

House price expectations remain elevated

- House price expectations remain elevated, with a net 49% of respondents expecting house prices will increase.
- The vast majority expect higher interest rates over the next twelve months.
- Sentiment about buying a house has deteriorated, with a net 11% of respondents seeing now as a bad time to buy.

House price expectations remain elevated in the latest ASB Housing Confidence Survey. A net 49% of respondents expect house prices will increase. That's very similar to the previous two quarters' surveys, but a slight decline from early last year when a net 63% expected house prices to increase. The housing market remains tight, but the easing in price expectations is consistent with the moderation in activity observed since late 2013.

Sentiment about buying a house has dipped again, with a net 11% of respondents seeing now as a bad time to buy a house. That's the worst sentiment since October 2007. The combination of rising mortgages, expensive housing and lending restrictions will all be playing a part in the decline in sentiment over recent surveys, including the last quarter's results.

Interest rate expectations are little changed over the past quarter. The vast majority (a net 69%) expect higher interest rates over the next twelve months (was 70% in the April quarter). That is consistent with the increases in the OCR and mortgage rates over the quarter. The influence of RBNZ's pause signal in late July will be something to monitor in the next survey.

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

- A net 49% of respondents expect house prices to increase in the next twelve months;
- A net 69% of respondents expect interest rates to rise in the next twelve months; and
- A net 11% of respondents believe now is a bad time to buy.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to July 2014) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-21%	57%	67%
Rest of North Island	-3%	44%	70%
Canterbury	-19%	59%	72%
Rest of South Island	-3%	40%	68%
TOTAL NZ	-11%	49%	69%
<i>Compare 3 months to April 2014</i>	<i>-4%</i>	<i>48%</i>	<i>70%</i>

Price expectations edge up:

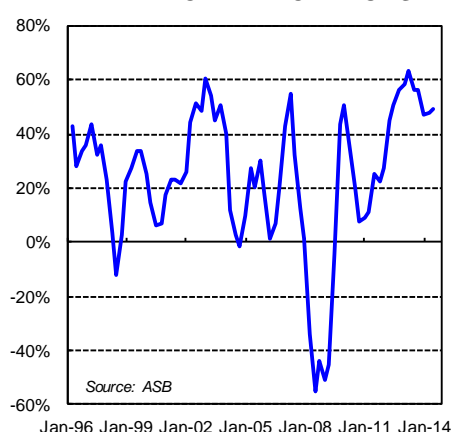
- 56% expect higher prices, while only 6% expect prices to fall (was 54% and 6% last quarter);
- the difference being the net 49% plotted opposite (was 48% last quarter);
- 23% expect the same (was 24%);
- 15% don't know (was 16%).

House price expectations have been quite resilient to the lifts in the OCR to date this year and flow-on effect to floating mortgage rates. The slight easing in price expectations over the past year occurred after the RBNZ's high-LVR restrictions were implemented last October.

Price expectations in the country's hottest housing markets – Auckland and Canterbury – edged up over the quarter. In Auckland's case the rebound in expectations is slightly larger and has been underway since the start of the year.

House price expectations have been resilient.

NET PRICE EXPECTATIONS



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

Interest rate increases will over time crimp buyer's purchasing capacity. However, they are not the sole driver of market momentum. Net migration flows, for example, remain very strong and are disproportionately boosting those same two regions. And while building activity is picking up and bringing added stock, the pick-up in Auckland has yet to reach a rate that would cover the normal growth of new households.

The still-high level of price expectations in Auckland and Canterbury reinforces to us that the slowing of price growth in those regions will remain gradual rather abrupt. The demand/supply balance is shifting, but in an orderly fashion. The still-tight market suggests prices are likely to remain well supported as buyers compete for limited stock.

Price expectations outside of the 2 main centres are elevated, considering how modest actual price gains have been. The net percentage of respondents expecting price gains has eased back from last year's highs, matching the pattern in Auckland and Canterbury.

Expectations of higher interest rates steady.

A breakdown of the net quarterly figure:

- 72% expect higher interest rates over the coming year, while 3% expect lower interest rates (was 72% and 2% last quarter);
- The difference is the net 69% plotted opposite (was 70% last quarter);
- 9% expect rates to stay the same (was 8%), while 17% don't know, (was 17% last quarter).

Interest rate expectations lift as RBNZ hikes the OCR.

Expectations that interest rates will rise have remained high and at a similar level to the results surveyed last quarter, and are tracking near the level recorded at the time the RBNZ briefly lifted interest rates in mid-2010.

The RBNZ's pause signal in late July may influence the next survey.

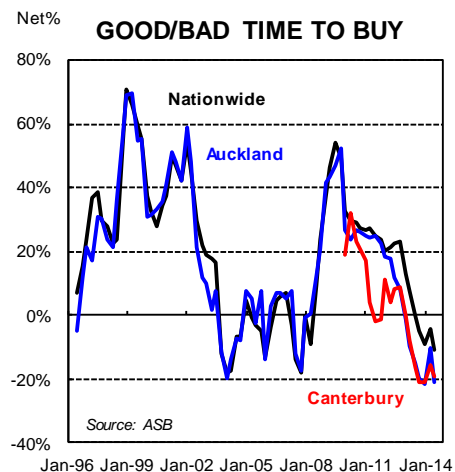
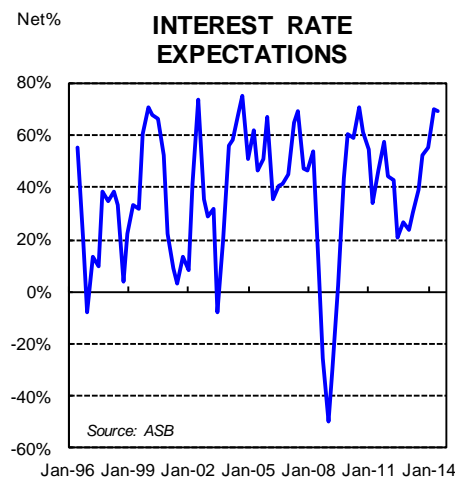
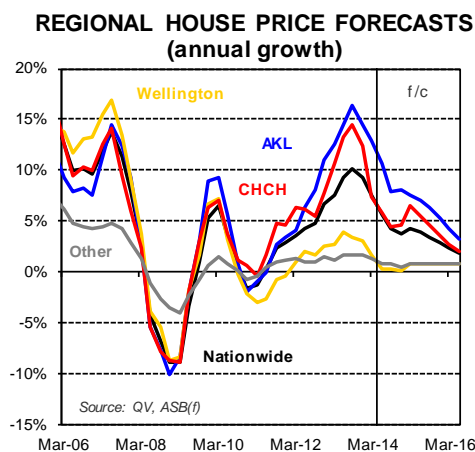
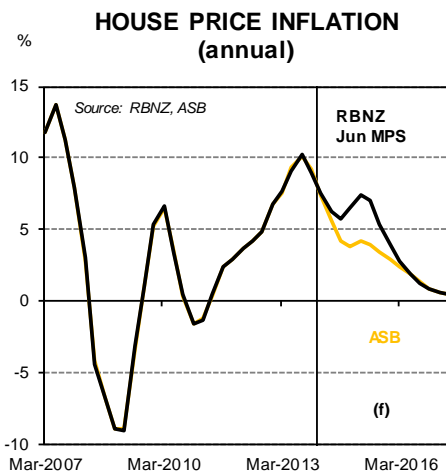
The survey results predate the RBNZ's clear signal in late July that it will now pause its rate-tightening cycle to assess the impact of the 100bp of OCR increase made since March. It will be interesting to see in the next survey whether the pause (both signalled and observed) tempers respondents' views about future interest rate increases.

Interest rate expectations are fairly consistent across all areas, but still show some variance. The responses range from a low of 67% (net) of Aucklanders expecting higher interest rates over the year ahead to a high of 72% (net) of respondents in Canterbury expecting higher rates over the year ahead.

Is it a good time to buy a house?

A breakdown of the net quarterly figure:

- 12% say it is a good time to buy, while 23% say it is a bad time (was 13% and 18% last quarter);
- The difference is the net -11% plotted opposite (was -4% last quarter);
- 51% say it is neither good nor bad (was 53%);
- 15% don't know (was 16%).



Buyers are increasingly negative about buying now....

On balance respondents are increasingly negative about whether now is a good time to buy. The shift has been mainly driven by a greater proportion of respondents viewing now as a bad time to buy, in Auckland in particular. The net 11% of respondents seeing now as a bad time to buy a house is the worst sentiment since October 2007. The combination of rising mortgages, expensive housing and lending restrictions will all be playing a part in the decline in sentiment over recent surveys, including the last quarter's results.

...with sentiment declining noticeably in Auckland and Canterbury.

In Auckland a net 21% of respondents view now as a bad time to buy (vs. 10% in April) while in Canterbury 19% view now as a bad time to buy (vs. 16% in April).

It's understandable why sentiment has deteriorated, particularly in Auckland. House prices there are more expensive in than anywhere else, and Auckland continues to record stronger price gains than elsewhere, adding to the affordability strain. The ratio of inventory to sales (a measure of market tightness) is lower in Auckland than anywhere else, and the Christchurch market also remains tight.

The housing market remains tight, making it a challenging time for buyers.

Data from realestate.co.nz suggest the amount of inventory in Auckland amounts to around 16 weeks of sales, compared to 20 weeks in Canterbury and 31 weeks for New Zealand as a whole. This lack of supply is a likely cause of frustration for Auckland and Canterbury buyers, and accordingly, a contributing factor to their views that now is a bad time to buy. This will change as construction increases the supply of houses available, but this process takes time. Likewise, with the economy performing well, there is no obvious catalyst for house prices to fall, or interest rates to come down in the near future. Accordingly, affordability (or lack of it) is likely to continue to be a drag on sentiment over the next year or two.

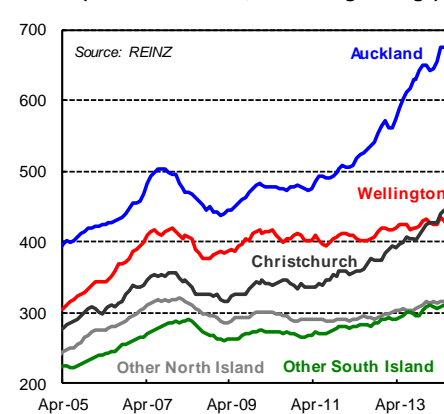
Housing and interest rate outlook

The housing market continues to moderate steadily. Higher interest rates and high LVR lending restrictions are dampening demand, and more building will add to housing supply. In Auckland and Canterbury strong migration is an additional influence on demand, and some counterbalance to the dampening influences.

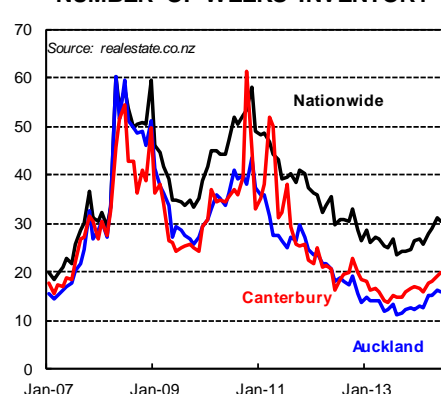
Price growth is likely to be slower than the RBNZ expected in its June Monetary Policy Statement. At the margin, the housing market moderation is a reason for inflation pressures being slightly softer than the RBNZ expects. We recently revised our OCR view to incorporate a later start (now March 2015) to the next part of the RBNZ's tightening cycle. Dairy price weakness and persistent NZD strength are key factors in addition to the housing developments discussed ([full report here](#)).

We continue to expect the RBNZ will lift the OCR to 4.5% over the course of 2015, another 1% or four 0.25% hikes above the current level. For borrowers, that means more mortgage rate increases are on the radar. Mortgage increases will be greatest for rates of up to 2 years maturity: these terms will steadily reflect the effect of the rising OCR. In contrast, longer-term rates have less to move as their time periods mean that for some time they have been increasingly factoring in the tightening cycle.

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



NUMBER OF WEEKS INVENTORY



In summary:

- House price expectations remain elevated in the latest ASB Housing Confidence Survey, despite the impact of LVR restrictions and a series of interest rate increases seen so far this year. A net 49% of respondents expect house prices will increase. The proportion of respondents expecting price increases has been quite steady this year and is only down slightly from 2013’s peak.
- The housing market remains tight, with low numbers of houses listed for sale nationwide. The shortage of listings is particularly noticeable in Auckland. We see this tightness as a key influence on housing market sentiment, and price expectations.
- Over the past year, the majority of respondents have been expecting mortgages to increase. And a clear majority of respondents continue to expect mortgage rates will increase over the coming 12 months. That is also our view. However, the RBNZ is now likely to pause raising the OCR for several meetings, and this recent signal may influence responses in the next survey.
- Momentum in the housing market is continuing to slow gradually. The peak period of house price appreciation occurred in late 2013, and we expect price growth to moderate over this year and next.
- However, the tight housing market, combined with New Zealand’s broader economic strength means that house price declines are not likely at present.

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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