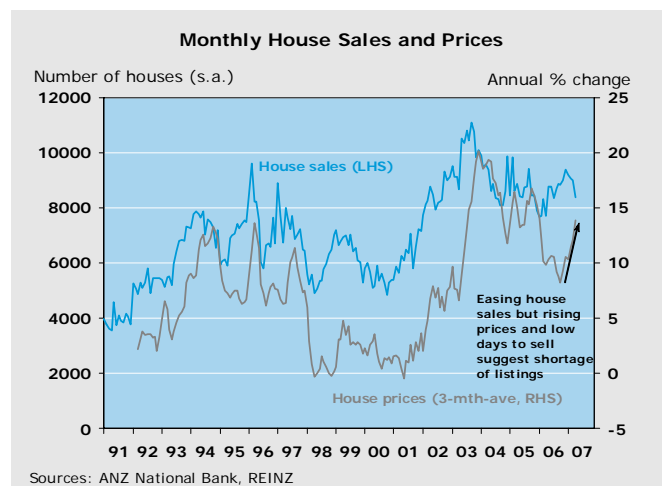


REINZ HOUSE SALES – APRIL 2007

Key points

- The housing market remains strong with house price growth accelerating and the average number of days to sell a house near historical lows.
- The number of house sales fell in seasonally adjusted terms, but likely reflects a lack of supply rather than an indication of easing demand.
- The housing market is still far from the moderation the Reserve Bank desires. There is a risk that the acceleration in house prices will provide a boost to consumer spending via the wealth effect.
- We believe the risk profile for higher interest rates is increasing, and the Reserve Bank will not want to let momentum in the housing market get away from it again.

	Median House Price		House Sales (sa)		Median Days to Sell	
	\$'000	YoY	s.a.	YoY	act.	s.a.
Apr 06	305.0	12.1	7,711	-13.1	34	34
May 06	305.0	10.9	8,785	4.3	38	36
Jun 06	310.0	9.0	8,757	4.4	37	35
Jul 06	313.0	11.8	8,357	-4.4	35	34
Aug 06	310.0	6.9	8,699	-0.8	33	34
Sep 06	313.0	7.9	8,854	-5.9	31	33
Oct 06	324.0	9.8	8,831	4.6	29	31
Nov 06	330.0	10.0	9,008	6.4	29	32
Dec 06	330.0	11.9	9,389	19.1	29	32
Jan 07	327.0	9.0	9,191	19.8	38	31
Feb 07	335.0	13.6	9,077	18.0	32	30
Mar 07	343.5	13.7	8,980	8.3	27	28
Apr 07	349.0	14.4	8,402	9.0	28	28



Assessment and implications

The housing market remains strong and is far from showing any signs of moderation. According to the REINZ, the fall in the number of house sales (down 6.4 percent for the month in seasonally adjusted terms) is likely due to a shortage of properties. They report still strong buyer demand. Certainly, the acceleration in house prices and the median days to sell remaining at near historic lows support the argument that the decline in house sales over the past few months is not an indication of easing demand. In the REINZ's words, there are "*too many people trying to buy too few houses with the result that prices are being pushed up.*" Strong house price growth in Auckland drove the national median house price to \$349,000, up 14.4 percent from a year ago.

Strong house price growth runs the risk of providing a boost to consumer spending via the wealth effect channel. The relationship between house price growth and consumption growth is well known. Retail spending in Q1 was much stronger than anyone had anticipated. A strong labour market is providing base support, but the wealth effect from higher house prices has the potential to sustain the rebound in consumer spending well into the middle of this year and early in the second half of this year.

The Reserve Bank is facing an asymmetric risk profile at present. They cannot afford to let momentum within the economy continue given the prevalence of inflation pressure. While forward indicators (such as monthly consumer confidence) and anecdote may point towards a softening in activity in Q2 courtesy of the two OCR hikes and the rise in the NZD, the Reserve Bank cannot afford to run the risk of letting the pattern of consolidation and then rebound continue. The Reserve Bank needs to make certain of reining the current momentum in the economy in this time around. This means the bias will be to do more than is necessary on the rates front to engineer this, and sooner rather than later. We believe the risk profile for a rate hike in June is increasing.

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