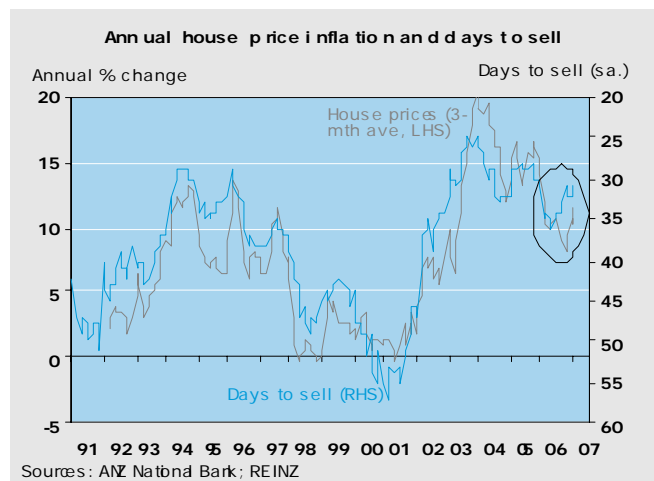
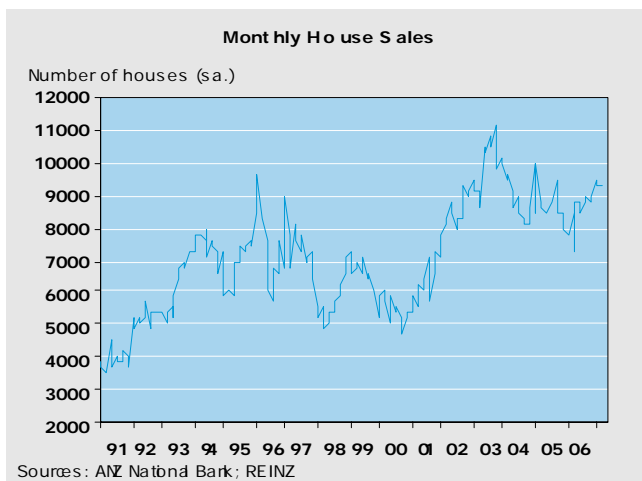


REINZ HOUSE SALES – FEBRUARY 2007

Key points

- Activity in the housing market remains at elevated levels with seasonally adjusted house sales and days to sell unchanged from January.
- Worryingly for the Reserve Bank, median house prices continue to rise, up 13.6 percent from a year ago to a new record high of \$335,000.
- Today's data reinforces the upward bias for interest rates. However, we remain comfortable with our view that last week's OCR increase is the last for this cycle.
- Recent increases in the fixed mortgage rates in anticipation of last week's OCR increase will gradually slow housing market activity over the coming months.

	February 2007	January 2007	December 2006	November 2006
Median house price	335,000	327,000	330,000	330,000
No. of house sales s.a.	9,224	9,251	9,420	9,012
Median days to sell s.a.	31	31	32	32



Assessment and implications

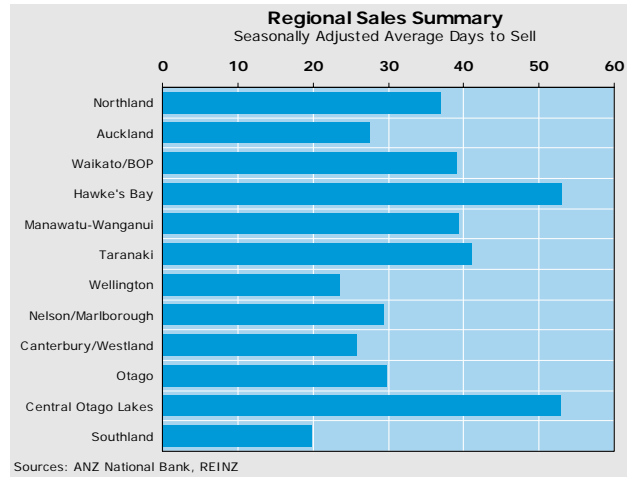
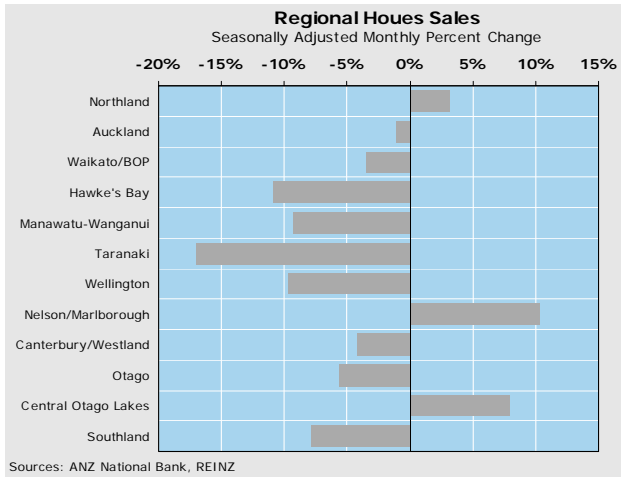
Activity in the housing market remains at an elevated level. Although the number of house sales has fallen (in seasonally adjusted terms) for two consecutive months, the level of sales, at over 9,200, remains well above the average of 8,700 over 2005. The days to sell a house remained steady at 31, a week below the historical average and a sign that demand for houses remains strong in the early part of 2007. The median house price is up 13.6 percent from a year ago to a new record high of \$335,000. According to the REINZ, much of the growth in the national median price appeared to be driven by strong price growth in Auckland, Wellington and Southland, with the latter recording the largest annual percentage growth in house prices at 32 percent.

The Reserve Bank would have expected a strong report today, although the increase in house prices will be a concern. Mortgage growth data for February, which the Reserve Bank would have had access to prior to last week's *Monetary Policy Statement*, would have pointed to another strong February month. Though the Reserve Bank can take some comfort that house sales are at least not accelerating (it has declined in seasonally adjusted terms over the past two months), the worry is that stronger house price growth will provide further impetus for consumer spending, something they alluded to in last week's *Monetary Policy Statement*.

The impact of last week's interest rate increase will take time to appear in the dataflow. With fixed rate mortgages now above 8 percent across the board, we expect this to eventually act to slow down housing market activity. The March and April housing market report will help shed light on the extent of any impact. As Dr Bollard noted yesterday, the lags in monetary policy may have been longer this cycle, but with

household debt at higher levels, the OCR becomes a more potent policy instrument. In the current environment, mortgage holders have no where to run along the mortgage curve.

We remain comfortable with our view that we have seen the peak of the OCR for this cycle, although we acknowledge the near-term risk remains on the upside. We believe the Reserve Bank will pause in April to give it more time to assess the dataflow and undertake a full assessment in June. The impact of last week's OCR increase on housing market activity should become more apparent by then.



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