

Housing Confidence

Three months to April

May 2020

Whipsaw

- Confidence in rising house prices whipsawed by COVID-19
- Perceptions of whether it's a good time to buy also decline as households batten down the hatches
- Interest rate expectations flick back to lower for longer

Summary

Housing confidence was knocked back substantially in the three months to April. It seems the economic fallout from COVID-19 has dashed expectations of the housing upswing carrying on through the remainder of 2020. Confidence is now closing in on 8-year lows and we'd expect further falls next quarter.

House buying sentiment also continued to stutter in the three months to April. Perceptions of whether it's a good time to buy are generally closely linked to housing affordability. And with recessionary economic conditions resulting in job cuts and a big hit to household income growth, it's no surprise households are hunkering down.

As with house price expectations, household interest rate expectations were whipsawed in Q2. A net 19% of respondents now expect interest rates to fall. That expectations didn't fall further likely reflects the unprecedented situation facing the NZ economy and Reserve Bank. The Bank's key policy rate has been lowered as far as it can go and government bond purchases are now the Bank's weapon of choice. We expect the Reserve Bank's policy rate to remain at 0.25% for many years, but there may be some scope for mortgage and business interest rates to fall further.

ASB Housing Confidence Survey			
Net percent who believe (3 months to April 2020) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	1%	10%	-26%
Rest of North Island	-2%	20%	-16%
Canterbury	9%	4%	-19%
Rest of South Island	-11%	13%	-16%
TOTAL NZ	-1%	14%	-19%
<i>Compare 3 months to January 2019</i>	9%	54%	0%

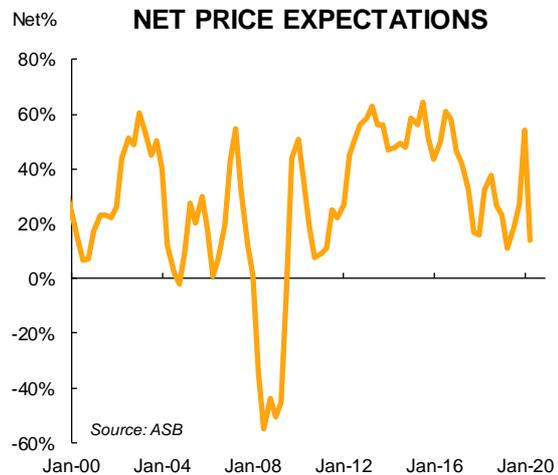
Source: Camorra

Price Expectations: Whipsaw

The net balance of respondents expecting house prices to increase over the next year were knocked back substantially in the three months to April. A net 14% of respondents now expect higher prices over the next year, well down from last quarter's 54%.

The decline in expectations was by far the largest in the South Island (ex-Canterbury). A very high starting point (65%) was no doubt part of the story in the 45 percentage-point drop. Auckland experienced the smallest decline, with net price expectations slipping from 42% to 10%. North Islanders (ex-Auckland) remain the least pessimistic on the house price front, with a net 20% of respondents still expecting house prices to rise over the coming year.

If anything, we'd expected the fall in housing confidence to be larger. Our latest [research](#) points to a house price decline of 5-10% in the wake of the COVID-19 crisis. This is broadly similar in magnitude to that we saw during the Global Financial Crisis. Yet during the GFC we saw housing confidence collapse to -50%! Either we are too pessimistic or housing confidence has further to fall. Next quarter's results will reveal all.

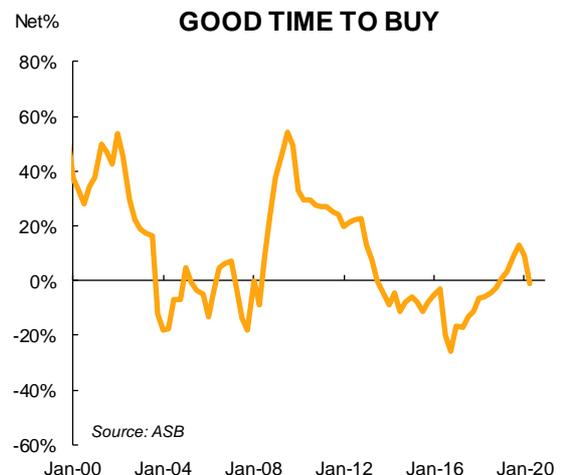


Buying Sentiment: Affordability back under pressure

House buying sentiment continued to stutter in the three months to April. A slim majority of respondents now believe it is a bad time to buy a house, down from a net 9% saying it was a good time to buy last quarter. In terms of the details:

- 21% say it is a good time to buy, while 22% say it is a bad time (was 27% and 13% last quarter);
- 42% say it is neither good nor bad (53% previous), and 15% don't know.

In other words, it's mainly been the 'don't knows' shifting to the 'bads' that has swung this quarter's result. The numbers thinking it is a good time to buy have remained about the same as last quarter.



House buyers in Canterbury remain the most optimistic across NZ, with a net 9% believing now is a good time to buy. Aucklanders are the only other regional group that believe it is a good time to buy, with a net 1% in this camp.

Perceptions of whether it's a good time to buy are generally closely linked to housing affordability. And with COVID-19 disruptions prompting job cuts as well as slamming the brakes on household income growth, it's no surprise to see house buying sentiment take another hit. Further falls appear likely.

Rate Expectations: Whipsawed again

As with house price expectations, household interest rate expectations were whipsawed in Q2. Last quarter respondents were split on whether interest rates would rise or fall over the coming 12 months. But this quarter, the "falls" have it again with a net 19% expecting interest rates to fall.

A breakdown of the net quarterly figures shows:

- 14% expect higher interest rates over the coming year and 33% expect lower interest rates (was 20% for each last quarter);
- Aucklanders remain the most negative on interest rates, with a net 26% expecting rates to drop, from a net 5% last quarter.
- 32% expect interest rates to stay the same (38% in Q1), while 20% don't know (22%).

That interest rate expectations didn't fall further this quarter likely reflects the unprecedented situation facing the NZ economy and Reserve Bank. The Bank's key policy rate has been lowered as far as it can go (the so-called "effective lower bound" of 0.25%). Government bond purchases (quantitative easing - "QE") are now the Bank's main weapon in the fight to keep economic stimulus flowing. So it's not that surprising that surveyed participants didn't expect lower interest rates en masse.

We expect the Reserve Bank's policy rate to remain at 0.25% for many years. There may be some scope for mortgage and business interest rates to move lower though, if the RBNZ QE keeps downward pressure on wholesale rates – as we expect – and credit conditions continue to gradually normalise. But the worst is most likely still to come for the housing market.

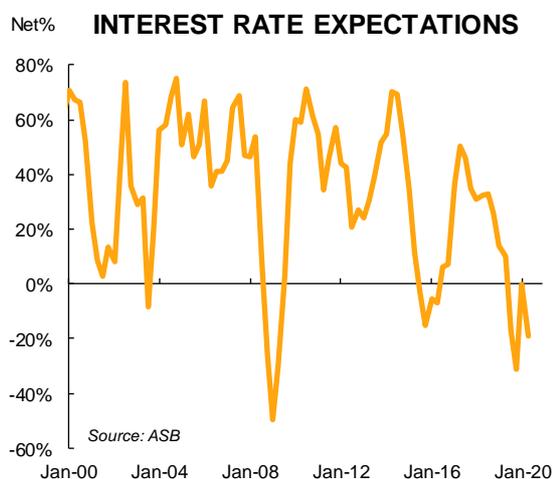
Additional housing commentary

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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