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WILL CORONAVIRUS COLLAPSE
AUSTRALIAN PROPERTY?
WITH MARTIN NORTH

Agenda

- DFA's methodology, what mortgage stress and financial confidence indicators are showing
- What this means for Australian property & wider economy
- Viewer Questions
- Investment Outlook

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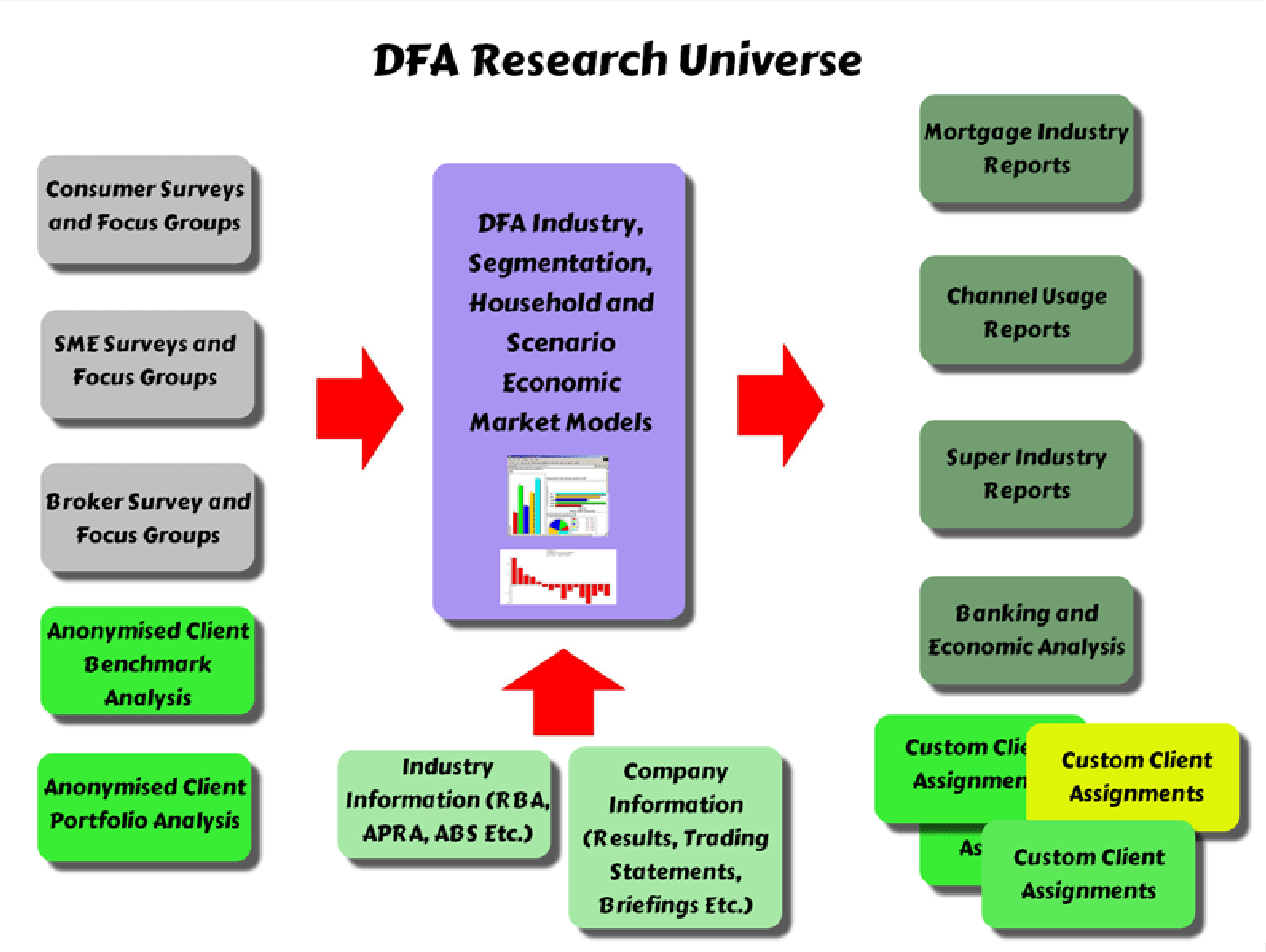
The Digital Finance Analytics Core Market model:



- We run rolling weekly household phone surveys as part of an omnibus.
- We get data back each Tuesday and incorporate findings into our core market model.

Source: Digital Finance Analytics

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We overlay the DFA Household Segmentation:

DFA Property Status

- Property Active
- Property Inactive

- Want To Buys
- First Time Buyers
- Holders
- Refinance
- Trading Up
- Trading Down
- Investor
- Portfolio Investor

DFA Geographic Locators

- CBD
- CBD Fringe
- Inner Suburbs
- Outer Suburbs
- Urban Fringe
- Regional
- Rural

- NSW
- VIC
- QLD
- WA
- SA
- TAS
- NT
- ACT

DFA Master Segmentation

- Young
- Growing
- Suburban
- Stable
- Exclusive
- Multicultural
- Battlers
- Disadvantaged
- Self-Funded Retirees
- Seniors
- Rural

- We can slice and dice the data across multiple dimensions.

Source: Digital Finance Analytics

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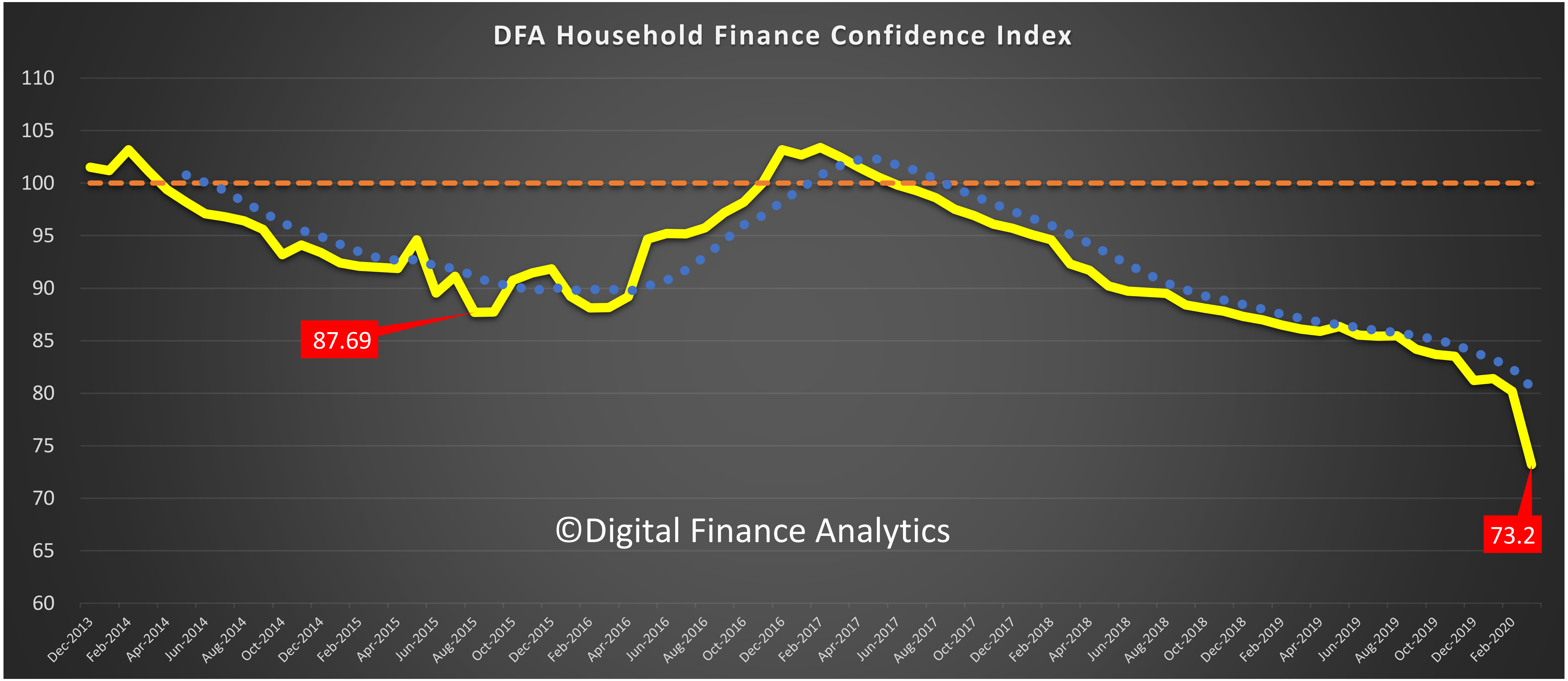
Household Financial confidence crashes in March:



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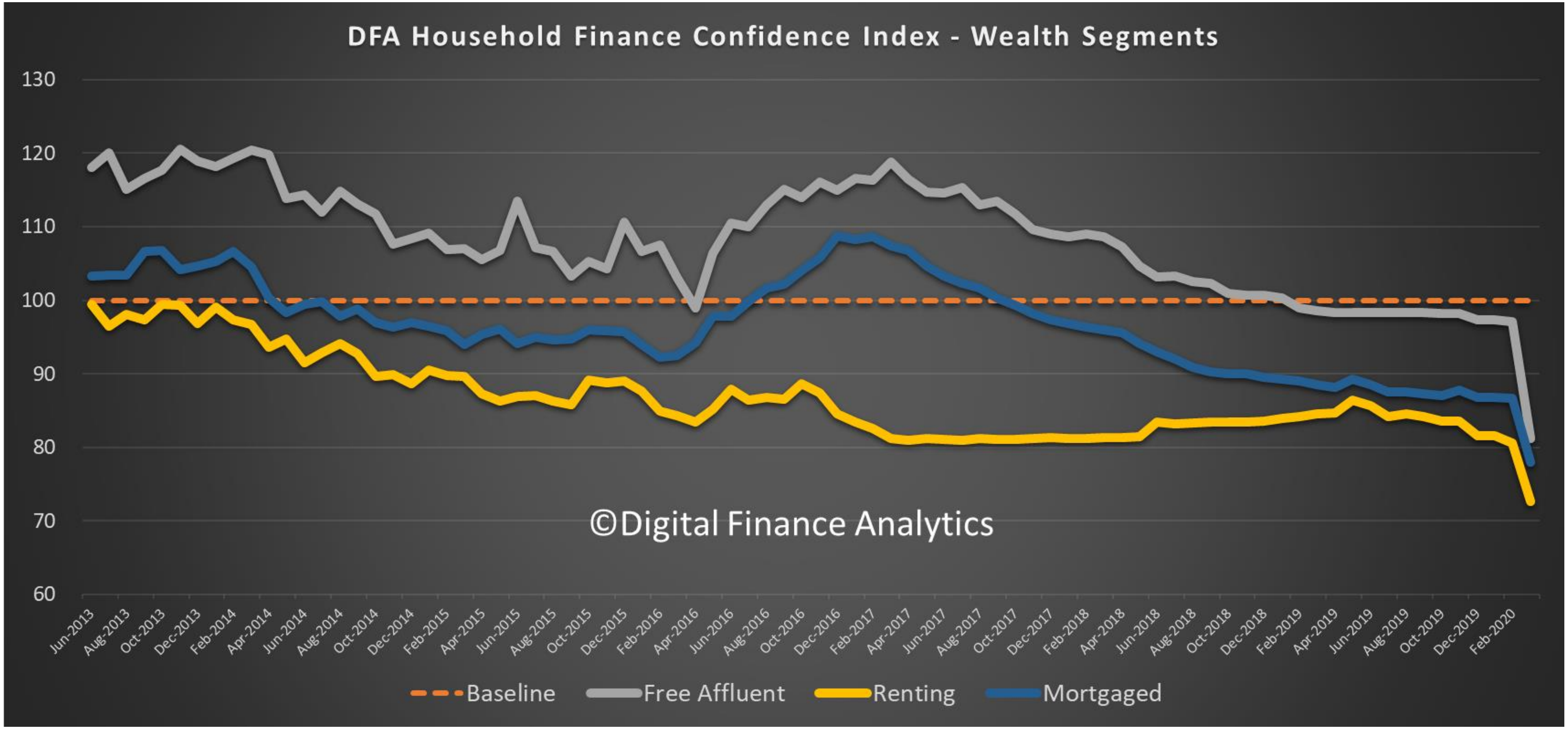
All segments are hit (as well as States and Age Bands):



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Mortgage stress examines household cashflows:

As part of the survey we capture data on household income and expenditure, including those with mortgages.

If cash flow is negative (more commitments than income) including mortgage repayments, the household is flagged as stress. If there is more than a 10% gap, then they are in severe stress.

We also estimate risk of default ahead, using historical comparative data. For example in 2013-19 we saw a significant spike in WA stress, which translated to higher levels of default subsequently.

The lag is explained by households dipping into savings, if they have them, putting more on credit cards, and hunkering down.

Separately we also track rental stress and overall financial stress, of which mortgage stress is a subcomponent.

NOTE: the 30% of income rule has little direct relationship to true stress, so we run a cashflow model which is more calibrated. We have data back to March 2000.

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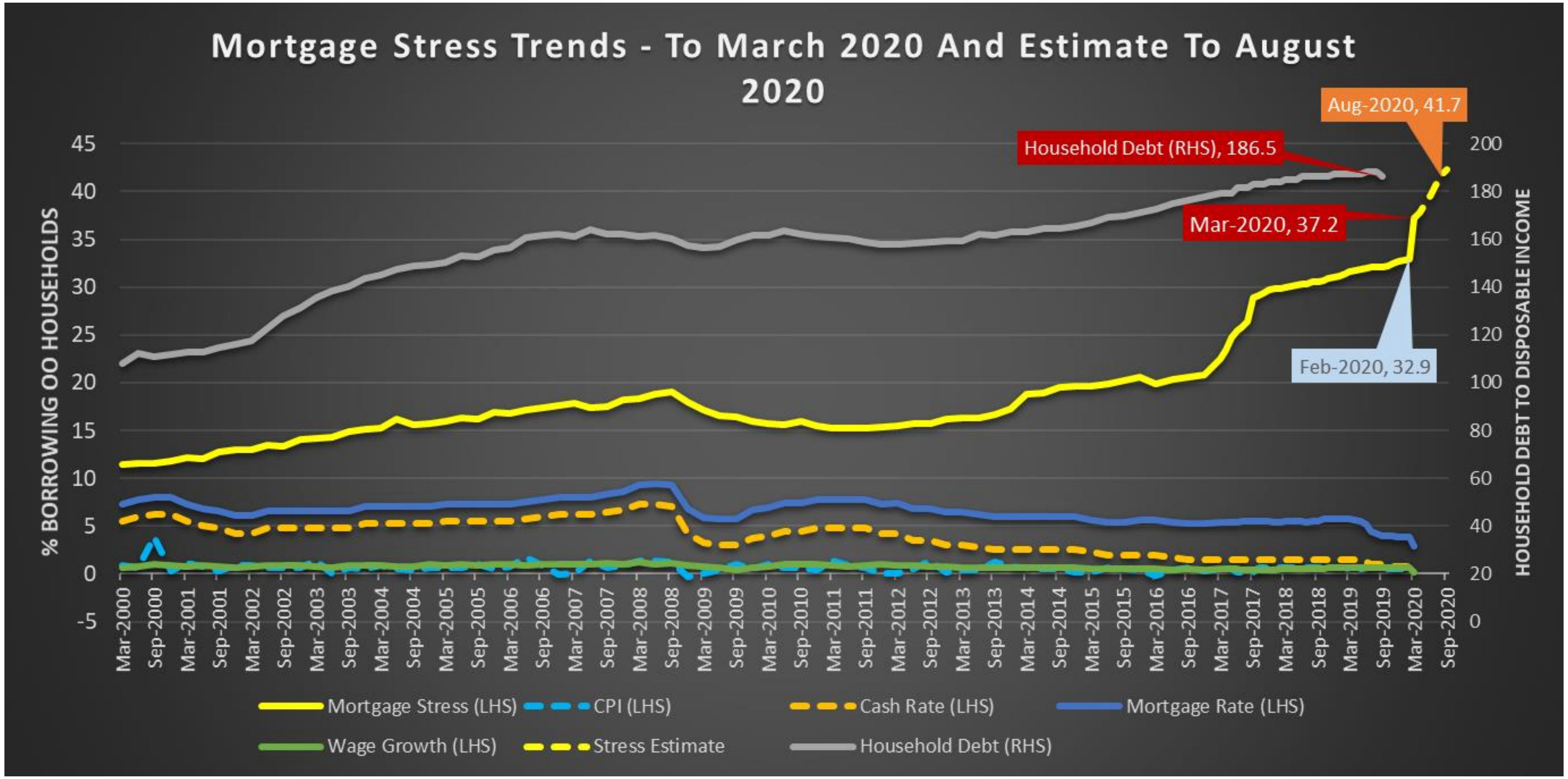
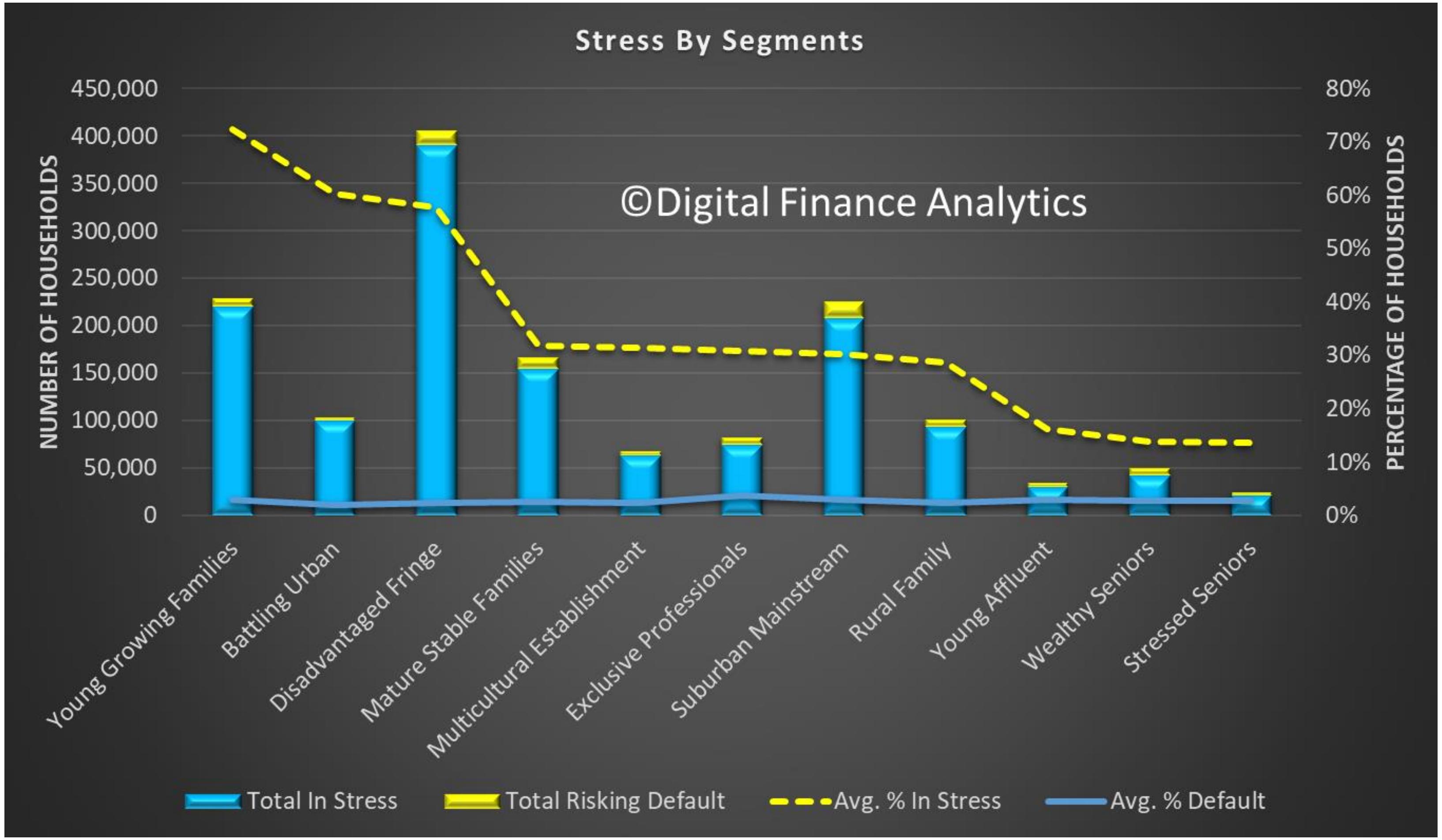
Mortgage stress has jumped alarmingly this month:



Source: Digital Finance Analytics

- The number of households in mortgage stress jumped from 32.9% in February to 37.2% in March 2020.
- This translates to a rise from 1.08 million in February to 1.36 million in March.
- More than 200,000 were hit directly by COVID-19 related job cuts. We expect this to rise to 41.7% in August.

Young families and Urban Fringe are most exposed:



Source: Digital Finance Analytics

- 72.2% of Young Growing Families are exposed (including some recent first time buyers).
- Defaults will stay low thanks to mortgage holidays, and employment rate at around 10% thanks to Job Keepers.
- Some affluent are more exposed due to leverage and falling markets income.

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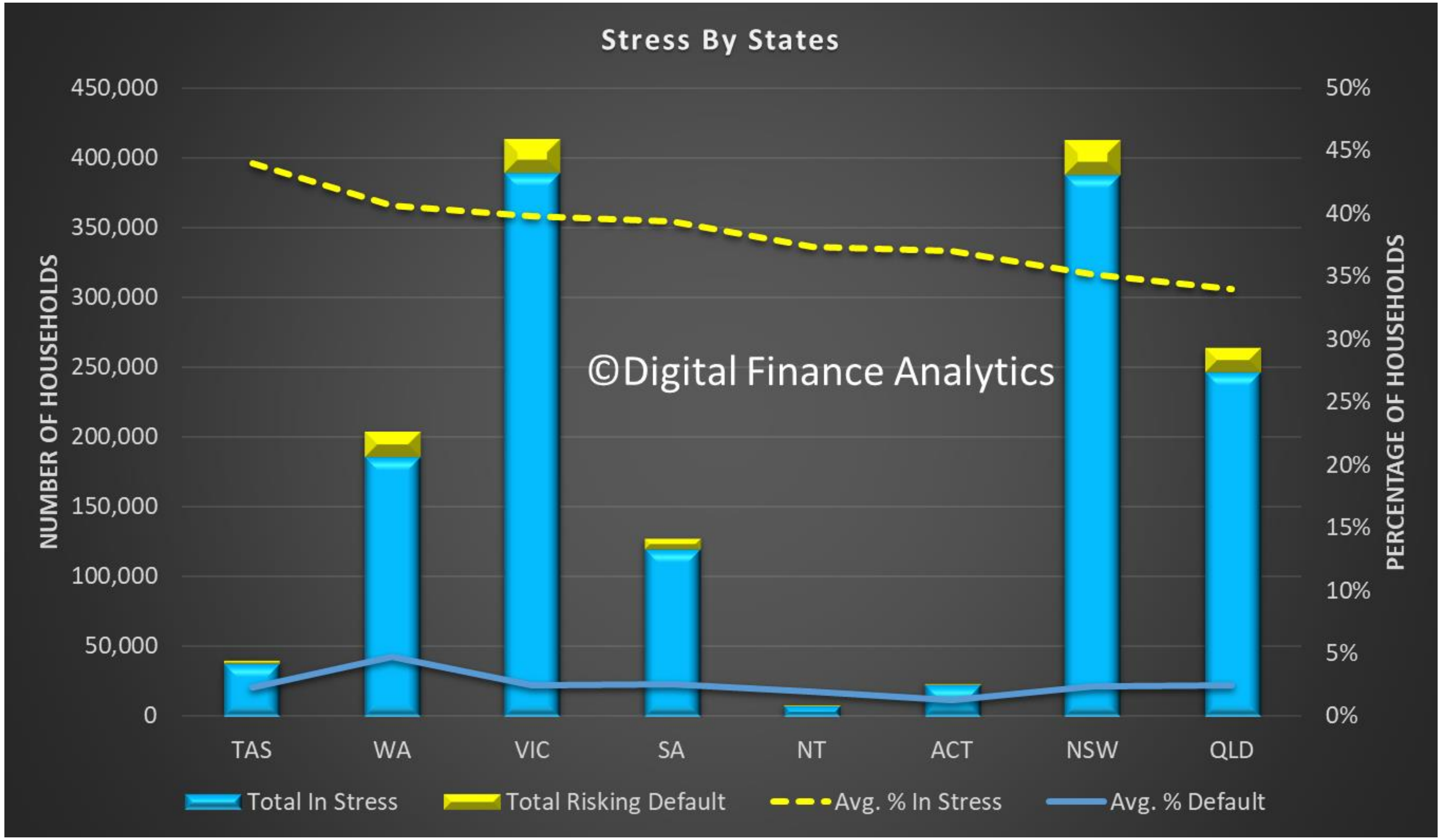
Tasmania and WA have the highest proportion in stress:



- Counts are highest in VIC and NSW, but proportions are highest in TAS (weak wages) and WA (length of existing decline).
- Largest movements from last month were in our largest states.

Source: Digital Finance Analytics

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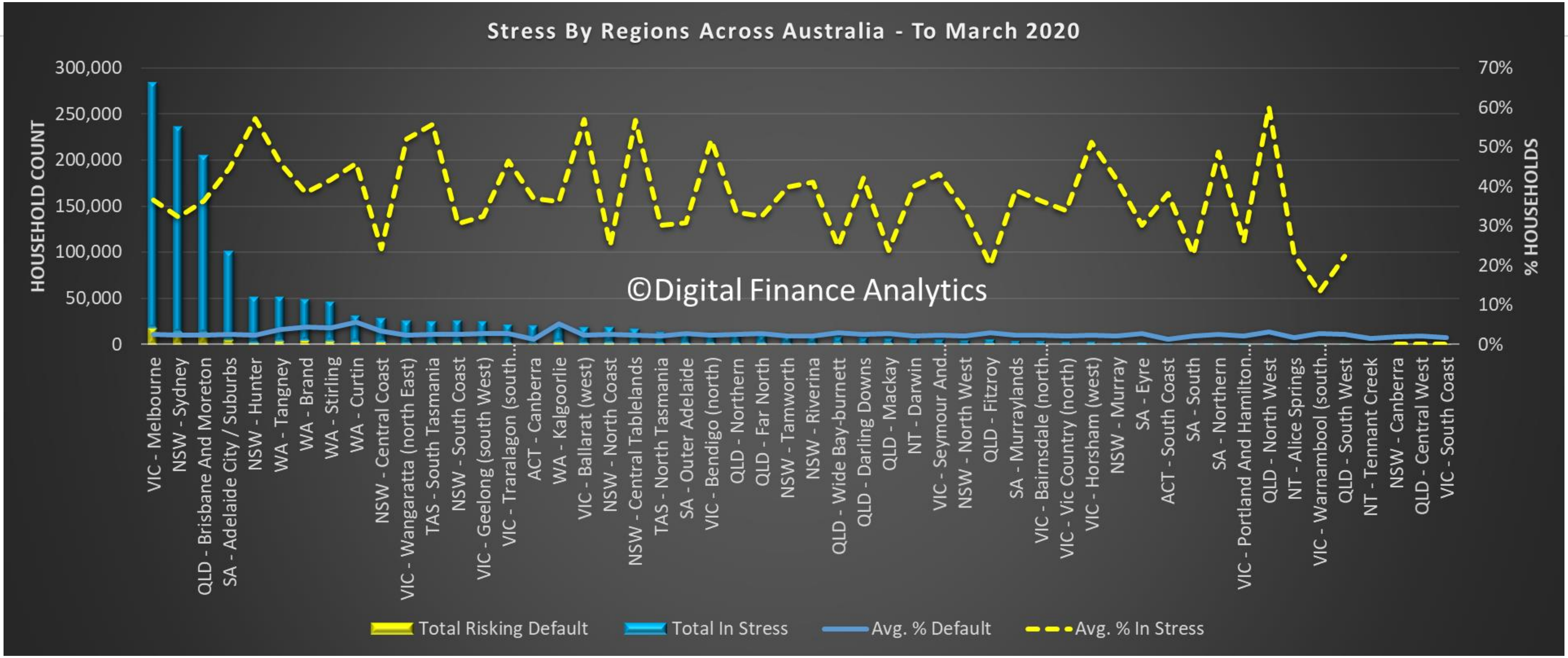
Major Centres are hit, but so are regional centres:



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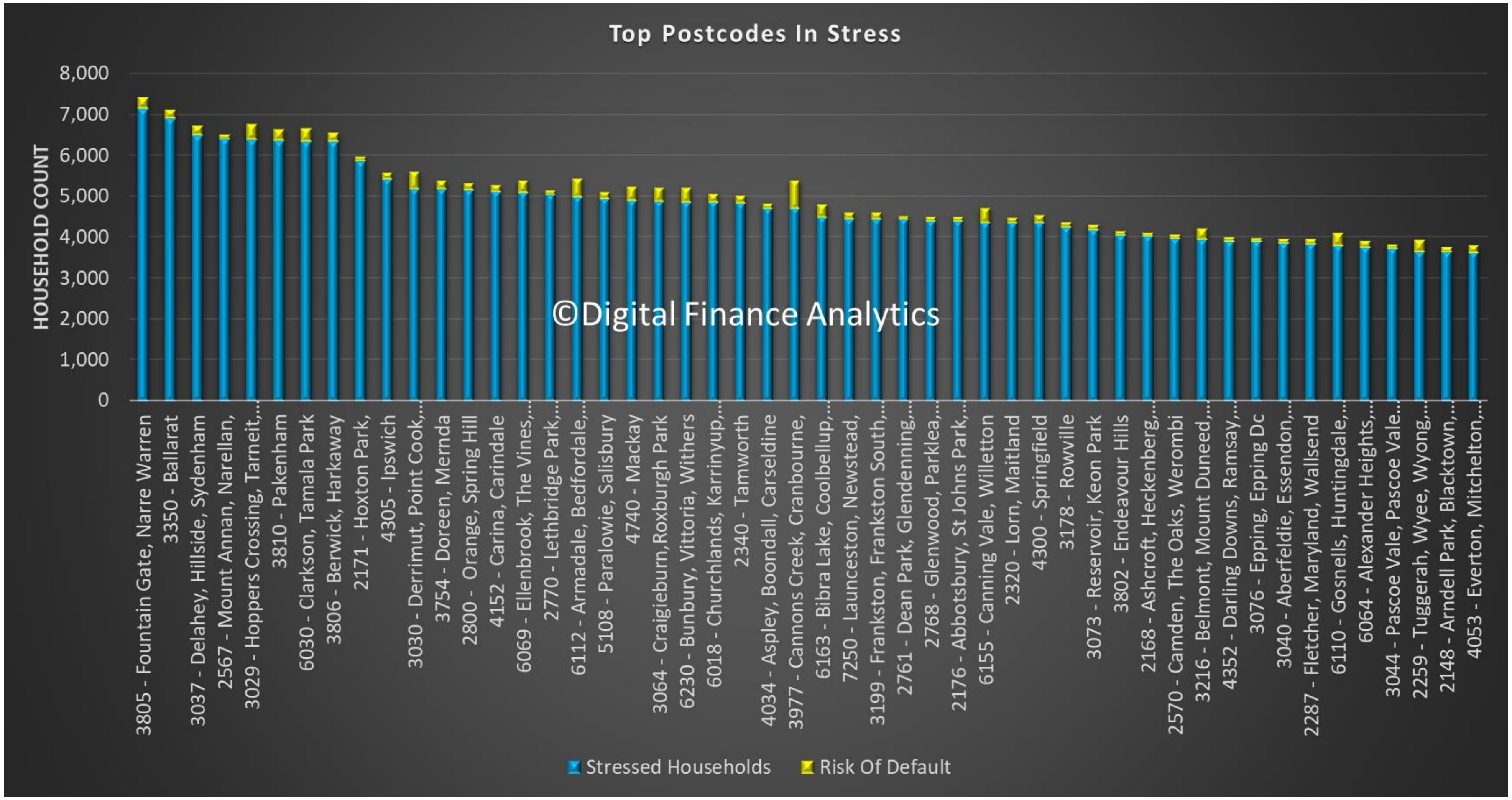
Victoria has the most significant footprint:



Source: Digital Finance Analytics

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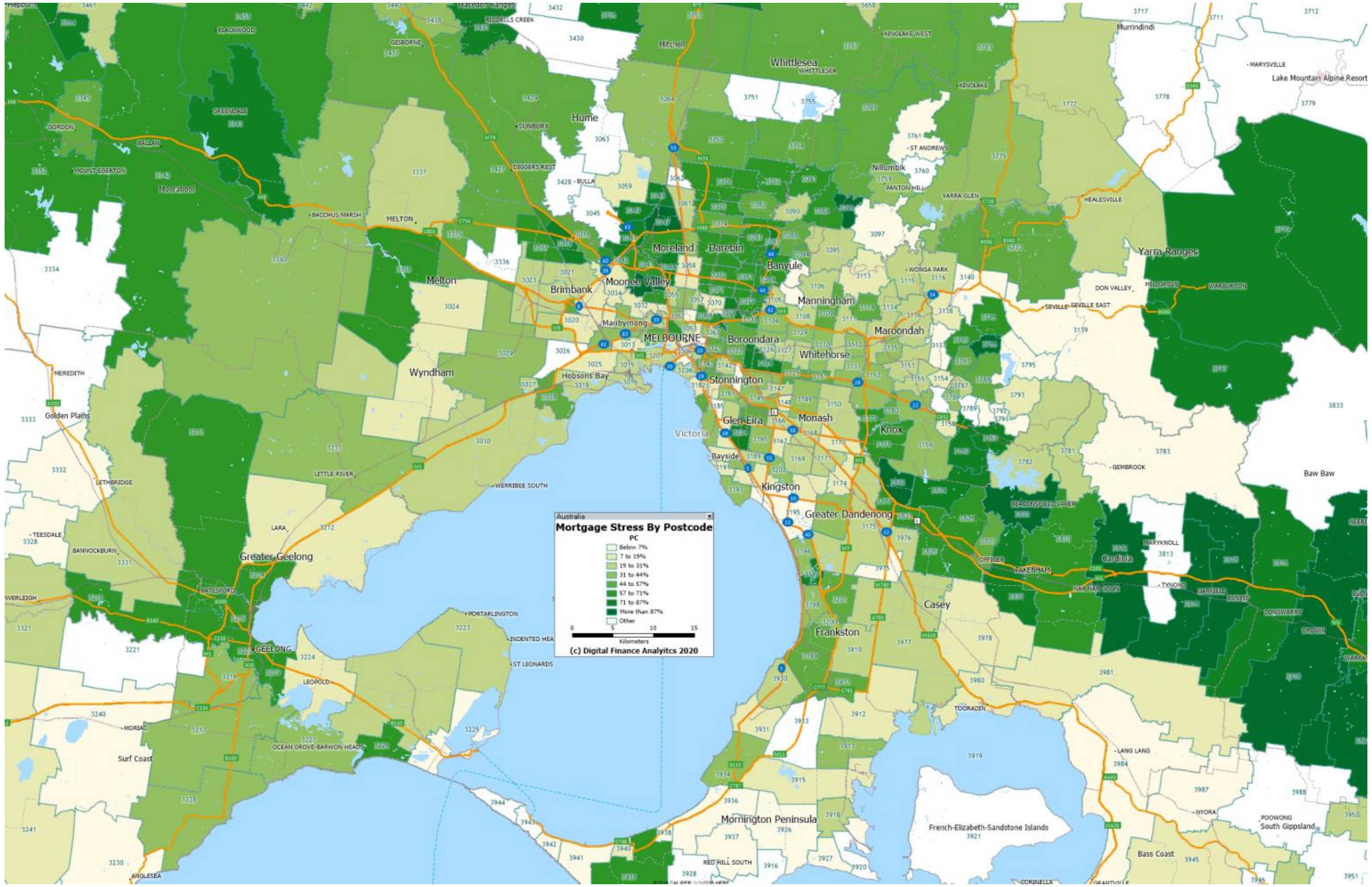
Geomapping can bring home the issue:



Source: *Digital Finance Analytics*

- Significant stress in newly developed corridors, often estates with small plots, limited infrastructure.
- Often above average incomes and home prices.
- We think prices will fall.

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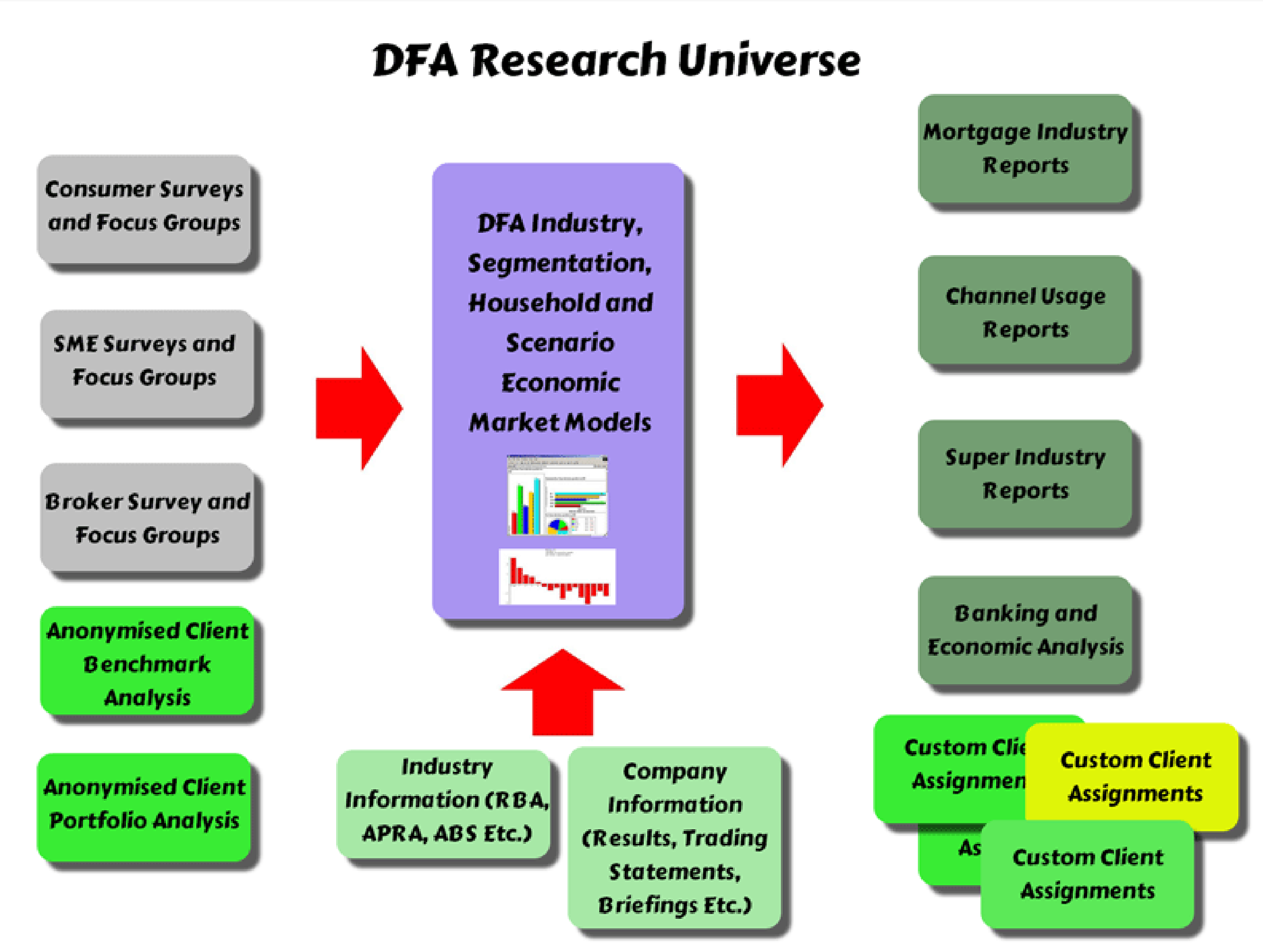

Scenarios

Summary Outcomes (24-36 Months Later)

Scenario	RBA Rate	Employment Rate	Mortgage Stress	Bank Losses (BP)	Home Prices DOWN	Unnatural Acts	% Probability ()= Last Time
Business As Usual							
Things Can Only Get Better							
Not Yet Doomsday							
Armageddon (Ireland 2.0)							
Doomsday (Iceland 2.0)							

Source: Digital Finance Analytics

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DFA's scenarios:

- Scenarios are a way of exploring different futures, and to consider the consequences, not as a forecast, but to facilitate understanding and debate.
- None of these scenarios may turn out to be right…. Things change.
- We use a framework driven from our core market model and we are going to look at the five potential outcomes, updated with the latest data and results.
- We have changed the methodology for 2020, with the scenarios running forward from today. This will change our baseline for home price changes.
- Baseline scenarios include the impact of Covid-19 – assuming it is a 6 month episode.

Source: Digital Finance Analytics

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DFA Summary outcomes (24-36 Months Later, baselined Mar 2020:

Scenario	RBA Rate	Unemployment Rate	Mortgage Stress	Bank Losses (BP)	Home Prices	Unnatural Acts	% Probability ()= Last Time
Local Difficulty	0.25%	5.7%	34%	3.8	0 to -10%	Easing Credit Rules/QE	0%
Short Term Wonder	0.25%	5.9%	38%	15.0	-15 to -25%	Fiscal/QE/NR	5%
Longer Term Crunch	0.25%	6.8%	40%	9	- 20 to 30%	QE/One Bank Bail Out	20%
Global Disruption	0.25% - Zero	8.75%-10%	40%-45%	30+	- 30 to 45%	Bail In/Bail Out/QE ++	60%
Uncontrolled Pandemic	Zero and Below	16%+	65%	35+	Up to 80%	QE+ Bank Failures	15%

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Investment Outlook:

Unemployment: Number one issue

Equities:

- How far will earnings fall / recover
- Consensus earnings useless. Five year average more helpful.
- -ve: Gearing changes, deglobalisation, increased redundancy, supply chain
- +ve: Reduced rent, travel, new efficiencies

Bonds:

- Inflation vs safety

AUD:

- Stimulus vs disruption

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Coming up

Nucleus Investment Insights : **John Deniz, CIO Paragon Funds**

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next
Thursday 9/4/2020

PARAGON FUNDS MANAGEMENT

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