

Housing optimism eases slightly

- Housing confidence eased slightly in the three months to July.
- House price expectations increase across the regions, with Auckland leading the way.
- Interest rate expectations rise, but there has been much volatility since the survey was taken.

Housing confidence eased slightly over the three months to July. While there was an increase in house price expectations, interest rate expectations also rose. This increase likely reflects growing expectations the RBNZ would lift interest rates earlier than previously thought. Indeed, subsequent to the survey the RBNZ's July OCR Review statement indicated it was intending to remove March's 'insurance' OCR cut soon. However, growing concerns over the global outlook since the survey was taken has seen much of this change in interest rate expectations pared back in the markets in recent weeks.

As expected, housing confidence in Christchurch dropped in the June month, partly reflecting the series of earthquakes that hit the region on 13th June. There was a recovery in housing confidence in the following month. Similarly, REINZ house sales data showed a sharp drop in house sales in Canterbury in June, with a rebound in July. This suggests there is still underlying demand for houses which are undamaged in Christchurch. Outside of Canterbury, the picture remains of a very gradual pick-up in underlying housing market activity.

The ASB Housing Confidence survey suggests slight easing in housing confidence:

- A net 25% of respondents expect house prices to increase in the next twelve months;
- A net 25% of respondents believe now is a good time to buy;
- A net 46% of respondents expect interest rates to rise in the next twelve months.

ASB Housing Confidence Survey (Source: ACNielsen)

Net percent who believe (3 months to July 2011) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	25%	42%	46%
Rest of North Island	29%	15%	46%
Christchurch	-6%	20%	42%
Rest of South Island	30%	25%	50%
TOTAL NZ	25%	25%	46%
<i>Compare 3 months to April 2011</i>	<i>27%</i>	<i>11%</i>	<i>34%</i>

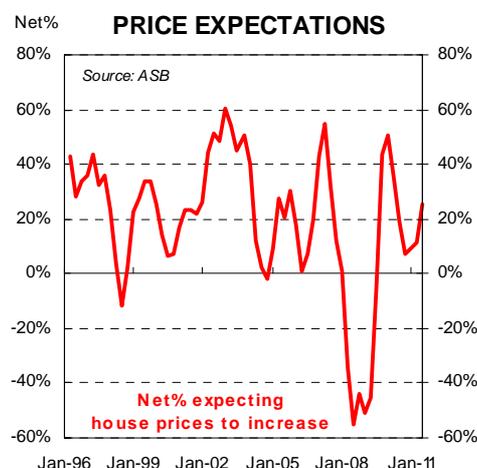
Note: AC Nielsen have made slight revisions to its previous survey results, reflecting slight changes to its weightings. The revisions do not materially change the results of the survey.

Price expectations improve on a nationwide basis.

Price expectations increased over the quarter. The increase was particularly large in Auckland and Christchurch. Auckland continues to have the highest price expectations across all the regions. A month-to-month breakdown showed price expectations in Christchurch rebounded sharply in July after June's earthquakes.

A breakdown of the net quarterly figure is:

- 44% expect higher prices (35% last quarter), with 19% expecting lower prices (25%);
- the difference being the net 25% plotted opposite (11% previously);
- 31% expect the same (33%);
- 5% don't know (7%).

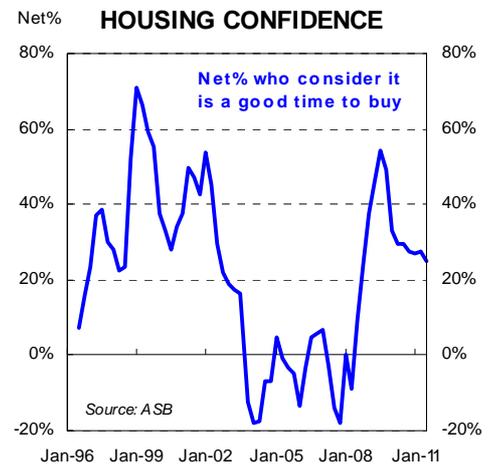


Confidence eases slightly.

On balance, respondents' optimism towards housing eased slightly over the quarter. Housing confidence was steady across the regions. However, a month-to-month breakdown of survey results shows a decline in housing confidence in Christchurch over May and June, with some rebound in July.

The breakdown is:

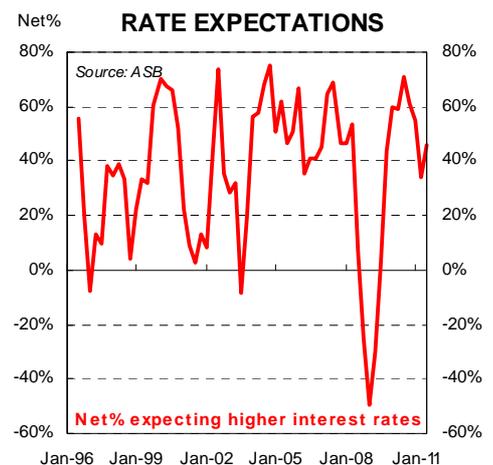
- 40% say it is a good time to buy (40% previously), while 15% say it is a bad time (13%);
- The difference is the net 25% plotted opposite (27%);
- 38% say it is neither good nor bad (39%);
- 6% don't know (7%).



Interest rate expectations rebound.

Reflecting recent data pointing to a brighter domestic outlook which boosted expectations the RBNZ will look to raise the OCR soon, interest rate expectations increased over the quarter. The increase was broad-based across the regions:

- 54% expect higher interest rates (46% in the previous quarter), while 8% expect lower interest rates (12%);
- The difference is the net 46% expecting higher rates, plotted opposite (34% previously);
- 28% believe interest rates will stay the same (30%);
- 10% don't know (12%).



The escalating turmoil in financial markets in recent weeks has seen a paring back in expectations that the RBNZ will raise the OCR by 50bp in September.

Housing market activity continues to improve

Recent data point to a gradual pick-up in underlying housing demand. While the latest REINZ house sales data show a slight softening in nationwide housing turnover over July (on a seasonally-adjusted basis), this may have reflected poor weather which tends to reduce interest in house hunting.

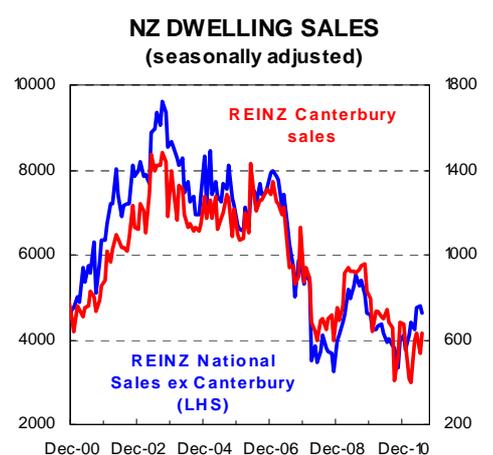
Gradual pick-up in housing market activity.

Continued tightening in the housing market.

The amount of housing inventory remains contained. In particular, the number of new listings nationwide remains at very low levels. The continued decline in median days to sell also indicates tightening in the housing market. Meanwhile, nationwide house prices were broadly flat over July on a seasonally-adjusted basis.

Recovery in housing turnover in Canterbury.

As expected, there was a recovery in housing turnover in Canterbury over July from the sharp drop in the wake of the earthquakes in the previous month. Over the next year or so, homeowners whose houses are written off or purchased by the Government will contribute to higher sales activity. Already a large proportion of Red Zone owners have accepted the Government's buyout packages. Prices of houses sold in Canterbury have been quite steady this year.



Auckland housing market remains tighter than rest of the regions.

The Auckland housing market remains tighter relative to other regions in NZ. This is reflected across a range of measures, including the relatively shorter average number of days to sell and the low number of houses on the market.

As a result of the relatively lower level of housing inventory in Auckland, house price appreciation in the region has been stronger than in most other regions. Auckland is already becoming a sellers' market as stock levels fall and buyer competition warms up.

We expect other parts of the country will follow suit. Underpinned by a continued contained level of housing inventory, we expect nation-wide house prices will increase at a modest annual rate of 3% heading into 2012. House price growth in Auckland is likely to be stronger than that, reflecting its relatively tighter market.

In summary,

- Housing confidence eased slightly over the three months to July.
- House price expectations increased across the regions.
- Recent data show continued improvement in housing market activity.
- We expect modest growth in house prices over the coming year. The continued low level of residential building consent issuance raises the risk of an undersupply of housing over the coming years. This will likely provide support for prices.

ASB commentary on housing and home loan rates.

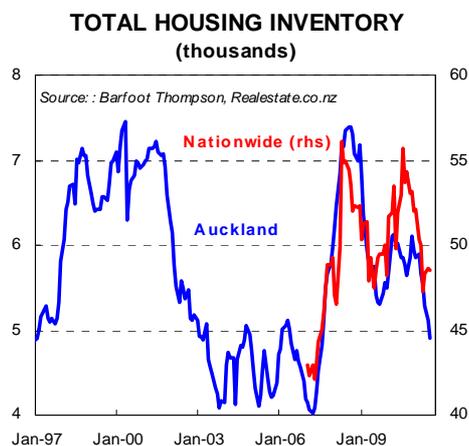
For more ...

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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