

Lower interest rates underpins housing optimism

- Housing confidence lifted slightly in the three months to April.
- Price expectations also increased slightly, with highest price expectations in Auckland.
- Optimism buoyed by a continued decline in interest rate expectations.

Housing confidence and house price expectations both lifted slightly over the three months to April, underpinned by a decline in interest rate expectations. This decline in interest rate expectations reflected the 50 basis point cut in the OCR at the March MPS, in an “insurance” response to mitigate the flow-on effects of the February earthquake to the wider economy. At the following OCR Review in April, the RBNZ indicated the current level of the OCR would be appropriate for “some time”.

Housing confidence and price expectations in the Christchurch region slumped in the March month in the wake of the earthquake. While there was some rebound in April, housing confidence in the region remains much lower than the nationwide average. Price expectations recovered somewhat and are in keeping with the rest of the South Island.

Recent house sales data shows signs of a tentative improvement in housing market activity taking place. There was a lift in nationwide house sales, particularly in March. While there was a slump in house sales in the Canterbury region in March, this largely reflected the disruption from the earthquake and delays with insurance difficulties. The rebound in house sales in April suggests a degree of demand for housing remains in the region, particularly for undamaged properties. Nonetheless, the nationwide average number of days to sell a house is still above the long-term average, suggesting buyers are not in any great rush to purchase. We expect the combination of a contained level of housing inventory, positive population growth and the recent drop in interest rates will underpin a gradual recovery in the housing market over the coming years.

The ASB Housing Confidence survey suggests improved interest in housing:

- A net 11% of respondents expect house prices to increase in the next twelve months;
- A net 29% of respondents believe now is a good time to buy;
- A net 35% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: ACNielsen)

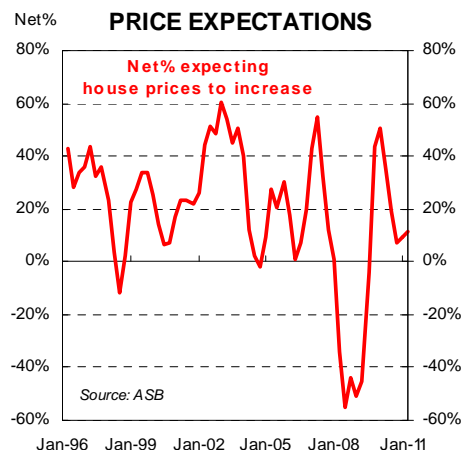
Net percent who believe (3 months to April 2011) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	26%	20%	33%
Rest of North Island	33%	7%	35%
Christchurch	0%	9%	40%
Rest of South Island	23%	10%	36%
TOTAL NZ	29%	11%	35%
<i>Compare 3 months to Jan 2011</i>	<i>27%</i>	<i>9%</i>	<i>55%</i>

Price expectations steady on a nationwide basis.

Price expectations increased slightly over the quarter. Auckland continues to have the highest price expectations across all the regions. A month-to-month breakdown showed price expectations in Christchurch fell sharply in March, with some rebound in the following month.

A breakdown of the net quarterly figure is:

- 36% expect higher prices (32% last quarter), with 24% expecting lower prices (23%);
- the difference being the net 11% plotted opposite (9% previously);
- 33% expect the same (37%);
- 7% don't know (7%).



Nick Tuffley Chief Economist – 649 374 8604 – nick.tuffley@asb.co.nz

Christina Leung Economist – 649 369 4421 – christina.leung@asb.co.nz

General Advice Warning

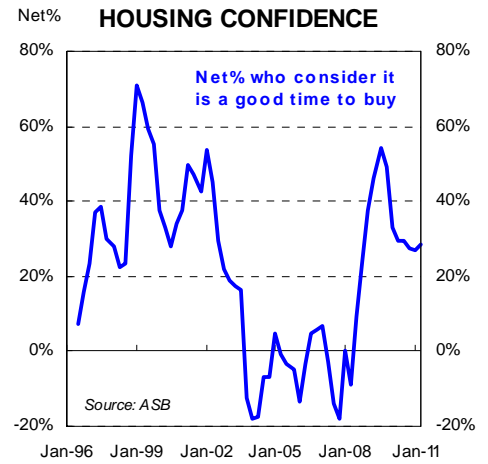
As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

Confidence also steady.

On balance, respondents' optimism towards housing improved slightly. This reflects an improvement in housing confidence in the North Island, while housing confidence in the South Island remained steady. As with price expectations, a month-to-month breakdown reveals a sharp drop housing confidence in Christchurch in March, although there was a considerable rebound in the following month. Nonetheless, housing confidence in Christchurch is well below the nationwide average over the quarter.

The breakdown is:

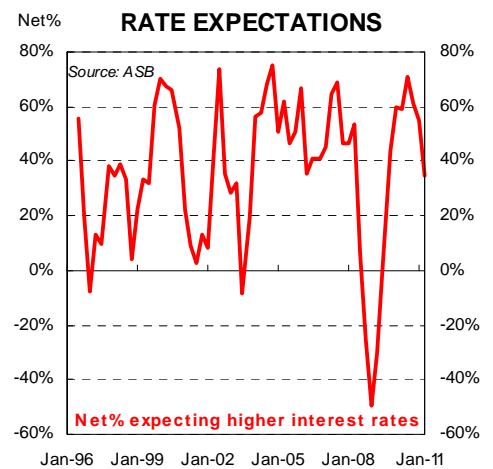
- 41% say it is a good time to buy (39% previously), while 12% say it is a bad time (12%);
- The difference is the net 29% plotted opposite (27%);
- 40% say it is neither good nor bad (42%);
- 7% don't know (6%).



Interest rate expectations continue to decline.

Reflecting the 50 basis point cut in the OCR at the March MPS in the wake of the Christchurch earthquake, interest rate expectations continued to fall. The decline was broad-based across the regions:

- 46% expect higher interest rates (59% in the previous quarter), while 11% expect lower interest rates (4%);
- The difference is the net 35% expecting higher rates, plotted opposite (55% previously);
- 32% believe interest rates will stay the same (25%);
- 12% don't know (11%).



Housing market shows tentative signs of recovery

There have been tentative signs of an improvement in housing market activity in recent months. In particular, nationwide housing turnover increased by 4.5% in March. The 0.4% lift in housing turnover the following month indicated a recovery in housing demand is underway.

As a result, nationwide average days to sell have shortened to 45 days. Despite the decline, days to sell remains above the long-term average of 38 days, suggesting buyers are still not in any rush to buy a house at the moment.

Improvement in housing turnover.

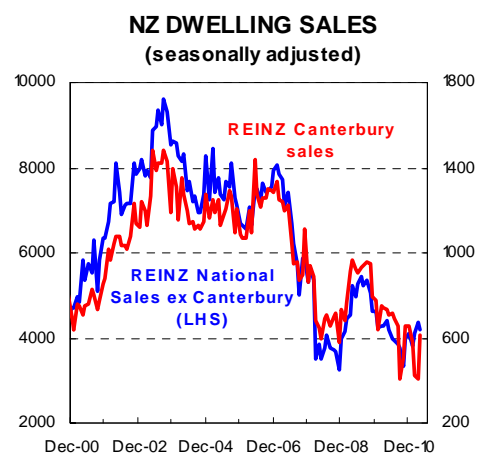
February earthquake had substantial effect on Canterbury house sales.

The regional split reveals the February earthquake had a substantial effect on house sales in the Canterbury region. 193 house sales were recorded in March 2011, well down on the 595 sales recorded a year earlier. This reflects the damage from the earthquake itself, as well as delays from insurance difficulties. The rebound in housing turnover in April reflected some clearing of these hurdles, which is encouraging as it indicates underlying housing demand still exists in the region.

Auckland housing market tighter than rest of the regions.

The Auckland housing market is tighter relative to other regions in NZ. This is reflected across a range of measures, including the relatively shorter average number of days to sell and the low number of houses on the market.

Despite the region accounting for 37% of nationwide turnover in April, Auckland listings only makes up 25% of total NZ housing inventory. As a result of this tightness in the Auckland housing market, house price appreciation in the region has been stronger than most other regions.

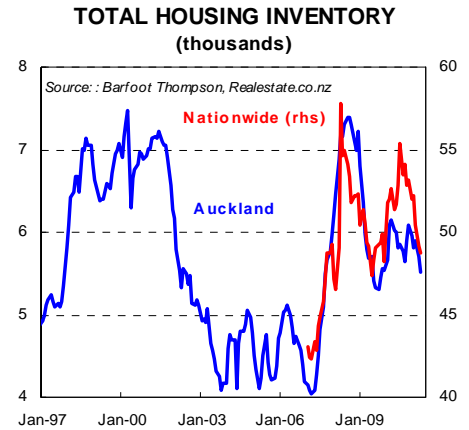


Housing market activity to remain subdued over the coming months.

Overall, we see nationwide house prices as troughing out now, and expect modest house price appreciation of around 3% over the coming year.

Gradual recovery expected over coming year

The amount of inventory of properties on the market remains reasonably contained. This, along with positive population growth and the recent drop in interest rates, are all positive factors for the housing market over the year ahead. In addition, the level of residential building consent issuance remains low, raising the risk of an undersupply of new housing over the next couple of years.



We expect a gradual recovery in housing market activity. Behind the lift in nationwide activity will be a range of experiences across the regions, from stronger price appreciation in areas such as Auckland, to ongoing weakness in areas where population and income growth are less supportive. We expect strong demand for Christchurch properties which have not been damaged by the earthquake will support house prices in the Canterbury region.

In summary,

- Housing confidence lifted slightly over the three months to April.
- Slight increase in house price expectations across the regions.
- Recent data shows improvement in housing market activity.
- We expect house prices to be troughing now, and for modest growth in house prices over the coming year. The continued low level of residential building consent issuance raises the risk of an undersupply of housing over the coming years.

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".

<https://reports.asb.co.nz/index.html>

<http://www.research.comsec.com.au>

ASB Economics
Level 9, 135 Albert Street, Auckland

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 374 8604	(649) 302 0992
Economist	Jane Turner	jane.turner@asb.co.nz	(649) 374 8185	
Economist	Christina Leung	christina.leung@asb.co.nz	(649) 369 4421	
Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 374 8819	

Disclaimer

Views expressed in this report are those of the authors as at the date of this report and are based on information and sources believed but not warranted to be correct. Any views or information, while given in good faith, do not necessarily reflect the views of ASB and are subject to change without notice. Neither ASB Bank Limited nor any person involved in preparing this report accepts any liability for any loss or damage whatsoever that may directly or indirectly result from any views, information or omission contained in this report.