

Economic Note

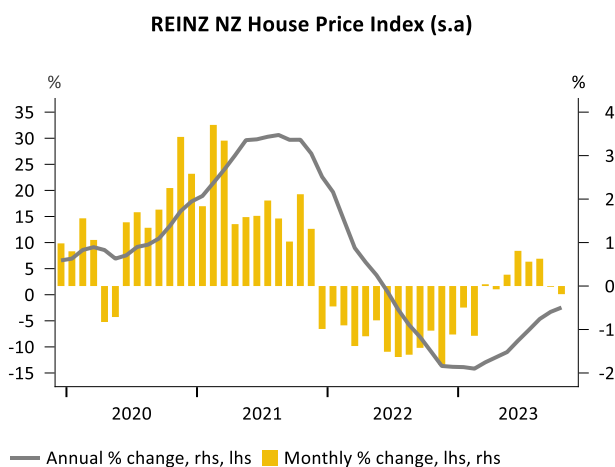
REINZ Housing data – October 2023

16 November 2023

Housing market takes a mid-election pause for thought

- The NZ housing market cooled in October, notching up its first monthly price decline in six months off the back of reduced housing market activity.
- With some deceleration also taking place in September, there may well be a bit of ‘wait and see’ going on as prospective buyers and sellers awaited the election outcome.
- We still view broader housing market drivers as supportive for prices, though restrictive interest rate settings are likely to keep a lid on how spicy the market gets.

REINZ Housing Data	Oct-23	Month ago	Year ago
National			
Sales (s.a % mom)	-8.6%	0.4%	0.9%
House price index (% mom)	-0.2%	0.0%	-1.0%
House price index (% yoy)	-2.5%	-3.3%	-10.9%
Days to Sell (s.a)	40.0	40.2	47.6
Auckland			
Sales (s.a % mom)	-6.2%	-1.9%	-2.3%
House price index (% mom)	-0.1%	0.0%	-0.7%
House price index (% yoy)	-2.5%	-3.1%	-14.3%
Wellington			
Sales (s.a % mom)	-26.1%	-1.4%	7.2%
House price index (% mom)	-2.0%	0.9%	-2.1%
House price index (% yoy)	-3.4%	-3.4%	-19.8%
Canterbury			
Sales (s.a % mom)	-10.0%	-5.3%	7.0%
House price index (% mom)	0.2%	-0.8%	-0.8%
House price index (% yoy)	0.2%	-0.9%	-3.0%



Source: Macrobond, ASB

An October breather

The NZ housing market cooled a little in October according to this morning’s REINZ data, with prices down around **0.2% nationally on a seasonally adjusted basis**. This is the first monthly reduction in house prices since April, when we first started to see the 2021-2023 house price easing cycle draw to a close. After six months of gentle gains, house prices are still about 2.1% above the low they reached back then, but there has been a definite loss of momentum over the last two months. Ahead of this month’s decline, prices were flat in September on a seasonally-adjusted basis.

Beyond prices, housing market activity also struggled to keep up the momentum this month. Sales volumes were also down, falling 8.6% mom s.a. to levels not seen since April – the circa 5,200-5,300 range. On a seasonally adjusted basis, average days to sell continues to track sideways rather than fall further, having been stuck at 40 for the last three months. Both main activity metrics remain above their weakest points during the housing market downturn – sales volumes got as low as circa 4,300 and days to sell as high as 48+. Nonetheless, both measures have run into resistance well shy of the strength and speed they reached during the last upswing.

The key question is whether the past month or two are a blip, or a more meaningful change of direction for the market. We've always counselled it's important not to obsess too much over month-to-month swings in the data, looking at broader trends and housing market drivers instead. We'll need to see another couple of months of data before we'll know more on that score. Nonetheless, there is reason to believe the past couple of months may have been particularly noisy.

An election season punt?

Most obviously, the election campaign took place between 31st August and 14th October. Housing market policy was a focal point in a campaign that otherwise saw a great deal of alignment between the major parties. The beginning of that period included the National Party's announcement of its tax plan, containing considerable tax relief for property investors and an easing in restrictions on foreign buyers.

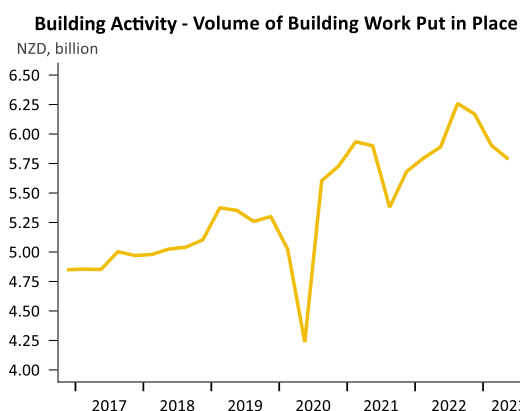
It would hardly be surprising if a chunk of prospective buyers and sellers opted to hold off over the last couple of months to await more policy certainty. For sellers, a change of government offered the prospect of a more favourable policy mix for landlords or property investors and thus a larger pool of prospective buyers to push prices higher. Waiting a month or two for the election outcome could have looked like a good bet for anyone not in a rush to sell.

At a regional level, Wellington's underperformance this month could also have been heavily linked to the election campaign. Prices in the capital fell a substantial 2% over the month, wiping out about half their gains over the past six months. That drop coincided with a *lengthening* in days to sell from 36 to 41, and a fall in sales volumes of a whopping 26%. Indeed, Welly house sales were actually below their previous post-COVID low last month. With both National and ACT proposing reductions in public expenditure and the size of the public service, the uncertainty faced by prospective Wellingtonian buyers and sellers was likely to be much more marked than elsewhere in NZ.

Despite the noise, more warming ahead

We may well get another month or two of softer housing market data as we await the outcome of post-election coalition negotiations and greater clarity on changes to the housing policy mix. As of now for example, we're waiting to see whether NZ First has put the kibosh on National's desired loosening in foreign buyer restrictions. We'll review our forecasts accordingly as the picture becomes clearer.

But as of now, over the short to medium-term, we still view the housing market fundamentals as supportive for further price growth. Net migration figures continue to surprise the upside, with considerable upward revisions. We expect the current pace of gains to moderate before long, but net migration is likely to remain stronger than during the pandemic (when it was negative much of the time) and the risk is that inflows remain resilient for a prolonged period. The bow wave of population growth NZ has already seen has been one of the factors supporting the house price recovery thus far.



Source: Macrobond, ASB

On the supply side, the deceleration in the construction sector means less new housing inventory has been coming onto the market of late. Strong construction activity over the preceding couple of years looks to have shrunk the housing shortfall, but not erased it in Auckland, Wellington or NZ as a whole. **The net result of those two trends will be a tighter housing market, and further lifts in prices.**

In short, we expect house prices to continue ticking higher from here, but don't expect house prices to claw back sufficient ground to reach their previous peak until early-to-mid-2025. As of now, the primary constraint on prices and activity surging further ahead is the comparatively high level that mortgage rates have got to, putting debt serviceability under pressure. While recent data suggests the prospect of further OCR hikes is remote, we still expect the RBNZ to leave settings restrictive for a prolonged period – hence the comparatively slow recovery we anticipate this cycle.

But if we are proven wrong and rate cuts come earlier and the market begins to accelerate, the Bank's decision around whether or not to deploy its DTI framework will be a key determinant on where things go from here.

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