

Housing Confidence

Three months to July

August 2018



Moving on...slowly

- House price expectations continue to recover, with overall expectations at more than one-year highs.
- Respondents' interest rate expectations are largely unchanged with the majority still expecting higher interest rates in the year ahead.
- The balance of respondents still think it's a bad time to buy, but views were the least negative in over two years.

Summary

House price expectations rose for the second quarter in a row according to the latest ASB Housing Confidence Survey. Despite the recovery in net price expectations, respondents' views remain subdued relative to recent averages. **The still-subdued house price expectations suggest that ongoing uncertainty in the housing market is fuelling caution about market prospects.** For example, while election-related uncertainty has subsided (when net house price expectations slipped as low as +16%), the outlook for the housing market is murky. Competing influences of strong population growth, limited supply, legislation uncertainty, and affordability constraints have subdued market activity and prices. Looking forward, we expect house price expectations to remain relatively subdued as market participants await more clarity around proposed legislation changes.

Interest rate expectations barely moved in the three months to July. This is unsurprising when mortgage rate moves have been marginal. The Official Cash Rate (OCR) has now been on hold for just under 2 years and is expected to remain at 1.75% for at least another 12 months. The steady OCR has been anchoring shorter-term fixed mortgage rates, as well as the variable rates. Any marginal moves in bank mortgage rates have largely been the result of inter-bank competition.

On balance, respondents continue to think it's a *bad* time to buy a house. However, respondents were the most optimistic they've been in over 2 years. Recent patterns remain intact with sentiment most negative in the North Island. Christchurch remains the only region where the majority of respondents think it's a good time to buy.

ASB Housing Confidence Survey			
Net percent who believe (3 months to July 2018) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-6%	21%	33%
Rest of North Island	-7%	49%	33%
Canterbury	9%	32%	31%
Rest of South Island	-4%	48%	34%
TOTAL NZ	-4%	38%	33%
<i>Compare 3 months to April 2018</i>	-6%	32%	32%

Source: Camorra

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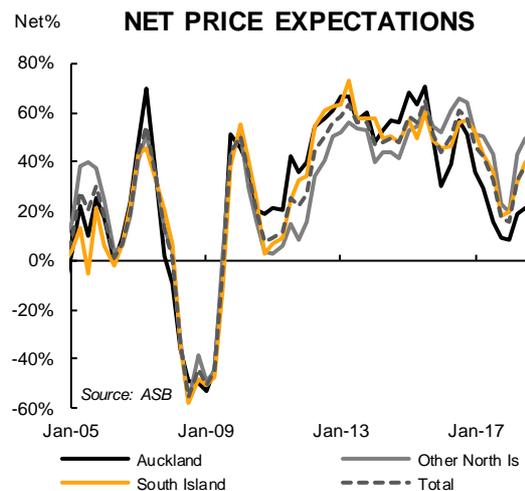
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Higher but contained

The net balance of respondents expecting house prices to rise lifted slightly to 38% in the most recent survey, over twice the level of the low hit in January (16%). Although the net balance lifted, it remains below recent averages. A breakdown of the nationwide figures for the most recent quarter showed:

- 48% of respondents to the ASB survey expect higher prices, while 10% expect prices to fall (it was 46% and 13% last quarter);
- On balance, a net 38% expect higher prices (was 16% last quarter);
- 26% expect no change in prices (27% last quarter); while 15% don't know (was 15%).

All broad regions registered higher price expectations in the most recent survey. However, Auckland remains the least optimistic, with a net balance of +21% (up from +19%). Canterbury expectations firmed the most, with net expectations increasing by 11% to +32%, the highest level since April 2017. On balance, however, price expectations remained most upbeat in the Rest of the North Island (+49%) and the Rest of the South Island (+48%), where they have continually taken out the top spots since late 2015.



The chart clearly shows the recent recovery in nationwide and regional house price expectations. However, expectations remain below recent highs. Election-related uncertainty may be behind us, but there is still a lot of uncertainty shrouding the housing market. This uncertainty has seen house price appreciation slow around much of NZ, with Auckland house prices close to flat on year-ago levels. It is too soon to tell if firming house price expectations will translate into observed house price increases. Interestingly, the survey responses reflect the dichotomy we are observing in the NZ housing market at present. Softer house price expectations, sales activity and prices in Auckland and Christchurch are contrasted with a still reasonably upbeat outlook for regional NZ (both in terms of price expectations and realised price gains).

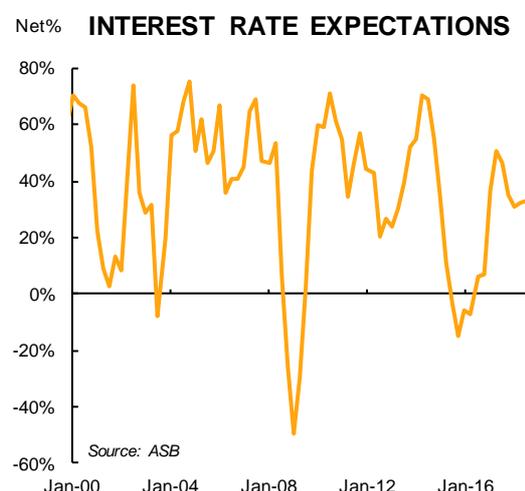
Steady as she goes

The majority of respondents continue to expect higher interest rates, although the net balance remains below recent highs. A breakdown of the net quarterly figures show:

- 37% expect higher interest rates over the coming year, while only 4% expect lower interest rates (was 38% and 6% last quarter);
- The net balance of 33% was little changed on the 32% in January;
- 32% expect interest rates to stay the same (30%); while 26% don't know (26%).

Interest rate expectations were similar across regions in the latest survey, with net expectations ranging from 31% to 33%. This is the narrowest inter-regional range since April 2015.

Carded mortgage interest rates remain near 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 November 2019, but assume a gradual path of policy tightening and an historically-



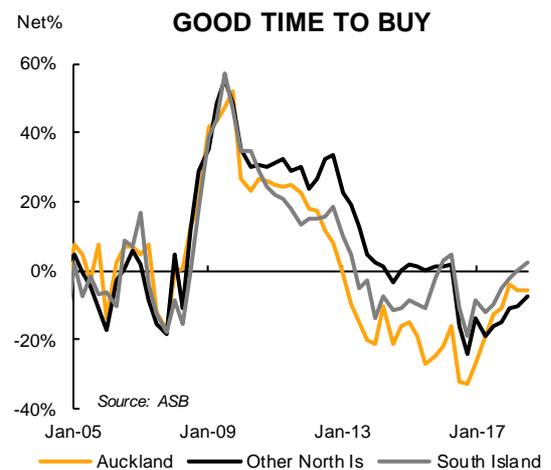
low OCR endpoint this cycle. This should ensure that mortgage interest rates stay reasonably low over the next few years and is likely to temper respondents' expectations.

Sentiment continuing to improve

Net balances remained in negative territory (the number of pessimists outnumbers optimists) in most regions as more people think it's a *bad* time to buy, than a good time. However, the recent pattern of improving sentiment (i.e. becoming less negative) continued in the three months to July. Only a net 4% believe it is not a good time to purchase, the least negative net balance over two years. Breaking down the net quarterly nationwide figure shows:

- 14% say it is a good time to buy, while 19% say it is a bad time (was 14% and 20% last quarter);
- The difference is the net -4.4% plotted opposite (was -6% last quarter);
 - 52% say it is neither good nor bad (was 53%), and 15% don't know (14%).

Canterbury continues to be the only region where the majority of respondents consider it a good time to buy (+9%), with the net balance for the region the highest since the devastating earthquakes in early 2011. The Auckland net balance (-6%) remained unchanged from the previous survey. Net balances were the most negative in the rest of the North Island (-7), where prices continue to grow at a relatively strong pace.



In summary

- House price expectations lifted nationwide and for all of the broad regional areas. Price expectations were the most upbeat in the Rest of the North Island (+49%) and the Rest of the South Island (+48%).
- With only small moves in mortgage rates since April and the OCR expected to remain on hold for at least another year, respondents' interest rate expectations were largely unchanged.
- Most respondents still see it as a bad time to buy, but views are increasingly becoming less pessimistic. Canterbury respondents continue to be the most optimistic and 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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