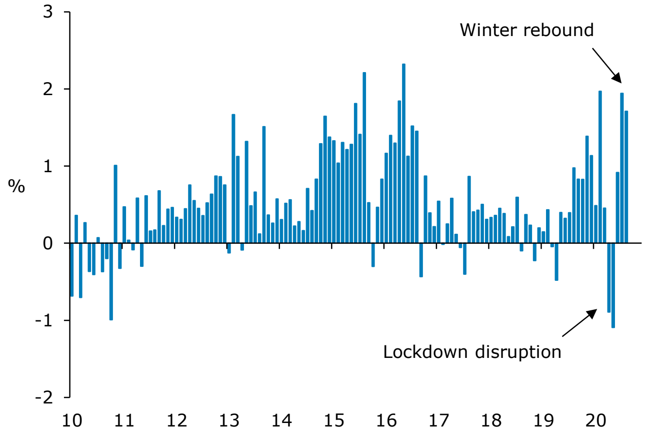
New Zealand Property Focus

Lend me a hand

At a glance

Housing supports fast-acting

House prices rebound in winter



Source: REINZ, ANZ Research

Lower rates one factor

Mortgage rates have fallen ~80bps.

Impact still passing through.

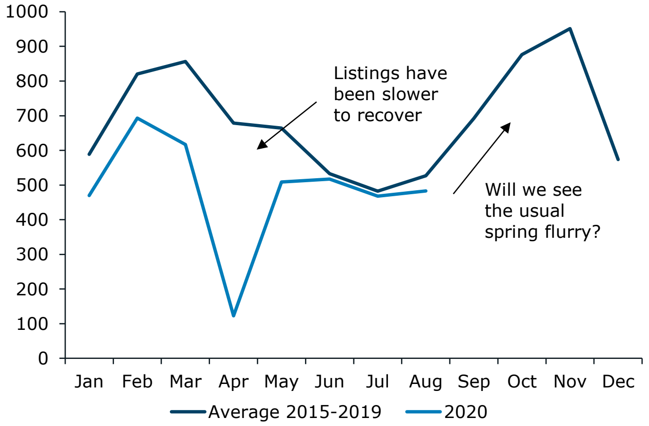
There are other fast-acting supports.

These have spurred pent-up demand.

Market tight, with listings low.

Especially with inventory low

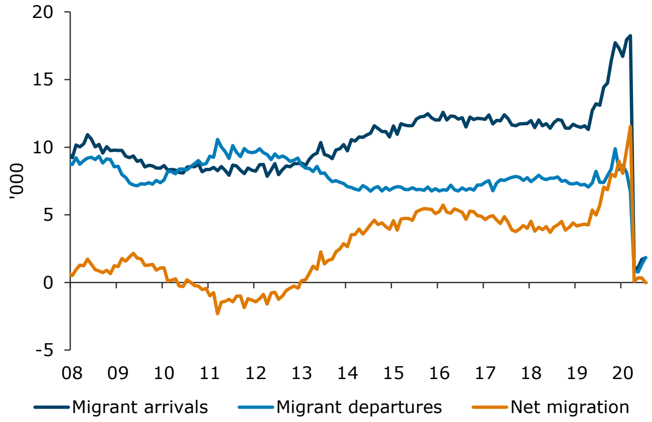
New listings have not played catch-up



Source: Realestate.co.nz, ANZ Research

Other factors to weigh slowly

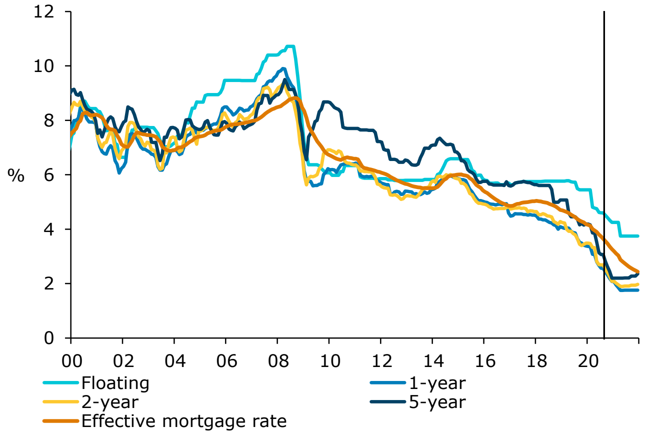
Weak migration, rising unemployment



Source: Statistics NZ, ANZ Research

Rates set to go lower

Mortgage rate forecasts



Source: RBNZ, ANZ Research

RBNZ policy lending a hand

With negative OCR on the way

Quantitative easing providing stimulus

Negative OCR will support market

But we could see wobbles emerge

Even more stimulus may be needed

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

Contact

Liz Kendall, David Croy or Sharon Zollner for more details.

See page 12.

INSIDE

ISSN 2624-0629

Publication date: 29 September 2020

Summary

Our monthly *Property Focus* publication provides an independent appraisal of recent developments in the residential property market.

Housing market overview

House prices have picked up recently, with strong demand in the usually quieter winter months. House listings are low and have not played "catch up" after lockdown, contributing to tightness in the market, price rises and anecdotes that the market is hot. Factors that have supported the market – lower mortgage rates, wage subsidies, pent-up demand and the like – have impacted the market quickly. But dampening factors are expected to weigh more slowly, including weak migration, the economy coming off fiscal life support, and a weaker economic pulse as the impacts of the closed border are felt. Mortgage rates are set to go even lower, especially once the OCR goes lower next year, though it may not be enough to offset wobbles that could emerge as the economy enters more challenging months ahead. We may see the current winter heat replaced by a summer chill. See Housing Market Overview for more.

Feature Article: Lend me a hand

The housing market and new mortgage lending are bright spots in an economy otherwise facing an enormous amount of uncertainty. Low mortgage rates are lending a hand, and monetary policy is expected to provide even more stimulus, with the OCR expected to go negative next year alongside a bank Funding for Lending Programme (FLP). We expect the OCR will be lowered by 50bps to -0.25% in April, and that the FLP will strengthen the pass-through to retail rates. The impact of the combined policies is uncertain, but short-term fixed mortgage rates could dip below 2% next year. Further declines in mortgage rates will help to shore up the housing market, spending and confidence. But that's set to go up against a range of dampening factors that are likely to become more evident by year end. Because of this, we expect that lower mortgage rates will provide a cushion, but won't propel the housing market significantly. That said, there are offsetting forces and a 'muddle through' is possible. More broadly, risks to the economic outlook are tilted to the downside and it is possible that the OCR moves even lower than we currently expect. See Feature Article: Lend me a hand for more.

Mortgage borrowing strategy

Home loan rates are little changed over the past month, with the only perceptible change being the circa 0.15% decline in the average 6-month rate. The 1-year rate remains the "sweet spot" and is still the term that we believe offers the best value. Although we expect the OCR to go lower in April, which is just over six months from now, analysis shows that it is still likely to be cheaper to opt for the 1-year, rather than fix for six months with a view to re-fixing again in six months. That's simply a reflection of more competition in 1- and 2-year terms. With OCR hikes years away and the RBNZ flagging the introduction of a "funding for lending" programme expressly designed to lower retail interest rates, we see limited appeal in fixing for more than one year, unless one puts a high value on certainty. See Mortgage Borrowing Strategy for more.

Housing market overview

Summary

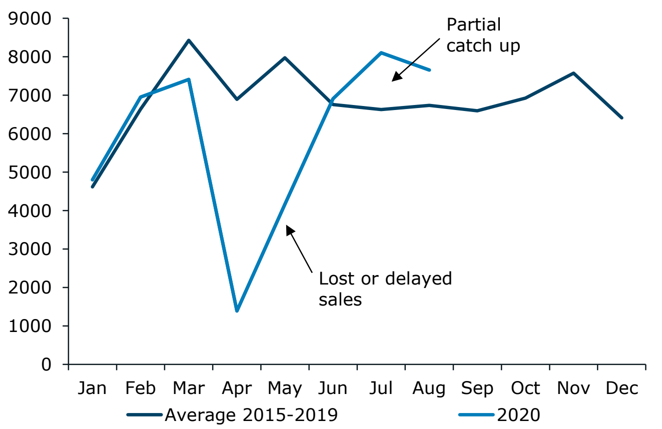
House prices have picked up recently, with strong demand in the usually quieter winter months. House listings are low and have not played "catch up" after lockdown, contributing to tightness in the market, price rises and anecdotes that the market is hot. Factors that have supported the market – lower mortgage rates, wage subsidies, pent-up demand and the like – have impacted the market quickly. But dampening factors are expected to weigh more slowly, including weak migration, the economy coming off fiscal life support, and a weaker economic pulse as the impacts of the closed border are felt. Mortgage rates are set to go even lower, especially once the OCR goes lower next year, though it may not be enough to offset wobbles that could emerge as the economy enters more challenging months ahead. We may see the current winter heat replaced by a summer chill.

Demand rebounds on low inventory

The housing market has recovered strongly in recent months. Although housing market activity has been dented by renewed lockdown, house prices have continued to push higher. Since the trough in May, house prices have increased 5% to be almost 3% above pre-COVID levels.

House sales that were lost during lockdown have been clawed back, but only partially (figure 1). Demand has recovered swiftly, but this has occurred in the usually quieter winter months, making for some unsustainably – and perhaps misleadingly – high year-on-year comparisons.

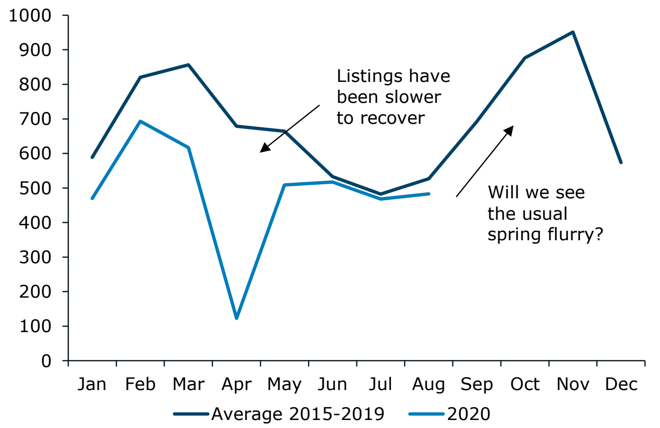
Figure 1. House sales



Source: REINZ, ANZ Research

New listings have recovered slowly and have only returned to normal winter levels (figure 2), with no "catch up" for those listings that were lost during lockdown. This slow recovery in listings at the same time as demand has been recovering has meant the market has been quite "tight", with relatively few houses available for the number of interested buyers. This has contributed to price rises and anecdotes that the housing market has been running hot.

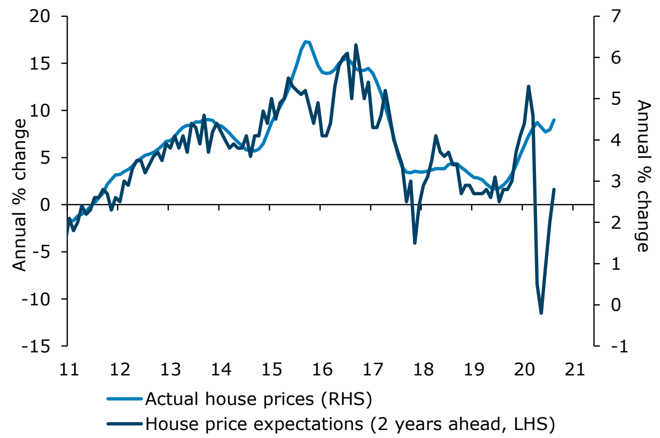
Figure 2. New listings



Source: Realestate.co.nz, ANZ Research

We may start to see market tightness relax a little if we see the usual spring flurry of new listings. Recent strength in the market may encourage sellers to list. Indeed, resilience in the market has seen house price expectations revised upwards to levels that are no longer consistent with annual falls, according to our ANZ-Roy Morgan Consumer Confidence survey (figure 3). The question remains whether this renewed sense of optimism will last as we enter the more challenging months ahead.

Figure 3. House price expectations and actual



Source: REINZ, Roy-Morgan, ANZ Research

Supportive factors have been seen, quickly

The factors that have been supportive of housing demand have impacted quite quickly. Low interest rates have spurred new buying activity, and these will continue to provide support as interest rates move lower (see Feature Article: Lend me a hand).

There has been increased interest amongst first home buyers and the relaxation of the RBNZ's loan-to-value restrictions has contributed to housing demand, though not enormously, based on new lending data to date. The wage subsidy and mortgage deferment scheme have also provided a boost. All of these factors have provided a rapid boost to the housing market, spurring the pent-up demand dynamic seen out of lockdown.

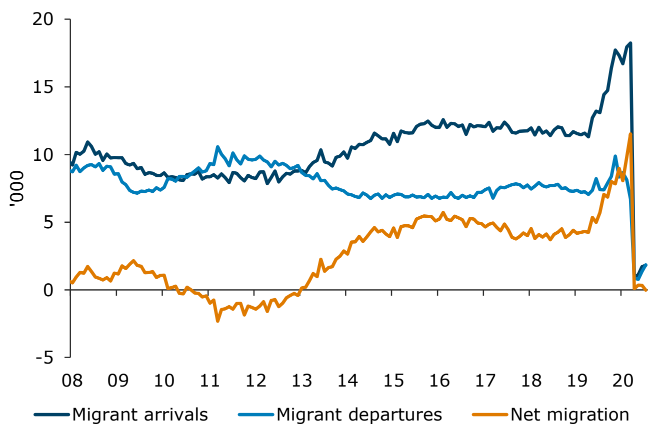
But dampening factors will weigh, slowly

Although supportive factors have affected the market quickly, dampening factors are set to weigh more gradually – but persistently. The economy will come off life support in coming months, particularly as the wage subsidy ends, but also the mortgage deferment scheme that has meant very few have been put in a must-sell position. And the impacts of the closed border on industries like tourism are expected to be felt more acutely in the summer months, when demand would normally be strong. During the usually quiet winter months, domestic tourism has provided a cushion.

Fiscal support and a delayed closed border impact have muted the impact of the economic downturn on the labour market. This in turn will have delayed any flow-on effects to the housing market. But as job losses rise, this is expected to put pressure on debt-servicing ability for some, despite low mortgage rates (see last month's ANZ Property Focus). And even for those who retain their jobs, rising unemployment is expected to weigh on confidence when the full impact of the recession becomes apparent. At that time, the current enthusiasm in the housing market is expected to be tempered at best, or sharply jolted at worst.

Weak migration is also expected to weigh. Contrary to anecdote, population growth is not strong – it is very weak (figure 4). There have been some returning kiwis, some of whom may well have been contributing to housing market strength. But in net terms, migration in recent months has been near zero. Migration is typically a strong contributor to housing market strength in the context of tight supply, and this abrupt shift in population flows is expected to weigh on the housing market, though it could take 3-6 months to be evident in housing demand.

Figure 4. Monthly net migration



Source: Statistics NZ, ANZ Research

Increasing income strains and weak migration are expected to see some wobbles start to affect the housing market later this year and into next. However, lower mortgage rates will provide an offset and the exact trajectory for the housing market is uncertain.

The outlook will depend on a range of factors, including COVID-19 and vaccine developments; the underlying state of the economy (especially as closed border impacts are felt); the pass through of monetary stimulus to mortgage rates; fiscal support, particularly as the wage subsidy ends; and how households and firms respond in the challenging months ahead.

Housing market indicators for August 2020 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		# of monthly sales	Monthly % change	Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change			
Northland	$614,158	16.6	11.8	9.6	1.3	233	+3%	55
Auckland	$952,394	15.9	2.8	10.7	2.0	2,548	-6%	34
Waikato	$631,846	16.5	9.2	10.9	3.1	814	-12%	33
Bay of Plenty	$674,332	11.0	5.1	7.0	-0.4	493	-16%	38
Gisborne	$444,962	9.5	11.9			37	+4%	35
Hawke's Bay	$592,552	20.2	0.4	14.6	3.1	268	-8%	32
Manawatu-Whanganui	$443,054	14.9	5.2	11.4	-1.8	380	-17%	28
Taranaki	$463,531	14.7	10.3	14.2	2.6	171	-31%	23
Wellington	$725,508	12.5	2.5	11.7	0.8	847	-8%	30
Tasman, Nelson & Marlborough	$590,000	13.5	-1.1			270	-12%	30
Canterbury	$511,278	13.0	5.5	7.9	3.9	1,010	-14%	36
Otago	$585,309	16.9	14.2	3.8	-1.5	345	-30%	34
West Coast	$232,831	17.4	6.6	7.1	2.0	40	-36%	74
Southland	$372,412	20.5	6.0	11.2	0.0	191	+7%	30
New Zealand	**$685,451**	**16.4**	**2.9**	**10.1**	**1.8**	**7,650**	**-10%**	**34**

Feature Article: Lend me a hand

Summary

The housing market and new mortgage lending are bright spots in an economy otherwise facing an enormous amount of uncertainty. Low mortgage rates are lending a hand, and monetary policy is expected to provide even more stimulus, with the OCR expected to go negative next year alongside a bank Funding for Lending Programme (FLP). We expect the OCR will be lowered by 50bps to -0.25% in April, and that the FLP will strengthen pass-through to retail rates. The impact of the combined policies is uncertain, but short-term fixed mortgage rates could dip below 2% next year. Further declines in mortgage rates will help to shore up the housing market, spending and confidence. But that's set to go up against a range of dampening factors that are likely to become more evident by year end. Because of this, we expect that lower mortgage rates will provide a cushion but won't propel the housing market significantly. That said, there are offsetting forces and a 'muddle through' is possible. More broadly, risks to the economic outlook are tilted to the downside and it is possible that the OCR moves even lower than we currently expect.

Credit growth has softened

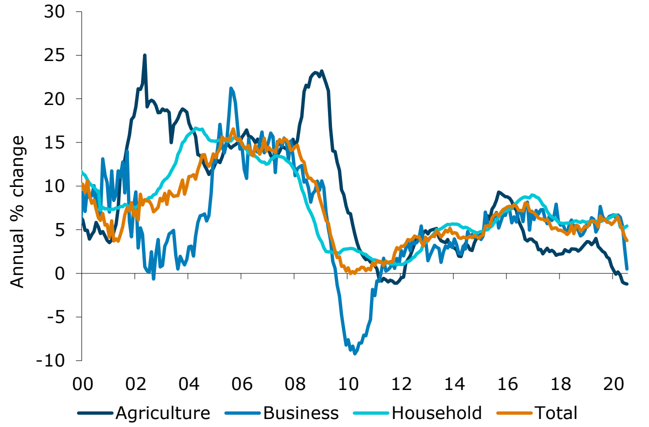
The RBNZ has been conducting significant monetary stimulus in order to stabilise the economy and shore up employment and inflation. Part of the mechanism through which this works is by supporting asset prices and credit expansion. So far, lower interest rates – along with other factors (see Housing Market Overview) – have kept the housing market resilient, but overall credit growth has softened (figure 1).

Household credit growth has been supported. But business lending has fallen 2.8% in recent months, following a temporary increase in March. And agricultural lending has been gradually softening over the past year and is now down 1.2% y/y.

Business lending is likely to come under further pressure in coming months. Some firms have used credit lines to help them through trying times, but generally businesses are reluctant to invest and are cautious about taking on debt. The end of the wage subsidy and other pressures (such as weaker demand, regulatory changes and skill shortages in some areas) will only intensify these trends, particularly as the impact of the current downturn becomes more acute as the year ends. Meanwhile, banks are likely to be cautious about lending to certain industries where risks are elevated.

This is typical recession behaviour; businesses tend to be reluctant to borrow and invest until they have more certainty, especially about future demand. Certainty tends to come as activity improves and firms are no longer operating with excess production capacity – but that will take quite some time. That's why giving the economy a solid kick-start through monetary and fiscal stimulus is so important – it can create feedback mechanisms through spending, incomes and confidence that help stabilise the economy and lead to job creation and investment in time.

Figure 1. Credit growth by sector

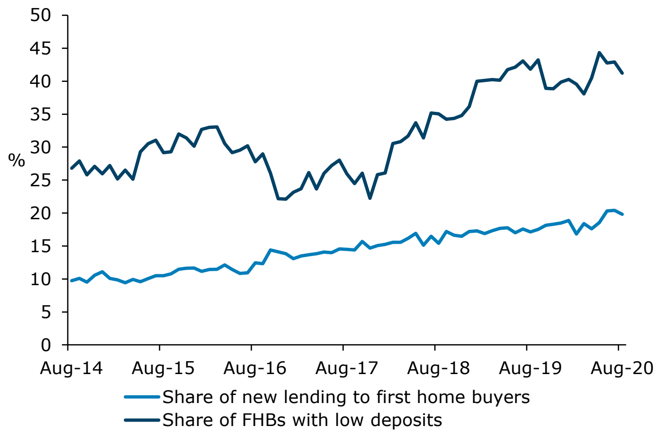


Source: RBNZ, ANZ Research

New mortgage lending a bright spot

New mortgage lending has recovered after a lockdown-induced dip in March in April, reflecting resilience in the housing market. New lending to borrowers with lower deposits (higher loan-to-value ratios) has ticked up only modestly since April from 10% of mortgage lending to 11%, reflecting a compositional shift as lending to first home buyers has increased a little (figure 2).

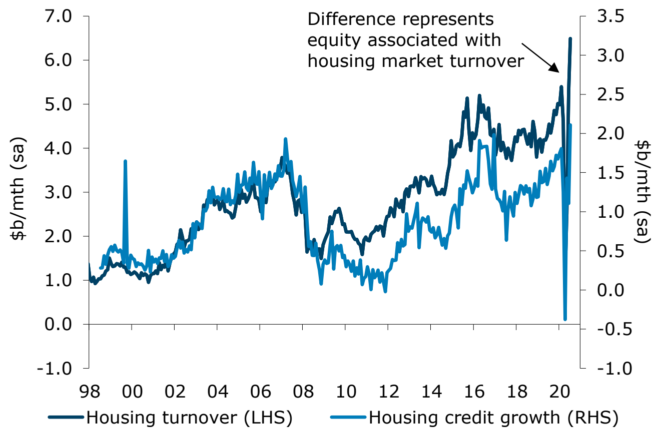
Figure 2. Lending to first home buyers



Source: RBNZ, ANZ Research

Although new lending has been strong, when one looks at net flows (taking into account principal repayment and the like), credit growth has been stable and not excessive. Realised equity gains (between buyers and sellers) associated with housing turnover have been pretty stable on average in recent months (figure 3). What this means is that although new buyers will be taking on more debt, in aggregate households are not significantly "leveraging up", at least so far. As the housing market has recovered post-lockdown, some households appear to have used the opportunity to shore up their financial positions. Some borrowers may be paying back more principal and some sellers may be shoring up their equity. This, alongside increased first home buying, appears to have been broadly offsetting, and risk-taking associated with recent strength in the housing market does not appear excessive – so far.

Figure 3. Housing turnover and net credit growth



Source: RBNZ, ANZ Research

The possibility that lower interest rates alongside a removal of loan-to-value ratios spur excessive risk taking and exacerbate financial stability risks is certainly something of which to be vigilant. This could require the reinstatement of loan-to-value ratio restrictions (or other macro-prudential policy) in time, but on the other hand, a significant move towards increased risk aversion would stymie activity, so it's a balancing act. The loan-to-value restrictions were removed to encourage credit creation in the economic downturn and to facilitate mortgage deferment schemes, and it's worked. But it is unclear whether their removal will prove permanent or temporary, with the RBNZ set to review them again in April next year.

Housing market supporting economy

The resilience we have seen in the housing market has surprised us in that it has occurred in spite of acute economic disruption and uncertainty. For now, the market is supported. And to the extent that this is driven by lower interest rates, monetary policy appears to be doing its job.

Based on historical modelling, a ~0.8 percentage point fall in mortgage rates (as we have seen) might boost house prices by 2-2.5%, all else equal. But the rebound we have seen in house prices has been much swifter than the usual pass-through of lower mortgage rates (which can take up to a year). This is consistent with the fact that other factors have also been at play, such as the wage subsidy scheme, mortgage deferment, loosening in LVRs, pent-up demand, money that might have gone on overseas holidays being freed up, and possibly unusual seasonal effects due to the timing of the lockdown.

This boost to the housing market will provide support for the economy going forward. Housing market turnover directly encourages spending, new home building and renovations, with flow-on impacts. It also helps shore up confidence, particularly amongst consumers, but also amongst small business owners reliant on their homes for collateral. Solid asset values make households and banks view lending transactions favourably, helping to support spending further. By contrast, when asset values fall this can lead to a vicious cycle of reduced housing demand, forced sales, retrenched spending, and tightening in credit conditions – the RBNZ's easier policy stance can help stem off the risk of this happening, and has so far been effective at doing so. With the economy facing serious headwinds, this is not the moment to abruptly fix New Zealand's housing affordability problem via a house price crash.

That said, we do think the housing market could see a temporary wobble as the economic and confidence impacts of the current crisis become more evident late this year and into next year. Rising unemployment is expected to cause some income strains and uncertainty that will weigh on the market, though this is expected to be quickly responded to with a negative OCR and Funding for Lending Scheme in April next year. This will see mortgage rates eventually fall further.

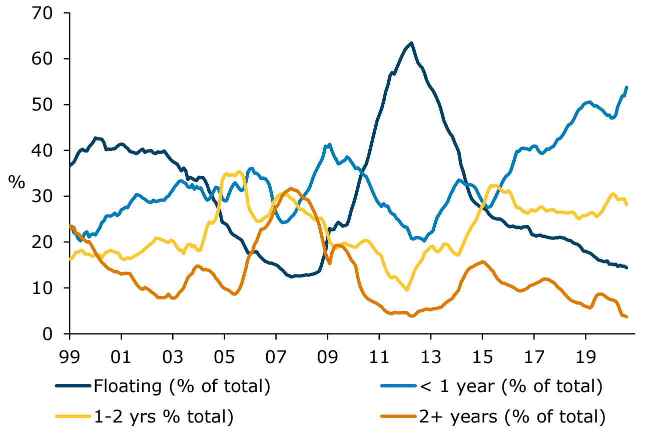
Debt-servicing costs falling

We talked about the fall in the cost of home ownership for new purchases in our last ANZ Property Focus. This fall has been supporting the housing market directly. In addition to this, the RBNZ's easing of monetary policy is also supporting the economic recovery and spending by contributing to expectations that interest rates will remain low – and go even lower if our forecasts are right – and that incomes will be supported through a range of channels.

Monetary easing also directly alleviates cash flow pressures by lowering debt-servicing costs for firms, households and the Government, supporting spending and confidence, quite independent of developments in the housing market.

For households, the direct impact on debt-servicing costs depends in part on the composition of mortgage borrowing. About 14% of mortgage borrowing is on a floating mortgage rate (figure 4), so aside from new transactions, only a small portion of borrowers will see the effects of a lower mortgage rate flow through to their cash flow quickly.

Figure 4. Share of mortgages by duration

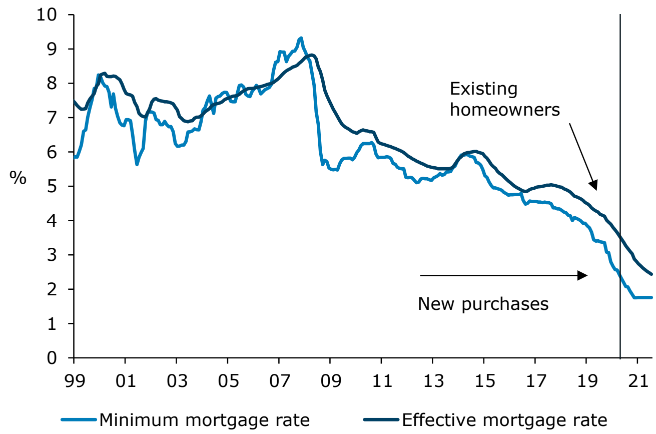


Source: RBNZ, ANZ Research

Over time, the share of mortgage borrowing on floating rates has decreased steadily, but the portion of mortgage debt that is fixed for one year has increased substantially, to 54% currently. As fixed portions have rolled off, the effective mortgage rate faced by existing borrowers has dropped steadily (figure 5) and is set to fall further.

Another trend that has occurred over time is a move from standard to special mortgage rates, with more borrowers taking up specials. As standard rates have become less relevant, the margins between standard and special rates have increased. Reflecting this trend, we have moved to forecasting fixed special rates rather than standard rates (see Mortgage Rate Forecasts).

Figure 5. Minimum and effective mortgage rate

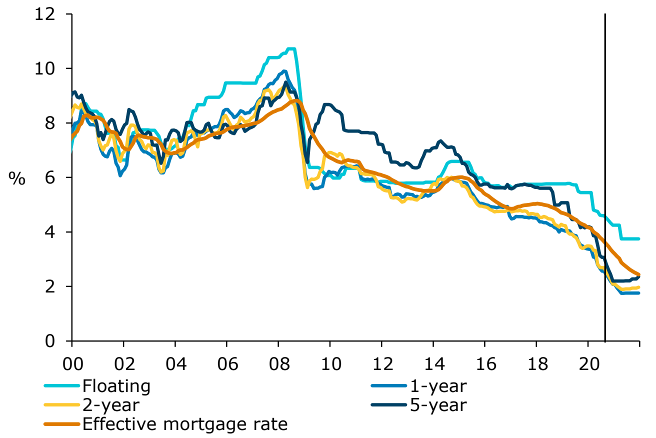


Source: RBNZ, ANZ Research

Mortgage rates to fall further

Mortgage rates have fallen 60-110bps this year as the OCR has fallen and the RBNZ has embarked on QE (see our QE FAQs here and here for more details). But we think that mortgage rates are poised to fall significantly further (figure 6), based on our expectation that the RBNZ will introduce a negative OCR in April next year (see our FAQ on this topic for more details).

Figure 6. Mortgage rate forecasts



Source: RBNZ, ANZ Research

An FLP would go hand in hand with a negative OCR and the RBNZ intends to implement one before year end. This would encourage new lending and help to ensure that retail interest rates can move even lower. We don't know exactly what impact these policies combined will have on mortgage rates, but the direction is clear. No, your bank won't be paying you to borrow, but rates could get a lot cheaper (see our Mortgage Borrowing Strategy for more on current rates and fixing strategy in light of the outlook).

Notwithstanding considerable uncertainty, looking forward we now expect shorter-end mortgage rates to fall below 2%, with the 1-year rate expected to trough at 1.75% in April next year (see our Mortgage Rate forecasts for more). If mortgage rates continue to decline as we expect, we could see further declines in the order of 60-90bps and total falls from pre-COVID levels of up to 200bps.

Although we don't expect the trough in mortgage rates to occur until next year, we are forecasting continued gradual declines between now and then. This assumes some compression in margins between lending and wholesale rates as the impact of QE and expectations of a negative OCR continue to percolate through.

At this stage we are only expecting one 50bp cut in the OCR in April, taking it to -0.25%. Given that the RBNZ intends to implement an FLP well before this, it is possible that the RBNZ might choose to adopt a more gradual approach to taking the OCR lower (eg pausing at 0%, or waiting until the May Monetary Policy Statement to cut). But with economic risks skewed to the downside, and their "least regrets" approach, we also can't rule out that the OCR might go even lower than we currently expect, in time. This would pose further downside risk to mortgage rates.

Cushion not a trampoline; risks to downside

So far, the impact of lower mortgage rates on the housing market has passed through reasonably quickly and still-lower mortgage rates will provide further support, particularly once the OCR goes negative. But as we enter the challenging period ahead we see lower rates as a cushion, supporting the market, rather than a trampoline propelling it into the stratosphere.

All else equal, a further fall in mortgage rates as we expect might boost house prices 2-2.5%, but this is going to be competing against other dampening factors that expected to pass through to the housing market in time (see Housing Market Overview). These factors are yet to become fully apparent, but that doesn't mean the impacts have been avoided. So far, lower mortgage rates and other factors have provided a faster-acting boost.

We can't know for sure how much of a dampening force increasing income strains and weaker net migration will be. Forecasting the housing market is difficult at the best of times, and how a range of offsetting factors net out and impact behaviour will determine the outlook for the housing market from here, along with the underlying economic outlook, which itself is also uncertain. It's possible that the housing market can get through the period ahead unscathed, given the support expected from even lower rates, but at this stage we expect some wobbles will emerge, with dampening forces to weigh in time.

Risks to the economic outlook are tilted to the downside, and that's a key reason why the RBNZ has adopted a "least regrets" approach to policy, providing monetary stimulus in a front-loaded manner. Downside risks and the slow economic recovery ahead mean that more stimulus may be needed, even if a housing market downturn is avoided, but particularly if it isn't.

Relative to our expectations, more stimulus might be achieved by the RBNZ taking the OCR even lower than -0.25%, a loosening of the FLP, or by expanding quantitative easing to include new assets. But while monetary policy is working, it is not designed to cure all ills, and it does push some problems down the track rather than solve them, in terms of increasing debt. Fiscal policy needs to pivot towards supporting growth too. Whether – and how effectively – this can be achieved will be a key factor, among others, in determining whether the RBNZ ultimately needs to do more.

Mortgage borrowing strategy

This is not personal advice. The opinions and research contained in this document are provided for information only, are intended to be general in nature and do not take into account your financial situation or goals.

Summary

Home loan rates are little changed over the past month, with the only perceptible change being the circa 0.15% decline in the average 6-month rate. The 1-year rate remains the "sweet spot" and is still the term that we believe offers the best value. Although we expect the OCR to go lower in April, which is just over six months from now, analysis shows that it is still likely to be cheaper to opt for the 1-year, rather than fix for six months with a view to re-fixing again in six months. That's simply a reflection of more competition in 1- and 2-year terms. With OCR hikes years away and the RBNZ flagging the introduction of a "funding for lending" programme expressly designed to lower retail interest rates, we see limited appeal in fixing for more than 1 year, unless one puts a high value on certainty.

Our view

Average mortgage rates are again little changed over the past month. Although wholesale interest rates are edging lower, the pace of the decline has slowed, and that gives less scope for retail mortgage rates to fall. It has now been over six months since the RBNZ slashed the OCR to 0.25% and we saw the bulk of the reaction in wholesale markets early on, and the pace of further declines in wholesale interest rates is likely to remain tepid. Some interest rates – like those on 2- to 5-year New Zealand government bonds are already negative, and are likely to drop a little further over time. But we really need to see the RBNZ actually take the OCR below zero – rather than just flag the possibility of it – for wholesale rates to go a lot further just yet.

Regular readers will be aware that we expect the RBNZ to cut the OCR from +0.25% to -0.25% in April. Given that's only a little over six months away, an obvious question to ask is; is it worth fixing for six months with a view to re-fixing again after the OCR goes lower? That certainly has some intuitive appeal, and it might be worthwhile. However, our analysis shows that, given how competitive the 1-year rate is, it is unlikely to better to fix for shorter unless we see a dramatic decline in 6-month mortgage rate – and by that we mean bigger falls than have already been seen.

Consider, for example, the choice between, say the 6-month rate of 3.85% and the 1-year rate of 2.55%, where average mortgage rates are now. If you were of a mind to select the 6-month option with a plan to re-fix in six months' time, as our breakeven table shows, you'd need to see the 6-month rate fall by a whopping 2.39 percentage points to 1.26%. That could happen, but it seems unlikely, and for that to occur, we would probably need to see wholesale rates fall much further, and for the "competition point" of the mortgage rate shift to the 6-month term. Over a one-year time horizon, it is likely to be cheaper to take the 1-year fixed rate of 2.55% than to take back-to-back 6-month terms.

It is also worth asking; is it worth considering 2- to 5-year fixed rates, which are also close to all-time lows? Given the economic environment, we see limited appeal from a cost perspective, even if there are advantages in terms of certainty. And that's because the RBNZ has flagged that the OCR will not go up for years to come, and because it is readying a "funding for lending" programme with the express intention of lowering retail interest rates. Basically, the RBNZ's message is that it "has your back" if you're a borrower, so there is less reason to fix to protect yourself from rising interest rates, because they are less likely to rise any time soon.

Figure 1. Carded special mortgage rates^

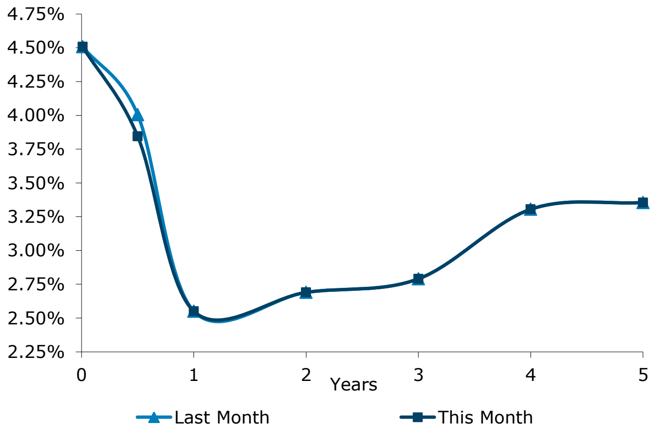


Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	3.85%	1.26%	2.76%	2.90%	2.94%
1 year	2.55%	2.01%	2.83%	2.92%	2.99%
2 years	2.69%	2.46%	2.91%	3.37%	3.92%
3 years	2.79%	2.91%	3.56%	3.69%	3.80%
4 years	3.31%	3.27%	3.56%		
5 years	3.36%	#Average of "big four" banks			

Table 2. Standard Mortgage Rates

		Breakevens for standard mortgage rates*			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	4.00%	2.01%	3.39%	3.13%	3.41%
1 year	3.00%	2.70%	3.26%	3.27%	3.46%
2 years	3.13%	2.98%	3.36%	3.64%	4.08%
3 years	3.24%	3.33%	3.81%	3.88%	4.01%
4 years	3.61%	3.58%	3.82%		
5 years	3.66%	#Average of "big four" banks			

^ Average of carded rates from ANZ, ASB, BNZ and Westpac.

Source: interest.co.nz, ANZ Research

Key forecasts

Weekly mortgage repayments table (based on 25-year term)

	Mortgage Rate (%)													
Mortgage Size ($'000)	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25	5.50	5.75
200	103	106	109	112	115	119	122	125	128	131	135	138	142	145
250	155	160	164	169	173	178	183	187	192	197	202	207	212	218
300	207	213	219	225	231	237	243	250	256	263	270	276	283	290
350	259	266	273	281	289	296	304	312	320	329	337	345	354	363
400	310	319	328	337	346	356	365	375	385	394	404	415	425	435
450	362	372	383	393	404	415	426	437	449	460	472	484	496	508
500	414	426	437	450	462	474	487	500	513	526	539	553	566	580
550	466	479	492	506	520	534	548	562	577	592	607	622	637	653
600	517	532	547	562	577	593	609	625	641	657	674	691	708	725
650	569	585	601	618	635	652	669	687	705	723	741	760	779	798
700	621	638	656	674	693	711	730	750	769	789	809	829	850	870
750	673	692	711	730	750	771	791	812	833	854	876	898	920	943
800	724	745	766	787	808	830	852	874	897	920	944	967	991	1,015
850	776	798	820	843	866	889	913	937	961	986	1,011	1,036	1,062	1,088
900	828	851	875	899	924	948	974	999	1,025	1,052	1,078	1,105	1,133	1,160
950	879	904	930	955	981	1,008	1,035	1,062	1,089	1,117	1,146	1,174	1,204	1,233
1000	931	958	984	1,011	1,039	1,067	1,095	1,124	1,154	1,183	1,213	1,244	1,274	1,306

Mortgage rate forecasts (fixed rates based on special rates)

	Actual			Forecasts						
Interest rates	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Floating Mortgage Rate	5.5	4.8	4.6	4.5	4.3	4.3	3.8	3.8	3.8	3.8
1-Yr Fixed Mortgage Rate	3.4	3.1	2.7	2.4	2.1	1.9	1.8	1.8	1.8	1.8
2-Yr Fixed Mortgage Rate	3.5	3.3	2.7	2.5	2.1	2.0	1.9	1.9	2.0	2.0
5-Yr Fixed Mortgage Rate	4.2	3.9	3.1	2.8	2.2	2.2	2.2	2.3	2.4	2.4

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (Annual % Chg)	1.8	-0.1	-12.4	-5.2	-4.6	-4.7	9.6	1.6	2.5	6.1
CPI Inflation (Annual % Chg)	1.9	2.5	1.5	1.5	1.1	0.9	1.4	0.9	0.9	0.8
Unemployment Rate (%)	4.1	4.2	4.0	6.5	8.0	8.8	9.8	9.3	8.5	7.4
House Prices (Quarter % Chg)	3.0	3.2	-0.4	0.0	-3.0	-3.0	0.0	2.0	2.0	1.0
House Prices (Annual % Chg)	5.3	8.1	7.7	5.9	-0.3	-6.3	-5.9	-4.0	0.9	5.1

Interest rates	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Official Cash Rate	1.00	0.25	0.25	0.25	0.25	0.25	-0.25	-0.25	-0.25
90-Day Bank Bill Rate	1.29	0.49	0.30	0.26	0.25	-0.08	-0.25	-0.25	-0.25
LSAP ($bn)		33	60	100	120	120	120	120	120

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

European Economic Area (EEA): ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Important notice

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz