BAYLEYS

Residential **views**

By Cameron Bagrie
ANZ chief economist

Crystal ball gazing

Katie Bowen
D (06) 868 5188
M 027 448 7115
E katie.bowen@bayleys.co.nz
Macpherson Morice Limited, Bayleys
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Reserve Bank governor Graeme Wheeler has effectively ruled out official cash rate hikes to counter housing market strength, but the bank has acknowledged it is very mindful of housing excesses and is now also watching some regional housing markets more closely.

October sales figures, however, showed that regulatory changes intended to slow investor demand are impacting - with a regionally broad-based fall in sales activity and lower annual house price inflation.

The hope is that such measures will provide more time for the lift in dwelling supply to deliver greater balance to the Auckland market in particular.

But with net immigration inflows still booming, this is a moving target.

House prices and sales volumes fell in October, coinciding with the October introduction of government measures to slow investor demand.

House prices in Auckland look stretched relative to both incomes and rents, with support to prices provided by lower fixed mortgage interest rates, tight dwelling supply, and booming net immigration.

Other regions look well placed to outperform our largest city in terms of price growth from here.

Momentum across the economy slowed over the first half of the year, but the economy is far from weak.

Sales volumes fell 6.6 percent seasonally adjusted - from 'exceptionally strong' September quarter levels, with annual growth in sales volumes dropping to 18.6 percent, the slowest since February.

The plunge in sales is almost certainly linked to the October introduction of new government measures to slow investor demand, with earlier strength attributed to buyers rushing in prior to the regulation changes.

The Real Estate Institute of New Zealand's Stratified House Price Index fell 4.2 percent seasonally adjusted in October – the first monthly decline in 14 months, while annual house price inflation slowed to 14 percent year-on-year.

The sharp cooling in annual sales growth and house price inflation was regionally broad-based - with a notable deceleration evident in Auckland, but with continued outperformance from regional North Island centres.

The 5.7 percent month-on-month fall in residential dwelling consent numbers followed a 5.3 percent month-on-month August drop.

The drop in September issuance was due to a fall in the volatile multi-dwelling component - with issuance for houses up 1.5 percent month-on-month. The trend remains positive in Auckland, as well as in other North Island regions, while Canterbury issuance looks as though it has plateaued.

What's hot in Christmas decorations?

Christmas rituals demand that we pull out the same old box of decorations every year, and maybe jazz it up a little with something new. But for most of us, it's hard enough to find time to trim the tree, let alone put a little thought into the matter.

We asked some of the leading Christmas retailers what items are attracting the most attention this year and what the hot new looks are for Christmas.

Here's some of the top Christmas looks for 2015.

Upside-down Christmas trees: They hang from the ceiling like chandeliers, and are decorated with beads and crystals. Upside-down Christmas trees come in a range of sizes and the Christmas Heirloom Company in Auckland has one on show that's 2.5 metres.

White, cream and lime green: White has been a popular Christmas decorating choice for some years, but now splashes of lime green are added to the mix for a fresh new look. Gold and silver also work well with these tones.

Christabel Blacklock of The Christmas Hut in Christchurch says this look is very strong for 2015 – the company's new store in Northcote has a 3m tree decorated in white and lime green that's attracting plenty of attention.

Pastels and pearls: The Christmas Heirloom Company is doing a pale mint Christmas theme this year, which is eye-catching. And Celebrations Group is also running with the pastel look - supplying decorations that combine pearlescent mauves and pale blues to stunning effect. Look out, too, for beaded and crystalline finishes and lots of ornate, beautifully embossed balls.

Black, black, black: Yes, it may be hard to believe but black is a hit this Christmas. Rose Wescott of the Christmas Heirloom Company says black glass balls decorated with white writing and hessian ribbons have captured plenty of attention of shoppers.

Christmas lights: Christmas is the season of lights, and this year fairy lights are all over everything, including outdoor trees – they're guaranteed to get us all into the spirit of Christmas.

Source: stuff.co.nz

Mortgage borrowing strategy

From ANZ chief economist Cameron Bagrie

Fixed mortgage rates were mostly unchanged this month - with modest moves in some special fixed rates by some lenders and a lower three-year rate introduced by one of the big four Australasian banks.

With market expectations implying at least one further official cash rate cut by early next year, the question is: How much of this is currently factored into current mortgage rates on offer, and what would it take for fixed rates to move lower still?

Our view is that domestic developments do not warrant a near-term OCR cut, but adverse global events and low inflation concerns will likely see the OCR touch 2.5 percent early next year - with the risk profile tilted to a lower OCR than that. If this does eventuate, there is the possibility that shorter-term rates could move even lower.

So what should borrowers do? For those able to access specials, choosing between one and two-year terms look to be something of a 'coin toss', although with OCR moves skewed to the downside, there is potential for one-year rates to come in below 4.51 percent in a year's time.

However, with not much between the one and two-year rates, borrowers could choose to spread fixed terms across both tenors to stagger rollovers.

Because of the additional certainty afforded, we have a mild preference for locking in a greater portion for two-years. Locking in for terms longer than two years would provide more certainty.

For standard rates, the one-year fixed rate looks preferable, given it would have to rise from around 4.85 percent to around 5.25 percent to make it more attractive to fix for two years. With the OCR not set to go up any time soon, this seems unlikely.