



Borrow

7 November 2022 | 9:00am



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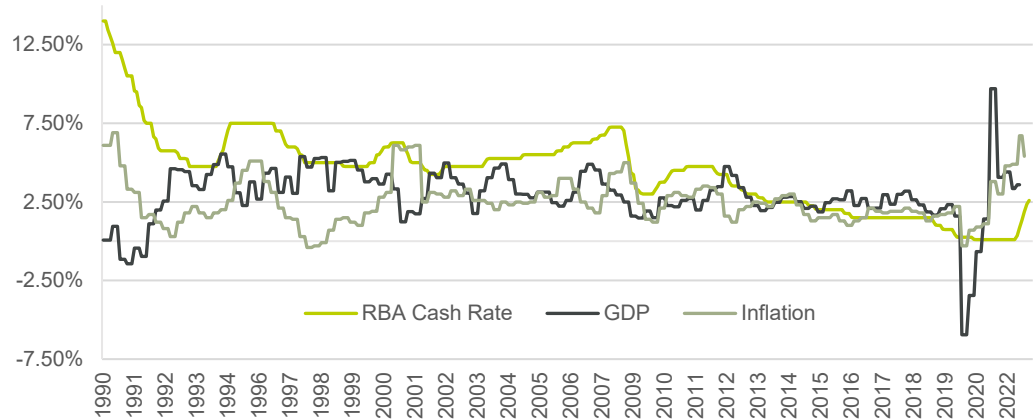
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Yet another rate rise, with more to come. Last month's slowing in the rate rises, did not stop another rise this month. Inflation remains unacceptably high.

Cash Rates, Inflation, Wages and Asset Pricing

- At the RBA Monetary Policy Decision meeting on 1 November 2022, they increased the cash rate target in line with expectations by another 25 basis points to 2.85%. They expect to continue increasing in the coming months as it remains *"resolute in its determination to return inflation to target and will do what is necessary to achieve that"*.
- Unlike last month, RBA is more pessimistic on its expectation of inflation. Forecasting a higher peak of around 8.00%. It is however hopeful that this will resolve itself with improving supply-side issues, declines in commodity prices and the broader impact of rising interest rates to reduce consumer spending. If this occurs, the RBA expects unemployment to rise from its 50-year low of 3.40% (in July 2022) to 4.00% in the near future. Some indication that this may be true, was the slight uptick in unemployment to 3.50% in August 2022 and the increasing uncertainty in the outlook for the global economy which has deteriorated over the recent months.

Exhibit 1: GDP, Inflation and RBA Cash Rate



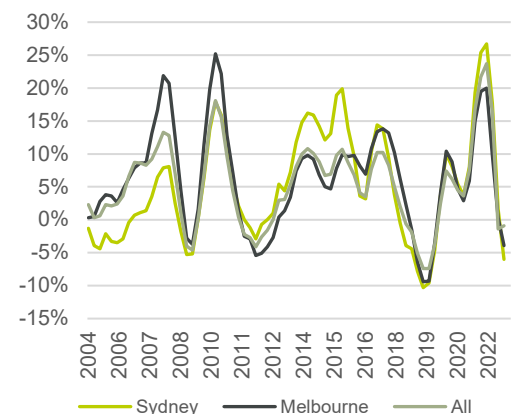
Source: ABS, RBA

Exhibit 2: Wage Growth and Unemployment



Source: ABS, RBA, CoreLogic

Exhibit 3: Annual House Price Movements





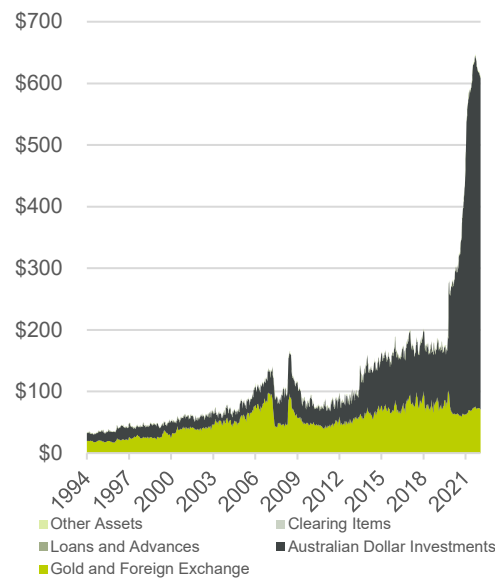
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Funding Costs

- The latest asset position of the RBA shows they are starting to deleverage after its massive quantitative easing program initiated during the COVID pandemic. At this stage, the rate of change is only slight; however, it will have some impact on retail funding.
- The longer-term bond rates tend to forecast a potential stabilisation of the cash rate target at 3.50% to 3.75%, 0.90% to 1.15% higher than the current rates.
- The increase in interest rates and decline in housing prices can be seen in the reduction of total household assets to income ratios and some slowing in the growth rate of consumer lending.

Exhibit 4: Reserve Bank of Australia Assets
\$billion



Source: ABS, RBA

Exhibit 5: Australian Government Bond Yield

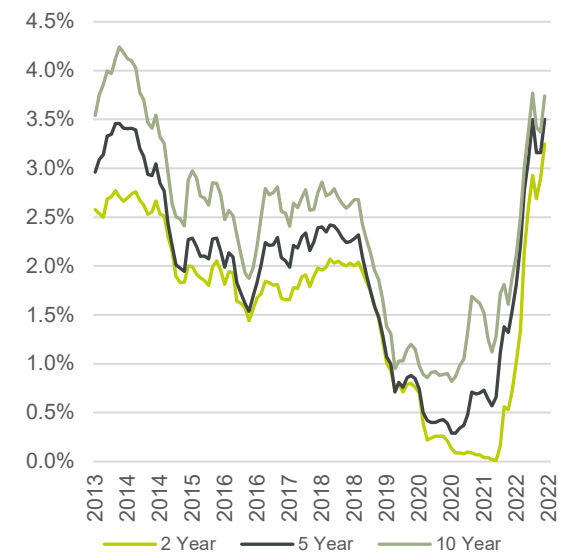
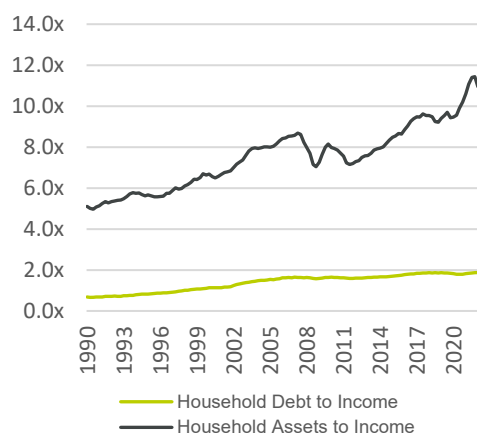
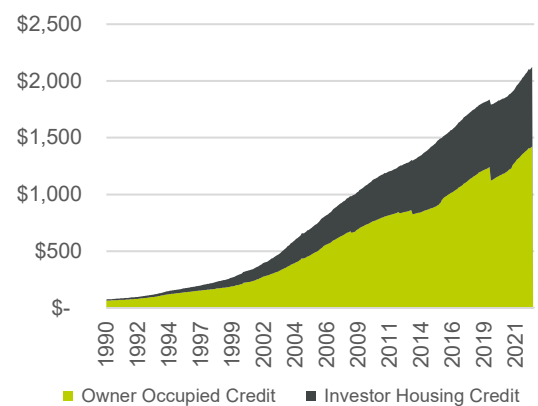


Exhibit 6: Household Income and Consumption



Source: ABS, RBA

Exhibit 7: Housing Loan Commitments
\$billion





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Historical House and Business Rates

- The rapid rise in interest rates is clearly visible in the latest average home and business lending rates. It indicates borrowers are paying approximately 1.13% higher for their outstanding loans rather than the best available through refinancing for a new loan.

Exhibit 8: Owner-Occupier Home Rates

Outstanding and new loans in % per annum

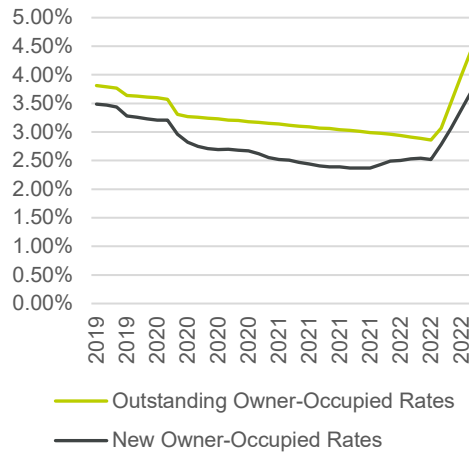
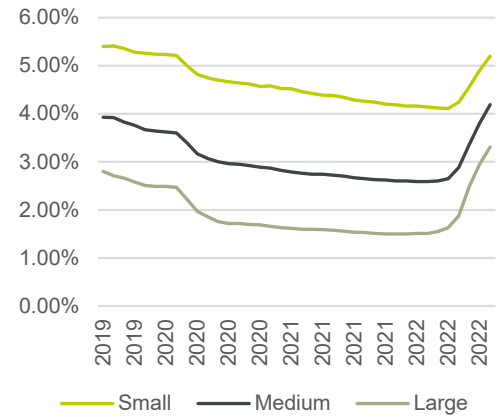


Exhibit 9: Outstanding Business Rates

Small, medium and large businesses in % per annum



Source: ABS, RBA

Lending Standards and Credit Policy

- There have been no notable changes by APRA over the past month concerning lending standards affecting consumers.
- In our day-to-day conversations, we are starting to see an early understanding by borrowers of their reduced borrowing capacity. The affect for most borrowers is a forecast decline in borrowing capacity by around 40.6%.
- Well-prepared borrowers can use this to their advantage (given the reduction in asset prices and reduced buyer competition).

Exhibit 10: Indicative Credit Policy Measures

	12 month ago	Current	12 month Forecast	Consumer Effect
Loan to Value Ratio (without LMI)	80.00%	80.00%	80.00%	Unchanged – but impacted by lower asset prices and reduced equity.
Debt to Income Ratio	~7.0x	<6.0x	<6.0x	Negative – Lenders are seeking to reduce consumer leverage, given increased interest rates.
APRA Servicing Buffer + Reference Rate	4.48%	7.03%	8.58%	Negative – There has been a material increase in the APRA servicing rate used for consumer lending.
Household Expense Measure (2 Adults, 2 Children with a modest lifestyle) (per month)	\$6,045	\$6,500	\$6,955	Negative – Material increases in household expenses due to inflation.
Indicative Borrowing Capacity for a household with \$500,000 in annual income	\$3,670,991	\$2,663,272 (27.5%)	\$2,181,990 (40.6%)	Negative – the combination of increased household expenses and the APRA servicing rate is and will have a material reducing in borrowing capacity.

Source: Cashel Family Office



Borrower Loan Rates

- We are forecasting a levelling out of the variable rates in line with the forecast fixed rates.

Exhibit 11: Owner-Occupied Rates

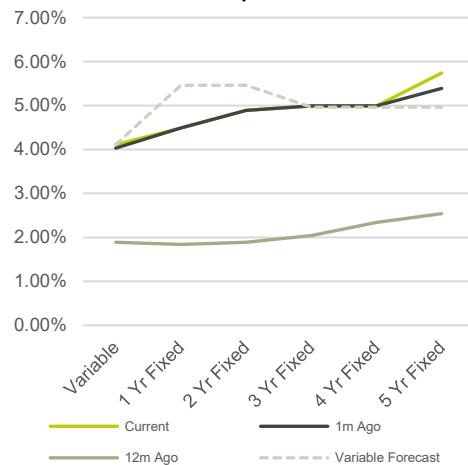
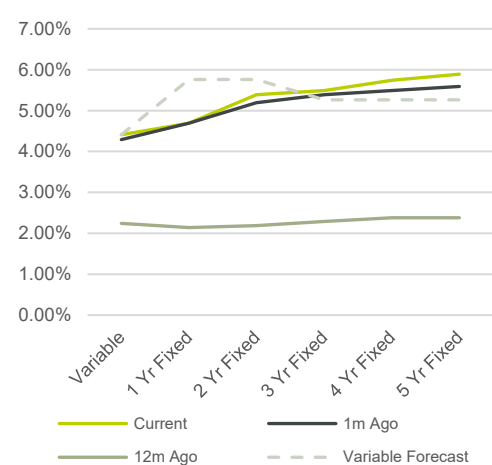


Exhibit 12: Investment Rates



Source: Cashel Family Office, Connective

Exhibit 13: Home Loan – Indicative Available Interest Rate Hedging

	Current	2023	2024	2025	2026	2027
Variable Rates	4.11%	5.46%	5.46%	4.96%	4.96%	4.96%
1 Year Fixed	4.49%	4.49%	5.46%	4.96%	4.96%	4.96%
2 Year Fixed	4.89%	4.89%	4.89%	4.96%	4.96%	4.96%
3 Year Fixed	4.99%	4.99%	4.99%	4.99%	4.96%	4.96%
4 Year Fixed	4.99%	4.99%	4.99%	4.99%	4.99%	4.96%
5 Year Fixed	5.74%	5.74%	5.74%	5.74%	5.74%	5.74%

Source: Cashel Family Office, Connective

Exhibit 14: Investment Home Loan – Indicative Available Interest Rate Hedging

	Current	2023	2024	2025	2026	2027
Variable Rates	4.41%	5.76%	5.76%	5.26%	5.26%	5.26%
1 Year Fixed	4.69%	4.69%	5.76%	5.26%	5.26%	5.26%
2 Year Fixed	5.39%	5.39%	5.39%	5.26%	5.26%	5.26%
3 Year Fixed	5.49%	5.49%	5.49%	5.49%	5.26%	5.26%
4 Year Fixed	5.74%	5.74%	5.74%	5.74%	5.74%	5.26%
5 Year Fixed	5.89%	5.89%	5.89%	5.89%	5.89%	5.89%

Source: Cashel Family Office, Connective

Exhibit 15: Personal, Asset, Commercial and Business Lending Indicative Interest Rates

	Indicative Rates
Home Mortgage (Full Doc)	4.11%
Home Mortgage (Low Doc)	4.99%
Investment Mortgage (Full Doc)	4.41%
Investment Mortgage (Low Doc)	4.99%
Commercial Loan	4.00%
Investment Mortgage (Private Doc)	8.40%
Margin Loan	7.75%
SMSF Loan	5.54%
Chattel Loan	6.25%
Personal Loan	6.25%
Credit Card	19.94%
HECS	3.90%
Outstanding Taxation	9.31%

Source: Cashel Family Office, Connective



Implications of Interest Rate Outlook

- From the current point (unlike from 12 months ago), we are forecasting a small increase in interest rates.

Exhibit 16: Impact of Interest Rate Forecasts and Fixed Rates on \$1 Million Borrowing

	Nov 2022	2023	2024	2025	2026	2027
Current Available Rates (Home)						
Variable Rates	4.11%					
Fixed Rate		4.49%	4.89%	4.99%	4.99%	5.74%
Current Available Rates (Investment)						
Variable Rates	4.41%					
Fixed Rate		4.69%	5.39%	5.49%	5.74%	5.89%
Cashel Forecast						
Inflation	5.40%	6.00%	4.10%	3.50%	3.00%	3.00%
RBA Cash Rate	2.85%	3.48%	3.48%	2.98%	2.98%	2.98%
Variable Rates - Home	4.11%	5.46%	5.46%	4.96%	4.96%	4.96%
Variable Rates - Investment	4.41%	5.76%	5.76%	5.26%	5.26%	5.26%
Monthly P&I Payments on \$1m	\$4,838	\$5,650	\$5,650	\$5,341	\$5,341	\$5,341
Change in Monthly Payments (\$)		\$812	\$812	\$503	\$503	\$503
Change in Monthly Payments (%)		16.8%	16.8%	10.4%	10.4%	10.4%

Source: Cashel Family Office, RBA, NAB, Westpac and ANZ

Recommended Strategies

Be vigilant about your interest rates

- If you are not already paying the lowest variable or fixed rates, you should seek to do so. There is likely to be a 1.1% improvement from a debt review. We can assist with renegotiating with your current lender or refinancing to a new lender.

Review your costs

- If you have not already, this is the time to start a conversation at home about your costs. The time of easy salary increases, and easy access to finance have passed; it is time to tighten your belt if you want to take advantage of future opportunities.

Review your income

- Notwithstanding the tight labour market, wage increases appear to be linked firmly to productivity gains while businesses try to manage their own margins.

Position for opportunities

- Given the sharp decline in real estate prices, the opportunity to deleverage may have passed. At the same time should you be in a strong financial position with healthy income, this may be an ideal time to secure pre-approved purchase facilities to take advantage of forced sales due to increased financial stress.

Reach out to your Cashel Relationship Manager for assistance and advice on any of these strategy recommendations.



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