

OCR unchanged – but housing market remains hot topic

The Reserve Bank has left the official cash rate (OCR) at 3.5% and maintained a neutral stance in its statement, but the Auckland housing market was a dominant topic at the RBNZ's briefing this morning.

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After announcing the unchanged OCR rate, Reserve Bank governor Graeme Wheeler provided a statement which was determinedly neutral about future OCR moves.

The broader detail within his monetary policy statement covered global financial conditions, the strong domestic economy, the impact of lower oil price, the high NZ dollar and inflation.

Monetary policy remains focused on ensuring inflation settles at 2% over the medium term but, as the economy expands, inflation should return gradually towards the midpoint of the target range, Wheeler concluded.

“Our central projection is consistent with a period of stability in the OCR. However, future interest rate adjustments, either up or down, will depend on the emerging flow of economic data.”

While Wheeler made only brief mention of the Auckland housing market in his statement, the post-statement question period was dominated by questions relating to it.

Wheeler said the RBNZ's concerns about Auckland house prices were due to financial stability considerations, but they hadn't affected their monetary policy thinking.

Further, he emphasised that the RBNZ was not seeing the sort of wealth effect feeding into consumption and the related impact and pressure that was seen over the 2006/07 period.

However, Wheeler did discuss the RBNZ's current consultation about, and moves towards, the introduction of a new asset class for property investment loans.

He said the introduction of a new asset class would bring New Zealand into line with the Basel recommendations and would create greater clarity around property investment lending.

Describing the move as a “micro-prudential measure”, he said there had been no decisions around macro-prudential measures and any speculation about future impact was premature.

In response to a question about 10-year mortgages and interest-only loans, Wheeler also touched on the current competitive lending environment.

“There are probably limits to how much further that process could go in terms of banks' profitability objectives and funding abilities,” he said.

Westpac economists said the RBNZ appeared to have made a more conscious effort to guide market pricing with their monetary policy statement.

“The 90-day interest rate projection was flat for its entirety - but the projection was one year shorter than usual,” they said in their “First Impressions”.

“This was presumably done to hide the fact that the RBNZ is projecting an eventual rise in the OCR, for fear that markets might overreact. This is a ‘make no mistake’ policy statement - the RBNZ is on hold.”

ASB economist Nick Tuffley said he continued to expect the RBNZ to remain on hold for the foreseeable future, but maintained there was still a 25% chance of an OCR cut over the next six months.

“Whilst we see the risks skewed to an OCR cut, events do need to come in on the weak side of the RBNZ’s outlook to make the risk more material