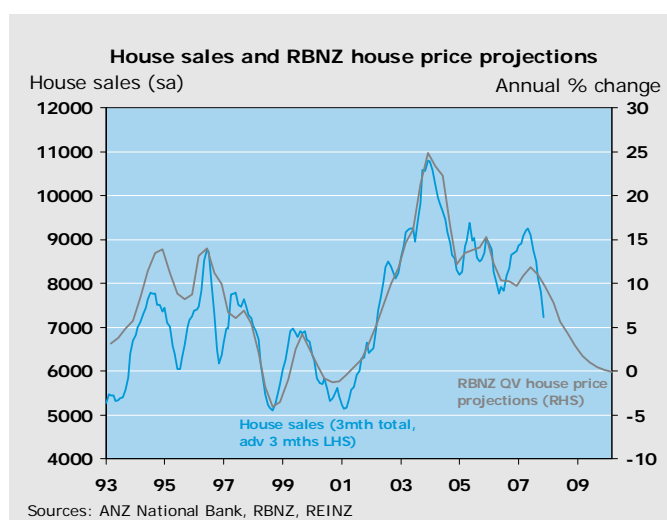


REINZ HOUSE SALES – AUGUST 2007

Key points

- Housing market activity softened further in August, with sales well down and the days to sell up.
- House prices managed a small gain, though annual house price inflation still easing.
- High mortgage rates and easing net migration to see further softening in housing activity.
- With further evidence that the housing market has finally turned, the Reserve Bank will be more confident that no further rate hikes are needed.
- Key now is further moderation in consumer spending and less pressure on non-tradable inflation.

	Median House Price		House Sales (sa)		Median Days to Sell	
	\$'000	YoY	s.a.	YoY	act.	s.a.
Aug-06	310	6.9	8852	-0.3	33	34
Sep-06	313	7.9	8874	-5.6	31	33
Oct-06	324	9.8	8835	4.0	29	31
Nov-06	330	10.0	8995	6.8	29	32
Dec-06	330	11.9	9389	19.4	29	32
Jan-07	327	9.0	9222	19.0	38	31
Feb-07	335	13.6	9106	18.0	32	30
Mar-07	344	13.7	8972	8.9	27	28
Apr-07	349	14.4	8162	8.2	28	28
May-07	350	14.8	8379	-3.7	30	29
Jun-07	348	12.1	7772	-11.3	30	29
Jul-07	345	10.2	7259	-14.3	31	30
Aug-07	350	12.9	6610	-25.3	33	34

Assessment

The housing market experienced its quietest winter period in years as house sales slowed in August.

Our seasonally adjusted estimates show house sales falling by 9.0 percent in August, the third consecutive monthly decline. It was also the lowest level of sales for an August month in seven years. Compared with a year ago, house sales are now down 25.3 percent. The median number of days to sell as house – a key indicator of demand/supply pressures – rose to 33 days (34 days in seasonally adjusted terms) and is the highest level in 12 months. Despite the weakness in sales, and a rise in the length of time to sell a house, median house prices recovered in August, rising to \$350,000. This took annual growth to 12.9 percent from 10.2 percent in July. However, according to the REINZ, the low turnover of houses may have distorted the picture of house price growth. Three month average price growth has basically been flat since June this year but annual house price inflation continues to ease. On a regional basis, 9 of the 12 regions recorded median house price increases in the month with the Auckland region leading the way.

Further softness in the housing market is expected. The labour market remains strong and a boost to rural incomes courtesy of a higher forecast dairy payout will provide some support to the housing market. However, mortgage rates at current levels will continue to act as a drag on housing demand (floating rates at 10.55 percent and the cheapest fixed rate on offer is 8.95 percent for five years). This, together with an easing in net migration, will see further moderation in activity ahead, suggesting the housing market is unlikely to shake off its winter blues.

With the housing market now finally turned, the Reserve Bank will be more confident that no further rate hikes are needed. Housing market activity looks to be slowing by more than the Reserve Bank had envisaged in their June *Monetary Policy Statement*. The key for the Reserve Bank is whether consumer spending continues to moderate, with Thursday's July retail sales release a key read. Ultimately, the Reserve Bank will be looking for evidence of the slowdown in the housing market translating through into reduced pressure on non-tradable inflation.

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