

# Home Economics

March 2020

## Housing immunity about to be tested

- The NZ housing market got off to a flying start in early 2020.
- But COVID-19 has changed the game. The NZ economy is headed for recession, and we have slashed our house price inflation forecasts accordingly.
- We are now forecasting small house price declines for the next two quarters, and annual house price inflation to slow to zero by March 2021.

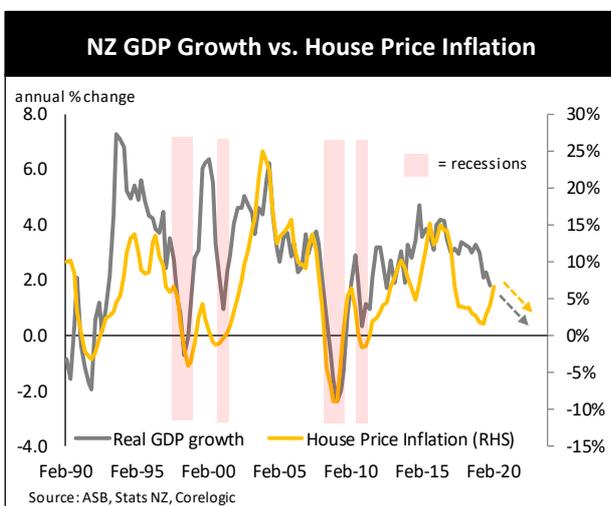
**Welcome to Home Economics, our regular wrap on all things NZ housing. If you're interested in signing up for future publications, you can do so [here](#).**

### Our view

The economic fallout from the coronavirus outbreak will have implications for NZ's property market. Both demand and supply are likely to take a knock. Demand is likely to tail off first and listings to follow as sellers pull back and await better conditions. The March quarter looks to have been a belter for house price inflation, but we now forecast small outright declines in house prices for the June and September quarters.

Our broader house price inflation forecasts have been slashed. We now expect annual house price inflation to slow to zero by March 2021 (+5.3% previously). It's worth bearing in mind that the last four times NZ experienced or skirted economic recession, annual house price inflation in NZ went negative (see Chart 'o' the Month). There are some cushioning effects this time around from current record-low mortgage rates (which could go even lower), a sturdy labour market, and a starting point of strong excess demand. But risks are nevertheless to the downside.

### Chart 'o' the Month



### Forecasts

ASB House Price Forecasts (annual % change)			
	June 20	Dec 20	End 2021
Auckland	5.1%	2.0%	4.0%
Christchurch	3.9%	1.1%	4.0%
Wellington	7.8%	2.5%	4.7%
Other Regions	6.5%	1.8%	4.4%
<b>National</b>	<b>5.9%</b>	<b>1.8%</b>	<b>4.2%</b>

## Recent developments

**Prior to the outbreak of COVID-19, NZ's housing market had built up a real head of steam.** The pace of activity had clearly lifted – monthly house sales over the past couple of months have been running about 10% above year-ago levels. And with listings still perplexingly low, the faster pace of sales was chewing up much of the remaining inventory sitting on the market.

NZ Housing Data		Feb-20	Month ago	Year ago
House Sales (s.a)	%mom	-1.6%	0.1%	-2.2%
	%yoy	9.2%	7.2%	-6.6%
House Prices (s.a)	%mom	2.0%	0.6%	0.4%
	%yoy	8.7%	7.0%	3.0%
Days to Sell (s.a)		28.7	34.0	39.9
New Listings (s.a)	%mom	0.1%	1.9%	-7.5%
Weeks of Inventory (s.a)		15	16	16

Sources: REINZ, realestate.co.nz

This imbalance between demand – boosted by tumbling mortgage rates, good wage growth, and the return of investor interest – coupled with anaemic supply (as we discussed in our recent [article](#)) saw markets in most parts of the country tighten up noticeably. Indicative of such, the national median number of days to sell a house fell to 28.7 in February, the lowest since the 2004 housing boom.

It's been a heady mix for house prices. Annual house price inflation climbed to 8.7% yoy in February, having been scratching around barely above 1% as recently as April of last year. The usual short-term indicators of house prices we look at – things like days to sell a house and sales-to-listings ratio – generally point to the upswing continuing.

### Except the game has now changed.

The disruptive effects associated with the containment of the COVID-19 outbreak will almost certainly tip both the NZ and global economies into recession. This backdrop of generalised economic uncertainty, plunging business and consumer confidence, doubts about employment prospects, and wealth and income declines will have implications for the property market.

The historical precedent, as described on page 1, is relatively clear. The impact of social distancing measures (will we continue to have open homes, public auctions?) presents an extra layer of uncertainty relative to past house price cycles.

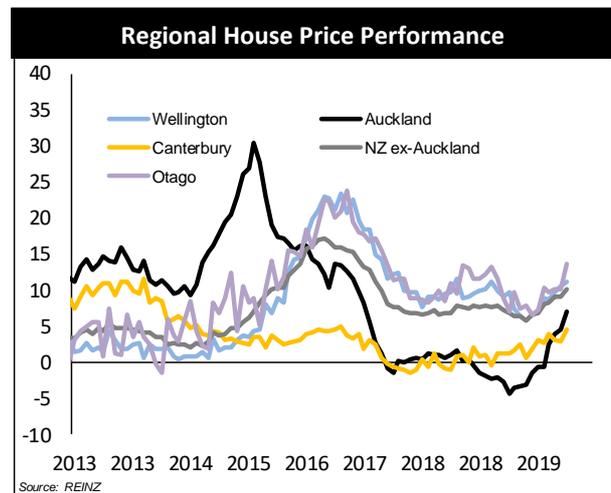
In the least it is likely we'll see the pace of housing activity/turnover throttle back, which will add to the downward pressure on prices.

All of this has seen us clip a full 5 percentage points off our annual house price forecasts, such that annual inflation is expected to slow to zero by March 2021. Further ahead, assuming the outbreak can be brought to heel and economic activity recovers, we expect house price inflation to turn higher from around Q4 of this year, driven largely by recent and likely future cuts to mortgage rates. However, given we're in the eye of the storm, longer-term forecasts should be taken with a grain of salt (we've already had to rewrite this note twice in three days). We have more confidence in our short-term, more negative, view.

## 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 (February data) are:

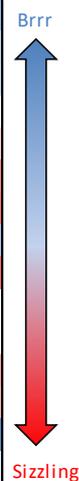
- **There hasn't been a lot of change in the regional 'hot or not' stakes** over the past few months. Auckland and Canterbury both remain at the frosty end of the spectrum, despite the rapid pickup in the (particularly Auckland) market of late. Rather than outright weakness in these markets, this more reflects the still perky



housing markets in many of the regions. Manawatu-Whanganui, Southland and Otago remain the hottest spots in the country, for both house price and rental appreciation.

- House price inflation in **Wellington** has leapt into double-digits over the past couple of months, running at 11.2%/y. However, some of the forward indicators of the Wellington market suggest caution. Sales growth has cooled noticeably and is running at -2.6% on a 3m/3m change basis. This, coupled with the COVID-19 effects noted above, has us forecasting a 0.7% fall in Wellington house prices in the June quarter, following a 3.7% qoq lift over March.
- More generally, the pace of housing activity (i.e. sales growth) in some parts of the country that have been running red hot– for example regions such as Nelson, Otago, Southland, and Waikato – has slackened off a little recently. This could be an early sign that these markets are starting to burn themselves out. Regardless, it is very likely that turnover will slow further in coming months as the economic crunch from COVID-19 disruptions hits home.
- **Canterbury** continues to underperform the national housing market upturn. House price inflation is running at ‘just’ 4.5% yoy, rents are actually falling on an annual basis, and the supply shortage in terms of new listings to the market is nowhere near as bad as other parts of the country.

ASB Regional Heatmap						
	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%3m/3m	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	5.4	6.9	3	0.1	3.1	-17%
Canterbury	3.0	4.5	2	-1.4	3.9	-25%
Wellington	-2.6	11.2	-6	7.5	3.8	-26%
Northland	-1.4	9.5	-2	4.1	3.9	-39%
Waikato	-5.4	10.0	-11	5.7	3.5	-48%
Hawke's Bay	4.8	14.8	-15	9.3	4.1	-65%
Bay of Plenty	3.9	6.6	-9	7.6	3.4	-68%
Gisborne	8.7	14.8	-7	7.2	4.0	-21%
Manawatu-Whanganui	1.2	21.5	-23	12.1	4.1	-71%
Taranaki	-4.4	13.4	-22	9.6	4.5	-36%
Nelson/Tasman	-7.1	8.1	-14	4.6	3.4	-35%
Marlborough	1.6	8.1	-12	10.0	3.8	-58%
West Coast S.I.	-1.9	8.1	-26	0.8	7.7	-55%
Otago	-6.0	13.6	-12	11.5	4.1	-7%
Southland	-6.5	22.9	-12	8.3	4.4	-30%



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

**ASB Economics & Research**

Chief Economist  
Senior Economist  
Senior Economist  
Senior Economist  
Senior Rural Economist  
Senior Economist, Wealth  
Data & Publication Manager

Nick Tuffley  
Jane Turner  
Mark Smith  
Mike Jones  
Nathan Penny  
Chris Tennent-Brown  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

(649) 301 5659  
(649) 301 5853  
(649) 301 5957  
(649) 301 5661  
(649) 448 8778  
(649) 301 5915  
(649) 301 5660

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