

Home Truths

Monthly analysis of New Zealand's housing market



January 2013

New Zealand house sales were steady for a second month in December, although that followed a 6% leap in October. There was a modest rise in sales in both the Auckland and Canterbury regions, offset by a sharp pullback from unusually elevated levels in the Waikato. Looking through the short-term volatility, sales in the December quarter were up 7% compared to the September quarter.

The stratified price index rose 0.2% (s.a.) for the month, and was up 6.7% on a year earlier. Prices eased in Auckland for a second month, but bounced sharply in Canterbury - up 5% for the month alone, and 11.8% on a year ago. As with all of these series, the regional breakdown is volatile and monthly changes should be taken with a grain of salt. Nevertheless this puts paid to the notion, hinted at in recent months, that the Canterbury housing market was cooling after a flurry of activity in the first half of 2012.

| REINZ housing data | | | |
|----------------------------------|--------|--------|--------|
| | Dec-12 | Nov-12 | Dec-11 |
| House sales, number, s.a. | 6539 | 6577 | 5734 |
| Mth % chg | -0.6 | -0.1 | 4.8 |
| Ann % chg | 8.2 | 24.1 | 20.9 |
| Days to sell, sa | 35.9 | 36.4 | 39.2 |
| House Price Index (s.a.) | 3511.4 | 3503.1 | 3289.4 |
| Mth % chg | 0.2 | 0.7 | 0.7 |
| Ann % chg | 6.7 | 7.3 | 3.1 |

For the first 2013 edition of Home Truths, we've decided to give a heads-up on something that will become an additional issue for the housing market over this year: migration. Net overseas migration trends started to turn noticeably in the latter part of last year - there was a seasonally adjusted net inflow of 1,100 people in the three months to November, compared to a net outflow of 1,400 people for the same period in 2011. In particular, the net outflow of New Zealanders to Australia has started to come off its peaks (although it remains very high).

We've been forecasting such a turnaround for some time, on the basis that the Australian jobs market would cool relative to prospects in New Zealand. Although the Aussie market proved to be more resilient than we expected over most of 2012, there is now a clear sense that the tide has turned. By December, Australian job advertisements were down 16% on a year earlier, hitting their lowest level in three years.

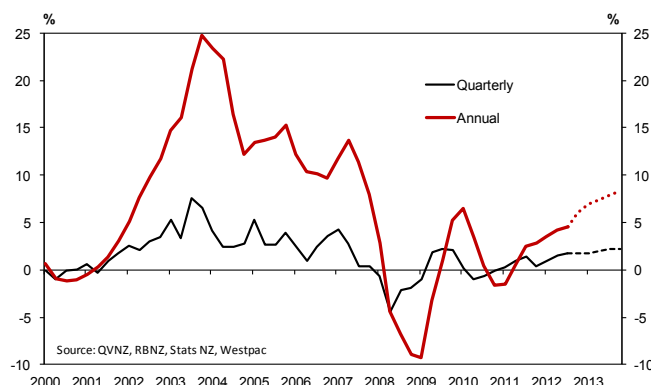
It's well recognised that net migration (the swing factor in overall population growth) has an influence on house prices over the short to medium term, and we expect there will be growing discussion about this issue as the annual net migration flow turns positive again (most likely within the next few months). We'd like to emphasise that the

effect of migration on house prices is statistically significant, but it's not the dominant driver - mortgage rates claim that title by a wide margin.

When we forecast house prices we use two modelling approaches: an estimate of the long-term 'fair value' of housing as an investment, and a short-term demand-based indicator that uses mortgage rates and net migration. The latter estimates that a net inflow of 1,000 people per quarter will lift house prices by just 0.3%. Another way to put this in perspective is that we're forecasting house price inflation to reach 7%yr by March 2013; of this, the turnaround in net migration over that time contributes about 1.4ppts, or a fifth of the increase. Once again, low mortgage rates are far and away the biggest driver of the housing market at the moment.

Chart 1 below shows the forecasts generated by our short-term model: based on our forecasts for net migration and mortgage rates over this year, it projects house prices to rise by around 2% a quarter over this year, or roughly an 8% annual rate (which is our formal forecast, based on both the short-term model and the long-term 'fair value' model). That doesn't sound too alarming in comparison with the double-digit growth rates seen in the last decade's housing boom. But nor is it a reason for complacency by the RBNZ - bear in mind that our 8% forecast already incorporates OCR hikes from the second half of this year, somewhat earlier than the RBNZ has signalled. The longer that rate hikes are delayed, the more upside scope there is for house prices.

Chart 1: Short-term house price forecasts, based on migration and interest rates



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