

# Home Truths.

15 October 2019

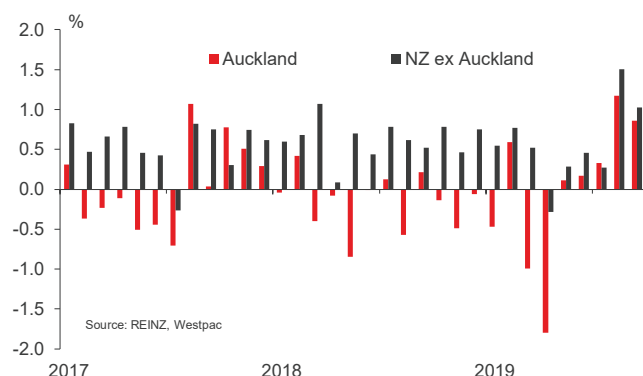


## REINZ housing data, Westpac seasonal adjustment

	Sep-19	Aug-19	Sep-18
House sales, number (s.a.)*	6532	6333	6404
Mth % chg	3.1	-1.7	0.3
Ann % chg	3.3	-3.6	0.6
Days to sell, sa	37.2	39.8	38.2
House Price Index (s.a.)			
Mth % chg	0.9	1.6	0.4
Ann % chg	3.5	2.9	4.0

\*Adjusted for initial undercount of sales

## Monthly seasonally adjusted increase in House Price Index



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## The game has indeed changed.

The latest data from the Real Estate Institute of New Zealand has continued to suggest that the housing market is picking up, just as Home Truths predicted back in May.

Between March and May this year, house prices fell in Auckland and were stagnant for New Zealand ex-Auckland.

Despite that, in May Home Truths predicted that the cancellation of Capital Gains Tax (CGT) combined with tumbling mortgage rates would change the game. We predicted that the housing market would gradually pick up, and that annual house price inflation would accelerate to 7% over 2020. We predicted that the turnaround would be most noticeable in Christchurch and Auckland, which at the time were the weakest housing markets. At the time, Westpac was the only major economic forecaster with a bullish near-term view on house prices.

The Real Estate Institute's House Price Index recorded slow increases in prices over June and July. Over August and September, the pace of price increases appears to have stepped up. Using our own seasonal adjustment, we estimate that New Zealand house prices have risen 2.6% over two months. In Auckland, prices have gone from outright decline early in the year to an increase of 2.0% over the past two months. Canterbury has experienced a similar, albeit less extreme, turnaround, with prices rising 1.1% over the past two months.

Housing market data can be volatile, so a single strong (or weak) month of data can generally be ignored. But now that the REINZ price data has registered a second strong month, our ears have pricked up. A third month like this will seal the case.

Other aspects of this month's data also hint in the direction of a strengthening housing market. House sales in September were up 3% (using Westpac seasonal adjustment and adjusting for the fact that REINZ always undercounts sales at the first release of the data). However, that comes after two months of declining house sales, and the level of house sales is still low. The number of days it takes to sell a house fell very sharply this month, although it is still rather high.

This data leaves us very comfortable with our long-held views. Our expectation remains that low interest rates will boost asset prices, including lifting house price inflation to



7% per annum. That will give a short-term boost to consumer spending, which combined with the Government's loosening of the reins, will spark slightly higher rates of GDP growth next year than we have experienced this year.

This is important information for the Reserve Bank, which is not forecasting a pickup in the housing market. The evidence is tentative to date, but a third strong month of housing data would cause the RBNZ to sit up and take notice. On monetary policy, the RBNZ would be more likely to conclude that it has lowered interest rates far enough – that's why we are forecasting one further OCR reduction and no more. The banking supervision arm of the RBNZ will also be keenly interested. It is unlikely that the RBNZ's policy of loosening the LVR restrictions will be eliminated, but a stronger housing market might slow the pace of loosening.

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