

Expecting house price gains and interest rate falls

- House price expectations hit a record, with a net 65% 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 11% see now as a bad time to buy.

House price expectations have jumped ahead in the latest ASB Housing Confidence Survey. A net 65% of respondents expect house prices will increase over the next 12 months, the highest reading since the survey began in 1996.

Interest rate expectations have also changed considerably. 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%. How things change! The RBNZ has since cut the OCR by 50bp and is signalling the possibility of more OCR cuts. The ASB Housing Confidence Survey reflects the changing tide, with a net 3% of respondents expecting **lower** interest rates over the year ahead. That's sharply down from net 11% expecting **higher** rates last quarter, and net 70% expecting increases just over a year ago.

A net 11% of respondents see now as a bad time to buy a house. Sentiment dropped in the July quarter, on par with the July 2014 quarter which was the weakest reading since October 2007. 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 has become more stretched in recent years. Further, we may be beginning to see signs that the new housing measures, due to begin on October 1, are also negatively impacting sentiment in Auckland.

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

- A net 65% of respondents expect house prices to increase in the next twelve months;
- A net 3% of respondents expect interest rates to fall in the next twelve months; and
- A net 11% of respondents believe now is a bad time to buy.

ASB Housing Confidence Survey (Source: Camorra)

Net percent who believe (3 months to July 2015) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-27%	71%	-7%
Rest of North Island	0%	63%	0%
Canterbury	-17%	58%	-7%
Rest of South Island	-3%	61%	0%
TOTAL NZ	-11%	65%	-3%
<i>Compare 3 months to April 2015</i>	<i>-8%</i>	<i>56%</i>	<i>11%</i>

Expectations of price gains creep higher

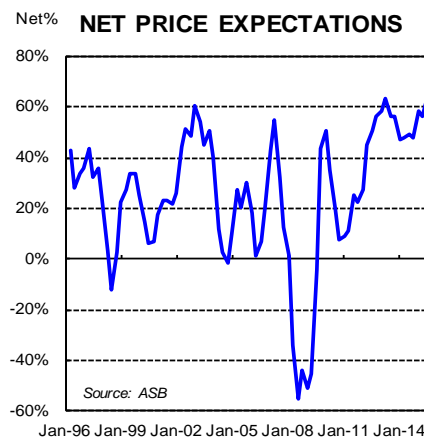
- 69% expect higher prices, while only 4% expect prices to fall (was 62% and 6% last quarter);
- the difference being the net 65% plotted opposite (was 56% last quarter);
- 12% expect the same (was 17%);
- 14% don't know (was 16%).

House price expectations held fairly steady over most of 2014, but have picked up again in 2015. This is consistent with the pickup we have seen in the housing market. In the latest ASB Housing Confidence survey, house price expectations reached a record high, with a net 65% of respondents expecting higher prices over the next year.

Once again, expectations of higher prices were greatest in Auckland. A net 71% expect gains over

House price expectations reach a record high.

NET PRICE EXPECTATIONS



Seeing the first signs of new housing measures on house price expectations.

the year ahead, up from 63% last quarter. The Auckland housing market remains very supply constrained at a time when demand is very high. However, expectations of higher Auckland prices did ease off towards the end of the quarter. We may be seeing the first signs of respondents taking into account the likely impacts of the new housing restrictions, coming into effect on 1 October 2015.

In Canterbury, the proportion of respondents expecting gains also rose, with net 58% expecting gains in the latest quarter's survey from 51% in the prior quarter. While the proportion expecting gains in Canterbury is still quite high, 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 suggested 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). The net percentage expecting price gains lifted sharply from 54% to 63%, the highest reading in over 2 years. For the South Island (ex-Canterbury), a net 61% expect price gains over the year ahead, up strongly from 47% last quarter.

Stronger price views outside of Auckland likely reflect the easing of ex-Auckland loan restrictions, as well as falling interest rates. Consistent with these price expectations, recent housing data have showed a broadening beyond the recent Auckland-centric theme.

Greater focus on falling interest rates:

A breakdown of the net quarterly figure:

- 23% expect higher interest rates over the coming year, while 26% expect lower interest rates (was 27% and 16% last quarter);
- The difference is the net -3% plotted opposite (was 11% last quarter);
- 25% expect rates to stay the same (was 31%); while 25% don't know (was 26% last quarter).

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

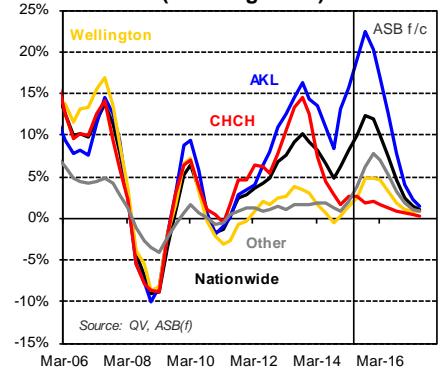
A year ago the RBNZ had just finished a tightening cycle, raising the Official Cash Rate (OCR) from its record low 2.5% setting, to 3.5%. Since then, the RBNZ has begun to reverse this by cutting the OCR by 25bp in June, and signalling the possibility of more cuts to come. The ASB Housing Confidence Survey now shows a net 3% expect **lower** interest rates over the year ahead. That's down from net 11% expecting **higher** rates last quarter, and net 70% expecting higher rates just over a year ago.

We expect the RBNZ to cut the OCR by an additional 50bp over the remainder of 2015 ([read more](#)). As a result, we may see even more people expecting lower interest rates in next quarter's survey.

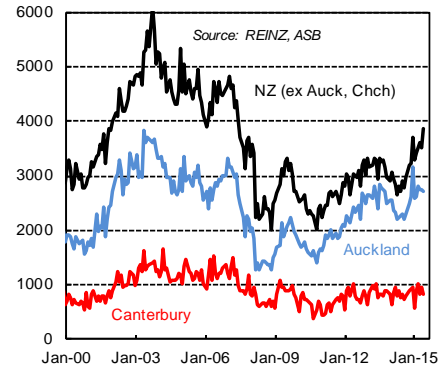
Price expectations consistent with the acceleration in price growth extending beyond Auckland, and new housing rules.

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

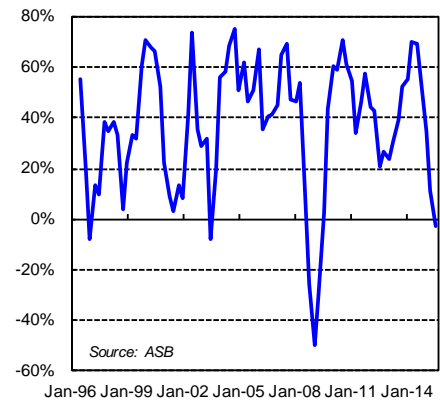
REGIONAL HOUSE PRICE FORECASTS (annual growth)



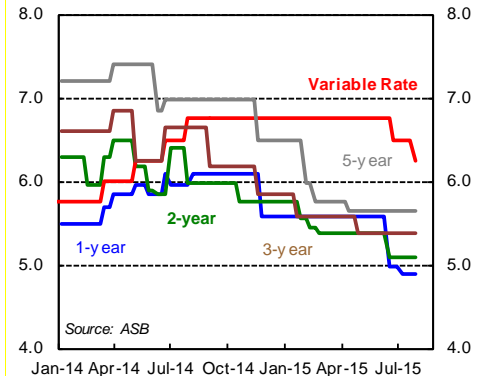
MONTHLY DWELLING SALES (seasonally adjusted)



INTEREST RATE EXPECTATIONS



HOME LOAN RATES (Specials and low LVR Rates)



Respondents maintain their negative sentiment about the market

Is it a good time to buy a house?

A breakdown of the net quarterly figure:

- 14% say it is a good time to buy, while 26% say it is a bad time (was 13% and 21% last quarter);
- The difference is the net -11% plotted opposite (was -8% last quarter, and -6% prior to that);
- 45% say it is neither good nor bad (was 49%);
- 15% don't know (was 17%).

A net 11% see now as a bad time to buy, the weakest sentiment recorded since July 2014. Auckland and Canterbury remain the two most pessimistic regions.

This quarter a net 27% of Auckland respondents regarded now as a bad time to buy a house, a record low. Sentiment dropped drastically towards the end of the quarter. Respondents are likely pre-empting the added difficulty in buying houses (in Auckland especially) under the Government's and the RBNZ's new housing measures, coming into effect on October 1.

In Canterbury a net 17% of respondents viewed now as a bad time to buy, similar to last quarter, but not as bad as last year's low points. Higher house prices and limited stock relative to the number of buyers continue to outweigh the benefits in Canterbury of low interest rates.

Sentiment is still neutral in the North Island outside of Auckland, with a net 0% seeing now as a good time to buy (+1% last quarter). In the South Island outside Canterbury the pessimists continue their narrow rule, with a net 3% viewing now as a bad time to buy (no change from the last quarter).

Housing Outlook

Our outlook for the housing market is very much in line with the survey results – with continuing upward pressure on house prices and downward pressure on interest rates.

Lower interest rates will boost the housing market over the next year. Outside of Auckland, relaxed LVR restrictions will give additional support on top of the cheaper lending rates.

However, in Canterbury prices are likely to trend sideways. For the most part, supply has now caught up with demand and consent issuances have eased.

In Auckland house price growth is expected to continue. Although, we are likely to see some future slowing based on:

- The gradual ease in migration.
- A further lift in building in Auckland.
- Investment restrictions slightly offsetting the impacts of lower interest rates.
- Some eventual price resistance.

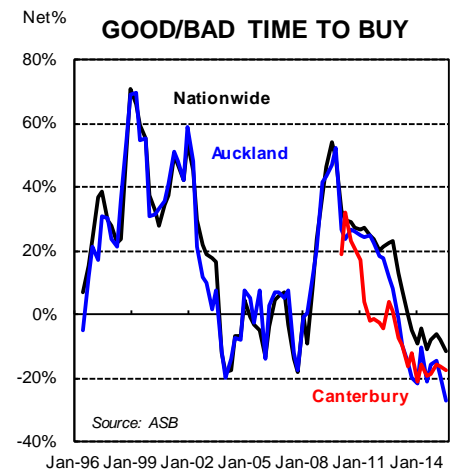
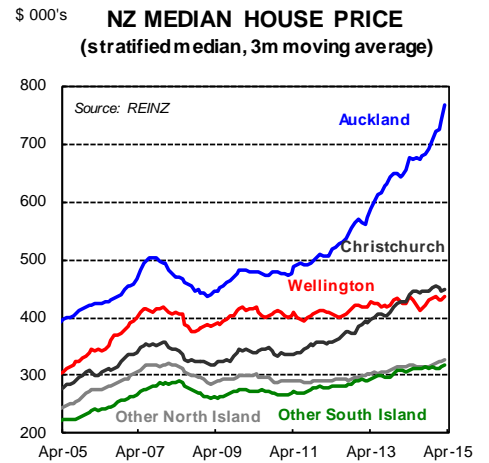
But, it is hard to see any supply glut occurring in the market any time soon.

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

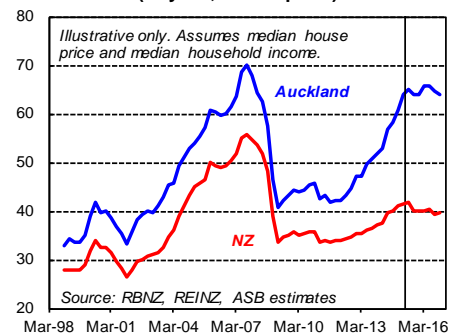
....whilst sentiment is more balanced in other regions.

Low interest rates will help keep the market buoyant.

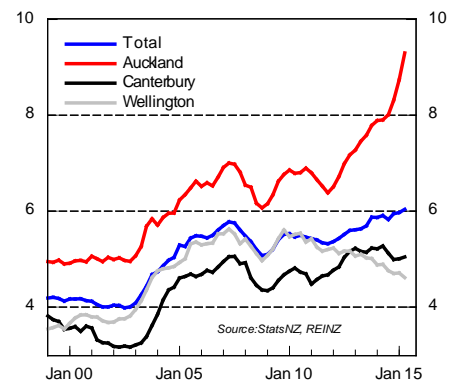
Auckland house price growth will continue, but may be moderated...



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



HOUSE PRICE TO INCOME



RBNZ's growing financial stability concerns.

Financial Stability

The RBNZ recently expressed some concerns around house price inflation, especially in Auckland. As we are likely to see interest rates remain at historical lows for some time yet, this concern is likely to grow. As a result, we expect to see the RBNZ maintaining the proposed high LVR restrictions for some time yet, with a small risk the RBNZ implements other prudential tools deemed necessary. But, the RBNZ is well aware that supply constraints are the fundamental issue that needs concerted resolution.

In summary:

- House price expectation rose in the latest ASB Housing Confidence Survey to a new record high. A net 65% 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.
- We have, however, seen the first signs of the new housing restrictions impacting on respondents' house price expectations and whether it is a good time to buy, in both Auckland and the wider market.
- More people are expecting interest rates to **fall** (net 3%). That's sharply down from net 11% expecting **higher** rates last quarter, and net 70% expecting increases just over a year ago.
- Housing activity and house price appreciation picked up late last year and over early 2015. Conditions suggest this buoyancy will continue, although there may be some headwinds to price growth in Auckland.
- Concerns the RBNZ has about the stretch in house prices amid record low interest rates (particularly in Auckland) really only have one avenue for action: further prudential tools.

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".

ASB Economics & Research		Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5660
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661

<https://reports.asb.co.nz/index.html>

ASB Economics

ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclosures

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.