

Home Truths.

15 May 2020



The fallout begins.

Seasonally adjusted house sales were 77.5% lower in April than March. That's no surprise – the country was in level 4 lockdown for only a small portion of March, but for most of April.

More interesting was the REINZ House Price Index. This is the most up to date guide on what is happening to house prices on a like-for-like basis, from month to month. Seasonally adjusted prices fell 1.1% in April compared to March. (Without seasonal adjustment, the price decline was 1.8%.)

That is the largest monthly house price decline since May 2008, and the seventh largest monthly decline this century.

With such a low number of sales, there is scope for the price data to go awry, so the exact figure should be treated with caution. Still, a monthly house price decline of this magnitude so early on does suggest that prices are set to decline significantly during the post-Covid recession.

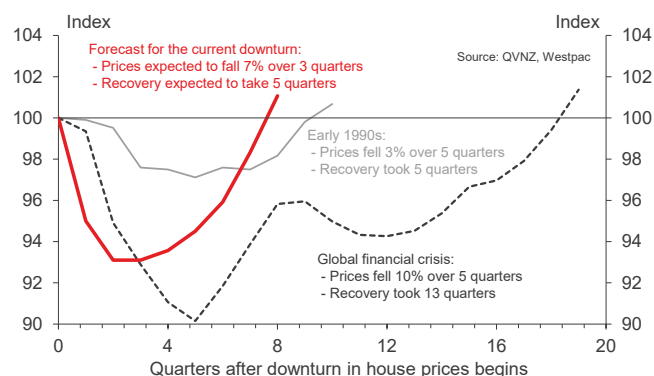
We are forecasting a 7% house price decline between March 2020 and the end of the year. That is based on the experience of past recessions: in the early-1990s, house prices fell 2.9%; in 1998 they fell 4.6%; and in 2008/09 they fell 10.5%. We are bracing for something in a similar range this time, and today's data was broadly consistent with our forecast.

That said, the economy will come out of the Covid recession with extremely low interest rates and no LVR mortgage lending restrictions. We expect house prices to remain very subdued in 2021, but to rise 11% during 2022 in response to those low interest rates. That would be an earlier recovery than after previous recessions, but the pace of increase would be similar to that experienced after past recessions (see chart).

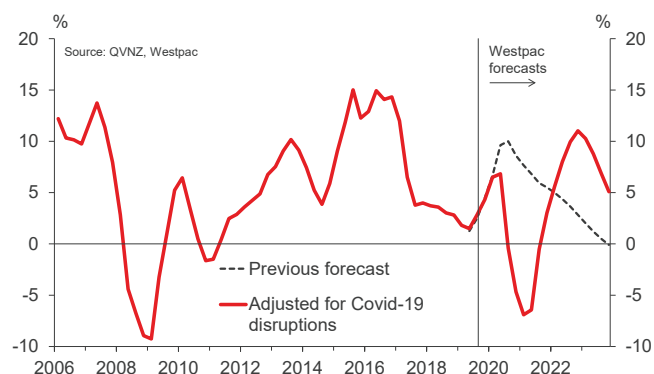
Price declines were fairly widespread across regions, but Waikato and Canterbury were the weakest, with both regions recording more than a 3% price decline. Meanwhile, Southland, Otago, Bay of Plenty and Northland continued to record price increases.

There is a myth among New Zealanders that Auckland house prices fall further in recessions than other regions. The actual history of regional house prices shows that prices tend to fall faster in Auckland and Wellington after recessions, but not further. For example, after the Global Financial Crisis it took 18 months for house prices to fall 12% in Auckland, whereas it took 51 months for prices to fall 15% in Hamilton.

New Zealand house prices during economic downturns



Westpac house price forecasts



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