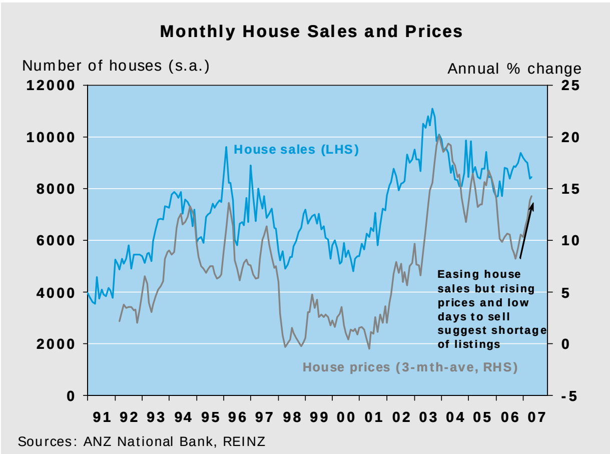
Economic Review
NEW ZEALAND
DATE 15 June 2007

REINZ HOUSE SALES – MAY 2007

Key points

- **The housing market remains robust with average number of days to sell unchanged at 28 days and near historical lows, and house price growth still elevated.**
- **The seasonally adjusted number of house sales reversed its recent monthly declines and rose 1.2 percent. The number of house sales has come off its recent peak, but this likely reflects a lack of supply of houses rather than an indication of easing demand.**
- **It is perhaps too early to expect strong evidence of a turn in the housing market in response to higher interest rates delivered in March and April, and is inconclusive for the Reserve Bank.**
- **The real test for the housing market is likely to emerge around July, when the full impact of the massive surge in fixed lending rates to 9 percent manifests.**

	Median House Price		House Sales (sa)		Median Days to Sell	
	$'000	YoY	s.a.	YoY	act.	s.a.
May-06	305	10.9%	8,794	4.2%	38	36
Jun-06	310	9.0%	8,769	5.0%	37	35
Jul-06	313	11.8%	8,367	-4.5%	35	34
Aug-06	310	6.9%	8,705	-0.3%	33	34
Sep-06	313	7.9%	8,859	-5.6%	31	33
Oct-06	324	9.8%	8,829	4.0%	29	31
Nov-06	330	10.0%	9,005	6.8%	29	32
Dec-06	330	11.9%	9,390	19.4%	29	32
Jan-07	327	9.0%	9,189	19.0%	38	31
Feb-07	335	13.6%	9,075	18.0%	32	30
Mar-07	344	13.7%	8,970	8.9%	27	28
Apr-07	349	14.4%	8,362	8.2%	28	28
May-07	**350**	**14.8%**	**8,465**	**-3.7%**	**30**	**28**



Assessment and implications

The housing market remains robust. Seasonally adjusted house sales rose 1.2 percent in May, which partly reverses the declining trend experienced over the previous four months. The number of days to sell a house remains near historical lows of 28 days and this has seen house prices record another record high of $350,000 – taking annual growth to 14.8 percent. Looking at house price growth over May, it is soft at just over $1000, but on a 3 month basis, house price growth is still growing at over 5 percent. The fact that house sales have come off their peak is not likely to be a result of wavering demand, but a lack of supply that is therefore providing upward pressure on prices. On a regional basis, Wellington recorded the largest increase in sales in the month, although this represents a rebound from the previous month. The increase in sales in the month looks to have been dominated by urban areas, with some provincial areas recorded a fall in sales.

It is perhaps too early to expect strong evidence of a turn in the housing market in response to higher interest rates delivered in March and April, and therefore today's release is inconclusive for the Reserve Bank. Certainly, housing activity in May will partly reflect decisions to purchase made earlier, so it is perhaps no surprise to see the housing market remaining robust. Yet equally, the housing market has historically tended to soften immediately in response to rate increases. If the market was truly showing signs of softness, we would expect to see the number of days to sell start to increase – it hasn't done so yet. While sales have certainly eased over the past few months, the resilience in prices and average days to sell a house is also likely to be reflective of restricted housing supply, which is unlikely to abate for some time.

Looking forward, we believe the real test for the housing market is likely to emerge around July, when the full impact of the massive surge in fixed lending rates to 9 percent manifests. From a monetary policy perspective, it is the shape of the yield curve that will perhaps give the Reserve Bank the greatest bang for its buck. From a borrower's perspective, there is now no place to run, with fixed lending rates all around 9 percent or above.

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