Property market letting off steam

ANZ chief economist Cameron Bagrie

House prices have flat lined since the end of last year. With the labour market yet to find its feet and with households no longer benefiting from rising house values, we wonder what will continue to propel consumer spending.

Real Estate Institute of New Zealand housing data in February showed that housing sales rose 5.8 percent down from December levels. The average days to sell lengthened to its highest since June 2009, and are more indicative of the true state of the housing market. The REINZ house pricing index dipped by 1.1 percent. Both the seasonally adjusted REINZ median and the stratified house price index are below year end levels.

Construction activity is reminiscent of a dormant geyser with the number of new dwellings – including apartments – in January fell 2.8 percent, after falling 3.5 percent in December.

Excluding apartments, consent issuance rose slightly by 0.7 percent with the trend improvement appearing to be easing. The value of non residential building consents was $223 million in January, a 39 percent fall compared with the same time last year. This is the lowest value since April 2006.

Non residential construction remains in the pressure cooker, with the volume of construction work rising 0.7 percent in the quarter, but fortunes differed considerably by sector. The 7.4 percent rebound in residential construction activity was the largest quarterly increase since June 2004, but activity remains a third lower than its September 2007 peak. The volume of non-residential building work declined further, to be 13 percent down over the 2009 year.

The Reserve Bank mortgage lending in January is bubbling away with subdued credit growth increasing by 0.2 percent in January 3.3 percent up on a year ago. Housing approvals data, collected by the reserve bank early March, continues to show soft activity in the housing market.

Migration arrivals grew by 1,060 in February, down from 1,850 in January, and lower than the average of 1,900 experienced in the preceding 12 months. On an annual basis, there was a net inflow of 18,360, which is around twice the annual average of the past 20 years. The increase was driven by fewer departures to Australia. Net outflows to Australia to the 12 months to February were less than half of that in the previous 12 months.

The housing market is weakening. This trend started in around October last year, initially driven by fixed interest rates. But clearly prospects for higher short term rates and uncertainty towards pending tax changes are having a say. Both are unlikely to disappear soon. Against this backdrop, low consent issuance and positive migration trends are suggestive of a looming dwelling shortage. New Zealand desperately needs a volume response, but without the typical kick up in prices.

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Mortgage borrowing strategy *by ANZ chief economist Cameron Bagrie*

Floating mortgage rates remain low, and while most fixed mortgage rates have fallen in the past month, they remain very high and step up progressively for longer terms.

Markets continue to factor more aggressive rate hikes than we expect and competition for term deposits remain intense.

That has kept long term fixed mortgage rates elevated, despite the fact that the OCR is at a record low of just 2.50 percent.

Breakevens imply that mortgage rates need to rise rapidly in order to be better off fixing. As such we favour either the floating or the six month rate.

Our view is that the cost versus trade off that has faced borrowers for some months now, remains intense. Long term fixed rates provide significant certainty, but come at a high cost.

By contrast, floating rates are low, but will rise when the Reserve Bank will start raising rates. The question is not when the reserve bank will start raising rates – its how quickly.

The Reserve Bank has reiterated that they do intend to start raisin rates some time 'around the middle of 2010'. Taken at face value, that comment could be taken to mean a hike in June.

However, we are also mindful of earlier comments the Reserve Bank have made, in particular that they will be 'looking for assurance that the domestic recovery is on a solid footing and can be self sustained as policy stimulus is withdrawn.'

At this stage, it is not clear that the condition has been met. Upcoming tax changes and high retail interest rates have people less certain, and while they will not derail the recovery, along with an overhang of debt, they will hold the recovery back.

Courtesy of...

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