

Economic Note

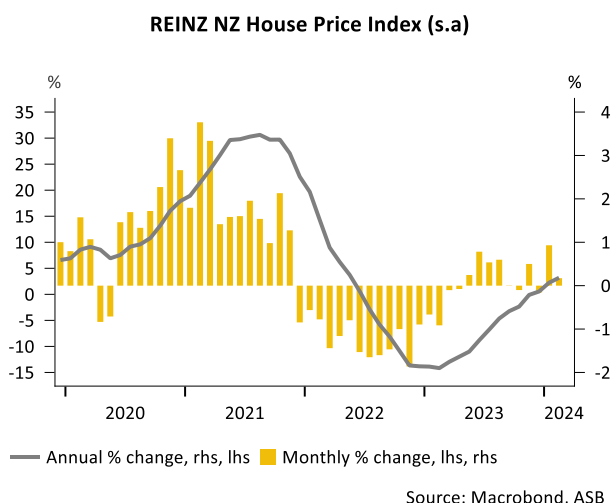
REINZ Housing data – February 2024

14 March 2024

Prices grind higher

- NZ house prices built on January’s strong lift, but the pace of growth slowed in February.
- Sales activity rebounded sharply from January’s slump, driven by a burst of activity in Auckland. However, last year’s cyclone and the leap year are muddying the waters.
- Sales activity will need to remain robust to keep a lid on anecdotes of rising inventory. Nevertheless, strong population growth is likely to continue to underpin demand for housing over 2024.

REINZ Housing Data	Feb-24	Month ago	Year ago
National			
Sales (s.a % mom)	6.6%	-2.1%	-16.2%
House price index (% mom)	0.2%	0.9%	-0.9%
House price index (% yoy)	3.2%	2.2%	-14.2%
Days to Sell (s.a)	46.5	43.7	55.3
Auckland			
Sales (s.a % mom)	12.9%	-1.2%	-24.8%
House price index (% mom)	0.5%	1.2%	-0.9%
House price index (% yoy)	3.7%	2.4%	-16.9%
Wellington			
Sales (s.a % mom)	6.0%	-4.3%	-13.5%
House price index (% mom)	-1.6%	0.4%	-0.1%
House price index (% yoy)	3.0%	4.6%	-20.1%
Canterbury			
Sales (s.a % mom)	6.6%	-5.6%	-4.8%
House price index (% mom)	1.0%	0.5%	-1.8%
House price index (% yoy)	5.8%	2.8%	-9.1%



Measured move higher in prices

NZ house prices rose 0.2% mom on a seasonally-adjusted basis (3.2% yoy) according to the latest REINZ data. However, there was quite a large divergence across the country. Of the large regions, Canterbury (+1.0% mom s.a.) and Auckland (+0.5% mom s.a.) led the pack. In contrast, prices in Wellington fell 1.6% mom. Prices in Waikato also fell 0.2% mom after January’s solid 1.1% mom gain. **On an annual basis, house prices continue to creep higher for most regions.** Annual house prices in Otago are now up 8.2%, and in Canterbury annual house price growth has ticked up to 5.8%. However, this is not the case across the entire country. For example, house prices in Gisborne, the Hawke’s Bay and Bay of Plenty are lower than in February 2023, likely reflecting the impacts from Cyclone Gabrielle, at least to a degree.

The real volatility this month was found in the sales data. NZ sales rebounded 6.6% mom in February, following a 2% pull back in January. **This was predominantly driven by the larger regions,** with nationwide sales ex Auckland, Canterbury, and Wellington up ‘only’ 2.5% mom. **The market appears to have been especially buzzing in Auckland,** where sales leapt almost 13% mom. However, context is important and it’s worth pointing out that the 849 sales recorded in Auckland in January (not seasonally adjusted) was the lowest recorded in the history of the series

(excluding April 2020). We are possibly seeing a change in housing market patterns over the summer months which can impact the seasonal adjustment. Further complicating the picture is the fact that February 2023 sales were impacted by last year’s extreme weather and 2024 was a leap year. Importantly, it’s a good reminder to interpret housing data over the summer months with caution, and this month possibly more than normal! **The next few months should provide a clearer picture of the underlying trends in the housing market.**

Moving forward we do expect the modest upswing we are seeing in house prices to continue. Month-on-month pricing data is likely to become less volatile, with a more pronounced upswing emerging as the year progresses. However, we continue to expect it will be a modest upswing at best. There are several crosscurrents impacting the housing market currently. Strong net migration, soft construction activity and a more favourable policy backdrop for investors can help to underpin both sales and prices.

But there’s an elephant in the room which doesn’t look like it’s going anywhere anytime soon. **Mortgage interest rates remain high and are impacting people’s ability to service a mortgage.** We anticipate that high interest rates will remain a powerful market moderator in 2024 given we don’t expect OCR cuts until November 2024. A softening economy –particularly a cooling labour market – is also likely to make prospective buyers that little bit more cautious. We will also continue to watch inventory levels very closely amid anecdotes of very high listings.

Bringing it all together we expect house prices can lift 7-8% or so over the course of the year, rather than the 25-30% annual gains they managed during the last upswing.

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