

## House price expectations continue to lift

- House price expectations continue to lift and are now just a fraction below the previous 2003 peak.
- Housing confidence declines as fewer see now as a good time to buy, particularly in Auckland and Christchurch.
- Interest rate expectations remain steady, with most expecting no change over coming year.

House price expectations edged higher once again in the latest ASB Housing Confidence Survey. A net 59% of respondents now expect prices to rise over the next 12 months, just a fraction below the January 2003 peak of 61%. In the latest survey, price expectations increased the most in Auckland and price expectations remain highest in Christchurch and Auckland.

The net percentage of respondents believing now is a good time to buy a house fell to 13% from 22% in the latest survey. The decline was broad based across the country. Confidence is the lowest in Christchurch and Auckland where net confidence has now turned negative, indicating respondents overall view it is a bad time to buy in these regions. The decline in confidence reflects the shortage of housing available for sale. Listings remain low and have not kept up with the modest increase in demand. Housing inventory levels have fallen sharply and the market is tilted in favour of sellers.

Interest rate expectations remain stable in the latest survey. Few respondents now expect a rate cut, although there has been a notable increase in the number replying 'don't know' over the past year, suggesting increased uncertainty around the outlook. The majority expect interest rates to remain unchanged over the next 12 months, and this is consistent with our view on the OCR and floating mortgage rate.

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

- A net 59% of respondents expect house prices to increase in the next twelve months;
- A net 13% of respondents believe now is a good time to buy;
- A net 24% of respondents expect interest rates to rise in the next twelve months.

### ASB Housing Confidence Survey (Source: ACNielsen)

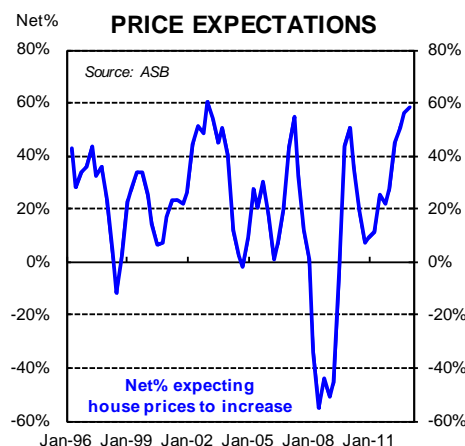
Net percent who believe (3 months to January 2013) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-1%	66%	27%
Rest of North Island	23%	52%	23%
Christchurch	-7%	76%	29%
Rest of South Island	19%	56%	19%
<b>TOTAL NZ</b>	<b>13%</b>	<b>59%</b>	<b>24%</b>
<i>Compare 3 months to October 2012</i>	<i>23%</i>	<i>56%</i>	<i>27%</i>

### Price expectations edge higher, led by a lift in Auckland price expectations.

Price expectations edged higher over the three months to January, and remain a fraction below the January 2003 peak of 61%. Price expectations increased in all regions, except Christchurch where prices expectations edged lower (to net 76% from net 78%) but remain at very high levels. Indeed, net price expectations remain highest in Christchurch. Price expectations increased most strongly in Auckland (net 66% from net 61%).

A breakdown of the net quarterly figure is:

- 66% expect higher prices (64% last quarter), with 8% expecting lower prices (unchanged);
- the difference being the net 59% plotted opposite (56% previously);
- 15% expect the same (19%);
- 11% don't know (9%).



### Housing market confidence declines as many view now a bad time to buy in Auckland and Christchurch.

General optimism towards housing has declined in the past 3 months, after remaining relatively stable over the past year. The net percent of those who see now as a good time to buy fell to 13% from 23%. The decline over the quarter was broad based on a regional basis. In both Auckland and Christchurch, the net response indicates it's now viewed as a bad time to buy, registering -1% and -7% respectively.

The breakdown is:

- 31% say it is a good time to buy (37% previously), while 18% say it is a bad time (14%);
- The difference is the net 13% plotted opposite (23%);
- 41% say it is neither good nor bad (38%);
- 10% don't know (11%).

### Interest rate expectations remain stable and low.

Interest rate expectations remained low over the past three months. There was a slight decline, with the net 24% expecting interest rates to increase, but on a trend basis overall interest rate expectations have remained relatively steady. Few expect an interest rate cut. However, there has been a steady lift in the number who "don't know" over the past year indicating increased uncertainty.

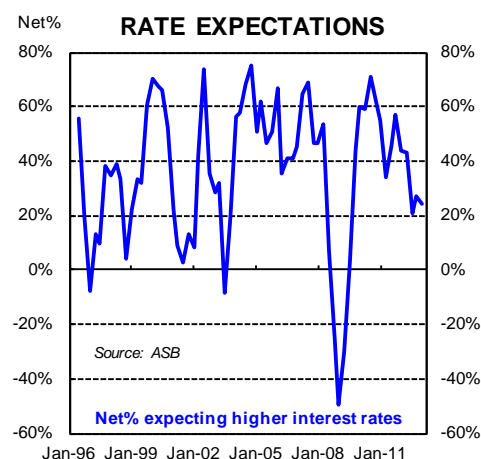
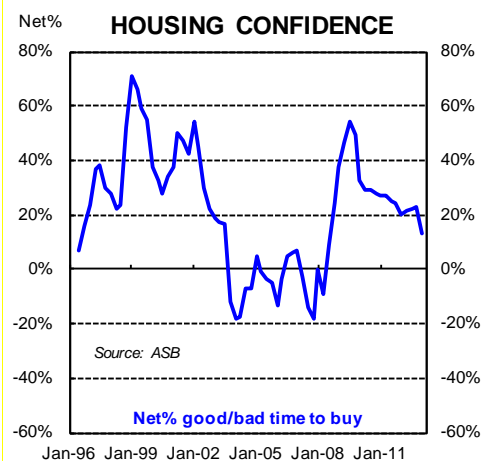
The breakdown is:

- 32% expect higher interest rates (35% in the previous quarter), while 8% expect lower interest rates (unchanged);
- The difference is the net 24% expecting higher rates, plotted opposite (27% previously);
- 39% believe interest rates will stay the same (42%);
- 20% don't know (16%).

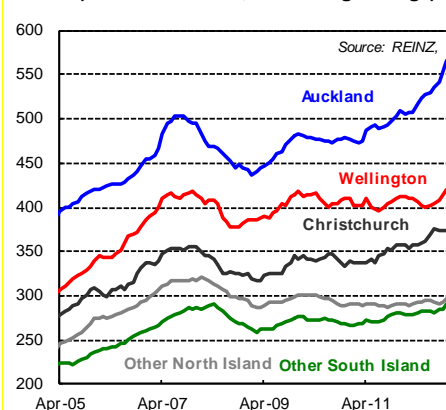
### House prices have increased strongly over past year, led by Auckland and Christchurch.

#### House prices continue to rise

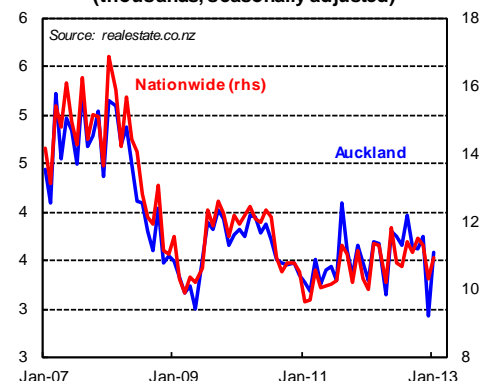
NZ house prices have lifted strongly over the past year. Auckland and Christchurch continue to lead the increase in house prices, but over the past six months house prices have started to pick up in other areas of the country, albeit to a lesser extent. Underpinning the increase in house prices, demand for housing has lifted modestly over the past year. This increase in demand reflects a return of first-home buyers as the labour market stabilises, as well as increased interest from investors. However, supply of new housing has not yet picked up in response to stronger demand. The housing market remains supply constrained due to low levels of housing construction. Supply shortages have been most acute in Christchurch and Auckland. As a result, price increases are strongest in these areas. The ASB Housing Confidence survey continues to indicate expectations for higher prices are firmly embedded with expectations remaining strongest in Auckland and Christchurch.



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



#### NEW HOUSE LISTINGS (thousands, seasonally adjusted)



### Indicators suggest house price inflation could stabilise.

The median number of days to sell, a measure of the balance between supply and demand in the housing market, remained broadly flat over the second half of 2012. As an indicator for house prices, this suggests the annual pace of inflation may start to stabilise at the current rate. ASB house price expectations also appear to be stabilising (albeit at high levels).

### Very low housing inventory levels contributing to low housing confidence.

Housing confidence has edged lower over the past quarter. The fall in confidence reflects the increased buying competition in the housing market, with low supply of housing available relative to demand. The number of houses available for sale (i.e. housing inventory) on realestate.co.nz has declined to just 15 weeks of sales in Auckland and 18 weeks of sales in Canterbury. This compares to a national average of 29 weeks. However, one encouraging development has been the lift in dwelling consent issuance in Auckland and Canterbury over the past year (albeit a gradual lift). This indicates house building demand is responding to higher house prices. Over the coming year, an increase in new housing construction should help alleviate some of the supply/demand imbalance in the housing market.

Interest rate expectations have remained broadly stable over the past few quarters. Few respondents

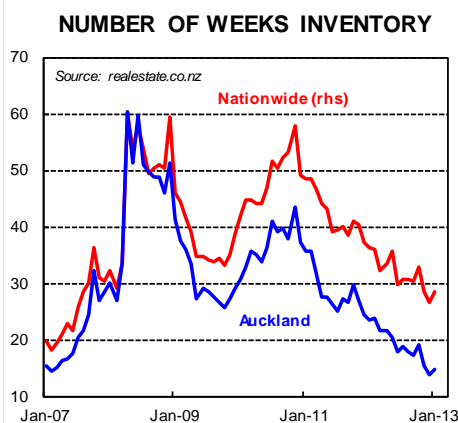
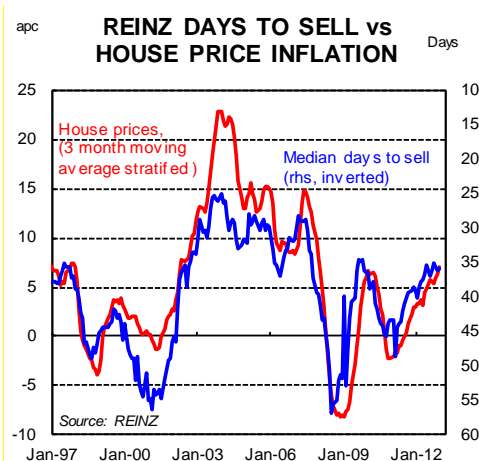
expect a rate cut as the NZ and global economy now appears to be on firmer footing. There was a slight drop in the number expecting a rate increase, while the proportion of those replying “don’t know” has picked up over the past year. This reflects increased uncertainty around the outlook. Households may be more aware of uncertainties given the recent influence of ‘unpredictable’ events on the economic outlook.

### We expect the OCR to remain unchanged until March 2014.

The majority of respondents expect interest rates to remain unchanged over the next 12 months, which is also in line with our own view on the OCR and floating mortgage rate. In light of recent economic data and the stubbornly high NZD, which is likely to remain elevated over the coming year, inflation pressures will remain subdued. As such, the RBNZ is likely to hold off lifting the OCR until March 2014. However, we do note, that while we expect floating rates to remain unchanged, fixed mortgage rates are likely to increase over the coming year as the market shifts away from pricing in a cash rate cut to pricing in cash rate increases from the RBNZ. We have noted (for some time), in our [Home Loan Rate report](#), that we view current fixed-mortgage rates offering excellent value.

In summary,

- Housing confidence declined in the three months to January as buyers face strong competition.
- House price expectations rose once again, expectations remain highest in Christchurch and Auckland.
- The housing market remains supply constrained, with low levels of new listings unable to keep up with the modest increase in demand over 2012. Housing inventory has fallen to very low levels, and the supply/demand imbalance continues to place upward pressure on prices.
- Expectations of higher interest rates have stabilised at a fairly low level by historical standards.



## 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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