

Price growth expectations slump

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ASB chief economist
Nick Tuffley

Expectations of house price growth have cooled significantly in the January quarter, the latest ASB Housing Confidence Survey reveals.

While the drop in price growth expectations was most dramatic among Auckland survey respondents, there was a decline in expectations in every region around the country.

A net 46% of respondents nationwide think house prices will rise, as compared to 58% in the October quarter.

That's the second lowest level for price expectations since 2012.

But just 36% of Auckland respondents expect house prices to rise. This is down on 51% in the October quarter.

Around the rest of the North Island, 52% of respondents are anticipating house prices will go up, as compared to 64% in the October quarter.

ASB chief economist Nick Tuffley said the cooling housing market appears to have cooled house price expectations.

The survey findings correspond with a significant drop in housing market activity following the Reserve Bank's latest investor-focussed LVR restrictions, he said.

"Not only has housing market data shown a fall in sales activity recently, it has also suggested house price growth has slowed in a number of regions.

"It is likely that the weaker market activity has impacted on respondents' house price expectations this quarter."

However, despite the fall in house price expectations, the survey shows that buyer sentiment has actually improved slightly from the October quarter.

A net 17% of respondents think it is a bad time to buy a house – which is up from the historic low of 26% in the October quarter.

Auckland respondents were most pessimistic with 27% of respondents saying it was a bad time to buy a house, as compared to 33% in the last quarter.

Tuffley said that although respondents think now is a better time to buy than last quarter, ultimately respondents consider it's a bad time to buy a house.

“Elevated house prices are likely to still be weighing on sentiment, as are the higher deposit requirements now facing investors in particular.

“On balance, respondents see it as a bad time to buy, but are slightly less pessimistic than three months ago.”

Meanwhile, it seems that a majority of respondents think the days of record low interest rates are over.

After falling sharply in late 2015, the survey shows that interest rate expectations have rebounded over the last six months.

A net 37% of respondents in the January quarter thought that higher interest rates are on the way up over the coming year.

This is a big change from the 7% of respondents who were expecting interest rates would increase in the October quarter.

Tuffley said that with most major banks increasing mortgage and term deposit rates recently, it's no real surprise interest rate expectations have also lifted.

Respondents appear to be bracing themselves for more, he said.

“While we expect the Reserve Bank to leave the OCR on hold until late 2018, funding pressures and higher offshore interest rates could see mortgage rates creep higher.”