



November 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	5.55%
6 Month Fixed	4.75%
1 Year Fixed	4.25%
18 Months Fixed	4.79%
2 Year Fixed	4.29%
3 Year Fixed	4.39%
4 Year Fixed	4.59%
5 Year Fixed	4.79%

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

A Holding Pattern in Spring – Bernard Hickey

The housing market and the Government's response to it remains in a holding pattern while everyone waits to see if the Reserve Bank's new lending restrictions have anything more than a temporary effect.

The bank's first two rounds of Loan to Value Ratio Restrictions in November 2013 and November 2015 slowed the Auckland housing market for a matter of months each time, before it roared back to life in the following February-March sales seasons.

The jury is out on whether this third round of restrictions that applied formally from October 1 and have been in operation since mid-July will be anything more than a speed bump.

Real Estate Institute figures on sales volumes and prices for September certainly confirmed a slight cooling of activity through August and September in Auckland, although the 'Halo Effect' is still burning brightly in cities further afield, particularly beyond Hamilton and Tauranga. These Auckland satellite cities have also seen a slight cooling.

But it's still too early to say if the speed bump will have turned into a ditch or a brick wall.

There are plenty of other housing market drivers that are positive for prices.

The Reserve Bank is widely expected to cut the Official Cash Rate by a further 25 basis points to 1.75% on November 10 when it releases its next Monetary Policy Statement. That's because inflation remains unusually weak at just 0.2% and the Reserve Bank needs to push it back up into its 1-3% target range.

Inflation has been below that range for a full two years.

However, some economists think this might be the last cut in the current cycle, given September quarter inflation figures were slightly above expectations and there are signs that interest rates and inflation have bottomed out globally. But remember, we've been here many times before in the years since the Global Financial Crisis where financial markets appear to have found the bottom in the interest rate cycle, only for another economic hiccup or financial crisis to drive rates ever lower.

One encouragement for the Reserve Bank is that the banks are not expected to pass on all the OCR cut. This will frustrate borrowers and be a relief for savers, but should not surprise those who have watched the banks in recent months. They are doing their best to slow lending growth and revive deposit growth to ensure they don't have to go overseas into the hot money markets to borrow more. The banks are now restricted from borrowing too much in these 'hot' money markets by Reserve Bank rules. Banks are also keen to build up their net interest margins and profits ahead of higher capital requirements from regulators on both sides of the Tasman.

The other positive driver for the housing market is net migration. It jumped back to a record high of almost 70,000 in September and shows few real signs of cooling off. New Zealanders are not leaving to live in Australia, more Kiwis are returning from the not-so-lucky country to work here, and there is plenty of demand for student, holiday and work visas from a growing middle class in Asia and richer Americans and Europeans.

The housing supply outlook also remains restrained, particularly in Auckland where the new Unitary Plan now faces appeals with the High Court and Environment Court. Skilled labour, building material and funding shortages are also frustrating those hoping for a supply shock to contain prices.

The bottom line:

- House price inflation ran at an annual rate of 6.3% nationwide in August.
- The Reserve Bank is expected to cut the Official Cash Rate at least once more in early November.
- Banks are not passing on all of the OCR cuts to floating mortgage borrowers and have stopped cutting fixed mortgage rates despite lower wholesale rates.
- Banks are increasing net interest margins to hold more capital and are having to pay more for local term deposit funding to meet regulatory requirements.
- The Reserve Bank says its new 40% deposit requirement for landlords from October and tighter bank lending rules seem to be moderating housing market inflation, which it still thinks is excessive.