

More price gains and fewer rate rises expected

- House price expectations have lifted further, with a net 59% of respondents expecting house prices will increase.
- Fewer respondents expect higher interest rates, although the majority still expect rates to go up over the next year.
- Sentiment about buying a house varies from region to region. Nationwide a net 6% see now as a bad time to buy.

House price expectations have lifted higher in the latest ASB Housing Confidence Survey. A net 59% of respondents expect house prices will increase. That's up on the last quarter's result, when 48% expected higher prices, and is the highest reading since early 2013.

The RBNZ lifted the OCR four times between March and July last year. Despite the RBNZ's OCR hikes, fixed-term mortgage rates have been held down and at times dipped, as global interest rates declined. Bank competition has further pushed down some of the fixed rates on offer. The combination has meant it has been possible for borrowers to access fixed-term rates that are lower than when the RBNZ began raising rates a little less than a year ago. All these developments are influencing interest rate expectations. The majority still expect interest rates to increase over the next twelve months, but the net percentage expecting higher rates has declined to 34% from 55% in the previous quarter's survey.

A net 6% of respondents see now as a bad time to buy a house. Sentiment has become a little less pessimistic in the last two quarters, having recorded the worst sentiment reading in several years six months ago. Since then, mortgage rates have dipped lower, which will be helping sentiment improve. Sentiment remains poorest in Auckland and Christchurch.

The ASB Housing Confidence survey shows that house price expectations have firmed:

- A net 59% of respondents expect house prices to increase in the next twelve months;
- A net 34% of respondents expect interest rates to rise in the next twelve months; and
- A net 6% of respondents believe now is a bad time to buy.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to January 2015) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-15%	68%	33%
Rest of North Island	2%	52%	34%
Canterbury	-16%	58%	36%
Rest of South Island	-1%	55%	39%
TOTAL NZ	-6%	59%	34%
<i>Compare 3 months to October 2014</i>	<i>-8%</i>	<i>48%</i>	<i>55%</i>

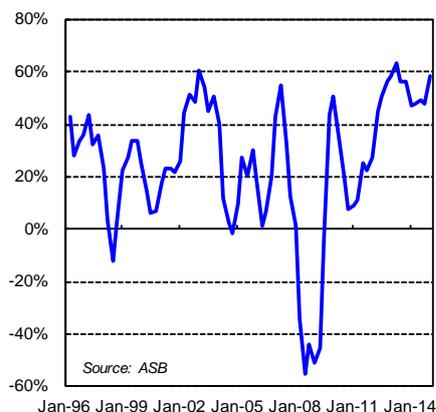
Price expectations lift again:

- 64% expect higher prices, while only 5% expect prices to fall (was 54% and 6% last quarter);
- the difference being the net 59% plotted opposite (was 48% last quarter);
- 17% expect the same (was 24%);
- 14% don't know (was 16%).

House price expectations remain high.

Future house price expectations eased from record levels over 2013 and early 2014 as buyers reacted to LVR restrictions and rising mortgage rates. Having held fairly steady over most of 2014, net expectations of price gains have picked up again according to the latest survey. This quarter's net 59% expecting higher prices is just shy of the 2003 and 2013 peaks of 61% and 63%, respectively.

NET PRICE EXPECTATIONS



Views regarding future house price gains vary from region to region.

Once again, expectations of higher prices were greatest in Auckland. A net 68% expect gains over the year ahead, up from 56% last quarter. We have to go back to 2007 to see a quarter when more Aucklanders expected higher prices.

In Canterbury, the proportion expecting gains picked up too, with 58% expecting gains in the latest quarter's survey. That's up from 51% the prior quarter, but down from 59% in the July 2014 survey. A few years ago there were a lot more people expecting higher prices in Canterbury, with net expectations of price gains peaking at 79% back in April 2013. This is consistent with other data (house sales, listings, as well as building data) that suggest some of the housing shortage pressures in the region have eased over the past year. Nonetheless, expectations of price gains remain at an historically-high level.

Price expectations suggest acceleration in price growth over late 2013 and early 2014.

Expectations of price gains over the year ahead have picked up in other areas too. For the North Island (ex-Auckland) the net percentage expecting price gains lifted from 42% to 52%, back to near where it was in late 2013. And for the South Island (ex-Canterbury), a net 55% expect price gains over the year ahead, up from 44% last quarter, and the highest conviction since January 2013.

Price expectations suggest acceleration in price growth over late 2013 and early 2014. Although seasonality does make interpreting housing data difficult in December and January, the various housing data releases do suggest activity has picked up recently.

Expectations of higher interest rates ease further:

A breakdown of the net quarterly figure:

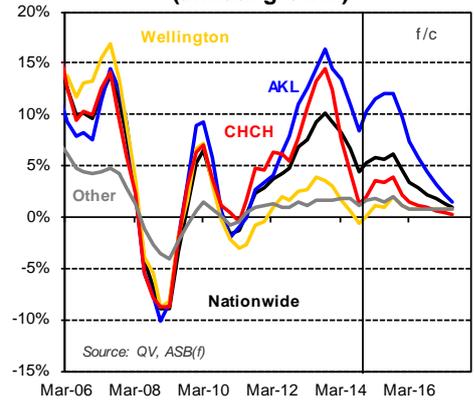
- 41% expect higher interest rates over the coming year, while 6% expect lower interest rates (was 59% and 4% last quarter);
- The difference is the net 34% plotted opposite (was 55% last quarter);
- 30% expect rates to stay the same (was 15%); while 23% don't know, (was 22% last quarter).

The RBNZ's pause signals since late July and mortgage rate specials influence expectations about the interest rate outlook.

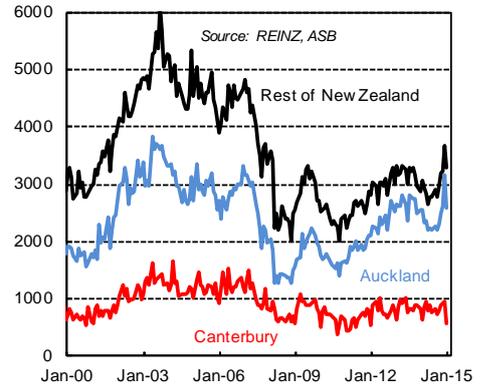
In sum, fewer people are expecting higher rates, and more expect rates to stay the same. Fractionally more people are saying they don't know what will happen to rates or that rates will fall.

A year ago the RBNZ was about to start lifting the Official Cash Rate and 70% of respondents were expecting higher interest rates over the upcoming year. By July the RBNZ had lifted the OCR four times, to 3.5%, and signalled it would pause to assess the impact of the tightening delivered. Since then, the RBNZ has been on hold, and respondents' expectations of higher interest rates have declined. As yet, very few people expect interest rates to decrease over the year ahead (even though mortgage rates have actually been declining). A year ago 2% of respondents expected rates to decrease over the upcoming 12 months, now 6% have that expectation. But each month we have observed a fall in the number of people expecting rate increases.

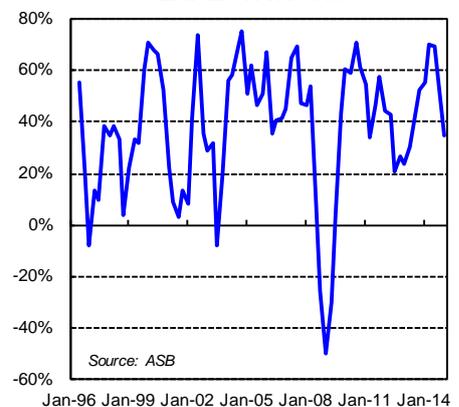
REGIONAL HOUSE PRICE FORECASTS (annual growth)



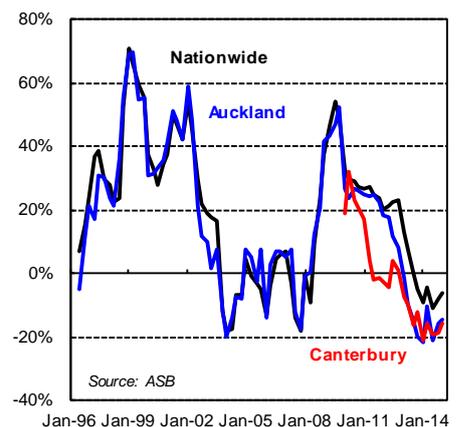
MONTHLY DWELLING SALES (seasonally adjusted)



INTEREST RATE EXPECTATIONS



GOOD/BAD TIME TO BUY



Buyers are a little less negative about the market now.....

....but sentiment is still low in Auckland and Canterbury.....

....whilst sentiment is more balanced in other regions.

The housing market is starting 2015 on strong footings.

We expect a buoyant few months for the housing market.

Since the last OCR hike in July 2014, the RBNZ had been signalling that it expected to lift the OCR at some time in the future. But in January 2015 it changed to an explicit neutral stance. This may impact expectations in the next quarter's survey.

Is it a good time to buy a house?

A breakdown of the net quarterly figure:

- 14% say it is a good time to buy, while 20% say it is a bad time (was 11% and 19% last quarter);
- The difference is the net -6% plotted opposite (was -8% last quarter, and -11 prior to that);
- 51% say it is neither good nor bad (was 53%);
- 16% don't know (was 17%).

In the July 2014 quarter, respondents to the Housing Confidence Survey recorded the most negative sentiment since October 2007. In the subsequent two quarters' surveys, respondents have become a little less negative. Saying that, sentiment is still low, with a net 6% seeing now as a bad time to buy. Perceptions remain the most pessimistic in Auckland and Canterbury. In the January quarter a net 15% of Auckland respondents regarded now as a bad time to buy a house (was 16% in the October quarter and 21% in the July quarter), while in Canterbury a net 16% of respondents viewed now as a bad time to buy, a modest improvement from 19% in the previous two quarters. House prices remain high, and the market is tight in both these regions, but lower interest rates may be helping sentiment become a little less pessimistic.

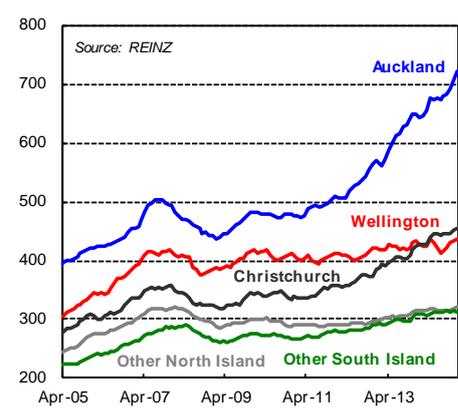
Sentiment is actually marginally positive in the North Island outside of Auckland, with a net 2% seeing now as a good time to buy. (was 0% last time, with respondents evenly split on whether it was a good or bad time to buy). In the South Island outside Canterbury the pessimists narrowly outnumber the optimists, with a net 1% viewing now as a bad time to buy. The ratio of house prices relative to incomes (a measure of affordability) have diverged from region to region. Affordability will likely be one factor behind the varied regional responses to this question. The graph and table to the right highlight this divergence.

Market snapshot and outlook

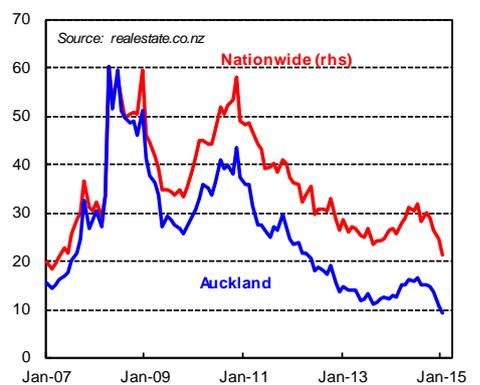
The housing market is starting 2015 on strong footings. Many regions around the country experienced strong sales in the final quarter of 2014, and early indicators suggest this momentum will continue: we are expecting a fairly buoyant few months in the housing market.

The combination of strong migration inflows, low interest rates and the confidence shown by respondents in the ASB Housing Confidence Survey is supportive of robust demand and price gains in the typically busy summer and autumn months. Low interest rates will continue supporting the NZ housing market over the coming months and – in the short term at least – are providing borrowers with plenty of opportunities to manage their debt-servicing costs.

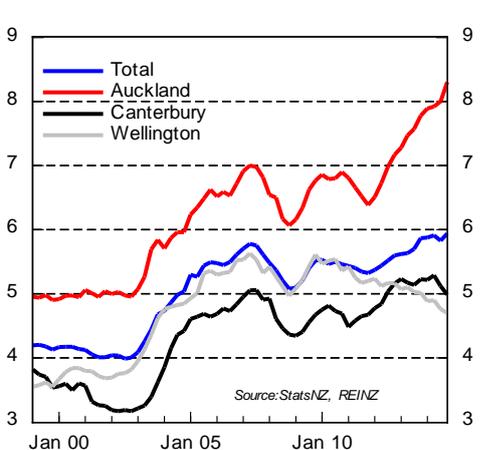
NZ MEDIAN HOUSE PRICE
(stratified median, 3m moving average)



NUMBER OF WEEKS INVENTORY



HOUSE PRICE TO INCOME



HOUSE PRICE TO INCOME

Auckland	8.3
New Zealand	5.9
Northland	5.4
North East NZ	5.3
Nelson	5.1
Canterbury	5.0
Wellington	4.7
Taranaki	4.0
Otago	3.9
Manawatu	3.9
Southland	2.6

Over the long term, we expect price growth to moderate significantly

But we expect that the extreme downward pressure on NZ interest rates stemming from global financial markets will abate as global economic sentiment improves, and as the US Federal Reserve responds to an increasingly-robust US economy by lifting rates.

Looking beyond 2015, we expect house price appreciation to moderate significantly. More housing supply, rising mortgage rates (as global rates return to more normal levels) and affordability challenges will all have an impact. The RBNZ will play a part in restraining the housing market too, by maintaining the current high LVR lending restrictions and, if necessary, new prudential tools or the more traditional process of raising the OCR.

Auckland prices are high, and could get higher.

Auckland affordability looks the most stretched

When it comes to price, Auckland is standing out from the pack, and a reacceleration is increasingly evident. Looking at the ratio of regional house prices relative to incomes, or mortgage repayments for first-home buyers, Auckland stands out as looking quite stretched compared with elsewhere.

Listings are incredibly low, while demand remains high.

The supply of Auckland homes listed for sale is extremely low. At the start of this year Auckland had listings equivalent to 9 weeks' worth of sales, against nationwide inventory of over 21 weeks. That Auckland ratio is the lowest for realestate.co.nz's data, which go back to the start of 2007. Low supply and strong demand suggest the upward pressure on prices is increasing right now. From a property market perspective, it may sound like Auckland is the tail wagging the dog these days. But the region does account for around 40% of nationwide property turnover, so it's a pretty big tail.

Long-term solutions to on-going challenges in Auckland lie in a swifter and more cost-effective supply response to meet added housing demand. Government and local council actions will work to improve this supply response – but it will take time. Building consent issuance has lifted in Auckland, but needs to lift further still just to match current population growth.

RBNZ will be carefully monitoring developments.

RBNZ: how do you solve a problem like housing?

The RBNZ is interested in housing market developments for a number of reasons, including financial stability. Highly indebted households are vulnerable to unexpected loss of income, as well as interest rate increases. The current rebound in Auckland is likely to be increasing the RBNZ's concerns. The higher house prices go relative to incomes, the greater the risk is of a significant pullback (and in turn financial stability threats) in the event of an economic downturn.

LVR restrictions will continue to restrict some borrowers.

With broader inflation pressures very low, it is unlikely the RBNZ will lift interest rates in the foreseeable future. Accordingly, concerns the RBNZ may have about the housing market really only have one avenue for action: further prudential tools. It is increasingly likely that the current loan-to-value ratio restrictions remain in place for longer than we (and probably the RBNZ) originally anticipated. We think late 2015 will be the earliest the RBNZ could remove the restrictions. Buyers should also be prepared for further measures, whether directly targeted at property investors (e.g. increasing the capital banks have to hold against large-scale investors) or more general (e.g. debt servicing limits).

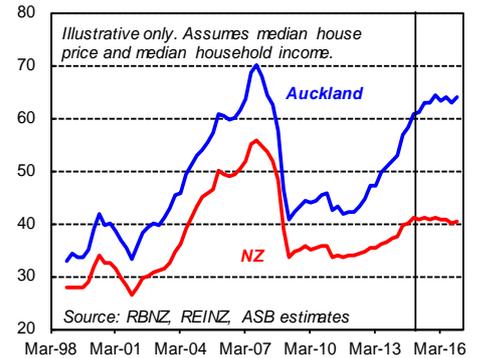
Buyers should also be prepared for further measures.

There are practicality challenges with prudential tools. How does the RBNZ know if they will they will work? What distortions could they cause to the housing market, construction, or credit allocation?

Some have suggested regional lending restrictions, given a lot of the risk seems to be concentrated in Auckland. Regional restrictions would be difficult to implement and monitor, and have the potential for some unintended impacts, such as skewing construction and demand to areas just outside the region, rather than stimulating construction within the region. Furthermore, although the risks do look highest in Auckland, house prices in all regions lifted sharply relative to incomes during the 2000s boom.

The RBNZ could announce changes to the existing high LVR restrictions, or new prudential tools at any time. Over the year ahead, the RBNZ's Financial Stability Reports (May, November) and Monetary Policy Statements (March, June, September and December) will be important to monitor for insights into the RBNZ's thoughts on the housing market and the related financial stability concerns.

MORTGAGE REPAYMENTS OF A FIRST HOME BUYER % H/H INCOME (25 year, 20% deposit)



In summary:

- House price expectations lifted in the latest ASB Housing Confidence Survey. A net 59% of respondents expect house prices will increase over the next year. That’s just shy of the record levels recorded in 2003 and 2013.
- The housing market remains tight, with low numbers of houses listed for sale nationwide. The shortage of listings is particularly noticeable in Auckland. We continue to see this tightness as a key influence on housing market sentiment, and price expectations.
- The majority of respondents still expect interest rates to increase over the next twelve months, but the net percentage expecting higher rates has declined to 34% from 55% in the previous quarter’s survey. Fewer people are expecting higher rates, and more expect rates to stay the same or decline.
- The peak period of house price appreciation occurred in late 2013. But, having slowed over most of 2014, activity and house price appreciation picked up late in the year. Conditions suggest this buoyancy will continue over the busy summer and autumn months of this year.
- Concerns the RBNZ develops about the stretch in house prices (particularly in Auckland) really only have one avenue for action: further prudential tools. It is increasingly likely that the current loan-to-value ratio restrictions remain in place for longer, at least into later stages of 2015. Other measures are likely to be implemented, provided they are feasible in reality, not just theory.

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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