

Housing Confidence

Three months to April

May 2018



Post-Election Rebound

- House price expectations rebound from post-election lows, with improvement evident for all regions.
- On balance, respondents still expect interest rates to rise over the next year.
- The balance of respondents still think it's a bad time to buy, but views were the least negative in two years.

Summary

Normal service looked to be returning following post September 2017 General Election weakness, according to our latest ASB Housing Confidence Survey. The net balance of respondents expecting house prices to increase rose to 32%, back to where it was in the July 2017 survey, and well above October 2017 (+17%) and January 2018 (+16%) lulls. Auckland house price expectations (+19%) hit a 12-month high. **House price expectations remained the most bullish outside of Auckland and Canterbury, consistent with recent housing market data** showing flat house prices in Auckland and Canterbury but still-sizeable increases elsewhere. **However, net balances were 10 percentage points lower than just 12 months ago (+42%), suggesting we are past for peak for house price increases. The cooling in price expectations could be linked to stretched housing affordability and respondents' uncertainty over the impact of the Government's new housing policies.**

Many respondents continued to expect higher interest rates over the next 12 months, with little change compared to the previous survey. This was despite recent falls to carded fixed mortgage interest rates and likely reflects the expectation that the RBNZ will eventually lift the Official Cash Rate (OCR) from record lows.

The majority of respondents still view it not to be a good time to buy a new house. Considering the sizeable run-up of house prices in recent years and stretched affordability, this was perhaps understandable. However, in our recent survey the net balance (-6%) was the least negative in two years. **Canterbury (+6%) was the only region where the majority of respondents consider it a good time to buy, with the net balance for the region the highest since the devastating earthquakes in early 2011.** Given their recent resurgence in house prices, net balances were the most negative in the rest of the North Island (-10) and the Rest of the South Island (-7%).

ASB Housing Confidence Survey			
Net percent who believe (3 months to April 2018) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-6%	19%	27%
Rest of North Island	-10%	43%	36%
Canterbury	6%	21%	30%
Rest of South Island	-7%	45%	37%
TOTAL NZ	-6%	32%	32%
<i>Compare 3 months to January 2018</i>	<i>-7%</i>	<i>16%</i>	<i>31%</i>

Source: Camorra

Price expectations lift from 6½ year lows

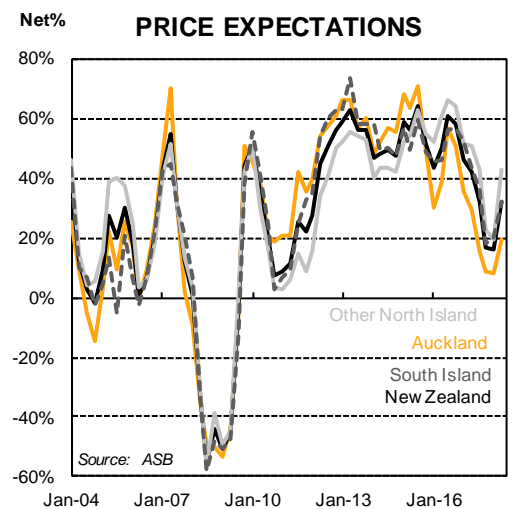
The net balance of respondents expecting house prices to rise lifted to 32% in the most recent survey from the mid-2011 lull of 16% in January. Net balances were still well below the +42% this time last year.

A breakdown of the nationwide figures for the most recent quarter showed:

- 46% of respondents to the ASB survey expect higher prices, while 13% expect prices to fall (it was 36% and 20% last quarter);
- On balance, a net 32% expect higher prices (was 16% last quarter);
- 27% expect no change in prices (29% last quarter); while 15% don't know (was 14%).

Improvement was evident for all of the broad regions in the survey. Whilst having the lowest net balance of the regions, price expectations hit a 12-month high in Auckland (+19%). Canterbury expectations firmed, but at +21% remained below the nationwide average for the 14th consecutive quarter. Price expectations remained more upbeat in the Rest of the South Island (+45%) and the Rest of the North Island (+43%), with net balances for these two regions having taken the top spot over the last three years.

The chart clearly shows the rebound in nationwide and regional house price expectations. This has occurred during a period in which annual increases in the REINZ nationwide house price index have remained in the low single digits. It is too soon to tell if firming house price expectations will translate into observed house price increases, particularly with still-considerable uncertainties over the impact of proposed government policy changes. What has remained evident, however, is that regional house price expectations from our survey have tended to reflect recently observed house price developments. Less upbeat house price expectations for Auckland and Canterbury are consistent with broadly flat observed house prices. Conversely, stronger house price expectations for the rest of the country are consistent with sizeable house price increases observed outside of the major urban areas.

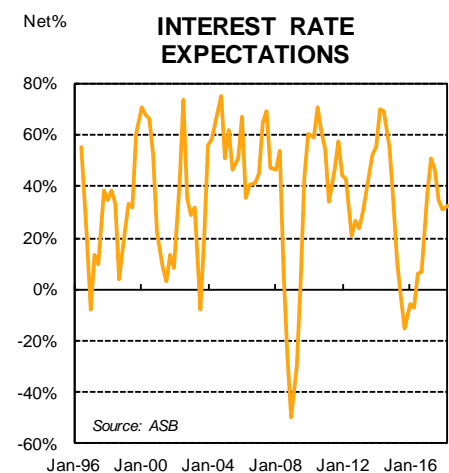


Interest rate expectations barely budge

The majority of respondents continue to expect higher interest rates, but expectations have barely budged compared to three months earlier, and are well below those evident a year ago. A breakdown of the net quarterly figures show:

- 38% expect higher interest rates over the coming year, while only 6% expect lower interest rates (was 37% and 6% last quarter);
- The net balance of 32% was little changed on the 31% in January and compared to a net 51% in April 2017.
- 30% expect interest rates to stay the same (30%); while 26% don't know (26%).

Regions where house price expectations were the strongest (notably Other North Island (+36%) and Other South Island (+37%)) tended to be more confident that interest rates would rise. Net balances for Auckland (+27%) and Canterbury (+30%) were below the nationwide average.

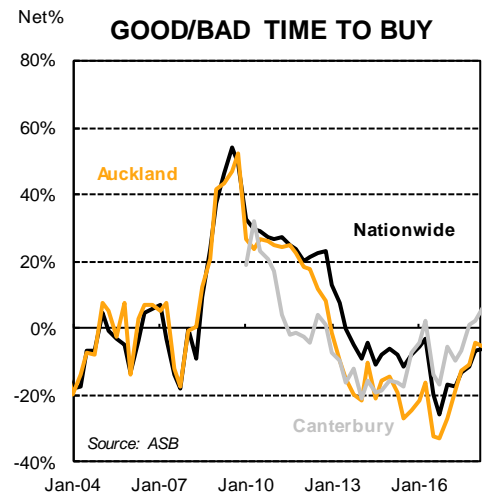


Carded mortgage interest rates have been drifting down and are currently at historically-low levels. However, the general consensus is that interest rates will start to drift higher over coming years. Indeed, we expect the OCR to move up from August 2019, but assume a gradual path of policy tightening and historically low OCR endpoint this cycle. This should ensure that mortgage interest rates stay reasonably low over the next few years.

Not as bad a time to buy as over the last 2 years

Net balances remained in negative territory, with house price pessimists outnumbering optimists in most regions. Encouragingly, however, this net balance is now considerably less negative than it was a year ago (-17%), with only a net 6% believing it not to be a good time to purchase, the least negative net balance in two years. This signals that although respondents are generally cautious on the outlook, there is (slowly) growing confidence that a soft landing for the housing market could be achieved. Breaking down the net quarterly nationwide figure shows:

- 14% say it is a good time to buy, while 20% say it is a bad time (was 13% and 20% last quarter);
- The difference is the net -6% plotted opposite (was -7% last quarter);
- 53% say it is neither good nor bad (was 53%), and 14% don't know (14%).



Canterbury (+6%) was the only region where the majority of respondents consider it a good time to buy, with the net balance for the region the highest since the devastating earthquakes in early 2011. The Auckland net balance (-6%) was in line with nationwide averages. Given their recent resurgence in house prices, net balances were the most negative in the rest of the North Island (-10) and the Rest of the South Island (-7%). Net balances for all of the regions were considerably less negative than a year ago.

In summary

- House price expectations rebounded nationwide and for all of the broad regional areas. Auckland price expectations lifted to a 12-month high (19%). Price expectations were the most upbeat in the Rest of the South Island (+45%) and the Rest of the North Island (+43%).
- Despite some falls for fixed mortgage rates, respondents continue to expect interest rates to increase in the next 12 months (net 32%), fractionally up on last quarter, but not to the same extent as 12 months ago.
- Most respondents still see it as a bad time to buy, but views are the least pessimistic in two years. Canterbury respondents view it as the best time to buy since early 2011.

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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