

Housing confidence edges down

- Housing confidence falls slightly, but is still relatively upbeat.
- Price expectations remain positive but fewer people expect price increases.
- Despite a fewer number of respondents expecting interest rate increases over the coming year.

Housing confidence fell slightly over the three months to October 2010. While there was a decline in the proportion of respondents who expected house prices to increase, this was largely counterbalanced by fewer respondents expecting interest rate increases over the coming year. Tax changes regarding investment property announced in the May Budget probably continued to add to the cautiousness towards housing as an investment option.

The survey results are in line with recent data showing continued weakness in housing market activity. Adding to the weak activity was the Canterbury earthquake in early September, which saw a substantial decline in house sales in the region. The overall weakness in housing demand has seen the median number of days taken to sell a house continue to edge up to well above the long-term average. The decline in house prices in recent months is in line with our expectations of annual price declines of 3-4% over late 2010/early 2011. Beyond that we expect weak house price growth, as population growth underpins housing demand even as mortgage rates increase gradually.

The ASB Housing Confidence survey suggests waning interest in housing:

- A net 8% of respondents expect house prices to increase in the next twelve months;
- A net 28% of respondents believe now is a good time to buy;
- A net 61% of respondents expect interest rates to rise in the next twelve months.

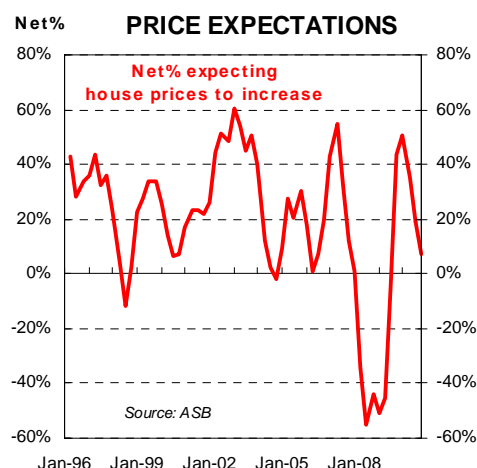
ASB Housing Confidence Survey (Source: ACNielsen)			
Net percent who believe (3 months to October 2010) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	26%	19%	58%
Rest of North Island	30%	4%	61%
South Island	24%	2%	64%
TOTAL NZ	28%	8%	61%
<i>Compare 3 months to July 2010</i>	<i>29%</i>	<i>19%</i>	<i>71%</i>

Price expectations once again soften.

Price expectations once again fell over the quarter. This decline was evident in all regions except Auckland. In contrast, price expectations in Auckland only dipped slightly and the region now has the highest price expectations.

A breakdown of the net quarterly figure is:

- 33% expect higher prices (38% last quarter), with 25% expecting lower prices (19%);
- the difference being the net 8% plotted opposite (19% previously);
- 37% expect the same (38%);
- 5% don't know (5%).

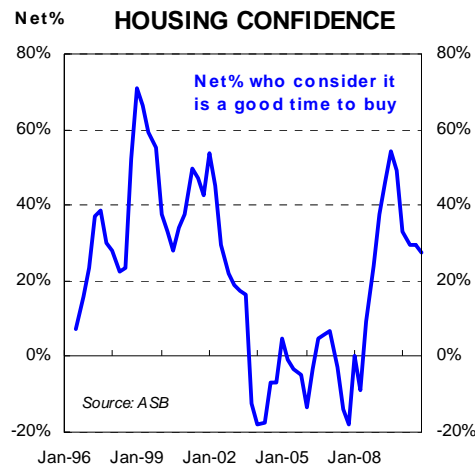


Confidence steady.

On balance, respondents' optimism towards housing has fallen slightly. The small decline was broad-based across the regions, with a relatively larger decline in the South Island. A net 24% of respondents in the South Island considered now as a good time to buy a house, down from a net 29% in the previous quarter.

The breakdown is:

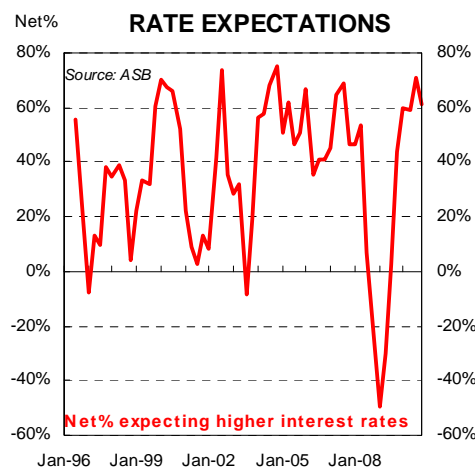
- 41% say it is a good time to buy (39% previously), while 13% say it is a bad time (9%);
- The difference is the net 28% plotted opposite (29%);
- 41% say it is neither good nor bad (46%);
- 6% don't know (7%).



Fewer expect interest rates to rise.

It appears respondents' declining interest rate expectations is helping to hold housing market optimism up in the face of declining house price expectations. There was a fall in the net proportion of respondents who expected interest rates to rise over the coming year:

- 65% expect higher interest rates (74% in the previous quarter), while 5% expect lower interest rates (3%);
- The difference is the net 61% expecting higher rates plotted opposite (71% previously);
- 21% believe interest rates will stay the same (12%);
- 9% don't know (10%).



Housing market activity remains weak

Housing turnover continues to fall.

Housing market activity has continued to slow, with housing turnover falling to very low levels. This reflects waning demand: interest rates are expected to rise and the announcement earlier in the year of the removal of the ability to claim depreciation on buildings has reduced the attractiveness of investment property. Offsetting some of the effects has been a continued limited supply of housing, with house prices holding up reasonably well despite weaker activity.

Adding to the weak activity was the Canterbury earthquake in early September, which saw a substantial decline in house sales in the region. Beyond the volatility in Canterbury, we estimate nationwide turnover is now around 34% lower on year-ago levels.

Super-low interest rates last year were providing a boost to the housing market. While interest rate expectations have fallen over the past three months, declining house price expectations means that some potential buyers are likely holding off purchasing a house at this moment.

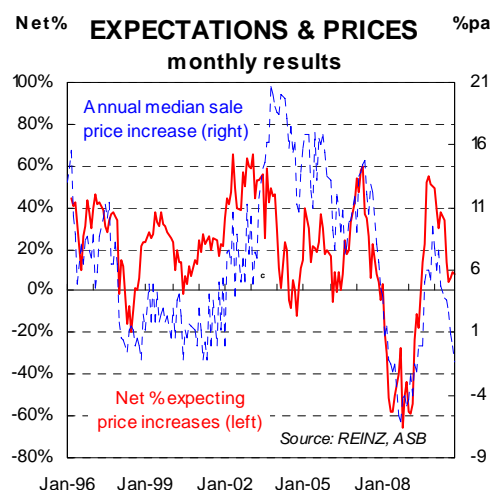
Waning housing demand.

Waning housing demand is reflected in the continued increase in the number of days taken to sell a house. The median of days to sell has now risen to well above its long-term average of 38 days.

The weak demand is beginning to flow through to declines in house prices, with the nationwide index now 3.5% lower on year-ago levels.

Partly offset by low housing supply.

That said, house prices are still relatively resilient in the face of weak housing demand. This reflects the low level of fresh house listings on the market. It appears potential sellers are holding off putting their house on the market in the hope housing market conditions will improve.



Market remains in favour of buyers.

There has been little sign of a rush of listings following the tax changes announced in the Budget in May regarding property investment. This is despite the removal of the ability for investors to claim depreciation, making investment property a less attractive investment option.

Nonetheless, housing inventory has increased despite the dearth of new listings, reflecting the low level of sales. This means that the housing market remains tipped in favour of buyers.

Auckland housing market relatively tighter.

The housing market has been tighter in Auckland relative to the other regions. The Auckland housing market has until recently been holding up relatively well, with a relatively smaller decline in house sales. However, Auckland house sales fell substantially in October in line with the rest of the country. Overall, housing inventory is much lower in Auckland relative to the nationwide total.

Outlook remains subdued

While the recent decline in house prices is in line with our expectations of annual price declines of 3-4% over late 2010/early 2011, the very low level of house sales combined with the current level of inventory presents some downside risks.

Recent declines in house prices in line with our expectations.

Beyond early 2011, we expect house price increases to track broadly in line with inflation i.e. 2-3% per annum.

A number of influences are expected to constrain the housing market over the next couple of years. As previously mentioned, the announcement in the May Budget of the removal of the ability to claim depreciation will reduce rental investment demand. In addition, mortgage rates are expected to gradually rise over the year.

Correction in house price to income ratio will occur largely through growth in incomes.

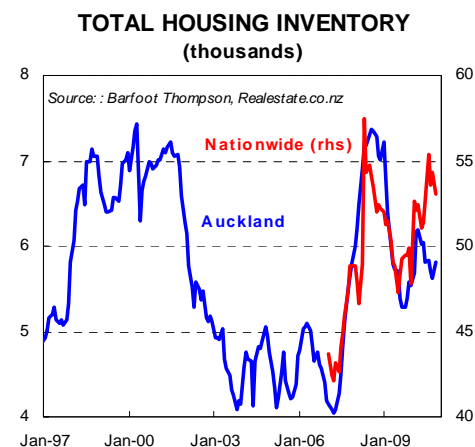
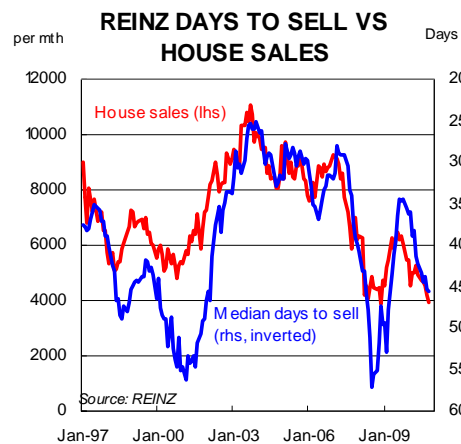
To the extent that house prices are already high relative to incomes and rents, we expect some correction in these ratios, but mainly via growth in incomes and rents. There are clear signs that households are collectively 'deleveraging', with household debt falling relative to incomes. This reflects the fact that households are now seeking to spend within their means.

Partly offsetting these effects are some factors which are supportive for house prices. We expect a recovery in employment and wage growth, which will give more households increased means with which to buy their first home or to trade up. Meanwhile, supply of housing is expected to remain low. This reflects both the current low number of new listings on the market and the fact that there will only be a modest level of housing construction over the next year or two.

Population growth will underpin housing demand.

In addition, net migration shows signs of stabilising following some weak growth over the first half of this year. The increase in net migration in recent months has been largely driven by a rebound in the number of permanent long-term arrivals from a broad range of regions, including Asia and Europe. We expect population growth will underpin housing demand over the coming year.

The balance of these factors points to the housing market remaining soft over the next couple of years, both in terms of the pace of sales turnover and house price growth. However, there are few signs that there will be an oversupply of new housing over the next couple of years.



In summary,

- Housing confidence edged down slightly over the three months to October.
- Expectations for gains in house prices continue to fall across all regions except Auckland.
- Recent data show signs of continued slowing in housing market activity. Reflecting weak housing demand, house prices have started to decline in line with our expectations of annual declines of 3-4% over late 2010/early 2011.
- Beyond early 2011, we expect weak house price growth, although population growth will provide some support. Net migration will be a key influence on housing demand 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".

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