

# Rates fall boosting housing market - Westpac

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Mortgage rates have fallen to record lows recently and the housing market is perking up as result – but it won't last, Westpac's chief economist says.

A change in the Reserve Bank's stance and a fall in wholesale interest rates has led to a drop in fixed mortgage rates, with banks across the board slashing them in recent weeks.

In Westpac's latest *Home Truths* report, chief economist Dominick Stephens says there are now clear signs that this is leading to a housing market boost.

This week's REINZ data shows that October saw a large 9.3% lift in house sales (once seasonally adjusted by Westpac), which was most heavily concentrated in Auckland.

Stephens says that corroborating the idea that the market has perked up, the number of days taken to sell a house fell from 38.2 to 37.2, which is about the level it was at back in April.

While price data for the month was fairly subdued, looking at the three month averages, it is clear that the rate of house price inflation has lifted recently, he says.

“House sales are a fairly reliable guide as to the short-term outlook for prices. A lift in market turnover like we have seen this month is a fairly good indicator that house price inflation is set to accelerate further.”

That means Westpac is comfortable forecasting roughly one and a half percent house price inflation in the March quarter of 2019.

Stephens says this is clear evidence that the most important driver of house prices is interest rates - but mortgage rates will not keep falling forever.

“Actually, wholesale fixed interest rates have risen quite sharply over the past week or two. That should at least arrest the decline in fixed mortgage rates, if not reverse it.”

He says this is why they think the current housing market upturn will be short-lived and remain convinced that mortgage rates will eventually rise significantly.

“At that point, we expect the housing market to be severely impacted. But with the Reserve Bank looking very keen to keep the OCR low for some time, this is more a story for the 2020s than the current decade.”

For this reason, Westpac is forecasting falling house prices in the early 2020s.

Stephens adds they are also circumspect on the long-run outlook for house prices due to the likely impact of impending government policy such as tax changes.

“Even though the short-term outlook for house prices is positive, the long-term outlook remains negative.”