

Home Economics

August 2019

Bracing for spring growth

- We expect nation-wide house price inflation to pick up from the current annual pace of around 1.5%, to 5-6% by mid next year. Spring will be a key test of our view.
- The RBNZ’s determination to get kiwis borrowing and spending could see a more enduring cycle take hold. But we think there are enough offsetting factors out there to limit the extent of the upturn.
- July housing data were consistent with the idea that the housing market may be slowly turning higher. Although, as our Regional Heatmap shows, conditions remain highly variable across the country.

Welcome to Home Economics, our monthly wrap on all things NZ housing. Our intention here is to provide a quick overview on recent goings on in the housing market, as well as our take on the outlook. We’ll also tackle topical and relevant issues from time to time. We’ve recently revived the publication after a bit of a break and would welcome any feedback (mike.jones@asb.co.nz).

Our View

We expect nation-wide house price inflation to pick up from the current annual pace of around 1.5%, to 5-6% by mid next year (forecasts summarised below). There are plenty of cross-currents at play in NZ’s housing market. But in our view, sharp falls in mortgage interest rates will combine with still-strong population and labour income growth to jump-start the Auckland housing market and add a little more heat to simmering regional markets. From late 2020, we expect the cycle to top out as new housing supply coming on-stream gradually reduces the housing shortage.

What of the RBNZ’s big 50bps move? The Bank’s determination to slash rates until kiwis start borrowing and spending again could well see a more enduring than expected house price inflation cycle take hold. Certainly, the closer term deposit rates get toward zero, the bigger the risk of a widespread asset-allocation into housing. However, the turning NZ economic cycle, policy-related handbrakes, and a ramp up in housing supply will all act to limit the extent of the upturn in our view.

Drivers Snapshot

House Price Driver	Current	Next 12 months
Mortgage Rates		
Population Growth		
Construction/Supply		
Labour market		
Housing Policies		

Forecasts

ASB House Price Forecasts (June years, annual % change)			
	2018	2019(f)	2020(f)
Auckland	1.3%	-3.1%	0.0%
Christchurch	1.5%	-0.5%	2.0%
Wellington	8.6%	6.6%	9.3%
Other Regions	6.1%	2.7%	9.3%
National	3.7%	0.9%	5.5%

Recent Developments

The performance of the NZ housing market this year has been about as patchy as an Auckland summer. The Auckland market has been at the decidedly cool end of the spectrum as a raft of government and RBNZ policy measures have seen investors and offshore buyers abruptly pullback from the market. Turnover has been glacial and prices are around 5% below their early 2018 peaks. Canterbury has fared a little better, although a strong supply response has limited the upside for prices there. Wellington and regional markets have had a scorcher as housing supply has failed to keep pace with demand, and income growth has remained strong. Nationwide, house price inflation has drifted down to about 1.5%yoy.

NZ Housing Data	Jul-19	Month ago	Year ago
House Sales (s.a) %mom	-3.1%	4.9%	-2.0%
%yoy	3.7%	-0.9%	4.9%
House Prices (s.a) %mom	0.0%	0.2%	0.3%
%yoy	1.5%	1.8%	4.8%
Days to Sell (s.a)	40.7	40.9	37.7
New Listings (s.a.) %mom	-3.1%	-5.6%	-9.7%
Weeks of Inventory (s.a)	18	18	17

Sources: ASB, REINZ, realestate.co.nz

July housing data were consistent with the idea that the housing market may be slowly turning. Having spent 7 months in decline, annual growth in house sales flipped back into positive territory. And on a 3 month/3month percentage change basis, NZ housing turnover was up 4.4% in July. A key part of this has been the thawing in Auckland activity over the past two months. This could be the post-Capital Gains Tax back-down bounce we've been anticipating.

Inventory remains at very low levels. Nationally, there's the equivalent of 18 weeks' worth of sales listed at present. This is well below the long-run average of around 30 weeks. This has mostly been a story about low supply rather than strong demand. And this theme continued in July with new listings dropping another 3%, to the lowest level this year.

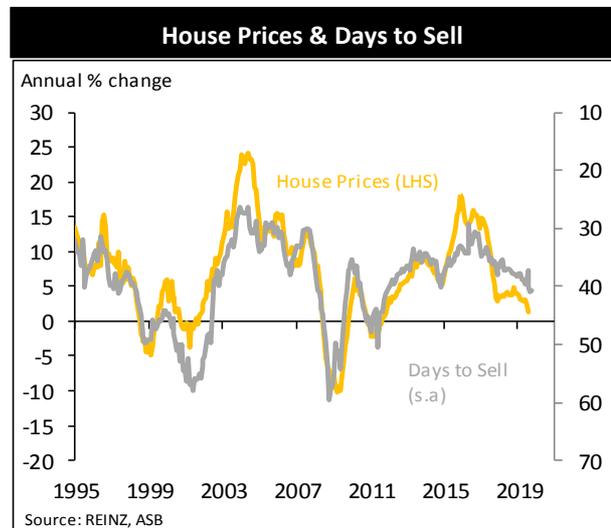
REINZ median days to sell data tend to support the idea that the housing market is not as tight as inventory levels alone would suggest. Nationwide days to sell remain around average levels, with Auckland and Canterbury materially above average at around 45 days, and Wellington below at 33 days.

Looking ahead, spring is shaping up as a key test of our view. We find that declines in mortgage rates tend to take six months or so to impact house prices. So if we're right that recent mortgage rate cuts (which began in earnest in March/April) will provide a boost to prices, we should start to see this show up in September/October housing data.

The Regions - Hot or Not?

Introducing our Regional Heatmap, your one stop shop for assessing who's hot and who's not. In it you'll find a collection of key regional housing market data that hopefully provides a snap-shot of relative performance up and down the country. Key points from the latest edition (July data) are:

- Conditions in **Auckland** remain chilly. House price growth remains negative on an annual basis, albeit there's been small gains posted for the past three months. Days to sell and inventory both remain above average levels suggesting we'll have to see further thawing in activity before we can expect prices to lift.
- **Canterbury** is another notable underperformer. As noted earlier, a ramp up in supply appears to be part of the story. This appears to be reflected in rents, which are running at just 1.4%yoy in Canterbury, the slowest growth rate in the country.



	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%yoy	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	6.6	-3.3	8	2.7	3.3	4%
Canterbury	14.6	0.7	8	1.4	4.1	-17%
Wellington	2.8	5.8	-3	11.1	3.8	-46%
Manawatu	-5.0	18.0	-16	10.5	4.4	-71%
Gisborne	14.9	11.2	-13	8.4	4.8	-70%
Hawke's Bay	8.5	11.2	-15	7.2	4.3	-73%
Bay of Plenty	0.9	6.5	-8	6.4	3.8	-61%
Taranaki	11.3	9.1	-6	8.7	4.9	-17%
Waikato	-0.8	3.0	-7	5.9	3.7	-43%
Nelson/Tasman	25.0	6.4	-5	9.5	3.7	-40%
Marlborough	13.7	6.4	-7	7.0	4.4	-62%
West Coast S.I.	-19.4	6.4	10	5.8	7.8	-64%
Otago	-1.9	7.9	-9	7.0	4.4	-68%
Southland	-17.0	19.5	-4	12.4	4.7	-63%
Northland	-5.1	4.2	-2	10.2	4.2	-59%

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

- The **Wellington** market has cooled from the giddy heights of late 2018. Annual house price growth has slowed from double-digit rates to around 5.8%yoy. Days to sell and house sales are also consistent with the market shifting down a few gears. Still, inventory remains very tight with just 9 weeks' worth of sales listed. As such, we could see a second wind for prices should low mortgage rates kick things off again.
- **Central and Eastern parts of the North Island are cooking**, matching their outperformance on our [Regional Scoreboard](#). These markets are tight. Days to sell a house have fallen appreciably through the first part of the year, inventory is very low, and strong house price and rental growth has swiftly followed. More of the same looks likely, with supply slow to respond and low mortgage rates likely to further boost demand.
- **Housing market conditions remain fairly strong on the West Coast and South of the South Island**. Notably, house price inflation in Southland remains the hottest in the country at 20%. Price growth in Otago and the West Coast has also been solid reflecting very low inventory levels. One possible fly in the ointment is the recent cooling in house activity in these regions, with July house sales data well behind year-ago levels. This data can be choppy though so we'll keep an eye on what happens over coming months.

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