

Home Truths

16 June 2014

Unclear on prices, clear on sales

Just as we thought we were getting some clarity on the direction of house prices in New Zealand, the latest monthly figures have muddied the waters again. The REINZ's stratified house price index fell 1.1% (seasonally adjusted) in May, with the annual rate of increase slowing to 6.5%, the lowest since late 2012. In contrast, the Quotable Value (QV) measure of house prices, released earlier this month, showed a modest 0.7% rise in prices over the three months to May (though the annual rate of increase also slowed, from 8.4% to 8.2%).

We regard the QV series as the more reliable measure of house prices, as it takes account of the composition of house sales from one month to the next. However, due to the way it's constructed, it will tend to be a little slower than the REINZ measure in picking up turning points in the pace of house price growth.

That particularly matters to us because we've been anticipating a modest revival in house prices through the middle of this year, after an initial period of adjustment to the Reserve Bank's restrictions on high-LVR lending. Up to now the REINZ figures seemed to bear that out, with a cumulative 3.2% rise in prices from January to April. Including the May figures tells a less emphatic story, though it serves as a reminder that this is a volatile series on a month-to-month basis.

While the picture on prices was mixed, the message on sales was unambiguous. Rather than the post-Easter rebound in house sales that we were expecting, there was actually a further dip in May. In addition, the average time to sell rose from 34 to 36 days (seasonally adjusted), an unusually large change in the space of one month. It's possible that there may have been some residual Easter effect – houses intended to be sold in May might have had to contend with the combined Easter/Anzac Day lull during their marketing periods. Even so, it's clear that at this point we're debating monthly variations around a very weak trend.

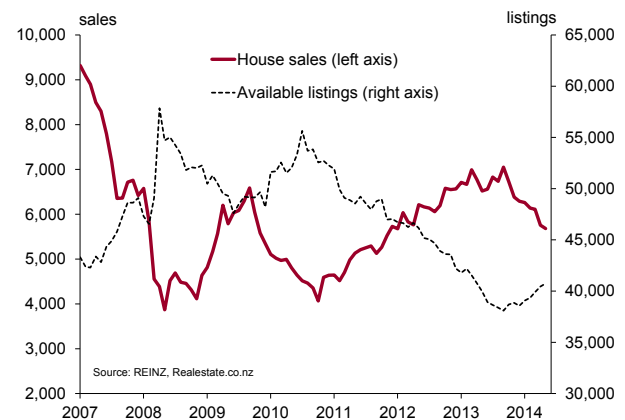
Regardless of what you make of the latest month's figures, one thing is clear: it's becoming increasingly hard to attribute what's going on in the housing market to migration flows. Net inward migration has accelerated so far this year, reaching more than 34,000 people in the year to April, the highest in over a decade. Yet in that time, housing turnover has fallen and house price growth has slowed.

We've seen suggestions that the combination of rising prices and falling sales can be explained by one aspect of the migration figures: namely, that much of the turnaround in net flows has been due to fewer New Zealanders migrating

overseas (hence not putting their houses up for sale). That claim is easily dismissed. Figures from Realestate.co.nz show that the stock of unsold homes has risen 5% (seasonally adjusted) since the start of the year, breaking a three-year downtrend. Sales have fallen by more than listings, which implies that softening demand has been the dominant force.

We note that the RBNZ has placed a lot of emphasis on migration as a driver of housing demand; the forecasts in its June *Monetary Policy Statement* suggest that it would also have been expecting a re-acceleration in house prices by this stage. Depending on how the RBNZ interprets the latest figures, it might either downgrade its view of the underlying strength of the housing market (softening the case for interest rate hikes), or it could upgrade its assessment of the impact of the high-LVR restrictions (which would strengthen the case for starting to remove them later this year).

House sales and listings, seasonally adjusted



REINZ housing data, May 2014

| | May-14 | Apr-14 | May-13 |
|----------------------------------|--------|--------|--------|
| House sales, number, s.a. | 5682 | 5756 | 6519 |
| Mth % chg | -1.3 | -5.8 | -3.7 |
| Ann % chg | -14.8 | -20.2 | 7.5 |
| Days to sell, sa | 36.4 | 34.4 | 33.6 |
| House Price Index (s.a.) | 3909.2 | 3952.6 | 3673.3 |
| Mth % chg | -1.1 | 0.3 | 0.8 |
| Ann % chg | 6.5 | 8.5 | 8.7 |

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