

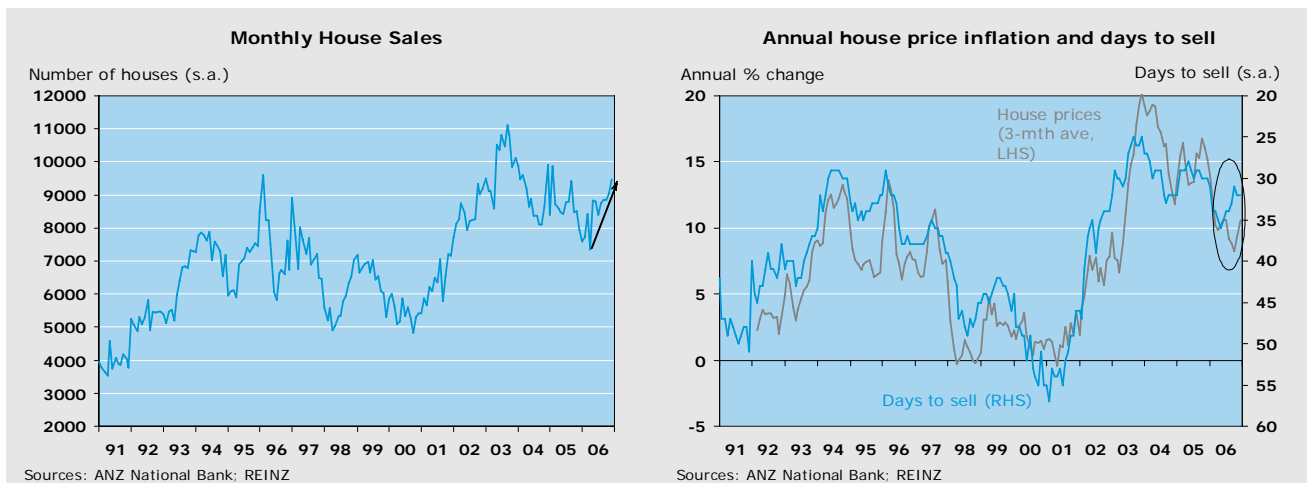
REINZ HOUSE SALES – DECEMBER 2006

Key points

- Momentum in the housing market sustained.
- House prices and days to sell unchanged, sales volumes up in seasonally adjusted terms.
- Reserve Bank's expectations for continued slowdown in housing market remains under threat. While a concern, this is certainly not sufficient to push them into raising the OCR next week.

The headlines

	December 2006	November 2006	October 2006	September 2006
Median house price	\$330,000	\$330,000	\$324,000	\$313,000
No. of house sales	8,245	9,990	8,857	8,671
Median days to sell	29	29	29	31



- **The pickup in housing market momentum has been sustained in December.** Our seasonally adjusted estimates show a 4.6 percent increase in house sales for December. House sales are up 19.4 percent on a year ago (an increase that is distorted by the lower than normal sales recorded in 2005). The median number of days to sell remains unchanged at 29, and unchanged at 32 days on a seasonally adjusted basis.
- **The median house price maintained its November reading of \$330,000 in December, and is up 11.9 percent on a year ago.** Using a three month average change in prices to smooth out the volatility shows annual house price growth rising to 10.6 percent. Six of the 12 regions surveyed recorded an increase in house prices for the month. There is no clear split across the regions being the strongest or weakest in terms of an urban-rural divide.

Assessment and implications

Today's REINZ data shows that the momentum that had built up in the housing market has been maintained. This is not surprising given that net migration continues to add a reasonable level of support and the labour market remains in good heart – providing workers with money and job security in which to make that step into home ownership.

The RBNZ will remain wary about the potential for house price inflation to continue accelerating. Certainly, the lower number of days to sell in recent months points to that possibility. In their December *Monetary Policy Statement*, the Reserve Bank showed forecasts for annual house price inflation (based on QV

house prices) falling to 6 percent by December 2006, and to fall 0.1 percent by December 2007. Today's result certainly suggests that the former pick is light, while the latter will be a harder ask.

Today's data will continue to frustrate the Reserve Bank. While the housing market remains strong, we are unlikely to see a material moderation in construction costs given continued demand for new dwellings, and house prices at record highs sends a strong signal to builders to continue building. While December quarter CPI inflation data recorded a deceleration in housing-related price increases, the Reserve Bank will be alert to the prospects of renewed housing market momentum flowing through into a reacceleration in construction costs. **They will remain equally concerned over the possibility strength in the housing market firmly spilling over into broader economic strength if the recent upturn in partial indicators is sustained into Q1 2007.**

However, given other wider economic forces, today's result is certainly not the smoking gun that would push the Reserve Bank down the tightening path at next week's OCR Review. We cannot see the Bank raising rates next week and believe that recent releases that have undershot their expectations (GDP and CPI), coupled with recent oil price falls and generally softer readings on indicators such as retail spending and building consent issuance, have given the Reserve Bank some breathing room and more time to assess the current economic situation.

Looking forward, we doubt recent strength in the housing market will be sustained. While migration trends remain generally supportive, mortgage interest rates are now higher across the curve courtesy of rising global interest rates, there is still more pipeline tightening from past interest rate increases to come, and we note the rural sector is starting to see resistance from the buyer side. Recent strength is expected to wane over the first half of this year. **But it is equally difficult to envisage a material slowing in the housing market** given current strength in the labour market. In this environment, the Reserve Bank could continue to talk tough for another six months.

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