Economists at three of the four largest banks now see house prices dropping in 2022

1st Dec 21, 1:49pm *by* David Hargreaves

ASB economists have added their voices to the growing number of those now expecting house prices to fall next year.

They join the **Reserve Bank**, **Westpac economists** and **BNZ economists** in picking declining prices - though nobody's predicting substantial falls at this point.

Equally though, nobody was picking house price falls at all earlier in the year. Economists at the country's largest bank, ANZ, still see house price inflation staying (just) in the positives and expect **a "soft landing"** for the housing market.

In an ASB **Housing Insights Economic Note**, ASB senior economist Mike Jones now sees "small falls" in house prices over the second half of 2022.

"Once an asset price cycle gets going it can be hard to stop. This has certainly been true of NZ’s housing market over the past two years," he says.

"But the key drivers we look at are now, finally, falling into line to suggest 2022 could be quite a different year."

He's forecasting a "cumulative forecast fall, of around 4%", but says that should be interpreted "more as a hat-tip to the risk profile than a precise point forecast".

"It’s also tiny in the grand scheme of the 35-40% surge in house prices since March 2020."

Jones says the three "macro factors" to watch are higher mortgage rates, tighter credit conditions, and the housing supply response.

He notes that average fixed rate mortgage rates have "roared 1 – 1¼ percentage points higher".

"Yes, they’re still at historically low levels. But we find the speed of interest rate movements can be just as important for short-term house price dynamics.

"And on this score, it’s worth highlighting that the lift in mortgage rates we’ve seen over the past 3-6 months has been the most rapid in 16 years."

He says that, as usual, the macro impact of the ‘sticker shock’ from borrowers rolling onto higher mortgage rates will be dulled by the fact that borrowers don’t all re-fix their rates at once.

"But, relative to past tightening cycles, the transmission of higher mortgage rates will be quite quick this time around. There’s a heap of refixing to come over the next 12 months."

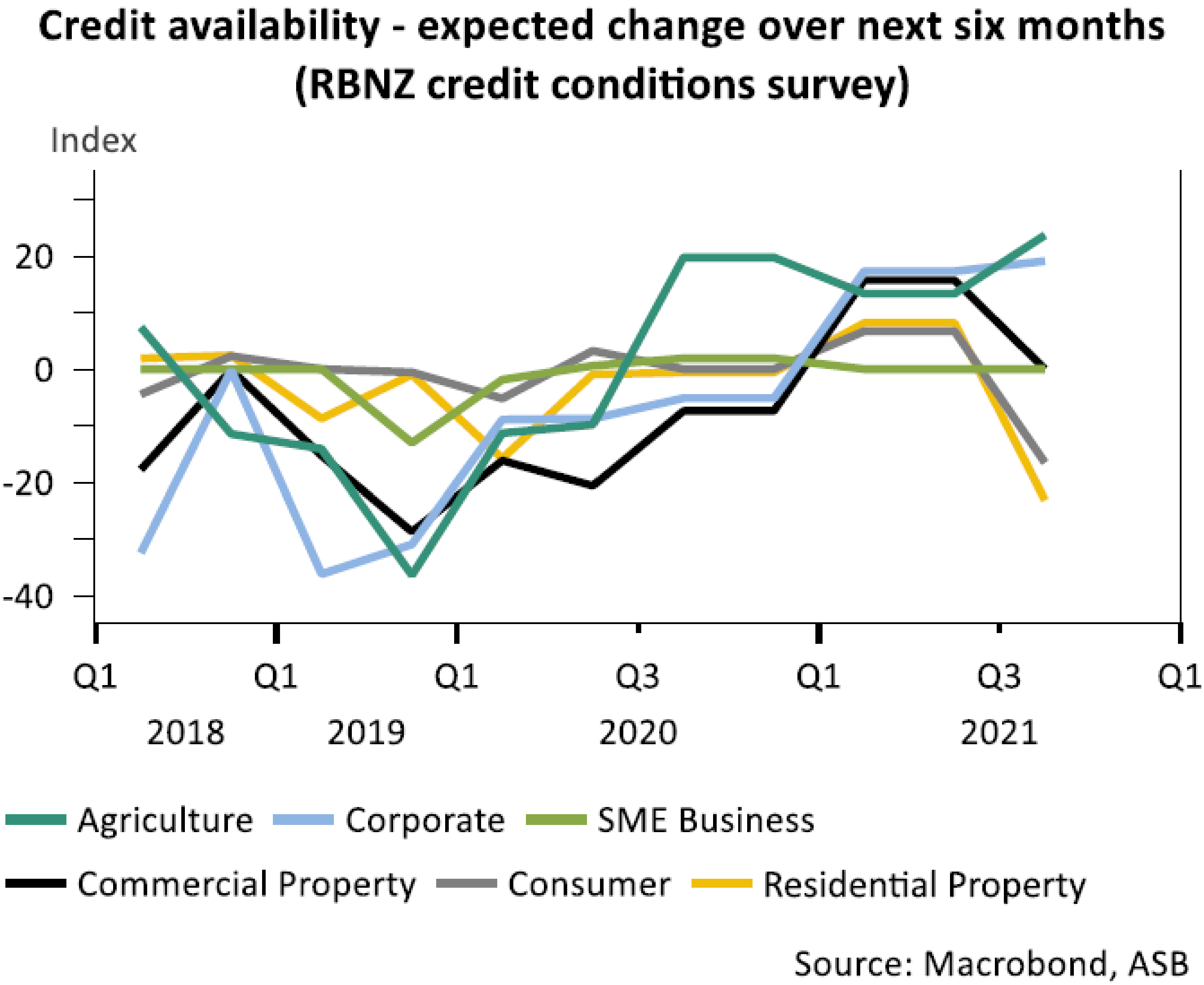
RBNZ data shows that there’s now about 40% more mortgage debt on longer terms (2+ years) than in June, but the overall quantum of such is still very small he says, noting that the average duration of all mortgage rate debt (including floating debt) is still only around 11 months, and

60% of all fixed-rate mortgage debt (71% including floating debt) is due to reset onto new rates over the coming year.

"Our rough rule of thumb suggests that mortgage rate changes feed through to house prices with about a six month lag, but the above suggests it could occur more rapidly this time around. Whatever the exact timing, the sharp adjustment we've seen in mortgage rates looks set to be a significant drag on house prices next year. This is the driving force behind our lower 2022 house price forecasts."

Jones also notes that some banks are moving to impose debt-to-income limits ahead of any formal RBNZ moves to do so.

"This self-imposed credit rationing makes sense to the extent house price affordability metrics are highly stretched and a modest correction next year can't be ruled out. All of this fits with banks' more general expectation that the availability of credit to the property sector will be reduced over the coming six months, as was signalled in the **RBNZ's credit conditions survey** This promises to restrict some of the oxygen flow to the housing market."



The "long-held view" of the ASB economists has been that, despite booming residential construction, the housing market would remain short of stock well into 2022.

"So far this has played out. Unsold inventory remains around the lowest levels on record. And short-term indicators of market balance, like the sales/listings ratio have eased only a little to date, implying ongoing excess demand.

"Still, recent developments with respect to correcting the housing shortage have been encouraging. Big strides have been made in the Covid-era towards unwinding 10 years' worth of NZ's under-build. This is particularly so in Auckland, **as covered in our recent note**.

"We reckon NZ's housing shortage has been reduced by around a third over the past year. And, if recent trends continue, we could see the market back in a rough state of balance late next year. This gradual abatement of market tightness will help reduce the upward pressure on house prices over coming months."