



## House prices above sustainable levels

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House prices are above their sustainable level the Reserve Bank – Te Pūtea Matua – says.

In comments prepared for a hearing of the Finance and Expenditure Committee, Reserve Bank Governor Adrian Orr said New Zealand’s house prices are above a level that is sustainable given the outlook for the supply of, and demand for, housing.

“The key drivers of housing supply and demand have turned around,” he said.

Underlying demand for housing has declined significantly due to low population growth since the outbreak of COVID-19 last year. At the same time, house building is at record high levels and mortgage interest rates are rising.

We expect house price inflation to moderate significantly in the period ahead. In our projections, house prices are assumed to eventually fall as momentum in the housing market fades,” said Mr Orr.

“In the face of the COVID-19 pandemic in early-2020 we acted quickly to best meet our inflation and employment mandate. Our ‘least regrets’ policy was to reduce interest rates to very low levels to support the economy.

Subsequently, government support for jobs and business, low interest rates, a closed international border, and New Zealand’s health response helped prevent a sharp rise in unemployment, declining inflation (deflation), and general financial instability. Employment and inflation expectations remain consistent with our mandate, and New Zealand’s financial system is robust.

House prices also rose as spending and investment was diverted. This is a pattern seen in many other countries in response to fiscal and monetary support designed to underpin economic recoveries. The magnitude of the recent house price increases across countries is related to the supply situation and the strength of their economy. In New Zealand, housing supply was low and the economy strong.

“Our ‘least regrets’ policy now is to further reduce monetary policy stimulus to best ensure we meet our inflation and employment mandate in the period ahead”.

### **More information:**

The Bank looked at house prices in our August *Monetary Policy Statement* and has responded to recent questions about house prices from the Finance and Expenditure Committee.



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<https://www.rbnz.govt.nz/monetary-policy/monetary-policy-statement/mps-august-2021>

**See P.17**

See the abbreviated summary of the documents: [House prices above sustainable levels - Reserve Bank of New Zealand \(rbnz.govt.nz\)](#)

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