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PRESS RELEASE

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RBA survey: Rent and mortgage stress tipped to rise

- All 34 experts and economists from the finder.com.au RBA panel are expecting no cash rate change
- Most experts (88%) think the next move will be in a positive direction
- 58% of respondents believe rent and mortgage stress is on the rise in capital cities

3 July, 2017, Sydney, Australia – Despite the state and territory governments introducing new policies to improve housing affordability, the majority of experts and economists believe rent and mortgage stress is increasing in capital cities, according to finder.com.au, the site that compares virtually everything.

finder.com.au's RBA cash rate survey, the largest of its kind in Australia, shows all 34 experts and economists (100%) are expecting the central bank to leave the cash rate at 1.5% for July 2017.

The vast majority of experts and economists surveyed (88%, 28) believe the next cash rate move will be in a positive direction. Only four experts (13%) are expecting a rate cut.

Predictions for when a rise may occur, however, are spread across the board. Interestingly, eight rate hikes over two years, as recently predicted by ex-RBA board member John Edwards, looks unlikely according to the panellists.

Only three respondents (Nicholas Gruen of Lateral Economics, Saul Eslake and Steven Milch of Suncorp Group) are predicting two or more rate rises in 2018.

Graham Cooke, Insights Manager at finder.com.au, says mortgage holders should brace for rate increases.

"It's no secret that rates will start rising soon, it's just a matter of when.

“To minimise rate shock, think about fixing a portion of your interest rate or even switching to a provider that offers more competitive interest,” he says.

With falling clearance rates in Sydney, panellists were asked if this was a sign that property prices may fall. In response, a third of respondents said prices will fall by 5% by the end of the year, a third said prices will not fall, and a further third said there may be some cooling, but no major changes.

“Low auction clearance rates may signal less demand which could see house prices dip, so we may see a cooling period in some capital city markets, but it won’t be dramatic,” he says.

According to Census data released this week, 22% of Sydney households are spending more than a third of their monthly income on rent. When asked if rent and mortgage stress were increasing in Australia’s capital cities, 58% of respondents agreed with this statement, saying those in Sydney and Melbourne most likely to bear the brunt. Meanwhile, 42% disagreed with this view.

When asked about the NSW Government’s plan to remove stamp duty for first time buyers on homes valued under $650,000 (with discounts for homes up to $800,000), a slight majority (53%, 9) thought this was a good policy, while the remaining 47% (8) did not.

While there’s been criticism of the $650,000 limit being too low, most of the panellists (9, 53%) believe it shouldn’t be any higher. Interestingly, two economists, (Savanth Sebastian of CommSec, and Nicholas Gruen of Lateral Economics) think the limit should be lifted to $1,000,000.

“The initiative to remove the duty concession for some purchases will give first homebuyers a reprieve, but in some capital cities, it may not be enough. With Sydney’s median house price close to $1 million, the $650,000 cap may not be generous enough,” he says.

Interestingly, 50% per cent of experts who weighed in (10) are predicting this stamp duty change will boost house prices in Sydney.

“Removing stamp duty for some purchases will remove a barrier of entry for first home buyers which could stimulate demand and push up property prices,” Mr Cooke says.

Here’s what our experts had to say:

Jordan Eliseo, ABC Bullion (Hold): "The RBA will have been fairly encouraged by the recent run of economic data, which will (temporarily in my view) give them confidence that they have the appropriate cash rate in place for now."

Tim Nelson, AGL Energy (Hold): "No material change in conditions from previous month. Prudential regulation is doing the 'heavy lifting' in relation to residential property market pricing. "

Shane Oliver, AMP Capital (Hold): "While downside risks to the growth and inflation outlook have increased, the RBA remains upbeat that growth will pick up particularly after recent solid jobs data. It probably also remains wary as to whether the Sydney and Melbourne property markets have really started to cool or not."

Alison Booth, Australian National University (Hold): "Insufficient change to justify moving rates either up or down."

Darryl Gobbett, Baillieu Holst (Hold): "Future potential risks of increased household leverage from lower rates still out-way any expected benefits to growth of another cut."

Dr Kishti Sen, BIS Oxford Economics (Hold): "I don't think the interest rates will fall further because of: 1. The Reserve Bank is keen to limit the amplitude of the residential cycle amid concerns about household debt and financial stability risks. Hence, it would not want to reignite the housing boom. 2. A lower cash rate will reduce the dollar but it will have little effect on investment. Meanwhile, the Federal Reserve is on a tightening phase and rate rises in the United States will narrow the interest rate differential with Australia and put downward pressure on the A$. 3. The Reserve Bank is also concerned that the more they reduce rates now, the sooner they will have to raise interest rates. I therefore expect the cash rate to stay at 1.5% over calendar year 2017 and 2018."

Richard Robinson, BIS Oxford Economics (Hold): "Inflation is low, but the RBA doesn't want to cut rates as it fears pumping up the already overheated residential property sector"

Paul Dales, Capital Economics (Hold): "The RBA will almost certainly keep rates on hold at 1.50% at this meeting. And while the recent improvement in the labour market has quashed talk of further rate cuts, weak underlying inflation will prevent the RBA from hiking rates until 2019. "

Michael Blythe, CBA (Hold): "Economy is not in need of any extra interest rate assistance"
Savanth Sebastian, CommSec (Hold): "Reserve Bank looks comfortable on the interest rate sidelines. Policymakers will keep a close eye on the property market."

Dr Andrew Wilson, Domain Group (Hold): "Better recent economic news supports clear recent steady bias by the Bank"

Saul Eslake, Economist (Hold): "Data releases and other evidence since the last meeting will not have prompted any material change in the RBA's assessment of the economic outlook or the appropriate stance for monetary policy"

Mark Brimble, Griffith University (Hold): " Bias remains to the downside with the economy struggling to generate momentum. With banks (and apra) tightening credit the markets and sentiment are softening. Further support is required, but the rba is likely to not be willing to provide this as this stage"

Paul Bloxham, HSBC (Hold): "Underlying inflation is still below its 2-3% target."

Michael Witts, ING Bank (Hold): "The slowdown in the housing market is occurring via the adjustment to rates for investors and interest only loans. This enables the RBA to maintain the cash rate at 1.5% for the benefit of the broader economy."

Glen Hawke, Karis Communications (Hold): "The current economic data is inconclusive of a need for a shift."

Brendan Rynne, KPMG Economics (Hold): "Continuation of excess capacity in the labour market, and the maintenance of inflation below RBA target band."

Leanne Pilkington, Laing+Simmons (Hold): "There appears to be a growing consensus among economists that the next rate move will be up, especially if some of the RBA's forecasts around economic growth come to fruition. However, we believe that current economic, employment, political and household debt scenarios support a status quo in fiscal policy in the near term."

Nicholas Gruen, Lateral Economics (Hold): "Because they've not signalled anything else and I think they won't have the confidence to raise the rate, even if they'd like to."

Matthew Tiller, LJ Hooker (Hold): "Little discernible change in the domestic economic environment over the past month."

John Caelli, ME (Hold): "The RBA won't cut rates because it remains concerned about fuelling further increases in house prices and household debt."

Michael Yardney, Metropole Property Strategists (Hold): "Our property markets have slowed down over the last few months taking pressure of the RBA to raise interest rates. On the other hand the RBA can't afford to drop rates to bolster our bumbling economy and further fuel our property markets. So rates will remain on hold."

Mark Crosby, Monash University (Hold): "While globally rate movements are beginning the long path back to normalisation in some key economies, the strong exchange rate and economic fragility locally point to holding rather than raising rates at this meeting."

Jessica Darnbrough, Mortgage Choice (Hold): "There is no urgent reason for the Reserve Bank of Australia to adjust the current cash rate setting. All of the latest economic data is looking fairly positive at the moment, providing the RBA with no incentive to adjust their long-standing plan of attack."

Alan Oster, NAB (Hold): "Too early to see what is happening re the labour market v house prices."

Jonathan Chancellor, Property Observer (Hold): "There is no risk in holding this July."

Matthew Peter, QIC (Hold): "The holding pattern will continue, despite a weak growth and inflation outlook, until the housing market is clearly in retreat. "

Noel Whittaker, QUT (Hold): "There is no reason to lower – and no reason to raise."

Janu Chan, St.George Banking Group (Hold): "The RBA will be encouraged by the improvement in the labour market, but will still be of the view that there remains spare capacity in the economy. That would prevent any thought of raising rates. However, ongoing concerns regarding risks from the housing market and high household debt is preventing any cuts to rates. "

Steven Milch, Suncorp Group (Hold): "Labour market strengthening balances against sub target inflation. Little case to ease yet too early to tighten."

Brian Parker, Sunsuper (Hold): "RBA has made it pretty clear that they'd be very reluctant to cut rates again, and their view probably hasn't changed over the month."

Other participating economists: Scott Haslem - UBS (Hold), Bill Evans - Westpac (Hold), Alex Joiner - IFM Investors (Hold).

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