

Home Economics

October 2019

And so it begins

- The spring lift in NZ’s housing market we’ve been expecting appears to be upon us
- The Auckland market is looking far more sprightly, while hot regional markets have lost a little momentum
- We continue to expect nation-wide house price inflation to pick up to 5-6% yoy by mid-2020

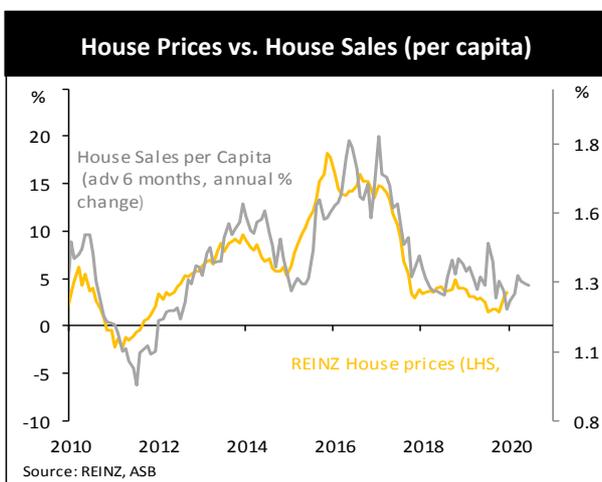
Welcome to Home Economics, our bimonthly wrap on all things NZ housing. Our intention is to provide a quick overview on recent goings on in the housing market, as well as our take on the outlook. If you’re interested in signing up for future publications, you can do so [here](#).

Our View

We continue to expect nation-wide house price inflation to pick up to 5-6% yoy by around the middle of next year (forecasts summarised below). Historically, NZ house prices cycles have been relatively sensitive to interest rates, and we expect recent sharp falls in mortgage rates to deliver a mini up-cycle in prices over the next year or so. Still-strong population and labour income growth will add support.

Still, even though mortgage rates are clearly the lowest they’ve ever been, there are some good reasons not to expect a good old fashioned housing boom of yore. First, housing policies targeting investor demand are acting as handbrakes on those parts of the market that previously featured a large investor component, like Auckland and Queenstown. We expect these regions to underperform the national average. Second, broader economic activity and population growth have slowed a little and are expected to slow further. Finally, there are signs housing supply is ramping up in some areas. From late 2020, we expect the housing upswing to top out as this additional supply gradually reduces the national housing shortage.

Chart ‘o’ the Month



Forecasts

ASB House Price Forecasts (June years, annual % change)			
	2019	2020	2021
Auckland	-3.1%	0.5%	1.0%
Christchurch	-0.5%	2.0%	1.2%
Wellington	6.6%	8.8%	2.4%
Other Regions	2.7%	9.3%	2.0%
National	0.9%	5.6%	1.6%

Recent Developments

We've long been calling a spring lift in NZ's housing market. We argued that mortgage rate cuts that began in earnest in autumn this year would start providing a boost to prices from around now, given it normally takes around six months for the impacts to be felt.

We've seen the first signs of this pick-up in the past few months, although it's more been a case of the market stirring than waking up with a start. The pace of house sales has clearly lifted from the glacial pace of the past six months as the Capital Gains Tax back-down and falling mortgage rates have emboldened buyers. On our favoured 3 month/3month percentage change basis, NZ housing turnover is up around 2%. A turnaround in the fortunes of the

Auckland market has been behind much of the turn in Nationwide activity. Monthly nation-wide house sales are now running around 8% above the recent March lows, with Auckland responsible for about 70% of this lift. A rapid recovery for sure, but we'd characterise it more as a return to normality than boom times.

Historically, a turn higher in house sales is the first sign of a cyclical upturn in the housing market. Prices typically follow with a lag (see Chart 'o' the Month above). However, we've seen prices start to rise a little earlier than we would have expected on the basis of these historical relationships. REINZ house prices have increased by a little over 1% in each of the past two months, with gains relatively broad-based across the country. We expect price rises to continue in coming months, but at a more measured pace.

There's been a couple of other developments that have confirmed to us the market has turned.

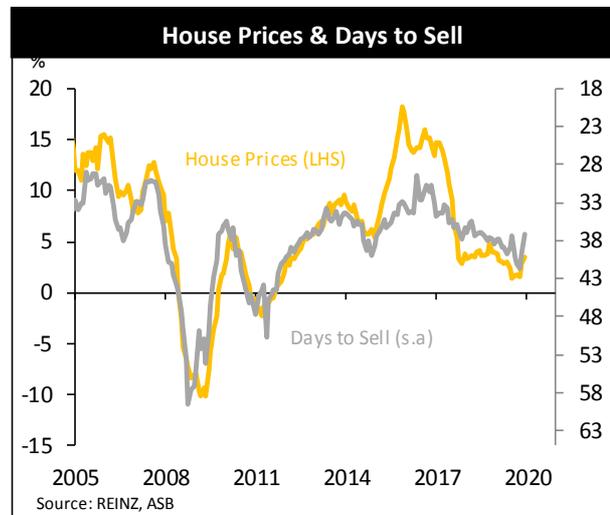
First, houses are selling faster. Nation-wide days to sell a house have been falling for the past four months and now stand at 37.2 days (s.a.) – the lowest in a bit over a year. Historically, this pace of sales is roughly consistent with national house price inflation in the 5-10% yoy range (see chart opposite).

Second, new listings have started to pick up (seasonally adjusted). Recall that inventory has been extraordinarily low this year as new listings have slowed to a trickle. But early signs of an increase in listings over the past few months suggest sellers are becoming encouraged by the improvement in market conditions. This bodes well for further recovery in housing activity in coming months.

The table on the following page summarises the direction and impact of key housing market drivers on our view.

NZ Housing Data		Sep-19	Month ago	Year ago
House Sales (s.a)	%mom	-0.3%	-0.5%	-2.2%
	%yoy	4.5%	-3.6%	-0.6%
House Prices (s.a)	%mom	0.9%	1.6%	0.4%
	%yoy	3.5%	2.9%	4.0%
Days to Sell (s.a)		37.2	39.7	38.3
New Listings (s.a)	%mom	3.7%	-3.6%	14.7%
Weeks of Inventory (s.a)		17	16	17

Sources: REINZ, realestate.co.nz



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 two quarter lead. Mortgage rates have been falling since March and are expected to remain under downward pressure.
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. We expect this to slowly 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 recent policies designed to limit offshore & investor demand have had a marked impact on parts of NZ's housing market. We expect the <i>magnitude</i> of this impact to slowly fade. We're also on watch for a possible watering down of the RBNZ's LVR restrictions in November.

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 (September data) are:

- **We might be seeing the first signs of a switching in momentum from the 'hot' regional housing markets back to the main centres.** House price inflation in regional hot spots like Gisborne, Hawke's Bay, Manawatu, and Southland is still holding at rates well into double-digits. But days to sell in these regions have increased a little and the pace of house sales has throttled back, in some cases rapidly, portending a slowdown in house price growth ahead.

We probably need another couple of months' worth of data to confirm this phenomenon is underway. Our constructive view on NZ's export performance (particularly dairy, sheep & beef, and horticulture) should continue to underpin regional economic growth.

	Sales (s.a)	Prices	Days to Sell	Rents		Inventory
	%3m/3m	%yoy	Dev from avg	%yoy	Yield (%)	Dev from avg
Auckland	10.8	-0.8	3	2.8	3.2	-9%
Canterbury	5.2	2.7	3	4.5	4.1	-25%
Wellington	-4.5	8.0	-6	10.1	3.8	-51%
Northland	-2.9	1.1	3	10.0	4.0	-60%
Waikato	-0.3	7.2	-13	6.0	3.6	-49%
Hawke's Bay	-5.3	13.4	-17	6.5	4.1	-69%
Bay of Plenty	7.8	6.0	-12	6.4	3.7	-64%
Gisborne	-13.4	13.4	-14	2.5	4.1	-74%
Manawatu	-6.5	15.9	-22	10.3	4.1	-65%
Taranaki	-1.3	11.1	-15	7.9	4.4	-28%
Nelson/Tasman	-4.6	8.5	-11	13.1	3.5	-40%
Marlborough	0.2	8.5	-9	10.9	4.3	-64%
West Coast S.I.	-5.1	8.5	21	5.8	7.6	-67%
Otago	-1.9	7.2	-15	6.0	4.3	-54%
Southland	-15.6	18.2	-13	12.9	4.4	-56%

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

- **Auckland** remains at the frosty end of the spectrum, but there has been a thawing in conditions relative to

July. House prices have now risen for five consecutive months, and days to sells are falling from elevated levels back toward normal levels (41.3 days currently vs. long-run average of 36). The rapid bounce-back in house sales (10.3% on 3m/3m change basis) suggests these metrics will continue to improve in coming months.

- The re-strengthening we've been picking for the **Wellington** housing market appears to be underway. Days to sell a house in Wellington have fallen back to below average levels (32 days, s.a.) and house price inflation has picked up to 8% yoy from 5.8% in July.
- **Canterbury** remains something of a laggard in the housing market stakes. Similar to the national average, it appears the market troughed in the autumn. It has stabilised since but the recovery has not been nearly as energetic as in Auckland. As noted in our last *Home Economics* edition, a ramp-up in housing supply appears part of the story. Indeed, the market appears to be roughly in balance (in contrast to Auckland's housing shortage), as reflected in lower-than-average rental price inflation.
- We've made a couple of minor changes to our house price forecasts to take into account the above dynamics. Our key call for nationwide house price inflation to rise to 5-6% yoy by mid-2020 remains unchanged. Within that, we've lifted slightly our forecasts for Auckland prices and shaded down a touch the extent of the expected Wellington upturn.

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
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
mike.jones@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
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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