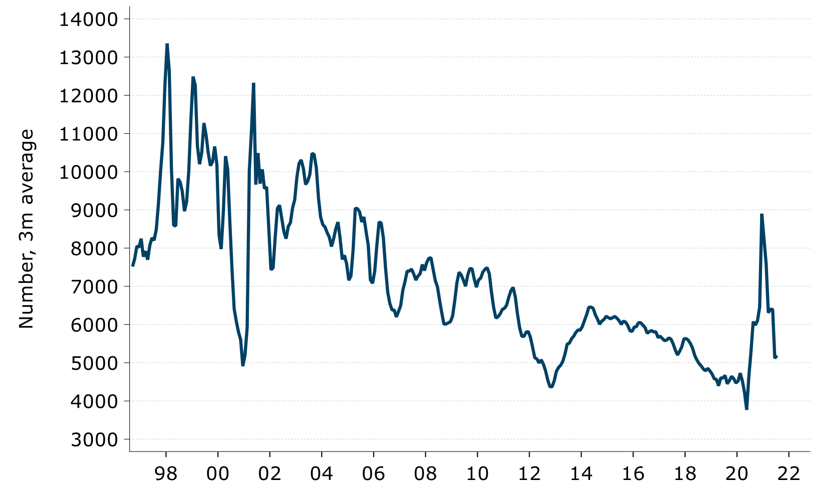
Source: ABS, Macrobond, ANZ Research

Approvals likely to keep falling; population growth a headwind

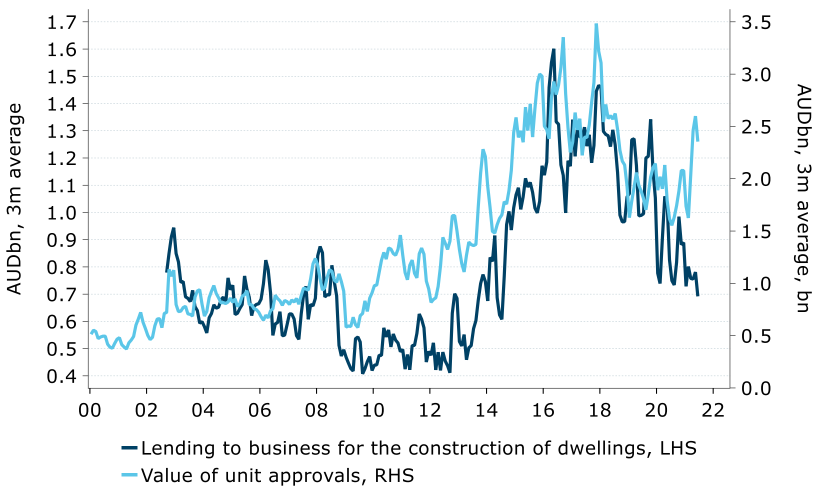
Lending for new homes has turned over



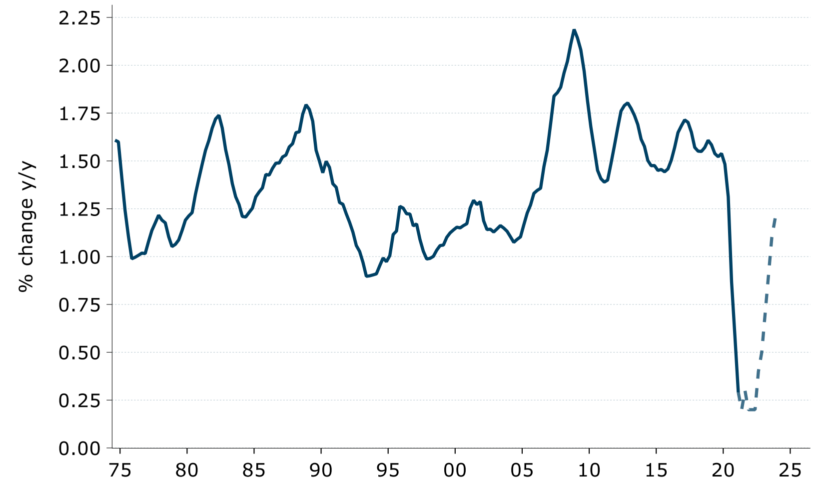
House sales suggest approvals have further to fall



Developer finance is yet to turn around, suggesting that unit approvals will be crimped



Population growth has plummeted

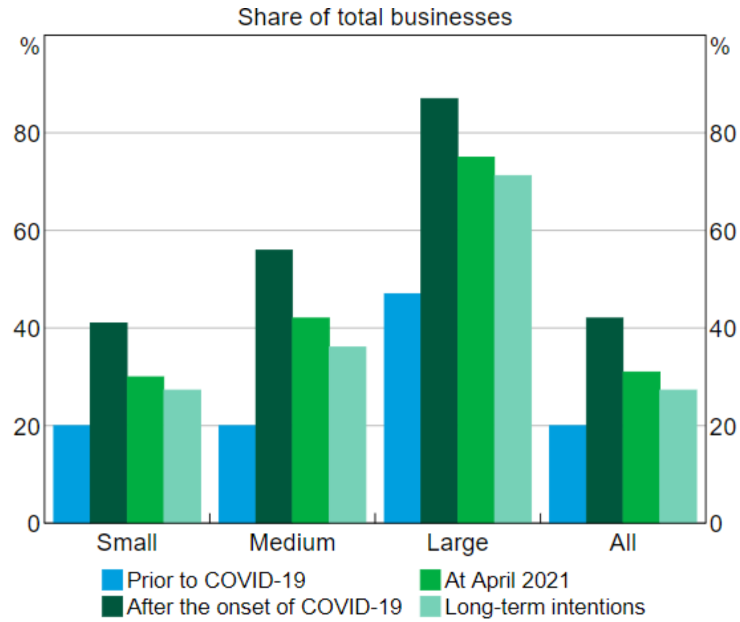


Source: ABS, HIA, Macrobond, ANZ Research

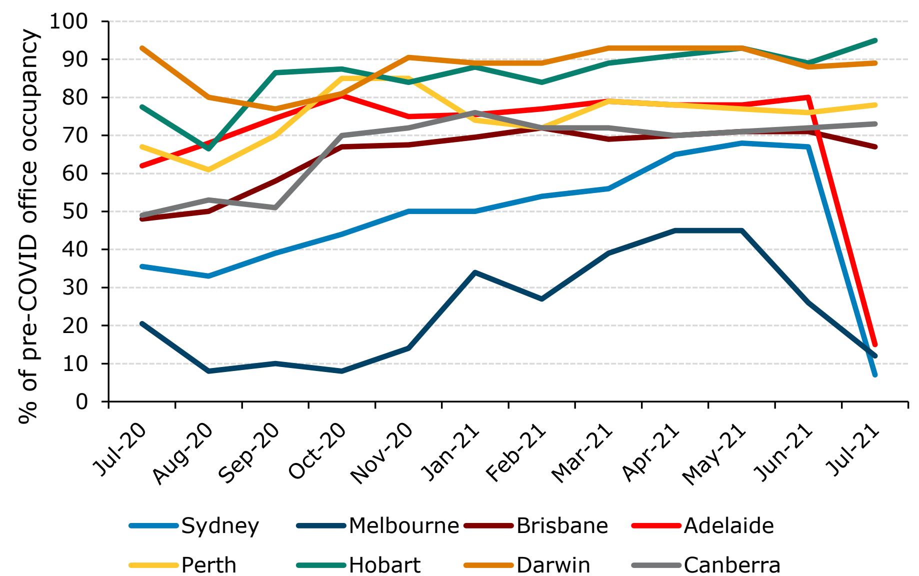
Remote working is changing dwelling requirements

- The latest Property Council Australia (PCA) survey on office occupancies shows that even in cities where case numbers have been low (or zero), the occupancy rate of CBD offices has stayed far below pre-pandemic rates. PCA survey results suggest a growing reason for occupancies not reaching 100% of pre-pandemic rates is worker preferences for working remotely.
- An ABS survey shows that the majority of large businesses intend to engage in remote working practices in the long term, with a lower share of small and medium businesses intending to accommodate remote working long-term.
- The rising popularity of remote working is leading to stronger preferences for larger dwellings and home office space. This is likely to be a support for housing construction, particularly for detached dwellings.

Share of businesses with remote working



Office occupancy, % of pre-pandemic rate



Source: ABS, RBA, Property Council of Australia

Many key housing policy supports have been extended, but the peak of fiscal support is over

While there are some extended policy supports for housing, major housing construction supports including HomeBuilder have ended.

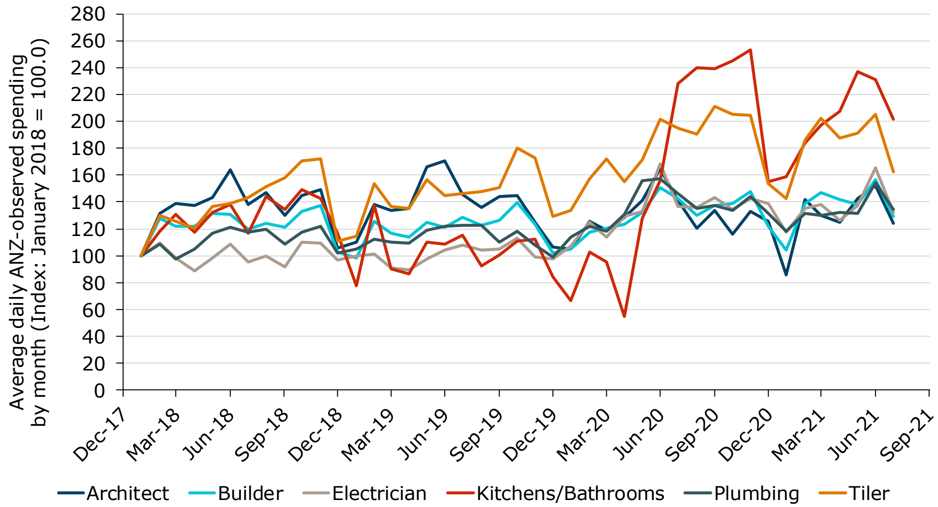
	Policy support
Increased	First Home Buyer Super Saver Scheme extended to a maximum of $50,000 from $30,000 from 2021-22.
Extended	Homebuilder Construction Commencement Requirement extended from six months to 18 months for all existing applicants.
	Loan guarantees for 10,000 first home buyers (2021-22) for a newly built home or home build, with a deposit of as little as 5%.
	WA Building Bonus of $20,000 extended to 31 December 2021 for new detached homes.
	Various first home buyer stamp duty concessions across the states.
Removed	Victorian 50% concession on stamp duty for properties under $1m (ended 30 June 2021).
	Homebuilder applications no longer open (ended March 2021).

Source: Federal Budget Papers 2021-22, Various Government Websites, ANZ Research

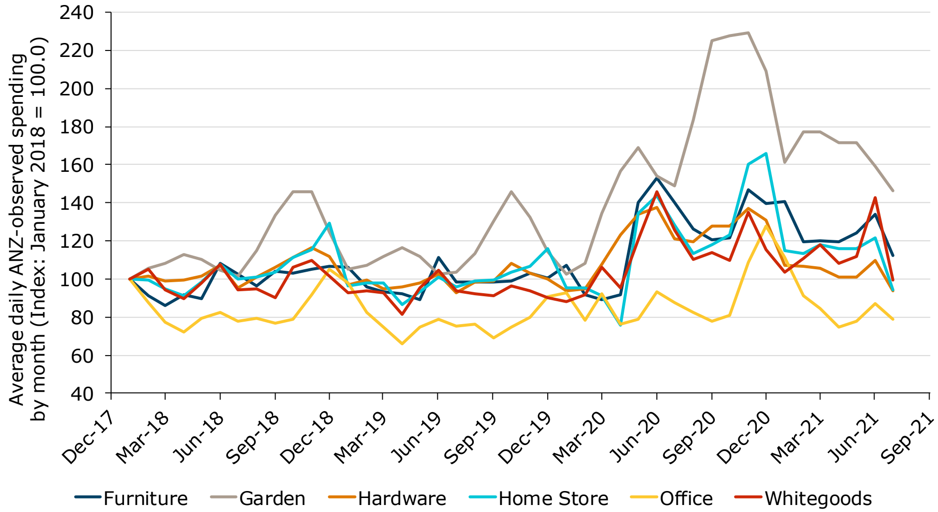
Spending on home related goods and services, and specifically renovation related services, is a sign that people are still spending more time and money on the home than they did before the pandemic.

ANZ data shows home spending has trended up

Home improvement services spending has been trending up



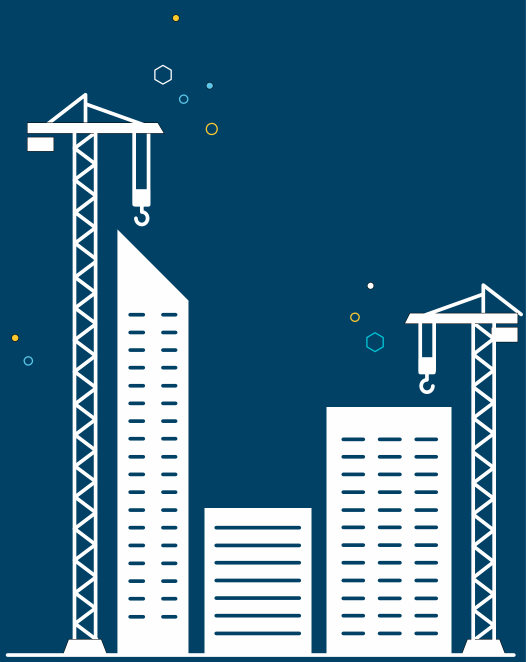
Home related retailing is stronger than pre-pandemic



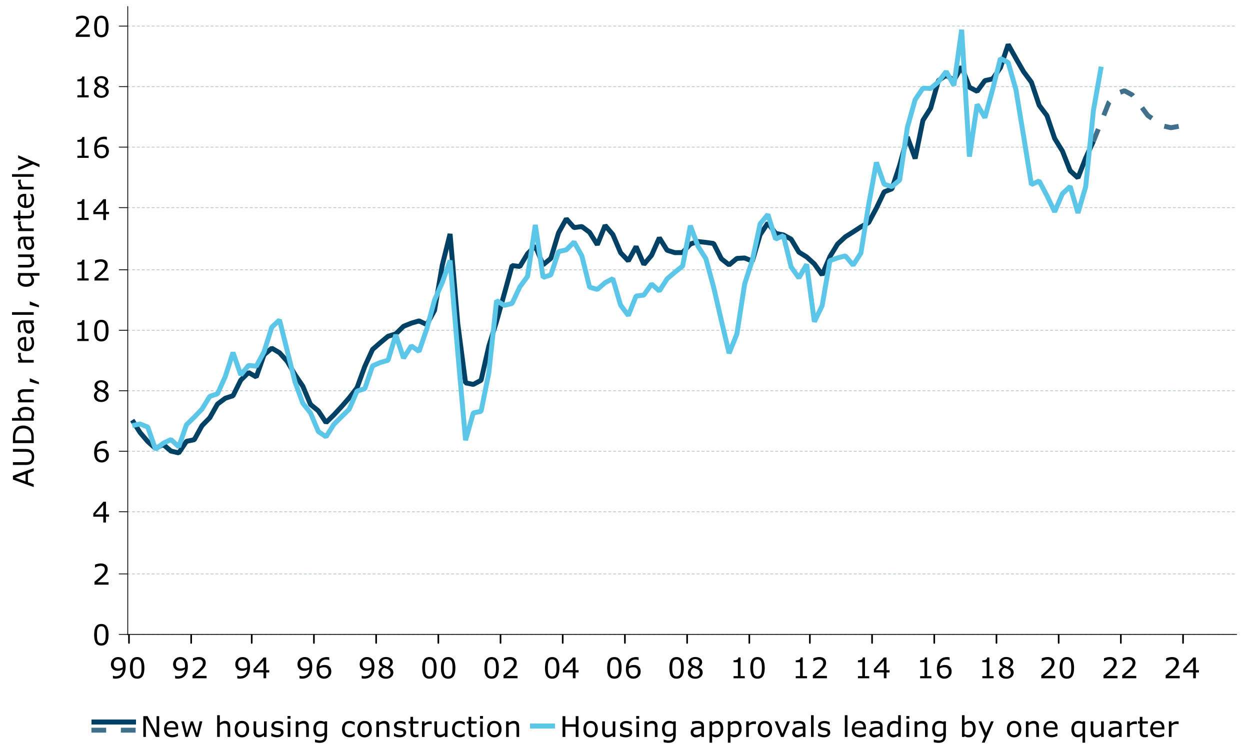
Source: ANZ Research

Housing construction set to grow strongly in 2021, before turning down in 2022

We expect growth in housing construction of close to 15% this year, before activity brought forward by government incentives dries up. Low interest rates will keep a floor under activity in 2022.



Housing construction forecasts



Source: ABS, Macrobond, ANZ Research

Financial stability

Financial stability: high buffers, low costs

Liquidity buffers are solid and servicing costs are low

Although lending standards have eased, many households are still well placed for a rise in borrowing costs. Average mortgage interest servicing costs as a share of household income are at a 20-year low, and almost 40% of owner occupiers with mortgages have over a year of mortgage prepayments in their loans or offset accounts. This drops to around a third for investors. Housing debt as a multiple of household income is down a little from the peak in 2019.

Resilience in the labour market is reducing risk

The first half of 2021 saw further extraordinary improvement in Australia's labour market, decreasing the risk of adverse financial impacts. The unemployment rate in July was 4.6%, 0.5ppt lower than before the pandemic.

While Delta is likely to cause substantial job losses (around 200,000 workers), this would be a much smaller employment impact than last year, despite the current lockdowns being longer. The skew towards job losses among lower income workers, while not a positive for economic equality or financial stability among renters, does reduce the risk of financial instability among mortgage holders.

Arrears have drifted up, but are still manageable

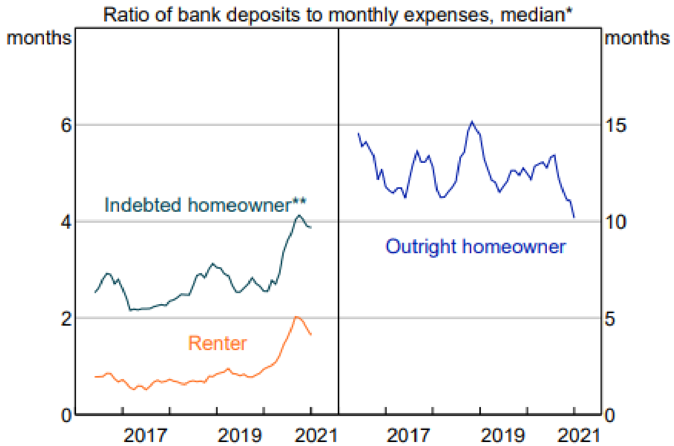
Housing loans in 90+ day arrears have drifted up over the last year, but the general trend has not been that different to the last decade. The mortgage arrears rate in Australia is still low by international standards.

Mortgage costs will eventually rise, but interest rates are set to stay low for some time

Some fixed mortgage rates are already rising modestly, but the cash rate is expected to remain at 0.1% until 2024, keeping interest serviceability costs low.

Liquidity buffers are strong and servicing costs are low

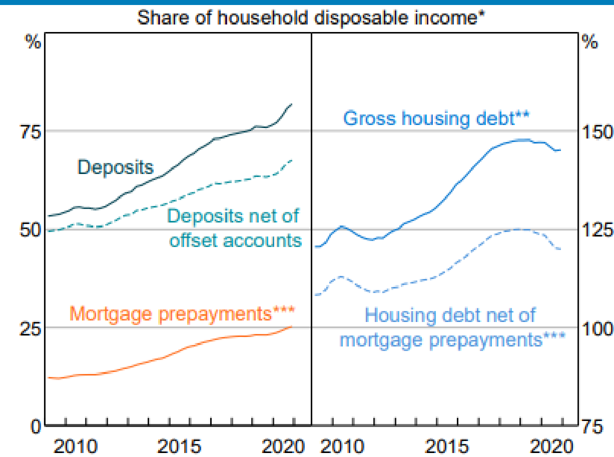
Household liquidity buffers for indebted homeowners are larger than pre-COVID



* Monthly expenses include living expenses, loan, and rental payments; six-month moving average

** Includes households with investor and owner-occupier debt

Housing debt to income is down from the peak

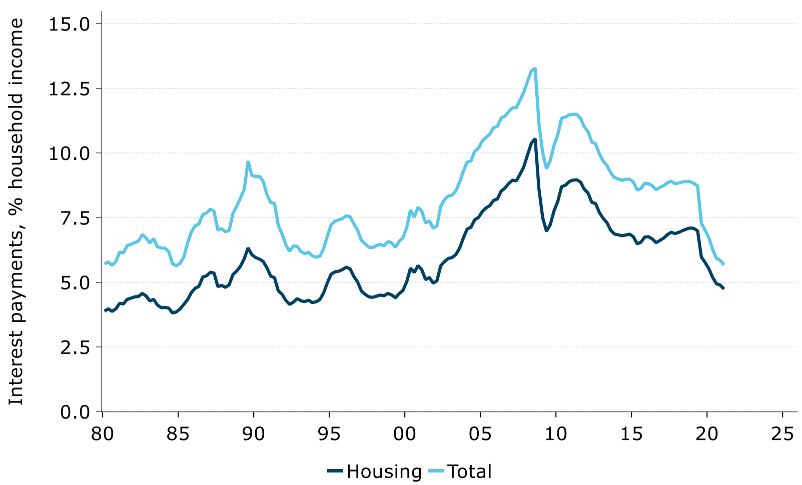


* Before housing interest costs

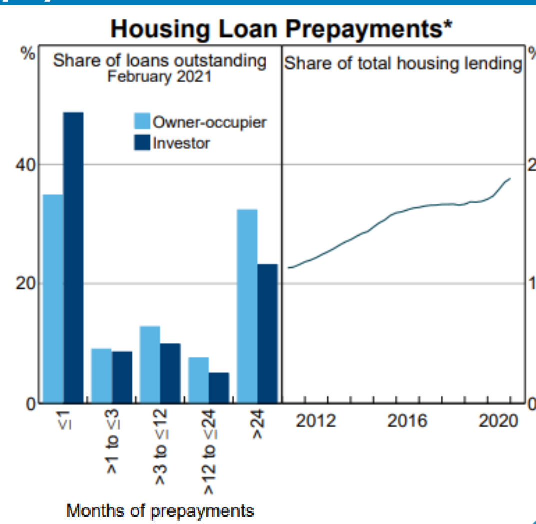
** Gross of redraw and offset account balances

*** Sum of redraw and offset account balances

Housing interest costs are the lowest % of income since 1999



Almost two-thirds of loans have substantial prepayments in offset and redraw accounts



* Available redraw plus offset account balances

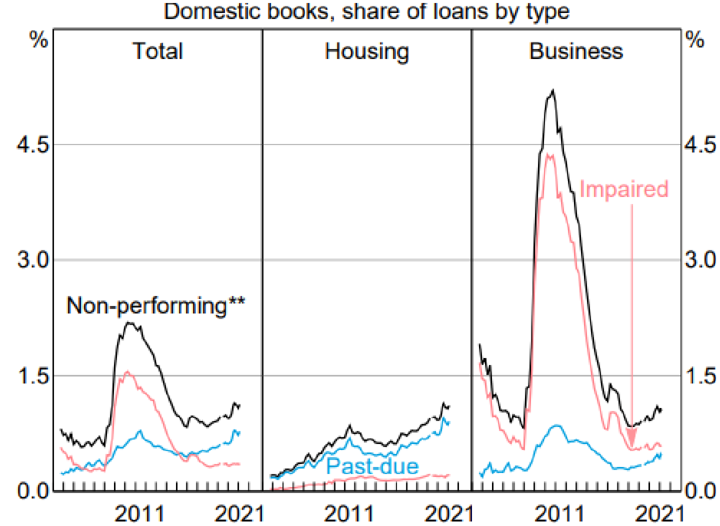
Source: ABS, APRA, RBA, Roy Morgan, ANZ Research

More non-performing loans; fewer in negative equity

Housing loans in 90+ days arrears have drifted up over the last year, but the general trend has not been that different to the last decade. The mortgage arrears rate in Australia is still low by international standards.

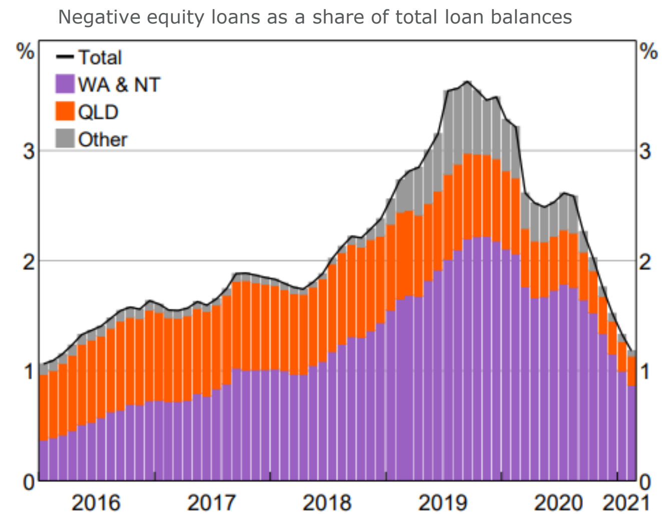
Forced selling of homes due to non-performing loans is not a risk to the housing market, since rapidly rising prices have materially reduced the number of loans with negative equity.

Non-performing loans are growing modestly



* Break at June 2019 due to the introduction of the Economic and financial statistics; banks have generally been allowed to classify most loans under deferral as part of a COVID-19 support package.
** Sum of 'past due' (90+ days in arrears and well secured) and impaired (ie in arrears or otherwise doubtful and not well secured) loans

Fewer loans are in negative equity



Source: APRA, RBA, CoreLogic, ABS, ANZ Research

We expect the introduction of macroprudential tightening measures to cool the housing market.

Macroprudential tightening

- Since early March, we have expected that regulators would step in to cool the housing market before the end of 2021. We continue to expect the introduction of macroprudential controls, although the increased uncertainty around the economic impact of the Delta strain may delay the timing.
- The RBA and APRA do not target house prices, but lending standards and trends in household debt are key components of their financial stability objectives. Housing finance commitments have almost doubled since May last year, investor finance is surging, and credit growth is outpacing income growth by a significant margin. Moreover, the proportion of high loan-to-valuation (LVR) loans and high debt-to-income (DTI) loans has crept up.
- Already we have seen some soft macroprudential intervention from APRA, with the CFR (Council of Financial Regulators) quarterly statement noting:

  > *APRA has written to the largest Authorised Deposit-taking Institutions (ADIs) to seek assurances that they are proactively managing risks within their housing loan portfolios, and will maintain a strong focus on lending standards and lenders' risk appetites.*

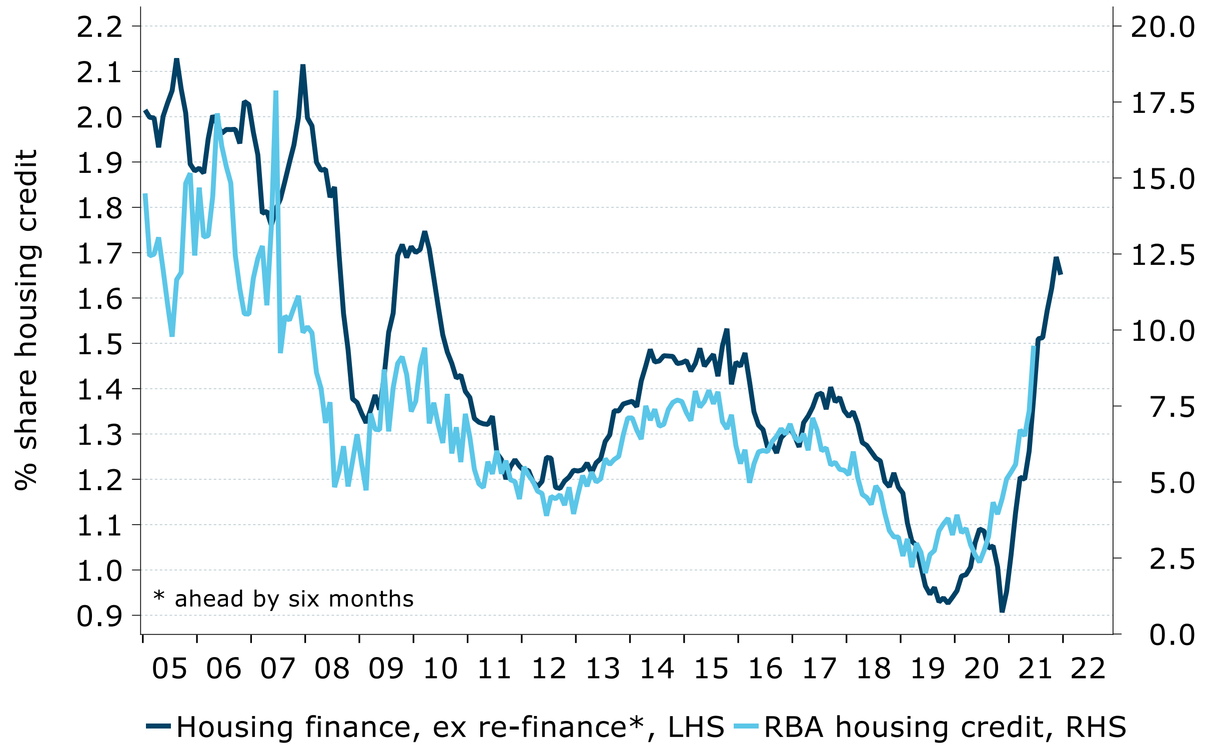
- The CFR has also been discussing policy options to address the risks in the housing market. RBA Governor, Phil Lowe, in his media comments on 6 July, noted that these options include:
  - increasing the buffer on the mortgage rate to determine serviceability (currently at 2.5%),
  - targeting high LVR or high DTI loans.

  Other options he suggested recently include restrictions on investor and interest-only lending, although these are currently running well below historical shares.
- With credit growth set to accelerate over coming months, we continue to expect APRA to announce hard macroprudential controls. It is likely that more than one measure is introduced, and the choice will depend on how the data evolve over the next couple of months. Fine tuning a gentle slowdown in the housing market will be a challenge, especially given the uncertainty around the outlook. The regulators will want to avoid triggering a sharp turnaround in house prices, so we expect that they will go lightly in the first instance.

Credit growth is accelerating

Monthly credit growth is annualising at 10%, and looks likely to accelerate further.

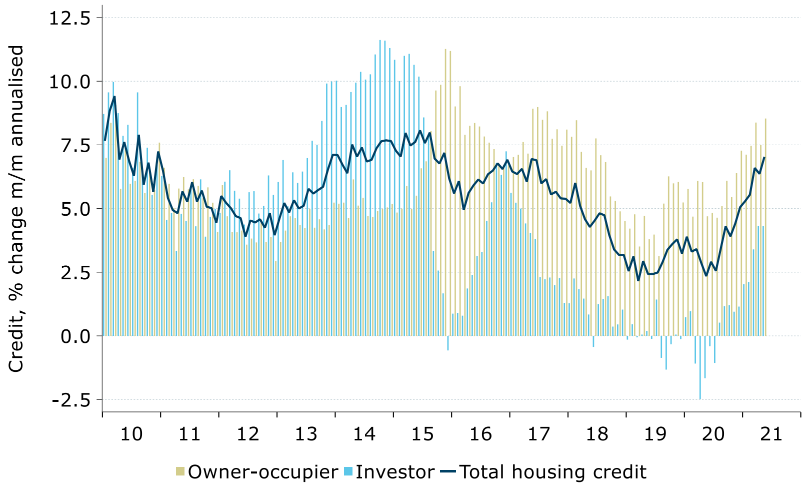
Housing lending and credit growth



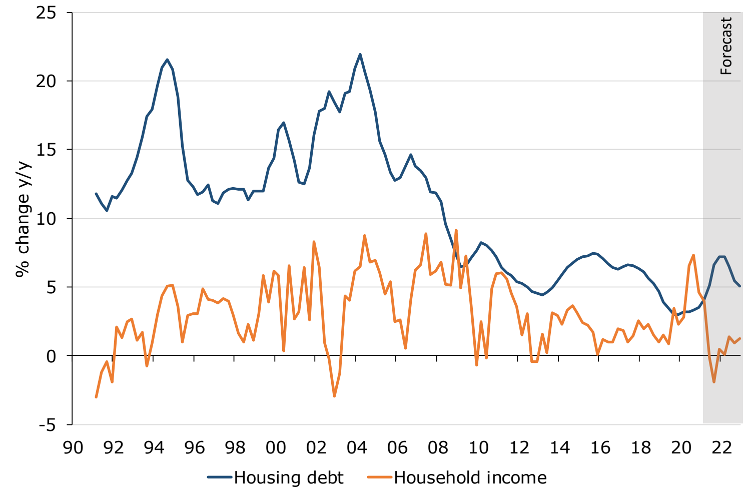
Source: ABS, RBA, Macrobond, ANZ Research

Accelerating credit growth and easing lending standards look set to trigger macroprudential tightening

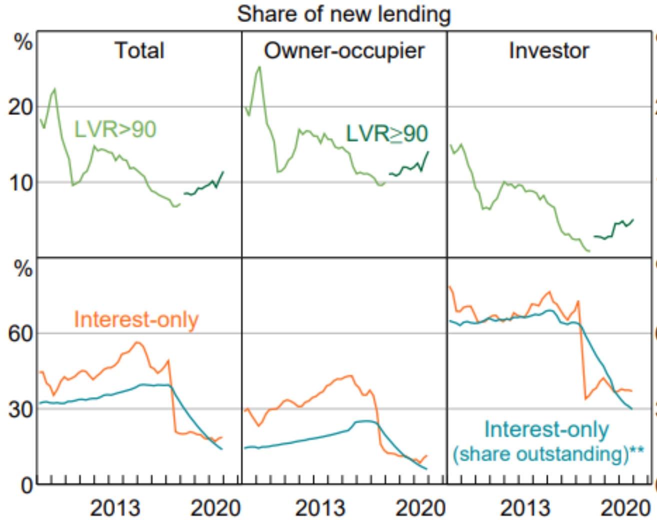
Housing credit growth is picking up quickly, both for owner-occupiers and investors



We expect housing debt to grow quickly in 2021-22 then slow down a little



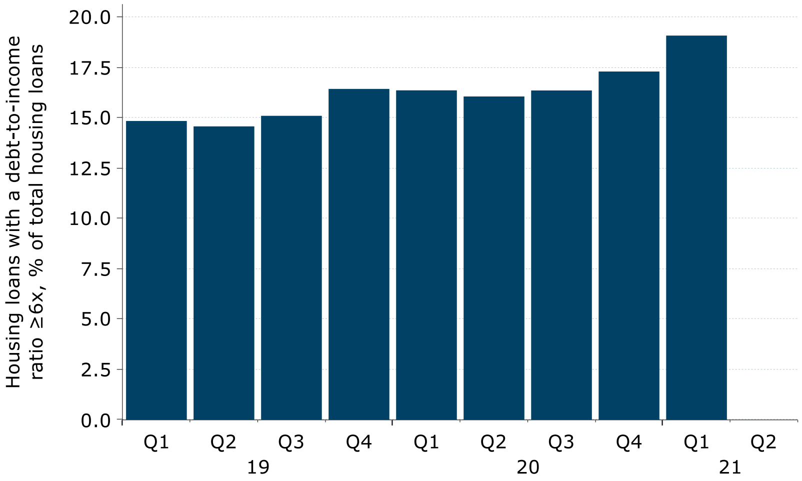
More low deposit loans…



*LVR series break at March 2018 due to reporting changes; interest-only series are break-adjusted and seasonally adjusted

** Share of outstanding interest-only loans to housing credit

…and more high debt-to-income loans



Source: ABS, APRA, RBA, Macrobond, ANZ Research

Affordability

Affordability worsens as home prices and rents rise faster than incomes

Affordability worsens in 2021 for both buyers and renters
The latest affordability data from CoreLogic show that affordability has deteriorated across all four metrics and in all states and territories. Measures of value-to-income, serviceability and years to save a deposit show that buying a home is now even more out of reach for many, while rental affordability has deteriorated sharply.

Sydney continues to be the most expensive city to buy a home, needing more than 12½ years of saving for a deposit, and the average home value is more than nine times average incomes.

Hobart is still the most expensive city to rent, with a rent-to-income ratio of 33%, compared to the national average of 29%.

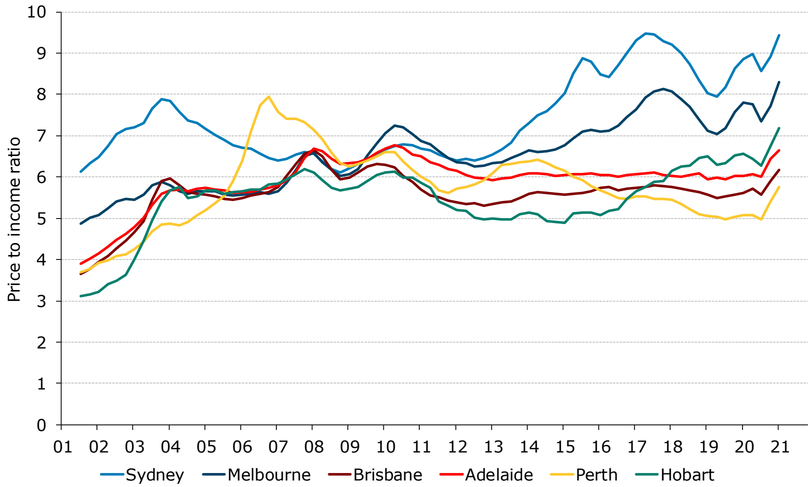
Loan sizes have increased
First home buyer loans reached a record high of $456,000 in June with no signs of the average loan size easing. New upgrader loans are also far higher this year than previously, at an average of $671,000 in June.

Australian cities feature heavily among least affordable
A recent survey of 92 major markets in eight countries ranked cities by housing affordability. Sydney was ranked 3rd least affordable out of the 92 markets, while Melbourne was the 6th least affordable.

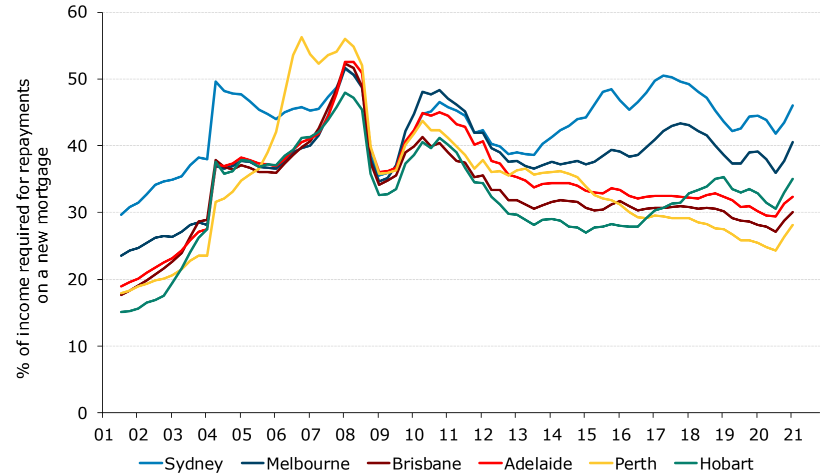
Bank of mum and dad becoming a bigger support for first home buyers
Survey results from Digital Finance Analytics suggest that the average amount of parental assistance for home deposits has grown to approximately $90,000. If significant parental assistance for first home buyers is as common and large as the survey suggests, this is a very negative signal for both affordability and intergenerational inequality.

Affordability has deteriorated across all measures

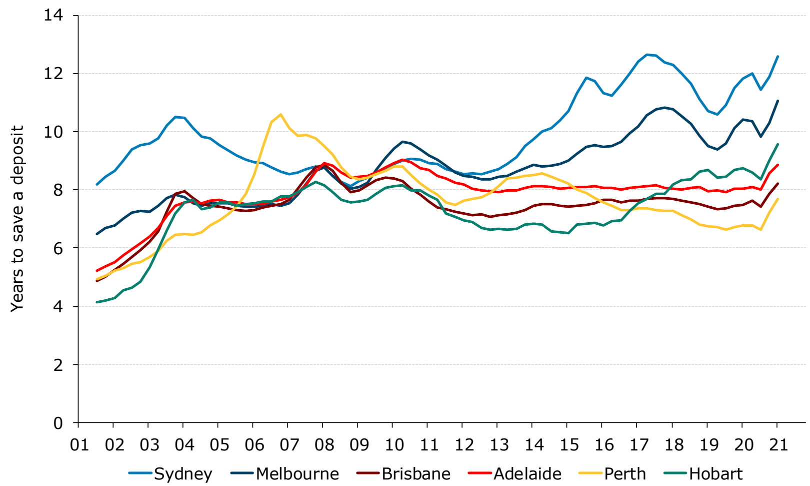
Value to income



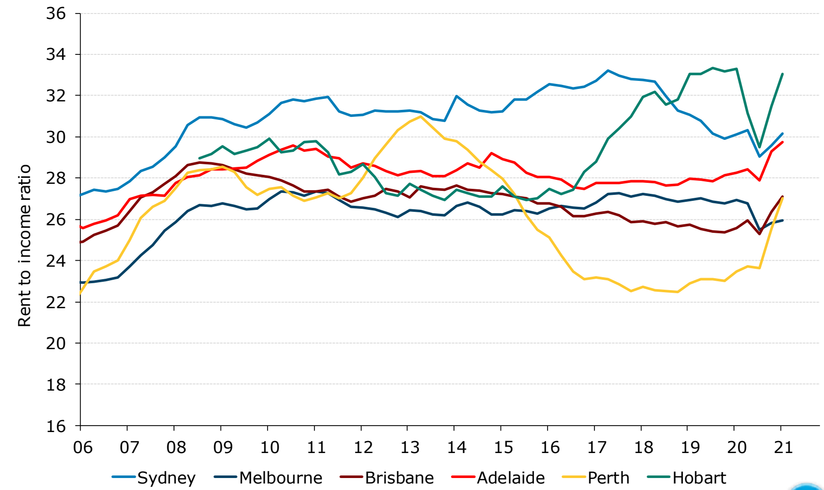
Serviceability



Years to save a deposit



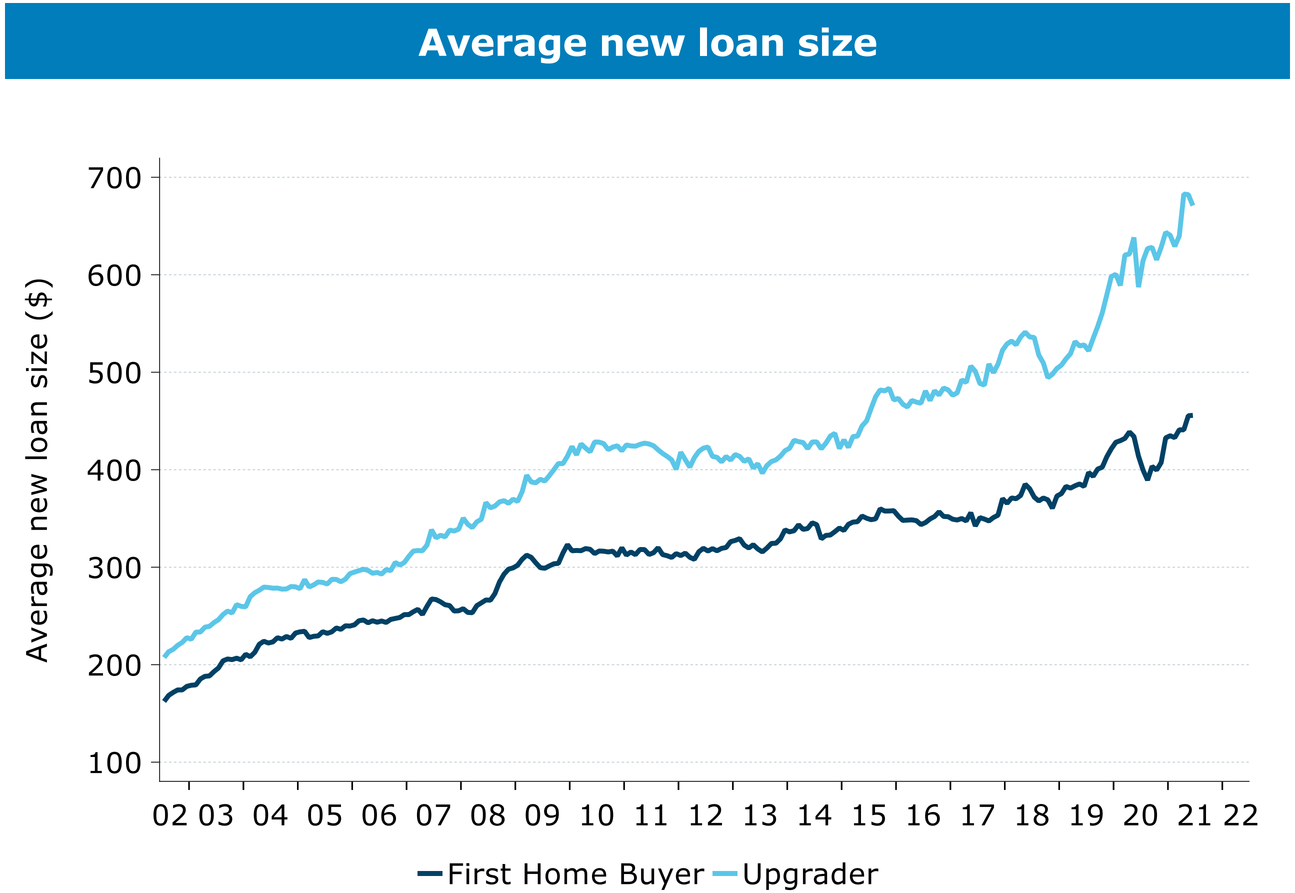
Rental affordability



Source: CoreLogic, ANZ Research

First home buyer loan sizes are at a new peak

After a reduction in the average first home buyer loan in 2020, first home buyer loans reached a new peak of $456,000 in June 2021.



Source: ABS, Macrobond, ANZ Research

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Last updated: 9 April 2021

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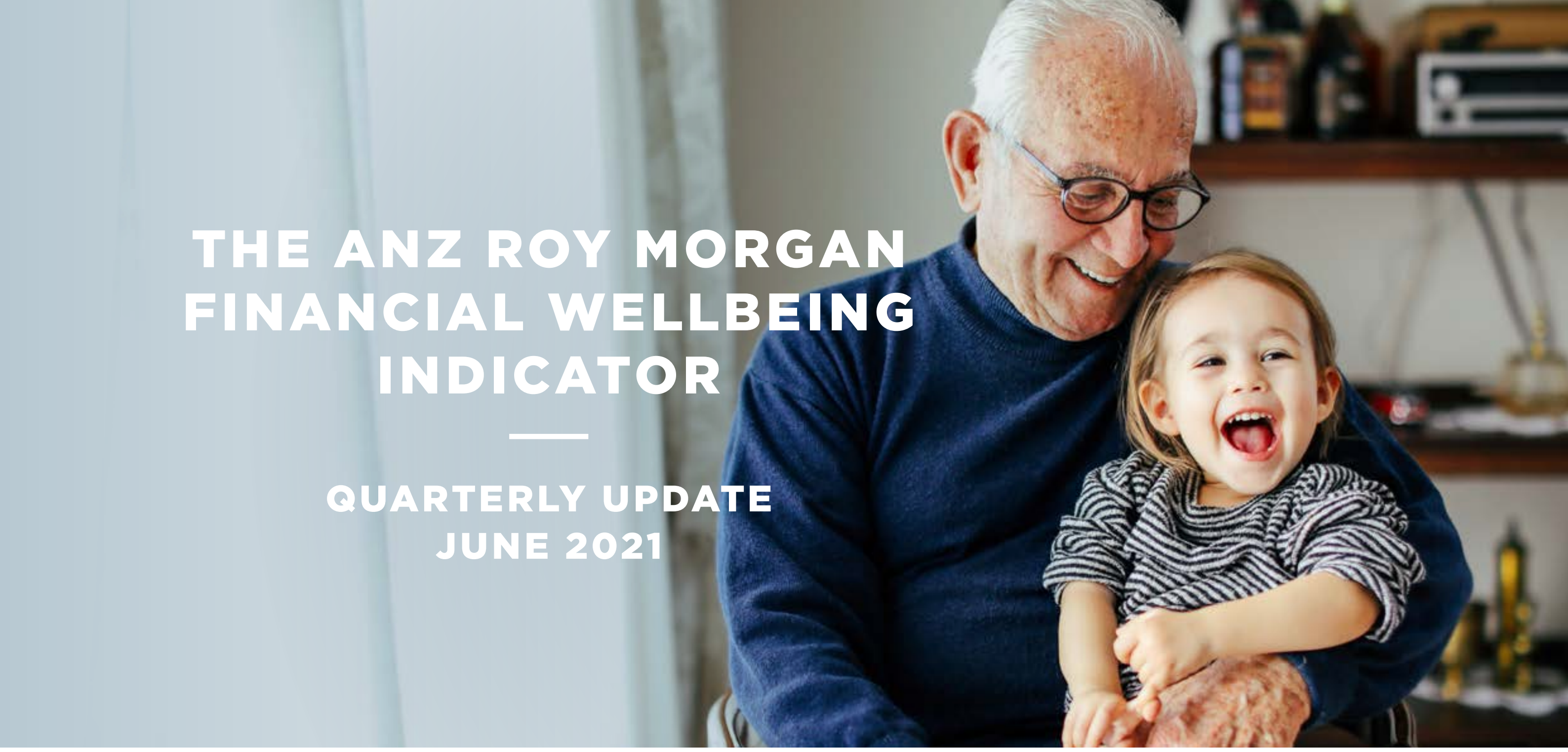


THE ANZ ROY MORGAN FINANCIAL WELLBEING INDICATOR

QUARTERLY UPDATE
JUNE 2021

FINANCIAL WELLBEING OVERVIEW

Financial wellbeing is an important measure when considering how the COVID-19 pandemic continues to impact lives and livelihoods in Australia. Since prior to the start of the pandemic, the ANZ Roy Morgan Financial Wellbeing Indicator (FWBI) has been reported as a 12-month rolling average, with quarterly updates showing the movement in aspects of financial wellbeing across locations and for a range of segments in the community (see **bluenotes.anz.com/financialwellbeing** for updates).

A year on from the initial shock of the pandemic, this update now draws on a full 12 months of financial wellbeing data (to March 2021). For the first time, the Indicator enables a cumulative view of how Australians are faring a whole year on since COVID-19 first took effect in this country. This milestone update illustrates just how things have changed for Australians over the last 12 months and the many continuing effects, particularly for more vulnerable groups in the community.

INDICATOR

The ANZ Roy Morgan Financial Wellbeing Indicator shows that as a result of COVID-19, the financial wellbeing of Australians

DECLINED 5.3% **FROM** 60.7 (as a score out of 100) in the 12 months to March 2020 → **TO** 57.5 in the 12 months to March 2021 (Figure 1 and Table 1).

ROY MORGAN

ANZ

INDICATOR (CONTINUED)

From April 2020 to February 2021, the spot monthly Financial Wellbeing scores have stayed in the range of 56.5 to 58.5 (out of 100). However in the month of March 2021, financial wellbeing reached its highest spot score since pre-COVID-19 (59.0 out of 100), indicating that at an aggregate level that the financial wellbeing of Australians is on its way to recovery.

While all components of financial wellbeing declined post COVID-19 (Table 1), the biggest decline in the 12 months to March 2021 was in **'Feeling Comfortable'** about one's current and future situation, down 8.2% year-on-year, from 56.0 to 51.4 out of 100. However, over the last 12 months spot results have improved since the initial shock. Australians are feeling more comfortable now and this element has almost returned to pre-pandemic levels.

'Meeting Everyday Commitments' was down 6.4% year-on-year, from 73.0 (out of 100) in the 12 months to March 2020 compared to 68.3 (out of 100) in the 12 months to March 2021 (Table 1). The monthly spot results for 'meeting everyday commitments' has continued to fluctuate around this lower level since May 2020. The ongoing trend in this dimension will depend on the impact of government support for those negatively affected by the coronavirus ending after March 2021, and any further COVID-19 setbacks to come.

'Resilience for the Future' – the ability to cope with financial setbacks – remained fairly steady year on year, declining by only 0.8% for the 12 months to March 2021 (52.8 out of 100) compared to 12 months to March 2020 (53.2 out of 100) (Table 1). We have observed that both institutional support in response to the pandemic and deferred consumption have contributed to keeping deposit balances healthier than anticipated.

IN THIS RELEASE

- 12 months after the beginning of the COVID-19 pandemic we can see that the impact on financial wellbeing has led to the increase in size of both the 'Struggling' and 'Getting By' segments while the 'No Worries' segment has shrunk substantially (Figure 3).
- Financial wellbeing has declined across all **states and territories**. The largest decline in the 12 months to March 2021 was in Victoria (down 7.4%), with WA experiencing the smallest decline in financial wellbeing (down 1.5%) (Figure 4).

FIGURE 1: FINANCIAL WELLBEING IN AUSTRALIA,
MONTHLY SPOT DATA AND 12-MONTH MOVING AVERAGE (JAN-14 TO MAR-21)

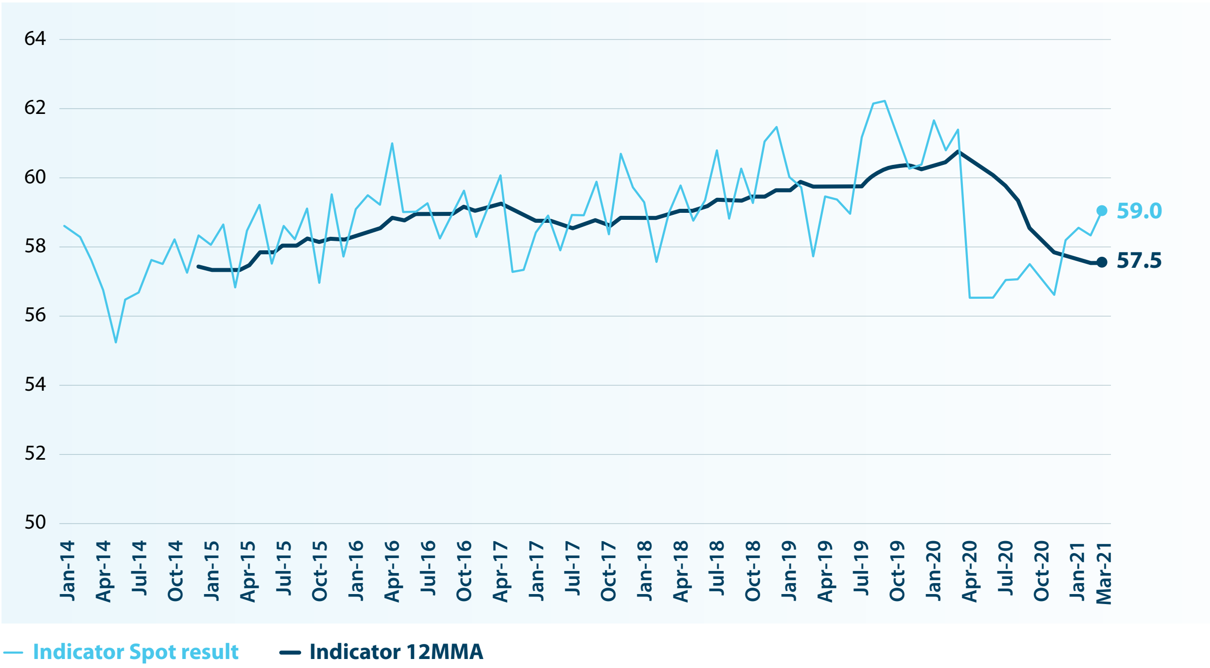
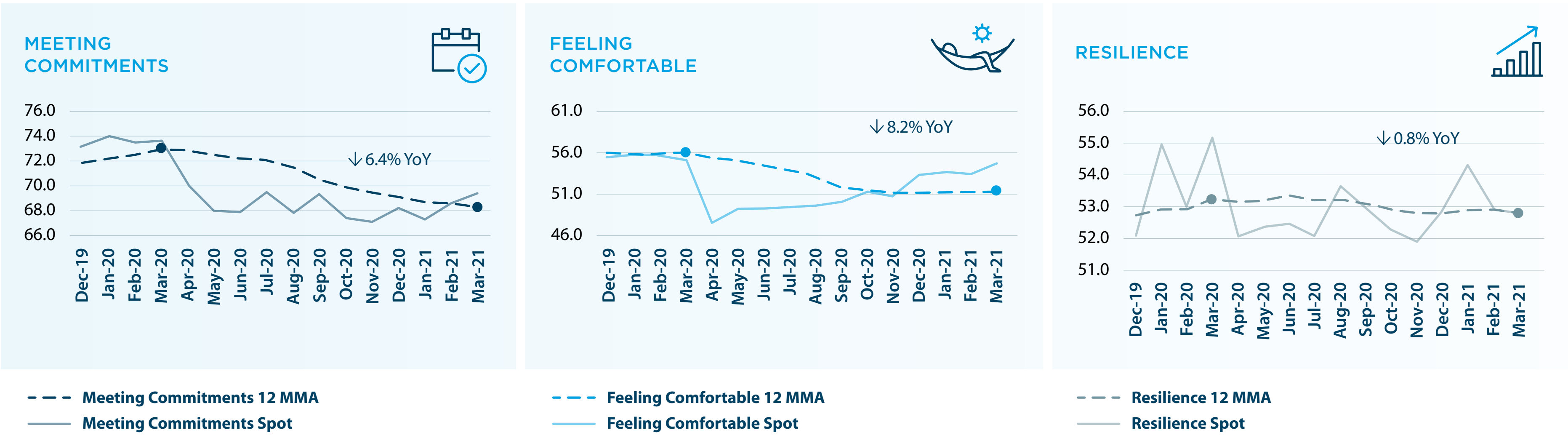


TABLE 1: FINANCIAL WELLBEING DIMENSIONS IN AUSTRALIA (12-MONTH MOVING AVERAGE AND SPOT MONTH VIEW)

	ANZ Roy Morgan FWB Indicator															
	12 months		Spot Result												12 months	YoY % Change
	Dec-19	**Mar-20**	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	**Mar-21**	
Financial Wellbeing	60.2	**60.7**	56.5	56.5	56.5	57.0	57.0	57.5	57.0	56.6	58.2	58.5	58.3	59.0	**57.5**	-5.3%
Meeting Commitments	71.9	**73.0**	70.1	67.9	67.9	69.5	67.8	69.4	67.4	67.1	68.2	67.3	68.6	69.4	**68.3**	-6.4%
Feeling Comfortable	55.9	**56.0**	47.5	49.2	49.2	49.5	49.6	50.1	51.3	50.7	53.3	53.7	53.4	54.8	**51.4**	-8.2%
Resilience for the Future	52.7	**53.2**	52.1	52.3	52.5	52.1	53.6	53	52.3	51.9	52.9	54.3	52.9	52.8	**52.8**	-0.8%

FIGURE 2: FINANCIAL WELLBEING DIMENSIONS IN AUSTRALIA, MONTHLY SPOT DATA AND 12-MONTH MOVING AVERAGE (DEC-19 TO MAR-21)



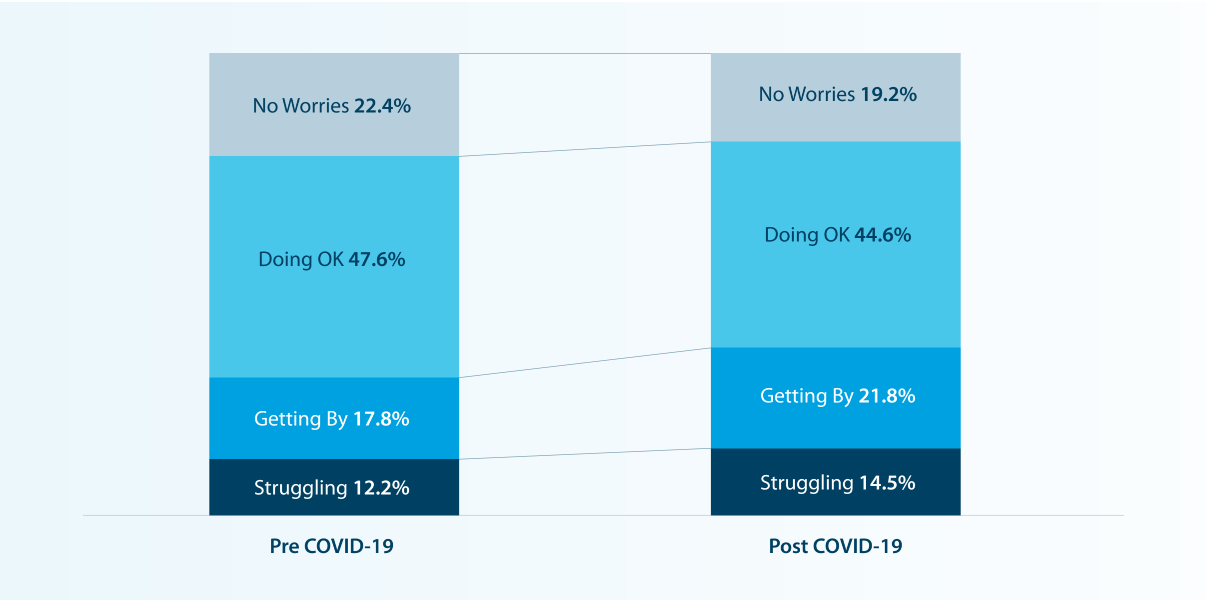
FINANCIAL WELLBEING SEGMENTS

Respondents were divided into four segments according to their overall financial wellbeing score (out of 100). These segments were described in ANZ's 2017 ANZ Financial Wellbeing Survey[1]:

- **Struggling:** (0–30) Most describing their current financial situation as 'bad', having little or no savings and finding it a constant struggle to meet bills and credit payments. Very few are confident about their financial situation over the next 12 months.
- **Getting By:** (>30–50) Many describing their financial situation as 'bad', less confident in their money management skills and their ability to control their financial future.
- **Doing OK:** (>50–80) Current financial situation is 'fair' or 'good' and reasonably confident about their financial situation over the next 12 months.
- **No Worries:** (>80–100) Financial behaviours – active savings and not borrowing for everyday expenses – contributing positively to financial wellbeing. High levels of confidence in managing money and substantial amounts in savings, investments and superannuation.

The proportion of people with the highest financial wellbeing ('No Worries') declined with the onset of COVID-19, from 22.4% in the 12 months to March 2020 to 19.2% in the 12 months to March 2021. Whilst the majority of the Australian population (44.6%) were 'Doing OK', this had also contracted from 47.6% in the 12 months to March 2020. The bottom two segments 'Getting By' and 'Struggling' both increased post COVID-19, now representing 36.3% of Australians in the 12 months to March 2021 (up from 30% in the 12 months to March 2020), with 21.8% 'Getting By' and 14.5% 'Struggling' (Figure 3). The impact of COVID-19 appears to reverse the trend of recent years, which has seen growth in the upper segments in line with improvements in longer-term financial wellbeing.

FIGURE 3: CHANGE IN THE COMPOSITION OF THE FINANCIAL WELLBEING SEGMENTS ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 12 MONTHS TO MAR-21 'POST COVID-19' VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes the 12 months to March 2021.

1. ANZ (2018). *Financial Wellbeing: A Survey of Adults in Australia*. http://www.bluenotes.anz.com/financialwellbeing

FINANCIAL WELLBEING BY STATE AND TERRITORY

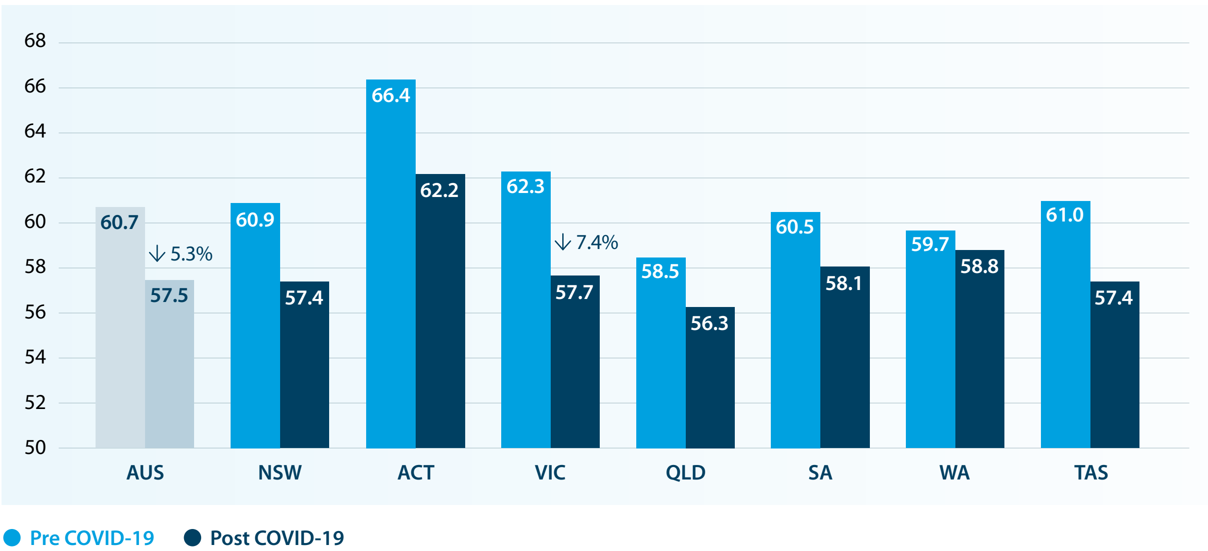
The impact of COVID-19 resulted in all states and territories recording lower scores in overall financial wellbeing (Figure 4), and most states and territories recording lower scores in all three dimensions of financial wellbeing for the 12 months to March 2021.

Respondents from ACT had the highest financial wellbeing score of 62.2 (out of 100) post COVID-19 in the 12 months to March 2021, 4.7 points higher than the national average and 3.4 points higher than WA with the next highest level of financial wellbeing (58.8). QLD had the lowest level of financial wellbeing at 56.3 (out of 100) (Figure 4).

Victoria experienced the largest decline in financial wellbeing in the 12 months to March 2021, down 7.4%, though it still sits just above the national average (57.7 in Victoria compared to 57.5 nationally). WA experienced the smallest decline in financial wellbeing, down 1.5%, moving from sitting below the national average pre COVID-19, to above the national average in the 12 months to March 2021 (Figure 4).

It is clear that COVID-19 had an impact on the proportion of people in the 'No Worries' segment, reducing across all states and territories in the 12 months to March 2021 (post COVID-19). WA was the only state where the proportion of people in the 'Struggling' segment did not increase when compared to the 12 months to March 2020 pre COVID-19. Victoria had the largest combined increase in people either 'Struggling' or Getting By', up 9.4 points from 26.8% in the bottom two segments pre COVID-19 (better than the national average) to 36.2% post COVID-19 (in line with the national average).

FIGURE 4: FINANCIAL WELLBEING IN AUSTRALIA, BY STATE AND TERRITORY ('PRE COVID-19' 12 MONTHS TO MAR-20 VS 12 MONTHS TO MAR-21 'POST COVID-19' VIEW)



Note: Pre COVID-19 data includes the 12 months to March 2020. Post COVID-19 data includes the 12 months to March 2021.

ABOUT THE ANZ ROY MORGAN FINANCIAL WELLBEING INDICATOR

The ANZ Roy Morgan Financial Wellbeing Indicator is a statistically robust snapshot of the personal financial wellbeing of Australians, reported as a 12-month moving average every quarter.

The Indicator is based on the Kemspon *et al.* conceptual model of financial wellbeing that was tested by ANZ in its 2017 financial wellbeing survey (Figure 5). The Kempson model acknowledges five drivers that have a proportionate impact on personal financial wellbeing:

- social environment
- economic environment
- financial knowledge and experience
- psychological factors (attitudes, motivations sand biases)
- financially capable behaviours.

The indicator is derived from data gathered through the weekly Roy Morgan Single Source interview and survey, which canvasses approximately 50,000 Australians annually. The breadth of data gathered through Roy Morgan Single Source enables examination of Australians' financial wellbeing at a more granular level than was possible with previously available data.

The indicator is reported quarterly and periodically. Releases are accompanied with a focus on specific deep dive topics.

More information about the Indicator can be found at **bluenotes.anz.com/financialwellbeing** or by contacting:

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FIGURE 5: THE FINANCIAL WELLBEING CONCEPTUAL MODEL

Source: Adapted from Kempson et al, 2017, with additional data from the 2017 ANZ Financial Wellbeing Survey.

TECHNICAL APPENDIX

The data items used for the calculation of the indicator and other data items used to measure various drivers of personal financial wellbeing, all derive from the questions listed below from the Roy Morgan Single Source interview and survey.

The indicator is calculated by an algorithm that transforms responses to these questions, weighing the relative importance of each component. The algorithm was developed based on calibrated responses to 11 questions in the 2017 ANZ Financial Wellbeing Survey[2], as well as answers to the questions below.

There are many additional questions in the Roy Morgan Single Source data collection that are of relevance and can be used as filters or as cross-tabulation variables with the Indicator. The complete list of these variables are not listed here.

ANZ Roy Morgan FWI dimensions	Questions and items from Roy Morgan Single Source
Meeting commitments	Q. Meeting my bills and commitments is a struggle from time to time Q. In the past 12 months I have sometimes been unable to pay bills or loan commitments at the final reminder due to lack of money Q. I sometimes run short of money for food or other regular expenses
Feeling comfortable	Q. I feel financially stable at the moment Q. I have planned enough to make sure I will be financially secure in the future Q. Would you say you and your family are better-off financially – or worse-off than you were at this time last year? Q. Looking ahead to this time next year… do you expect you and your family to be better-off financially – or worse-off than you are now?
Resilience	Number of months' income in savings calculated using following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Would you please say the approximate amount that is in the (main/second) (say institution and account name) account as of today Managing a drop in income by a third is calculated using the following questions: Q. Household's total present approximate weekly or annual income from all sources before tax – please include all wages, salaries, pensions and other income Q. Approximate amount that is in the (main/second) (say institution and account name) account as of today Q. How much does your family spend on all living and household expenses in an average week? Please include all expenses such as shopping, luxuries, transport costs, bills, credit and loan repayments, rent and home loans, school fees etc. (if living in a shared household, only include your own total living expenses)

2. For more information on the 11 financial wellbeing questions, see page 41 of Financial Wellbeing: A Survey of Adults in Australia. Retrieved from https://www.bluenotes.anz.com/content/dam/bluenotes/images/financial-wellbeing/ANZ%20Financial%20Wellbeing%20Summary%20Report%20-%20Australia.pdf