ECONOMICS

26 May. 09

NZ Housing Confidence

Pick-up in sentiment sees some follow-through

Three months to April 2009

- **An ever-increasing proportion of respondents see now as a good time to buy.**
- **Price expectations remain weak, though there are tentative signs of improvement.**
- **Positive sentiment is being acted on, though fundamental housing drivers remain weak.**

Housing confidence has continued to rise: the sharp drop in mortgage rates over the past year has contributed to 6 in every 10 respondents seeing now as a good time to buy. House price expectations remain weak, with a majority of respondents still expecting prices to fall over the next year. However, month-to-month results suggest that price views became less negative as the quarter progressed. Another emerging trend over the 3-month period was slightly fewer people expecting further declines in interest rates: the sharp spike in long-term fixed mortgage rates in late March no doubt swayed respondents' views.

The early months of 2009 have seen positive views on purchasing translate into action: sales turnover lifted sharply through to April. It is likely the housing market is turning the corner. However, a robust recovery is another matter. The main impetus to prices is coming from lower mortgage rates. Many fundamentals for the housing market remain weak, in particular prices remain high relative to both incomes and rents despite recent price falls.

The ASB Housing Confidence survey suggests growing, but cautious interest in housing:

- A net 45% of respondents expect house prices to decrease in the next twelve months;
- A net 46% of respondents believe now is a good time to buy;
- A net 30% of respondents now expect interest rates to decrease in the next twelve months.

Although the survey still implies a weak outlook for house prices, positive sentiment towards home purchasing has steadily strengthened over the past 9 months.

ASB Housing Confidence Survey (Source: ACNielsen)

Net percent who believe (3 months to April 2009) …	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland*	44%	-44%	-36%
Rest of North Island*	49%	-45%	-28%
South Island*	44%	-47%	-29%
TOTAL NZ **	**46%**	**-45%**	**-30%**
*Compare 3 months to Jan 2009 ***	*38%*	*-51%*	*-49%*

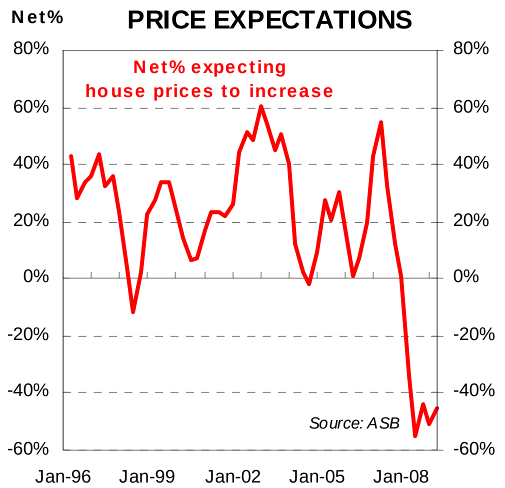
* sample size 200, 95% margin of error ±6.9%   ** sample size 600, 95% margin of error ±4.0%

Price expectations still weak but early signs of a lift

Expectations of lower house prices persisted over the 3 months to April. The quarterly average net price expectation of -45% is in keeping with the range seen over the past year. However, the month-to-month results show a very pessimistic start to the quarter but a swing to less downbeat views by April.

A breakdown of the net quarterly figure is:

- 11% expect higher prices (9% last quarter), with 57% expecting lower prices (60%);
- the difference being the net -45% plotted opposite (-51% previously);
- 27% expect the same (28%);
- 5% don't know (4%).



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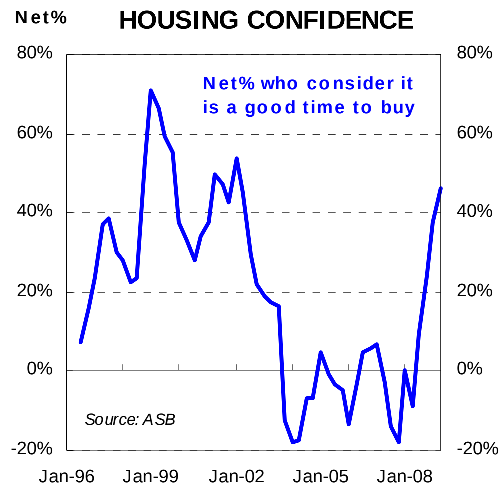
Continued increase in "good time to buy" responses

The perception amongst respondents that now is a good time to buy has continued to strengthen. It was noticeable last year that, as interest rate expectations started shifting to anticipate lower interest rates, "good time to buy" responses increased.

The breakdown is:

- 59% say it is a good time to buy (53%), while 13% say it is a bad time (15%);
- the difference is the net 46% plotted opposite (38%);
- 22% say it is neither good nor bad (29%);
- 7% don't know (4%).

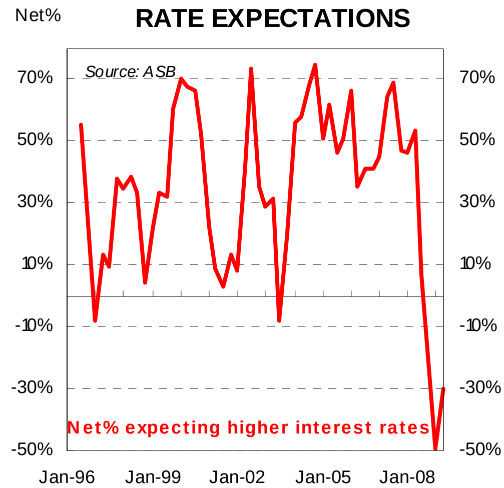


Expectations of lower interest rates moderate; jump in fixed mortgage rates a likely influence

Interest rate expectations plummeted through into early 2009 as mortgage rates plunged. However, in the 3 months to April there were increasing doubts that interest rates would fall further. By the month of April responses were evenly split between those expecting rates to rise or fall. The shift is no doubt in response to the sharp jump in fixed rate mortgages at the end of March.

The quarterly breakdown of responses is:

- 20% expect higher interest rates (14%), while 50% expect lower interest rates (63%)
- the difference is the net 30% plotted opposite (a net 49% expected lower rates in the previous quarter);
- 19% believe interest rates will stay the same (11%);
- 11% don't know (12%).



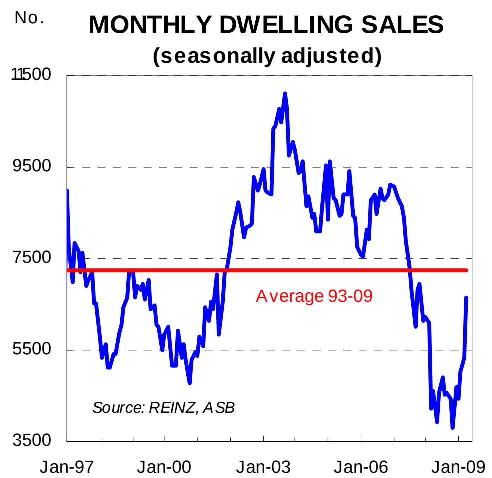
Housing market showing some green shoots

Housing gets on board the "green shoots" train

Over the three months to April house sales turnover perked up. Although the housing survey has for some time been casting a favourable light on house purchasing, it is only recently that would-be purchasers have begun to act.

Low mortgage rates have seemed irresistible to some. The extent of the falls over the past year has considerably reduced the debt-servicing bill of any new purchase.

From early March some of the prevailing global gloom began to ease. Although the global and NZ economic outlooks remain highly uncertain, some of the uncertainty about the depth of the downturn has been dissipating.

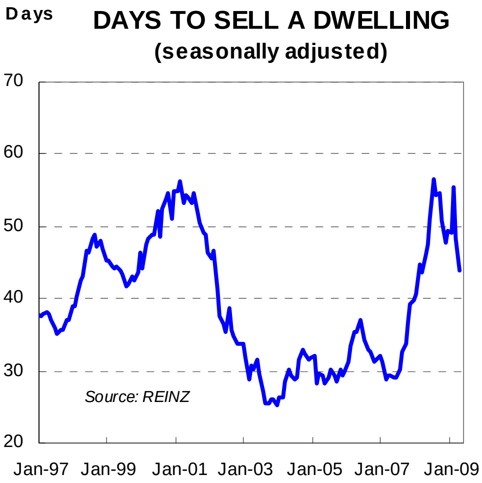


Time to sell shortening, stock overhang reducing

Other measures are suggesting that the pendulum, though still in buyers' territory, is starting to swing back to balance.

The median of days to sell (seasonally adjusted) has fallen further in recent months to 42 days, now not far above the historical average of 38 days.

Likewise, listing figures in Auckland show a noticeable decline in outstanding listings from very high levels to slightly above-average levels. Anecdotes about listing shortages up and down the country suggest a similar shift is occurring nationwide.

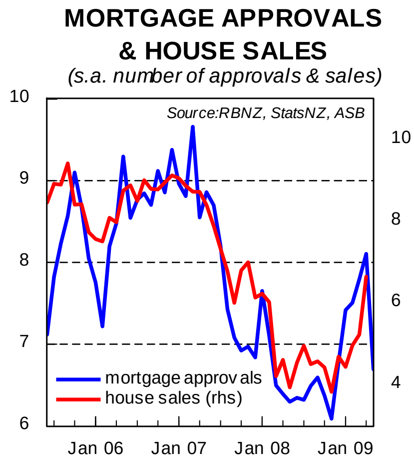


However, mortgage approval spike has abated

The cautionary tale about the strength of recent house sales is that it has coincided with a sharp spike in mortgage approvals. The upward trajectory of long-term mortgage rates at the end of March triggered a tsunami of fresh mortgage applications.

The surge in fixed rates may have prompted prospective buyers to get off the sideline and act. That rush may have contributed to the surprising strength of house sales over April.

Mortgage approvals published by the RBNZ have since subsided, suggesting some of the recent heat will cool.



Looking ahead: fundamentals aren't as rosy this time around

Low interest rates the main housing boost

Although the early signs of stabilisation are appearing, stabilisation in itself does not automatically translate into noticeable recovery. The main positives the housing market has going for it are the very low interest rates and an emerging lift in net migration.

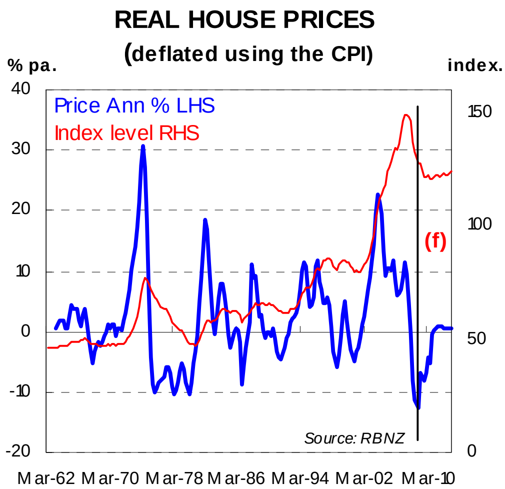
House price fundamentals still weak

However, there are a number of factors that will limit the upside to house prices. Although prices have fallen over the past 18 months they remain high relative to both incomes and rents. In other words, houses are now merely expensive instead of being really expensive. Household debt levels are also considerably higher than they were at the start of the last housing boom: collectively NZ households have less room to gear up. Moreover, higher deposit ratios will exclude some erstwhile purchasers until they have built up bigger deposits. Job losses are going to be a feature of the next year, and along with them further distressed sales of property will occur.

Future house price performance will be constrained

Investors with fond memories of capital gains made during the recent boom – the strongest in nominal terms since the early 1970s – need to recognise that the market will be different in coming years.

Properties that provide healthy rental yields will be a safer option than relying on future capital gains to pay a property's way. The harsh reality of the past couple of years has shown that unrealised capital gains can vanish quite rapidly, let alone those that have yet to occur. In the 1970s house prices fell 40% when adjusted for inflation.



Thoughts for prospective buyers

Prudent thoughts:

The above aside, the present is a better time to buy than it has been for a while, with weaker house prices and low mortgage rates making purchasing far more affordable.

Don't rely on prices soaring

There are, nonetheless, two factors to bear in mind. One concerns prices: they may continue to fall in the short term and price performance over the next cycle will be a shadow of the growth seen in the recent boom. Future price prospects matter less for owner-occupiers. For investors any price gains would be best viewed as a bonus rather than a given: cashflow, not paper value gains, is what ultimately services the mortgage.

Leave ample buffer in debt servicing

The other factor is debt servicing. When assessing your ability to service debt it would be prudent to factor in higher interest rates than are currently available. Even though the RBNZ has said it expects "to keep the OCR at or below the current level [2.5%] through until the latter part of 2010", the current low level of interest rates will not be sustained indefinitely. Our Home Loan Rate Report discusses the various rate options.

In summary,

- The ASB Confidence survey still shows a considerable majority of respondents expect house prices will fall, though positive sentiment is starting to pick up;
- Nearly 6 in 10 respondents see now as a good time to buy, with the proportion of "good time" respondents steadily growing over the past 9 months;
- Though the housing market is showing signs of bottoming out, the fundamentals point to muted house prices ahead. Very low debt-servicing costs via low mortgage rates, coupled with a nascent lift in net migration, are the primary drivers of improved sales activity;
- When purchasing, leave a buffer in your budget to allow for the risk of higher debt servicing costs and unexpected developments. Current interest rates are well below average, and future debt servicing costs could be much higher than is the case now.

For more …

ASB commentary on housing and home loan rates.

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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