

## Home Truths

11 November 2015

**Hangover**

The Real Estate Institute's housing market data for October was some of the weakest we have seen for many years. In Auckland's case, the data was atrocious. Nationwide, house sales fell 7.2%, the time taken to sell a house lengthened, and the House Price Index fell 4.2% - the biggest single-month decline on a record stretching back to 1992.

This confirms the idea that some of the heat in the market in recent months was actually just a rush to beat the new tax rules that came into force on 1 October - and now the hangover is setting in. This backs our long-held view that the housing market would slow around the turn of the year, especially in Auckland. And that's crucially important for the OCR and mortgage rate outlook - the rampant Auckland housing market has been an impediment to the RBNZ reducing the OCR too far or too fast. With the Auckland market now slowing, our forecast that the OCR will eventually drop to 2.0% looks one step closer.

**Auckland**

In seasonally adjusted terms, Auckland house sales dropped 15% and prices were down 4.7%. It is always wise to treat a single month of data with caution. But in this instance the data is supported by corroborating evidence - a stream of weak anecdotes, reports that auction clearance rates are down, and notable weakness in mortgage approvals. Even if this month's data overstates the case, there can be no doubting that the Auckland housing market has taken a knock.

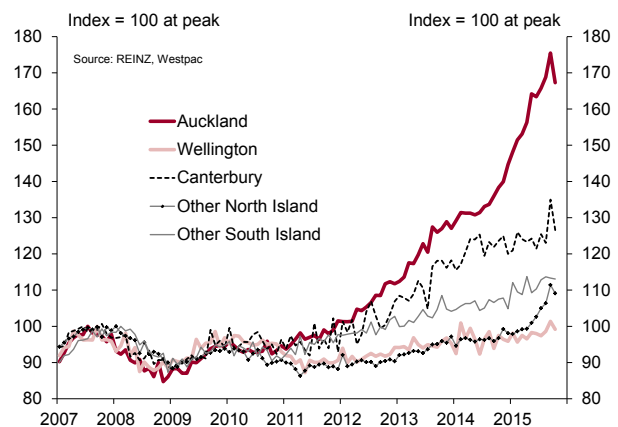
The remaining question is how long this weakness will last, given that it is partly a hangover from the rush of activity just prior to the new tax rules coming into force. Experience suggests that regulatory changes can have a noticeable impact on the market in the short term, but that the impact diminishes with time - the 2013 LVR restrictions were a case in point. So we certainly would not expect Auckland's housing market data to remain quite this dire for more than a few months.

However, we have also been flagging an impending economic slowdown that we felt would impact the rather speculative Auckland housing market. Not to mention that the recent slowdown in the global economy and turmoil in Chinese financial markets have probably reduced foreign investor interest in Auckland property - we note that the Sydney housing market is also slowing.

For now, we are sticking to our forecast that the quarterly rate of increase in Auckland house prices will be zero in the March quarter, compared to 7% in September.

**REINZ housing data**

	Oct-15	Sep-15	Oct-14
<b>House sales, number, s.a.</b>	7742	8340	6351
Mth % chg	-7.2	-1.4	6.7
Ann % chg	18.6	38.3	-2.5
<b>Days to sell, sa</b>	34.0	33.3	37.4
<b>House Price Index (s.a.)</b>			
Mth % chg	-4.2	3.0	0.9
Ann % chg	14.1	20.1	2.6

**REINZ house price indexes, seasonally adjusted****Rest of New Zealand**

Market turnover was down in most regions outside of Auckland, and prices fell in seasonally adjusted terms in all regions. For Christchurch, the price decline reversed a technical issue from last month and cannot be taken seriously. But elsewhere, it does look as though the new tax laws and the weaker economy have taken a toll on the market. In particular, the previously-booming Hamilton and Tauranga markets look to have experienced a pull-back. Seasonally adjusted sales were down sharply in the Waikato / Bay of Plenty region, and the median sale price fell. And the House Price Index for the North Island ex Auckland and Wellington fell 2.1% (seasonally adjusted). It seems that the new tax rules had quite an impact on these markets - both on the upside before their introduction, and on the downside afterwards.

We still view the outlook for housing markets outside of Canterbury and Auckland as mixed. The economic slowdown and tax rule changes are clear negatives, while low interest rates and looser mortgage lending restrictions are clear positives.

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