

Housing Confidence

Three months to October

November 2019



Good vibrations

- Kiwis are picking up good vibrations from NZ’s housing market.
- All three of our key housing confidence measures lifted in Q3, for the second straight quarter.
- This sentiment matches the turn higher we are seeing in most key indicators of the housing market. House price inflation is picking up and we expect the upturn to continue through to at least the middle of 2020.

Summary

House price expectations rose over the three months to October, for the second straight quarter. Confidence is now back to about “average” levels, albeit big regional differences remain. Aucklanders remain the most down-beat about the future direction of house prices, with South Islanders generally in much brighter spirits. House-buying sentiment also continued its trend improvement of the past few years. A net 13% of respondents now say it is a good time to buy a house, the highest in seven years. Even though house prices are rising again, the hit to affordability is being blunted by decent wage rises and rock-bottom mortgage rates.

There isn’t much doubt left amongst respondents when it comes to interest rates. Down, down, down. Respondents’ interest rate expectations are plumbing lows not seen since the 2008 Global Financial Crisis. A net 31% of respondents expect them to fall from here. The RBNZ’s super-sized 50bps cut in August was clearly an influential factor here. We expect a further OCR cut next year but, even if it is delivered, we may be close to the lows in retail interest rates.

ASB Housing Confidence Survey			
Net percent who believe (3 months to October 2019) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	17%	2%	-38%
Rest of North Island	8%	43%	-25%
Canterbury	27%	20%	-32%
Rest of South Island	6%	44%	-31%
TOTAL NZ	13%	27%	-31%
<i>Compare 3 months to July 2019</i>	9%	19%	-17%

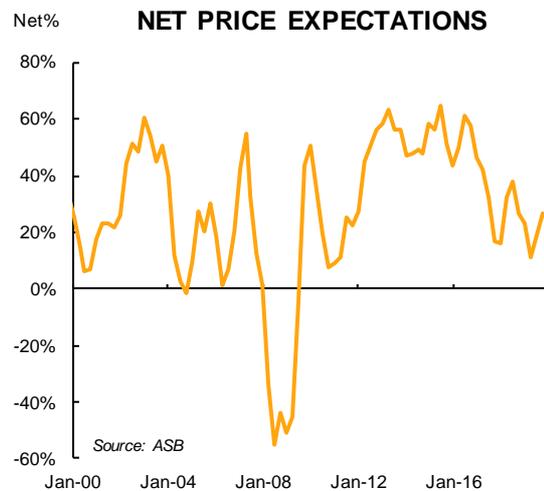
Source: Camorra

Price Expectations: Building

The net balance of respondents expecting house prices to increase over the next year continued to rise in the three months to October, building on the July bounce. A net 27% of respondents now expect higher prices over the next year, a decent lift on July's net 19%.

This is bang on the long-run average, highlighting a point we've been making in our housing commentaries. While housing indicators have rebounded strongly over the past three months, this should only really be characterised as a return to normality. We're still a long way from "boom" territory.

The increase in price expectations was largely a North Island story. Net price expectations in Auckland and "Other North Island" lifted 8 and 11 points, respectively, with the South Island largely flat on last quarter.



The continued lift in house price expectations is consistent with our own reading of the NZ housing market tea leaves. Housing turnover is finally showing some signs of life after a long period of stagnation. Buyers have been emboldened by record low mortgage rates, strong income growth, and the clearing up of any Capital Gains Tax-related uncertainty. And listings have started to creep higher as sellers feel more confident in improving market conditions.

House prices have already lifted almost 4% from the April lows, and near-term indicators point to further gains ahead. We remain comfortable with our forecast for nation-wide house price inflation to rise to 5-6% by mid-2020.

Buying Sentiment: The buyers have it

Buying sentiment continued its trend improvement of the past few years, with a net 13% of respondents now saying it is a good time to buy a house, up from a net 9% last quarter. This is the most positive reading in seven years. In terms of the details:

- 27% say it is a good time to buy, while 13% say it is a bad time (was 22% and 14% last quarter);
- 49% say it is neither good nor bad (50% previous), and 10% 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, another big lift from the previous quarter's 20%.

Auckland respondents were the next most positive about buying conditions. A net 17% of Aucklanders think it's a good time to buy, continuing the rapid turnaround from the net 0% at the start of the year. At the other end of the confidence spectrum, South Islanders (ex-Canterbury) remain largely uninterested with a net 6% believing now is a good time to buy.



Perceptions of whether it's a good time to buy are generally inversely related to rates of house price inflation. The fact that we're seeing the two rise in tandem at present suggests there are other factors out there boosting housing affordability. We suspect accelerating wage growth and steep falls in mortgage rates are playing a big role in this regard.

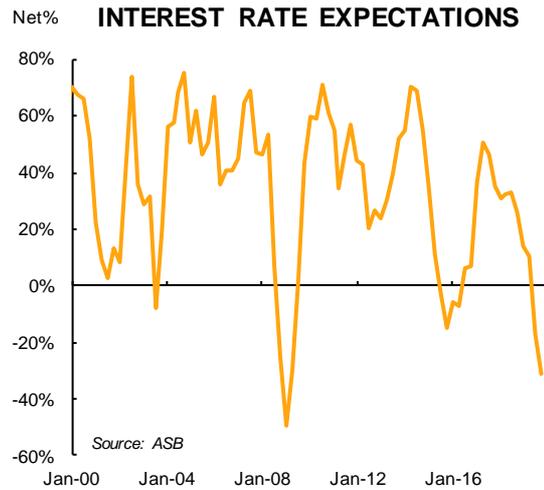
Buyers do appear to be walking the talk. Over the past three months, auction clearance rates have lifted, housing activity has picked up and houses are starting to sell faster. The nationwide median of days to sell a house has come down from 41 in June to 37, which is around the long-run average.

Rate Expectations: We're all in agreement then

Interest rate expectations fell precipitously in the three months to October. Most of the fall occurred in August, unsurprising given all the chatter at that time was about collapsing global rates and if/when NZ would experience negative interest rates. The RBNZ of course ultimately stepped up with a larger-than-expected 50bps cut to the official cash rate.

A net 31% of respondents expected interest rates to decrease in Q3, a low point only bested by the 2008 Global Financial Crisis era. A breakdown of the net quarterly figures shows:

- 12% expect higher interest rates over the coming year, while 43% expect lower interest rates (was 14% and 31% last quarter);
- Aucklanders are the most negative on interest rates, with a net 38% expecting rates to drop further
- 28% expect interest rates to stay the same (34% in Q2), while 17% don't know (21%).



Interestingly, this is the lowest (equal) level of “don't knows” since 2013, suggesting the RBNZ's 'lower for longer' message is now well entrenched in the nation's psyche. A 50bps rate cut will do that!

It will be interesting to see next quarter's results. The RBNZ has retained an easing bias but has not acted on it since the big cut in August. There's speculation the Bank is done. And while mortgage and term deposit rates have continued to fall, a decent lift in wholesale interest rates recently means further falls in retail rates from here might be a stretch.

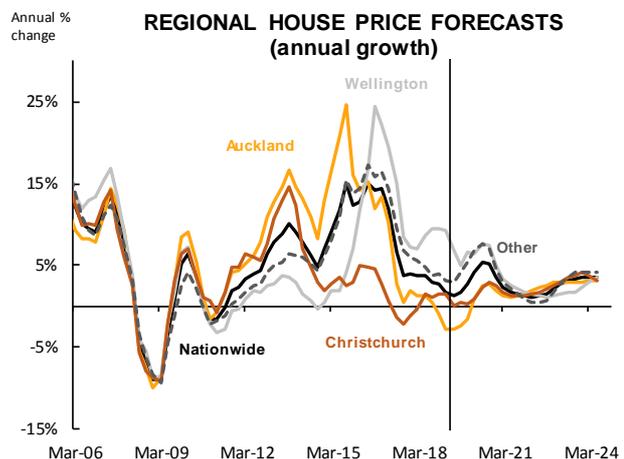
For the record, we still expect a further 25bps OCR cut in May. But we acknowledge the risk that the RBNZ may choose to stay on hold if early green shoots of economic recovery flourish and the Government starts pumping more cash into the economy in the immediate future.

Housing Outlook

We continue to expect nation-wide house price inflation to pick up to 5-6% yoy by around the middle of next year. Historically, NZ house prices cycles have been relatively sensitive to interest rates, and we expect recent sharp falls in mortgage rates to deliver a mini up-cycle in prices over the next year or so. Still-strong population and labour income growth will add support.

Still, even though mortgage rates are clearly the lowest they've ever been, there are some good reasons not to expect a good old fashioned housing boom of yore.

First, housing policies targeting investor demand are acting as handbrakes on those parts of the market that previously featured a large investor component, like Auckland and Queenstown. We expect these regions to



underperform the national average. Second, broader economic activity and population growth have slowed a little, and population growth is expected to slow further in coming years. Finally, there are signs housing supply is ramping up in some areas. From late 2020, we expect the housing upswing to top out as this additional supply gradually reduces the national housing shortage.

See our recently refreshed Home Economics publications (link below) for more on recent housing trends.

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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