

## Price expectations continue to cool

- Slower housing market activity and house price growth have weighed on expectations for higher house prices.
- Interest rate expectations continue to climb higher.
- Respondents still think it's a bad time to buy a house, with pessimism growing in all regions but Auckland.

### ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to April 2017) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-19%	30%	45%
Rest of North Island	-19%	51%	53%
Canterbury	-10%	32%	53%
Rest of South Island	-15%	56%	53%
<b>TOTAL NZ</b>	<b>-17%</b>	<b>42%</b>	<b>51%</b>
<i>Compare 3 months to January 2017</i>	<i>-17%</i>	<i>46%</i>	<i>37%</i>

**Price expectations continue to fall around New Zealand, according to the latest ASB Housing Confidence Survey.** Over 2017 so far, housing market activity has continued to slow as a result of the tighter lending standards imposed by the RBNZ. Further, slowing housing activity has seen house price growth ease (or fall slightly) in a number of regions. **As a result, ongoing weak housing market activity has undoubtedly continued to weigh on respondents' house price expectations this quarter.** Interestingly however, the sharpest drop in respondents expecting house price gains was Christchurch. Christchurch's housing market is rebalancing after a surge of supply following the earthquakes, which has resulted in subdued house price growth in the city.

Overall, the majority of respondents continue to think now is a *bad* time to buy a house. **While price expectations may have dipped, historically-high house prices, higher deposit requirements and expectations for further interest rate increases are likely to be weighing on sentiment.**

### Fewer people are expecting house prices to rise

The number of people expecting higher house prices fell to the lowest level in 5 years in the three months to April. Expectations of higher house prices eased in all regions, but were most pronounced in Christchurch. A breakdown of the net quarterly figure for New Zealand is as follows:

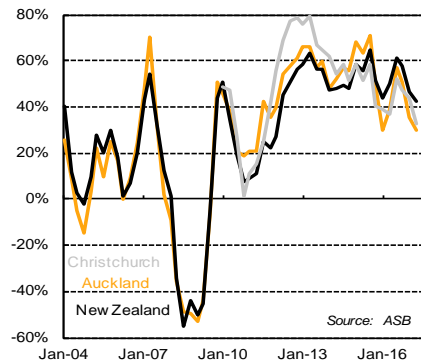
- 53% of respondents to the ASB survey expect higher prices, while only 11% expect prices to fall (was 56% and 10% last quarter);
- On balance, a net 42% expect higher prices (was 46% last quarter);
- 22% expect the same (was 20%); while 13% don't know (was 14%).

Overall, the drop in respondents expecting house price gains likely reflects the recent tightening in lending standards, which has slowed housing market activity. However, the sharper dip in net house price expectations in Christchurch (from 44% to 32%) is likely exacerbated by the housing market rebalancing following the earthquakes. High levels of residential construction in Christchurch have significantly reduced the housing shortage caused by the earthquakes and as a result, Christchurch house price growth has been tepid recently.

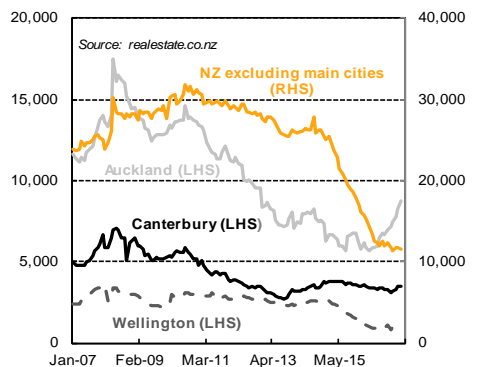
### Higher interest rates on the horizon

More respondents are expecting interest rates to climb higher, according to the latest ASB Housing Confidence Survey. For the first time since October 2014, over 50% of respondents expect interest rates to rise. A breakdown of the net quarterly figure is:

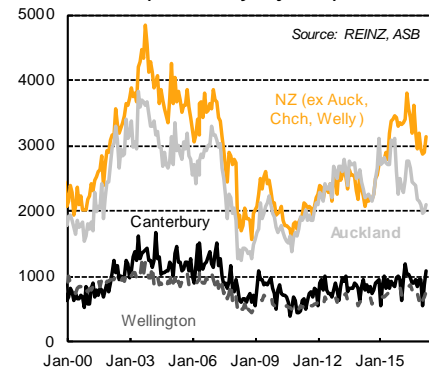
### PRICE EXPECTATIONS



### TOTAL INVENTORY



### MONTHLY DWELLING SALES (seasonally adjusted)



- 54% expect higher interest rates over the coming year, while 3% expect lower interest rates (was 43% and 6% last quarter);
- The difference being the 51% plotted opposite (was 37% last quarter);
- 20% expect rates to stay the same (26%); while 23% don't know (25%).

As we saw in last quarter's results, mortgage and term deposit rates have lifted off their lows recently. Bank funding dynamics have also muddled the relationship between the OCR and short-term interest rates, and the last two OCR cuts were not fully passed through to mortgage rates. Further, the election of Donald Trump, and recent interest rate increases by the US Federal Reserve have seen US interest rates lift, which has lifted New Zealand's longer-term interest rates.

We expect the RBNZ to leave the OCR on hold until late 2018, which should provide an anchor to short-term rates. However, funding issues and offshore rate increases have seen interest rates creep higher over the past 6 months.

**Still a bad time to buy, but how bad depends on where you are**

Overall, sentiment around whether or not it's a good time to buy a house remained unchanged in the latest ASB Housing Confidence Survey. However, this masks regional moves, with pessimism in Auckland easing but deepening elsewhere. Breaking down the net quarterly figure:

- 11% say it is a good time to buy, while 28% say it is a bad time (was 12% and 28% last quarter);
- The difference is the net -17% plotted opposite (was -16% last quarter);
- 46% say it is neither good nor bad (was 42%) and 14% don't know (13%).

Most respondents continue to think that it's a bad time to buy a house. Sentiment outside of Auckland became increasingly negative, likely due to the combination of relatively high house prices, higher deposit requirements and expectations of further interest rate increases.

In Auckland, the majority of people continue to view it as a bad time to buy a house. Auckland is no different to the rest of the country in that it is also being impacted by high house prices, high deposit requirements and expectations of further interest rate increases to come. However, respondents were actually *less* pessimistic about whether or not it was a good time to buy than in the three months to January (a net -19% compared to -27% last quarter). The fact that pressures in the Auckland property market have eased more than other markets recently, might explain the dip in pessimism this quarter.

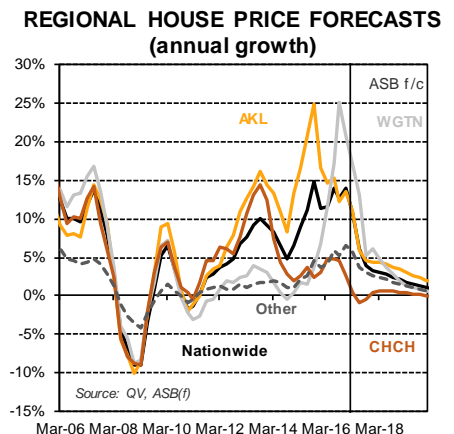
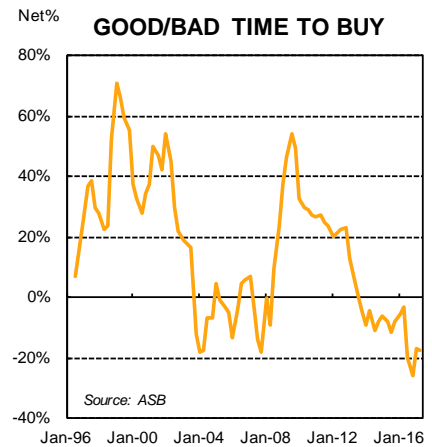
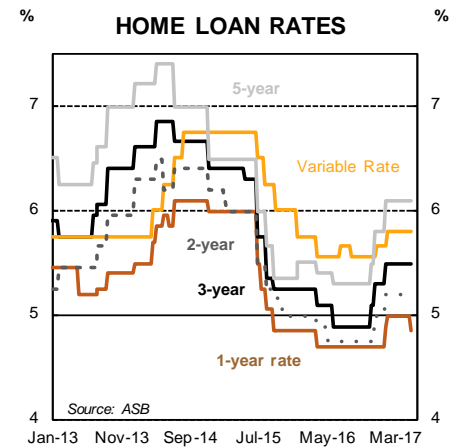
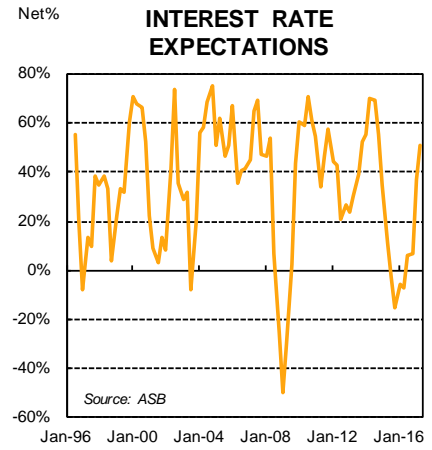
**In summary:**

- Expectations of higher house prices continued to ease in the three months to April. Tighter lending conditions have slowed housing market activity and house price growth.
- Respondents see more interest rate increases on the horizon. While we expect the RBNZ to leave the OCR on hold until late 2018, funding pressures and offshore interest rates could see NZ mortgage rates creep higher.
- On balance, most respondents still see it as a bad time to buy, and more unfavourable than in the previous quarter. High house prices, expectations for further interest rate increases and high deposit requirements continue to weigh on buyers' sentiment.
- However, respondents in Auckland are less pessimistic than last quarter. This could reflect the fact that pressures have eased in the Auckland housing market recently.

**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, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".

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