



March 2017

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	5.55%
6 Month Fixed	4.75%
1 Year Fixed	4.45%
18 Months Fixed	4.75%
2 Year Fixed	4.79%
3 Year Fixed	5.09%
4 Year Fixed	5.49%
5 Year Fixed	5.69%

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

DTI Bullet Dodged for now in Cooler Market – Bernard Hickey

The summer was cooler than usual in many parts of the country and that was the case in parts of the housing market too as last year's tougher LVR rules for landlords helped change the usual real estate weather patterns.

The stratified median house price in Auckland fell 6% to 9% in seasonally adjusted terms in January from December and sales volumes were significantly down from a year ago. Just as the heat radiated from Auckland last year, that cooling is spreading out to the closest cities of Hamilton and Tauranga.

A slight rise in fixed mortgage rates late in 2016 and a tightening of lending criteria by some banks has also cooled activity. Some banks are increasing both term deposit and mortgage rates to try to match their inflows of funds with their outflow of loans. That helps them avoid having to go overseas into the volatile short term funding markets, which the Reserve Bank is keen they avoid.

Banks also face regulatory headwinds both in Australia and here. The Australian Prudential Regulation Authority (APRA) has reduced the amounts the parents of our big four banks can lend their New Zealand units. The banks are also up against their APRA limits for lending to commercial project developers, which includes the bigger apartment and suburban project developers.

The Reserve Bank is also reviewing capital requirements this year, which may force the banks to put aside more capital for their New Zealand home loans, particularly to investors. That would slow lending growth.

But it's too early to call the end of the housing boom or any sort of substantial reversal.

Net migration continues to surprise the forecasters by rising to fresh record highs and the housing shortage of at least 40,000 houses in Auckland has not gone away. If anything, the tightening of lending criteria will make it harder to fill that supply shortage as apartment developers struggle to find the funds needed to green light projects.

New Zealand's economy is also still humming along with a growth rate of around 3.5% and strong jobs growth is keeping unemployment low around 5%. Longer term fixed mortgage rates may have risen 10-30 basis points since early November, but they remain just above record lows.

They show no sign of rising steeply or quickly. That was reinforced in the Reserve Bank's February Monetary Policy Statement, in which it forecast the Official Cash Rate would be on hold until late 2019. It forecast just one hike in late 2019/early 2020 because inflation remains low. It even delayed its expectation of when inflation would return to the middle of its 1-3% target band because of the persistently high and unwelcome strength in the currency.

Another factor supporting the housing market is the receding prospects for a debt to income (DTI) multiple limit.

One of new Finance Minister Steven Joyce's first decisions was to deny the Reserve Bank's request for the immediate inclusion of the DTI in the bank's Macro-Prudential tool kit. That would have allowed the bank to bring in the DTI quickly after a brief consultation with banks, as was the case with the LVR tools.

Instead, Joyce said he had decided a full cost-benefit analysis and consultation with the public should occur before he even considered whether to amend the bank's Memorandum of Understanding to include a DTI tool in its macro-prudential toolkit.

Before Joyce's move into the Finance role, the Reserve Bank had been in active discussions with Bill English about including the DTI in the toolkit. Governor Graeme Wheeler said on November 30 he expected to meet English again within weeks about finalising its inclusion in the tool kit. John Key's resignation put paid to that, and since then new Prime Minister English has set the election date for September 23.

Joyce said he expected public consultation would commence in March and occur during the first half of 2017. Even if it was then included in the toolkit, then the Reserve Bank would have to carry out a second round of consultation directly with the banks. That effectively rules out a DTI before September, and it would be very unlikely that the Bank would be able to agree one before the end of the year, regardless of who is in power after September 23.

Wheeler also said he would not use the tool right now, even if he had it, because he was encouraged by the moderation of house price inflation since July 2016.

Summer may be over, but winter is not coming yet for the housing market.

The bottom line:

- House price inflation has slowed and prices fell in January in Auckland.
- The Reserve Bank has forecast an unchanged Official Cash Rate through all of 2017 and all of 2018. It does not see the first hike until late 2019.
- Banks are lifting longer term mortgage rates and some are tightening lending criteria to slow lending growth to better match term deposit growth. They also face tough capital and liquidity requirements.
- The Reserve Bank is unlikely to be able to introduce a DTI limit in 2017. It has to do lengthy consultation and it has said it would not use the tool right now even if it had it because of the market's moderation.
- The key variables to watch in 2017 are China's bad debt situation, Europe's financial and political dramas, global inflation and interest rates, New Zealand's election result, and Donald Trump's twitter account.