finder.com.au

PRESS RELEASE

**For immediate release**
7 February, 2017

# Apartment oversupply in capital cities, while 1.5% cash rate remains at a standstill

- All 32 experts and economists accurately predicted no cash rate move for February 2017
- 77% of experts believe there's an oversupply of apartments; Melbourne has greatest oversupply
- 67% of respondents think health insurance premium rises greater than CPI are unwarranted

**7 February, 2017, Sydney, Australia** – For the first time this year, the Reserve Bank met to discuss monetary policy direction and decided to leave the cash rate at 1.5%, but the property market may be influenced by other factors, such as apartment oversupply, according to finder.com.au, Australia's most visited comparison website[1].

In the lead up to today's meeting, all 32 experts and economists from the finder.com.au RBA survey correctly predicted the Reserve Bank would hold the cash rate.

Coupled with a strong Australian dollar, subdued inflation, and a low gross domestic product (GDP) figure for September 2016, the Board is waiting for stronger indications of Australia's economic performance before adjusting the cash rate accordingly.

The majority of experts and economists (58%) believe the cash rate has hit its lowest point this cycle.

Graham Cooke, Insights Manager at finder.com.au, says cash rate predictions have taken a turn, however it will be some time before the rate starts to rise.

"In the past few months, there's been an increasing sentiment towards a cash rate lift.

"But don't hold your breath as the upward move is potentially months away," he says.

---

[1] Experian Hitwise 2015

When asked about property oversupply, 77% (26) of experts who weighed in on this topic believe there's an oversupply of apartments in some of Australia's capital cities.

The majority of these experts (75%) believe Melbourne has the highest incidence of apartment oversupply, followed by Brisbane (70%), Sydney (40%), and Perth (35%).

Mr Cooke says it's clear some cities have overbuilt.

“Property development is one of the hallmarks of a vibrant city, but too many apartments can be detrimental to the ongoing strength of the market.

“When supply exceeds demand, there's downward pressure on the value of assets. In particular, Melbourne and Brisbane apartment-buyers may experience low capital growth in the years to come,” he says.

Given recent growth in health insurance premiums, 67% (18) of experts who offered their opinion believe insurance premium rises greater than CPI (inflation) are unwarranted.

Health insurance premiums have risen 5.7% on average annually since 2010, however during this period CPI has risen by 2.25% per year, on average.

“This may be fuelled by an ageing population and climbing healthcare costs,” Mr Cooke says.

The rise in health insurance premiums has been close to 50% in just seven years.

“Australians who were paying $2,000 a year for health insurance in 2010 are now paying close to $3,000.

“Insurance premiums rise every year like clockwork, so review your health insurance policy and lock in a competitive price, and pay up front before April 1,” he says.

## Here's what our experts had to say:

**Jordan Eliseo, ABC Bullion (Hold):** "The RBA is likely to sit tight for a month or two, analysing all incoming data before they make their next move. They'll be worried about low inflation, but will also have one eye on resurgent investor activity in the housing space, whilst broader economic data hasn't softened enough (yet) to warrant immediate stimulus."

**Shane Oliver, AMP Capital (Hold):** "December quarter CPI was in line with RBA forecasts and RBA would like more time to see how the economy performs after its September quarter slump."

**John Hewson, ANU (Hold):** "Wait and see how things unfold, both globally under Trump, and domestically."

**Richard Robinson, BIS Shrapnel (Hold):** "[The] economy [is] still okay. RBA doesn't want to (or should not) [cut] because a rate cut will give a further unwelcome boost to the Sydney and Melbourne housing markets."

**Paul Dales, Capital Economics (Hold):** "The RBA will have to admit that economic growth both this year and next will be weaker than it previously thought, but due to the strengthening of activity overseas and the rise in the prices of Australia's main commodity prices, it won't revise down its underlying inflation forecasts by enough to trigger a rate cut. "

**Michael Blythe, CBA (Hold):** "RBA unlikely to cut against a backdrop of higher commodity prices and still hot housing market"

**Savanth Sebastian, CommSec (Hold):** "The Reserve Bank is comfortable on the interest rate sidelines. Will wait on more timely data, focus will be on business investment over the next six months."

**Dr Andrew Wilson, Domain Group (Hold)**: "Should be a close call for a cut on the exposed economic data but the Bank has taken a conservative stance on settings lately so more likely to remain on hold - for now."

**Scott Morgan, Greater Bank (Hold):** "The economic data does not support the need to change rates."

**Dr Mark Brimble, Griffith Uni (Hold):** "Uncertainty and volatility in markets driven by US politics and variable economic data."

**Alex Joiner, IFM Investors (Hold):** "The case hasn't been made for a short term rate cut despite a softish inflation pulse."

**Robert Montgomery, Infrastructure Partnerships Australia (Hold):** "The RBA will hold for now, but continued low inflation and GDP growth indicate further rate cuts later in 2017. "

**Michael Witts, ING Bank (Hold):** "The economic data released locally and global developments suggest that the RBA will be on hold for an extended period."

**Leanne Pilkington, Laing+Simmons (Hold):** "We don’t see the Reserve Bank having the justification nor the desire for further easing after the rate cuts of last year. From a housing industry perspective, rates are already low and have been for some time, so that piece of the affordability puzzle is in place. It’s through other avenues like stamp duty reform that improvements in affordability need to addressed."

**Nicholas Gruen, Lateral Economics (Hold):** "Because this is consistent with their reasoning so far - even if it seems to me complacent, unambitious, and confused. "

**Matthew Tiller, LJ Hooker (Hold):** "Australian economic indicators are still mixed and the housing market still has a bit too much "heat" in it to move rates just yet."

**Stephen Koukoulas, Market Economics (Hold):** "The RBA is pig headed about the risks and growth momentum of the economy. It should cut but won't. Real GDP growth is soft, inflation remains below target and the unemployment rate is rising again. Yet is gives huge weight to house prices and therefore is reluctant to cut."

**Michael Yardney, Metropole Property Strategists (Hold):** "The annual figure for headline inflation (1.5 per cent) remains well below the RBA target range of 2 to 3 per cent. This makes the view by some commentators  that a rise in rates will occur early this year unlikely. On the other hand the strong property markets in a number of states will make it difficult for the RBA to lower rates further. They're likely to hold steady and see how the year pans out."

**Mark Crosby, Monash University (Hold):** "International jitters aside the local environment is still solid and falling inflation now seems less likely in H1 2017."

**Emily Dabbs, Moody's Analytics (Hold):** "Inflation pressures remain downbeat and employment outcomes have improved only marginally. But highly leveraged households pose a downside risk to financial stability and this will likely keep the RBA on the sidelines."

**Jessica Darnbrough, Mortgage Choice (Hold):** "There is a lot of volatility at the moment in both the domestic and global markets. As such, I think the Reserve Bank will believe the best course of action is a stable cash rate setting."

**Saul Eslake, N/A (Hold):** "Monetary policy settings are already highly accommodative; data on growth and inflation since the last RBA Board meeting (in December) have been broadly in line with RBA expectations since monetary policy settings were last altered, and it's unlikely that those expectations have themselves been significantly revised, so no need to change policy settings now."

**Jonathan Chancellor, Property Observer (Hold):** "The board will need a few fresh indicators from 2017 data before they need take any action on the interest rate front."

**Matthew Peter, QIC (Hold):** "While weak growth and low inflation could justify a lower cash rate, the threat of exacerbating an overheated housing market and the lack of confidence that the RBA has in further rate cuts to deliver substantive economic stimulus will see the RBA keep the cash rate firmly fixed at its current setting of 1.5%."

**Noel Whittaker, QUT (Hold):** "No good reason to move rates."

**Christine Williams, Smarter Property Investing (Hold):** "[The] employment rate has been steady  globally. We are watching USA foreign investment [which] will increase this month."

**Janu Chan, St George Bank (Hold):** "Developments over the past few months are not sufficient for a movement in rates. Low inflation and a mediocre pace of economic growth suggests that rates will remain low for sometime and keeps alive the chances of a cut. However, there is a hurdle for further rate cuts given some heat has returned to the housing market."

**Steven Milch, Suncorp (Hold):** "Activity data are quite solid yet inflation [is] still below target. One balances the other and suggests steady rates."

**Brian Parker, Sunsuper (Hold):** "Economic growth and inflation are panning out as the RBA has expected, at least for the time being."

**Clement Allan Tisdell, The University of Queensland (Hold):** "Uncertainty [is the reason the RBA will hold the cash rate]."

**Nicki Hutley, Urbis (Hold):** "The risk of asset price inflation is greater than the current need for additional stimulus."

**Bill Evans, Westpac (Hold).**

###

We now have a news feed on Twitter! Follow us for the latest updates or drop us a line to say hi: @finder_news.

## For further information:

**Bessie Hassan**
Head of PR
& Money Expert
+61402 567 568
+61 1300 FINDER (346 337)
Bessie@finder.com.au