

House price expectations continue to rise

- Housing confidence remains quite steady, but has dropped in Auckland.
- House price expectations increased slightly in all regions, and remain at elevated levels.
- Expectations of higher interest rates reduced markedly as speculation of OCR cuts peaked in May and June.

House price expectations continued to rise in the latest ASB Housing Confidence Survey, rising from the already-elevated levels recorded in the last Survey. Meanwhile overall housing confidence remained very stable, as confidence rose slightly in most regions but dropped in Auckland. That is symptomatic of the Auckland housing market, where low levels of listings and inventory have tilted the balance firmly in favour of sellers (the survey question asks whether now is a good time to *buy* a house).

The largest change in the latest survey results was a drop in the proportion of respondents who expect higher interest rates over the next 12 months. That is not surprising given that, during May and June, speculation built that the RBNZ would cut the OCR, largely as a response to events in Europe. That chance was reflected in wholesale interest rates and cuts to some fixed-term mortgage rates. During July, though, international risks subsided somewhat, so the chance of an OCR cut diminished. The monthly survey results show this story well, with a spike in the proportion of respondents expecting lower interest rates in May, with that proportion steadily declining over June and July.

Recent housing market data continue to show that the dominant feature of the market is a low level of supply, with inventory approaching record lows in Auckland but also declining throughout the rest of the country. Prices are rising at a steady but moderate pace, and that is likely to continue. A generally cautious attitude to debt should limit demand, and supply should start to respond to higher prices.

The ASB Housing Confidence survey shows that house price expectations continue to rise:

- A net 51% of respondents expect house prices to increase in the next twelve months;
- A net 22% of respondents believe now is a good time to buy;
- A net 21% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: ACNielsen)

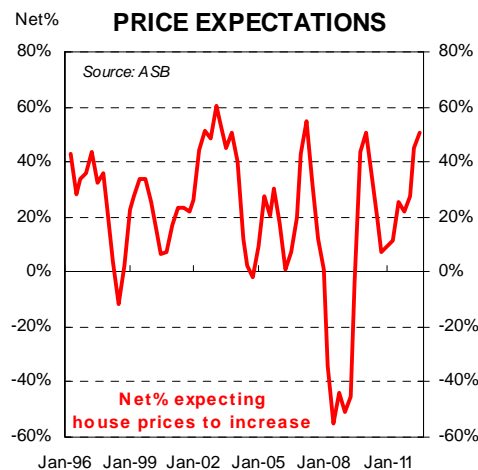
Net percent who believe (3 months to July 2012) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	12%	58%	25%
Rest of North Island	33%	41%	17%
Christchurch	4%	77%	26%
Rest of South Island	22%	52%	20%
TOTAL NZ	22%	51%	21%
<i>Compare 3 months to April 2012</i>	<i>21%</i>	<i>45%</i>	<i>43%</i>

Price expectations remain elevated, and once again increased in all regions.

Price expectations once again increased in all regions. Price expectations remain highest in Christchurch, where a net 77% of respondents expect prices to increase. Expectations also remain elevated in Auckland, and increased noticeably in the rest of the North Island in the latest survey as well.

A breakdown of the net quarterly figure is:

- 61% expect higher prices (57% last quarter), with 11% expecting lower prices (12%);
- the difference being the net 51% plotted opposite (45% previously);
- 21% expect the same (22%);
- 8% don't know (8%).



Confidence has been stable, but did drop in Auckland.

General optimism towards housing has been very stable of late, and that continues in the latest survey. Optimism increased slightly in most regions, but did drop in Auckland, where only a net 12% of respondents feel now is a good time to buy. That may be a result of the very tight state of the market in NZ's largest city, where low levels of inventory are putting pressure on buyers.

The breakdown is:

- 38% say it is a good time to buy (36% previously), while 15% say it is a bad time (15%);
- The difference is the net 22% plotted opposite (21%);
- 36% say it is neither good nor bad (39%);
- 10% don't know (10%).

Expectations of higher interest rates dropped markedly.

Interest rate expectations dropped markedly in the latest survey, perhaps reflecting the more uncertain international environment, recent cuts to some fixed-term mortgage rates, and speculation during May and June that the RBNZ could cut the OCR. The proportion of respondents expecting lower interest rates did fall over the quarter as the chance of OCR cuts appeared to fade.

The breakdown is:

- 37% expect higher interest rates (48% in the previous quarter), while 16% expect lower interest rates (5%);
- The difference is the net 21% expecting higher rates, plotted opposite (43% previously);
- 34% believe interest rates will stay the same (35%);
- 13% don't know (12%).

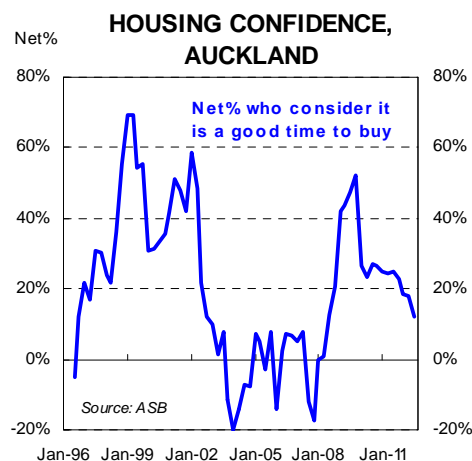
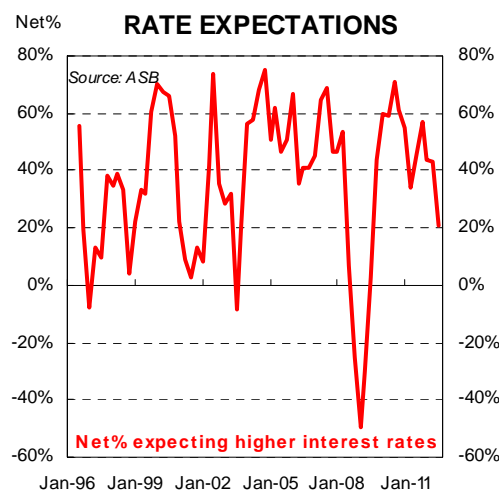
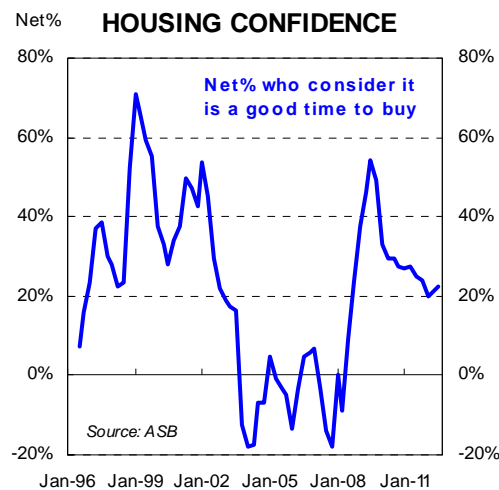
Housing market activity continues to pick up, but supply remains constrained

Recent market data have continued to point to an increasing rate of sales as housing demand picks up. But at the same time, new listings and housing inventory remain low. The result of the uptick in demand and historically very low levels of supply has been an appreciation in prices. Unsurprisingly, price increases have been largely confined to the regions where supply is most constrained, namely Auckland and Christchurch. The latest ASB Housing Confidence Survey results indicate that further price increases are firmly embedded in households' expectations.

The latest survey also suggests that buyers in Auckland are increasingly under the impression that the market is weighted in favour of sellers. Respondents in that region, where supply constraints are significant, indicated a lower level of confidence that 'now is a good time to buy a house' (the same measure increased slightly in most other regions).

Interestingly, this measure tends to move inversely to the overall level of activity in the housing market; for instance, it was very low through much of the 2000's when supply was similarly tight, yet sales and prices soared.

This suggests that the indicator is as much a measure of market tightness or the *difficulty* of buying a house as it is of actual demand or buying intentions.



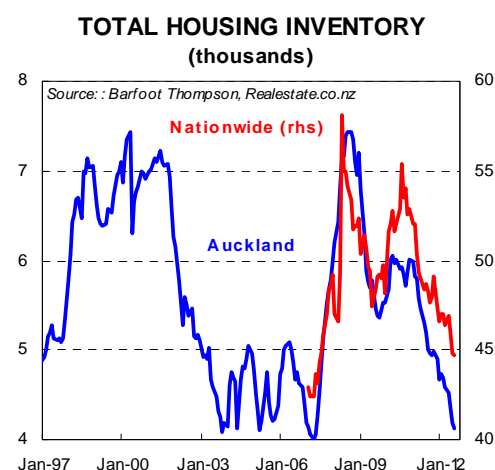
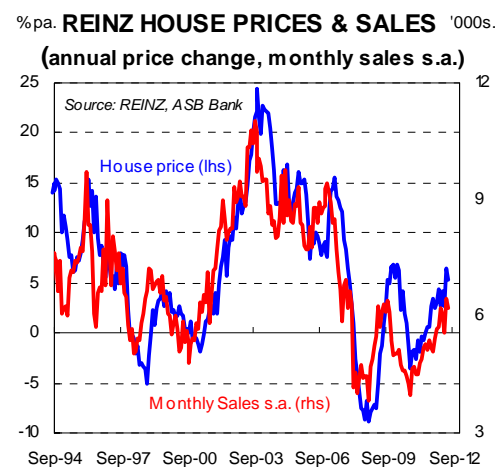
While some buyers may feel the market is becoming too pressured or unaffordable, there will be many more attracted to the market by the prospect of capital gains.

For now, though, housing demand will likely remain constrained by still-high levels of household debt and muted net migration inflows. In addition, overall employment growth remains modest.

Overall, and primarily underpinned by a contained level of housing inventory, we expect nationwide house prices will increase at a modest annual rate of around 4% over the next year. House price growth in Auckland is likely to be stronger than that, reflecting its relatively tighter market. Prices in Christchurch will continue to be pushed up due to the current shortage of habitable property. This situation should ease as rebuilding starts in earnest, though.

In summary,

- Housing confidence held steady over the three months to July.
- House price expectations rose once again in all regions. Expectations remain highest in Christchurch.
- Recent data show housing market activity continues to pick up, with price rises underpinned by low levels of new listings and, as a result, weak levels of inventory.
- Expectations of higher interest rates dropped markedly as speculation of OCR cuts peaked in May and June.



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	(649) 302 0992
Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5660	
Economist	Christina Leung	christina.leung@asb.co.nz	(649) 301 5661	
Economist	Daniel Smith	daniel.smith@asb.co.nz	(649) 301 5853	

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ASB Economics
Level 9, 135 Albert Street, Auckland

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