

Divergence between Auckland, Christchurch and rest of NZ

- House price expectations remained high over the three months to April
- Housing confidence remains low, with the majority continuing to see now as a bad time to buy a house
- Interest rate expectations lift even higher, as the RBNZ commences interest rate hikes.

House price expectations remain elevated in the latest ASB Housing Confidence Survey, with a net 48% of respondents expecting house prices will increase. That's a slight decline from the readings in last year's surveys, but is still a high reading by historical standards for the survey, which dates back to 1996. The housing market remains tight, but the slight easing in price expectations is consistent with the moderation in activity observed in recent months. The combination of the RBNZ's high loan-to-value (LVR) lending restrictions and rising mortgage rates over the quarter appears to be making an impact.

Sentiment about buying a house is not quite as negative in the three months to April compared with the previous quarter. A net 4% of respondents see now as a bad time to buy, compared with a net 9% who saw it as a bad time to buy in the three months to January. Auckland and Canterbury still have the most negative outlook, and these are the areas where the housing market is the tightest.

Interest rate expectations continue to rise, with a net 70% of respondents expecting interest rates will rise. That is consistent with the increase in mortgage rates over the quarter and the messages from the RBNZ that suggest more Official Cash Rate (OCR) increases are coming.

The ASB Housing Confidence survey shows that house price expectations remain firm:

- A net 48% of respondents expect house prices to increase in the next twelve months;
- A net 4% of respondents believe now is a bad time to buy;
- A net 70% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to April 2014) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-10%	52%	67%
Rest of North Island	1%	44%	70%
Canterbury	-16%	55%	80%
Rest of South Island	2%	43%	70%
TOTAL NZ	-4%	48%	70%
<i>Compare 3 months to January 2014</i>	<i>-9%</i>	<i>47%</i>	<i>55%</i>

Price expectations: A breakdown of the net quarterly figure:

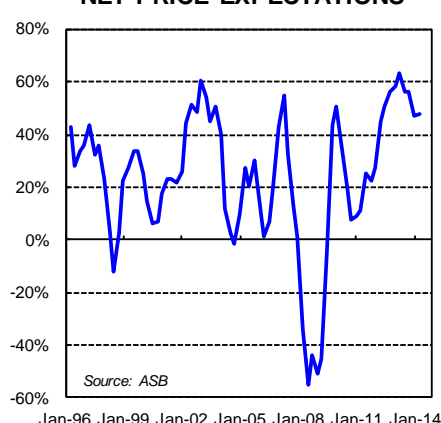
- 54% expect higher prices, while only 6% expect prices to fall (was 54% and 7% last quarter);
- The difference being the net 48% plotted opposite (was 47% last quarter);
- 24% expect the same (was 22%);
- 16% don't know (was 17%).

On balance, a net 48% of respondents expect house prices to increase, similar to last quarter's 47%. The housing market remains tight, with the level of house listings remaining below the level of demand. But the slight easing in price expectations over the past year is consistent with a slightly lower level of turnover we have seen in recent months. Some respondents are likely expecting some moderation after the strong price rises recorded last year, but very few (6%) expect prices to fall.

Price expectations remain elevated

The degree of optimism varies around the regions

NET PRICE EXPECTATIONS



House price gains are still expected, although the conviction is not quite as high as a year ago

This is also in line with our view that house price growth will be slower over 2014 than last year.

Expectations of house price gains are still the strongest in Canterbury, although not as bullish as a year earlier. A net 55% of Cantabrian respondents expect house prices will increase. This figure was over 80% in earlier surveys. Price gains are also expected elsewhere in the South Island with a net 43% expecting gains in the last quarter's survey, a drop from 53% in the three months to January.

The net percentage of respondents expecting price gains in Auckland was 52%. That's a lift on the preceding quarter's net 48%, but down on the peak of 66% expecting gains a year ago. For the rest of the North Island, a net 44% expect gains. That's an increase on the 40% result in the three months to January, but is also below last year's peak of a net 54% expecting house price gains.

In sum, that's quite a mixture of signals, but the general message across the country is house price gains are still expected, but the conviction is not quite as high as a year ago. That's understandable – prices have been going up strongly, and this rate of appreciation can't carry on forever. And interest rates are rising, so respondents are right to expect the market will cool somewhat.

Expectations of higher interest rates continue.

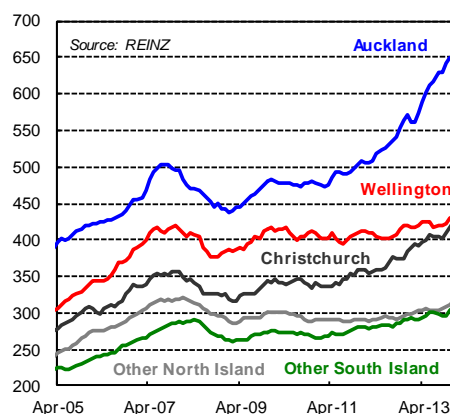
A breakdown of the net quarterly figure:

- 72% expect higher interest rates over the coming year, while 2% expect lower interest rates (was 57% and 2% last quarter);
- The difference is the net 70% plotted opposite (was 55% last quarter);
- 8% expect rates to stay the same (was 18%), while 17% don't know (was 22% last quarter).

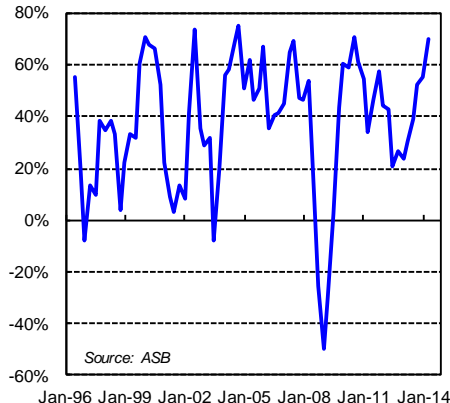
The increase in the Official Cash Rate (OCR) at the RBNZ's March 13 meeting was well signalled over the preceding months. But there is nothing like an actual mortgage rate increase to convince homeowners that rates are rising! The RBNZ's subsequent OCR increase in April has meant floating mortgages are now 0.5% higher than at the start of the year. Longer-term mortgage rates had actually been on the rise before January, but with many people on floating mortgages, the recent changes in those floating rates have clearly had an impact. Back in January, a net 51% expected higher interest rates over the coming year. That was quite a high number, but in the April quarter survey that number had jumped to 70%.

The RBNZ is signalling more increases in the OCR over the coming years. The latest ASB Housing Confidence Survey shows that this message is getting through loud and clear. Those increases will have the greatest impact on the floating rates, which typically move up in lock-step with the OCR hikes. Recent RBNZ mortgage data has shown that borrowers are gradually switching preferences back towards fixed mortgages now that floating rates are on the rise.

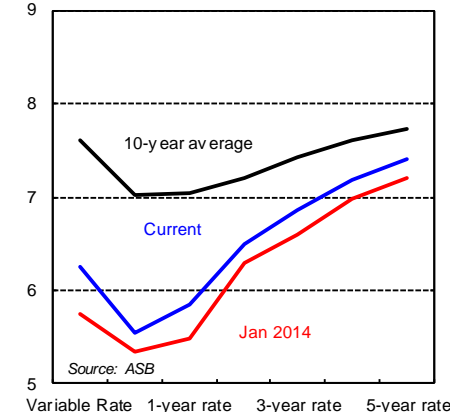
000's **NZ MEDIAN HOUSE PRICE**
(stratified median, 3m moving average)



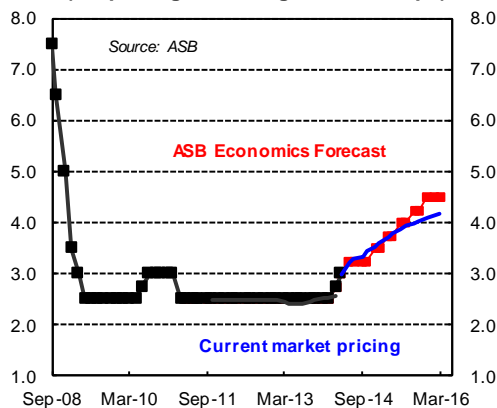
Net% **INTEREST RATE EXPECTATIONS**



% **HOME LOAN RATES** %



% p.a. **OCR FORECASTS** % p.a.
(vs. pricing of overnight index swaps)



Interest rate expectations lift as RBNZ hikes the OCR, and signals future increases...

...and this message is getting through loud and clear

Is it a good time to buy a house?

A breakdown of the net quarterly figure:

- 13% say it is a good time to buy, while 18% say it is a bad time (was 13% and 22% last quarter);
- The difference is the net -4% plotted opposite (was -9% last quarter);
- 53% say it is neither good nor bad, a slight increase from last quarter's 48%;
- 16% don't know (was 17%).

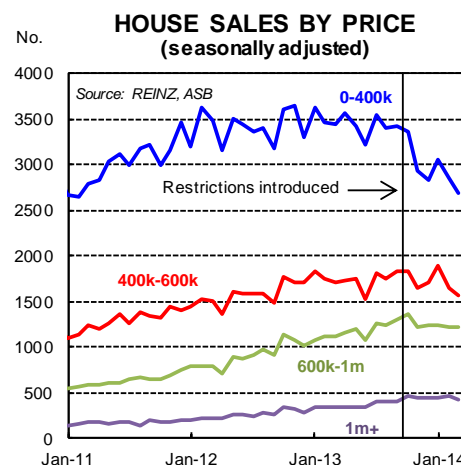
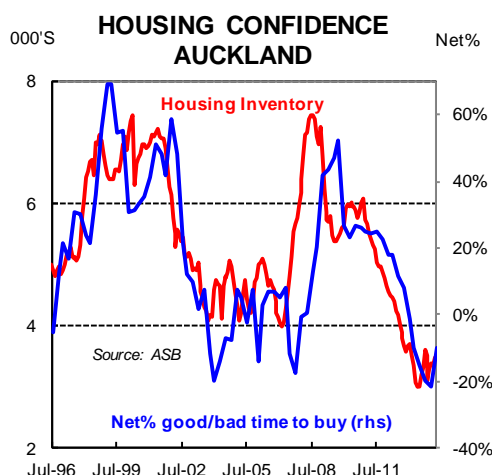
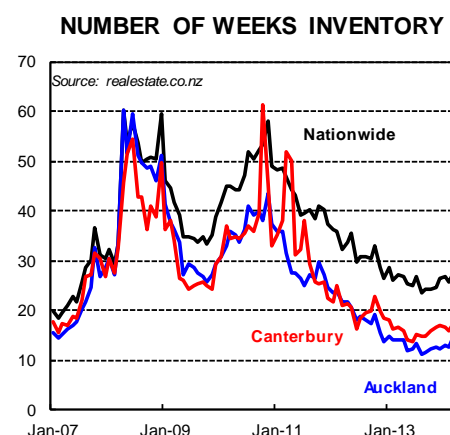
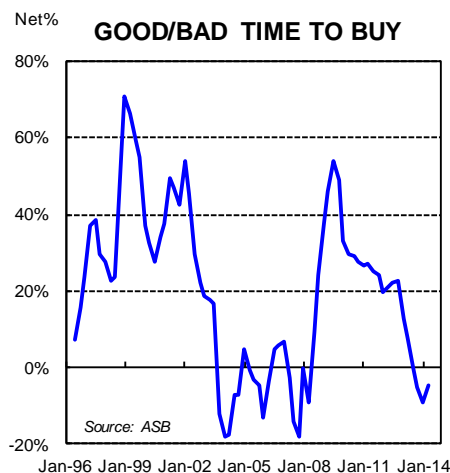
A net 4% of respondents now believe it is a bad time to buy (i.e. the balance of good vs. bad time to buy). That is a slight improvement on the preceding quarter, but still a fairly weak outturn. The combination of high house prices and increasing interest rates is not great for house affordability – the mix continues to weigh on confidence. In addition, responses to this survey question can reflect the balance in the housing market, with a tight market seen as a poor time to be buying.

In recent surveys, Auckland and Canterbury appear to have felt the strain of tight housing markets and high prices. This has continued in the latest survey – a greater proportion of respondents in these areas think it is not a good time to buy than elsewhere. However, the net percentage of Auckland respondents who think now is a bad time to buy a house has moved from -21% in the January quarter to a less negative -10% this quarter. Canterbury's respondents were also less negative, with the balance moving from -21% to -14%. This change coincides with the slight easing in the tightness of both markets. Easing demand has driven some improvement in the supply/demand imbalance recently, as reflected in the increasing number of weeks of total housing inventory in Canterbury and Auckland.

A net 1% thought it was a good time to buy in the rest of the North Island. Positivity has steadily declined over the past year – a net 13% thought it was a good time to buy a year ago in the North Island (ex-Auckland). In the South Island (ex-Christchurch), sentiment is also positive (just) with a net 2% thinking now is a good time to buy, an improvement from -3% in January.

The divergent sentiment around the country reflects the different dynamics at play in each area. The high LVR restrictions and mortgage rate increases are a common feature in every market. However, house prices and affordability, the rate of house price appreciation, and the supply/demand balance all vary from place to place. This divergence is behind the mixed sentiment around the country at the moment.

The REINZ Stratified House Price Index suggests annual house price appreciation peaked at just over 10% in Q4 of last year. But ongoing tightness in the market means upward pressure on prices is likely to continue in some areas.



Sentiment remains negative, but fewer see now as a bad time to buy

Signs of improvement in Auckland and Canterbury, but markets still tight

Sentiment outside Auckland and Canterbury is positive (just)

The peak period of house price gains is likely behind us

The RBNZ's tightening cycle will push up mortgage rates, which in turn will help keep demand in check. But the supply side of the equation is equally important. More houses need to be built over future years to house New Zealand's growing population and help get the market back in balance. The strong pick-up in building consents over the past year suggests this process is getting underway, but it needs to continue.

In summary:

- House price expectations remain elevated in the latest ASB Housing Confidence Survey, with a net 48% of respondents expecting house prices will increase. Expectations of price gains are down compared to last year, but still high.
- The housing market remains tight, with the level of house listings remaining well below demand. The resulting imbalance will continue to place upward pressure on house prices over the year ahead. For many, the lack of supply also makes it seem like a bad time to buy.
- There are a number of factors weighing on sentiment. The market is tight, prices are high, and interest rates are rising. The RBNZ's high LVR lending restrictions are also having an impact, with activity dipping since the introduction of the restrictions last October. On balance, respondents still view now as a bad time to buy a house.
- Interest rate expectations have continued to increase. Fixed-term mortgage rates began lifting in advance of the OCR increases, and now floating rates are increasing as the RBNZ lifts the OCR. We continue to expect the OCR and mortgage rates to lift further over this year and next.
- We are seeing very early signs of easing demand and supply increases. And it appears that the peak period of house price gains is behind us. Price gains are still expected this year, but the rate of house price appreciation is likely to be lower in 2014 than it was in 2013.

ASB commentary on housing and home loan rates

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".

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