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HOUSING MARKET CONTINUES DOWNWARD TREND

The property market continued to deteriorate in May, according to the latest *Mike Pero Mortgages-Infometrics Property Cycle Indicator (PCI)*.

“The nationwide PCI slipped further into negative territory last month and is now at its lowest level since March last year,” says Mike Pero Mortgages Chief Executive Shaun Riley.

“House sales activity was weak again in May, with sales volumes down 17 per cent from May last year.

“After falling in April, the median house price was down a further \$6,000 in May. House prices are now up 3.7 per cent from May last year, which is the slowest growth rate since July 2009,” he says.

The *Mike Pero Mortgages-Infometrics Property Cycle Indicator* fell to a negative 3.71 in May, from -0.86 in April. The *Property Cycle Indicator* is a sensitive measure of the housing market and includes three main factors: changes in the number of houses sold; changes in price; and the time taken for houses to sell.

The third measure of the *Property Cycle Indicator*, the time taken for houses to sell, deteriorated from the same time last year.

“For the first time since March last year, houses spent longer on the market than in the same month the previous year. In May 2010, the average number of days to sell property was 43 days, compared to 42 days in May 2009.”

“All regions moved further into negative territory in May, with Auckland also having a negative PCI last month.”

Auckland moved into negative territory to -0.95 (down from 2.17 in April) and Wellington also lost ground, dropping to a PCI of -2.57 (from -0.12 in May).

In the South Island, Canterbury/Westland's PCI dropped slightly to -4.90 (a decrease from -4.14 in April), as did Nelson/Marlborough's, with a PCI of -4.55 (from -3.51).

Otago also lost ground with a PCI of -6.71, down from -4.89 in April.

Rental inflation eased to 1.9 per cent per annum in May, which is weaker growth than in previous months, but still stronger than at any other time since the end of 2008.

Trends in mortgage rates were mixed in May, with one- and two-year fixed rates rising in anticipation of the Reserve Bank's Official Cash Rate (OCR) increase.

Three- and four-year rates were slightly lower as the wholesale yield curve flattened.

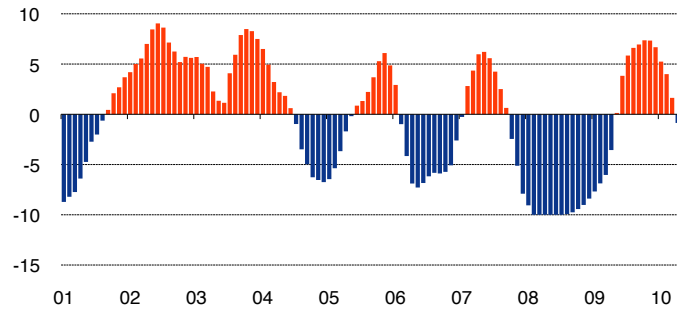
Floating mortgage rates were steady at 6 per cent.

See next page for PCI graphs and background information.

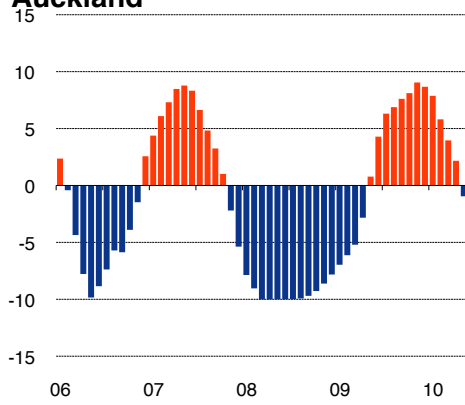
Graphs

New Zealand

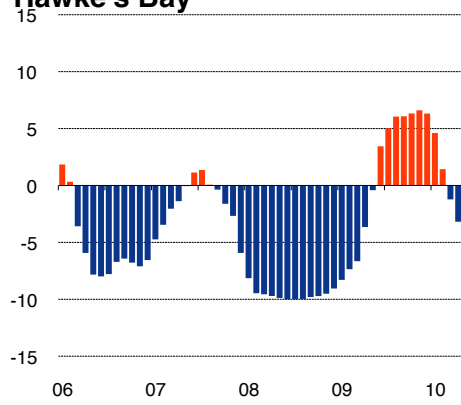
Property Cycle Indicator



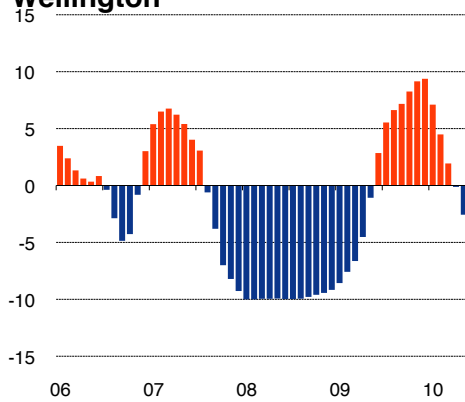
Auckland



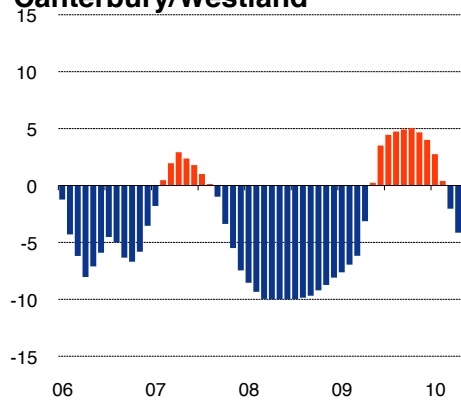
Hawke's Bay



Wellington



Canterbury/Westland



Background information

- The Property Cycle Indicator is prepared from an analysis of changes in house sales, price movements, and the time taken for properties to sell
- The monthly data is sourced from the Real Institute of New Zealand
- The Property Cycle Indicator runs from minus-10 to plus-10
- A Property Cycle Indicator value of -10 shows a strong downturn, while +10 shows a strong upturn in the housing market
- Lower sales volumes are usually the first indicator that a market upturn is coming to an end, followed by properties taking longer to sell
- House prices are usually the last variable to change direction
- House prices may still be rising, even though the Property Cycle Index is negative and showing a downturn

By incorporating the three variables, the Property Cycle Indicator gives a much better, and earlier, indication of shifts in the market

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