

Housing Confidence

Three months to January

February 2019



Cautious cheer for buyers as Year of the Pig begins

- House price expectations slipped slightly again in the three months to January, though respondents were still more bullish than they were 12 months ago in the aftermath of the 2017 election.
- Interest rate expectations continue to decline significantly, remaining at two-year lows.
- For the first time in more than five years, a plurality think it's a good time to buy – but only by a whisker.

Summary

House price expectations slipped again, according to the latest ASB Housing Confidence Survey – though the decline was less dramatic than in the October quarter. With a net 23% of respondents anticipating price increases, expectations are still higher than at this time last year, when the figure hit 16%. Expectations are lowest in Auckland, where just a net 8% expect house prices to rise.

Interest rate expectations continued their descent, declining in every region of the country. This is the second quarter in which interest rate expectations have fallen, beginning in August when fixed-term mortgage rates started to fall. With core inflation seemingly on the low side, we expect that RBNZ will hold off on any OCR hikes for a considerable period. Given these factors, it is unsurprising that fewer Kiwis are anticipating higher mortgage rates.

By a margin of 1%, more respondents say it's a good time to buy than a bad time – though Canterbury remained the only region with a net positive result, pushing up the total for the rest of the country. Nevertheless, other parts of the country have also grown less pessimistic, with net sentiment in Auckland at a six-year high. This is the first time in five-and-a-half years that optimists have outnumbered pessimists in our survey, but the change is not unexpected given optimism has been slowly rising for the past eight quarters. The trend has likely been driven by a combination of slower house price growth across much of the country and favourable interest rate movements, as well as the perception that recent regulatory and tax changes are likely to dampen competition from property investors.

ASB Housing Confidence Survey			
Net percent who believe (3 months to January 2019) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	0%	8%	14%
Rest of North Island	-2%	32%	13%
Canterbury	12%	18%	13%
Rest of South Island	-1%	43%	15%
TOTAL NZ	1%	23%	14%
<i>Compare 3 months to Oct 2018</i>	-2%	26%	26%

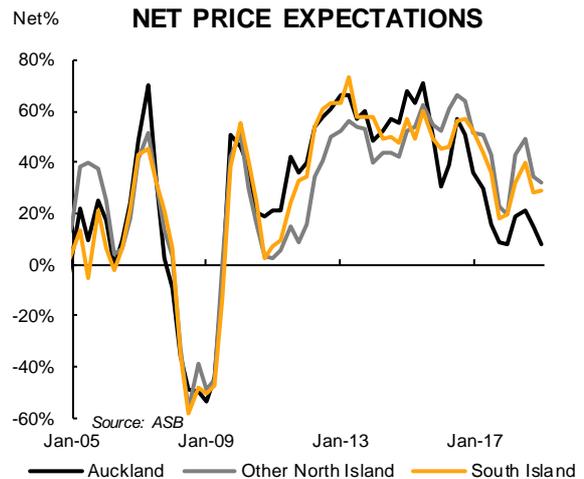
Source: Camorra

Price Expectations: New Year kicks off with a modest dip

The net balance of respondents expecting higher house prices over the next year dipped slightly to 23% in the most recent survey, below the long-term average of 28%. A breakdown of the nationwide figures for the most recent quarter showed:

- 40% of respondents to the ASB survey expect higher prices, while 17% expect prices to fall (it was 42% and 16% last quarter);
- On balance, a net 23% expect higher prices (was 26% last quarter);
- 28% expect no change in prices (29% last quarter), while 15% don't know (was 13%).

House price growth expectations shifted unevenly during the quarter, falling significantly in Auckland and dipping slightly in rest of the North Island, but ticking up by a whisker in the South Island. As in the previous quarter, price growth expectations are softest in Auckland and Christchurch, reflecting falling and flat price growth in the two centres, respectively. Expectations in the City of Sails are especially low – just a net 8% expect prices in Auckland to rise, the joint-lowest figure we have seen in nine-and-a-half years.



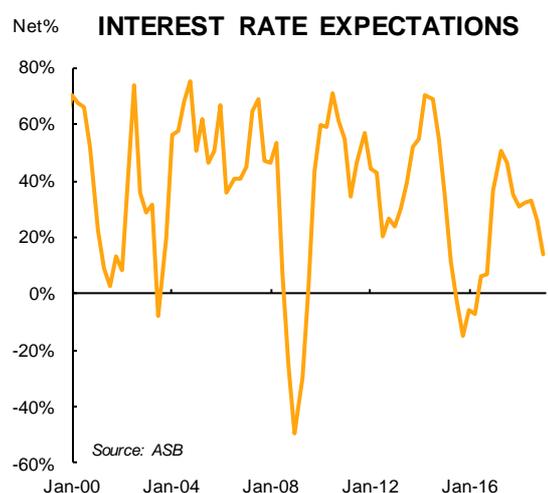
This is the first full quarter since the Overseas Investment Amendment Bill came into force toward the end of October. The legislation placed new restrictions on property purchases by foreigners, dampening demand in the housing market. As highlighted in our last update, we believe respondents may be factoring this into their house price expectations.

Rate Expectations: Another sizeable decrease

The net balance of respondents anticipating higher interest rates continues to decrease significantly; even as a plurality continue to say they expect rates to rise. A breakdown of the net quarterly figures shows:

- 26% expect higher interest rates over the coming year, while 12% expect lower interest rates (was 33% and 7% last quarter);
- On balance, a net 14% expect higher interest rates, down significantly from the 26% figure in October;
- 35% expect interest rates to stay the same (36%), while 26% don't know (25%).

Interest rate expectations fell nationwide for the second consecutive quarter. All four regions experienced a decrease of similar magnitude, though the fall was most pronounced in Canterbury.



Nationwide, 12% of respondents say they expect rates to fall in the next 12 months; a two-year high (was 7% in the three months to October).

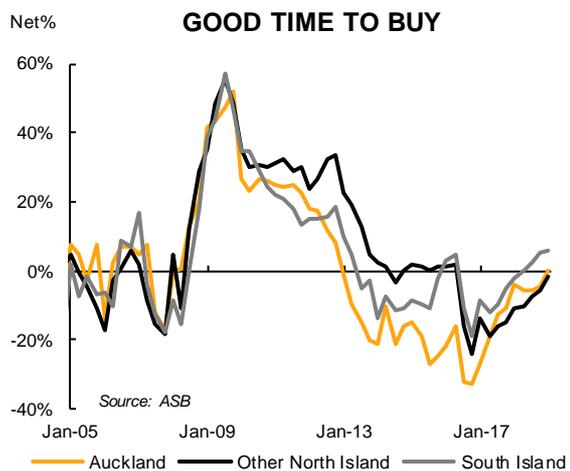
The past two quarters of lower interest rate expectations reflect the dip in fixed mortgage rates we saw towards the end of last year and a growing perception that higher interest rates are increasingly distant. The Reserve Bank’s recent ‘dovishness’ is a key influence here. We expect that the RBNZ will hold off on any OCR increase for some time to come given stubbornly low inflation pressures look set to remain. We do note that proposed new bank capital requirements may trigger some upward movement in mortgage rates over the longer term, even in the absence of any OCR increase.

Buying Sentiment: Canterbury helps optimists take the lead

After two years of (gradually) improving sentiment, more respondents say it’s a good time to buy a house than a bad time. This is the first quarter in five-and-a-half years where the figure has been positive. Notably, the proportion of those saying it’s a bad time to buy has fallen to a recent low of just 16%. Breaking down the nationwide figure shows:

- 17% say it is a good time to buy, while 16% say it is a bad time (was 16% and 19% last quarter);
- The difference is a net 1% (was -2.5% last quarter);
- 51% say it is neither good nor bad (no change), and 15% don’t know (13%).

As the only one of our four regions where more respondents said it was a good time to buy than a bad time, Canterbury maintained its dominance as the most optimistic part of the country, tipping the nationwide balance from red to black. By a net 12%, Cantabrians said that now was a good rather than a bad time to buy, similar to last month’s high of 13%.



Whilst sentiment in the other parts of the country was more restrained, there was a clear trend towards greater buyer optimism. In Auckland, there were an equal number of pessimists and optimists – a six-year high in sentiment. Auckland is one area of the country where inventory has been growing recently, which may be cheering buyers.

On balance, respondents in the rest of the North Island and the South Island still felt it was a bad time to buy, but by narrow margins of net -2% and -1%. Both figures have been trending upwards over the past 18 months and could move into positive territory if interest rate expectations continue to trend downwards and price growth remains subdued. The introduction of the Overseas Investment Amendment Bill and changes to ring-fencing laws may also be convincing Kiwis that the government is serious about boosting owner-occupiers at the expense of investors.

Outlook:

Moving forward, we expect interest rates to remain reasonably low by historical standards, supporting the housing market and bolstering continued optimism amongst prospective buyers. The OCR is likely to remain on hold until 2021. Nevertheless, we expect mortgage rates will still gradually tick upward given proposed increases in bank capital requirements have the potential to increase the cost of funds.

We currently project mortgage rates will rise by only around 100 basis points in the next three years, which is quite low compared to the historic norm. If economic growth, wage inflation and other inflationary pressures continue to underperform expectations, then interest rate increases could be even more gradual and milder.

Besides relatively low rates, a number of other factors will give buyers some additional cheer. The loosening of loan-to-value ratio restrictions from January 1st will provide some support for buyers, as will continued household income growth (though prices are still quite high relative to incomes). Net migration remains high – a key driver of house price growth – but has been slowing over recent periods.

Still, the outlook for buyers is not universally positive across the country. In Wellington, the housing market remains extremely tight, with new listings relatively low and a dearth of choice for prospective buyers. Whilst some signs of cooling have been evidenced in the capital, we expect prices in Wellington to continue rising over 2019.

By contrast, prices in the Auckland market looks set to remain fairly flat. With a larger number of houses coming available for sale, buyers look set to have more choice and are under less pressure to snap up property as soon as it comes on to the market. Prices will remain somewhat supported given housing supply has not kept up with demand in recent years, but we expect slowing population growth and elevated construction levels should help reduce the shortage moving forward.

We also expect the market in Canterbury to remain broadly balanced, and would not be surprised if it continues to be the most optimistic region (from a buyer's perspective) in the months to come.

In summary

- House price expectations dipped slightly in the three months to January 2019, though the shift did not happen evenly across the country. Aucklanders are the least bullish, with a net figure of just 8% expecting house prices to rise (an almost 10-year low).
- Respondents' interest rate expectations continued to fall significantly across all regions in light of recent 'dovishness' from the RBNZ.
- For the first time in more than five years, optimists outnumber pessimists on the question of whether now is a good time to buy or not. Canterbury remains the most positive part of the country (and the only one of the four regions where sentiment is net-positive), but optimism is also recovering in other parts of the country, with Auckland sentiment at a six-year high.

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, 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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