

## More house price gains expected, and rate-hike fears fade

- House price expectations remain high, with a net 56% of respondents expecting house prices will increase.
- Far fewer respondents expect higher interest rates, and more people are expecting interest rate declines this year.
- Sentiment about buying a house varies from region to region. Nationwide a net 8% see now as a bad time to buy.

House price expectations have dipped slightly in the latest ASB Housing Confidence Survey. A net 56% of respondents expect house prices will increase. While down on the last quarter's result when 59% expected higher prices, this is the second-highest reading since early 2013.

Interest rate expectations have changed considerably. A year ago the RBNZ had just commenced raising the Official Cash Rate (OCR) from its record low 2.5% setting, and was indicating it expected to lift the OCR by 2%. Things have changed! Having lifted the OCR only 1%, the RBNZ is now signalling that its next move could be a cut. The ASB Housing Confidence Survey shows a net 11% are still expecting higher interest rates over the year ahead. But that's sharply down from 34% expecting higher rates last quarter, and 70% a year ago.

A net 8% of respondents see now as a bad time to buy a house. Sentiment has become slightly more pessimistic in the last quarter, returning towards the worst sentiment reading in several years nine months ago. Since then, house prices (especially in Auckland and Christchurch) have increased dramatically, which will be dampening sentiment. Unsurprisingly, sentiment remains poorest in Auckland and Christchurch, where the markets are tight and affordability is the most stretched.

The ASB Housing Confidence survey shows that house price expectations remain high:

- A net 56% of respondents expect house prices to increase in the next twelve months;
- A net 11% of respondents expect interest rates to rise in the next twelve months; and
- A net 8% of respondents believe now is a bad time to buy.

ASB Housing Confidence Survey (Source: Camorra)			
Net percent who believe (3 months to April 2015) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-19%	63%	10%
Rest of North Island	1%	54%	12%
Canterbury	-16%	51%	11%
Rest of South Island	-3%	47%	12%
<b>TOTAL NZ</b>	<b>-8%</b>	<b>56%</b>	<b>11%</b>
<i>Compare 3 months to January 2015</i>	<i>-6%</i>	<i>59%</i>	<i>34%</i>

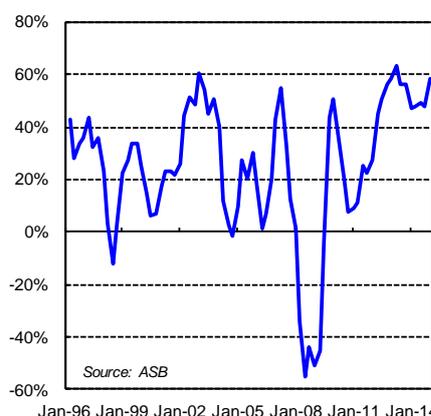
### Expectations of price gains remain high:

- 62% expect higher prices, while only 6% expect prices to fall (was 64% and 5% last quarter);
- the difference being the net 56% plotted opposite (was 59% last quarter);
- 17% expect the same (unchanged);
- 16% don't know (was 14%).

### House price expectations remain high.

House price expectations eased from record levels over 2013 and early 2014 as buyers reacted to LVR restrictions and rising mortgage rates. Having held fairly steady over most of 2014, net expectations of price gains picked up again over the past two quarters, consistent with the pickup we have seen in the housing market. In the latest ASB Housing Confidence survey, a net 56% are expecting higher prices, only just below last quarter (59%), and close to the 2013 peak of 63%.

Net% **NET PRICE EXPECTATIONS**



**Views regarding future house price gains vary from region to region.**

Once again, expectations of higher prices were greatest in Auckland. A net 63% expect gains over the year ahead, down slightly on the 68% last quarter. The Auckland housing market remains very supply constrained at a time when demand is very high. Accordingly, we expect continued strong upward pressure on Auckland house prices.

In Canterbury, the proportion of respondents expecting gains also eased, with net 51% expecting gains in the latest quarter's survey from 58% in the prior quarter. The proportion expecting gains in Canterbury is still quite high, but the moderation since early 2013 (when net expectations of price gains peaked at 79%) is consistent with the Canterbury market moving back into a more balanced position. House sales reports, listings, and building data have collectively been suggesting that the housing shortages in the region have generally eased over the past year.

Expectations of price gains over the year ahead have picked up in the North Island (ex-Auckland), where the net percentage expecting price gains lifted from 52% to 54%, just shy of the April 2013 peak (56%).

For the South Island (ex-Canterbury), a net 47% expect price gains over the year ahead, down from 55% last quarter.

Consistent with the above-mentioned price expectations, recent REINZ housing data have showed some signs of a broadening beyond the Auckland-centric theme of the past year.

**Fading concerns about higher rates:**

A breakdown of the net quarterly figure:

- 27% expect higher interest rates over the coming year, while 16% expect lower interest rates (was 41% and 6% last quarter);
- The difference is the net 11% plotted opposite (was 34% last quarter);
- 31% expect rates to stay the same (was 30%); while 26% don't know (was 23% last quarter).

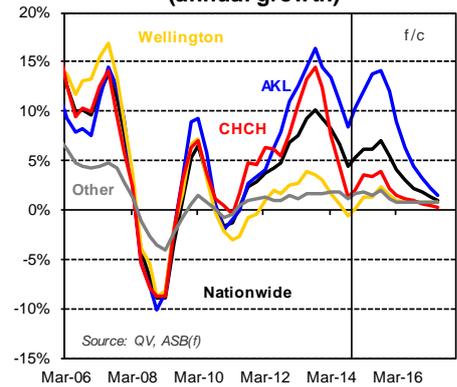
In sum, a growing proportion of people expect interest rates to fall, and a constant proportion think they won't change. Fractionally more people are saying they don't know what will happen to rates.

A year ago the RBNZ had just commenced raising the Official Cash Rate (OCR) from its record low setting of 2.5%, and at the time was indicating it expected to deliver around 2% of rate increases. Now, having lifted the OCR only 1% over 2014, the RBNZ is now signalling that its next move could be a cut. Within the ASB Housing Confidence Survey a net 11% expect higher interest rates over the year ahead. That's down from 34% expecting higher rates last quarter, and 70% a year ago. The RBNZ's shift in stance (dropping its tightening bias) appeared to influence the February month's survey responses. In February there was a noticeable jump in the number of people expecting interest rate decreases this year.

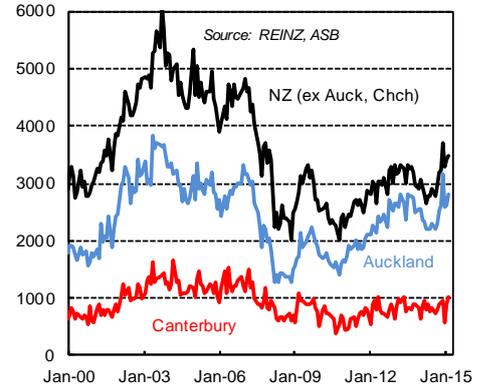
**Price expectations consistent with the acceleration in price growth extending beyond Auckland.**

**Growing number of people are expecting lower interest rates....**

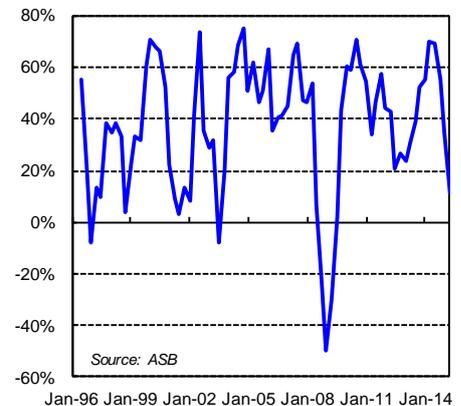
**REGIONAL HOUSE PRICE FORECASTS (annual growth)**



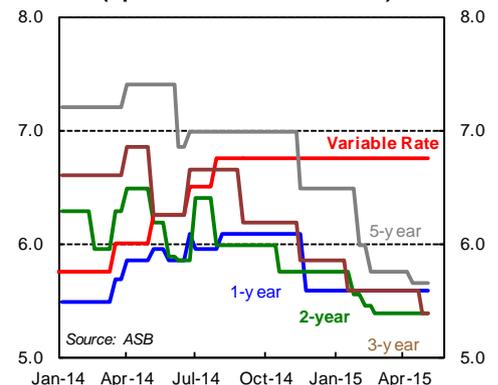
**MONTHLY DWELLING SALES (seasonally adjusted)**



**INTEREST RATE EXPECTATIONS**



**HOME LOAN RATES (Specials and low LVR Rates)**



...though surprising the number isn't greater.

But over the subsequent two months of surveying, respondents have appeared less convinced that lower rates were on the horizon. Actually, we are surprised that there haven't been significantly more people expecting interest rates to decrease over the year ahead, given mortgage rates have actually been declining this year.

Nonetheless, a year ago only 2% of respondents expected rates to decrease over the subsequent 12 months, now 16% have that expectation. In April (after this survey was carried out) the RBNZ moved to an explicit easing bias, and we now expect the OCR to be cut later this year ([read more](#)). We may see more people expecting lower interest rates in the next quarter's survey.

Buyers maintain their negative sentiment about the market .....

**Is it a good time to buy a house?**

A breakdown of the net quarterly figure:

- 13% say it is a good time to buy, while 21% say it is a bad time (was 14% and 20% last quarter);
- The difference is the net -8% plotted opposite (was -6% last quarter, and -8% prior to that);
- 49% say it is neither good nor bad (was 51%);
- 17% don't know (was 16%).

In the July 2014 quarter, respondents to the Housing Confidence Survey recorded the most negative sentiment since October 2007. After two quarters' of improvement, sentiment has dropped again this quarter. A net 8% see now as a bad time to buy. Auckland and Canterbury remain the two most pessimistic regions. This quarter a net 19% of Auckland respondents regarded now as a bad time to buy a house. That's worse than the prior quarter (-15% in the January), but not as pessimistic as the low point (-21%) recorded mid-2014. In Canterbury a net 16% of respondents viewed now as a bad time to buy, the same as last quarter, but not as bad as last year's low points. Higher house prices and limited stock relative to the number of buyers in both these regions are overriding the benefits of low interest rates, and weighing on sentiment.

....with sentiment in Auckland weakening again, and Cantabrians also very pessimistic.

....whilst sentiment is more balanced in other regions.

Sentiment is still marginally positive in the North Island outside of Auckland, with a net 1% seeing now as a good time to buy. (+2% last quarter). In the South Island outside Canterbury the pessimists narrowly outnumber the optimists, with a net 3% viewing now as a bad time to buy (was -1 last quarter).

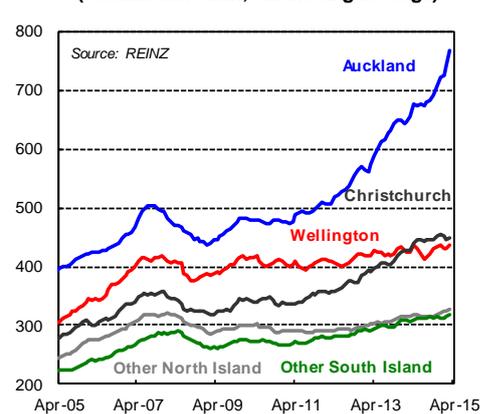
**Housing market thoughts**

The Auckland housing market is the most supply constrained, and the region where the lift in demand has been the greatest. The Auckland market is by far the most stretched region from an affordability perspective, and unfortunately we don't think this is likely to change anytime soon. We expect price appreciation in Auckland will continue to outstrip other regions this year, as strong population growth, low mortgage rates, and tight supply all play their part in this market.

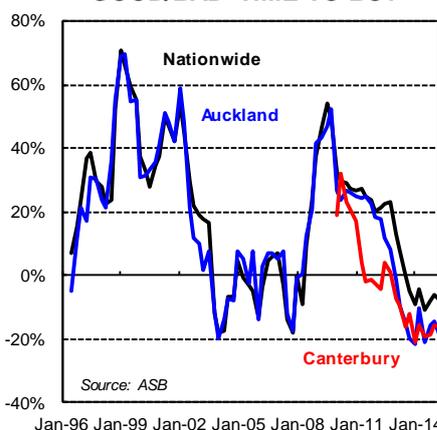
The Auckland housing market is re-accelerating

We expect the housing market to remain buoyant.

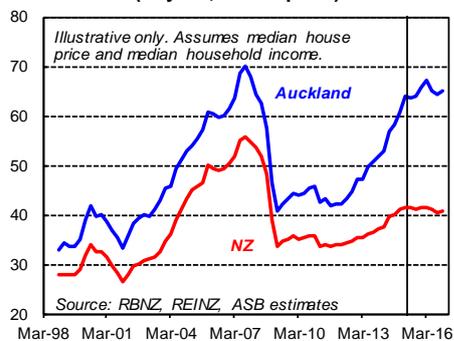
**NZ MEDIAN HOUSE PRICE**  
(stratified median, 3m moving average)



**GOOD/BAD TIME TO BUY**



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



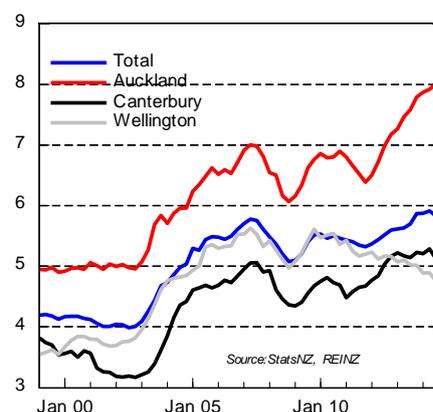
**House price to income ratio**

New Zealand	6.0
<b>Auckland</b>	<b>8.7</b>
Northland	5.5
Canterbury	5.0
Wellington	4.7
Nelson	5.2
North East NZ	5.1
Otago	4.1
Taranaki	4.1
Manawatu	3.7
Southland	2.6

The ratio of house prices relative to incomes is one measure of affordability which highlights how much worse affordability is in Auckland compared with elsewhere. Ratios have been diverging from region to region for a long time. Affordability will likely be one factor behind the varied regional responses to this question. The graph and table to the right highlight this divergence.

While the rest of New Zealand likes to joke about Wellington's weather, it's hard to knock the housing market affordability in the region, based on the ratio of house prices to income. By this measure, affordability has improved in Wellington over recent years, while it has deteriorated elsewhere.

HOUSE PRICE TO INCOME



**RBNZ's financial stability concerns.**

The RBNZ has cited concerns around the lift in house price inflation, largely from a financial stability point of view, with potential for inflation spillover a secondary (but still important) concern.

Much of the "housing bubble" discussion has been focused on Auckland. That in part is because prices in Auckland are the most stretched, as discussed above. But it is also worth noting that the Auckland market also represents around 39% of nationwide sales. Add in the Canterbury market, which is still fairly tight, and we are talking about over half of the housing market, based on the latest turnover. Accordingly, it's hard to dismiss the housing issues as "just an Auckland problem".

**Over the long term, we expect price growth to moderate significantly**

Furthermore, within the latest REINZ data we noticed an early sign that the recent rebound is broadening beyond Auckland. We will be monitoring future housing data carefully for more signs of a reacceleration in prices south of the Bombay Hills.

For the coming months, the combination of strong migration inflows, low interest rates and the confidence shown by respondents in the ASB Housing Confidence Survey is supportive of robust demand and price gains. Low interest rates are also providing borrowers with plenty of opportunities to manage their debt-servicing costs.

Looking out beyond this year, we expect house price appreciation to moderate significantly. More housing supply, rising mortgage rates (as global rates eventually return to more normal levels) and affordability challenges will all have an impact. The traditional process of raising the OCR would be handy right now if the RBNZ's job was to set interest rates to control the housing market. But the RBNZ's primary target is CPI inflation. The distinct lack of CPI inflation within the economy is keeping the RBNZ on hold, and in our view will lead the RBNZ to cut the OCR later this year. But the RBNZ will still play a part in restraining the housing market, by maintaining the current high LVR lending restrictions and, if necessary, implementing new prudential tools.

In summary:

- House price expectations eased modestly in the latest ASB Housing Confidence Survey, but remain very high. A net 56% of respondents expect house prices will increase over the next year.
- The housing market remains tight, with low numbers of houses listed for sale nationwide. The shortage of listings is extreme in Auckland. We continue to see this tightness as a key influence on housing market sentiment, and price expectations.
- Fewer people are expecting higher rates, and more expect rates to stay the same or decline. Despite the recent decline in mortgage rates, the majority of respondents still expect interest rates to increase over the next twelve months. But saying that, the net percentage expecting higher rates has declined sharply to 11% from 34% in the previous quarter's survey and 70% a year ago.
- Having slowed over most of 2014, housing activity and house price appreciation picked up late last year and over early 2015. Conditions suggest this buoyancy will continue.
- Concerns the RBNZ has about the stretch in house prices (particularly in Auckland) really only have one avenue for action: further prudential tools. The current loan-to-value ratio restrictions will likely remain in place until the later stages of 2015, if not longer. Other measures are likely to be implemented, provided they are feasible in reality, not just theory.

**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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