

Housing Confidence

Three months to October

November 2017



Price expectations hit 6-year low

- The soft housing market sees house price expectations sink to a 6-year low in the three months to October.
- While interest rate expectations ease after hitting a 3-year high earlier in 2017.
- On balance, respondents outside of Christchurch still think it's a bad time to buy a house.

Summary

House price expectations hit a 6-year low after falling for the 5th consecutive quarter in the latest ASB Housing Confidence Survey. This result comes as no surprise given the softness we've seen in the housing market over the past 12 months. Initially, Loan-to-Value Ratio (LVR) restrictions and slightly higher mortgage rates accounted for much of the softness. More recently, however, uncertainty regarding the General Election has seen the market slow further. Further, given prices had started to fall slightly in Auckland and Christchurch at the time of the last ASB Housing Confidence Survey, and have continued falling since, it's no surprise to see house price expectations continue to ease in these centres.

Interestingly, in the three months to October, **we have seen falling Christchurch prices coincide with, for the first time in over 12 months, more people thinking it's a good rather than a bad time to buy in that city.** However, this more positive view is not the case in Auckland and likely reflects the fact that Auckland house prices remain at a high (i.e. 'unaffordable') level, despite the recent small price falls.

Respondents remain cautious about the interest rate outlook, with the majority picking interest rates to stay the same or lift over the next 12 months. However, this expectation is down from the highs seen earlier in the year and likely represents the fact that mortgage rates have settled (if not fallen slightly) since the last ASB Housing Confidence Survey.

ASB Housing Confidence Survey			
Net percent who believe (3 months to October 2017) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-11%	9%	32%
Rest of North Island	-15%	23%	37%
Canterbury	1%	8%	32%
Rest of South Island	-11%	29%	38%
TOTAL NZ	-11%	17%	35%
<i>Compare 3 months to July 2017</i>	<i>-13%</i>	<i>32%</i>	<i>46%</i>

Source: Camorra

Price expectations hit 6-year low

The number of people expecting higher house prices fell to the lowest level in 6 years in the three months to October. Unsurprisingly, price expectations remain lowest in Auckland (an 8-year low). A breakdown of the net quarterly figure for New Zealand is as follows:

- 37% of respondents to the ASB survey expect higher prices, while 20% expect prices to fall (was 47% and 14% last quarter);
- On balance, a net 17% expect higher prices (was 32% last quarter);
- 29% expect the same (was 26%); while 15% don't know (was 13%).

The General Election has further slowed an already soft housing market in recent months. And while Auckland house price expectations are the lowest, falls in house price expectations were more pronounced in other regions. For example, house price expectations for the North Island excluding Auckland fell from a net 43% expecting higher prices to a net 23%. We expect house price expectations to remain muted while the housing market stays soft.

Most respondents expect higher interest rates

Although the majority of respondents continue to expect higher interest rates, expectations have eased from their highs earlier in 2017. A breakdown of the net quarterly figure is:

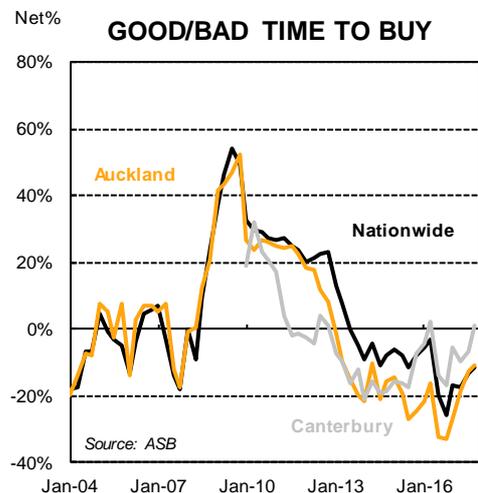
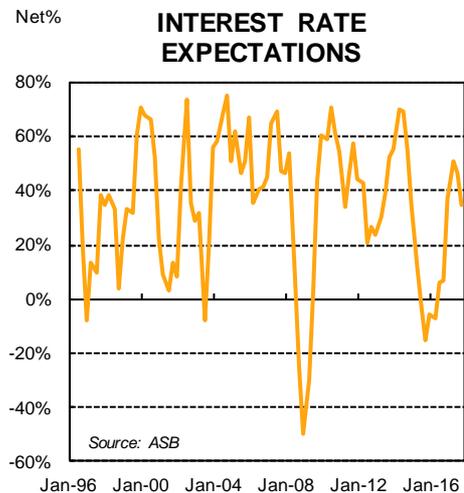
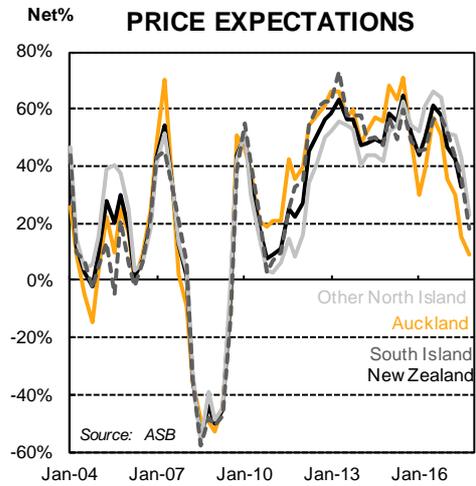
- 40% expect higher interest rates over the coming year, while 5% expect lower interest rates (was 50% and 3% last quarter);
- The difference being the 35% plotted opposite (was 46% last quarter);
- 28% expect rates to stay the same (24%); while 27% don't know (23%).

Mortgage rate movements have been subdued over the last few months and, if anything, have slightly fallen. However, outside of this, the outlook suggests that interest rates are more likely to rise than fall. For example, while still a long way away, the next move for the RBNZ is most likely to be a lift of the OCR. On top of this, US rates continue to creep higher on the back of Fed rate hikes and expectations of US tax reform (which presents upside risk to NZ's longer-term interest rates). With the outlook being one of higher rates, we would be surprised to see interest rate expectations ease much further in the coming months.

Outside of Christchurch, it's still a bad time to buy

Overall, slightly fewer people think it's a bad time to buy a house compared to the previous ASB Housing Confidence Survey. Breaking down the net quarterly figure:

- 13% say it is a good time to buy, while 24% say it is a bad



- time (was 12% and 25% last quarter);
- The difference is the net -11% plotted opposite (was -13% last quarter);
- 49% say it is neither good nor bad (was 50%) and 14% don't know (14%).

The reduction in pessimism was largely driven by Christchurch, where a net 1% of respondents now think it's a *good* time to buy. The combination of plenty of supply in the Christchurch market and falling house prices (from already affordable levels) appears to be boosting sentiment in the city. Outside of Christchurch, however, pessimism over whether it's a good or bad time to buy still reigns. With a number of influences impacting the housing market (including new housing policies), uncertainty around the outlook is likely keeping many respondents cautious.

In summary

- Expectations for house price expectations fall to a 6-year low as the General Election has further weighed on an already slowing housing market.
- On balance, respondents continue to expect interest rates to increase. While we expect the RBNZ to leave the OCR on hold until early 2019, offshore interest rates could see NZ mortgage rates creep higher.
- Outside of Christchurch, most respondents still see it as a bad time to buy. With a number of uncertainties around future housing policy, respondents appear to be remaining cautious.

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".

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Senior Economist, Wealth Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Data & Publication Manager	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661
	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660
www.asb.co.nz/economics			 @ASBMarkets

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