

Fewer expecting house price gains but still see interest rate falls

- Fewer people are expecting house price gains, with a net 52% of respondents expecting house prices will increase.
- The majority of respondents expect interest rates to fall, second only to expectations during the Global Financial Crisis.
- Sentiment about buying a house varies from region to region. Nationwide a net 8% see now as a bad time to buy.

Fewer people are expecting house price gains according to the latest ASB Housing Confidence Survey. After hitting a record high in the last survey, house price expectations slowed in the October quarter, but remain at high levels. A net 52% of respondents now expect house prices will increase over the next 12 months, down from the net 65% who expected price gains in the three months to July.

Interest rate expectations continue to fall. The RBNZ has cut the OCR by 75bp since June and continues to signal the possibility of more OCR cuts. The latest ASB Housing Confidence Survey reflects this outlook, with a net 15% of respondents expecting lower interest rates over the year ahead. That's up from net 3% expecting lower rates last quarter, and a marked change from the net 70% expecting interest rate **increases** just over a year ago (when the RBNZ was lifting the OCR). In fact, the only time interest rate expectations were lower than they are now, was during the Global Financial Crisis.

A net 8% of respondents see now as a bad time to buy a house. Sentiment has become a little less pessimistic in the latest survey. Mortgage rates have dipped lower, which will be helping sentiment. However, sentiment will remain constrained by strong house price growth (especially in Auckland and Christchurch). Unsurprisingly, sentiment remains poorest in Auckland and Christchurch, where the markets have tightened and affordability has become more stretched in recent years.

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

- A net 52% of respondents expect house prices to increase in the next twelve months;
- A net 15% of respondents expect interest rates to fall 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 October 2015) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-25%	50%	-14%
Rest of North Island	1%	55%	-17%
Canterbury	-7%	40%	-16%
Rest of South Island	4%	58%	-11%
TOTAL NZ	-8%	52%	-15%
<i>Compare 3 months to July 2015</i>	<i>-11%</i>	<i>65%</i>	<i>-3%</i>

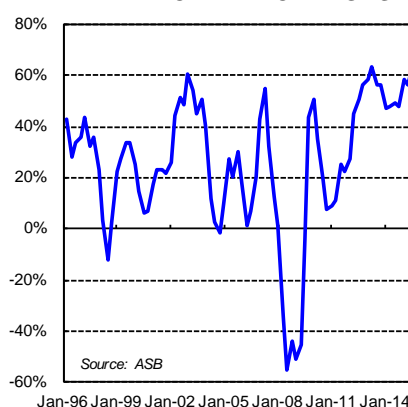
Expectations of price gains slow

- 59% expect higher prices, while only 7% expect prices to fall (was 69% and 4% last quarter);
- the difference being the net 52% plotted opposite (was 65% last quarter);
- 18% expect the same (was 12%);
- 16% don't know (was 14%).

Over the first half of 2015 house price expectations picked up, consistent with the pickup we have seen in the housing market. However, in the latest ASB Housing Confidence survey, house price expectations eased slightly. A net 52% of respondents expect higher prices over the next year, down from the record 65% last quarter. However, a significant portion of this change reflected an increase in respondents expecting prices to remain flat.

On a regional basis, net expectations of house gains fell across the board, but remain at high levels. The most pronounced falls were in Auckland (down to 50% from 71%) and Canterbury (down to 40% from 58%).

NET PRICE EXPECTATIONS



Fewer people expecting house price gains in Auckland likely reflects the new housing measures created to take the heat out of the Auckland housing market. The Government's tax measures came into effect on 1 October, and while the RBNZ's new LVR restrictions are not due to start until 1 November, banks have already been adjusting their lending practices to align with the new restrictions.

In Canterbury, the ongoing moderation in net expectations of price gains since early 2013 (when net expectations 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 suggested that the housing shortages in the region have generally eased over the past year. Further, as with the rest of New Zealand, the implementation of the Government's housing measures also likely dragged on price expectations in the latest survey.

The decline in net price expectations in the rest of New Zealand, however, is more surprising. Recent trends have indicated that, if anything, the new housing measures have been associated with an acceleration in house price growth outside of Auckland. We will be closely watching this trend to see how it develops over the next few surveys.

Greater focus on falling interest rates:

A breakdown of the net quarterly figure:

- 20% expect higher interest rates over the coming year, while 35% expect lower interest rates (was 23% and 26% last quarter);
- The difference is the net -15% plotted opposite (was -3% last quarter);
- 21% expect rates to stay the same (was 25%); while 25% don't know (flat on last quarter).

In sum, a growing proportion of people expect interest rates to fall.

A year ago the RBNZ had just finished a tightening cycle, raising the Official Cash Rate (OCR) from its record-low 2.5% setting, to 3.5%. Since then, the RBNZ has begun to reverse this by cutting the OCR by 75bp since June, and signalling the possibility of another cut to come. The ASB Housing Confidence Survey now shows a net 15% expect lower interest rates over the year ahead. That's up from net 3% expecting lower rates last quarter, but sharply down net 70% expecting **higher** rates just over a year ago. In fact, only during the Global Financial Crisis were people expecting lower interest rates.

We expect the RBNZ to cut the OCR by an additional 25bp over the remainder of 2015 ([read more](#)). As a result, we may see even more people expecting lower interest rates in the near future.

Is it a good time to buy a house?

A breakdown of the net quarterly figure:

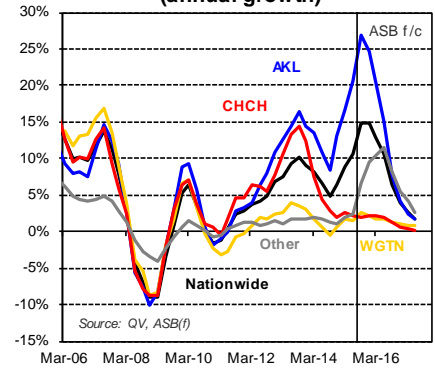
- 16% say it is a good time to buy, while 24% say it is a bad time (was 14% and 26% last quarter);
- The difference is the net -8% plotted opposite (was -11% last quarter, and -8% prior to that);
- 44% say it is neither good nor bad (was 45%);
- 15% don't know (was 15%).

Sentiment remains low with a net 8% seeing now as a bad time to buy. Auckland and Canterbury continue to be the two most pessimistic regions.

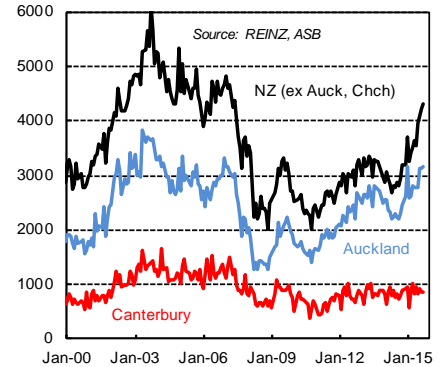
This quarter, a net 25% of Auckland respondents regarded now as a bad time to buy a house. Extremely high house prices will be continuing to dampen sentiment. The new tax and lending rules may also be adding to the poor sentiment in Auckland.

In Canterbury a net 7% of respondents viewed now as a bad time to buy, the least pessimistic reading in over two years. As the Christchurch housing market continues to rebalance and low interest rates make borrowing

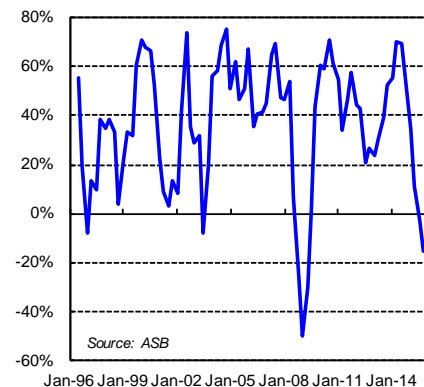
REGIONAL HOUSE PRICE FORECASTS (annual growth)



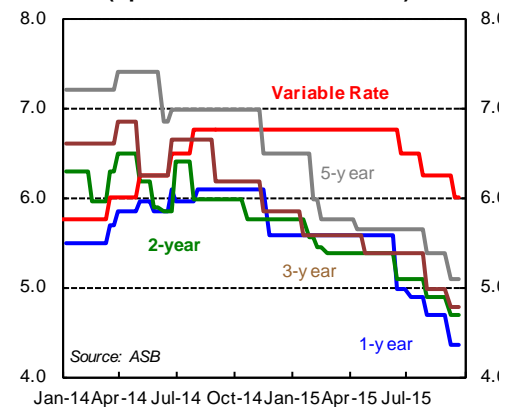
MONTHLY DWELLING SALES (seasonally adjusted)



INTEREST RATE EXPECTATIONS



HOME LOAN RATES (Specials and low LVR Rates)



relatively cheap, we may see sentiment in Canterbury continue to improve in following surveys.

Sentiment remains neutral in the North Island outside of Auckland, with a net 1% seeing now as a good time to buy (0% last quarter). In the South Island outside Canterbury sentiment improved slightly, with a net 4% viewing now as a good time to buy (from -3% last quarter).

In summary:

- House price expectations eased in the latest ASB Housing Confidence Survey, but remain high. A net 52% of respondents expect house prices will increase over the next year.
- We are seeing signs of the new housing restrictions impacting on respondents' house price expectations and their perceptions of whether it is a good time to buy in Auckland.
- There are also fewer people expecting house price gains outside of Auckland and Christchurch despite recent evidence pointing to accelerating house prices beyond those centres.
- Interest rate expectations are very low. In fact, only during the Global Financial Crisis were interest rate expectations lower.
- Sentiment about whether it is a good time to buy remains low. Auckland and Canterbury continue to be the two most pessimistic regions.

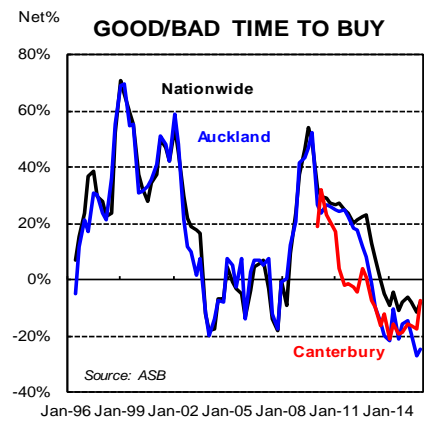
For more ...

Commentary on the housing market and on home loan rates go to the following online ASB reports:

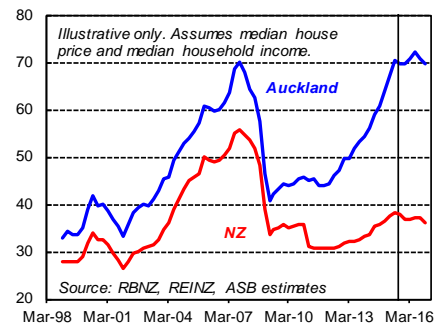
- [Housing Confidence \(this report\)](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports.](#)

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".



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



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