

Price expectations cool in line with a slowing housing market

- A cooling housing market appears to have cooled expectations for higher house prices.
- But interest rate expectations continue to climb higher, reflecting recent lifts in mortgage rates.
- Overall, respondents still think it's a bad time to buy a house, but are less pessimistic than 3 months ago.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to January 2017) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-27%	36%	38%
Rest of North Island	-13%	52%	37%
Canterbury	-6%	44%	34%
Rest of South Island	-11%	62%	37%
TOTAL NZ	-17%	46%	37%
<i>Compare 3 months to October 2016</i>	<i>-26%</i>	<i>58%</i>	<i>7%</i>

Fewer people expect house price increases, according to the latest ASB Housing Confidence Survey, especially in the North Island. However, every region registered fewer respondents expecting house price gains in the three months to January. This survey corresponded with a significant drop in housing market activity following the RBNZ's latest investor focussed loan-to-value ratio (LVR) restrictions. Not only has housing market data shown a fall in sales activity recently, it has also suggested house price growth has slowed in a number of regions. It is likely that weaker market activity has impacted on respondents' house price expectations this quarter. The drop in respondents expecting house price gains was most acute in Auckland and a degree of "surely prices can't keep rising?" might also be impacting respondents' answers, especially as average Auckland house prices hit the \$1m mark late last year.

Overall, respondents think that now is a better time to buy than last quarter, but ultimately the majority of respondents continue to think now is a *bad* time to buy a house. While price expectations may have dipped, elevated house prices are likely to still be weighing on sentiment, as are the higher deposit requirements now facing many (particularly investors). On the other hand, higher interest rate expectations are not necessarily worrying respondents too much yet (as sentiment didn't fall further), likely because interest rates remain near record lows.

Fewer people are expecting house prices to rise

The number of people expecting higher house prices fell this quarter to the second-lowest level since 2012. Auckland led the shift lower with the rest of the North Island close behind. A breakdown of the net quarterly figure for New Zealand is as follows:

- 56% of respondents to the ASB survey expect higher prices, while only 10% expect prices to fall (was 64% and 7% last quarter);
- On balance, a net 46% expect higher prices (was 58% last quarter);
- 20% expect the same (was 15%); while 14% don't know (was 14%).

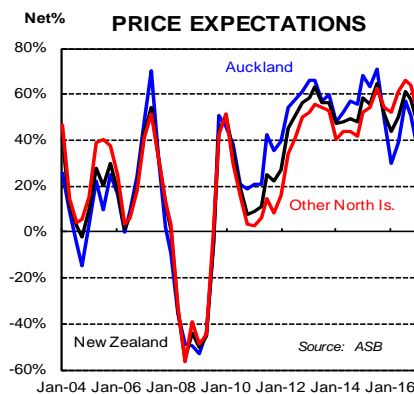
The drop in respondents expecting house price gains likely reflects the fact that the housing market has cooled following the latest round of investor-focused LVR restrictions. Further, given the slowing has been quite pronounced in Auckland and other recent "hot spots" such as Waikato and Tauranga, it's not surprising expectations for house price gains cooled the most in the North Island. A net 36% of people in Auckland expect house prices to rise in the next 12 months, down from 51% previously. In the rest of the North Island the balance dipped to a net 52%, from 64%.

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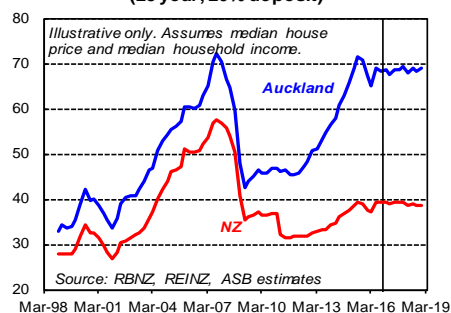
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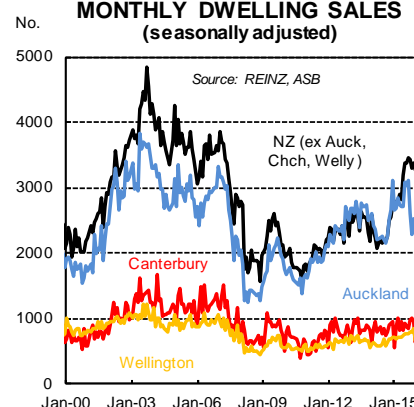
PRICE EXPECTATIONS



MORTGAGE REPAYMENTS OF A FIRST HOME BUYER % H/H INCOME (25 year, 20% deposit)



MONTHLY DWELLING SALES (seasonally adjusted)



Higher interest rates on the horizon

It seems respondents think the days of low interest rates are over. After falling sharply in late 2015, interest rate expectations have rebounded over the last 6 months. A breakdown of the net quarterly figure is:

- 43% expect higher interest rates over the coming year, while 6% expect lower interest rates (was 25% and 18% last quarter);
- The difference being the 37% plotted opposite (was 3% last quarter);
- 26% expect rates to stay the same (32%); while 25% don't know (25%).

With most major banks increasing mortgage and term deposit rates recently, it's no real surprise interest rate expectations have also lifted. Bank funding dynamics have muddied the relationship between the OCR and short-term interest rates and, as a result, the last two OCR cuts were not fully passed through to mortgage rates. Further, the election of Donald Trump has seen US interest rates rise, which has had a flow-on effect with regards to New Zealand's longer-term interest rates.

We expect the RBNZ to leave the OCR on hold until late 2018, which should provide an anchor to short-term rates. However, funding issues and offshore rate increases have seen interest rates creep higher.

Still a bad time to buy, just not as bad

Sentiment around whether or not it's a good time to buy a house edged up slightly in the latest ASB Housing Confidence Survey, but remains near record lows. That is, more people still consider it a bad time to buy, than a good time. Breaking down the net quarterly figure:

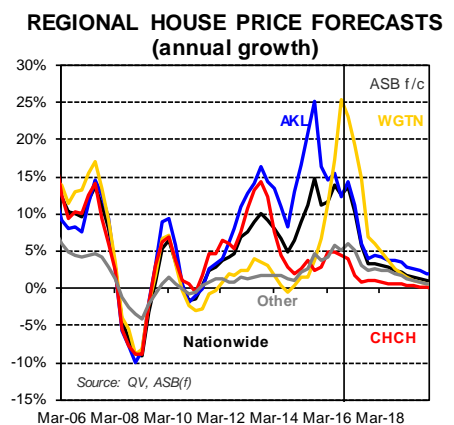
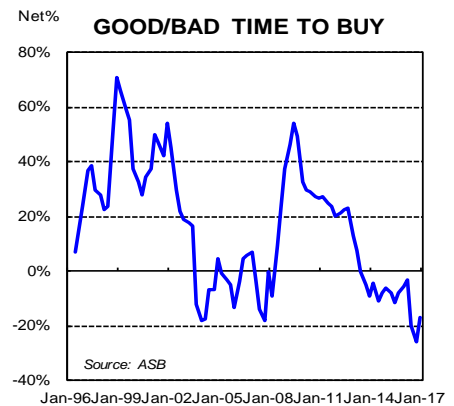
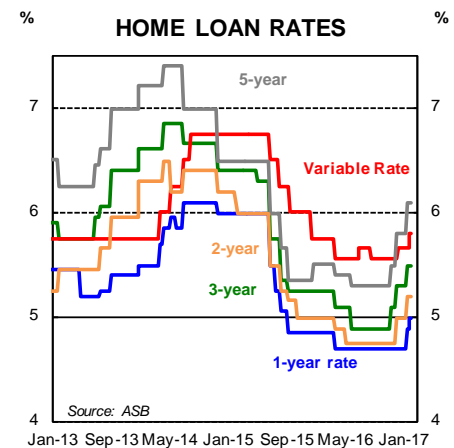
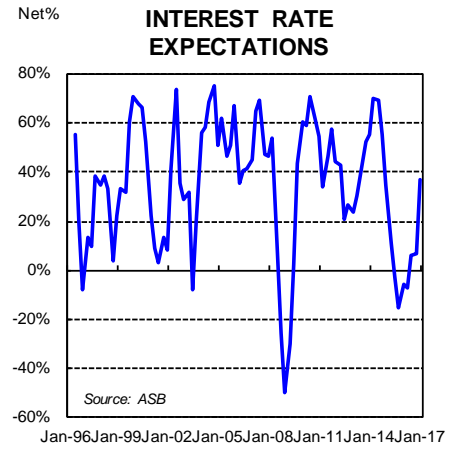
- 12% say it is a good time to buy, while 28% say it is a bad time (was 10% and 35% last quarter);
- The difference is the net -17% plotted opposite (was -26% last quarter);
- 46% say it is neither good nor bad (was 42%) and 14% don't know (13%).

Despite reduced expectations of house price increases, house prices remain high across the country, which is likely to continue weighing on sentiment. For example, Auckland sentiment remains the lowest (a net 27% of people think it's a *bad* time to buy in Auckland) and this is where house prices are most stretched. Higher deposit requirements facing many would-be buyers (particularly investors) are likely to continue to weigh on sentiment as well. However, the fall in the number of respondents expecting further house price gains suggests people are a little less pessimistic about whether or not to buy a house this time around.

On the flip side, expectations of higher interest rates (and therefore higher debt servicing costs) don't seem to have made respondents think it's a worse time to buy. Given mortgage rates are currently only just off record lows, any further small lifts would still mean interest rates were relatively low.

In summary:

- Expectations of higher house prices eased in the three months to January, in line with a slower housing market. The latest LVR restrictions appear to still be impacting respondents' answers this quarter.
- Recent lifts in mortgage rates appear to have respondents bracing themselves for more. While we expect the RBNZ to leave the OCR on hold until late 2018, funding pressures and offshore interest rates could see interest rates creep higher.
- On balance, respondents still see it as a bad time to buy, but are slightly less pessimistic than three months ago.
- While fewer people expecting house price expectations could have made a few respondents look more favourably on whether or not to buy a house, would-be buyers (especially investors) are likely to still be feeling the pain of higher deposit requirements. Higher interest rate expectations don't appear to have worried respondents too much yet (as sentiment didn't fall further), likely because interest rates remain near record lows.



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.](#)
- [Home Economics](#)

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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