

Housing Confidence

Three months to January

March 2022



Confidence creaks as market peaks

- The public’s perceptions about house prices are changing as the indicators turn down
- Confidence in rising prices is creaking, and buyer sentiment has fallen to the lowest level in 26 years
- At the same time, the public has never been more convinced interest rates are going to keep rising

Summary

The house price boom is done. The weight of recent housing data and the thrust of views from the economic commentariat increasingly point to a period of modest declines for NZ house prices. We’ve long warned that 2022 would be the year the shine comes off a little.

This sentiment is starting to be reflected in our Housing Confidence survey. Kiwis are now much less sure the housing market is invincible. In the three months to January, the percentage of kiwis expecting house prices to rise over the coming 12 months fell to a net 49% expecting them to increase. That’s still above average, but it’s well down on last quarter’s net 62%.

But while the boom might be passing, there’s still the hangover to deal with. Buyer sentiment hit the lowest level in the 26-year history of our survey this quarter. Stretched affordability, rising mortgage rates, and tightening credit are not the makings of a happy home buyer. Respondents who think it’s a bad time to buy a house now outnumber those saying it’s a good time by five to one. Still, it’ll be worth keeping an eye on this one. If house prices do back-pedal a little this year and wages jump up as we expect, housing affordability should look a little better by the end of the year.

The RBNZ is already well into its work in removing the stimulus that helped pushed housing and broader inflation to such heady levels. Respondents to our survey overwhelmingly believe there’s plenty more work to do. A net 77% are expecting interest rates to keep rising over the coming 12 months, a record high.

ASB Housing Confidence Survey			
Net percent who believe (3 months to January 2022) ...	Good time to buy a house	House prices will increase	Interest rates will increase
Auckland	-21%	52%	75%
Rest of North Island	-29%	48%	78%
Canterbury	-36%	41%	80%
Rest of South Island	-33%	59%	80%
TOTAL NZ	-28%	49%	77%
<i>Compare 3 months to October 2021</i>	-23%	62%	73%

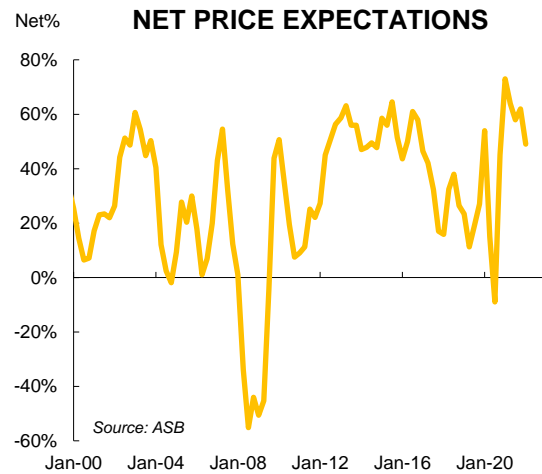
Source: Camorra

Price Expectations: Look out below

We fretted about house price overconfidence in our last edition and, right on cue, we're now starting to see those unsustainable expectations reined in.

In the three months to January, the percentage of kiwis expecting house prices to rise over the coming 12 months fell to a net 49% (60% expecting prices to increase, 11% decrease, 21% stay the same).

That's still above the long-run average, but the direction of travel is clear. Housing confidence is down a sizeable 13 percentage points from last quarter. We'd expect further falls ahead now that momentum in NZ's housing market has convincingly turned.

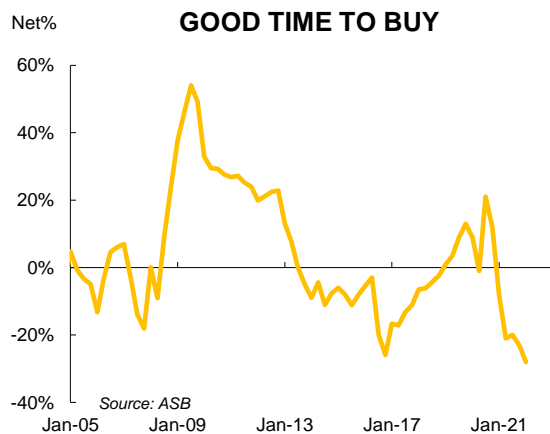


Amongst the regions, we were surprised to see Canterbury record the lowest confidence reading, at a net 42% expecting prices to rise. Canterbury has been bucking the trend of the more general cooling in the housing market; annual house price inflation in the garden city is currently running at roughly twice that of Auckland and Wellington. At the other end of the spectrum, South Islanders (ex-Canterbury) remain the most bullish (+59%) with Auckland (+52%) and the rest of the North Island (+48%) somewhere in the middle.

Buying Sentiment: Nope

No thanks. When asked whether it is currently a good time to buy a house, our survey respondents have never been more definitive. A net 28% think it is a bad time to buy (7% think it's a good time, 35% a bad time), the most negative reading for buyer sentiment since our records began 26 years ago.

And who could blame them? The housing boom has lifted prices to extremely stretched levels, mortgage rates are rising, and the weight of expert opinion is now warning of outright falls for this year.



Breaking down this quarter's result:

- Just 7% of people think it's a good time to buy, while 35% of people think it's a bad time. 47% think it's neither and 11% don't know.
- Like the previous quarter, Canterbury shows the most negative buyer sentiment, matching its pessimism when it comes to the house price outlook. A net 36% believe it's a bad time to buy there. This compares to a net 33% in the rest of the South Island, a net 29% in the North Island outside of Auckland, and a net 21% believing it's a bad time to buy in Auckland. All four regions reported lower sentiment than last quarter.

Rate Expectations: The only way is up

Interest rate expectations have never been higher. It's the second 26-year record that's been shattered this quarter. Eighty percent of surveyed respondents expect interest rates to keep rising over the coming 12 months, with just 2% expecting them to decrease. The net 77% reading (not 78% due to rounding) has just crept above the prior 75% record of late 2004.

Respondents certainly called it correctly back in 2004, with floating mortgage rates going on to hit 10½% in the ensuing years.

We don't expect rates to get anywhere near that high this time around. But we have recently nudged our forecast peak in the RBNZ's Official Cash Rate up to 2.75%. In turn, this is expected to deliver higher peaks in a range of wholesale and retail mortgage rates.

Simply put, inflation is rampant. And even though growth is slowing, and the housing market has gone a little wobbly, the RBNZ needs to push on through with higher rates if it wants to get inflation back down to more tolerable levels.

The task is looking more difficult by the day.

Of course, higher mortgage rates are but one of the three housing market party poopers on the scene at the moment. The others are tighter credit availability and rapidly rising housing supply. The 2022 headwinds for house prices, and housing confidence, are clear.

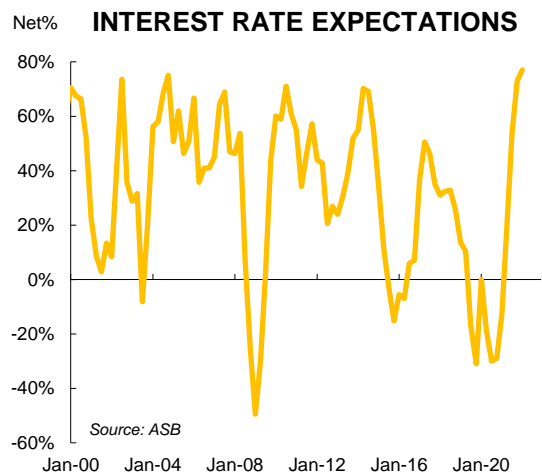
Additional housing commentary

For more commentary on the housing market and on home loan rates go to the following online ASB reports:

- [Home Economics](#)
- [Home Loan Rates](#)
- [Weekly Economic Reports](#)

For general reference, the reports are included within the online Information Centre (<https://reports.asb.co.nz/index.html>).

For specific reference to housing, reports that include housing commentary can be accessed via a Search page (<https://reports.asb.co.nz/search/keyword.html>) by selecting the keyword "Housing".



ASB Economics & Research

Chief Economist
Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Administration Manager

Nick Tuffley
Nat Keall
Mark Smith
Mike Jones
Chris Tennent-Brown
Caro Phillips

nick.tuffley@asb.co.nz
Nathaniel.keall@asb.co.nz
mark.smith4@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
caro.phillips@asb.co.nz

Phone

(649) 301 5659
(649) 301 5657
(649) 301 5657
(649) 301 5661
(649) 301 5915

www.asb.co.nz/economics

 [@ASB Markets](https://twitter.com/ASB_Markets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.