

Home Truths

17 November 2014

Early Christmas cheer

Earlier in the year the Reserve Bank said it would review its restrictions on high loan-to-value ratio (LVR) mortgage lending at the time of the November *Financial Stability Report*. That report was released last week. In the event the RBNZ decided to keep its LVR restrictions in place, citing the risk of a resurgence in the housing market.

That's an assessment we more than agree with. Home Truths has been arguing for some time that a resurgence in the housing market is not just a risk – it is close to a sure bet. And the latest data is starting to vindicate that view.

The most fruitful avenue for understanding the year-to-year cycles in the housing market is to watch financial conditions, including interest rates. Late last year fixed mortgage rates rose sharply, and at the same time the RBNZ restricted high-LVR mortgage lending. The housing market promptly slowed (to the consternation of those who exclusively watch physical factors like construction shortages). But over recent months fixed mortgage rates have fallen hard, and that is sure to provide a tail-wind to the housing market.

Physical factors like housing shortages and net immigration rates are less important in determining the direction of house price inflation, but they do have some influence. New Zealand is currently going through an unprecedented boom in net immigration. Construction activity has ramped up sharply, but not by enough to keep up with population growth. All of this adds up to another significant tail-wind for the housing market at present.

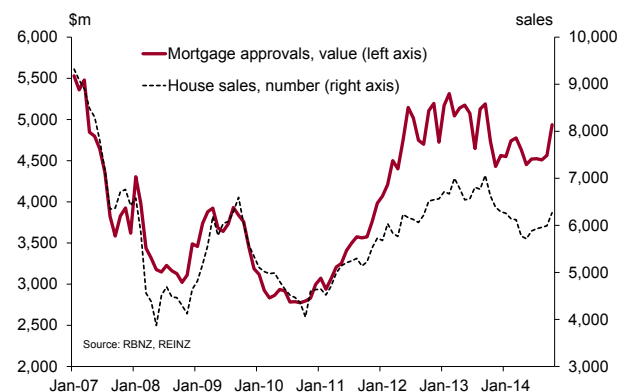
But despite falling mortgage rates and booming net immigration, the housing market actually slowed a little from July to September this year. We argued that both buyers and sellers were holding back until after the election, and in Auckland, until new government valuations had been issued.

The latest housing data supports that hypothesis. In October the seasonally-adjusted value of new mortgage approvals jumped 8%. New listings of houses for sale on realestate.co.nz jumped 12%, seasonally adjusted. And seasonally adjusted house sales were up 4.7%.

We would expect the housing market to continue along its current, perkier path so long as fixed mortgage rates stay low. Eventually, that will culminate in a modest lift in the pace of house price inflation.

Of course, there will be regional variation in housing markets owing to a myriad of local economic factors (the lower dairy payout springs to mind as a headwind for some regions). But falling fixed mortgage rates will provide at least some Christmas cheer to housing markets all over the country.

Housing turnover



REINZ housing data, September 2014

	Oct-14	Sep-14	Oct-13
House sales, number, s.a.	6269	5990	6626
Mth % chg	4.7	0.5	-6.2
Ann % chg	-2.5	-12.0	2.1
Days to sell, sa	37.8	38.1	34.5
House Price Index (s.a.)	3962.1	3937.0	3815.5
Mth % chg	0.6	0.0	0.9
Ann % chg	3.9	4.1	9.9

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