

Housing Confidence

Three months to January

February 2018



Game of two halves

- House price expectations at 6 ½ low, driven by falling expectations in the North Island.
- On balance, respondents expect interest rates to rise over the next year.
- The majority of respondents still think it's a bad time to buy, but are the least negative in nearly two years.

Summary

House price expectations crept lower in the three months to January according to the latest ASB Housing Confidence Survey. Interestingly, however, a North/South divide seems to have established itself in the last three months. That is, while overall price expectations dipped, this was driven by respondents in the North Island. In contrast, South Island house price expectations rose in the three months to January. Price expectations lifted the most in Canterbury (a net 11% expected higher house prices, up from a net 8% in the previous survey), but were also slightly higher in the South Island excluding Canterbury. Interestingly, this finding is in line with other recent household surveys, including our recent Investor Confidence Survey, which showed sentiment to be more positive in the South Island (and particularly so in Christchurch). **However, there is a risk that house price expectations ease further as the Government's new housing policy changes are likely to dampen investor demand across NZ.**

Many respondents continue to expect higher interest over the next 12 months, though collectively with slightly less conviction than in previous quarters. This result likely reflects a general expectation that the RBNZ will lift interest rates, but that low inflation means little urgency right now.

Fewer respondents view now as a *bad* time to buy a house. Sentiment around whether it's a good time to buy improved the most in Auckland and is at the highest level since January 2013. Further, Canterbury remains the only region where the majority of respondents consider it a good time to buy.

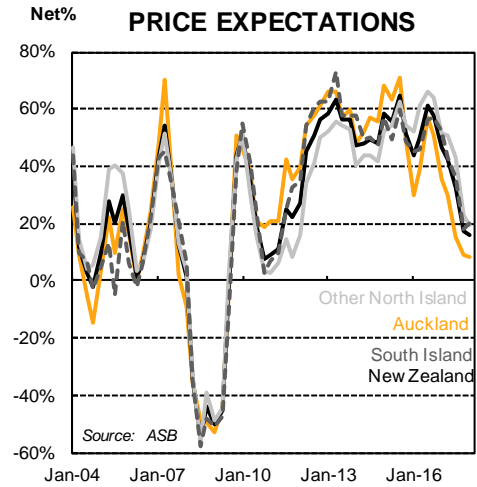
ASB Housing Confidence Survey			
Net percent who believe (3 months to January 2018) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-4%	8%	26%
Rest of North Island	-11%	20%	34%
Canterbury	2%	11%	30%
Rest of South Island	-7%	30%	36%
TOTAL NZ	-7%	16%	31%
<i>Compare 3 months to October 2017</i>	<i>-11%</i>	<i>17%</i>	<i>35%</i>

Source: Camorra

Price expectations hit 6 ½ year low

The number of people expecting higher house prices fell marginally to a 6 ½ year low in the three months to January. Unsurprisingly, price expectations remain lowest in Auckland (an 8-year low). A breakdown of the net quarterly figure for New Zealand is as follows:

- 36% of respondents to the ASB survey expect higher prices, while 20% expect prices to fall (was 37% and 20% last quarter);
- On balance, a net 15% expect higher prices (was 15% last quarter);
- 29% expect the same (was 29%); while 14% don't know (was 15%).

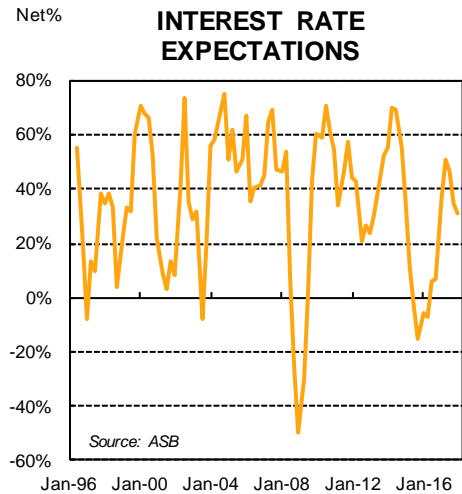


House price expectations slowed over 2017 and average house price growth (according to REINZ) over the year was the slowest it's been since 2012. Although there was a small rebound in prices towards the end of 2017, this was not enough to change perceptions where prices have slowed the most (i.e. Auckland and Waikato). Yet, price expectations have lifted slightly in the South, including Canterbury (where prices had been subdued for some time). However, we expect house price expectations to remain soft as government changes are likely to continue to weigh on demand.

Higher interest rates expected

The majority of respondents continue to expect higher interest rates, but expectations have eased from recent highs. A breakdown of the net quarterly figure is:

- 37% expect higher interest rates over the coming year, while 6% expect lower interest rates (was 40% and 5% last quarter);
- The difference being the 31% plotted opposite (was 35% last quarter);
- 30% expect rates to stay the same (28%); while 26% don't know (27%).



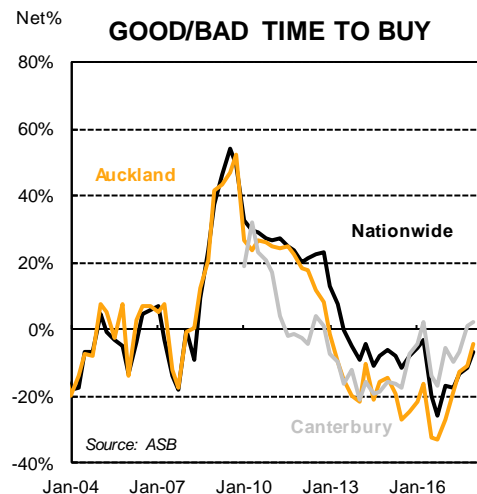
Although mortgage rates have been rather steady recently, the general consensus is for interest rates to continue drifting higher over coming years. Therefore, it is not surprising to see the majority of respondents continue to expect interest rates to lift. However, inflation pressures remain muted, and we have recently pushed out our own view on when the RBNZ will start lifting interest rates.

Still a bad time to buy, overall

Sentiment around whether or not it's a good time to buy a house reached its highest level in almost two years in the three months to January. However, the majority of respondents (53%) are currently ambivalent to whether or not it's a good time to buy a house.

Breaking down the net quarterly figure:

- 13% say it is a good time to buy, while 20% say it is a bad time (was 13% and 24% last quarter);
- The difference is the net -7% plotted opposite (was -13% last



quarter);

- 53% say it is neither good nor bad (was 49%), and 14% don't know (14%).

Although lower price expectations should support respondents' views of whether it is a good time to buy a house, there are a number of uncertainties facing the market. For example, it remains unclear what the overall impact of the Government's housing policies will be on the housing market. While uncertainty remains elevated, respondents are likely to continue to view the market in a cautious light.

In summary

- House price expectations slip to a 6 ½ year low as falling expectations in the North Island offset small lifts in the South Island.
- Respondents are expecting interest rates to increase in the next 12 months. While mortgages rates have moved little recently, the odds remain stacked to higher rates in the future which respondents appear to agree with.
- Outside of Christchurch, most respondents still see it as a bad time to buy. However, sentiment hit the highest level in two years in the three months to January.

Additional housing commentary

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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