

Sentiment takes a hit

- Sentiment around whether or not it is a good time to buy a house has dropped sharply around the country.
- At the same time, more people expect house prices to lift over the next 12-months.
- Combined with expectations for interest rate rises, it's not surprising to see buying sentiment shift lower.

ASB Housing Confidence Survey (Source: Camorra)			
Net percent who believe (3 months to July 2016) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-32%	57%	3%
Rest of North Island	-16%	66%	10%
Canterbury	-14%	52%	0%
Rest of South Island	-7%	59%	10%
TOTAL NZ	-20%	61%	6%
<i>Compare 3 months to April 2016</i>	<i>-3%</i>	<i>50%</i>	<i>-7%</i>

Fewer people think now is a good time to buy according to the latest ASB Housing Confidence Survey. The sharp drop in sentiment is not much of a surprise when expectations for higher house prices, as well as higher interest rates, picked up over the quarter. Sentiment has fallen across the country as respondents appear to be wary about possible increases in debt servicing costs when house prices are already considered high.

The announcement of further investor loan-to-value restrictions by the RBNZ from 1 October could see sentiment move lower again this year. The requirement for investors around the country to have a 40% deposit will undoubtedly knock investors' confidence. However, if the new restrictions slow market activity and house price growth, potential first home buyers might look more favourably on the housing market. If the RBNZ cuts the Official Cash Rate (OCR) once more this year and mortgage rates move slightly lower, that would temper any fall in sentiment. On balance though, high house prices and a higher deposit threshold for investors are likely to weigh on sentiment this year.

Still expecting higher house prices

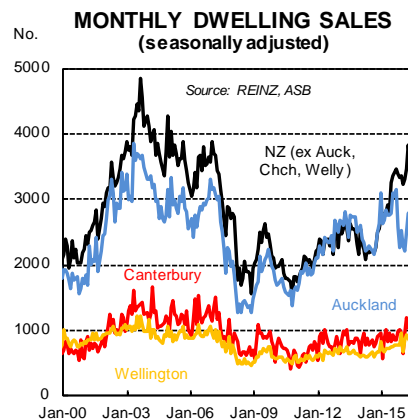
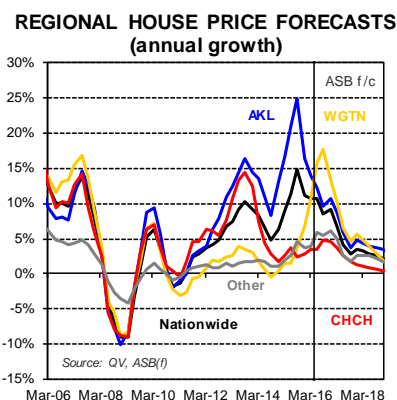
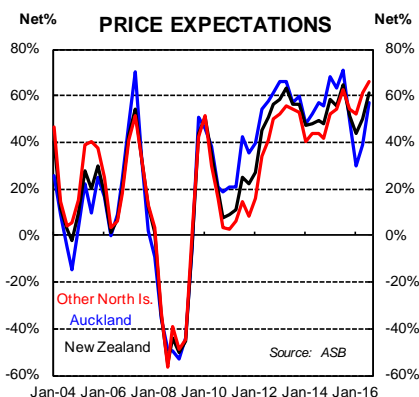
It appears people still believe house prices are only going one way, up. Confidence in the North Island ex-Auckland is at an all-time high, while expectations for further house price increases in Auckland have well and truly recovered. Breaking down the net quarterly figure:

- 68% of respondents to the ASB survey expect higher prices, while only 7% expect prices to fall (was 59% and 8% last quarter);
- On balance, a net 61% expect higher prices (was 50% last quarter);
- 12% expect the same (was 18%) while 13% don't know (was 15%).

A net 57% of people in Auckland now expect house prices to rise in the next 12 months. In the rest of the North Island the balance increased to a net 66%.

Not to be outdone, expectations have lifted across the board in the South Island as well. Expectations lifted noticeably in Christchurch, with a net 52% expecting higher house prices, up from 37% in the previous quarter. Overall, a net 56% of people in the South Island expect house prices to lift.

House price expectations are likely being influenced by the degree of coverage house prices are getting in the NZ media. Yet across-the-board lifts in house price expectations do reflect the increase in house prices we've seen around the country recently. On the other hand, any hit to activity from the new investor regulations are also likely to be well-documented. As a result, expectations for



house price lifts could soften if we do see a fall in activity over the coming months.

People believe interest rates have reached their lows

The notion that all good things must come to an end seems to have prevailed this quarter. For the first time in over a year, more people expect interest rates to rise rather than fall. A breakdown of the net quarterly figure is:

- 24% expect higher interest rates over the coming year, while 17% expect lower interest rates (was 18% and 25% last quarter);
- the difference being the 6% plotted opposite (was -7% last quarter);
- 32% expect rates to stay the same (31%); while 27% don't know (25%).

This survey was conducted before the RBNZ cut the OCR by 25bp in August. Prior to this, the RBNZ had not cut the OCR since March and home loan rates had remained largely steady. The lack of widespread mortgage rate falls over the quarter could well have had respondents questioning whether or not there were any more interest rate falls to come.

However, after cutting the OCR in August, we expect the RBNZ to cut the OCR by 25bp again in November. As a result, we could see another turn-around in interest rate expectations in the next survey, particularly if mortgage rates move lower over the period.

People do not think now is the time to be buying

Nationwide, sentiment is at its lowest level since the beginning of 2012. Sentiment is particularly low in Auckland with a net 32% thinking now is a bad time to buy. A breakdown of the net quarterly figure for New Zealand is:

- 13% say it is a good time to buy, while 33% say it is a bad time (was 17% and 20% last quarter);
- The difference is the net -20% plotted opposite (was -3% last quarter);
- 41% say it is neither good nor bad (was 47%) and 13% don't know (16%).

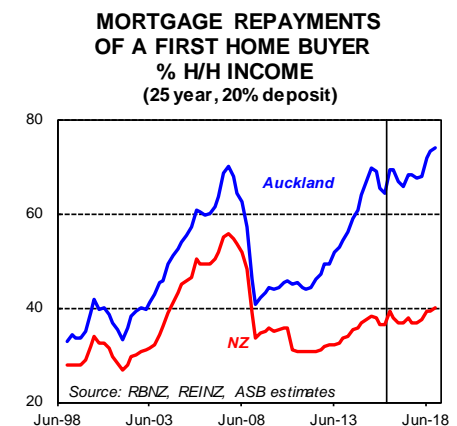
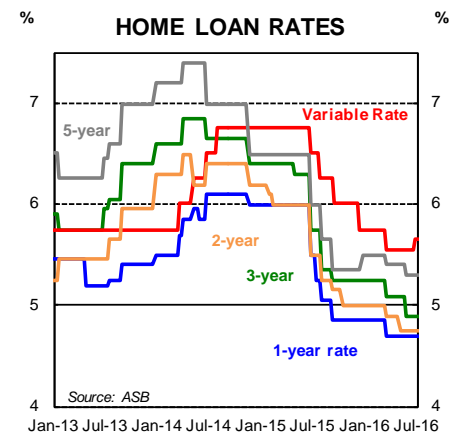
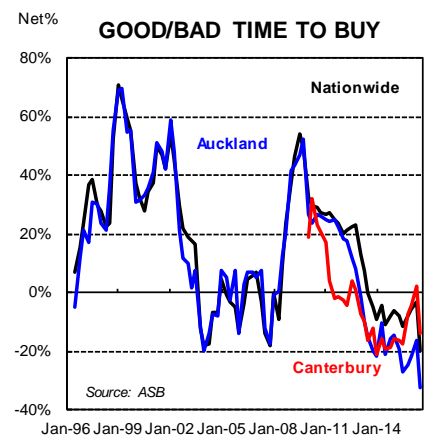
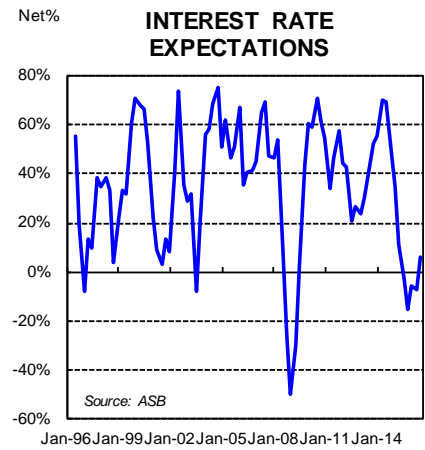
Taking a step back and looking at house price and interest rate expectations, it's not surprising sentiment has taken a hit over the last quarter. And this is reflected in the fact that it's not only Aucklanders who are cautious. This is the first quarter since mid-2014 where every region has thought it was a bad time to buy, on balance.

A compounding factor in Auckland is that house prices are sitting at unprecedented highs and are very stretched relative to incomes. As affordability in Auckland is squeezed more so than elsewhere, we expect to see Auckland sentiment continue to drag relative to the rest of the country.

Finally, the impending loan restrictions will undoubtedly knock investors' confidence going forward and will likely weigh on sentiment over the rest of the year.

In summary:

- Sentiment fell sharply in the latest ASB Housing Confidence Survey with those who think now is a bad time to buy at a high since 2012.
- This comes as expectations for house price increases continue to rise around the country. At the same time, on average, people expect interest rates to rise rather than fall for the first time in over a year.
- Concerns over higher debt servicing costs on top of already high house prices, appears to have weighed on sentiment this quarter.
- Unsurprisingly, sentiment is lowest in the Auckland where house prices are the most stretched.
- The impact of the new LVR restrictions and RBNZ interest rate cuts could alter house price and interest rate expectations. But the new requirement for investors to have a 40% deposit is likely to weigh on sentiment over the remainder of the year.



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>).

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