PRESS RELEASE

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Experts weigh in: Borrowers pushed to limits, while house price growth tipped to dampen

- The Reserve Bank has held the cash rate at 1.5% for August 2017
- 84% of panellists say house price growth is, or will, slow
- Many experts (63%) think some borrowers may have pushed themselves to their limits

1 August 2017, Sydney, Australia – Members of the Australian economic community placed their bets on a cash rate hold, which was decided at the RBA board meeting this afternoon (01/08/2017), but many of the country's leading experts believe house price growth will take a slide, according to finder.com.au, the site that compares virtually everything.

Each of the 35 members in the finder.com.au RBA panel correctly forecasted no cash rate change for August 2017, but the many believe the cash rate will be adjusted in the months to come.

The majority (69%) of experts and economists believe three or fewer rate hikes will take place over the next two years, while 23% except four rate hikes over this timeframe.

In anticipation of rate rises, panellists were asked if borrowers in Sydney and Melbourne have overextended themselves, and the majority (63%) who opted into this question, said high property prices may have pushed borrowers to their limits.

Graham Cooke, Insights Manager at finder.com.au, says some borrowers may be vulnerable to mortgage stress as the cash rate looks to head north.

“Rising interest rates means the cost of borrowing becomes more expensive as borrowers face steeper interest costs.

“Any borrower who's stretched their budget will feel the pinch on their principal and interest repayments.

“Don’t go into panic mode. All you can do is prepare for the rate hikes by fine-tuning your household budget and identifying areas where you can trim your outgoings.

“Resist the temptation to increase any credit limits and try not to take out additional debt if you’re concerned about your ability to service your mortgage. Prioritising high-interest debt is a good tactic to better manage your existing financial obligations,” he says.

Recently, Prime Minister Malcolm Turnbull, warned Australians there may be an end to steady house price growth.

When asked if recent growth may come to an end, the vast majority of respondents (84%, 21) agreed that price growth either is, or will be slowing.

The largest group of panellists (64%, 16) said a cooling of the market is possible. Three respondents (12%) said the market is already cooling, while two experts (8%) believe a dip in house prices is possible.

Mr Cooke says cooling of house prices may be welcomed by first home buyers.

“As interest rates lift, any downward pressure on house prices could be good for first home buyers trying to crack into the market.

Cooling property prices will remove a financial barrier to entry for this group, so the impact of higher rates may be somewhat offset by dampening prices,” he says.

Here’s what our experts had to say:

Jordan Eliseo, ABC Bullion (Hold): "The RBA has made it clear it thinks that it has the appropriate monetary policy settings in place. None of the data that we've seen come out this month (on inflation, business confidence, employment etc) will have meaningfully impacted that view. As such, notwithstanding their renewed concern regarding the strength of the AUD, we think they will keep rates on hold when they meet next week."

Tim Nelson, AGL Energy (Hold): "Low wages growth means inflation is largely in check. High levels of household debt mean increasing rates is challenging."

John Hewson, ANU (Hold): “[Insufficient] info to move one way or the other."

Shane Oliver, AMP Capital (Hold): "While growth was weaker than expected in the March quarter, recent data suggests its back on track reducing pressure to cut rates again but risks around the consumer, weak inflation and a rebound in the $A indicate its way too early to hike rates. So best to remain on hold."

Alison Booth , Australian National University (Hold): "Little change in the main indicators."

Peter Munckton, Bank of Queensland (Hold): "Cash rate is at the right level."

Darryl Gobbett, Baillieu Holst Ltd (Hold): "The RBA doesn't see the current cash rate as necessarily all that expansionary and remains concerned about the impact of rate rises on households with the very high gearing, stagnant wages and rising utilities prices."

Richard Robinson, BISoxford economics (Hold): "Although RBA would like to cut rates to take upward pressure off the Aus dollar, it can't cut rates as it fears re-stoking the residential property market. With inflation low and particularly wages growth very low, there is no need to raise rates for at least 2 years."

Paul Dales, Capital Economics (Hold): "The RBA does not want to cut interest rates for fear of boosting the housing market and debt levels, but equally the economy and inflation aren't strong enough to warrant interest rate hikes."

Savanth Sebastian, Commonwealth Bank (Hold): "Inflation remains well contained. RBA would be concerned about the lift in the Aussie dollar. Focus will be on how economy tracks over the next few months."

Saul Eslake, Corinna Economic Advisory (Hold): "The RBA would clearly prefer not to have to cut rates any further, but is also in no hurry to start raising them (even if central banks elsewhere in the world do). Economic data since the last board meeting (more good data on employment, business conditions, offset by another quarter of very low inflation, softness in household spending) don't present a strong case to move in either direction."

Andrew Wilson, Domain Group (Hold): "The RBA is clearly determined to leave rates at current level taking a more medium-term view of the macroeconomy regardless of the current insipid intransigence of key economic performance indicators."

Scott Morgan, Greater Bank (Hold): "No indication of likely move from recent commentary."

Mark Brimble, Griffith Uni (Hold): "Bias remains to the down side as the economy struggles to gain any traction. The dampening impact of credit controls (while assisting with medium term risk around credit risk and elements of the property market) and retail interest rate rises by financial institutions have not helped. Indeed the puzzling comments from the RBA that have related to a spike in the AUD also have a dampening impact. Despite this, the RBA is unlikely to move rates for some time."

Paul Bloxham, HSBC (Hold): "Inflation is still below the target band, so no immediate move in sight."

Alex Joiner, IFM Investors (Hold): "Robust labour markets and a soft headline CPI outcome for Q2 (and 'core' measure being inline with the RBA's forecasts) underscores there is no economic rationale to move rates in either direction. Financial stability concerns seemingly prevent further easing. And a higher A$ deters premature hiking."

Michael Witts, ING Bank (Hold): "The RBA will be concerned about the rise in the AUD and will not be looking to add fuel to the fire."

Nicholas Gruen, Lateral Economics (Hold): "[The rate will hold because] Philip Lowe said so!"

Leanne Pilkington, Laing+Simmons (Hold): "The RBA has indicated its intention to cautiously manage inflation to the preferred 2-3% range while at the same time appears reticent to reduce rates further. The weak inflation forecast in the June CPI figures point to a steady rate scenario for the short term. With employment levels also steady, this is good news for the property market on the whole."

Matthew Tiller, LJ Hooker (Hold): "There has been little discernible change in economic indicators since last month's RBA meeting."

John Caelli, ME (Hold): "With the high dollar, low inflation and low wage growth there is no rush to put up rates just yet."

Michael Yardney, Metropole Property Strategists (Hold): "The RBA can't raise rates as it would stifle our fragile economy and would lead to a higher AU$. Similarly, it can't lower rates as this would fuel the Sydney and Melbourne property markets."

Mark Crosby, Monash University (Hold): "Probably the strongest signal in history that the RBA will sit on its hands for the next couple of meetings, particularly given the latest inflation outcome."

Jessica Darnbrough, Mortgage Choice (Hold): "Last month, the Reserve Bank of Australia made it clear that its current monetary policy setting is appropriate for the time being and I believe this will continue to be the case at the August Board meeting."

Chris Schade, MyState Bank (Hold): "Interest rate settings remain appropriate. Economy performing a little below trend, inflation remains at the lower end of target, and the Aussie dollar is higher than the RBA would like. Holding rates at their current highly accommodative level is appropriate to allow the economy to continue to gain momentum as the unwind of the mining boom ends, the housing construction peak passes (but activity remains at a robust level for some time – i.e. no major drop) and, hopefully, other sectors pick up."

Alan Oster, NAB (Hold): "Still too early, watching wages and the labour market."

Noel Whittaker, QUT (Hold): "I think we are at the bottom of the cycle but don't see any urgent need to raise rates."

Nerida Conisbee, REA Group (Hold): "While earlier in the month strong jobs growth figures suggested that the economy was on track, the strengthening Australian dollar put a dampener on the need for an increase. Inflation figures out today are likely to further cemented the RBA's decision to take a wait and see approach with these figures continuing to be below the target of between 2 and 3%. Despite the RBA likely to hold, it is likely that banks will continue to increase the rates they charge home owners. This is partly because their costs of wholesale funding have increased but also because there is continued pressure from APRA to moderate their lending. The banking tax announced in the budget is also likely to be passed on to homeowners."

Janu Chan, St.George Banking Group (Hold): "RBA will still have concerns about spare capacity and low inflation. However, risks of another rate cut have clearly dissipated."

Brian Parker, SUNSUPER (Hold): "No signs in the data that they need to change their views of the world or their policy stance."

Nicki Hutley, Urbis (Hold): "Current settings are appropriate for employment and inflation settings."

Clement Allan Tisdell, The University of Queensland (Hold): "RBA statements and the increase in the value of the AUD [indicate no change]."

Other participants: Bill Evans, Westpac (Hold), Jonathan Chancellor, Property Observer (Hold).

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