

Housing Confidence

Three months to July

August 2017



Housing slowdown reflected in price expectations

- Slower housing market activity and house price growth have weighed on expectations for higher house prices.
- Interest rate expectations steadied, in line with the interest rate outlook.
- Respondents still think it's a bad time to buy a house, but less so than in the previous quarter.

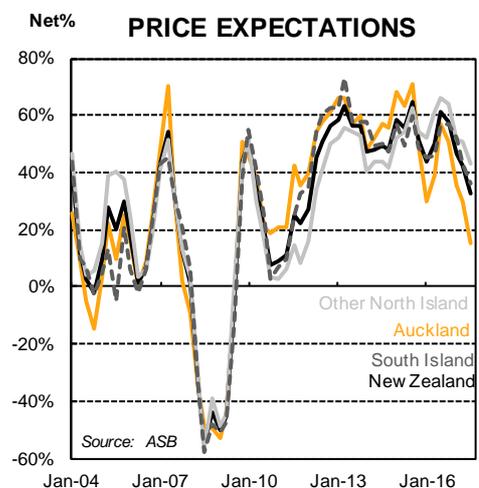
Summary

Net house price expectations hit a 5 ½ year low in the three months to July according to the latest ASB Housing Confidence Survey.

Auckland respondents remain the driving force behind this move, with only a net 15% of respondents in Auckland expecting house prices to lift; the lowest level in 8 years. However, this was not an Auckland-only phenomenon, with a lower proportion of respondents across NZ expecting house price gains over the next 12 months.

This quarter's price expectations no doubt **reflect the fact that house sales volumes have been amongst the lowest since 2014**. Subdued sales activity has coincided with New Zealand house price growth slowing sharply over 2017 and house prices have even fallen slightly in some regions (Auckland and Christchurch). This slowdown is in part due to the **RBNZ's 2016 macro-prudential measures**.

Although the majority of respondents still think now is a *bad* time to buy a house, **fewer respondents view the market as negatively as they did last quarter**. Again, Auckland respondents are driving this trend. With house prices falling slightly in Auckland, it's perhaps understandable that this quarter saw the fewest respondents in three years thinking it's a bad time to buy. Tempered interest rate expectations may have also influenced respondents' views on whether or not it was a good time to buy a house.



ASB Housing Confidence Survey (Source: Camorra)

| Net percent who believe (3 months to July 2017) ... | Good time to buy a house | House prices will increase | Interest rates will increase |
|---|--------------------------|----------------------------|------------------------------|
| Auckland | -12% | 15% | 41% |
| Rest of North Island | -16% | 43% | 49% |
| Canterbury | -6% | 26% | 45% |
| Rest of South Island | -13% | 48% | 52% |
| TOTAL NZ | -13% | 32% | 46% |
| <i>Compare 3 months to April 2017</i> | <i>-17%</i> | <i>42%</i> | <i>51%</i> |

House price expectations continue to ease

House price expectations hit a 5 ½ year low in the three months to April. Net price expectations fell across NZ, but most acutely in Auckland. A net 15% of respondents expect higher house prices over the next 12 months in Auckland – an 8-year low. A breakdown of the net quarterly figure for New Zealand is as follows:

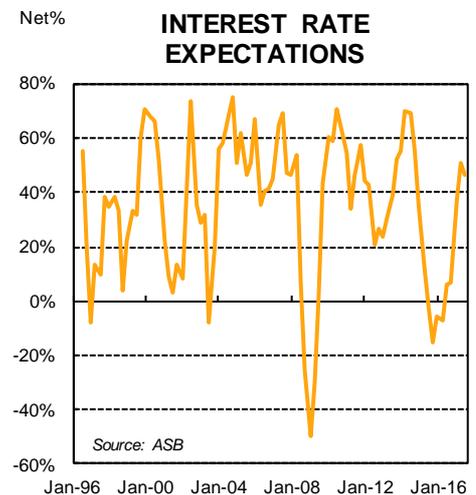
- 47% of respondents to the ASB survey expect higher house prices, while 14% expect house prices to fall (was 53% and 11% last quarter);
- On balance, a net 32% expect higher house prices (was 42% last quarter);
- 26% expect no change (was 22%); while 13% don't know (was 13%).

The housing market has cooled substantially in the past 12 months, a fact that is no doubt impacting on these results. Looking at the details, price expectations fell most in Auckland, followed by Christchurch – the two regions where prices have recently fallen. House price expectations outside of Auckland and Christchurch remain more upbeat, largely reflecting the fact that price gains in most other regions have moderated, rather than fallen. Given that market conditions are likely to remain soft over the next few quarters, we anticipate even fewer respondents will expect house price gains in the next Housing Confidence survey.

Interest rate expectations steady

Ultimately, respondents still see higher interest rates ahead, according to the latest ASB Housing Confidence Survey, albeit to a slightly lesser extent than in April. Although interest rate expectations moderated slightly in the 3 months to July, they remain near recent highs. A breakdown of the net quarterly figure shows:

- 50% expect higher interest rates over the coming year, while 3% expect lower interest rates (54% and 3% last quarter);
- The difference being the 47% plotted opposite (was 51% last quarter);
- 24% expect rates to stay the same (20%); while 23% don't know (23%).



Although mortgage and term deposit rates lifted off their lows in late 2016/early 2017, interest rates have been largely steady recently. For one, the RBNZ continues to signal that interest rate hikes are a long way off. Further, question marks over the pace of future US Federal Reserve rates hikes have reduced some of the upward pressure on US interest rates. Pressures on bank funding have also alleviated slightly as deposit growth has stabilised while lending growth has slowed. On balance, respondents are likely to continue expecting interest rates to be flat to higher over the next few years as we gradually leave this period of historically-low interest rates behind us.

A better, but still not a good, time to buy a house

Fewer respondents considered it a bad time to buy in the latest ASB Housing Confidence Survey. This reduction in negative sentiment was felt across NZ, but was most pronounced in Auckland. Breaking down the net quarterly figure:

- 12% say it is a good time to buy, while 25% say it is a bad time (was 11% and 28% last quarter);
- The difference is a net -13% (was -17% last quarter) i.e. a net 13% say it's a bad time to buy;
- 50% say it is neither good nor bad (was 47%) and 13% don't know (14%).

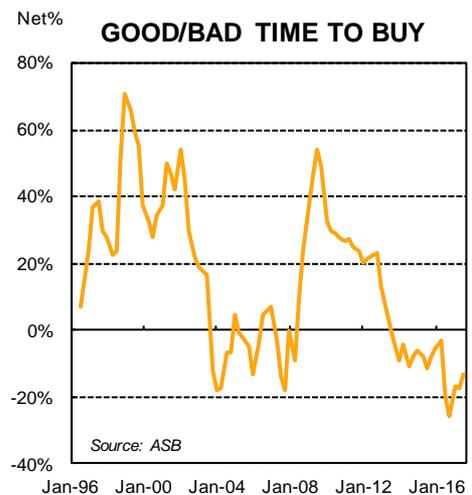
Those thinking it's a bad time to buy eased the most in Auckland where a net 12% think it's a bad time to buy (the lowest since April 2014), down from a net 19% in the three months to April. This was also the first quarter since July 2013 in which Auckland wasn't the region with the weakest sentiment. Although softening house prices appear to have tempered some of the recent pessimism, affordability constraints will limit how 'good' people feel about buying

a house in Auckland for some time.

The number of respondents who thought it was a bad time to buy also fell in Christchurch. The Christchurch housing market is oversupplied and, as mentioned earlier, house prices have fallen slightly to reflect this. Outside of Auckland and Christchurch, the housing market has cooled but not to the same degree. In fact, some hot spots (such as Wellington) remain. These dynamics could explain why pessimism did not reduce as much throughout the rest of New Zealand as it did in Auckland and Christchurch.

In summary

- Expectations of higher house prices hit a five and a half-year low, reflecting the softer housing market.
- Respondents' interest rate expectations were largely unchanged. Interest rates are expected to gradually grind higher over the next few years.
- Most respondents still see it as a bad time to buy, but less so than in the previous quarter. Auckland is no longer the most pessimistic region, likely reflecting the recent softening in Auckland house prices.



Additional housing commentary

For more commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Housing Confidence](#) (this report)
- [Home Loan Rates](#)
- [Weekly Economic Reports](#)
- [Home Economics](#)

For general reference, ASB economic reports can be accessed from [here](#).

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|--|---------------------|--|-----------------------------|
| ASB Economics & Research | | | Phone |
| Chief Economist | Nick Tuffley | nick.tuffley@asb.co.nz | (649) 301 5659 |
| Senior Economist | Mark Smith | mark.smith4@asb.co.nz | (649) 301 5657 |
| Senior Economist | Jane Turner | jane.turner@asb.co.nz | (649) 301 5853 |
| Senior Rural Economist | Nathan Penny | nathan.penny@asb.co.nz | (649) 448 8778 |
| Senior Economist, Wealth | Chris Tennent-Brown | chris.tennent-brown@asb.co.nz | (649) 301 5915 |
| Economist | Kim Mundy | kim.mundy@asb.co.nz | (649) 301 5661 |
| Data & Publication Manager | Judith Pinto | judith.pinto@asb.co.nz | (649) 301 5660 |
| www.asb.co.nz/economics | | | @ASBMarkets |

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