



Autumn News 2016

Current Interest Rates *

Rates below are the best of standard carded interest rates available and do not reflect any discounts your Adviser may be able to obtain for you or your client.

Variable	5.65%
6 Month Fixed	4.65%
1 Year Fixed	4.70%
18 Months Fixed	4.89%
2 Year Fixed	4.85%
3 Year Fixed	4.99%
4 Year Fixed	4.99%
5 Year Fixed	5.30%

* All rates subject to change without notice and not available to all borrowers.

Auckland's 'halo' alive and spreading - By Bernard Hickey

Welcome to the Autumn 2016 Edition

Auckland's housing market roared back to life in March and the 'halo' of the biggest city's double-digit house price inflation is spreading into the provinces.

Real Estate Institute figures showed a rebound in volumes and a 9% rise in Auckland's raw median house price to a record high NZ\$820,000 in March from February as the six month slowdown triggered by Reserve Bank and Government action ended earlier than most expected.

Now that overseas buyers have their IRD numbers and bank accounts organized, Auckland's open homes and auction rooms are filling up again. Lower interest rates and yet more record high net migration are helping too, along with solid jobs and real wage growth.

But it is the spreading of the heat out into Hamilton, Tauranga and as far away as Wellington and Dunedin that is grabbing the attention. Corelogic reports a rising percentage of sales in provincial cities are going to Auckland buyers, mostly buying rental properties.

All this heat in the property market is putting the Reserve Bank in a difficult position. Its main task is to target inflation at between 1-3% over the medium term, but it is failing to do that. Annual inflation was 0.4% in the March quarter and has been below 1% for six quarters in a row. Inflation has been below the 2% mid-point specified in Reserve Bank Governor Graeme Wheeler's Policy Targets Agreement with Finance Minister Bill English for more than four and a half years. That's uncomfortably close to the medium term.

However, the Reserve Bank is also tasked with monitoring asset prices and keeping the financial system

stable. It has been worried enough about the risks to financial stability from a possible fall in Auckland house prices to introduce two sets of controls on Loan to Value Ratios in the last three years.

That's why economists began talking in April about the possibility of a third round of lending restrictions later this year. They could include extending the 70% limit for rental property investors beyond Auckland and/or lowering the limit for Auckland investors to 60%. The Reserve Bank will have its first chance in a while to talk about this when it publishes its half-yearly Financial Stability Report on May 11.

The other variable to watch is bank funding costs on international markets. They rose sharply in January and early February because of the turmoil on global financial markets linked to China's economic slowdown. Banks cited these higher costs when they chose not to pass on all of the March 10 Official Cash Rate cut to floating rate customers.

However, since then global financial markets have calmed down because of reassurances about lower interest rates for longer by central banks, and because Chinese authorities appear to have stabilized the Chinese economy through yet another infrastructure stimulus programme and rapid lending growth.

Banks may not find it so easy to refuse to pass on all of further cuts this year, possibly as early as April 28. Those funding costs have dropped sharply through March and April.

The bottom line:

- Inflation remains weak and deflationary headwinds continue to blow from the rest of the world, pushing down on interest rates.
- Auckland's housing market roared back with a vengeance in March and the 'halo' effect is spreading double digit house price inflation around the country. Economic growth is solid at 3% and net migration is at 100-year highs.

The Reserve Bank may choose to bring in a third round of lending controls to stop future rate cuts from adding fuel to the house price inflation. It may suggest or announce them on May 11.