

Waiting...

The housing market has been roaring ahead for most of 2013. But a couple of months ago we predicted that the market was about to “change tack” and enter a slowing phase due to the combined effect of higher fixed mortgage rates and the Reserve Bank’s mortgage restrictions. We postulated that the first sign of a slowdown would be a drop in market turnover, beginning in November 2013. We also suggested that the rate of house price inflation would begin to cool from early 2014.

Naturally, we are now watching the market like hawks for signs to either confirm or deny our view.

As things stand today, there is no reliable information upon which to base a definitive judgement either way – we’ve only got reliable data for October, not November. That said, there have been straws in the wind. Last week, Barfoot and Thompson’s October data suggested that the red-hot Auckland market could cool soon – the number of available listings is rising as more sellers come to market. This week the Real Estate Institute released its data for October, showing that market turnover had dropped 2.1%. However, this followed a 5.2% increase last month, so it’s hardly out of the ordinary.

Perhaps the most relevant information to date is the value of mortgage approvals issued each week by the four main banks. This dropped below year-ago levels in early October. That chimes nicely with our suggestion that the market would slow from November, because there is a lag between mortgage approval and house purchase.

By the way, this story was blown completely out of proportion in the media. The value of mortgage approvals for the week ending 1 November was reported as being 26% lower than the same week last year. That is true – but only because the week ending 1 November was a four-day week this year, while the corresponding week last year had five working days! The chart on the right compares mortgage approvals in the two years after adjusting for the timing of Labour Day and other public holidays. It tells a less extreme story.

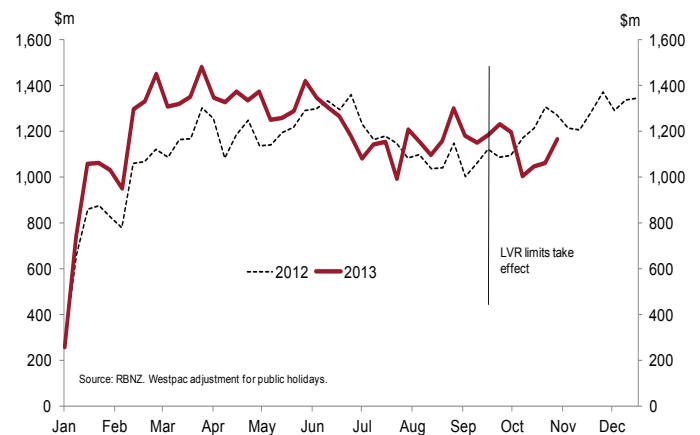
As for house prices, they continue to steam higher at a very steady rate. The REINZ House Price Index was up 9.9% over the year to October. Of course, that’s very much in line with our expectation – we don’t expect price inflation to start cooling until next year. The most interesting feature of the price data was the acceleration in the smaller centres of New Zealand. House price inflation in the North Island ex Wellington and Auckland has accelerated to 5.6%, while in the South Island ex Canterbury house price inflation is running at a 6.7% annual clip, according to the REINZ’s regional indices.

So all up, it is just too early to tell whether our prediction of a market slowdown was on the money or not. We’ll report back next month with a more definitive judgement.

REINZ housing data, October 2013

	Oct-13	Sep-13	Oct-12
House sales, number, s.a.	6919	7127	6692
Mth % chg	-2.9	5.2	7.9
Ann % chg	2.1	18.9	32.6
Days to sell, sa	34.6	33.6	35.7
House Price Index (s.a.)	3826.2	3772.3	3479.9
Mth % chg	1.4	0.5	1.3
Ann % chg	9.9	9.8	6.9

Weekly mortgage approvals by value, main banks



Dominick Stephens

Chief Economist
(09) 336 5671

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

For email address changes contact:
WNZResearch@westpac.co.nz

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