Housing Confidence

Three months to July

August 2019

Home Comforts

- Housing confidence is tentatively turning higher. All three of our key confidence measures we monitor show respondents are feeling more positive about housing relative to the situation three months ago.
- This sentiment broadly matches the nascent signs of a turning we've seen in other housing data.
- House price expectations crept higher, interest rate expectations fell sharply, and more people believe now is a good time to buy a house.

Summary

House price expectations rose over the three months to July. All regions experienced an increase in price optimism although Aucklanders remain down-beat overall, with a net 3% still expecting prices to fall. House-buying sentiment also continued its trend improvement of the past few years. A net 9% of respondents now say it is a good time to buy a house. This is the most positive reading since January 2013. Mild improvements in affordability have no doubt been a driver. Wage growth has picked up alongside flat/falling house prices in Auckland and Canterbury.

It appears the general public got the hint on interest rates. Respondents' interest rate expectations flipped from the majority expecting rates to increase last quarter, to a net 10% expecting them to fall. The RBNZ will be pleased the message is now getting through, following a few communications wobbles earlier in the year.

Lower interest rates were duly delivered. The RBNZ cut the Official Cash Rate (OCR) 25bps in May and 50bps in August, to 1.00%. There's more to come; we expect another 25bps cut in November. The attendant falls in mortgage rates are a key part of our view for a pick-up in house price inflation over the next 6-9 months.

ASB Housing Confidence Survey			
Net percent who believe (3 months to July 2019) …	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	13%	-3%	-13%
Rest of North Island	5%	30%	-8%
Canterbury	18%	24%	-9%
Rest of South Island	-1%	40%	-11%
TOTAL NZ	**9%**	**20%**	**-10%**
Compare 3 months to April 2019	4%	11%	10%

Source: Camorra

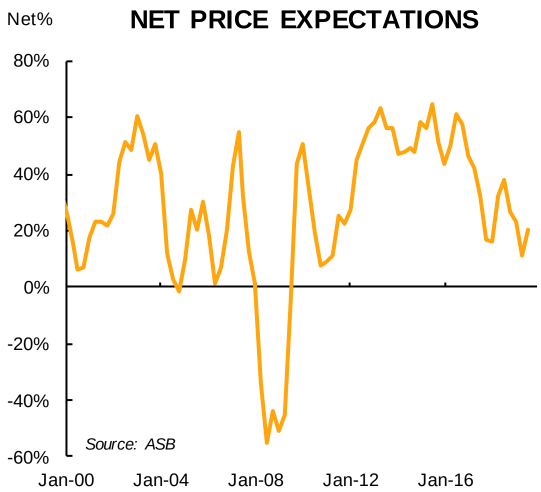
Mike Jones – Senior Economist – (649) 301 5661 mike.jones@asb.co.nz
Nick Tuffley – Chief Economist – (649) 301 5659 nick.tuffley@asb.co.nz

Please refer to the important disclosures at the end of this document.

Price Expectations: Cautiously Optimistic

The net balance of respondents expecting house prices to increase over the next year bounced in the three months to July, arresting the decline of the prior three quarters. A net 20% of respondents now expect higher prices over the next year, well up on April's 11%. Still, households remain cautious. Despite the July bounce, price expectations are still below the post-2000 average of net 28% and well back from the 50-60% boom years of 2013-2016.

Regional data show the lift in price expectations was relatively widespread, although the South Island experienced the biggest lift. Net price expectations rose by 14% in Canterbury to 24%, and by 13% across the rest of the South Island to 40%. A net 3% of respondents still expect prices to fall in Auckland, but the extent of negativity has reduced from the net 12% expecting price declines three month ago.



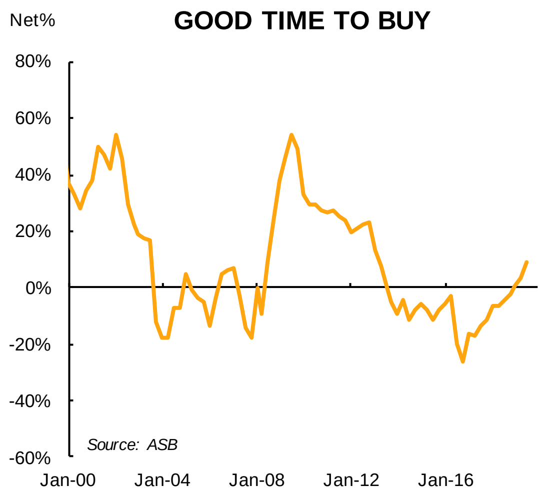
The mild lift in house price expectations is consistent with some of the other housing indicators we monitor that are suggesting the housing market may be slowly turning a corner. Housing turnover is showing tentative signs of picking up after months of anaemic activity. House prices have also stopped falling and inventory measures have generally tightened.

Since the April confidence survey was taken the Government has staged a widely-publicised back-down on its plans to impose a capital gains tax on residential investment properties, and mortgage interest rates have hit all-time lows. These are powerful tailwinds for the property market and, if anything, might have been expected to lift confidence by a little more than the July numbers suggest. The fact that they didn't most likely reflects caution about the state of the economic cycle and business confidence, as well as the hand-braking effects of recent housing policies like the foreign buyer restrictions, changes around ring-fencing of tax losses, and the extension of the bright-line test.

Buying Sentiment: Affordability improvement cheered

The buyers have it, according to our July survey. Buying sentiment continued its trend improvement of the past few years, with a net 9% of respondents now saying it is a good time to buy a house, up from a net 4% last quarter. This is the most positive reading since January 2013. In terms of the details:

- 23% say it is a good time to buy, while 15% say it is a bad time (was 19% and 15% last quarter);
- 47% say it is neither good nor bad (51% previous), and 15% don't know (unchanged).



House buyers in Canterbury remain the most optimistic across NZ, with a net 18% believing now is a good time to buy, a big lift from the previous quarter's 8%. Auckland respondents were the next most positive. A net 13% of Aucklanders think it's a good time to buy, a more than doubling of last quarter's 6%. South Islanders (ex-Canterbury) remain the perennial housing bears with the majority (net 1%) continuing to suggest now is a bad time to buy.

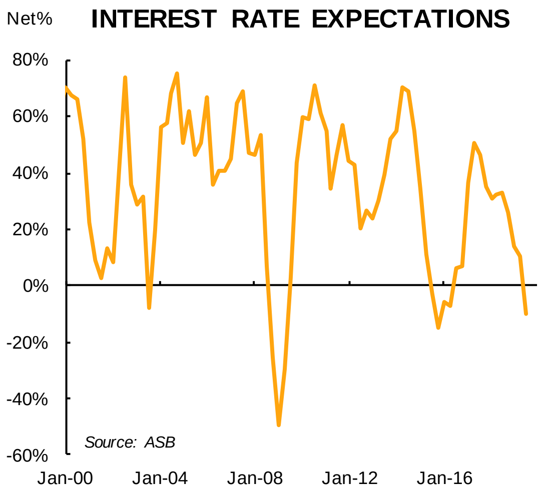
These results are not all that surprising given the strong link we observe between rates of house price inflation and perceptions of whether it's a good time to buy. According to the latest REINZ data, national house prices have basically flat-lined since the start of the year, and the Auckland and Canterbury housing markets have been underperforming the national average. Flat or falling house prices alongside solid income growth has seen affordability improve a little. Indeed, wage growth has picked up noticeably since the start of the year and, according to the latest data, is running around 3.6% p.a. No wonder, then, that buyer sentiment in Auckland and Canterbury has edged higher.

We'll be watching with interest to see if buyers act on their intentions. The index is hardly at a level indicative of bargain-hunters descending on the market en masse. But the improvement in sentiment is another straw in the wind suggesting the recent standoff between sellers and buyers may be drawing to a close.

Rate Expectations: Nailed it

Interest rate expectations fell sharply in three months to July. A net 10% of respondents expected interest rates to decrease, a sharp fall from the net 10% expecting an increase last quarter. A breakdown of the net quarterly figures shows:

- 17% expect higher interest rates over the coming year, while 27% expect lower interest rates (was 23% and 13% last quarter);
- On balance, a net 10% expect lower interest rates, down from a net 10% expecting higher interest rates in April;
- 30% expect interest rates to stay the same (36%), while 26% don't know (28%).



The results show that the RBNZ's 'lower for longer' messaging clearly got through to the general public. This will be a relief to the Bank after its slightly confusing communication efforts earlier in the year appeared to wrong-foot respondents in the prior quarter.

Lower interest rates were duly delivered. The RBNZ cut the Official Cash Rate (OCR) 25bps in May and 50bps in August, to 1.00%. Mortgage and term deposit rates have followed, to varying degrees.

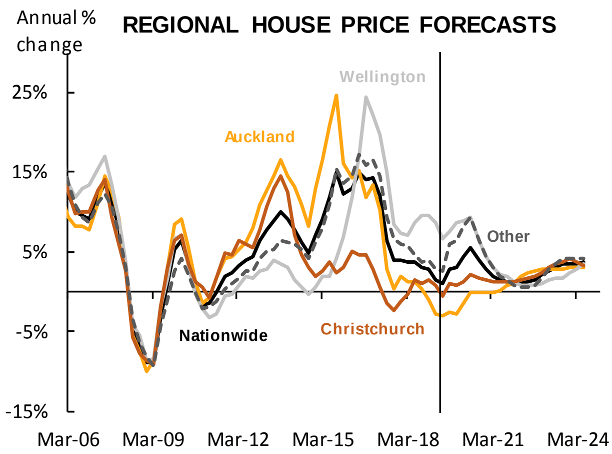
There's more to come, and we'd expect another fall in respondents' interest rate expectations next quarter. We expect another 25bps cut from the RBNZ in November, an outcome priced by financial market with about an 80% probability.

Attention is already turning to what other measures the RBNZ could use to lower market interest rates and stimulate the economy, given the OCR is starting to approach its limits. Just which of these measures (e.g. quantitative easing, currency intervention, RBNZ term lending) is best placed to help out, if any, remains a hot topic. One thing is for sure though, retail interest rates will remain under downward pressure for some time.

Outlook

The performance of the NZ housing market this year has been about as patchy as an Auckland summer. The Auckland market has been at the decidedly cool end of the spectrum as a raft of government and RBNZ policy measures have seen investors and offshore buyers abruptly pull-back from the market. Turnover has been glacial and prices are around 5% below their early 2018 peaks.

Canterbury has fared a little better, although a strong supply response following the 2011 Earthquake has limited the upside for prices there. Wellington and regional markets such as Southland, Manawatu, Gisborne, and Hawke's Bay have had a scorcher as housing supply has failed to keep pace with demand, and incomes have remained strong.



Looking ahead, we're expecting nation-wide house price inflation to pick up from the current 1%yoy pace to around 6% by June next year. There are plenty of cross-currents at play in NZ's housing market. But in our view the cancellation of the CGT and recent sharp falls in mortgage interest rates will combine to jump-start the Auckland housing market and add a little more heat to simmering regional markets. Regions more heavily exposed to the foreign buyer ban, most notably Auckland and Queenstown, will likely underperform.

As new housing construction is completed over 2019, we expect housing supply to catch up to new demand from population growth, reducing some of the upward pressure on house prices. This looks to be a story for late 2020 or 2021.

What of the RBNZ's big 50bps move? The Bank's aggressive easing, and related sanctioning of a "borrow and spend" dynamic, could certainly see a more enduring house price inflation cycle take hold than we currently expect. The closer term deposit rates get toward zero, the bigger the risk of a widespread asset-allocation shift into housing. Rental yields are a relatively lofty 4% or so after all. However, the turning NZ economic cycle, various policy-related handbrakes, and low consumer and business confidence will all act to limit the extent of the upturn in our view.

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".

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	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661
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
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

www.asb.co.nz/economics

@ASB Markets