

# New Zealand Property Focus

In question

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#### CONTRIBUTORS

**Liz Kendall**  
**Senior Economist**  
Telephone: +64 27 240 9969  
Elizabeth.Kendall@anz.com

**David Croy**  
**Strategist**  
Telephone: +64 27 432 2769  
david.croy@anz.com

**Sharon Zollner**  
**Chief Economist**  
Telephone: +64 27 664 3554  
Sharon.Zollner@anz.com

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## Summary

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

## Feature Article: In question

The outlook for the property market has shifted abruptly. This has raised many questions and we could arguably write an ANZ Property Focus on each. This month we give short answers to some of those big questions.

1. [What are the economic impacts of the current crisis?](#)
2. [How might the crisis affect the property market?](#)
3. [What will happen to house prices?](#)
4. [What is the RBNZ doing to help? Will it work?](#)
5. [Is it a good opportunity for first home buyers?](#)
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7. [What is the outlook for migration?](#)
8. [Does New Zealand have a housing shortage?](#)
9. [What regions are most vulnerable to house price falls?](#)
10. [How do banks fit into all of this?](#)

*This document contains clickable links so that it is easy to navigate between questions. Questions/answers are written to be standalone.*

## Economic overview

The outlook is grim, with an unprecedented global economic slump underway. In New Zealand, we have made great progress containing the spread of COVID-19 and a lot of activity has been able to resume with the move to Alert Level 2. But we are still a long way from normality, and this downturn will take a long time to recover from. Even as the economy gets underway again, demand will be weak and the economy will have to reshape, with industries like tourism affected in lasting ways. The Government has unveiled a big Budget with plenty of spending to help shore up the outlook. Likewise, the RBNZ is prepared to pull out all the stops and do what it can to support the recovery. We expect that QE will be expanded again at the August MPS. But a large economic hit is unavoidable, and the recovery is expected to be slow.

## Mortgage borrowing strategy

Mortgage rates continue to fall with most fixed rates now lower than the last month's already-record lows, and some specials now below 3%. This has been driven by a further lowering and flattening of the term structure of the government bond yield curve, which has in turn been driven by the Reserve Bank's decision to employ quantitative easing (QE) now that the OCR is at its current practical lower bound of 0.25%. Although the OCR isn't likely to go lower (or negative) any time soon, it might next year, and in the meantime we expect longer-term rates to fall as the Reserve Bank's QE programme gets expanded. As such we favour the 1-year rate with a view to making a fresh decision then, when all rates are likely to be lower.



## Summary

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## 1. What are the economic impacts of the current crisis?

The COVID-19 health crisis is also an economic crisis. GDP slumped as we moved into lockdown. And even as we progressively ease restrictions, it will be difficult for the economy to bounce back from here. There will be an initial partial recovery, but the economic damage will be long lasting.

Unemployment is rising rapidly, and will increase even more as firms are eventually forced to make difficult choices. Household incomes and firms' cash flow will be significantly affected, and the outlook for employment and investment is weak. Domestic demand will be soft and restrictions will be with us for a long time (especially border closures). The global slump will also be marked, meaning weaker export demand and lower export prices.

Overall, we expect:

- GDP will fall 8-10% this year and not return to pre-crisis levels until 2023.
- Although the Government is doing what it can, some firms will fail and some jobs will be lost. Business revenue, household income and export earnings will all be weak.
- Unemployment will peak at 11% in the middle of the year, then fall to 8% by the start of next year, declining only gradually from there.

- It will be harder for people who are out of work to get jobs and some may need to reskill. Wage increases will be modest for quite some time.
- General price inflation will be weaker due to reduced demand for goods and services. Inflation will fall below 1% over the coming year and recover only gradually.
- Many segments of the property market will be affected (see [question 2](#)).
- Significant monetary and fiscal stimulus will be needed to cushion the blow and support the recovery (see [question 3](#) and [question 5](#)).
- Interest rates will remain low for a long time. See our [Mortgage Borrower Strategy](#) (page 19).
- The global slump could see financial market jitters re-emerge, especially as default rates rise in countries like the US.
- As the magnitude of the global downturn becomes evident, we expect this will weigh on the exchange rate.

Of course the outlook is very uncertain and there are risks in both directions around these forecasts. See our [Economic Overview](#) (page 18) for more details.

## 2. How might the crisis affect the property market?

Last month, our [ANZ Property Focus](#) discussed the outlook for various segments of the property market. Our views have not changed materially since then.

Property market data will likely be all over the place in the period covering the lockdown period and the easing of restrictions. For example, in April, house sales fell 75% m/m, according to REINZ (figure 1). New listings were so sparse in April that realestate.co.nz did not do a normal data release.

**Figure 1: House prices and sales**



Source: REINZ



There will be some bounce back in transactions in May, with more sales able to occur in Level 2 and 3. But the size of the bounce is uncertain, and will depend on the resilience of housing demand.

When transactions are as low as they have been, it is difficult to determine general price trends, and price movements can be quite erratic. Over April, prices fell a modest 1.1% m/m. However, downturns in prices tend to lag sales, and it will take some months for a weaker trend to be evident, with sales activity still restricted and new listings very low. We expect that both sales and price data will be whippy for a while, but that a softening in housing demand will become clear over time.

A number of factors will weigh on housing demand and lead to a significant downturn in house prices, in our view (see [question 3](#) for more details). We are also anticipating weaker home building, as consents drop off and build plans are cancelled, especially in the high-value residential space. Some regions will be more affected by this softening than others (see [question 9](#) and our [regional heatmap](#)).

Rents will also be affected by lower demand and reduced ability to pay. More supply coming on stream due to short-term rentals sitting vacant will also see the supply-demand balance shift and put rents under downward pressure. This will become clear as new tenancies are entered into, and in some cases where tenants negotiate down their rents to a level they can afford. Landlords in some regions may not have much negotiating power, given the increase in rentals available.

Many firms and households are relying on credit to get through, with banks helping customers through this period. However, due to the riskier economic environment credit availability is likely to be somewhat constrained going forward, which could weigh on housing demand and construction. See [question 10](#) for more on the role of banks.

Lower rents, falling prices and credit constraints are expected to affect the commercial property market too. Indeed, impacts are likely to be greater there than on the residential side. The commercial property market is particularly “cyclical” (which means it is very affected by cycles in GDP and incomes). This is because there is a link between business activity and demand for commercial buildings. Additionally, some participants in this market take on more risk. Riskier ventures may be more vulnerable to asset price falls, exacerbated by the fact that they are probably also more likely to come up against credit constraints.

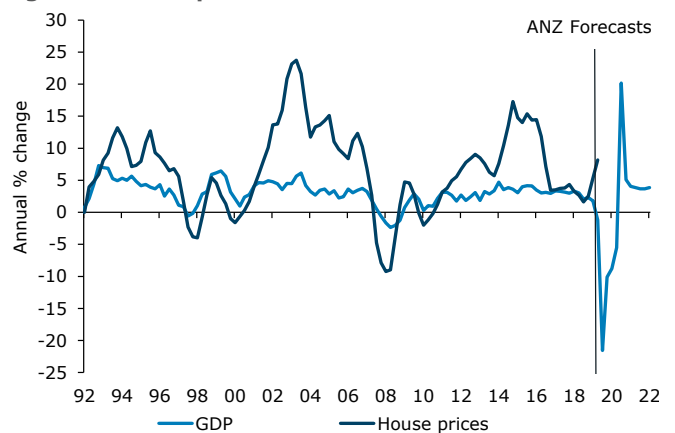
Some firms in industries connected to the property market will be feeling the pinch. Cash flow is a widespread problem, and many firms have not been able to generate revenue at all for a time. There is also

a lot of uncertainty at present; many property market participants are in limbo, with sales delayed, projects cancelled, and the like. Construction firms will incur significant delay costs in the short term, reducing profitability, and the pipeline of work will be weak over the medium term. Property developers may also be under pressure due to delay costs, weakening demand and falling asset values.

### 3. What will happen to house prices?

House prices are expected to fall, as usually happens during economic downturns (figure 2).

**Figure 2. House prices and GDP**



Source: REINZ, Statistics NZ, ANZ Research

A number of factors will weigh on housing demand:

- Firm revenue and household income expectations will be lower, while unemployment and business failure rates are expected to increase.
- For some, it will be difficult to cover their debt-servicing costs, even though interest rates are low.
- Uncertainty is huge, which in itself will put off some buyers.
- Greater availability of short-term rentals alongside a high level of new builds in progress will see housing supply increase, tipping the balance of supply and demand for physical housing and dampening rents. See [question 8](#) for what this means for our housing shortage.
- Some homeowners will experience financial distress and mortgage delinquencies will rise, leading to fire sales.
- Migration is expected to be lower ([question 7](#)).
- Expectations that demand for housing will be weak in the future will impact house prices today, over and above changes in supply and demand right now.
- Banks are likely to be cautious; credit availability will be hampered by lower asset values and worse income prospects.



- Households will look to deleverage and be cautious about taking on more debt.

But there are offsets:

- Interest rates are very low and are expected to remain low for a very long time.
- Government policies are aimed at supporting household and firm cash flow.
- There will be fewer new listings.
- New builds will not come online as quickly.
- Loan-to-value restrictions have been removed (see [question 4](#)).

Our forecasts have not changed since our last [ANZ Property Focus](#). We continue to expect house prices will fall 10-15% over the year, compared with a fall of 8-10% in GDP.

On balance, we see downside risk to our forecast. Usually the housing market actually responds more to downturns in GDP than we have assumed. This means there is a risk of an even greater fall. But with the current downturn so far outside of usual historical events, it is unclear what "normal" for the property market would be right here and now.

With the virus in retreat in New Zealand, downside risks have receded slightly, particularly if the RBNZ provide more stimulus than previously assumed (see [question 4](#)). We don't think the RBNZ can prevent house prices from falling double-digit, but they may be able to support a faster recovery. Nonetheless, downside risks remain, particularly if financial market jitters were to lead to a tightening in funding markets and credit supply.

## 4. What is the RBNZ doing to help? Will it work?

The RBNZ has lowered the Official Cash Rate (OCR) to 0.25% and embarked on a quantitative easing ("QE") programme to help stimulate the economy.

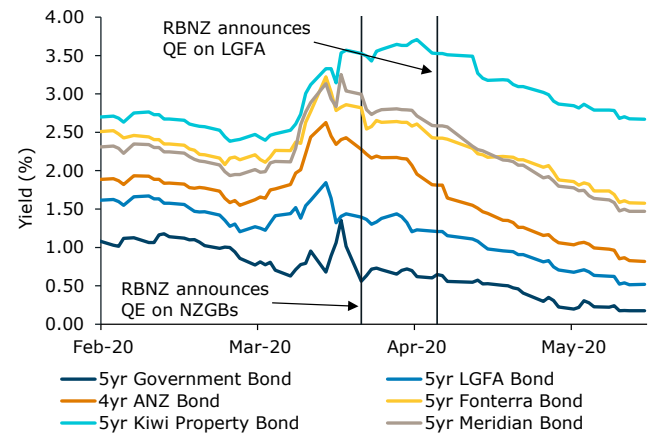
Our [recent FAQ](#) explains what quantitative easing is and how it works. Broadly, it goes like this:

- The RBNZ purchases assets (primarily Government bonds at this stage) in significant quantities from holders in the secondary market (not directly from the Government).
- This makes these bonds easier to sell, suppressing borrowing costs for those (like the Government) who are issuing these bonds. In mathematical terms, the resulting higher prices for bonds equate to lower yields (see a bond explainer [here](#)). It also tends to lower the exchange rate.

- Reduced yields encourage existing holders of these bonds to buy other, higher-yielding ones. This creates beneficial spill-overs, suppressing other yields too (eg on corporate debt).
- This lowers interest rates in financial markets more broadly, easing costs for a wide range of borrowers, including households. This is because as the cost of borrowing falls for banks, mortgage rates also tend to fall.
- This encourages economic activity by bolstering domestic demand and encouraging net exports. It also leads to higher inflation, and supports inflation expectations.
- One of the ways that low borrowing costs support the economy is through the housing market. Current and expected low interest rates push up the value of housing (and other asset prices) and this helps to boost demand, particularly household spending and construction.

The evidence suggests that quantitative easing has been effective. Figure 3 shows the recent fall in Government and other bond yields. It's difficult to measure how much of an impact this will have on the economy, but it is significant. Estimates suggest that the stimulus that the RBNZ has provided to the end of April might be equivalent to an OCR of -2%.<sup>1</sup>

**Figure 3: Yields on selected New Zealand 4-5 year wholesale bonds**



Source: Bloomberg, RBNZ

The recent expansion of the programme from \$33bn to \$60bn will provide even more stimulus than that, but we expect that still more will be needed in time. The RBNZ is committed to doing what it can, and we think that the recovery will be slower than they are currently assuming, and that the surge in bond issuance will be more of a headwind to markets (putting upward pressure on interest rates). We think QE will be expanded to \$90bn at the August MPS.

<sup>1</sup> Based on "Shadow Short Rate" estimates by LJK Limited.



The RBNZ is also leaving its options open, with other tools like negative policy rates possible eventually, if required. But monetary stimulus won't be enough to stop the recession taking place or house prices from falling. However, it will contribute to a recovery in house prices and GDP into 2021.

Unfortunately, the RBNZ cannot fix all economic problems. Monetary policy is a blunt tool used to stabilise the economy broadly; it cannot work against the specific business impacts of a health crisis. And it is also hitting its limits. Monetary policy and fiscal policy ([question 6](#)) need to work in tandem. And even then, some economic impact and adjustment is inevitable – and necessary, unfortunately. But without monetary stimulus from the RBNZ, the adverse economic impact of this crisis would be much worse.

The RBNZ has also taken steps to ensure that bank lending can flow effectively. To do this, the RBNZ has made funding facilities available to banks that can be drawn on if required. They have also delayed proposed increases in bank capital requirements.

The increases in bank capital requirements that were planned would have increased the amount of shareholder equity banks had to hold – meaning banks would have more “skin in the game” and risks of financial distress would be lower. However, the downside of banks holding more capital is that it is quite costly, meaning costs to borrowers would be higher and in some cases less credit would be available. Increasing capital requirements in the midst of the current crisis could have adversely impacted banks' scope to provide credit and led to more significant economic impacts.

The RBNZ has also removed loan-to-value (LVR) restrictions, meaning that banks can lend to purchasers with low deposits or equity in whatever amount they see fit. This doesn't mean banks will be lending willy-nilly; banks risk assessments will be crucial for determining whether lending to someone with low equity is a good idea. But it provides additional flexibility so that banks can provide credit in cases where it is considered appropriate, and in particular, enables the mortgage payment deferment scheme to work as intended (see [question 10](#) for more on the role of banks).

The removal of LVR restrictions might provide a little boost to the housing market at the margin, but probably not a lot. This is because we wouldn't expect the loan-to-value ratios to be particularly binding anyway at the moment, with demand soft, and both households and banks cautious.

### 5. Is it a good opportunity for first home buyers?

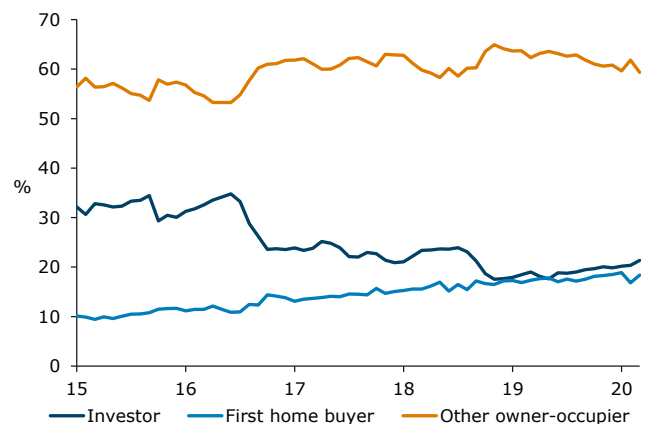
Whether or not it makes sense to enter the property market – or purchase another house – always depends on personal circumstances.

The current situation could provide an opportunity for first home buyers to enter the market when houses are more affordable and interest rates low (see [question 3](#) for our forecasts and [question 9](#) for the regional outlook). However, the outlook is highly uncertain and it is always very difficult to pick the bottom of the cycle. And it's not just about house prices and interest rates; much will also depend on credit availability, income prospects, and the like.

For some, low mortgage rates may make purchasing more affordable. And at the margin, new opportunities may arise for some buyers with low equity, given that low loan-to-value restrictions have been removed (see [question 4](#)). Plus, lower rates of migration (see [question 7](#)) and reduced demand more generally ([question 3](#)) may reduce competition in the market. These same factors may also encourage existing owner-occupiers to upsize.

But for some first home buyers, getting into the housing market may now unfortunately be harder. KiwiSaver balances may be lower, there may be more hoops to jump through to get credit, and employment prospects may have changed. And although opportunities may present themselves, we expect purchasers to be fairly cautious overall. The economic and property outlook is very uncertain, sentiment is weak, and job security has deteriorated.

**Figure 4: Share of new mortgage lending**



Source: RBNZ, ANZ Research

For those who purchased a property just before the crisis hit, conditions may be particularly difficult or uncertain at present, particularly if sales are still in limbo or if purchases were made with low deposits. As prices fall, those people could find their equity eroded: they might suddenly owe a similar amount or potentially more than what their property is worth. As



long as they can hold on through it, it's just a paper loss, but it's a highly unsettling situation to be in.

For investors, although the removal of LVR restrictions ostensibly gives them more options, there are the additional issues of finding tenants, the prospect of lower rents ([question 2](#)), and a higher risk of rent arrears. For this reason, we may see the proportion of investors in the market reduce a little, and the share of owner-occupiers could increase as some first home buyers take the opportunity to enter the market. This would see the recent upward trend in the share of new lending to first home buyers continue (figure 4), even if the dollar amount falls.

### 6. What is the Government doing to help the economy? Will it work?

The current crisis has necessitated an extraordinary response from the Government, which will affect the outlook for many years to come. A range of policy initiatives were required in the early stages of the crisis, including:

- The wage subsidy scheme and other initiatives (including on tax) to support businesses.
- Household income support, including increased benefit and superannuation payments.
- Lending schemes for businesses and mortgage deferment options for households.

And at the Budget last week, a number of other initiatives were also announced, including:

- A \$4bn business support package, including a targeted \$3.2bn wage subsidy extension.
- \$3bn of infrastructure investment and a programme to build 8,000 public houses.
- \$1.4bn for trades and free training and apprenticeships.
- A \$1bn environmental jobs package.
- \$3.3bn of new funding to strengthen core services including health and education.

The Government has also left a lot of funds unallocated, acknowledging that yet more help will be required in some areas, but that more time is required to make best use of the funds. This totals about \$20bn of the \$50bn spend up, so there are other options on the table, and more policies can be expected down the track.

In addition to these initiatives, revenue will fall (a lower tax take) and spending will naturally increase anyway (though higher benefits and the like). So the full cost of the fiscal spend is going to be huge.

Government debt is expected to increase substantially as a result. Eventually, this will need to be paid back, which may mean higher taxes, reduced spending or changes to entitlements eventually. But that's a problem for another day. It does mean that it is important for additional measures to be targeted and temporary, in order to have the most effect for the least cost. It will need to be directed to those firms and households who need it most.

The Government's initiatives will help to support the economy and keep people in jobs – the question is whether it will be enough, with potentially still more spending required down the track. Fiscal stimulus and support from the RBNZ ([question 4](#)) are both crucial for shoring up the outlook; if it weren't for these, the outlook would be significantly worse than we currently expect. But like monetary policy, the Government cannot entirely prevent the effects of the unfolding health crisis and some economic impact will be inevitable.

For construction, the wage subsidy scheme provided support while the industry was unable to work. But now activity has started again the bigger concern is the outlook for demand. The Government plans to provide support by building more public housing (8,000 dwellings), with the aim to chip away at the housing shortage ([question 8](#)). It's perfect timing to do it when the construction sector is likely to otherwise be underemployed. Training and education programmes could also help with migrant labour now more difficult to come by, although fewer workers will likely be needed for a time. And with some funds unallocated in the Budget, there could be scope for more spending to come that benefits the industry.

### 7. What is the outlook for migration?

The outlook for migration is very uncertain and has significant bearing on the outlook for both GDP and the housing market. We will have more to say about this in a future ANZ Property Focus. But broadly, our current expectation is that migration will be significantly weaker as a result of the current crisis, particularly in the near term as a result of border closures, but also over the medium term due to the weak economic outlook.

The data is likely to be volatile (even more so than usual) and exactly where the trend will settle may be difficult to pin down for a while. With borders closed and very few flights happening, international arrivals are close to zero (figure 5). Very few people are choosing, or able, to leave either. And this is expected to be the case for a while yet.

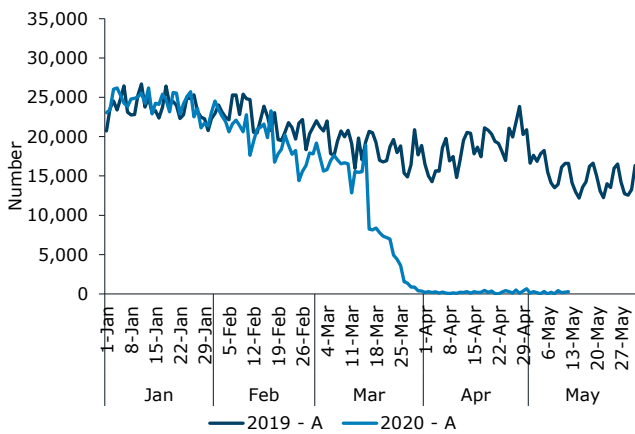
New Zealand is relaxing restrictions on domestic travel, but progress against the virus is needed globally for international borders to start gradually



reopening. Migration is expected to hover close to zero until that happens and flights resume.

Once flights are going again, we expect there will be a small recovery in net migration numbers. Given high unemployment globally and heightened virus risk abroad, some kiwis are expected to return home once more opportunities to do so become available. The pull to come back will be weaker in the likes of Australia where good progress in controlling the outbreak has been made, though people who wish to return from there may be able to do so sooner. Those that do return from across the Tasman are more likely to be facing financial difficulties, and/or haven't been able to find employment, meaning the boost their arrival provides to the housing market may be limited.

**Figure 5: Visitor arrivals**



Source: Statistics NZ

Following this initial influx, migration inflows are expected to settle at a significantly lower level to previous norms. Migrants from some lower-income countries will still find New Zealand an attractive destination if they are able to come here, so we still expect to see positive migration flows. But employment prospects here will be much worse than they have been, even if New Zealand's recovery is more advanced than in other places.

Fewer jobs will be available for migrant workers, particularly in industries like tourism, construction and hospitality. And the recovery will be slow, which will weigh on migration for quite some time. Firms previously reliant on migrant labour may be able to more easily find domestic workers, although in some cases retraining may be required. A sharp drop in migration also happened following the GFC for similar reasons as labour market conditions deteriorated.

This weaker outlook for migration means that the prospects of significant population-led GDP growth in the recovery are slim. However, fewer Kiwis moving abroad will put a floor under things. Nonetheless, weaker rates of migration will weigh on house prices significantly, with expectations of future demand now

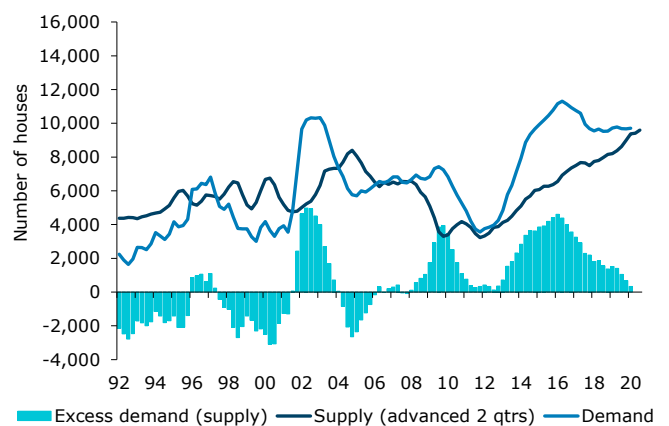
having to be revised abruptly. This weaker outlook for population growth also calls into question whether New Zealand has a housing shortage, and how large it might be, which leads us to [question 8](#).

## 8. Does New Zealand have a housing shortage?

Yes, but it's hard to measure and the outlook is very uncertain. Estimates of supply "shortages" are very simplistic. They take into account growth in the population, depreciation of the housing stock (ie replacing existing houses as they become dilapidated) and the rate of new building. But they typically do not take into account how household formation changes when economic conditions change. When housing is less affordable or employment prospects are worse, people tend to move into shared living arrangements – this has been seen increasingly since 2014 as house prices have risen further. And higher unemployment also means bigger households.

Figure 6 shows that the balance between the physical demand and supply of houses ebbed and flowed between 1992 and 2009. Houses became more expensive, but this was driven in large part by rising land values, rather than a dearth of new building. Restricted supply of land, low interest rates, credit availability and expectations of strong demand in the future all contributed to rising land values and house prices. But from 2009 insufficient building became another key driver of high house prices, in addition to land values continuing to rise due to a regulation-driven lack of supply.

**Figure 6: Housing supply-demand balance**



Source: Statistics NZ, ANZ Research

A housing shortage has become increasingly evident in recent years, contributing to high house prices and rents, overcrowding and homelessness. This was a product of strong migration-led population growth that was not matched by new building and infrastructure provision. Too few houses were built, though the exact magnitude of the shortage is unknown.





Based on our calculations, the shortfall looks to be at least 50k, but it could be as high as 100k, depending on how many people would choose to live in smaller households if houses were cheaper. Pinning down estimates is difficult and may be particularly fraught at the turn of the cycle when behaviour can change quite quickly.

However, we expect that excess demand pressures are no longer building and that supply will start to outpace demand imminently. The shortfall will start to erode, potentially very quickly from here. Even as new building slows considerably, supply looks set to outpace demand for a while, with migration close to zero for a time and settling at a low level thereafter ([question 7](#)).

That said, the outlook is very uncertain going forward; a lot depends on what happens to new building, Government policy (the Budget included an 8,000 dwelling public housing increase) and the outlook for population pressures, which are highly uncertain. We will talk about the outlook for these factors more in a future ANZ Property Focus.

Certainly, there is scope for the Government to do what it can to support building and this may contribute to downward pressure on house prices. But if the balance between population growth and new building were to change quite rapidly, an overshoot to an oversupply of houses is possible, which would dampen house prices even further.

### 9. What regions are most vulnerable to house price falls?

It's hard to predict what regions will be most affected by weakness in the housing market. There is likely to be a lot of volatility in housing market data for a time ([question 2](#)), particularly in smaller regions, given that already-low transactions there could make price signals even more erratic.

We expect that house prices will fall 10-15% with downside risk ([question 3](#)), but regions will be impacted differently. We don't have regional house price forecasts, but those regions that are more vulnerable to falls are:

- Those regions that are significantly exposed to international tourism, since this will not recover for a long time.
- Regions that tend to attract new immigrants and students from overseas (although people reskilling will provide a partial offset in university centres).
- Areas that have seen high rates of building recently, since the balance between supply and demand ([question 8](#)) of physical housing may change more rapidly in these places.

- Areas that have seen rapid increases in house prices recently, since expectations could change more dramatically.

We have assessed each region according to some of these factors and have assigned a degree of vulnerability to each. The most vulnerable regions are Queenstown-Lakes District, Mackenzie, Kaikoura, Westland, Taupo and Thames-Coromandel.

Our overall assessment of vulnerability is based on a weighting of exposure to tourism, migration and building – all in per capita terms. See [table](#) and [heatmap](#) overleaf.

### 10. How do banks fit into all of this?

Banks are naturally playing a role in helping customers through the difficult economic times that are unfolding. Lending is generally available, but there may be more hoops to jump through given the increased riskiness of the world at the moment. And credit demand is likely to be a bit softer in any case.

As financial situations have changed, some existing customers have chosen to move to interest-only loan repayments for a time, or extend the terms of their loan. For others, the mortgage repayment deferment scheme is helping ease pressures in the short term. However, interest still accrues, leaving debt levels higher than before, so it is a stop-gap measure, and long-term prospects needs to be a key consideration.

Banks have to be prudent in their decisions in the time ahead. Asset values will be falling and non-performing loans look set to rise to some extent, as they always do in downturns. Households' financial positions will be less favourable in aggregate, due to reduced income prospects, lower house prices and debt overhang. This will affect collateral values and credit eligibility. Higher mortgage delinquencies and lower collateral values will weigh on bank balance sheets and affect lending decisions too.

Banks will need to act mindfully to protect their balance sheets, shareholder equity and deposits. It is important for banks to protect their ability to provide credit to the economy more broadly. Risk assessments will continue to be important in determining where credit flows.

The RBNZ's removal of low LVR restrictions ([question 4](#)) may give banks the flexibility to provide more credit at the margin, but our expectation is that these restrictions would not have been particularly binding in the current climate anyway.

Credit demand is expected to be weak in line with housing demand ([question 3](#)), but also because households will be somewhat cautious about taking on debt, even though debt-servicing costs are low. To shore up financial positions, we expect both



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households and firms will embark on a period of deleveraging such as occurred after the 2008/09 recession.

Overall, it is likely that over time credit growth will decline as the housing market cools and banks operate cautiously, as occurred following the GFC. But while system-wide credit growth is likely to decline, we don't expect banks to come under significant pressure. Banks have strong capital and liquidity positions to weather this crisis, along with strong risk management processes. And the RBNZ's QE programme ([question 4](#)) and bank lending backstops will keep funding costs contained generally, by keeping wholesale funding costs low for banks.

The Government and RBNZ are also doing what they can to ensure the financial system can function smoothly and banks can lend effectively. This reduces the risk that the system gets stressed, credit is halted and significant fire-sale dynamics start to emerge. So overall, we don't expect to see a widespread credit crunch, though this cannot be ruled out as a risk.

If the RBNZ were to take the OCR negative, then this could present profitability challenges and thereby stifle bank lending. However, we do not expect that the RBNZ will be looking to do this any time soon. In our view, the hurdle to doing so is high, as discussed in our recent [ANZ Weekly Focus](#) and [QE FAQ](#).

**Table 1. Vulnerability to house price falls by region**

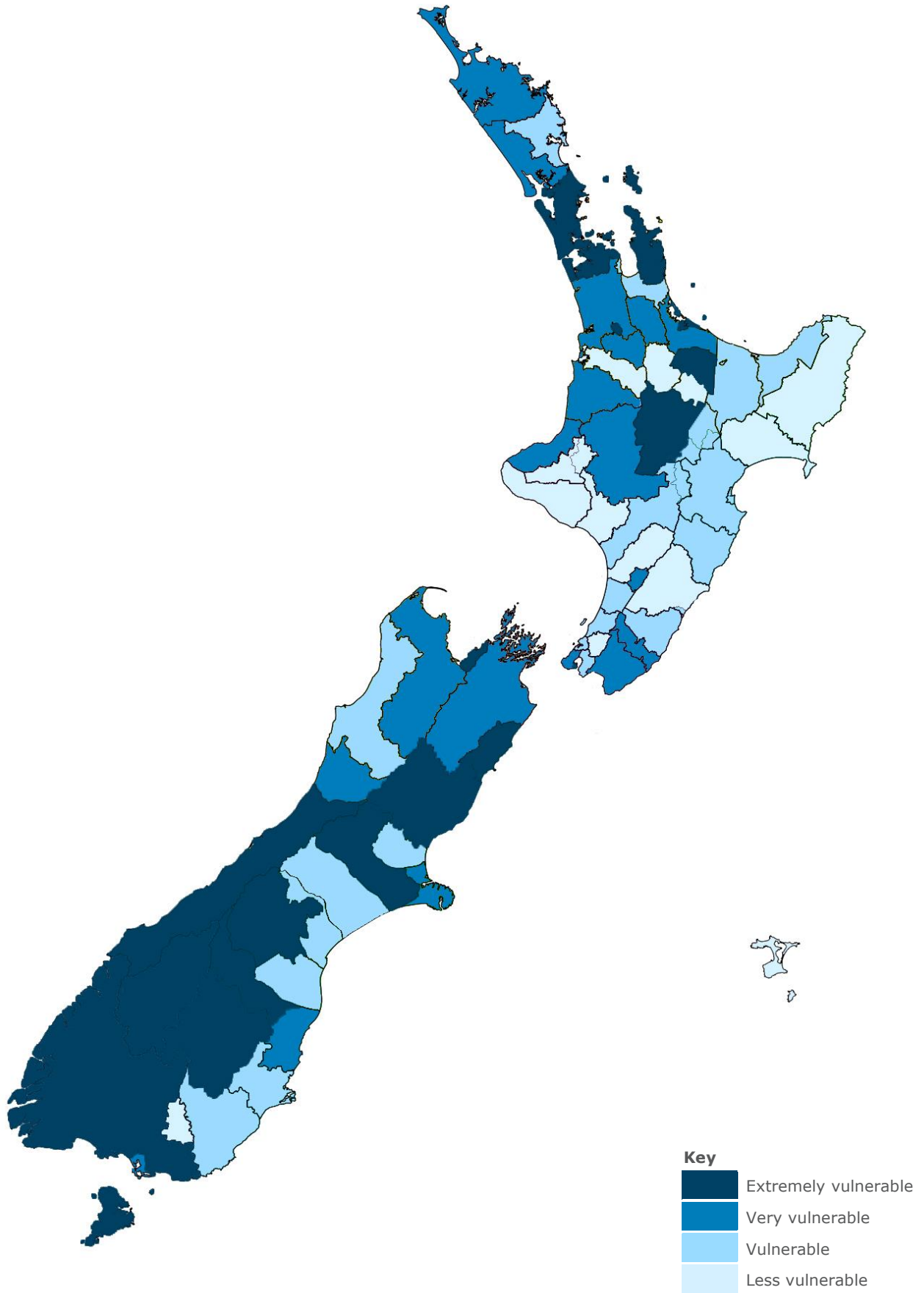
*Vulnerability is estimated based on per capita exposure to tourism, migration and high rates of building (darker blue indicates greater vulnerability)*

	Tourism	Migration	Building	Overall
Ashburton District	Light Blue	Light Blue	Light Blue	Light Blue
Auckland	Light Blue	Light Blue	Light Blue	Light Blue
Buller District	Light Blue	Light Blue	Light Blue	Light Blue
Carterton District	Light Blue	Light Blue	Light Blue	Light Blue
Central Hawke's Bay District	Light Blue	Light Blue	Light Blue	Light Blue
Central Otago District	Light Blue	Light Blue	Light Blue	Light Blue
Chatham Islands Territory	Light Blue	Light Blue	Light Blue	Light Blue
Christchurch City	Light Blue	Light Blue	Light Blue	Light Blue
Clutha District	Light Blue	Light Blue	Light Blue	Light Blue
Dunedin City	Light Blue	Light Blue	Light Blue	Light Blue
Far North District	Light Blue	Light Blue	Light Blue	Light Blue
Gisborne District	Light Blue	Light Blue	Light Blue	Light Blue
Gore District	Light Blue	Light Blue	Light Blue	Light Blue
Grey District	Light Blue	Light Blue	Light Blue	Light Blue
Hamilton City	Light Blue	Light Blue	Light Blue	Light Blue
Hastings District	Light Blue	Light Blue	Light Blue	Light Blue
Hauraki District	Light Blue	Light Blue	Light Blue	Light Blue
Horowhenua District	Light Blue	Light Blue	Light Blue	Light Blue
Hurunui District	Light Blue	Light Blue	Light Blue	Light Blue
Invercargill City	Light Blue	Light Blue	Light Blue	Light Blue
Kaikoura District	Light Blue	Light Blue	Light Blue	Light Blue
Kaipara District	Light Blue	Light Blue	Light Blue	Light Blue
Kapiti Coast District	Light Blue	Light Blue	Light Blue	Light Blue
Kawerau District	Light Blue	Light Blue	Light Blue	Light Blue
Lower Hutt City	Light Blue	Light Blue	Light Blue	Light Blue
Mackenzie District	Light Blue	Light Blue	Light Blue	Light Blue
Manawatu District	Light Blue	Light Blue	Light Blue	Light Blue
Marlborough District	Light Blue	Light Blue	Light Blue	Light Blue
Masterton District	Light Blue	Light Blue	Light Blue	Light Blue
Matamata-Piako District	Light Blue	Light Blue	Light Blue	Light Blue
Napier City	Light Blue	Light Blue	Light Blue	Light Blue
Nelson City	Light Blue	Light Blue	Light Blue	Light Blue
New Plymouth District	Light Blue	Light Blue	Light Blue	Light Blue
Opotiki District	Light Blue	Light Blue	Light Blue	Light Blue
Otorohanga District	Light Blue	Light Blue	Light Blue	Light Blue
Palmerston North City	Light Blue	Light Blue	Light Blue	Light Blue
Porirua City	Light Blue	Light Blue	Light Blue	Light Blue
Queenstown-Lakes District	Light Blue	Light Blue	Light Blue	Light Blue
Rangitikei District	Light Blue	Light Blue	Light Blue	Light Blue
Rotorua District	Light Blue	Light Blue	Light Blue	Light Blue
Ruapehu District	Light Blue	Light Blue	Light Blue	Light Blue
Selwyn District	Light Blue	Light Blue	Light Blue	Light Blue
South Taranaki District	Light Blue	Light Blue	Light Blue	Light Blue
South Waikato District	Light Blue	Light Blue	Light Blue	Light Blue
South Wairarapa District	Light Blue	Light Blue	Light Blue	Light Blue
Southland District	Light Blue	Light Blue	Light Blue	Light Blue
Stratford District	Light Blue	Light Blue	Light Blue	Light Blue
Taranua District	Light Blue	Light Blue	Light Blue	Light Blue
Tasman District	Light Blue	Light Blue	Light Blue	Light Blue
Taupo District	Light Blue	Light Blue	Light Blue	Light Blue
Tauranga City	Light Blue	Light Blue	Light Blue	Light Blue
Thames-Coromandel District	Light Blue	Light Blue	Light Blue	Light Blue
Timaru District	Light Blue	Light Blue	Light Blue	Light Blue
Upper Hutt City	Light Blue	Light Blue	Light Blue	Light Blue
Waikato District	Light Blue	Light Blue	Light Blue	Light Blue
Waimakariri District	Light Blue	Light Blue	Light Blue	Light Blue
Waimate District	Light Blue	Light Blue	Light Blue	Light Blue
Waipa District	Light Blue	Light Blue	Light Blue	Light Blue
Wairoa District	Light Blue	Light Blue	Light Blue	Light Blue
Waitaki District	Light Blue	Light Blue	Light Blue	Light Blue
Waitomo District	Light Blue	Light Blue	Light Blue	Light Blue
Wellington City	Light Blue	Light Blue	Light Blue	Light Blue
Western Bay of Plenty District	Light Blue	Light Blue	Light Blue	Light Blue
Westland District	Light Blue	Light Blue	Light Blue	Light Blue
Whakatane District	Light Blue	Light Blue	Light Blue	Light Blue
Whanganui District	Light Blue	Light Blue	Light Blue	Light Blue
Whangarei District	Light Blue	Light Blue	Light Blue	Light Blue

Source: MBIE, Statistics NZ, ANZ Research

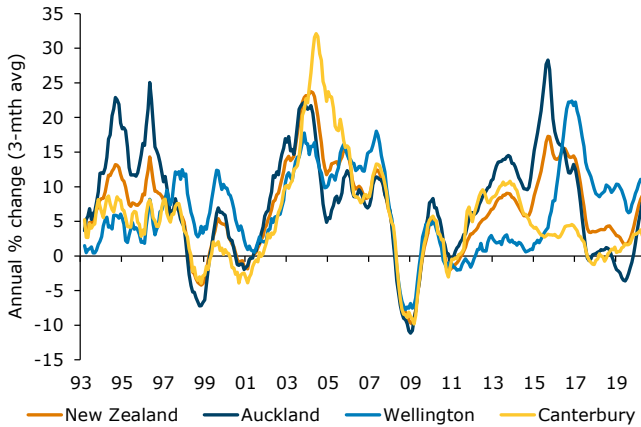


Heatmap: Vulnerability to house price falls by region





**Figure 1. Regional house price inflation**



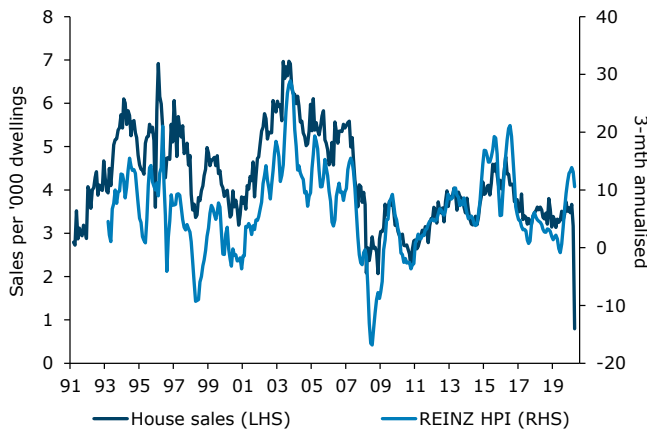
Source: ANZ Research, REINZ

House prices fell 1.1% m/m in April. However, this is just the beginning, with the weaker labour market and housing demand impulse yet to become fully evident.

House prices fell 0.4% m/m in Auckland and 1.2% elsewhere, with particularly large falls in Canterbury (-3.4% m/m), Waikato (-3.3%), Manawatu-Whanganui (-1.9%) and West Coast (-1.8%). In annual terms, house price inflation is sitting at 8.5% y/y, reflecting the run-up in prices over the second half of last year.

Housing demand is expected to be weaker (see [question 2](#) in the feature article), weighing on house prices ([question 3](#)), with some regions particularly affected ([question 9](#)).

**Figure 2. REINZ house prices and sales**



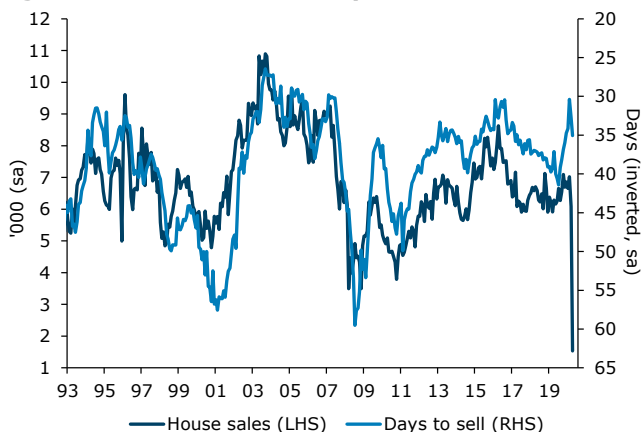
Source: ANZ Research, REINZ

Sales volumes and prices tend to be closely correlated, although at times tight dwelling supply can complicate the relationship.

House sales fell 75% m/m in April, with the country in lockdown over the month. Often prices lag sales, contributing to the smaller move in prices seen over the month. We can expect a bounce in sales next month, but to a lower level as weak demand becomes evident.

Sales fell 73% in Auckland and 75% elsewhere. Falls were largest in Southland (-91% m/m), Tasman-Nelson-Marlborough (-87%), Otago (-84%) and Manawatu-Whanganui (-84%).

**Figure 3. Sales and median days to sell**



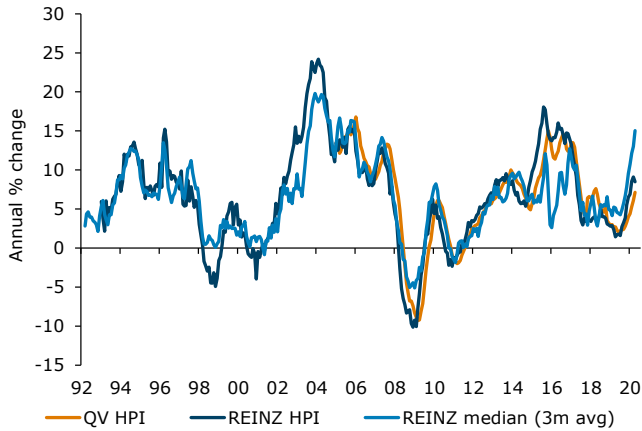
Source: ANZ Research, REINZ

How long it takes to sell a house is also an indicator of the strength of the market, encompassing both demand and supply-side considerations. Larger cities tend to see houses sell more quickly, but deviations in a region from its average provide an indicator of the heat in a market at any given time.

The number of days it takes to sell a house has generally been very low, but rose from 33 to 35 days in April. This can be expected to lengthen further as weak demand becomes evident. However, low new inventory could cushion some of the impact on days to sell and prices.



**Figure 4. REINZ and QV house prices**

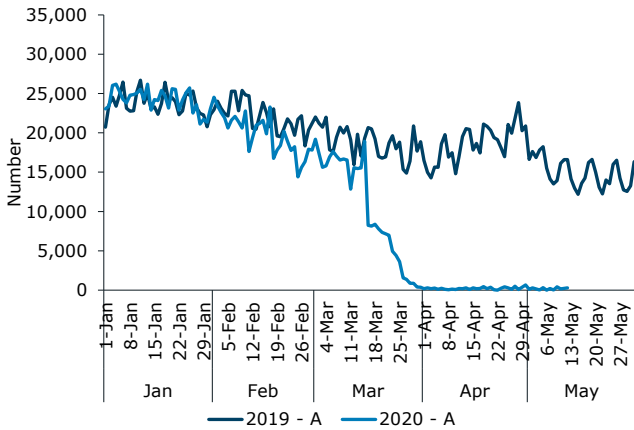


Source: ANZ Research, REINZ, QVNZ

There are three monthly measures of house prices in New Zealand: the median and house price index measures produced by REINZ, and the monthly QVNZ house price index. The latter tends to lag the other measures as it records sales later in the transaction process. Moreover, movements do not line up exactly, given differing methodologies (the REINZ house price index and QVNZ measures attempt to adjust for the quality of houses sold).

The REINZ HPI – our preferred measure – softened a little to 8.5% y/y in April. This is above the QVNZ measure, which came in at 7.1% y/y. The REINZ median also crept up to 15% y/y (3mma), but this likely reflects compositional effects.

**Figure 5. Arrivals to New Zealand**

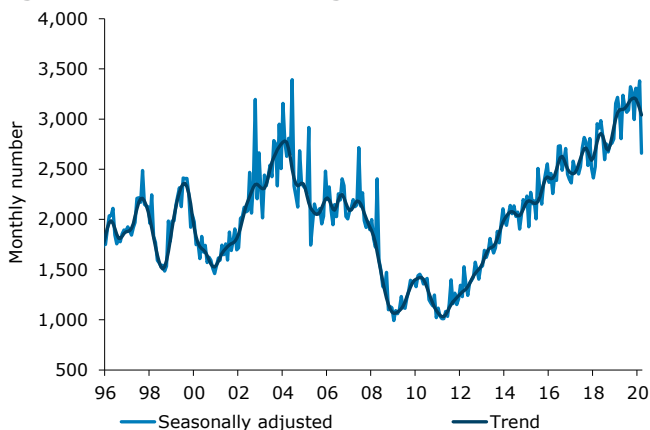


Source: Statistics NZ

Migration flows to and from New Zealand are one of the major drivers of housing market cycles. The early-1970s, mid-1990s, mid-2000s and most recent house price booms have coincided with large net migration inflows.

Arrivals to New Zealand have fallen to zero, reflecting border closures and the grounding of most international flights for the foreseeable future. The dearth of tourists will weigh on the outlook for tourism and GDP, and see more properties flood the rental market, putting downward pressure on rents. Meanwhile, low rates of migration will result in significantly weaker housing demand. All of the above will contribute to lower house prices from here.

**Figure 6. Residential building consents**



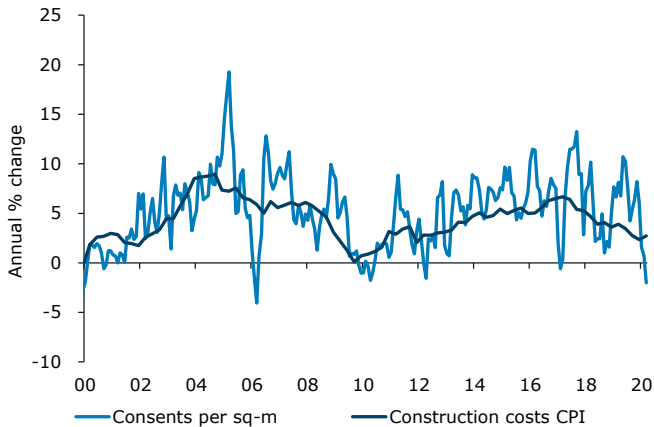
Source: ANZ Research, Statistics NZ

Residential building consents fell 21% m/m in March, with lockdown beginning at the end of the month. Apartment consents fell 24% while houses fell 20%. This is the largest fall since October 2008. More weakness is set to come in the April data, with consenting and building activity on pause during the lockdown. An initial rebound is expected to follow thereafter.

The previous backlog of consents will provide support for building activity as construction gets back to work, but some projects may be cancelled. Beyond that, the outlook for softer demand is expected to weigh on consents, and building activity. This may expose some profitability and construction challenges in the industry.



**Figure 7. Construction cost inflation**

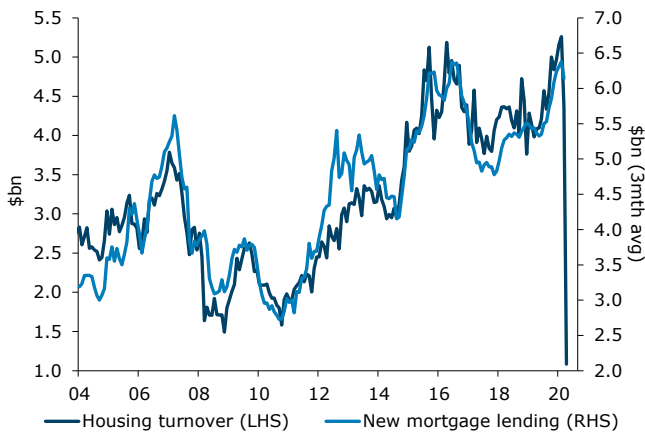


Source: ANZ Research, Statistics NZ

Construction cost inflation has softened since 2017, and will likely soften further from here, with demand weak. Growth in the cost of consented work per square metre – a proxy – has fallen further recently, to be down 2% y/y in March. We may see some retracement from this dip, with this data extremely volatile (largely due to the different types of dwellings being consented). However, the recent downward trend is expected to continue for some time, reflecting the weak demand pulse.

As is usual in times of economic strain, we expect big-ticket items such as house builds to take a backseat. The economic downturn and weaker housing demand will apply downward pressure on construction costs.

**Figure 8. New mortgage lending and housing turnover**



Source: ANZ Research, RBNZ

New residential mortgage lending figures are published by the RBNZ. These are gross (rather than net) flows and can provide leading information on household credit growth.

New mortgage lending fell 10% in March, reflecting that house sales and settlements slowed enormously as the lockdown came into effect at the end of the month. Looking forward, April will be weak, and then there will be an initial bounce.

Beyond that, we expect weak income prospects, downbeat sentiment and caution towards debt (and the outlook generally) to weigh on households' willingness and ability to purchase houses and new lending. Meanwhile, we expect banks will be prudent in their lending decisions.

**Figure 9. New mortgage lending and housing credit**



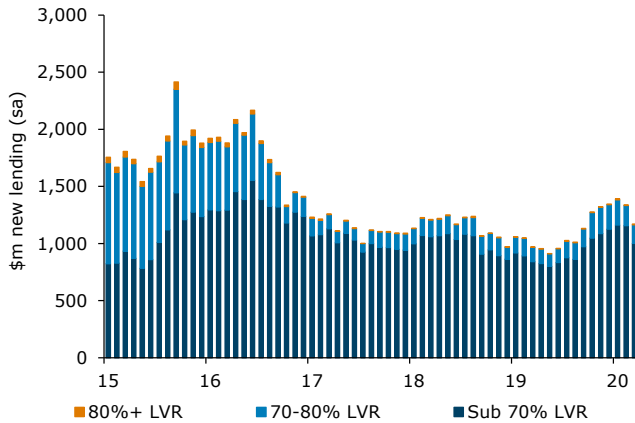
Source: ANZ Research, REINZ, RBNZ

Housing credit growth was up 0.4% m/m in March, with softness in new lending flows weighing. Consumer credit fell 2.8% m/m as the lockdown began. We expect to see further weakness in the near term as a result of the lockdown.

Beyond that, there are a number of offsetting forces, with some households and businesses needing to increase their reliance on debt to get through the current difficult economic period, with lower interest rates easing pressures a little. Meanwhile, others are hunkering down, consolidating their financial positions and putting off purchases. We expect the latter forces will win the day, with credit growth expected to be weak for a time, and a period of deleveraging ahead.



**Figure 10. Investor lending by LVR**



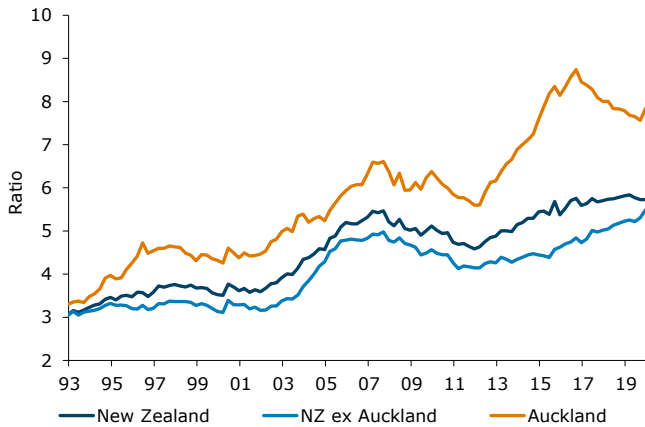
Source: ANZ Research, RBNZ

Lending to investors was down 13% m/m in March (seasonally adjusted, ANZ estimate), following a 5% fall in February. Lending to investors will drop further in April, reflecting the stall in sales and settlements.

The share of riskier lending remains broadly stable although there was a small tick up in interest only (for all borrowers) in March. The removal of LVR restrictions will give banks some more flexibility.

For investors, the share of investor lending at loan-to-value ratios of less than 70% has barely shifted in recent times and sits at 87%.

**Figure 11. Regional house prices to income**

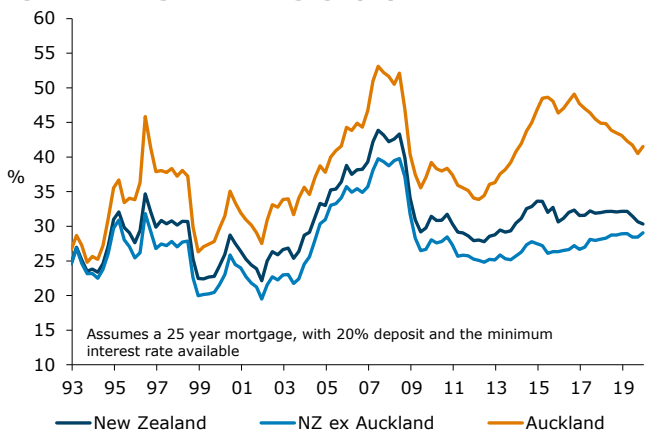


Source: ANZ Research, REINZ, Statistics NZ

One commonly cited measure of housing affordability is the ratio of average house prices to incomes. It is a standard measure used internationally to compare housing affordability across countries. It isn't perfect; it does not take into account things like average housing size and quality, interest rates, and financial liberalisation. Therefore, it is really only a partial gauge as some of these factors mean that it is logical for this ratio to have risen over time.

Nationally, the ratio has been stable at around 5.7 times income since early 2017. Auckland has seen its ratio ease from 9 times in 2016 to an estimated 7.8 times in Q4 2019. Excluding Auckland, this is sitting at 5.5 times incomes.

**Figure 12. Regional mortgage payments to income**



Source: ANZ Research, REINZ, RBNZ, Statistics NZ

Another, arguably more comprehensive, measure of housing affordability is to look at it through the lens of debt serviceability, as this also takes into account interest rates, which are an important driver of housing market cycles.

We estimate that for a purchaser of a median-priced home (20% deposit), the average mortgage payment to income nationally was 30% in Q4, having eased a little on the back of lower mortgage rates. In Auckland it was 42%. In the rest of New Zealand it was 29%. This may start to ease as interest rates fall further.



## Property gauges

The housing market will be affected by the enormous slump underway. Volatility is very likely in coming months, but a weaker housing demand impulse is expected to become evident, as typically happens in economic downturns. At this stage, we expect house prices to fall 10-15% this year, with downside risk. Weaker incomes, unemployment and uncertainty will weigh. Debt servicing will be difficult for some, even though interest rates are low. Banks are expected to be prudent with new lending, and households cautious about taking on more debt. Regional markets exposed to tourism will likely be hit hard, and expectations may shift abruptly.

We use ten gauges to assess the state of the property market and look for signs that changes are in the wind.

**Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices to income (adjusted for interest rates) and mortgage payments as a proportion of income.

**Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

**Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of debt.

**Migration.** A key source of demand for housing.

**Supply-demand balance.** We use dwelling consents issuance to proxy growth in supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

**Consents and house sales.** These are key gauges of activity in the property market.

**Liquidity.** We look at growth in private sector credit relative to GDP to assess the availability of credit in supporting the property market.

**Globalisation.** We look at relative property price movements between New Zealand, the US, the UK, and Australia, in recognition of the important role that global factors play in New Zealand's property cycle.

**Housing supply.** We look at the supply of housing listed on the market, recorded as the number of months needed to clear the housing stock. A high figure indicates that buyers have the upper hand.

**House prices to rents.** We look at median prices to rents as an indicator of relative affordability.

**Policy changes.** Government and macro-prudential policy can affect the property market landscape.

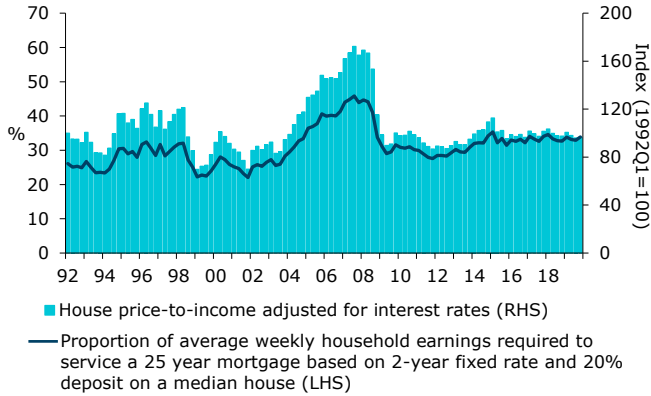
Indicator	Level	Direction for prices	Comment
Affordability	Unaffordable	↓↓	Affordability constraints are relevant. It's hard to see people buying super-expensive houses when the outlook is bleak.
Serviceability/ indebtedness	Jobs in jeopardy	↓↓	Serviceability is fine, but job security isn't. Debt levels are high, incomes are expected to be lower, and uncertainty is rife.
Interest rates / RBNZ	Flat	↔/↑	The OCR is set to remain at 0.25% for at least 12 months. Funding costs will matter for mortgage rates too though.
Migration	Peaking	↔/↓	Migration has been moderating. It could increase in the short term, with kiwis coming home, but will likely soften with borders closed.
Supply-demand balance	Shifted	↓	The balance has shifted to more supply, with short-term rentals coming available.
Consents and house sales	Turn	↓↓	The market is under pressure, which may see transactions and new projects dry up, with prices moving lower.
Liquidity	Relief	↔	The outlook is uncertain. Delayed capital changes will provide relief, but funding pressure and credit constraints are still possible.
Global forces	Weak	↓↓	The global slowdown will weigh on housing markets around the world, with sentiment and incomes under pressure.
Housing supply	Unclear	↔	While the market has been playing catch up, a shift in the demand-supply balance could see less need than previously thought.
House prices to rents	Too high	↔/↓	Buying remains relatively expensive. Low interest rates are suppressing yields, but incomes will be under pressure.
Policy changes	Dampening	↔/↑	Policy changes have been a headwind. But the Government's COVID-19 response will help cushion the economic blow.
<b>On balance</b>	<b>Down</b>	↓↓	<b>House prices are expected to be under significant downward pressure, eventually recovering when the economy does.</b>



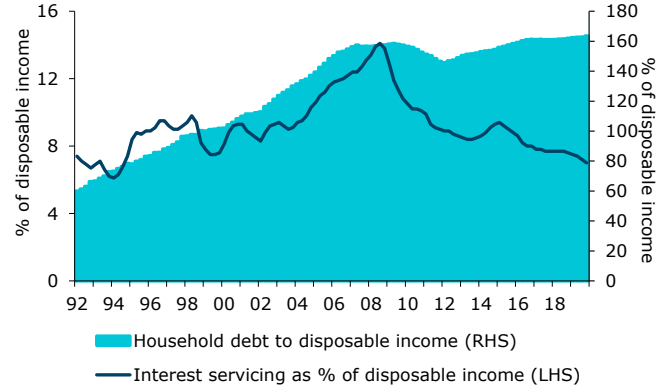


# Property gauges

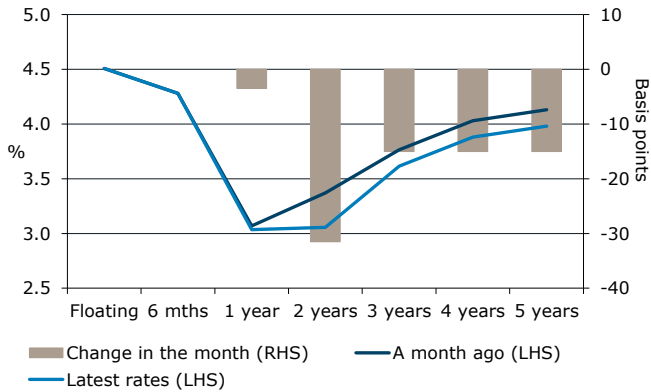
**Figure 1: Housing affordability**



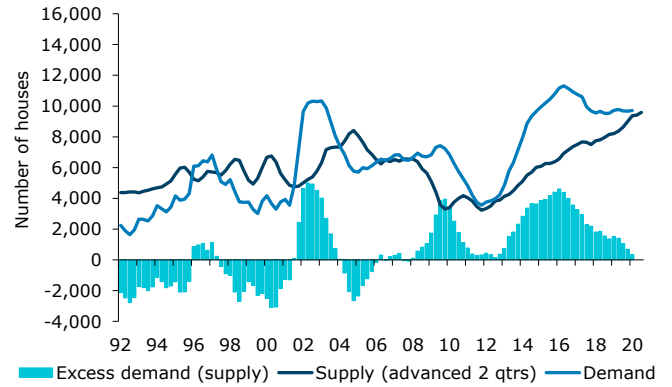
**Figure 2: Household debt to disposable income**



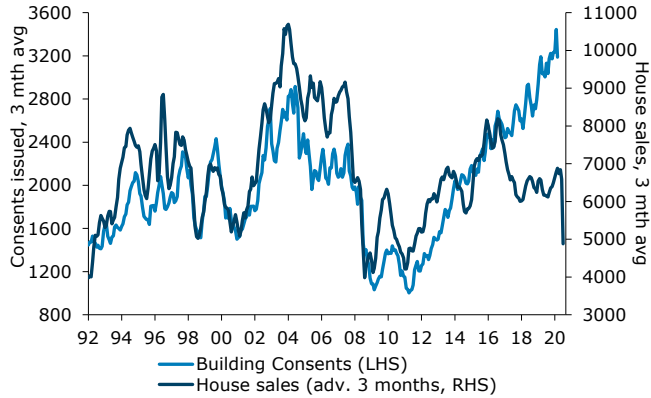
**Figure 3: New customer average residential mortgage rate (<80% LVR)**



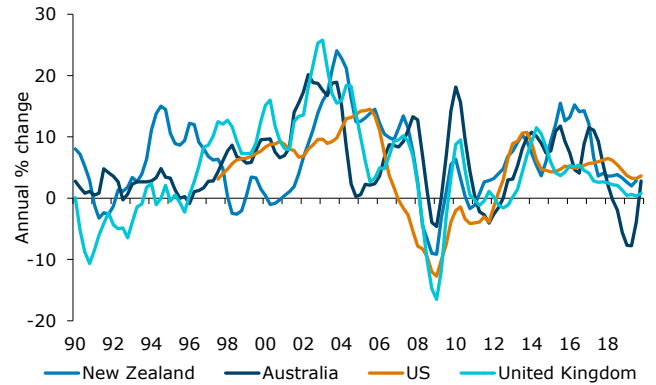
**Figure 4: Housing supply-demand balance**



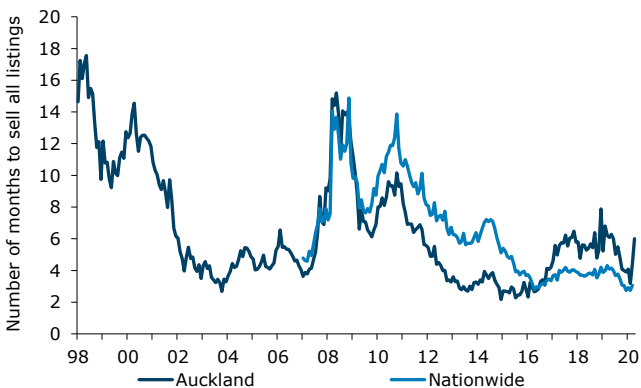
**Figure 5: Building consents and house sales**



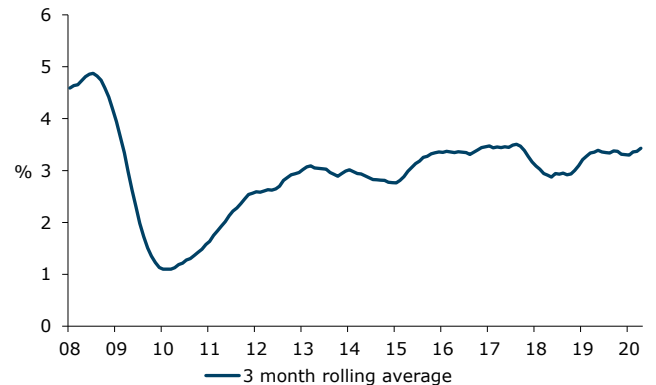
**Figure 6: House price inflation comparison**



**Figure 7: Housing supply (listings)**



**Figure 8: Median rental, annual growth**



Source: ANZ Research, Statistics NZ, REINZ, RBNZ, QVNZ, Nationwide, Bloomberg, Barfoot & Thompson



## Economic overview

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### Summary

The outlook is grim, with an unprecedented global economic slump underway. In New Zealand, we have made great progress containing the spread of COVID-19 and a lot of activity has been able to resume with the move to Alert Level 2. But we are still a long way from normality, and this downturn will take a long time to recover from. Even as the economy gets underway again, demand will be weak and the economy will have to reshape structurally, with industries like tourism affected in lasting ways. The Government has unveiled a big Budget with plenty of spending to help shore up the outlook. Likewise, the RBNZ is prepared to pull out all the stops and do what it can to support the recovery. We expect that QE will be expanded again at the August MPS. But a large economic hit is unavoidable, and the recovery is expected to be slow.

### Our view

Globally, the economic slump that is underway is unprecedented, commensurate with the health crisis the world is facing. New Zealand is in a relatively good position, having made significant progress in curbing the spread of COVID-19 in New Zealand. This has put us in a strong position to get the economy going again with the move to Alert Level 2. However, we won't be returning to "normal". The road ahead will still be difficult and the recovery slow:

- Confidence has been shattered, with firm cash flow lower and unemployment rising sharply.
- The property market will be under downward pressure.
- Some households and firms will have increased their reliance on debt through this period and will need to deleverage. Many will be more reluctant to spend. Demand will be weak.
- Global demand will also be soft, which will weigh on export revenue.
- International travel is likely to be severely limited for a long time. Tourism and related industries will be affected in lasting ways, even if domestic and trans-Tasman travel are possible.
- The economy will need to undergo a transition, with industries having to reshape and some needing to reskill. It will be difficult.

We see GDP 8-10% lower this year, and a peak in the unemployment rate of 11% in Q3, followed by a slow recovery from there. Inflation is expected to be modest for many years.

The Government is playing its part to help cushion the blow of the crisis and support the recovery, with fiscal

policy the key tool to combat this sort of crisis, and aid the necessary structural adjustment. The guidance for future spending in last week's Budget was big, although a significant portion is yet to be allocated, so it remains to be seen how effective it will be.

Initiatives like expanding lunches in schools are a relatively small but important part of the response, given that many households will unfortunately be struggling.

Government debt levels are set to balloon to pay for the response, with an enormous amount of bonds set to be issued. But not all of this is to fund targeted spending increases. Tax take is set to plummet and welfare payments are set to increase, which will put significant pressure on the Government's books, and debt will need to increase to fill the gap. Debt guidance has some conservative buffers built in if the outlook disappoints – we think they will be needed.

So on the one hand, greater fiscal spending is positive for the outlook. But on the other hand, ballooning Government debt levels indicate just how bad the economic situation could get, with our forecasts more pessimistic than both the RBNZ and the Treasury.

Reflecting this subdued outlook, we expect that the RBNZ will need to do more for its part to absorb the surge in bond issuance, in order to keep debt-servicing costs low and support the recovery from here. To do this, we expect that QE will be expanded to \$90bn at the August MPS, pushing the yield curve lower and flatter. The Government may need to do more than currently indicated too, in order to help support the labour market, which is set to deteriorate significantly.

The outlook remains extremely uncertain, and there are risks in either direction. On the one hand, we might be able to generate a faster recovery if we can move to Alert Level 1 soon and pave a way forward for trans-Tasman travel. Monetary stimulus could also pass through more effectively than expected, particularly if balance sheet consolidation and caution are less of a drag on spending, investment and the property market.

But on the other hand, significant downside risks remain. A rise in case numbers is still a threat (although the risk of prolonged lockdown has reduced). A larger economic impact could place more pressure on property values, credit demand and banks' balance sheets, risking a credit crunch. And there is also the possibility that a rise in defaults globally causes financial market dysfunction globally, amongst other possibilities.

We are not out of the woods by any means, and the RBNZ and Government will remain cognisant of these risks. In that context, doing too much would be far better than doing too little.



# 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

Mortgage rates continue to fall with most fixed rates now lower than the last month's already-record lows, and some specials now below 3%. This has been driven by a further lowering and flattening of the term structure of the government bond yield curve, which has in turn been driven by the Reserve Bank's decision to employ quantitative easing (QE) now that the OCR is at its current practical lower bound of 0.25%. Although the OCR isn't likely to go lower (or negative) any time soon, it might next year, and in the meantime we expect longer-term rates to fall as the Reserve Bank's QE programme gets expanded. As such we favour the 1-year rate with a view to making a fresh decision then, when all rates are likely to be lower.

## Our view

Mortgage rates continue to move lower, having edged past last month's already-record lows to below 3% in some instances (although on average even the lowest rates are all a touch above 3% still). With further OCR cuts off the table for the time being, we see limited scope for the floating rate to fall by much. However, the Reserve Bank (RBNZ) has said that it is open to taking the OCR lower, first to zero and then into negative territory next year, should the economy require more monetary policy support. One of the reasons the RBNZ has held off on negative rates for now has simply been because many banks' systems can't handle them, but they have been asked to get ready. Anyway, if it comes to that, we may see floating rates fall in around one year's time.

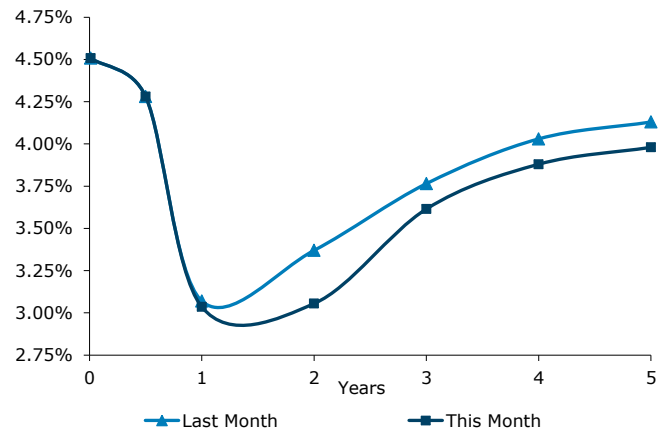
As an aside, it's worth pointing out that even if the OCR does fall below zero, we are unlikely to see mortgage rates go negative, but they will fall. Among other things, this is because even as the OCR falls, the interest rates on deposits (which are a key source of funds for banks) won't fall in step (would you deposit your money at 0% or agree to a negative return?).

The outlook for longer-term rates is quite different. With the OCR at its practical lower bound of 0.25% for now (that may change next year, as noted) monetary policy support is being provided via QE, which is aimed at driving longer-term interest rates lower and flattening the term structure of interest rates. At the moment, the QE programme stands at \$60bn (that's the amount of bonds the RBNZ has said it is willing to buy, and it's equivalent to around 20% of GDP), but we expect the programme to be lifted to \$90bn in August, keeping further downward pressure on long-term interest rates. So although term fixed rates are at record lows, we expect them to continue falling.

The 1 year rate looks attractive and it's the tenor we favour right now. It is below the floating rate (which doesn't have much scope to fall), and it is also cheaper than longer fixed rates (which do have scope to fall).

Could there be an advantage to fixing for longer? From a cost perspective it seems unlikely, with breakeven rates<sup>1</sup> pointed higher, but QE driving rates lower. For example, we don't see much chance that the 2-year rate rises from 3.06% to 3.91% over the next year, given our expectation for more QE and term rates staying lower for longer. However, long-term rates offer more certainty, and that may be appealing to some borrowers.

**Figure 1. Carded special mortgage rates<sup>^</sup>**



**Table 1. Special Mortgage Rates**

Term	Current	Breakevens for 20%+ equity borrowers			
		in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	4.28%	1.79%	3.07%	3.09%	4.46%
1 year	3.04%	2.43%	3.08%	3.77%	4.74%
2 years	3.06%	3.10%	3.91%	4.27%	4.71%
3 years	3.62%	3.66%	4.16%	4.37%	4.60%
4 years	3.88%	3.89%	4.22%		
5 years	3.98%	#Average of "big four" banks			

**Table 2. Standard Mortgage Rates**

Term	Current	Breakevens for standard mortgage rates*			
		in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	4.53%	2.94%	4.02%	3.83%	5.11%
1 year	3.74%	3.48%	3.93%	4.47%	5.36%
2 years	3.83%	3.97%	4.64%	4.90%	5.26%
3 years	4.34%	4.43%	4.82%	4.98%	5.19%
4 years	4.55%	4.60%	4.87%		
5 years	4.65%	#Average of "big four" banks			

<sup>^</sup> Average of carded rates from ANZ, ASB, BNZ and Westpac.

Source: interest.co.nz

<sup>1</sup> Breakevens are future rates implied by the term structure of current interest rates. They show where shorter-term fixed rates need to be in future in order to justify choosing (typically higher) longer-term fixed rates.



## Key forecasts

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

Mortgage Size (\$'000)	Mortgage Rate (%)													
	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

Housing market indicators for April 2020 (based on REINZ data)

	Median house prices		No of sales (sa)	Mthly % chg	Avg days to sell (sa)
	Ann % chg	3mth % chg			
Northland	4.9	3.1	42	-79%	78
Auckland	9.3	3.2	549	-72%	36
Waikato	-3.7	-2.7	118	-79%	39
Bay of Plenty	6.6	1.6	77	-80%	37
Gisborne	12.0	0.0	8	-80%	38
Hawke's Bay	39.9	5.1	42	-80%	31
Manawatu-Wanganui	14.2	4.1	54	-84%	23
Taranaki	0.1	-0.2	30	-81%	23
Wellington	18.4	4.0	116	-81%	32
Tasman, Nelson and Marlborough	20.2	3.8	32	-87%	23
Canterbury	3.5	1.4	213	-75%	40
Otago	-11.7	-9.2	52	-84%	33
West Coast	7.5	-7.4	10	-65%	52
Southland	6.5	3.4	13	-91%	28
<b>New Zealand</b>	<b>17.3</b>	<b>4.7</b>	<b>1,531</b>	<b>-75%</b>	<b>35</b>

### Key forecasts

Economic indicators	Actual			Forecasts						
	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
GDP (Ann % Chg)	2.1	2.3	1.8	-1.2	-21.6	-10.1	-8.8	-5.5	20.2	5.1
CPI Inflation (Annual % Chg)	1.7	1.5	1.9	2.5(a)	1.6	1.0	0.4	0.1	0.7	0.9
Unemployment Rate (%)	4.0	4.1	4.0	4.2(a)	7.6	10.5	9.4	8.1	8.0	7.7
House Prices (Annual % Chg)	1.6	2.5	5.3	8.2(a)	4.1	-1.8	-8.6	-13.3	-8.8	-3.6
Interest rates (RBNZ)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Official Cash Rate	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
90-Day Bank Bill Rate	1.15	1.29	0.49	0.32	0.32	0.32	0.32	0.32	0.32	0.32
LSAP (\$bn)			30	60	90	90	90	90	90	90

Source: ANZ Research, Statistics NZ, REINZ



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