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| **Press release** **FOR EMBARGOED RELEASE ON FEBRUARY 28, 2015** | Michelle Hutchison Head of PR & Money Expert  finder.com.au  +61403 192 994  +61 2 9299 7602  Michelle@finder.com.au |

**More pain for first home buyers: further rate cuts likely to fuel property values**

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| * finder.com.au Reserve Bank Survey shows another rate cut imminent * Lower rates expected to fuel property prices * First home buyers likely to drop for third consecutive year! |

**EMBARGOED FOR FEBRUARY 28, 2015, SYDNEY, AUSTRALIA** – Falling interest rates will bring more pain to prospective home buyers this year, with many first home buyers likely to be priced out of the market despite an imminent rate cut, according to new research by one of Australia’s biggest comparison websites [finder.com.au](http://finder.com.au/)[[1]](#footnote-1).

Australia’s largest [Reserve Bank Survey by finder.com.au](http://www.finder.com.au/rba-cash-rate) of 37 leading experts and economists, including from the big four banks, are split on their forecasts for the March 3 board meeting. More than half (57 percent) are expecting the cash rate to hold while 16 experts (43 percent) are betting on a cut.

Out of the major four banks, economists from ANZ, Commonwealth Bank and Westpac all expect the cash rate to fall on Tuesday while National Australia Bank’s Chief Economist Alan Oster is forecasting no change.

Of those who are expecting a cash rate cut on Tuesday, issues impacting their decisions included more downward pressure needed on the Australian Dollar, a weaker than expected domestic and global economic outlook, rising unemployment and more than one cash rate cut being needed to stimulate the economy.

For those expecting the cash rate to remain on hold at 2.25 percent on Tuesday, they predominantly believe the latest cash rate cut earlier this month needs more time to filter through the economy before the Reserve Bank decides to cut again. Some of these experts also noted a concern of another rate cut could overheat the housing market.

Michelle Hutchison, Money Expert at [finder.com.au](http://finder.com.au/), said first home buyers will need to work harder to jump onto the property ladder this year, with fewer first home buyers expected to enter the market.

“It’s going to be one of the toughest years yet for first home buyers.

“With the majority of the 37 experts in the [finder.com.au Reserve Bank Survey](http://www.finder.com.au/rba-cash-rate) expecting another cash rate cut by June this year and most of these experts are also predicting property prices to rise as a result, first home buyers face bigger hurdles to enter the market.

“Almost two-thirds (61 percent) of the respondents are expecting the same number, if not fewer first home buyers this year.

“In fact, [finder.com.au](http://finder.com.au/) estimates that we will see just over 92,000 first home buyers this year, which will be the third consecutive year that first home buyer numbers have declined. Last year there were 94,571 first home buyer home loans financed in Australia, down from 98,217 in 2013 and close to 100,000 in 2012[[2]](#footnote-2).

“First home buyers will need to work harder than previous years, with fewer government incentives and higher property prices adding greater pressure on these Australians.”

According to the Survey, the cash rate is likely to start rising by June 2016, and climb up to 3.50 percent at the peak of the next cycle, based on the average forecasts. The majority (69 percent) of the 35 who responded to this question are expecting the cash rate to reach between 3 and 4 percent, while 14 percent of these respondents expect the cash rate to peak above 4 percent.

“If you are considering buying your first home this year, it’s a good idea to get in as soon as you can before property prices cut you out of the market if they haven’t already.

“If you have spent at least three-six months saving for a deposit, you have [compared home loans online](http://www.finder.com.au/home-loans) and don’t overstretch yourself, you could benefit from getting in on the home buying action,” said Mrs Hutchison.

**What our experts had to say in the** [**finder.com.au**](http://finder.com.au/) **Monthly Reserve Bank Survey:**

* **Melissa Browne, A+TA:** “With an unexpected rate cut last month, falling dollar and low petrol prices I can't foresee another interest rate cut this month.”
* **Shane Oliver, AMP:** “Further rate cuts will be required to maintain downwards pressure on the $A and to provide confidence that growth will get back to reasonable levels by next year. Benign inflation provides plenty of scope to do so.”
* **Warren Hogan, ANZ:** “They've signalled that the economic outlook is a little bit weaker than they have previously been expecting. They've factored in to their predictions further cuts to interest rates and so there's little reason to wait. They tend to cut back to back when they begin a new cycle – historically.”
* **Peter Munckton, Bank of Queensland:** “Tight call. The RBA will almost certainly go again in the early months of 2015. Which month the RBA cut will come down to tactical factors, such as the value of the Australian Dollar.”
* **Steven Pambris, Bank of Sydney:** “Time should be given to see impact of last month's move. Economy, however, remains soft. Rise in Property Prices will be limited to Sydney and Melbourne.”
* **David Bassanese, BetaShares:** “There has been a below-trend economic growth forecast.”
* **Richard Robinson, BIS Shrapnel:** “They will hold to avoid overheating the housing market and to keep their powder dry for when they might want to 'encourage' another drop in the exchange rate.”
* **Chris Caton, BT Group:** “Well there's another cut out there and given the recent labour market news they may go in March, but there's no harm in waiting for more data. In particular it would be nice to see some signs of cooling in the housing sector.”
* **Michael Blythe, Commonwealth Bank:** RBA has an easing bias and with the recent lift in unemployment the incentive is there to add some extra stimulus.
* **Savanth Sebastian, Commsec:** “The RBA Board minutes suggested the timing of the February rate cut was a line-ball decision. Reporting season has been better-than-expected.”
* **Andrew Wilson, Domain Group**: “Poor recent data, particularly unemployment. New easing cycle must maintain momentum to be effective given marginal level of cuts and conservative mindset of consumers.”
* **James Bond, Financial Services Council**: “The RBA rarely makes one move in isolation, running a campaign of several cuts or rises. This time will be no different. The weak labour force data for January has only added more to the case for a cut.”
* **Scott Morgan, Greater Building Society:** “I think the RBA will hold rates in March while they look at the impacts of the February rate cut.”
* **Mark Brimble: Griffith University:** “The RBA will maintain a downward bias with continued lack of confidence (business and consumer), global economic, political and market uncertainties. In particular the weak Europe, slowing China and slow moving US economy will be of note. Given the reaction of the currency, markets, interest rates (lending) and continued strength of property prices the RBA is likely to wait to see the impact of the rate cut and downward posturing before moving again to reduce rates – possibly in April. The RBA is reluctant to reduce rates given they are at historic lows and fear the impact on property and potential violent movements in the currency value (downwards) as international capital moves offshore as the US economy (and dollar) improves. This suggest the RBA should have moved early to further support the economy and moved ahead of the typical five year lag to the US economy and markets. The unknown impact of QE in the US will also play on their minds. Thus rates are likely to go lower and stay low for some time yet.”
* **Paul Williams, Heritage Bank:** “By reducing the cash rate in February the RBA has signalled its intentions.”
* **Shane Garrett, Housing Industry Association:** “While there is a realistic chance that the RBA will cut rates at its March meeting, it is likely to hold fire for at least another month in order to gauge more fully any impacts of February's rate reduction.”
* **Paul Bloxham, HSBC:** “Growth is still below trend.”
* **Michael Witts, ING Direct:** “It appears from the RBA minutes that the decision to cut rates in February was a close call, therefore we consider it unlikely that the RBA will cut rates in March.”
* **Grant Harrod, LJ Hooker:** “The RBA will want to see what effect, if any, the February rate cut has had on the economy before it moves again. The early signs show the rate cut has provided a boost to property markets around the country with price growth and auction clearance rates proving robust.”
* **Stephen Koukoulas, Market Economics:** “Rising unemployment rate, very low wages growth and well contained inflation.”
* **Peter Jones, Master Builders Australia:** “[The Reserve Bank is] waiting to assess impact of February's rate cut.”
* **John Caelli, ME Bank:** “It’s a 50/50 call. If they don’t act in March they will in April. Rate cuts typically operate in cycles – you can expect more. What’s driving the falls is lower than forecasted growth and a desire to keep currency low.”
* **Katrina Ell, Moody’s Analytics:** “The RBA has a clear easing bias as the growth and inflation outlook is softer than previously thought. There is no point waiting on the sidelines another month or two before delivering an additional cut. The housing market will inflate further in 2015 on the back of further declines in borrowing rates. Regulators need to get on the front foot to manage these risks, particularly in the really hot markets like Sydney.”
* **Lisa Montgomery, Mortgage & Consumer Finance Expert:** “It’s likely the RBA will wait for the flow on effect of the February rate cut before they make another material change to the cash rate.”
* **Ken Sayer, Mortgage House:** “Mining, unemployment, moderate global growth, weak Euro and Japanese economies.”
* **Huw Bough, MyState Limited:** “Whilst we believe there is another cut in this cycle, we view April or May as the more likely months as the RBA takes a somewhat cautious approach to delivering further reductions, taking some time to consider post February cut economic data.”
* **Alan Oster, NAB:** “It will take some time to see the impact of the February cut.”
* **Peter Boehm, onthehouse.com.au:** “The February 0.25% reduction indicated underlying economic problems that were yet to be revealed at the end of 2014. Clearly the RBA is more worried about economic growth and rising unemployment than it is about fuelling house price growth, especially in the eastern states. You need more than a 0.25% drop in interest rates to materially stimulate the economy and that is why I think another cut is on the way. This would also be consistent with what is happening in other western economies.”
* **Linda Janice Phillips, Propell:** “I think they will follow with an April cut, but with global uncertainties especially in Greece and Europe, they will be inclined to wait on more data before acting. RBA should be cutting aggressively, now. There is a brief window of opportunity to get the exchange rate down, without triggering large petrol price rises at the pump. The window is closing as wholesale oil prices are rising again. If the RBA waits it may find that it is trying to reduce the cash rate and lowering the exchange rate at a time when oil prices are increasing again, which would amplify the the increase in pump prices, having the effect of lowering consumer confidence. In my view, a cut of a further 50 basis points now would have a positive effect on the economy, while delaying the impact of rising fuel prices on inflation.”
* **Jonathan Chancellor, Property Observer:** “The economy isn't that weak to warrant another cut so soon after the February one. First time buyers have been busy saving, so I would expect them to be a greater presence than past years.”
* **Noel Whittaker, QUT Business School:** “Too soon after the last drop. After the Governor's comments last week, it would appear even he appreciates that rate dropping isn't doing much.”
* **Nathan McMullen, RAMS:** N/A
* **David Scutt, Scutt Partners:** “The markets already have another 25 basis points cut priced in by May, why wait until then? The inflation or growth outlook isn't going to change materially over that period, especially given renewed support for the Australian Dollar and ongoing lift in unemployment. While history suggests they'll wait until May, they are an inflation-targeting Central Bank and it follows the release of Q1 CPI in April, by not easing it'll simply add to near-term upside risks for the Australian Dollar. I suspect they'll cut 25 basis points before waiting to see what the US Federal Reserve does midway through the year. Should they begin to tighten the odds of additional easing from the RBA will diminish significantly.”
* **Janu Chan, St. George Bank:** “We think that the RBA will still want to give the economy more support, but it will prefer to wait at this meeting so it can assess developments, particularly the currency and housing markets. The RBA may also want to wait to see how the economy reacts to the rate cut in February first before cutting again. A rate cut over the next few meetings remains possible. Capex data released next Thursday could be critical to the RBA's decision in March. The strength of non-mining investment, house prices, and exchange rate will be the key focus for RBA over the next few months.”
* **Scott Haslem, UBS**: “Global headwinds have intensified for the Australian economy, while the unemployment rate continues to edge higher. Worth taking out some economic insurance to help economy recover.
* **Nicki Hutley, Urbis:** “The call is finely balanced but a further cut too soon risks asset bubbles with little impact on overall demand.”
* **Bill Evans, Westpac:** "A key issue is whether the Bank sees adverse development as reason to further downgrade its already pessimistic outlook for the labour market or is inclined to dismiss it as “one month” volatility ... A major cost in delaying the next move is that the Australian dollar might start responding to a benign rates outlook ... The key point is that the reasons given by the Bank in its recent communications, including the minutes, justify more than one move in total; “restrained pace of wage increases”; “low rates of inflation likely to be sustained;” a lower exchange rate was likely to be needed;” ”fewer indications of near term strengthening in growth than previous forecasts would have implied;” ”unemployment rate likely to peak a little (and later) than in the previous forecast."

**Please note:** the above respondents are ordered alphabetically by name of organisation.

**Disclaimer:** the comments, forecasts, projections and other predictive statements by the panel of experts are assumptions based on currently available information. These forecasts are based on industry trends and economic factors that involve risks, variables and uncertainties. No guarantee is presented or implied as to the accuracy of these forecasts and consumers are advised to read product disclosure statements and understand if financial products are right for them before signing up.

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1. Experian Hitwise 2013, 2014 [↑](#footnote-ref-1)
2. finder.com.au analysis of Australian Bureau of Statistics Housing Finance original data, projected figure for 2015 based on growth rate of past two years [↑](#footnote-ref-2)