

## **Quarterly Housing Sector and Housing Assistance Report - March 2008**

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The Reserve Bank has revised its predictions for economic growth downwards for the second quarter in succession. In December, the Bank was predicting a yearly growth rate of around 2.6 percent over the next two years. This was reduced to a prediction of around 1.9 percent in the March statement. The June 2008 report was even more pessimistic, with a predicted growth rate of just 0.9 percent in 2009.

The Consumers Price Index (CPI) recorded an increase of 3.4 percent over the March year. In March the Reserve Bank expected the rate of annual inflation to begin to fall by early 2009. However, high energy and food prices have contributed to increased inflationary pressure across the economy since that time. Thus, in June 2008, the Reserve Bank revised its prediction and now projects annual inflation to reach over 5.5 percent in 2009 before falling back to around 3 percent by 2010.

The Reserve Bank is trying to reconcile the two conflicting forces of weakening growth prospects and mounting inflationary pressures at present. Until recently, the Bank appears to have been more concerned with inflation and warned that OCR reductions were some way off. However, concerns about weakness in the economy seem to have taken over and, in June, the prospect of a cut in the OCR from the current 8.25 percent was raised as a possibility before the end of the year.

### **Housing affordability**

Housing Affordability is influenced by many factors. Inflation, interest rates, incomes, and house prices all have an affect. High mortgage rates have a direct relationship to the affordability of home ownership and put pressure on sale volumes. The popular two year fixed rate has risen to over 9 percent (currently around 9.6) for the first time in ten years.

House sale activity in April 2008 had slowed to half the level of a year earlier, dwelling consents are also on a downwards trend. House prices, as measured by the Real Estate Institute of New Zealand, have been relatively stable since April 2007 with yearly price inflation slightly negative at -1 percent. April 2008 is the first month with negative yearly house price growth since 2001/2002. So far median house prices have fallen slightly from their peak of \$352,000 in November 2007 with the median house price in April 2008 at \$345,000.

With house prices fairly static over the year, continuing increases in incomes led to a slight improvement in housing affordability from November 2007 to February 2008. However, the widely-quoted Massey Affordability Index shows affordability has declined significantly since 2002; and a very large fall in prices and/or a large increase in incomes would be needed to offset the substantial deterioration over the last six years.

Trends in residential building consents tend to follow house sale movements with a delay of around three months. The fall in house sales that started in May 2007 has coincided with a fall in building consents; with a fall from 2,500 in August 2007 to 1,600 in May 2008 on a seasonally adjusted basis.

The rentals component of the CPI increased by 3 percent over the March 2008 year: the same rate of increase as in the CPI as a whole. Department of Building and Housing (DBH) tenancy bond data for new tenancies where a bond is lodged showed a median weekly rent increase of 5 percent.

It seems very likely that rents will rise somewhat faster than incomes in the foreseeable future.

### **Housing Assistance**

Government housing assistance for the March 2008 quarter totalled around \$342 million, giving an increase of 4 percent for the year to March 2008. This annual increase comes from a rise in Income Related Rents of 8 percent, and an increase of 2 percent in the Accommodation Supplement (AS).

The take-up of the AS is particularly interesting as it provides information on trends in accommodation requirements of those in need. As an overall measure of need total AS recipients are slightly down in March 2008 on a year earlier at 241,900 down from 245,600, a fall of around 1 percent. This compares to a fall of 3 percent in the December 2007 year.

The overall number of AS recipients has been declining, which in part can be attributed to the strong labour market. Looking at the make up of recipients based on various trends within the total can be useful. From March 2006 to March 2008 the number of AS recipients that also receive the unemployment benefit had fallen substantially by 47 percent.

The government funds the Corporation to provide lower than market rents to Corporation tenants that qualify. In March the average Housing New Zealand Corporation rent was \$101 a week compared to the average market rent value of the properties of \$228, this gives an average subsidy across all tenants of \$127 a week including the small proportion of tenants who do not receive an income related rent.

### **Housing New Zealand Corporation waiting list**

The waiting list fell to around 10,000 in June 2007 and has remained around that level since. In March 2008, the waiting list fell to 9,935. If an increased number of private renters were encountering housing stress then it might be expected that the waiting list would increase.

The A segment of the waiting list, covering those deemed 'at risk', can be volatile due to the small number of applicants in the category. In December 2007 there were 125 households in the A segment and in March 2008 this number had risen to 206. The B segment covering those 'in serious housing need' has remained fairly constant at 3605 in March 2008, a slight increase on 3544 in December 2007.

Overall the waiting list has fallen by 14 percent between March 2006 and March 2008, however the change is varied depending on age. Those aged between 21 and 50 have decreased by more than the average. This could reflect the strong labour market and the ability of those of working age to raise their income and find non-Corporation housing. The number of those people over 60 years old on the waiting list has increased over the period.