

Home Truths

13 February 2015

One Step Back

Housing market activity positively surged after last year's election had passed, particularly in Auckland – nationwide seasonally adjusted house sales rose 25% in just three months. We are now starting to see the effect on house prices. Quotable Value data shows that over the three months to January 2015 house prices rose an eye-watering 7.9% in Auckland. Elsewhere the three-month gain in house prices was starkly slower, although not shabby either: 2.6% in Hamilton, 1.3% in Wellington, 1.7% in Christchurch, and 1.0% in Dunedin.

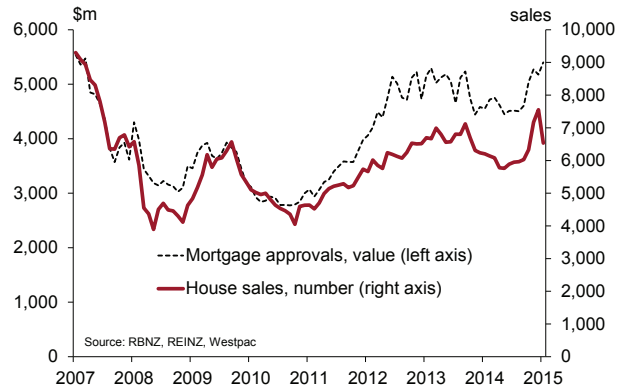
With this sort of momentum behind the housing market, we were surprised when January data from the Real Estate Institute indicated that seasonally adjusted house sales had dropped 13.5% in a month. House sales are an important bellwether, so this does beg the question of whether a housing market downturn has begun.

We are very reluctant to draw that conclusion. Firstly, there is no corroborating evidence of any slowdown – for example, mortgage approvals have continued to surge ahead. Secondly, inventory available for sale on realestate.co.nz has dropped to just 21.4 weeks' worth of sales, the lowest since April 2007. This hints at a lack of stock on the market, rather slack demand, crimping house sales in January. Finally, the key drivers of this surge in the housing market – falling mortgage rates and rising population growth – have intensified in recent months.

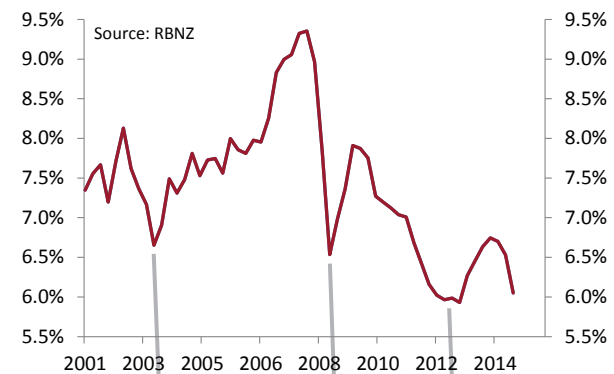
So while this sudden drop in house sales is noteworthy, we really need to see another month of data before we can draw any conclusions. For now we are sticking to our core forecasts for the housing market, which are:

- Low inflation will prompt financial markets to push fixed mortgage rates even lower early this year.
- Population growth will remain extremely strong this year, approaching 2% per annum (compared to 0.6% in 2012).
- Falling mortgage rates and strong population growth will stimulate the housing market. We forecast 7.5% nationwide house price inflation this year, compared to 4.7% in 2014.
- The Reserve Bank will become concerned about financial stability, and will apply further restrictions on mortgage lending at some point during the year.
- Later this decade we anticipate an economic slowdown associated with the wind down of the Canterbury rebuild, slower population growth as New Zealanders return to a recovering Australian economy, and higher mortgage rates. Under such conditions we would expect house prices to fall.

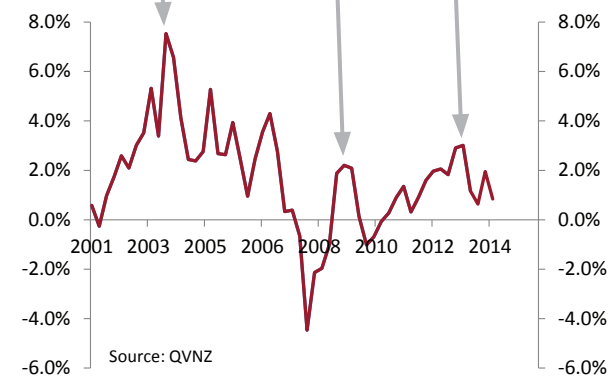
House sales and mortgage approvals



Average of 2-year and 5-year mortgage rate



Quarterly house price inflation



REINZ housing data

	Jan-15	Dec-14	Jan-14
House sales, number, s.a.	6533	7553	6204
Mth % chg	-13.5	5.3	-0.8
Ann % chg	2.6	24.2	-4.3
Days to sell, sa	34.7	35.2	35.6
House Price Index (s.a.)	4121.1	4072.5	3833.9
Mth % chg	1.2	0.4	-0.2
Ann % chg	7.5	6.0	7.7

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