

Housing Confidence

Three months to January

March 2020



Housing confidence to be tested

- Confidence in rising house prices hits the highest level in three years...
- ...knocking back perceptions of whether it's a good time to buy.
- Expectations on whether interest rates would fall again were dialled back. But recent events suggest lower rates are on the way once again.

Summary

House price expectations rose over the three months to January 2020, for the third straight quarter. Expectations are now well above “average” levels, as house price expectations in Auckland have caught up to the already lofty levels prevailing in the rest of the country. **Alongside rising house price expectations, it appears housing affordability has taken a knock.** The trend improvement in house-buying sentiment of the past few years was brought to a halt in Q4. A net 9% of respondents now say it is a good time to buy a house, down from a net 13% last quarter.

Respondents’ interest rate expectations have been wrong-footed several times over the past year thanks to volatility in the global and local economies and some mixed signals from the RBNZ. **Respondents adopted a “neutral” bias in the three months to January with a net 0% expecting rates to rise**, a big increase from the net 31% of respondents expecting rates to fall in Q3. Of course, expectations look set to be whip-sawed again next quarter following the outbreak of the coronavirus and increasingly synchronous response by the world’s monetary authorities. We now expect the RBNZ to lower interest rates in both the March and May meetings, and would not rule out a large 50bps cut at some stage.

ASB Housing Confidence Survey			
Net percent who believe (3 months to January 2020) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	11%	42%	-5%
Rest of North Island	5%	63%	2%
Canterbury	27%	46%	-3%
Rest of South Island	-2%	62%	5%
TOTAL NZ	9%	54%	0%
<i>Compare 3 months to October 2019</i>	13%	27%	-31%

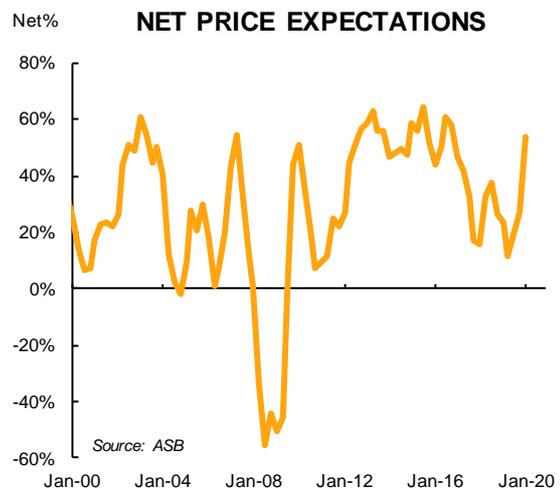
Source: Camorra

Price Expectations: Above average

The net balance of respondents expecting house prices to increase over the next year continued to rise in the three months to January, building on last quarter's bounce. A net 54% of respondents now expect higher prices over the next year, a near doubling of the prior quarter's net 27%.

The increase in expectations was by far the largest in Auckland. Net price expectations in Auckland rocketed from a net 2% to a net 42%. All the other regions covered in the survey experienced increases, but on a more measured scale. North Islanders (ex-Auckland) remain the most optimistic on the house price front, with a net 63% of respondents expecting house prices to rise over the coming year.

The continued lift in house price expectations is very much consistent with our own reading of the NZ housing market tea leaves. Housing demand is running hot on the back of the large falls in mortgage rates we've seen over the past year, and the cancellation of the Capital Gains Tax in April. At the same time, the [supply of new listings](#) to market has remained fairly anaemic. House prices are squeezing higher as a result. The recovery in the Auckland market has been particularly noticeable. Prices there are up 5% since April, joining already bubbling regional housing markets.



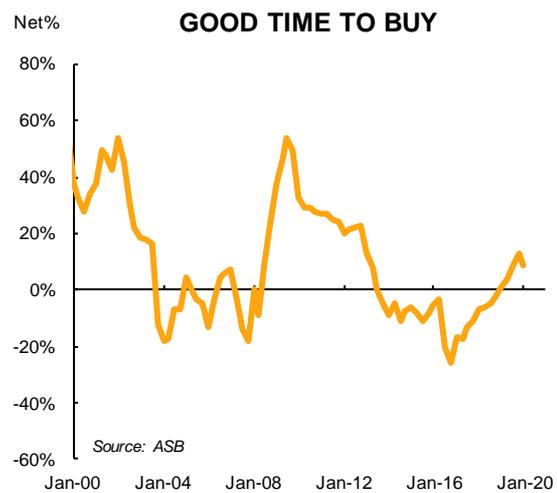
Buying Sentiment: Affordability back under pressure

The trend improvement in buying sentiment of the past few years was brought to a halt in the three months to January. A net 9% of respondents say it is a good time to buy a house, down from a net 13% last quarter. In terms of the details:

- 22% say it is a good time to buy, while 13% say it is a bad time (was 27% and 13% last quarter);
- 53% say it is neither good nor bad (49% previous), and 13% don't know.

House buyers in Canterbury remain the most optimistic across NZ, with a net 27% believing now is a good time to buy (unchanged from last quarter). Auckland and South Island (ex-Canterbury) respondents' perceptions

of whether it is a good time to buy took the biggest knock this quarter, falling 6 percentage points and 8 percentage points respectively. South Islanders are the only group that believe it is an outright bad time to buy.



Perceptions of whether it's a good time to buy are generally inversely related to rates of house price inflation. Thus, the fact that buyer perceptions suffered a setback this quarter is not particularly surprising. Despite strong wage growth and record low interest rates, housing affordability is clearly under pressure again thanks to rising house prices.

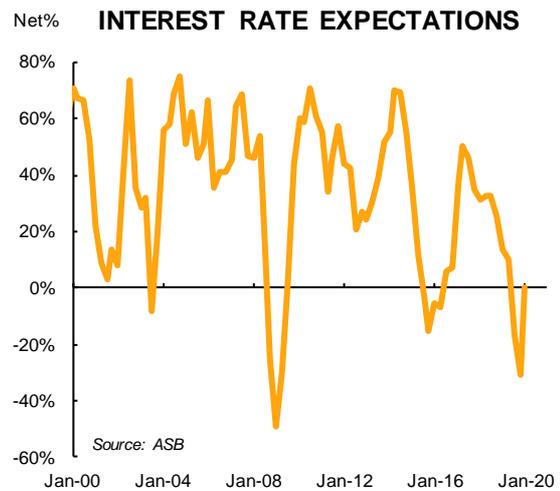
Rate Expectations: Whipsawed again

Interest rate expectations bounced aggressively in the three months to January. This followed the RBNZ's surprise "no

change” decision in November. The subsequent rebound in NZ economic momentum in the months following largely vindicated the RBNZ’s decision and led most market participants to believe (up until recently!) the RBNZ would not have to lower interest rates again. Our survey seems to have effectively picked up on this vibe.

A net 0% of respondents expected interest rates to increase in Q4, a big increase from the net 31% of respondents expecting interest rates to fall in the Q3 survey. A breakdown of the net quarterly figures shows:

- 20% expect higher interest rates over the coming year and 20% expect lower interest rates (was 12% and 43% last quarter);
- Aucklanders remain the most negative on interest rates, with a net 5% expecting rates to drop (albeit a big increase from a net 38% expecting rates to drop last quarter).
- 38% expect interest rates to stay the same (28% in Q2), while 22% don’t know (17%).



It’s been a fairly volatile period for the NZ public’s interest rate expectations over the past year. Volatility in the global and local economies and some mixed signals from the RBNZ have wrong-footed folk a few times. Respondents’ expectations look set to be whip-sawed again next quarter following the outbreak of the coronavirus and increasingly synchronous response by the world’s monetary authorities. We now expect the RBNZ to lower interest rates in both the March and May meetings, and would certainly not rule out a large 50bps cut from the RBNZ in March.

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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