

## Rising with the tide

- Expectations of house price increases remain high.
- On balance, lower interest rates are expected.
- Outside of Auckland, it is seen as a good time to buy a house.

<b>ASB Housing Confidence Survey</b> (Source: Camorra)			
Net percent who believe (3 months to April 2016) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-16%	39%	-12%
Rest of North Island	2%	61%	-2%
Canterbury	2%	37%	-7%
Rest of South Island	9%	56%	-11%
<b>TOTAL NZ</b>	<b>-3%</b>	<b>50%</b>	<b>-7%</b>
<i>Compare 3 months to January 2016</i>	<i>-5%</i>	<i>44%</i>	<i>-6%</i>

The latest ASB Housing Confidence Survey shows that people consider now is a good time to buy a house outside of Auckland. No doubt influenced by higher Auckland house prices in recent years and still-declining interest rates, respondents to the ASB survey, on balance, believe house prices will rise this year across many parts of the country and that now is a good time to be buying outside of Auckland.

### Expectations of house price rises prevail nationally

People believe the upward house price momentum has not ended yet. Confidence in further price increases is below that of peaks during 2014 and/or 2015 but is still at high levels.

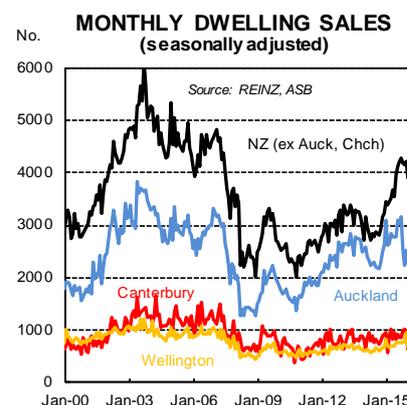
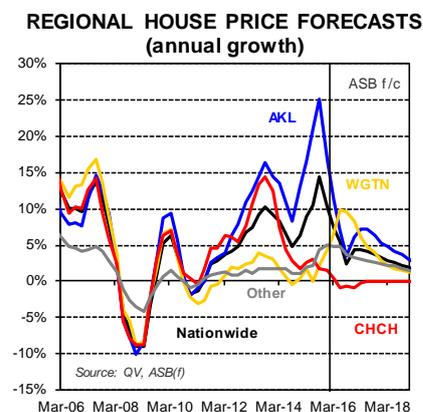
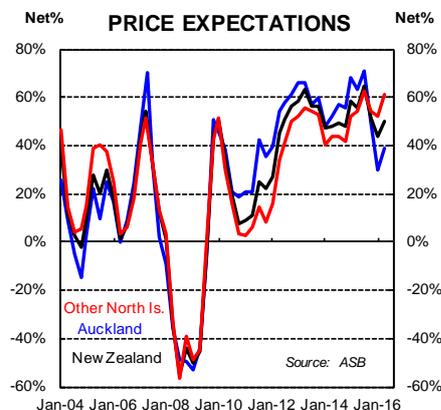
- 59% of respondents to the ASB survey expect higher prices, while only 8% expect prices to fall (was 54% and 10% last quarter);
- the difference being the net 50% plotted opposite (was 44% last quarter);
- 18% expect the same (was 20%) while 15% don't know (was 20%).

Noticeably, confidence increased again in the North Island. A net 39% 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 61%. This level of confidence outside of Auckland is at very high levels.

Expectations were little changed in the South Island from 3 months earlier. Expectations remain high outside of Canterbury at a net 56% and more moderate in Canterbury (37%).

In part these survey results reflect changes reported by QVNZ for the March 2016 quarter: the House Price Index was down 0.3% in Auckland, although up by 16.9% over twelve months, while the House Price Index was up over 6% per quarter in districts such as Kaipara, Waikato, Matamata-Piako, Western Bay of Plenty and Clutha. The general trend appears to be the Auckland price gain of earlier quarters is spilling over to other parts of the country. A similar strong dwelling sales pattern is evident outside of Auckland (see bottom right graph).

People are not asked by how much they expect house prices to rise in the next twelve months. Nonetheless the proportions are broadly consistent with ASB forecasts for annual house price rises. A nationwide average house price increase of around 5-6% is forecast by ASB for 2016, representing a moderation of price gains in Auckland but general price rises outside of Auckland (excluding Canterbury).



The general driving force remains the fast population growth against a backdrop of moderate new housing supply. A further key factor pushing up price expectations in the last three months was the declining interest rate environment.

**People on balance see further interest rates declines ahead**

Interest rate expectations were little changed since the previous quarter. A net 7% of people expected interest rates to decrease in the next twelve months. A breakdown of the net quarterly figure is:

- 18% expect higher interest rates over the coming year, while 25% expect lower interest rates (was 18% and 24% last quarter);
- the difference being the -7% plotted opposite (was -6% last quarter);
- 31% expect rates to stay the same (30%); while 25% don't know (28%).

The RBNZ cut the Official Cash Rate (OCR) by 25bp to 2.25% in March and indicated further easing may be required. Home loan rates have edged to record low levels.

The ASB survey responses are consistent with the sentiment expressed by the RBNZ and, likewise, consistent with the ASB forecast of another 50bp of cuts to the OCR in 2016.

The other inference that can be reached from the survey results is that there is further scope for surprise. People's expectations of interest rates have been strongly shaped by the interest rate history of the last 30-40 years and people have not generally anticipated the magnitude of the interest rate falls that have occurred to date. However, as shown in other countries and in earlier decades, it is possible that interest rates could decline further than the RBNZ's (and ASB's) forecasts. This is a risk that does not appear to be given much weight judging by the moderate net proportion of people expecting lower interest rates.

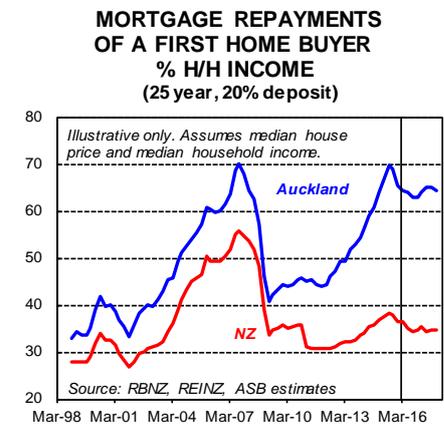
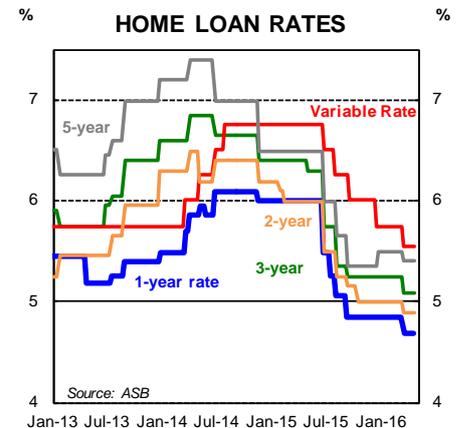
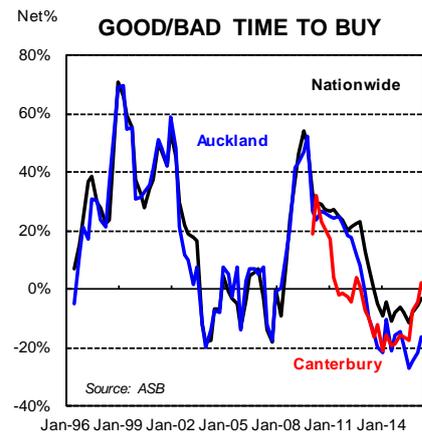
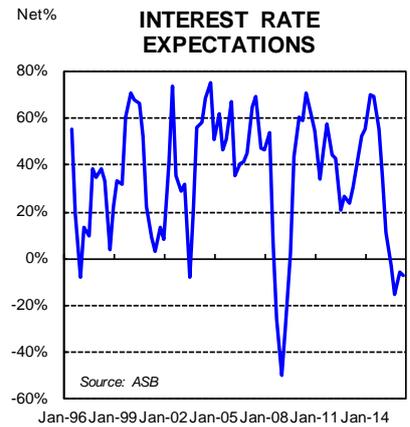
**People believe it is a good time to buy a house outside of Auckland**

The national figures show people on balance believe now is a bad time to buy a house but the regional split reveals a different story. A breakdown of the net quarterly figure for New Zealand is:

- 17% say it is a good time to buy, while 20% say it is a bad time (was 16% and 21% last quarter);
- The difference is the net -3% plotted opposite (was -5% last quarter);
- 47% say it is neither good nor bad (was 46%) and 16% don't know (18%).

The telling statistics is the net 16% of people in Auckland who consider now is a bad time to buy a house. A key factor is likely to be the inter-related issue of sharply higher Auckland house prices in recent years and, in spite of the low interest rates, the high mortgage repayments required to service a standard loan if purchasing a house in Auckland. The survey does not include an age breakdown but it is also likely that the affordability hurdle now created is high amongst the 17-29 year old age group that form the fastest growing net migration cohort to New Zealand at present, with many destined for Auckland.

In part this Auckland affordability pressure appears to be spilling over into other parts of New Zealand with increased demand for housing outside of Auckland. This sentiment is captured in the ASB survey with a net 3% of respondents across New Zealand but outside of Auckland believing that now is a good time to buy a house. This expectation is strongest in the South Island outside of Canterbury (a net 9%).



**In summary:**

- House price expectations increased in the latest ASB Housing Confidence Survey. The prevalence of higher price expectations is below the 2015 peak but the extent of expectation is still high.
- Of no coincidence, people on balance also expect further interest rate declines this year.
- The change in house price expectation during the quarter was highest in the North Island. The extent of expectations about rising house prices amongst people in the North Island but excluding Auckland is now very high.
- Higher house prices in Auckland over recent years appear to be influencing prices elsewhere, channelling through the higher wealth of those selling Auckland properties and/or due to the affordability challenge now faced by those who potentially might have otherwise purchased in Auckland.
- Not surprisingly then, people on balance believe now is a good time to buy a house outside of Auckland.

**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.](#)

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".

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	<a href="mailto:nick.tuffley@asb.co.nz">nick.tuffley@asb.co.nz</a>	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	<a href="mailto:jane.turner@asb.co.nz">jane.turner@asb.co.nz</a>	(649) 301 5853	
Rural Economist	Nathan Penny	<a href="mailto:nathan.penny@asb.co.nz">nathan.penny@asb.co.nz</a>	(649) 448 8778	
Economist	Kim Mundy	<a href="mailto:kim.mundy@asb.co.nz">kim.mundy@asb.co.nz</a>	(649) 301 5661	
Economist	Daniel Snowden	<a href="mailto:Daniel.snowden@asb.co.nz">Daniel.snowden@asb.co.nz</a>	(649) 301 5657	
Data & Publication Manager	Judith Pinto	<a href="mailto:Judith.pinto@asb.co.nz">Judith.pinto@asb.co.nz</a>	(649) 301 5660	

<https://reports.asb.co.nz/index.html>

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

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