

Market bounce confirmed

We will kick off this month's Home Truths by recapping the recent history of the New Zealand housing market. For most of 2013, prices were rising rapidly. But in August that year the Reserve Bank announced mortgage lending restrictions and, at the same time, fixed mortgage rates rose sharply. Home Truths correctly predicted that this double-whammy would soon slow the housing market. Quarterly house price inflation slowed from 3% in the September quarter of 2013 to -0.1% in the March quarter of 2014, and market turnover dropped by 20% (seasonally adjusted).

Recently, Home Truths has been predicting a modest housing market revival. We predicted that house prices would return to a rising trajectory through the middle of 2014, before the market slowed pervasively over 2015. There were three reasons to expect a mid-year market revival – population growth has surged because fewer Kiwis are leaving the country (figure 1), fixed mortgage rates fell between February and June (figure 2), and banks are now lending more frequently to people borrowing more than 80% of a house's value (figure 3).

Housing data that could either confirm or refute the mid-year bounce was frustratingly absent for some time – the data was hopelessly mixed. But with the release of June data, we can now say that the evidence supports the idea of a mid-year market revival – although it looks to be a modest revival:

- The best gauge of price trends is the Quotable Value Residential Price Movement Index (figure 4). This shows that house prices rose quite rapidly in the June quarter of 2014, after a hiatus in the March quarter.
- The Real Estate Institute's measure of market turnover, which is an excellent leading indicator of house price inflation, rose 3.3% (seasonally adjusted) in the month of June (figure 5), although sales remain well down compared to a year ago.
- According to realestate.co.nz, the stock of unsold homes on the market has fallen over the past couple of months (figure 6).

True, there are still a couple of important indicators pointing in a contrary direction. The Real Estate Institute's Monthly House Price Index fell sharply in May and failed to recover in June. However, we rather suspect that this normally-excellent indicator was thrown out by the altered composition of house sales when the RBNZ's mortgage restrictions came into force – this index rose sharply in early-2014, when house prices

Figure 1: Net immigration to New Zealand

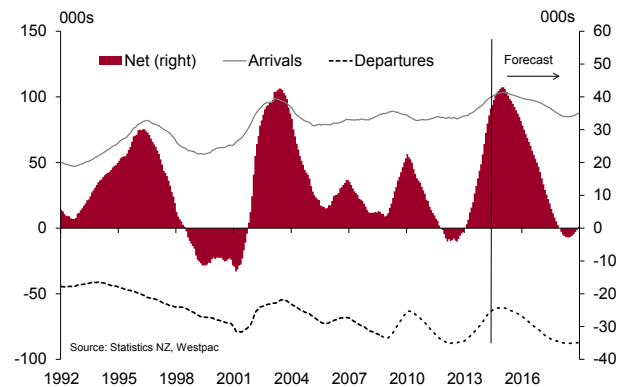


Figure 2: Advertised fixed mortgage rates

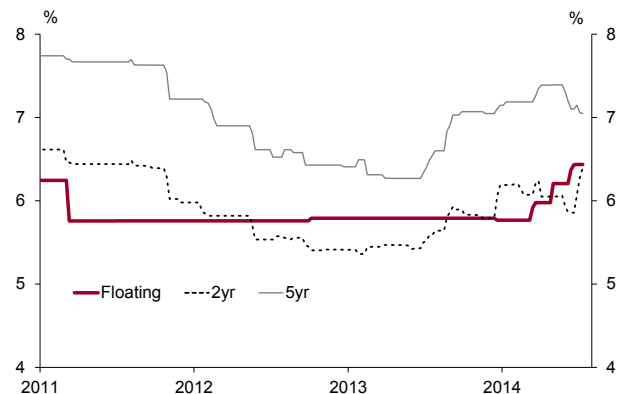
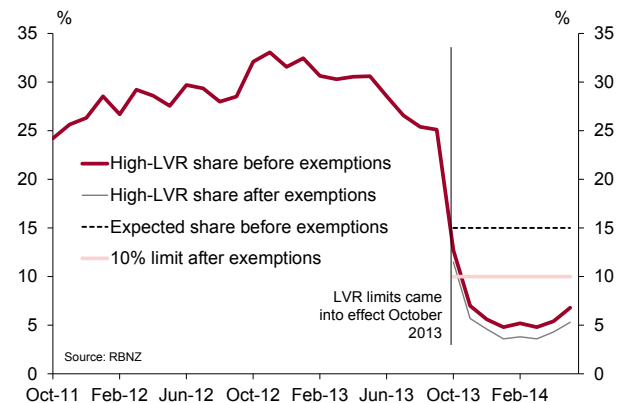


Figure 3: New mortgage lending by loan-to-value ratio



were actually flat, and may now be unwinding from an anomalous reading. Finally, the number of days it takes to sell a house has continued to lengthen, but this is usually a lagging indicator anyway.

Where to next?

The obvious question now is “where to next?” In our view, this market revival will be short-lived. Fixed mortgage rates have risen sharply over the past few weeks, and we think that both floating and fixed rates will rise further over the next year. As interest rates rise, renewed downward pressure will come onto the housing market – we would not be surprised to see a period of declining house prices during the middle part of this decade.

Figure 4: Monthly change in QV Residential Price Movement Index

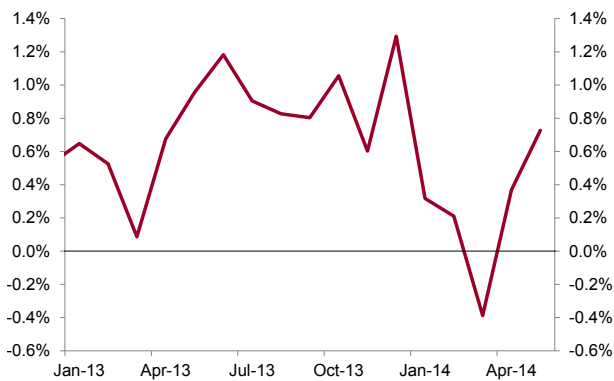


Figure 5: REINZ monthly house sales, seasonally adjusted

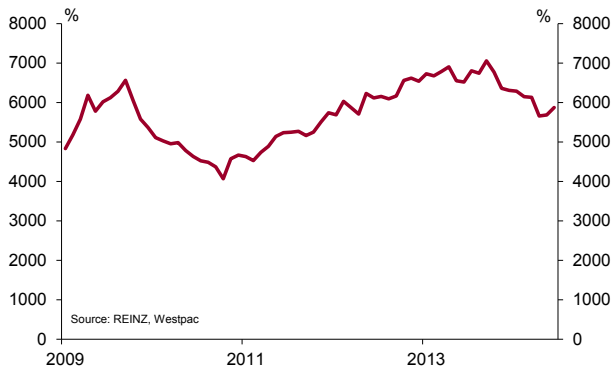


Figure 6: Realestate.co.nz listings available, s.a.



Figure 7: Westpac annual house price inflation forecast



REINZ housing data, June 2014

	Jun-14	May-14	Jun-13
House sales, number, s.a.	5874	5685	6520
Mth % chg	3.3	0.5	-0.5
Ann % chg	-6.1	-14.8	0.0
Days to sell, sa	38.3	36.7	33.3
House Price Index (s.a.)	3911.9	3911.6	3684.1
Mth % chg	0.0	-0.9	0.2
Ann % chg	6.2	6.5	8.4

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