

REINZ Housing Market Report: January 2008

Key points

- > **Housing market activity slowed further in January.**
- > **House prices are falling, and a rising stock of unsold houses suggests further downward movements.**
- > **The housing market is tracking weaker than the RBNZ was projecting, although the hurdle for lower interest rates remains constrained by elevated inflation pressure and a tight labour market.**

Assessment

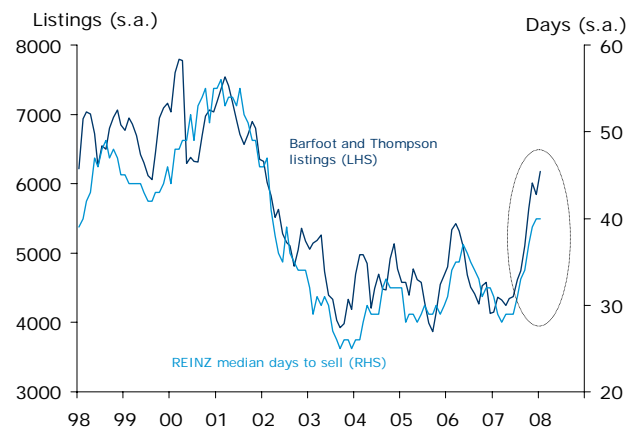
The housing market eased further in January.

Seasonally adjusted house sales fell 0.3 percent in January, following a 7.7 percent fall in December. House sales are now down 31.5 percent on a year ago. The median house price fell \$5,000 and comes after a \$7,000 fall in December. This now takes the median house price to \$340,000. In annual terms, house price growth has slowed to 4.0 percent after being at close to 15 percent over the first half of 2007. However, when we look at the timelier six monthly change, median house prices are in fact down 1.5 percent. With a rising stock of houses on the market and on-sold homes, further falls in house prices look *fait accompli*. The key indicator, median days to sell, rose to 49 days in January, although was effectively unchanged at 40 days in seasonally adjusted terms. Nevertheless, it is at its highest level since March 2002. On a regional basis, the Auckland region experienced a considerable fall in their median house price, which fell from \$460,000 in December to \$432,750 in January (a whopping 6 percent fall), although some caution needs to be taken interpreting these figures due to the low sales in the month.

House prices are falling and more looks on the way. Median house prices have fallen \$12,000 in the space of two months. The previous compositional aspects of house sales, with weak sales at the lower-end but higher-valued properties holding up, is no longer the case with sales weak across all price brackets. Sales of properties below \$400k are down 34.6 percent on a year ago, properties between \$400 and \$600k are down 27.9 percent and those over \$600k are down 18.7 percent. Barfoot and Thompson data showed the number of listings at a seven year high. This coupled with waning demand as a result of slowing net migration and high interest rates, suggest the median days to sell a house will continue to trend upwards therefore placing further downward pressure on sales prices. The REINZ also now acknowledged this, stating that *"people need to be prepared for prices to move back in 2008..."*. Of the three stages of a housing slowdown, 'denial, anger and acceptance', it now looks as though vendors are moving into the acceptance category. In the REINZ's own words, the market is now a "buyers market".

	Median House Price		House Sales		Median Days to Sell	
	\$'000	YoY	s.a.	YoY	act.	s.a.
Jan-07	327	9.0	9273	19.0	38	31
Feb-07	335	13.6	9057	18.0	32	29
Mar-07	344	13.7	8943	9.5	27	28
Apr-07	349	14.4	8301	8.2	28	29
May-07	350	14.8	8346	-3.7	30	29
Jun-07	348	12.1	7754	-11.3	30	29
Jul-07	345	10.4	7265	-14.2	31	31
Aug-07	350	12.9	6638	-25.3	33	33
Sep-07	352	12.3	6069	-31.9	32	34
Oct-07	350	8.0	6826	-22.6	34	37
Nov-07	352	6.7	6931	-21.6	36	39
Dec-07	345	4.5	6395	-32.1	36	40
Jan-08	340	4.0	6379	-31.5	49	40

Listings vs days to sell



Sources: ANZ National, REINZ, Barfoot & Thompson

Implications

Today's figures present further good news to the Reserve Bank. However, as has been the case for some time, with inflation more than a housing phenomenon, the Reserve Bank requires the housing weakness to broaden to other sectors. Our latest quarterly forecasts assumed a 5 percent fall in house prices. However, given the combination of rising supply and credit unease, we are more inclined towards a larger retracement.

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