

Home Truths.

17 December 2019



7% by April at the latest.

In May we predicted that house price inflation would reach 7% over 2020, due to the cancellation of plans to introduce a capital gains tax and a sharp drop in mortgage rates. At the time house prices were falling in Auckland and were cooling elsewhere. The feedback we received indicated that few believed our forecast. Certainly, no other major economic forecasters were predicting a housing market upturn.

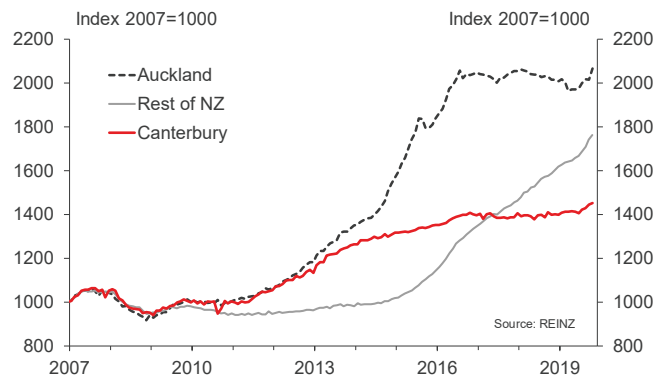
The latest data from REINZ emphatically shows that the housing market has indeed turned. Annual house price inflation has already reached 5.6%, and it now looks as though it will reach 7% by April 2020 at the latest – there is a chance that it could touch 7% even earlier than that (all figures are defined as annual change in the REINZ House Price Index (HPI)).

According to HPI data released last week, over the four months from July to November New Zealand house prices rose 4.8%, compared to 1.6% over the entire preceding year. Most secondary data supports the idea that the housing market has heated up – the average number of days taken to sell a house has fallen sharply, as has the stock of unsold properties available on the key real estate website. There has also been a lift in house sales, although not to the degree that we would normally associate with a housing market upturn. We estimate that the seasonally adjusted number of house sales is 15% higher than the low-point of March 2019.¹

Back in May we predicted that the coming housing market upturn would be felt most obviously in Auckland and Canterbury, where price inflation was previously the weakest. We did not expect either region to start outperforming the rest of New Zealand – we expected that Auckland house price inflation would remain lower than the rest of New Zealand, and that Canterbury prices would match the rest.

The biggest change in momentum has indeed been felt in Auckland and Canterbury. Prices in Auckland were falling earlier this year but have risen 4.6% over the past four months. Canterbury has gone from flat to a 3.3% rise in four months. For most of the remainder of New Zealand there was a distinct slowdown in early 2019, but now standard service has resumed and prices are rising at about the same pace as they did in 2018. Manawatu-Whanganui and Gisborne/Hawkes Bay are the standouts, with prices rising 7.7% and 6.4% respectively in just four months.

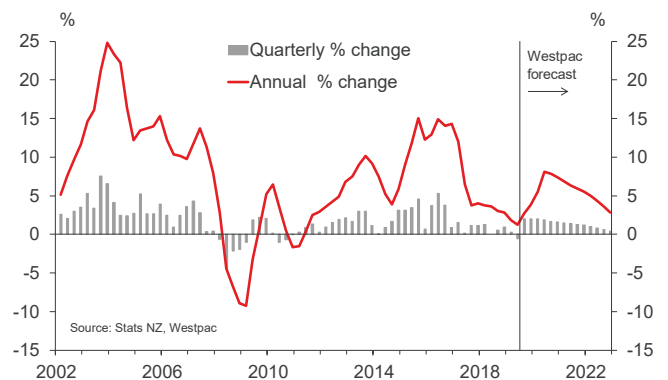
House prices in regions of New Zealand



How long will it last?

With an upturn assured, it is now time to ask how long this will last. We expect the market will be hottest early next year, and will start to cool after that. One driver of the current upturn has been a sharp drop in mortgage rates. But some fixed mortgage rates are already starting to creep higher again, and we forecast further increases over 2020. If that proves correct, the pace of house price increase may well cool by 2021.

Westpac forecast of New Zealand house price inflation



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¹ Based on REINZ data, seasonally adjusted, and adjusted for the fact that REINZ does not include all sales in its initial release of the data.



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