

Home Truths

15 August 2018



Mortgage rates will fall, and that has improved the housing market outlook

The latest housing market data suggests the market remains locked in a fairly subdued trend overall, with Auckland much weaker than other regions. July was a strong month for house prices, but that is countered by very weak sales numbers for the month.

The big news is that the housing market outlook has improved. Home truths previously predicted a drop in prices over the second half of 2018, due mainly to tax policy and the foreign buyer ban. We then expected a modest rise in prices over 2019, because we expect the economy to improve that year.

However, that forecast was made before the Reserve Bank shocked markets last week by signalling that they were nearer to the “trigger point” of reducing the OCR. The game has now changed.

We are now forecasting essentially flat prices over the remainder of 2018, followed by a sharp, but short-lived, rise in prices for early 2019.

Financial markets reacted to last week’s Reserve Bank announcement by slashing wholesale fixed interest rates. That could cause a drop in two-year fixed mortgage rates of around a fifth of a percentage point over the coming few months.

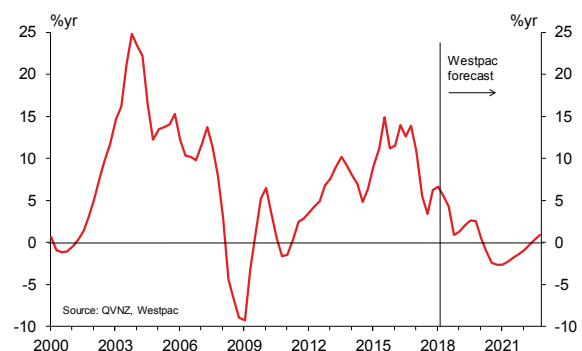
A drop in mortgage rates of that magnitude, if it comes to pass, will have a powerful effect on the housing market.

Adding fuel to the fire, the RBNZ also made it clear that it is considering loosening its LVR mortgage lending restrictions in light of the cooler housing market and more subdued lending by banks. We continue to expect an LVR loosening will be announced in November and implemented in January, boosting the market early next year.

REINZ housing data, Westpac seasonal adjustment

	Jul-18	Jun-18	Jul-17
House sales, number, s.a.	5946	6302	6039
Mth % chg	-5.7	-3.9	0.3
Ann % chg	0.7	0.6	-22.5
Days to sell, sa	38.0	38.2	37.0
House Price Index (s.a.)			
Mth % chg	0.5	0.0	-0.5
Ann % chg	4.9	3.8	3.4

House price inflation



The market outlook is now a battle between two powerful opposing forces – Government policies that will cool the market versus Reserve Bank policy that will boost it. That makes the outlook particularly uncertain. We can be confident that a drop in mortgage rates will have a positive effect, because we have seen that many times in the past. But we simply do not know how much of a negative impact the foreign buyer ban will have. Similarly, although it is straightforward to estimate the eventual impact of tax

changes on house prices, it is impossible to tell just how much the anticipation of future tax change is impacting the market right now.

Our best forecast at this point is that nationwide average house prices will remain fairly subdued over the remainder of 2018. Within that average we would expect Auckland prices to fall while prices in most other regions rise slowly. That is because the foreign buyer ban will affect Auckland more.

But for early 2019, we are now pencilling in a vigorous first quarter with a 1.5% house price increase nationwide. By that time we would expect lower mortgage rates, looser LVR

limits and an improving economy to be providing a positive counterweight to the foreign buyer ban and tax changes.

Lest our readers get too excited, remember that Home Truths retains an unrelenting negative outlook on house prices over the longer term. The Reserve Bank won't be able to hold interest rates down forever – causing rates to drop now will set us up for a larger increase down the track. We expect mortgage rates will rise in the 2020s, and when that happens house prices will take a hit. We are forecasting a house price decline of almost 3% for 2020.

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