

House price expectations reach new high

- House price expectations lift to the highest level in the survey's history.
- Housing confidence declines as fewer respondents see now as a good time to buy in Auckland and Christchurch.
- Interest rate expectations edge higher, with expectations increasingly split between no change and an increase.

House price expectations have reached a new high in the latest ASB Housing Confidence Survey. A net 63% of respondents now expect prices to rise over the next 12 months, exceeding the previous peak of net 61% recorded in January 2003. The strongest lift in house price expectations came from the South Island excluding Christchurch, reflecting a broadening in housing market activity over the past six months. House price expectations in Auckland and Christchurch remained elevated. Supply constraints in Auckland and Christchurch have resulted in double digit-growth in house prices. Low levels of new listings and strong buyer competition are affecting housing confidence, with an increase in the number of respondents seeing now as a bad time to buy in Auckland and Christchurch. Outside of these areas, housing confidence remains positive but is falling as demand and prices start to increase across the country.

Interest rate expectations have edged slightly higher, with respondents now broadly split between expecting interest rates to increase in the next 12 months or interest rates to remain unchanged. Increased RBNZ concern around housing market pressures and increased Canterbury reconstruction activity are likely to be behind the lift in interest rate expectations. Interest rate expectations are strongest in the South Island, where the construction-led recovery is more apparent. We continue to expect the RBNZ to lift the OCR in March 2014.

The ASB Housing Confidence survey shows that house price expectations continue to rise:

- A net 63% of respondents expect house prices to increase in the next twelve months;
- A net 8% of respondents believe now is a good time to buy;
- A net 30% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: ACNielsen)

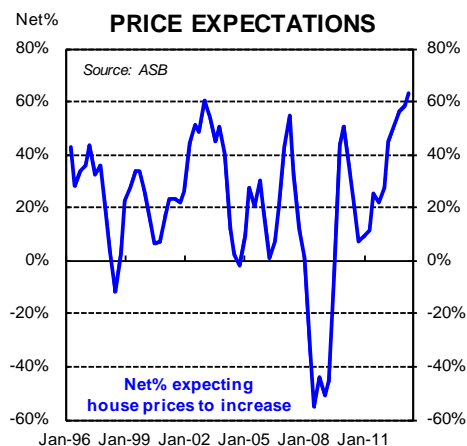
Net percent who believe (3 months to April 2013) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-10%	66%	23%
Rest of North Island	19%	56%	31%
Christchurch	-9%	79%	42%
Rest of South Island	12%	71%	35%
TOTAL NZ	8%	63%	30%
<i>Compare 3 months to January 2013</i>	<i>13%</i>	<i>59%</i>	<i>24%</i>

Price expectations reach new highs and expectations of house price increases broaden beyond Auckland and Christchurch.

Price expectations lifted further over the three months to April, and are now above the previous peak of net 61% in January 2003. The price expectations lifted in all areas, except Auckland where they remained steady with net 66% expecting prices to increase. Price expectations remain highest in Christchurch, lifting to net 79% from net 76% previously. The largest increase came from the South Island excluding Christchurch, with expectations lifting from net 56% to net 71%. The lift reflects the broadening in housing market activity across the country.

A breakdown of the net quarterly figure is:

- 70% expect higher prices (66% last quarter), with only 6% expecting lower prices (down from 8%);
- the difference being the net 63% plotted opposite (59% previously);



Housing market confidence declines as now seen as a bad time to buy in Auckland and Christchurch.

- 14% expect the same (15% previously);
- 10% don't know (11% previously).

Few respondents feel now is a good time to buy a house, weighing on housing confidence. Over the 3 months to April, a net 8% of respondents feel now is a good time to buy a house, compared to 13% in the previous three months. Respondents outside of Auckland and Christchurch remain confident in the housing market and continue to see now as a good time to buy. However, in Auckland and Canterbury net 10% and net 9% respectively now feel it is a bad time to buy. This likely reflects the lack of listings in these markets. Double-digit price growth in house prices in these regions is also likely to be pricing some prospective buyers out of the market.

The breakdown is:

- 28% say it is a good time to buy (31% previously), while 20% say it is a bad time (18%);
- The difference is the net 8% plotted opposite (13%);
- 42% say it is neither good nor bad (41%);
- 10% don't know (unchanged).

Interest rate expectations start to lift.

Interest rate expectations edged higher over the 3 months to April. A net 30% of respondents now expect interest rates to increase (up from net 24% previously). The sharpest increase in interest rate expectations came from the South Island, with interest rate expectations the strongest in Christchurch (with net 42% expecting an interest rate increase). In contrast, interest rate expectations fell in Auckland, to net 23% (27% previously).

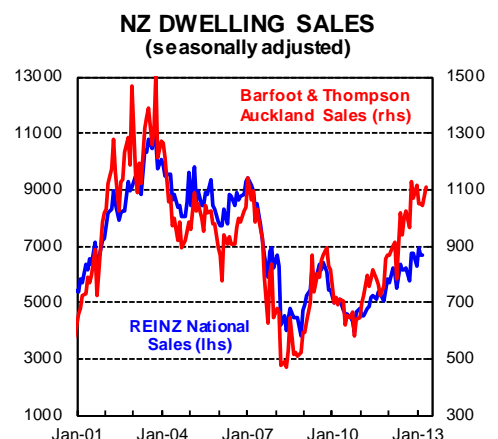
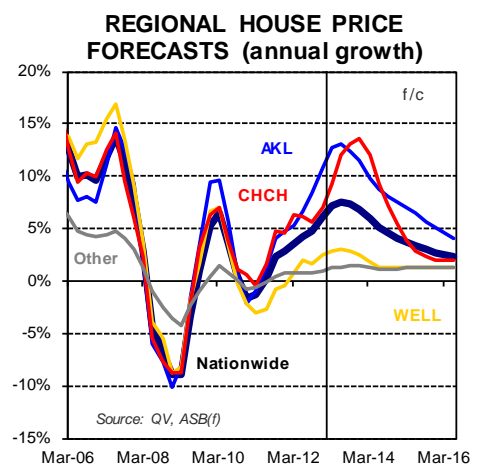
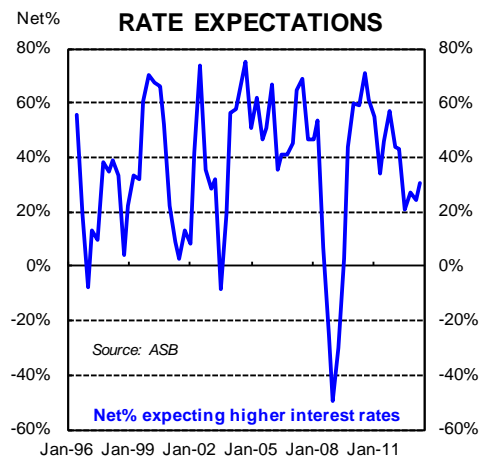
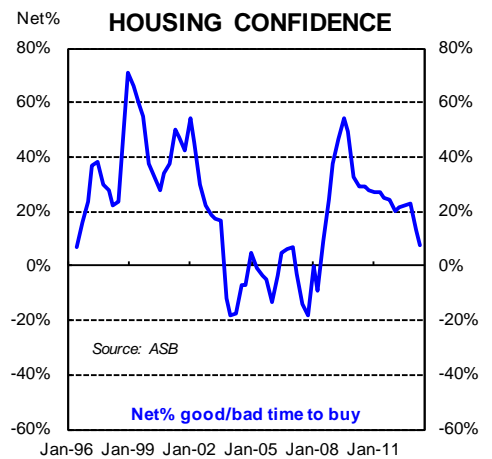
The breakdown is:

- 38% expect higher interest rates (32% in the previous quarter), while 8% expect lower interest rates (unchanged);
- The difference is the net 30% expecting higher rates, plotted opposite (24% previously);
- 37% believe interest rates will stay the same (39%);
- 17% don't know (20%).

House prices lift across the country as demand picks up modestly.

House prices continue to rise

NZ house prices continue to lift, with price increases led by Auckland and Christchurch. Outside of these areas, price increases have been more modest. Contributing to a nationwide lift in housing demand are low interest rates, increased household confidence, increased investor demand and a lift in net migration. Nonetheless, the extent of the lift in demand has been modest. A degree of caution continues to linger, with slow income growth, uneven economic recovery and elevated unemployment.



House price performance varies significantly by region.

In most areas, house prices increased over the three months to March. However, pockets of weakness remain, largely in the more isolated areas of the country. In terms of annual performance, there are now quite large regional divergences (for more discussion on regional economic performance, please see our [Regional Economic Scoreboard](#)).

Canterbury housing market tightens further in recent months.

In most centres, annual house price growth has remained contained between 2-5%. However, in Canterbury and Auckland, house prices have been growing at double-digit rates. Supply remains very low in these areas. The Canterbury housing market appears to have tightened further in recent months, with the seasonally-adjusted median number of days to sell dropping sharply. The rental market has also tightened, with rents surging 2.1% over the March quarter. Anecdotes suggest that as major repair work commences, households are struggling to find alternative temporary location. This is placing additional strain on an already undersupplied market. Christchurch housing shortages should ease over the coming year. Building consents continue to surge, pointing to significant supply coming on stream (assuming construction can keep up with building intentions). However, in Auckland, the lift in building demand has been very modest. As a result, we expect Auckland's supply issues will persist, continuing to place upward pressure on house prices.

Low supply and strong competition sees housing confidence decline.

Supply constraints and strong house price inflation have weighed on housing confidence in Auckland and Christchurch. Net 10% and net 9% in Auckland and Christchurch respectively now see it as a bad time to buy. Lack of supply is one issue, with few new listings each month – inadequate to keep up with the current level of sales. According to listings data from realestate.co.nz, as of April, there is just 14 weeks of supply in the Auckland market, down from 22 weeks a year ago. In Christchurch there is just 16 weeks of supply. This compares to a national average of 27 weeks. Strong growth in prices may also be pricing some potential home buyers out of the market, weighing on housing market confidence.

Outside of Auckland and Christchurch, where supply constraints are not an issue, housing confidence remains positive. Nonetheless, confidence is declining, likely reflecting the recent (modest) increase in house prices.

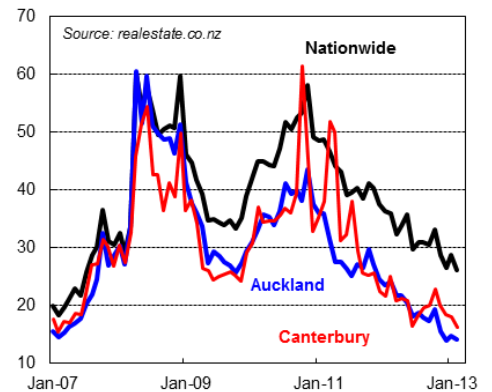
Interest rate expectations lift on RBNZ housing market wariness and Canterbury rebuild activity.

Interest rate expectations have started to edge higher after falling through the middle of 2012 when expectations of a rate cut started to increase. Currently, expectations are broadly split between expecting interest rates to increase in the next 12 months (38%) and stay the same (37%). The share expecting a cut has fallen to 8% currently from 16% in the three months ending July 2012. Since the middle of 2012, offshore conditions have stabilised, reducing the likelihood of an Official Cash Rate cut. Meanwhile, in recent communications, the RBNZ has become more outwardly concerned about the increase in housing market pressures and the risks presented to both inflation and financial stability. In addition, Canterbury rebuild-related activity has lifted strongly over the past 6 months. This likely explains the stronger interest rate expectations in the South Island, where the increase in economic activity is more apparent. We continue to expect the Reserve Bank to start increasing the Official Cash Rate in March 2014.

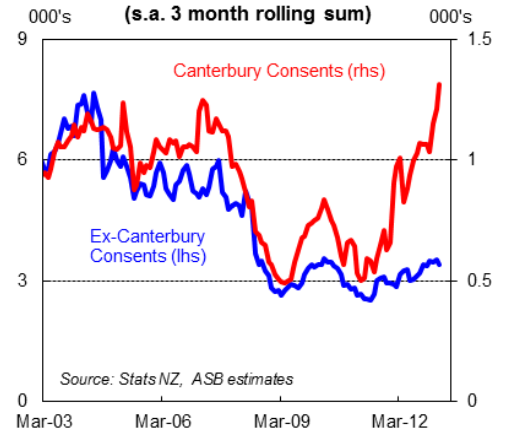
CANTERBURY HOUSE PRICES AND DAYS TO SELL



NUMBER OF WEEKS INVENTORY



RESIDENTIAL CONSENT ISSUANCE (s.a. 3 month rolling sum)



In summary,

- House price expectations rose to the highest level in the survey's history.
- The housing market remains supply constrained in Auckland and Christchurch, with low levels of new listings unable to keep up with the modest increase in sales. In these cities, housing inventory has fallen to very low levels, and the supply/demand imbalance continues to place upward pressure on prices. However, outside of Auckland and Christchurch, house price increases have been more modest.
- Housing confidence continues to decline as buyers face strong competition and new house building is slow to alleviate Auckland and Christchurch pressures.
- Expectations of higher interest rates have started to lift as Canterbury activity starts to pick up and RBNZ has become more vocal on housing market concerns.

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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