

Economic Note

REINZ Housing data – May 2021

15 June 2021

Shifting Sands

- More records for NZ house prices in May, even as sales activity continues to (slowly) cool
- The ship is turning slowly
- We lift our 2021 house price forecasts, but tab down 2022

REINZ Housing Data	May-21	Month ago	Year ago
National			
Sales (s.a % mom)	-5.4%	-11.3%	139.6%
House price index (% mom)	1.9%	1.6%	-0.6%
House price index (% yoy)	29.8%	26.8%	6.9%
Days to Sell (s.a)	29.0	29.8	56.2
Auckland			
Sales (s.a % mom)	0.9%	-21.6%	87.1%
House price index (% mom)	1.6%	0.6%	0.0%
House price index (% yoy)	26.3%	24.4%	6.9%
Wellington			
Sales (s.a % mom)	-5.2%	-1.1%	446.2%
House price index (% mom)	1.7%	2.6%	-3.6%
House price index (% yoy)	41.8%	34.4%	6.9%
Canterbury			
Sales (s.a % mom)	-3.6%	-7.9%	140.6%
House price index (% mom)	2.3%	2.4%	3.3%
House price index (% yoy)	25.7%	26.9%	3.9%

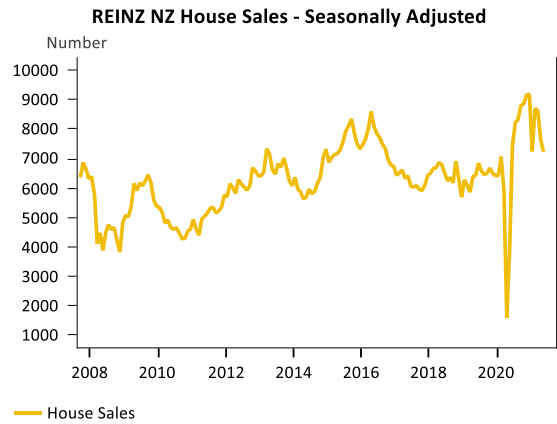
Pressure slowly coming out

The ship is turning, but it's turning slowly. That's the message from the May set of REINZ housing data. House sales and general activity have continued to cool from the breakneck summer pace as RBNZ and government measures bite. House prices, by contrast, continued to squeeze higher in May, indicative of a market that is still afflicted by excess demand and short supply.

May's 1.9% monthly increase in the REINZ House Price Index was a little ahead of last month's 1.6% but, smoothing through the past three months, clearly shows the rate of increase is slowing. Recall that from October to March house prices lifted on average just under 3% a month. The annual rate of house price inflation now stands at 29.8%, the highest since records began in 1993.

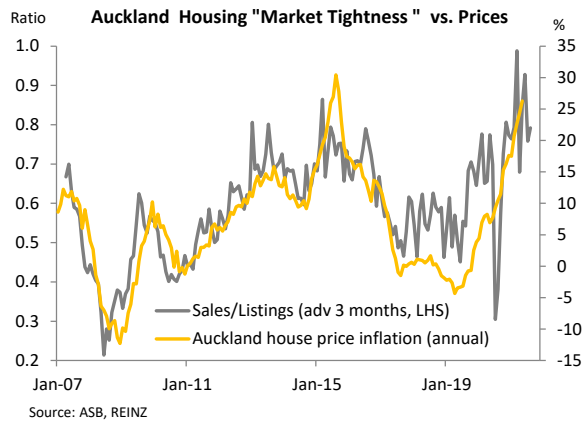
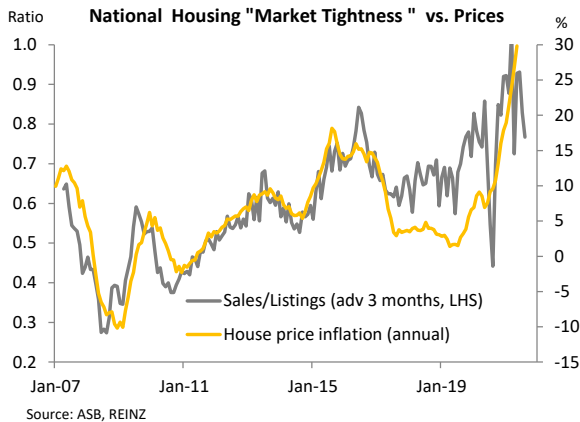
Regional differences

There's a couple of divergent trends amongst the regions to pull out. First, Southland and Otago experienced the first monthly falls in house prices since last year's lockdown. They were modest at around 0.8% mom but may reflect some of the impacts on these regions from the border restrictions on overseas tourism. Second, we've been of the view that the Canterbury housing market would outperform this year and this seems to be playing out. Prices in the mainland have bucked the broader trend and have held at an average 2.5% monthly growth pace since March. Finally, there are now two regions that have experienced an annual lift in house prices in excess of 40%: Wellington (41.8%) and Manawatu-Whanganui (52.1%).



Source: Macrobond, ASB

Housing market activity (sales) provides a decent directional lead on house prices with around a quarter lag. We noted in April that a likely slowdown in sales over April and May would tend to confirm housing momentum is cooling. This has played out with monthly house sales down 17% from the recent peak in February. But the issue is we're still not seeing any material response on the supply side. In fact, realestate.co.nz data for May showed total housing inventory hitting a fresh all-time low in May. As a result, sales-to-listing ratios – an excellent indicator of housing market tightness – remain at levels indicative of a very tight market (charts below).



Forecasts re-jigged

As a consequence, we've re-jigged our forecasts to allow for a more gradual easing in house price inflation this year. We now see annual house price inflation slowing to 15% by year end, from 10% previously. In contrast, our forecast for calendar 2022 of 5% has been tabbed down, to 2%. The RBNZ has now more clearly signalled it intends to lift interest rates next year and the attendant rise in mortgage rates will add to the list of headwinds facing housing demand.

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