

Economic Note

June housing market update

16 July 2019

Flicker of Life

- June housing data provided perhaps the first sign of the pick-up in the housing market we've been expecting.
- Still, regional differences remain marked. Auckland is weak, but showing signs of stabilisation. Christchurch and Wellington have lost some of their prior steam. The regions, for the most part, are still going great guns.
- We expect nationwide house price growth to nudge up to a modest 5-6% annual pace by mid-2020 largely thanks to the stimulus from falling mortgage rates. Regions more heavily exposed to the foreign buyer ban, most notably Auckland and Queenstown, will underperform.

This report is split into two parts. First, we provide a rundown of key trends in the housing market by region. The second section (click [here](#)) discusses the key drivers influencing NZ housing market conditions.

The statistics referred to in this report are listings data from realestate.co.nz, REINZ house sales, REINZ days to sell and the REINZ House Price Index figures (ASB seasonally-adjusted estimates).

REINZ:	Jun-19	May-19	Jun-18	realestate.co.nz	Jun-19	May-19	Jun-18
House Sales, s.a.	6,339	6,155	6,376	New Listings, actual, s.a.	8,920	9,448	9,618
% mom	3.0%	1.7%	-2.5%	% mom	-5.6%	3.9%	-3.6%
% yoy	-3.8%	-5.5%	1.3%	% yoy	-7.3%	-5.3%	-9.3%
HPI, s.a.	2,753	2,746	2,707	Total Inventory, s.a.	25,559	26,243	24,381
% mom	0.1%	0.3%	0.0%	% mom	-2.6%	0.7%	-2.4%
% yoy	1.7%	1.7%	3.8%	% yoy	4.8%	5.0%	-3.1%
Days to Sell, s.a.	40.9	40.1	37.9	Weeks of Inventory, s.a.	18	20	17

Regional rundown:

Auckland

- **After months of anaemic activity, the Auckland housing market experienced a flicker of life in June.** House sales jumped 13.6% mom on our seasonally-adjusted estimates. Still, rather than a sign of strength we'd interpreted this more as a stabilisation given just how slow activity has been of late. The level of house sales in June, at 1,808 (s.a), were still well below the 5-year average (of 2,150).

Auckland	Jun-19	Jun-18
House Sales, s.a.	1,808	1,817
House Sales, % yoy	-3.2%	3.1%
HPI, %yoy	-3.5%	0.9%
Weeks of Inventory, s.a.	27	21

- June’s sales surge also wasn’t enough to put much of a dent in the unsold inventory sitting on the Auckland market. Outstanding inventory fell slightly to the equivalent of 27 weeks of sales, from 28 weeks the month prior. Median days to sell a house also rose slightly in seasonally-adjusted terms to 45.2 days. House prices continued to drift modestly lower, to be down 3.5% yoy in June.
- **Overall, while there are some signs the Auckland market is finding its feet, the indicators are hardly consistent with things taking off.** The stand-off between buyers and sellers continues, with the latter waiting for market conditions to improve before listing and the former happy to remain on the side-lines as prices adjust lower. **If housing turnover continues to normalise in coming months, we’d expect house prices to level out over the second half of the year.**

Canterbury

- **The heat seems to have come out of the Canterbury market over the past three months.**
- Quarterly QV data revealed a surprise 0.2% decline in Canterbury house prices in the March quarter. And prices have basically flat-lined for the three months since. Forward indicators aren’t too flash either. Most notably, median days to sell a house jumped up to 45 in June (s.a). Turnover, meanwhile, has been volatile, but soft.
- Nevertheless, demand and supply don’t appear too far out of line. Despite a 16.6% monthly lift in new listings in June, there are still only 17 weeks’ worth of inventory on the market – slightly below average.
- **Sharply lower mortgage rates should inject a bit of pep into the market. We continue to expect Canterbury house price growth of around 0.5% a quarter for the rest of the year,** although risks are probably to the downside.

Canterbury	Jun-19	Jun-18
House Sales, s.a.	873	828
House Sales, % yoy	2.1%	-3.3%
HPI, %yoy	2.4%	-1.0%
Weeks of Inventory, s.a.	17	18

Wellington

- **The Wellington market has cooled from the white hot pace of late 2018.** Annual house price growth is running at around 6.5%yoy, down from the double-digit rates over December/January.
- The market remains supply constrained, with population growth outstripping the pace of new housing construction growth over recent years, resulting in a housing shortage.
- Indicative of such, there are just 8 weeks’ worth of inventory sitting on the market, a tightening from the 10 weeks of inventory last month.
- A lack of supply and a demand boost from lower mortgage rates is expected to see the Wellington market remain strong over the next 12 months. We expect annual price growth to lift slightly to 8-10%.
- From 2020, the rate of house price growth will gradually slow as new housing construction starts to alleviate the housing supply shortage which has arisen in the past two years.

Wellington	Jun-19	Jun-18
House Sales, s.a.	710	710
House Sales, % yoy	-3.3%	-7.1%
HPI, %yoy	6.5%	9.8%
Weeks of Inventory, s.a.	8	7

Manawatu/Whanganui and Hawkes Bay/Gisborne

- **House prices in these regions have been growing at a very strong rate, and the strength continued in June.** An imbalance of supply relative to demand, strong regional [economic performance](#), and falling mortgage rates are proving to be a heady mix for the region's housing markets.
- **With most of the drivers of strong house prices remaining in place, we expect more of the same over coming months.** House sales growth has accelerated in the past few months, inventory remains very tight, and interest rates are falling. These conditions are expected to deliver ongoing solid house price growth.

Bay of Plenty

- Bay of Plenty housing data have been a little mixed and hard-to-read of late. **After a strong start to the year, the market has been cooling since April.**
- **However, forward indicators for prices suggest things could well heat up again.** House sales have recovered strongly from the weakness through the early part of the year, in June hitting the highest level since November 2018. Inventory, meanwhile, remains low by historical standards.

Taranaki and the Waikato

- These areas gained **some momentum over early 2019**, with price growth accelerating strongly.
- However, more recent indicators have painted a picture of slowing. House sales have eased to be flat or down in annual terms and house price inflation has throttled back to around 5% in both regions.
- **There are mixed forces in play.** Lower interest rates and a strong agri-economic performance over the past year will help prop up demand. However, these markets do not appear as supply-constrained as other regions and a housing supply response will likely keep future house price growth in check.

Manawatu/Whanganui	Jun-19	Jun-18
House Sales, s.a.	378	412
House Sales, % yoy	-10.9%	16.2%
HPI, %yoy	18.3%	9.8%
Weeks of Inventory, s.a.	10	9

Hawke's Bay	Jun-19	Jun-18
House Sales, s.a.	233	303
House Sales, % yoy	-26.8%	24.8%
HPI, %yoy	9.1%	13.9%
Weeks of Inventory, s.a.	8	8

Gisborne	Jun-19	Jun-18
House Sales, s.a.	59	55
House Sales, % yoy	1.8%	-6.8%
HPI, %yoy	9.1%	13.9%
Weeks of Inventory, s.a.	6	9

Bay of Plenty	Jun-19	Jun-18
House Sales, s.a.	475	454
House Sales, % yoy	0.9%	8.1%
HPI, %yoy	5.3%	6.4%
Weeks of Inventory, s.a.	15	13

Waikato	Jun-19	Jun-18
House Sales, s.a.	657	639
House Sales, % yoy	-0.5%	-11.7%
HPI, %yoy	5.2%	6.9%
Weeks of Inventory, s.a.	18	18

Taranaki	Jun-19	Jun-18
House Sales, s.a.	155	197
House Sales, % yoy	-24.9%	12.1%
HPI, %yoy	5.5%	6.6%
Weeks of Inventory, s.a.	15	16

Nelson/Tasman/Marlborough/West Coast

- **House price growth in the Top of the South picked up strongly in late 2018, but has since eased.** Annual house price growth has slowed from 8.7% at the end of 2018 to 6.7% in June.
- **Still, supply in the region is tight**, portending ongoing support for prices. From already low levels, weeks of inventory for Nelson and Marlborough fell further in June, to 12 and 17 weeks respectively (from 14 and 22 weeks in May).
- Meanwhile, the **West Coast has seen a steady improvement in housing market conditions**, with house sales lifting over the past year, contributing to a gradual decline in the stock of houses available for sale (albeit from very high levels).

Marlborough	Jun-19	Jun-18
House Sales, s.a.	96	77
House Sales, % yoy	18.1%	1.4%
HPI, %yoy	6.7%	7.6%
Weeks of Inventory, s.a.	17	13
Nelson/Tasman	Jun-19	Jun-18
House Sales, s.a.	87	77
House Sales, % yoy	7.2%	-1.4%
HPI, %yoy	6.7%	7.6%
Weeks of Inventory, s.a.	12	12
West Coast S.I.	Jun-19	Jun-18
House Sales, s.a.	36	39
House Sales, % yoy	-11.8%	-2.9%
HPI, %yoy	6.7%	7.6%
Weeks of Inventory, s.a.	42	43

Otago and Southland

- The **Southland housing market is going ballistic.** House price growth picked up from an already hot 14%yoy in May to 20% in June.
- The clear supply/demand imbalance appears to be worsening with inventory levels falling further in June. New listings and total houses available for sale are at very low levels.
- **The picture in Otago is slightly more nuanced.** As we have noted [previously](#), the weight of the 'foreign buyer ban' is hanging heavy over the Queenstown-Lakes region. But **the rest of the region appears to be in the midst of a resurgence.** Inventory is at rock-bottom levels, sales have bounced back hard over the past 2 months, and house price growth is running at around a 8-10% annual pace.

Otago	Jun-19	Jun-18
House Sales, s.a.	410	383
House Sales, % yoy	2.8%	-0.9%
HPI, %yoy	8.3%	10.9%
Weeks of Inventory, s.a.	7	10

Southland	Jun-19	Jun-18
House Sales, s.a.	163	174
House Sales, % yoy	-9.9%	1.9%
HPI, %yoy	20.2%	10.5%
Weeks of Inventory, s.a.	11	13

Northland

- **The Northland housing market has been gradually slowing.** Annual price growth has gradually declined from 10% in late 2018 to 4.9% in June.
- We don't expect the slowing to last. Sales activity has ramped up strongly over the past few months - three month on three month growth in house sales is running at 10.5%.
- This strong activity has quickly burned up previously unsold inventory. Alongside falling mortgage rates, this sets the scene for strong house price growth over the remainder of the year.

Northland	Jun-19	Jun-18
House Sales, s.a.	206	198
House Sales, % yoy	-1.0%	4.3%
HPI, %yoy	4.9%	5.6%
Weeks of Inventory, s.a.	33	29

Housing supports and headwinds

Strong Demand Fundamentals

Fundamentals supporting housing demand include:

- Strong population growth.
- The strong labour market, which supports household investment appetite.
- Improving household incomes.
- The gradual relaxation of the RBNZ's high loan-to-value lending restrictions (for both investors and owner-occupiers).

Falling mortgage rates

The RBNZ began an interest rate easing cycle in May, cutting the official cash rate by 25 basis points to 1.50%. Offshore interest rates have been falling appreciably as well. As a result, mortgage rates have declined 30-50bps over the past three months. We expect the RBNZ will deliver two further 25 basis point rate cuts this year which will keep mortgage rates under downward pressure. Our analysis suggests it takes up to two quarters for mortgage rate declines to show up in house price data.

Housing supply slow to catch up

Auckland's housing shortage has now spread across the country, with some regions now experiencing a shortfall in housing supply as the pick-up in regional population outpaces regional dwelling construction. There has been a sharp pick-up in dwelling rents in parts of the country with stretched supply (e.g. Wellington). We expect these regional shortfalls will be relatively short-lived as new house building demand has been relatively quick to respond. As new housing construction is completed over 2019, we expect the housing supply to catch up to new demand from population growth and reduce some of the upward pressure on house prices outside of Auckland and Christchurch.

Policy impacts

The Labour Government's housing policies have reduced investor demand, including the Healthy Home Bill, ring-fencing tax losses on rental properties, the extended "bright line" investor tax, and restrictions on foreign buyers. Regions with a higher concentration of investors, such as Auckland and Queenstown, have been hit harder. The potential for the introduction of a capital gains tax (CGT) may have weighed on investor price expectations and dampened housing demand through March and April. But with the Government having backed-down on the CGT, we expect housing demand may pick up slightly through the second half of 2019.

Affordability

In most regions, housing affordability has deteriorated over the past year, with house price growth outstripping income growth. Auckland is a clear exception, where falls in house prices have seen an improvement in affordability – albeit from extremely-stretched levels. We expect Auckland house prices to remain flat over the next few years, while incomes continue to lift. This should continue to see the house price-to-income ratio gradually fall.

It's worth noting that housing debt-servicing metrics have also improved and will continue to do so as homeowners roll off fixed rates onto the record-low mortgage rates currently on offer.

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