PRESS RELEASE

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RBA survey: More banks will raise rates, but property prices to remain high

- 80% of experts in finder.com.au Reserve Bank Survey expect cash rate to hold on Melbourne Cup
- 71% expect more out out of cycle rate changes to be announced
- 2 in 3 expect expect property prices to rise or remain high despite increasing home loan rates

October 28, 2015, Sydney, Australia – Despite market commotion around home loan rate changes, 80 percent of leading economists and experts (or 24 out of 30 surveyed) anticipate the cash rate will hold at 2.0 percent at the Reserve Bank meeting on Tuesday (November 3, 2015), according to the latest Reserve Bank Survey conducted by one of Australia's biggest comparison websites, finder.com.au[1].

The experts cited that an immediate cash rate cut to offset Westpac and other banks' decision to increase home loan rates is unlikely, while the property market's recent cooling was also too early to lead to a rate change.

The finder.com.au Reserve Bank Survey of 30 leading economists and experts, which is the largest of its kind in Australia, also found that almost one in three (30 percent) are predicting a cash rate drop by the end of this year. Of these, six experts (20 percent) are predicting a cash rate fall on Melbourne Cup day next week, including Dr Andrew Wilson of Domain, Shane Oliver of AMP Capital, and Savanth Sebastian of CommSec. Three experts (10 percent) are tipping the cash rate will drop in December.

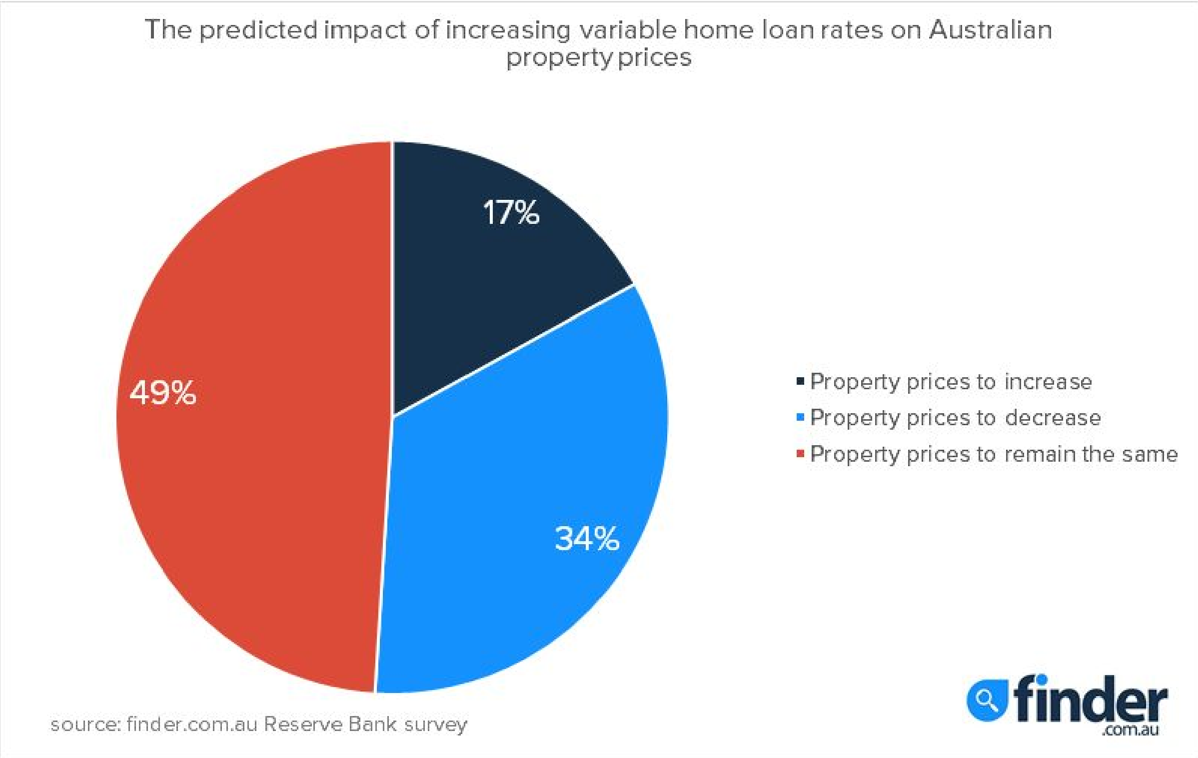
While all big four banks have increased their owner occupied home loans in recent weeks, the official cash rate is not expected to follow suit just yet, according to the majority of experts. More than half – 16 of 30 experts – say the cash rate will not start to rise until beyond 2016. One in four experts believe it will happen a little sooner, in the fourth quarter of 2016.

As for just how low the cash rate will go before this happens, experts are split. Sixteen experts – or 55 percent – believe it won't fall below its current rate of 2.0 percent. 28

[1] Experian Hitwise since 2013

percent (eight experts) are predicting a low of 1.75 percent, while 17 percent (five experts) are tipping the cash rate will fall as low as 1.5 percent this cycle.

Interestingly, two in three experts (66 percent) expect prices to rise or remain high despite increasing home loan rates – almost half of which (49 percent) expect no change to property prices and 17 percent expected prices to continue to increase. While 34 percent of experts are predicting a drop in property prices, the majority disagreed indicating that the market is currently strong enough to absorb the changes without stopping the continual market growth.



finder.com.au Money Expert Michelle Hutchison says the recent out of cycle rate rises are unlikely to affect the RBA's decision this Tuesday, though they will bring more pain to borrowers with a variable rate home loan.

"Melbourne Cup day is traditionally a popular period to move rates. The cash rate has moved on Melbourne Cup day 10 times since 1991 when the modern adjustment cycle began – down four times, and up six. However, this is unlikely to be the case this year, with 80 percent of experts tipping rates to hold, despite out of cycle rate changes filtering the market.

"The finder.com.au Reserve Bank Survey found that 71 percent of experts predict that the increase of variable home loan interest rates out of cycle – kickstarted by Westpac earlier this month – would continue across the sector. As well as the big four jumping on board this trend, St George and Macquarie Bank also have imminent rate rises, which is six banks in total.

“Some lenders, however, have a tendency to keep their rate rises quiet, which can make it difficult for Australians to keep track of movements in the home loan market. It’s important for borrowers to ask the question when they are speaking to lenders or applying for a new loan to find out if they have recently made any announcements or are planning to. It’s safe to assume that more lenders will follow these banks’ leads by raising their rates too.

“Based on a $300,000 mortgage and the current average variable owner-occupied home loan rate of 5.10 percent, a rate rise of 0.18 percentage points (the average rate rise of the six lenders who’ve announced rate rises thus far) will amount to an extra $33 per month for borrowers, or potentially $396 per year or $11,880 over 30 years.

“The big banks set the benchmark for what the market will do – five out of six lenders are moving on the same day as Westpac, with their new increased rates to become effective on 20 November.

“However, some smaller lenders may use this opportunity to win over new borrowers, by not following the big banks’ lead at all, or not raising their rates by as much as the market average. Regardless, it’s a great time to compare rates to see if you can get a better deal – a small change to your interest rate can save you thousands of dollars over the life of your loan.”

What our experts had to say in the finder.com.au Reserve Bank Survey:

Garry Shilson-Josling, AAP (hold): "The RBA is cautiously optimistic about the labour market - there’s a reasonable chance unemployment will start to drift lower without a rate cut. As well, the RBA would prefer not to stoke the housing market.", "The supply/demand balance in the housing market was already shifting before the big 4 banks lifted their home loan rates. Given that a flatter trend in housing prices was already on the cards, it would be a mistake to blame any softening in the housing market entirely on the banks."

Shane Oliver, AMP Capital (fall): "The RBA will cut its cash rate to offset mortgage rate hikes from the big banks (flowing from higher capital requirements) at a time when growth is still struggling."

Peter Munckton, Bank of Queensland (hold): "For the moment, the RBA would be comfortable that the current level of rates is helping the economy."

Steven Pambris, Bank Of Sydney (hold) : "Whilst Economy is soft any move will be premature at least till new fiscal direction is assessed."

Kishti Sen, BIS Shrapnel (fall): "To return the lending rate for home loans back to the RBA’s target level."

Chris Caton, BTFG (hold): "It"s close to a line ball. The Westpac move may lead to a cut, but probably not."

Michael Blythe, CBA (hold): "RBA is "content" with the status quo."

Savanth Sebastian, CommSec (fall): "Banks raising rates outside of RBA policy is a quasi tightening on the economy. Activity levels have been improving but still patchy. A rate cut before Christmas will help to spur activity."

Dr Andrew Wilson, Domain.com.au (fall): "Offset major bank rate rises, latest economic data weak, Sydney boom over, last chance to stimulate real economy this year for Xmas retail, US unlikely to raise rates this year."
Mark Brimble, Griffith (hold): "While bias remains to the rate reduction side, the RBA appears reluctant to move as various imbalances in the global economy and high volatility remain. Despite the US rates looking like they will stay low for longer, the AUD has remained in the low 70's and the property market is softening, both assisting in lieu of a rate movement."
Shane Garrett, Housing Industry Association (hold): "Conditions have not changed sufficiently to merit a reduction."
Saul Eslake, Independent economic advisor and consultant (hold): "The RBA is unlikely to have changed its assessment of the economic outlook, or its conclusion that current monetary policy settings (ie, cash rate of 2%) are "appropriate" for the outlook. The 20bp hike in Westpac's mortgage rate isn't enough, on its own, to alter that conclusion (although if between now and then a majority of the other major lenders follow Westpac's move then the RBA may be more inclined to seek to offset it by cutting its cash rate, but not otherwise)."
Peter Jones, Master Builders (hold): "Appropriate stimulus for economy."
Mark Crosby, Melbourne Business School (hold): "At the moment the international environment is relatively benign, and with the Fed,likely to be raising there is no need for the RBA to cut"
Katrina Ell, Moody's Analytics (hold): "The RBA's easing cycle looks to be over, unless China's economy deteriorates further."
Ken Sayer, Mortgage House (hold): "Still more to play out"
Lisa Montgomery, Mortgage & Consumer Finance Expert (hold): "The board will maintain its on-hold approach. With standard variable rates in a state of flux and the housing marketing in Sydney and Melbourne softening - the RBA won't exercise a material change to the cash rate until the market settles."
Jessica Darnbrough, Mortgage Choice (fall): "The majors have started to lift their rates off the back of higher capital requirements. As such, I wouldn't be surprised to see the RBA to react and push rates down."
Chris Schade, MyState Bank (hold): "Recent comments from officials suggest the RBA remains comfortably on hold, with a view that current monetary settings, aided no doubt by the lower dollar, are suitable for the economy in its current state. There are some downside risks in 2016, but for 2015; the most likely outcome is a cash rate on hold."
Alan Oster, NAB (hold): "Local data still improving. Time to wait and see if any weakness emerges from recent banks out of cycle rate rises on housing."
Peter Boehm, onthehouse.com.au (hold): "The Melbourne Cup period is typically a time when the RBA makes a move on rates - either up or down. However on this occasion I think rates will stay on hold. The recent decision by all the major banks to increase rates independent of any move in the official rates has resulted in some pundits arguing the RBA may reduce rates to help lesson the blow to borrowers. I don't think this should or will happen and it would be surprising if the RBA responded in such a way. Furthermore the fact the banks moved independently could be an indication that they believe rates will stay on hold for the time being, thereby forcing their hand. And don't forget, they are under no obligation to pass on all or any further rate reductions. It's also worth noting that other economic indicators appear acceptable (at present) and the last thing the RBA would want is to fuel further house price increases through rate cuts, especially as prices in Melbourne and particularly Sydney are beginning to plateau. Assuming rates don't move in November then I think it's unlikely we'll see any movements until 2016. The effectiveness of further interest rate cuts at this time is questionable."
Linda Phillips, Propell (fall): "With the banks increasing their rates this month the RBA will likely offset this with a cut in the cash rate, though this sends a signal to the banks who may be tempted to try more increases."

Jonathan Chancellor, Property Observer (hold): "While not everything is rosy, things are not necessarily dire enough to warrant any move this Cup Day meeting."
Matthew Peter, QIC (hold): "Housing market is only just showing signs of cooling. The RBA will not want to risk re-stoking house prices until a clear trend has been established."
Noel, Whittaker, QUT (hold): "Still no pressing reason to move."
Angus Raine, Raine & Horne (hold): "Even as the big 4 banks raise their home loan rates, the RBA's stance on Australian monetary policy continues to be accommodative. This is because the current low interest rates are acting to support borrowing and spending, while the Australian economy is showing stronger employment growth and a steady rate of unemployment."
Janu Chan, St.George Bank (hold): "Some risks to the global economy have risen, but the RBA is becoming increasingly confident with the transition from mining to non-mining sectors of the economy. The RBA does not seem inclined to move rates anytime soon."
Michael Witts, ING (hold): "The RBA continues to express the view that current interest rate levels are about right and , further, that interest rates alone are not the only policy tool."
Nicki Hutley, Urbis (hold): "Barring an unexpectedly low CPI outcome next, the scales are still finely balanced on rates. The RBA"s Philip Lowe has recently suggested we are overly pessimistic", "The A$ weakness is likely to feed into higher prices over time, but not due to reduced stock".
Bill Evans, Westpac (hold): "It seems unlikely that the RBA would move immediately to offset bank rate rises with a 0.25% rate cut. However last week we noted the historical precedent of 2012 when the RBA cut by 0.5% in May following increases of only 0.10% in variable mortgage rates by the banks."

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