

Housing Market Outcomes and Macro Prudential Policy Settings

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Introduction and Outline

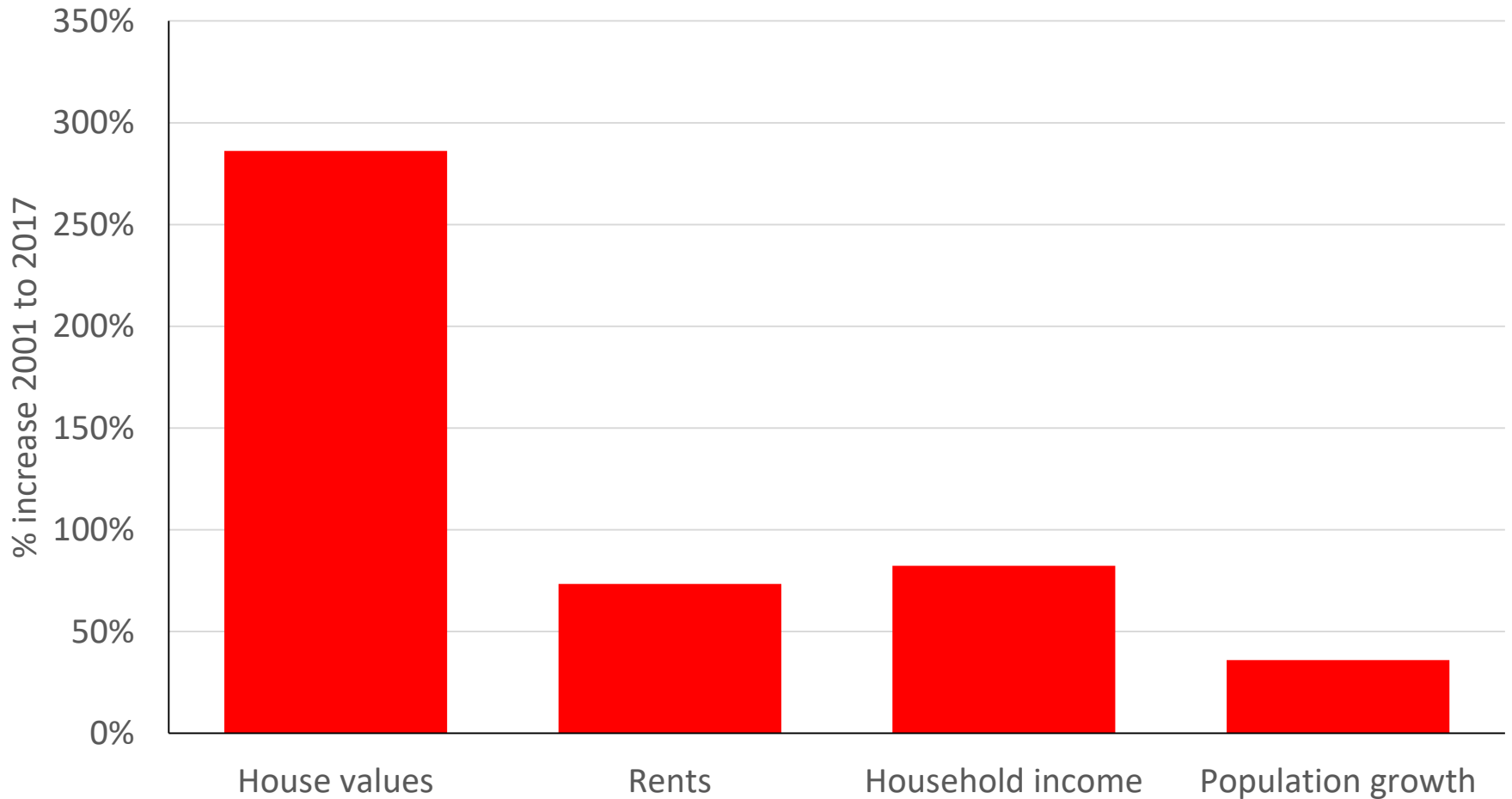
- Written in the second half of 2017 for a Reserve Bank conference
- Housing market context
- The housing system ‘problem’
- Monetary policy settings and housing
- Macro prudential policy and housing
- Housing market outcomes
- Where to next

Housing Market Context

- House price trends
- Rental price trends
- Household income
- Population growth
- New dwelling growth - increase in supply

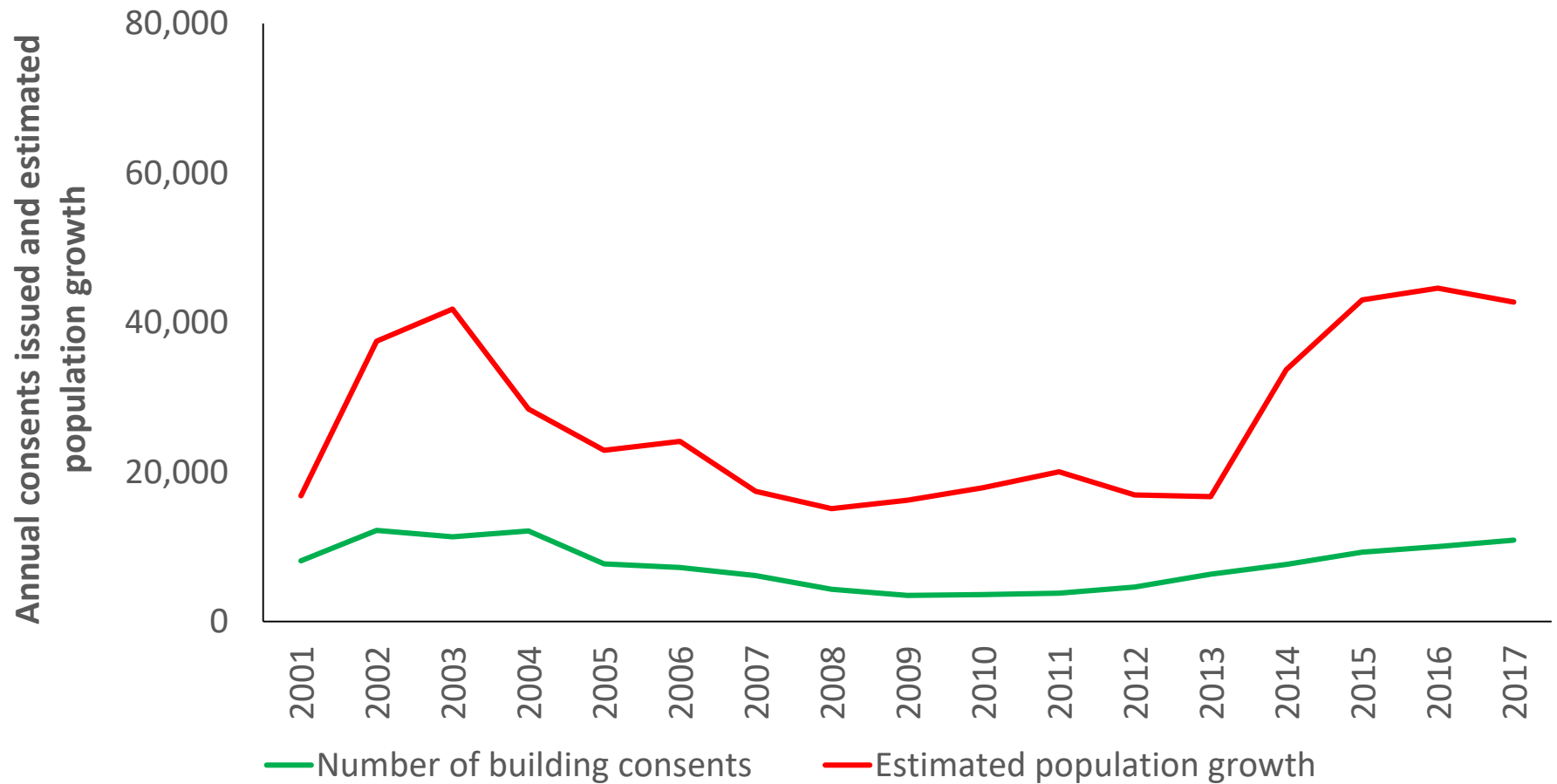
Housing Market Context

Auckland key market metrics – 2001 to 2017



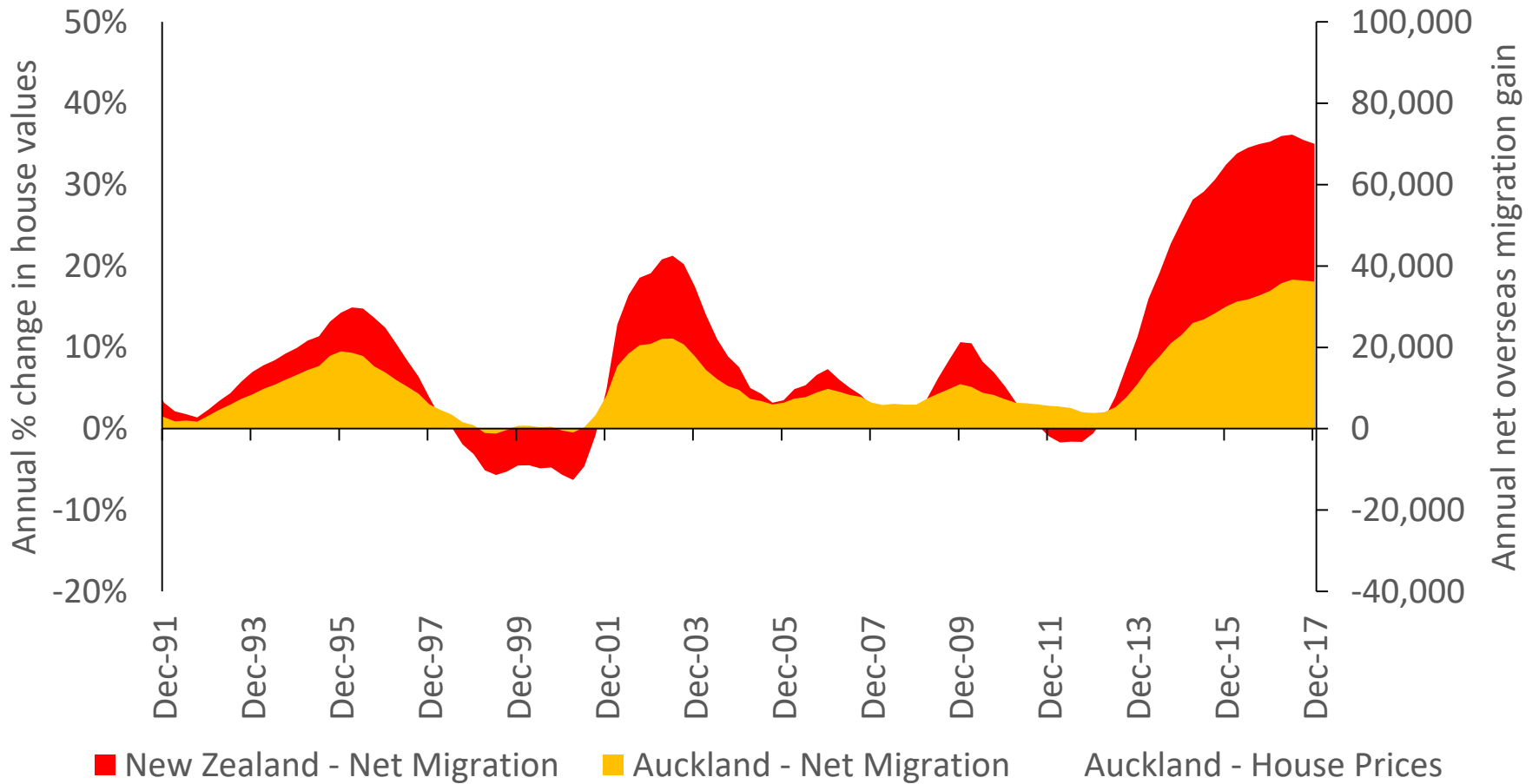
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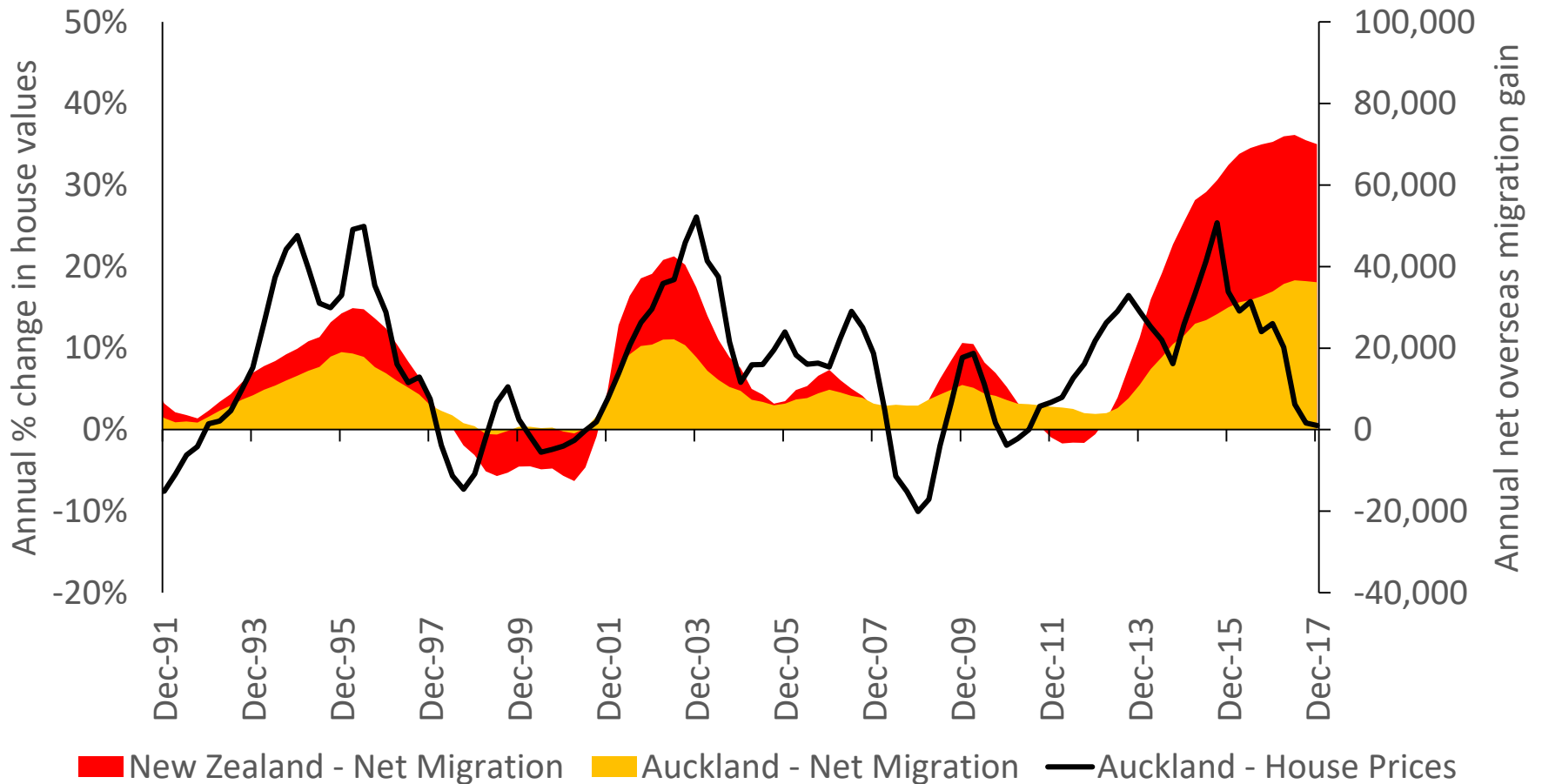
Housing Market Context

Overseas net migration and house value growth



Housing Market Context

Overseas net migration and house value growth

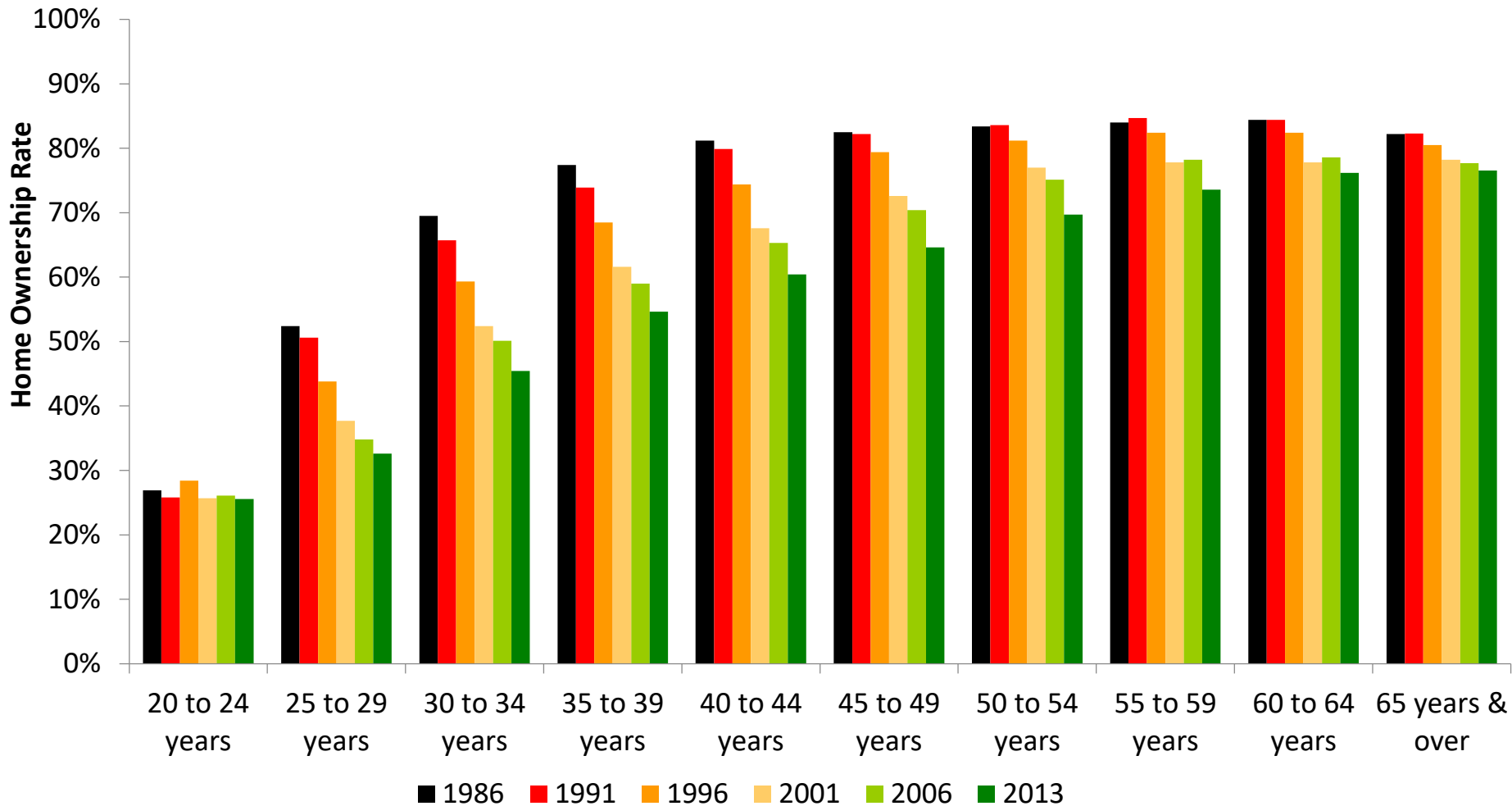


Housing Market Context

- House price trends
- Rental price trends
- Household income
- Population growth
- New dwelling growth/supply
- Household tenure trends

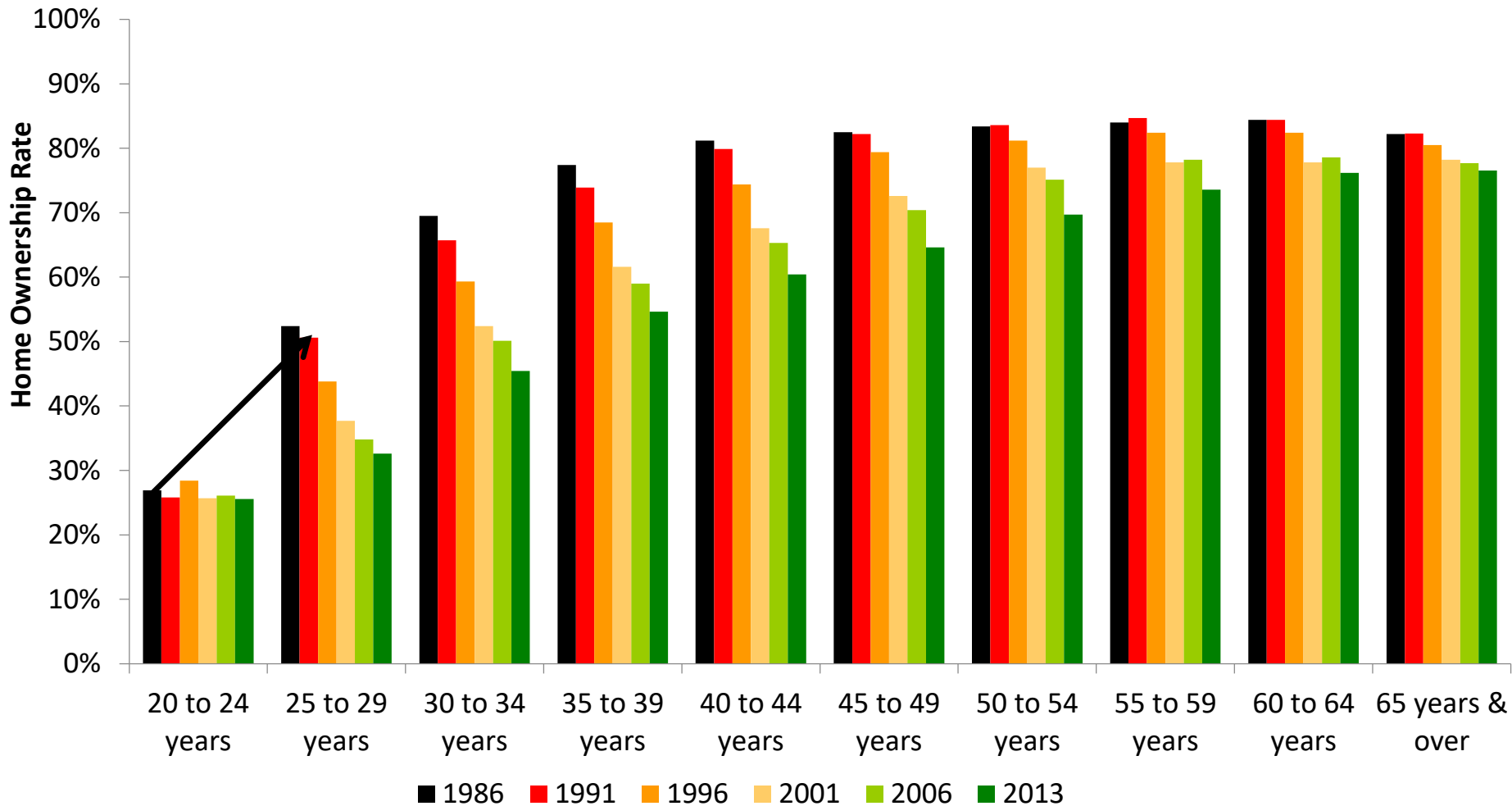
Housing Market Context

Home Ownership by Age Group



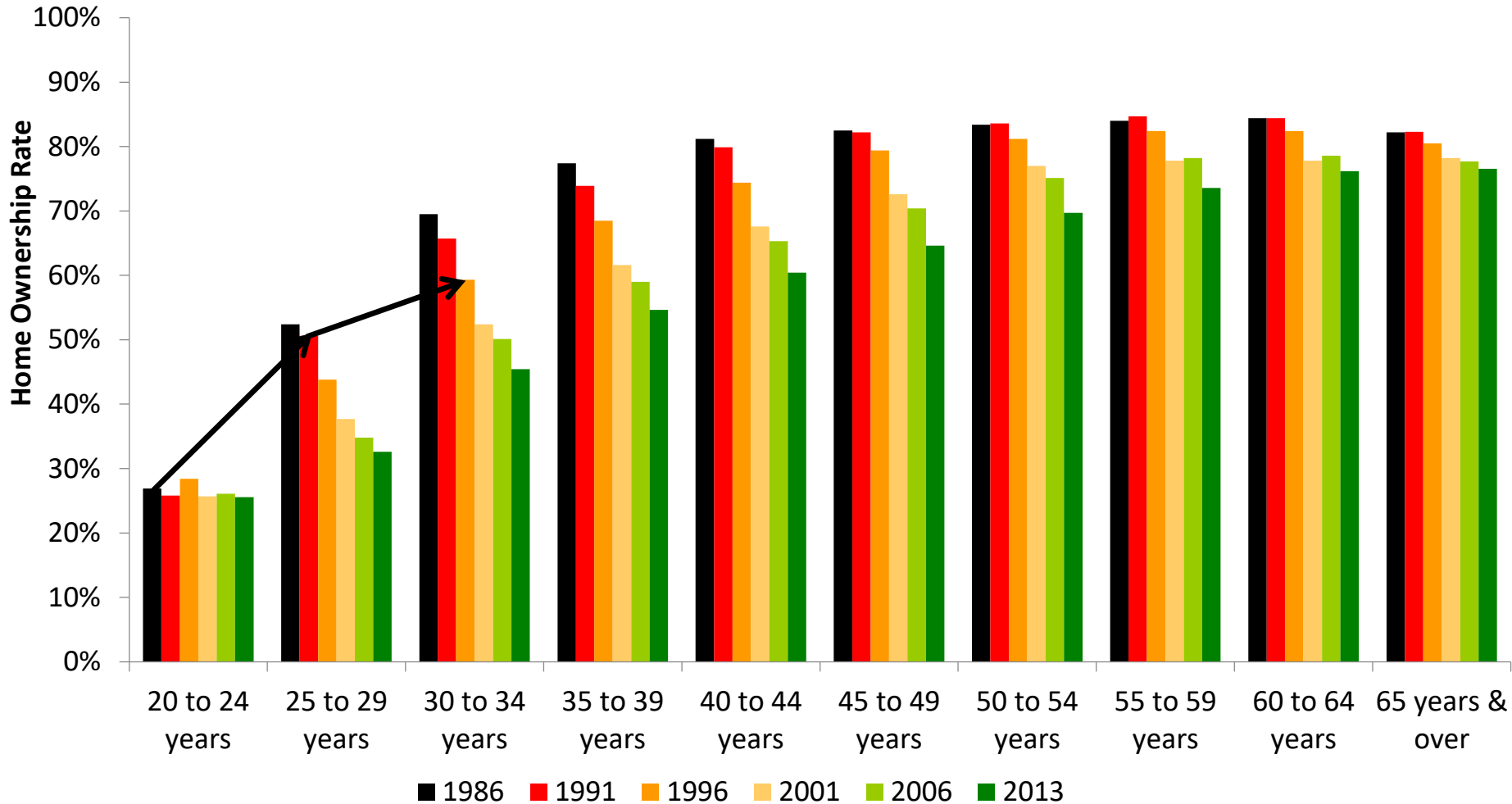
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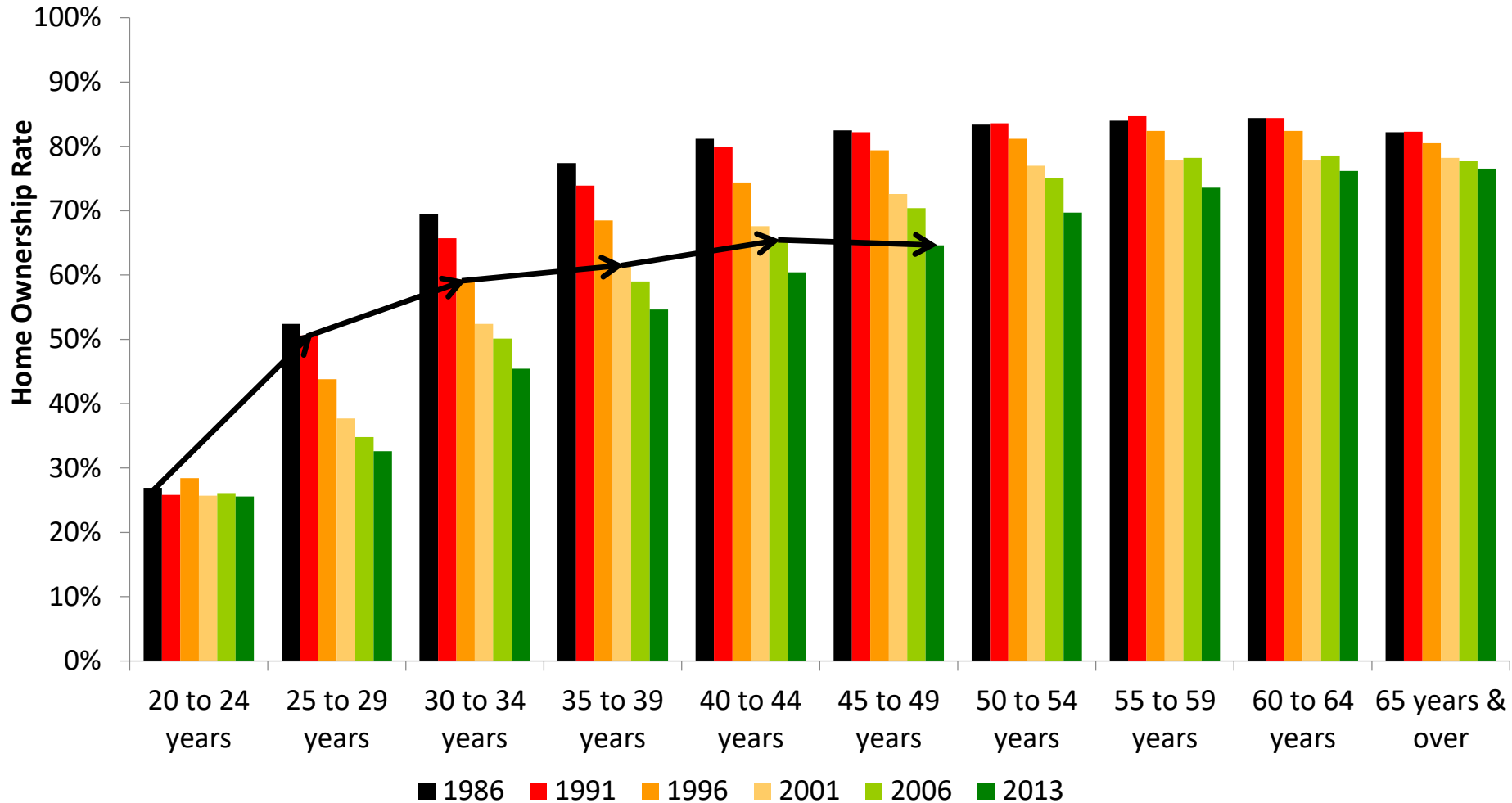
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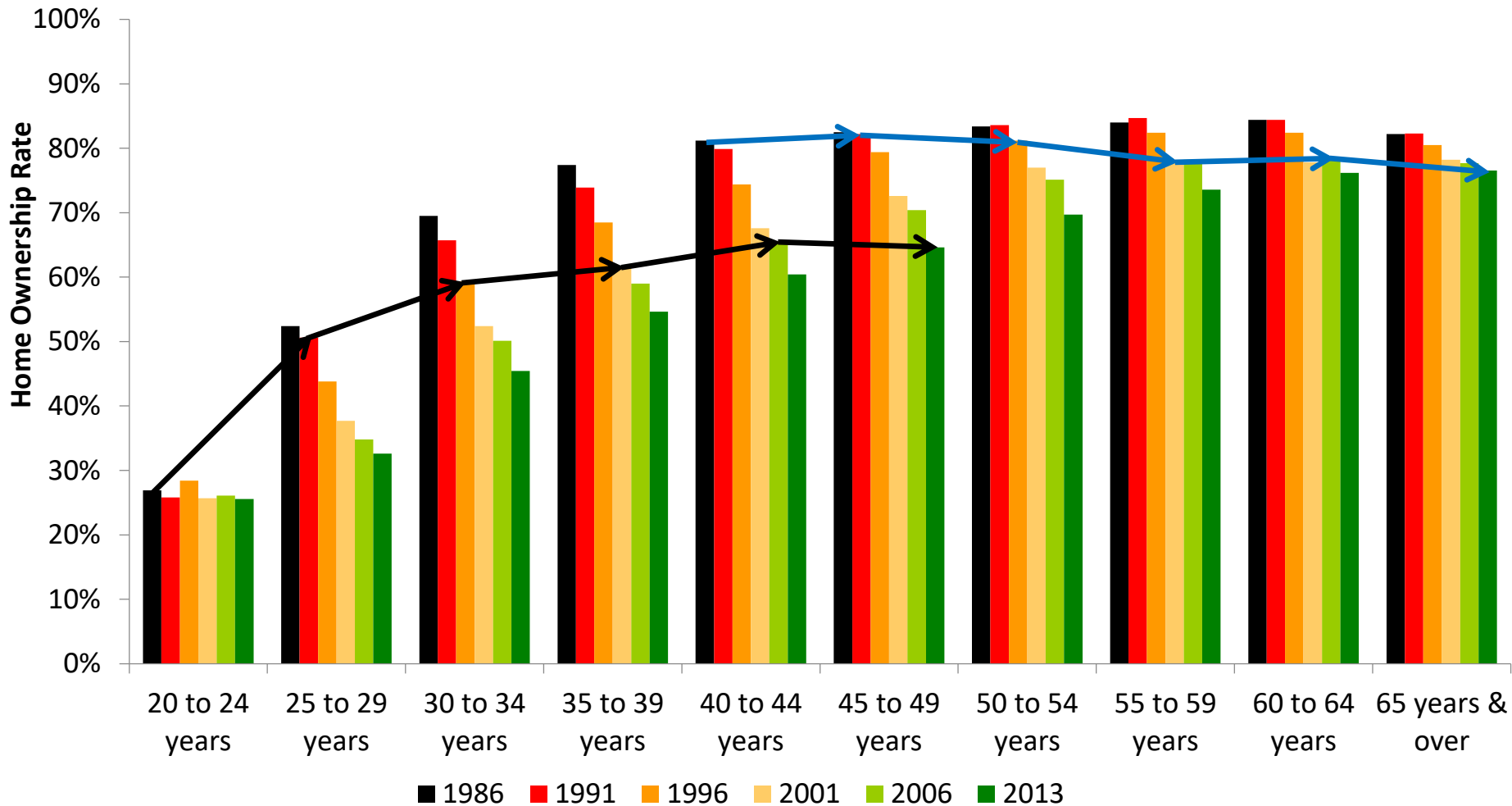
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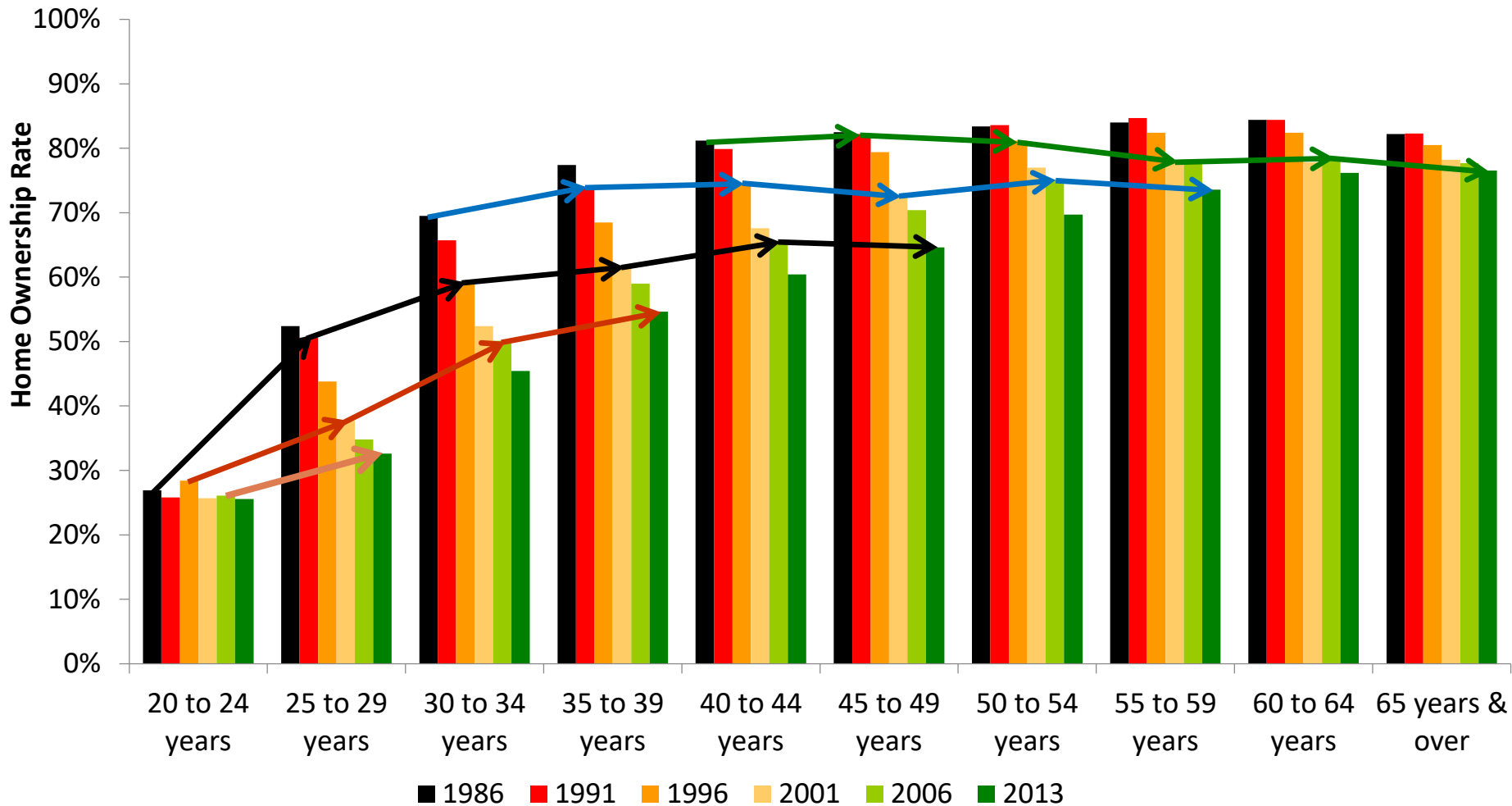
Housing Market Context

Home Ownership by Age Group



Housing Market Context

Home Ownership by Age Group



Pulling It Together

- We aren't building enough houses
- We aren't building enough lower cost/'affordable' houses
- House values are high relative to incomes and rents
- Home ownership rates are declining particularly for lower income groups disproportionately impacting on Pacifica and Maori households
- Average household size is increasing in some regions

Monetary Policy and Housing

- Not all housing market issues are result of or susceptible to monetary policy settings
- Housing is a complex system and subject to a range of influences
- Multiple research and reports indicate negative supply and cost impacts of sub-optimal settings

Monetary Policy and Housing

- Policy response to GFC
- Low official interest rates
- Low bank mortgage rates
- Property market effects

Macro Prudential Policy

- Macro prudential policy and LVR controls
- Banks are commercial enterprises
- International banking rules
- Growing residential mortgage lending increases bank profits
- Bank lending volumes and household incomes/GDP

Macro Prudential Policy – Banking Sector Resilience

- The Reserve Bank has reported that LVR controls have been successful in improving the resilience of the banking sector,
- This is expected to reduce banks' losses to riskier loans

Macro Prudential Policy – ‘Leaning Against’ the Credit Cycle

- The volume of bank lending versus who banks lend to
- Reserve Bank LVR rules have changed over time
- Bank lending activity

Conclusions

- Bank mortgage lending and housing price inflation
- Economic growth and housing
- Current settings have enabled current housing market imbalances and continue to sustain them

The Way Forward

- Shift banking sector incentives away from housing and towards business and agriculture
- Can we take the heat out of bank mortgage lending while also growing the volume of new housing construction?
- More actively 'leaning against' household credit bubbles – on the basis that it is easier to identify credit bubbles than asset bubbles

The Way Forward - continued

- We agree that monetary and macro prudential policy intervention cannot be effective by themselves
- A more nuanced and integrated set of interventions is required, which could include:
 - Continuing with existing/proposed macro prudential interventions to improve the resilience of the banking sector
 - Developing more targeted macro prudential interventions which lean against excessive growth of lending for purposes of buying existing dwellings but which are more accommodating for lending growth directed at new housing supply
 - Government fiscal policy to support growth in new housing supply – and which encourages construction sector scale economies and improved productivity
 - A continued emphasis on removing/reducing regulatory barriers which add cost or constrain new housing supply