

# Home Economics

December 2019

## Time to upgrade

- The latest indicators suggest the NZ housing upturn is gathering steam, broadly as we've been expecting.
- The Auckland market has reawakened, joining already fizzing regional markets.
- We kick the tyres on our house price forecasts, and upgrade slightly our view of Auckland and Canterbury.

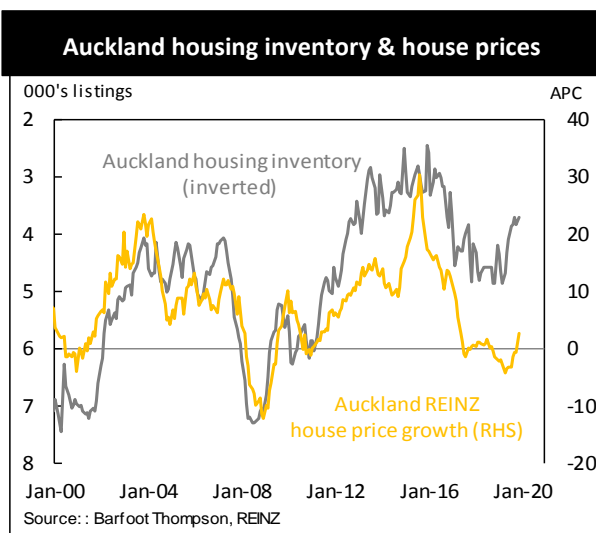
**Welcome to Home Economics, our bimonthly wrap on all things NZ housing. This is our last edition for the year. We wish all of our readers a relaxing and enjoyable festive season and look forward to a cracker 2020! If you're interested in signing up for future publications, you can do so [here](#).**

## Our view

We've made a few amendments to our house price forecasts since our last publication in October. Previously we expected national house price inflation to pick up to 5-6% yoy by mid-2020. It now looks as these numbers will be hit ahead of time. We've therefore shaded up the speed of the near-term lift in house prices (particularly in Auckland) and, with housing fundamentals still solid, also extended slightly the expected duration of the cycle. We've provided the details in an article at the back of this document (forecasts in table below).

The key tenets of our broader housing view remain unchanged. We still don't think we're headed into "boom" territory, thanks to the restraining effects of various housing policies and the supply response underway. We also still think Auckland will underperform the national average with Wellington and the regions to remain as outperformers. The house price inflation cycle is expected to top out in the high single digits late next year on the back of rising supply and a slow grind higher in mortgage rates.

## Chart 'o' the Month



## Forecasts

ASB House Price Forecasts (June years, annual % change)			
	2019	2020	2021
Auckland	-2.7%	5.5%	4.3%
Christchurch	0.0%	3.8%	4.3%
Wellington	6.7%	7.6%	5.5%
Other Regions	3.0%	7.7%	3.4%
<b>National</b>	<b>1.3%</b>	<b>6.5%</b>	<b>4.0%</b>

## Recent developments

The NZ housing market is gathering steam, that's the message from the last couple of months' worth of data.

In fact, the spring lift in housing activity and prices has outpaced even our own bullish expectations. The turning point can be traced pretty clearly to the ditching of the Capital Gains

Tax in April. The pace of monthly house sales has risen steadily since, to be around 13% higher by November. The creaking back to life of the Auckland market has been critical; monthly house sales in Auckland have rebounded 30% to around "average" levels.

House prices too, turned on a dime back in April. Auckland house prices have now posted seven consecutive monthly increases, fully recouping the prior two years' worth of trend losses. A new record high was posted in November. With prices in most other regions in NZ already humming, national house price inflation has lifted to 5.6%/y.

**Short-term indicators are generally consistent with the momentum continuing.**

Houses are certainly selling faster. Median nation-wide days to sell a house have fallen to 35.9 days (s.a.), below the long-run average of 39. Historically, days to sell at these levels is consistent with national house price inflation in the 5-10% yoy range.

**Extremely low supply remains a noticeable feature of the market.** National listings figures from realestate.co.nz are sitting at around half their long-run average. The supply shortage is particularly acute in Manawatu/Whanganui, Coromandel, Gisborne, Hawke's Bay, and Southland – all areas that have experienced very strong house price growth this year.

Low supply is certainly one factor providing a prop for prices. But it's also holding housing activity back a little. We suspect the recent improvement in housing conditions will embolden potential sellers, and the New Year flood of listings may be even larger than usual.

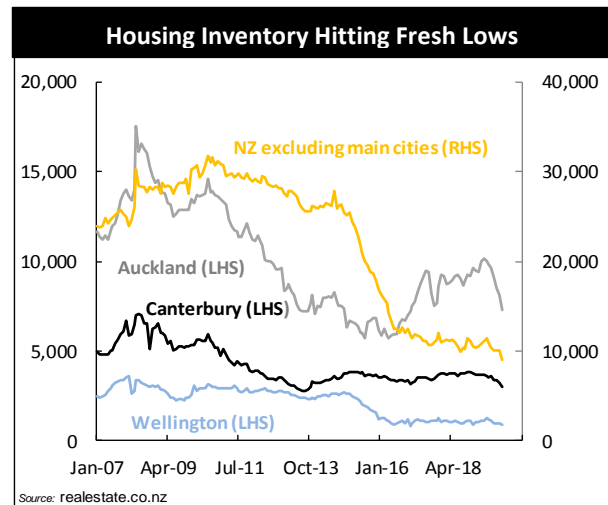
## The Regions - Hot or Not?

Our Regional Heatmap aggregates key regional housing market data to provide a snap-shot of relative housing market performance up and down the country. Bear in mind the left-most column (house sales) is the most forward-looking indicator and hence leads many of the variables in the other columns. Key points from the latest edition (November data) are:

- **The signs of a switching in momentum from regional housing markets back to the main centres we noted last time didn't last for long.** A hot streak of housing activity (far left column) has re-emerged in central and eastern parts of the North Island, which bodes well for the longevity of house price cycles in these regions. Indeed, annual house price growth in Manawatu-Whanganui, Hawke's Bay, Gisborne, and the Bay of Plenty actually lifted further in November.
- **The Manawatu-Whanganui region and Southland remain the two hottest spots in the country.** Not only are house prices rising at double digit rates, but houses in both regions are selling at the fastest rate in over a decade. A shortage of supply looks to be a good part of the story. House inventory levels are around 70%

NZ Housing Data		Nov-19	Month ago	Year ago
House Sales (s.a)	%mom	-1.0%	2.8%	-2.7%
	%yoy	-1.9%	-0.8%	6.3%
House Prices (s.a)	%mom	1.5%	1.0%	-0.1%
	%yoy	5.6%	3.9%	3.1%
Days to Sell (s.a)		35.9	36.8	38.0
New Listings (s.a)	%mom	0.1%	1.9%	-7.5%
Weeks of Inventory (s.a)		15	16	16

Sources: REINZ, realestate.co.nz



below long-run averages in both regions.

ASB Regional Heatmap						
	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%3m/3m	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	7.6	2.7	-1	1.7	3.1	-22%
Canterbury	-1.7	3.8	-2	3.4	4.0	-25%
Wellington	-2.3	8.5	-7	8.9	3.5	-57%
Northland	0.6	4.3	-16	7.3	3.7	-64%
Waikato	7.0	7.1	-14	5.8	3.4	-57%
Hawke's Bay	3.6	14.4	-13	3.8	3.8	-76%
Bay of Plenty	4.1	6.1	-17	5.2	3.4	-66%
Gisborne	-12.3	14.4	-10	8.1	4.3	-70%
Manawatu-Whanganui	-1.6	19.7	-23	10.1	4.3	-71%
Taranaki	-4.0	11.5	-20	8.1	4.4	-52%
Nelson/Tasman	-3.8	8.5	-8	8.1	3.2	-44%
Marlborough	-7.7	8.5	-18	13.1	4.2	-67%
West Coast S.I.	0.4	8.5	-9	10.4	7.8	-62%
Otago	-3.5	9.6	-14	6.4	4.1	-58%
Southland	2.8	20.8	-22	8.1	4.3	-69%

Sources: ASB, Corelogic, REINZ, MBIE, realestate.co.nz

- In the relative terms of our Regional Heatmap, **Auckland remains at the decidedly frigid end of the spectrum**. House price, rents, and days to sell metrics all lag the rest of the country. But don't be fooled. The most forward-looking part of the matrix – house sales – is out in front with a 3m/3m pace of 7.6%. We expect house prices to follow with the usual 3-6 month lag. Our forecasts have annual Auckland price growth hitting 5% by June 2020 (from 2.7% currently).
- The re-strengthening we've been picking for the **Wellington** housing market continues. Days to sell a house in Wellington have fallen back to below-average levels (30 days, s.a.) and house price inflation has picked up to 8.5% from 5.8% in July.
- **Canterbury** is something of a mixed bag. Housing activity is really only crawling higher, and median days to sell a house are still above average levels at 40 days (c.f. 37 day long-run average) suggesting the market hasn't really tightened to the same degree as elsewhere in the country. Annual growth in rents is also at the lower end of the spectrum at 3.4% yoy. Notwithstanding these factors, house price inflation has picked up and is running at 3.8% yoy. We expect the slow tightening in the market to continue.

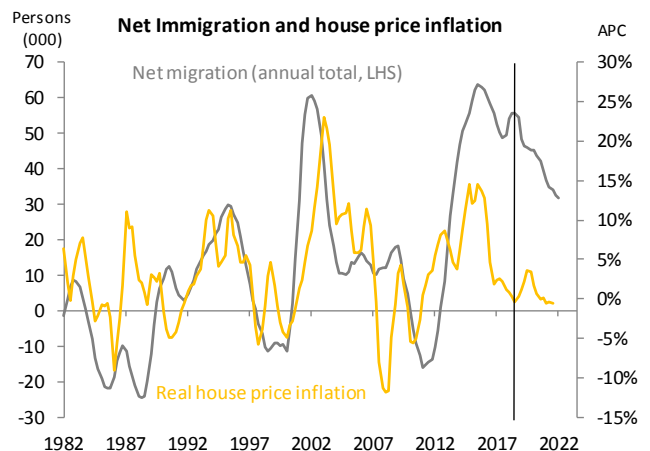
### Kicking the tyres on our view – Auckland forecasts revised up

We've been calling a housing market upturn even since mortgage rates began falling in earnest in autumn. But now the upswing is upon us, it's worth pausing to kick the tyres and reassess the risk profile.

Our overall assessment on this score is that the short-term risks are for a slightly stronger and more enduring house price inflation cycle than our previous forecasts allowed. We nudged up our forecasts, mainly for Auckland, as a result (see table on Page 1).

#### Demand > Supply

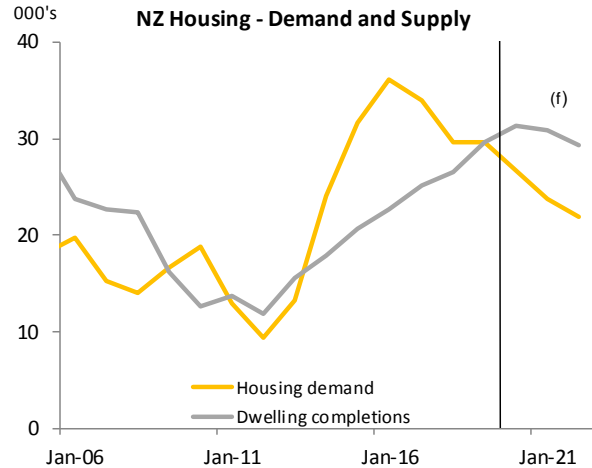
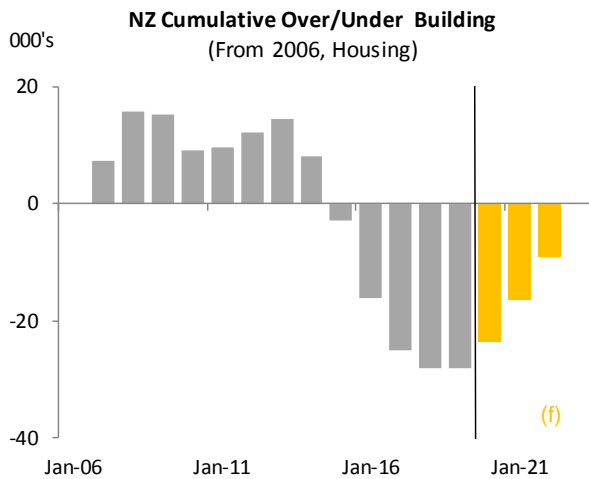
First, population growth continues to run hotter than expectations. Net migration has eased off its 2016 highs



Source: QV, Statistics NZ, ASB

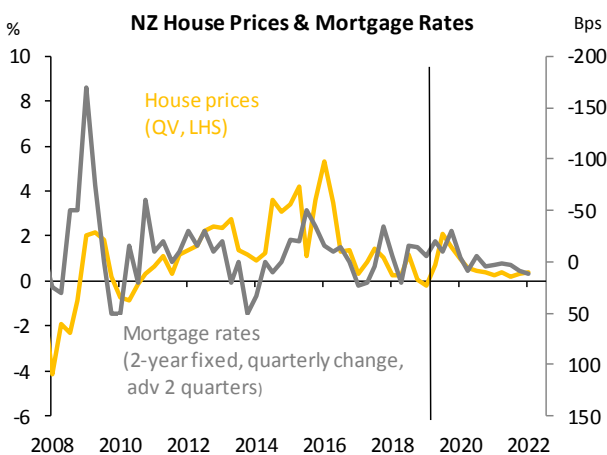
but somewhere between 45,000-55,000 migrants are still arriving in NZ on an annual basis. And, as the chart above shows, net migration flows can exert a big influence over house price cycles. Official migration data certainly have their foibles. But even allowing for a wide margin of error it's hard to escape the conclusion that demand-side pressure for houses will continue to exert upward pressure on house prices for at least the next year or so.

This is particularly so given the supply side is taking a while to respond. Our estimates suggest the national housing shortage remains persistent. Residential construction has really ramped up over the past few years but we still estimate the country is short of around 30,000 houses (see charts below), with around half of this shortage centred on Auckland.

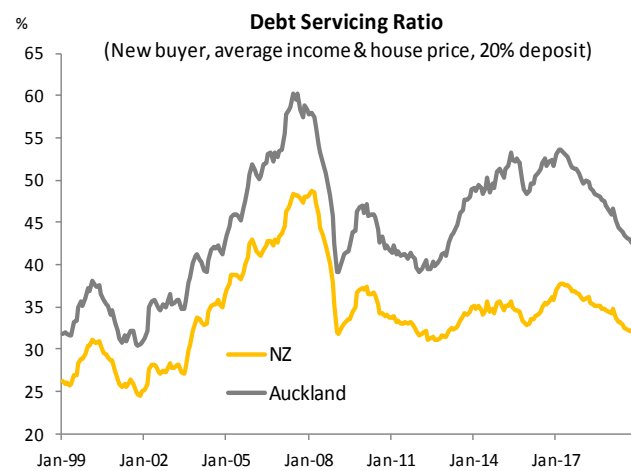


**Mortgage rate stimulus still flowing, but there's an end in sight**

The juice from this year's steep falls in mortgage rates will continue to feed the housing upturn until at least autumn of 2020. Mortgage rates fell steadily through to around November this year, and our rule of thumb is that it takes about six months for mortgage rate changes to feed through to house prices (see chart below). The effect so far has been large. Debt servicing costs have fallen back to the low levels of the prior decade, despite the average household debt burden increasing steadily over the past few years.



Source: QV, ASB



Source: RBNZ

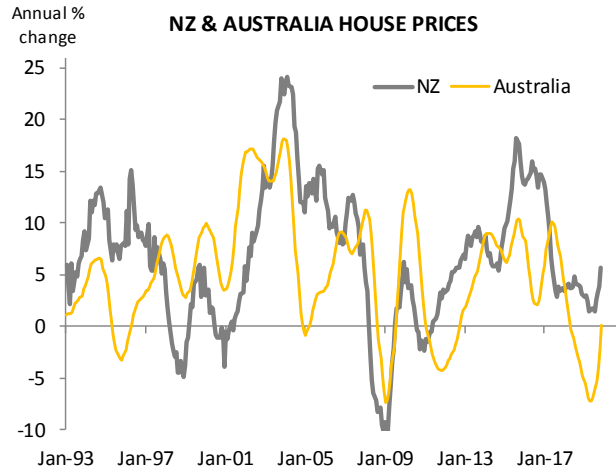
But that might be all folks. The RBNZ kept interest rates unchanged at its past two meetings, amid signs the NZ economy may have turned a corner. Wholesale interest rates have soared as financial markets have priced out additional RBNZ rate cuts. We've also had the RBNZ come out and confirm bank capital ratios are going to rise materially from here.

All of this means we doubt mortgage rates will continue to fall from here, even if the RBNZ delivers one more cut next year, as is our view. Our forecasts have mortgage rates (slowly) trending higher in 2020. This supports our view that the housing market upturn will start to run out of steam towards the end of next year.

**Australia switches from a headwind to a tailwind**

The Australian housing market has exploded back to life, having suffered an abrupt slowdown through 2017 and 2018. Third quarter house price growth jumped 2.4%, the strongest in almost three years. Our CBA colleagues expect the momentum to continue, forecasting 6% national house price growth for 2020, led by Sydney and Melbourne.

This has relevance for NZ. We've previously [found](#) a statistically significant link running from Australian house price cycles to those in New Zealand. The correlation is particularly strong between the Sydney and Auckland markets. At the margin, this could add a little more heat to the near-term upswing in NZ prices, particular in Auckland.



Source: Corelogic, REINZ, ASB

The table below summarises the direction and impact of key housing market drivers on our view

House Price Driver	Current	Next 12 months	Comment
Mortgage Rates	●●	●	We find mortgage rates to be a reliable driver of house prices, with around a six-month lead. Mortgage rates have been falling since March but, with the RBNZ now on hold, we don't think they'll fall further.
Population Growth	●	●	Population growth has slowed but remains at high levels. Our forecasts have net migration cooling from 55,000 to around 35,000 by end-2020.
Housing Supply	●	●	Housing construction has really ramped up over the past year, and is expected to remain at high levels. In time we expect this to eat into NZ's persistent housing shortage and temper house price growth.
Labour market	●	●	NZ's labour market is in a strong spot. Unemployment is expected to lift only gradually and wage growth will remain healthy, or even pick up.
Housing Policies	●	●	A raft of policies designed to limit offshore & investor demand have had the desired impact on parts of NZ's housing market. We expect the <i>magnitude</i> of this impact to slowly fade.

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