Home Truths

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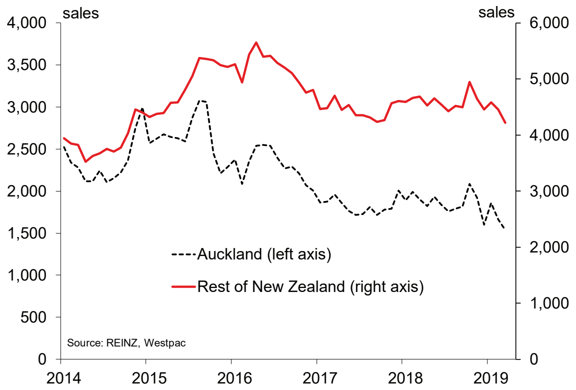
Immovable object versus unstoppable force

March was a very weak month indeed for the housing market – details below.

The housing market for some time has been a tug-of-war between falling mortgage rates versus tax changes and the foreign buyer ban. Over summer there was a brief flutter of stronger housing market data, especially outside of Auckland and Canterbury. But as we head into autumn, it appears that tax changes and the foreign buyer ban are dominating, leading to a weaker housing market over all.

Going forward, this battle between the immovable object of falling interest rates and the unstoppable force of tax change is going to intensify. Mortgage rates are plunging right now – in a couple of months' time that will come through as a major stimulus to the housing market. But the capital gains tax debate is also about to come to a head. The current popularity of the Labour Party is surely convincing people that a capital gains tax is more likely to become reality. The exact form of a capital gains tax may be uncertain, but the one sure bet is that it will affect residential investment property.

Monthly house sales, seasonally adjusted



REINZ housing data, Westpac seasonal adjustment

	Mar-19	Feb-19	Mar-18
House sales, number, s.a.	5728	6144	6556
Mth % chg	-6.8	-4.7	-1.4
Ann % chg	-12.9	-7.5	-7.6
Days to sell, sa	39.1	39.9	36.9
House Price Index (s.a.)			
Mth % chg	-0.3	0.7	0.5
Ann % chg	2.3	3.0	4.1

Our assessment of the balance still favours rising house prices in the short run. We have slightly upgraded our nationwide house price inflation forecast for 2019 to 3.5%, because we expect the market to respond to low mortgage rates. But we remain convinced that tax change will win in the long run – we expect house prices to fall in the early-2020s, especially if a capital gains tax is introduced.

No discussion of the housing market is complete without a regional breakdown – Auckland prices are falling steadily while prices in many other places rise sharply. When contemplating this divergence, it is interesting to note that Australia and Canada are similar. Prices in Sydney, Melbourne and Vancouver are falling, while in all three countries, prices outside of these cities are much more buoyant. The possible common factor here is the fact that China clamped down on outward capital flows a couple of years ago – arguably, this might have led to reduced foreign buyer activity across the Pacific Rim.

Turning to the detail of the March data, market turnover dropped once again, and is now 13% lower than a year ago.

After seasonally adjusting the REINZ's data, we estimate that house sales fell 6.8% in March compared to February. REINZ will probably revise their number higher, but even taking that into account, sales were very weak.

Turnover was already dropping earlier this year, but back then the weakness was concentrated in Auckland. In March, it seems that there was a sharp drop in turnover in almost every region.

A decline in market turnover is a reliable signal of price weakness ahead. In Auckland and Waikato, there has also been a distinct rise in the inventory of unsold properties on the market, which is a second sign of price weakness ahead. In most other regions the inventory of unsold properties remains pretty low.

The House Price Index also had a weak month in March. Auckland prices have been mostly falling in recent months, but they fell more sharply in March (down 0.8%, seasonally adjusted). New Zealand ex-Auckland experienced a slower rate of price increase in March, although prices rises can still only be described as extremely rapid in many locales.

Canterbury was the one exception to this trend of price weakness in March. House prices in Canterbury had been tracking sideways for years. We have observed that relativities between Canterbury and comparable regions, like Wellington and Waikato, were getting out of whack. It seems the worm has finally turned in Canterbury, with a decent lift in prices observed over the past two months.

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