New Zealand Property Focus

Where the rubber meets the road

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INSIDE

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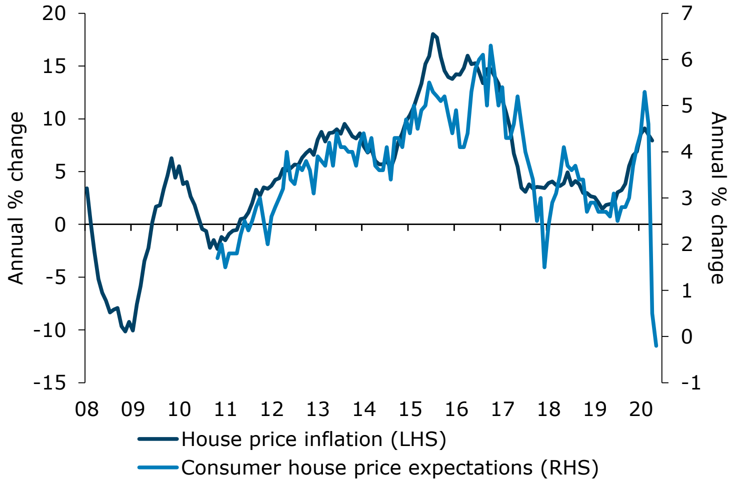
Summary

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

Feature Article: Where the rubber meets the road

The reopening of the New Zealand economy has made the outlook a little bit brighter. Recently, there has been a bounce in spending and positive anecdotes about the housing market – but we do not expect this positivity to last. The period ahead is when people on the street will feel the recession in lasting ways. Unemployment is rising and businesses are cautious. It will be a slow economic recovery, which means mortgage rates will be low for a long time. For some households, this will make home buying and spending more attractive, while for others it presents an opportunity to improve their financial positions. Although low interest rates will cushion the economic blow to some extent, weaker incomes and reduced job security will weigh on the housing market. The shortage of housing will likely erode, particularly in tourist regions. We have nudged up our house price forecasts, but only a little. We see house prices down 12%, which will weigh on household spending, with risks now more balanced. See our heatmap for vulnerability to house price falls by region.

House price inflation: expectations and reality



Source: REINZ, Roy Morgan, ANZ Research

Mortgage borrowing strategy

Improving financial market conditions and increased competition in the mortgage market have seen home loan rates drop further over the past month, taking fixed rates down another notch. For the first time in decades, mortgage rates (on average across the "majors") are below 3%. Competition is heating up in the floating rates space, but even so, it's hard to go past 1-2 year rates at the moment, which are generally lower. We had been expecting rates to fall, and more falls are likely as the RBNZ presses ahead with quantitative easing (QE), but the pace of falls from here is likely to be slower. We still favour the 1-year, but for the first time in a long time it might be worth considering the 2-year, which has a further decline in rates "baked in". Longer rates are less attractive.

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Summary

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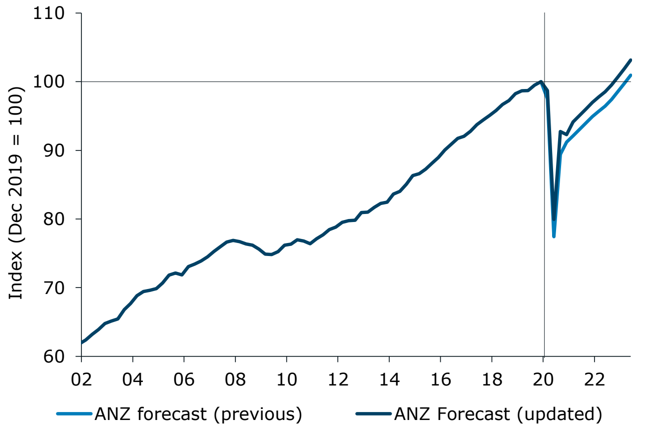
The economic outlook is a little better

New Zealand's success at curbing COVID-19 has improved the near-term economic outlook. We have been able to progress through the alert levels and open up the economy a little faster than expected. More production will be able to take place, and households and firms will feel a little more optimistic about the outlook and ready to spend. Overall, we see spending in the economy a little stronger over the next few years than previously (figure 1).

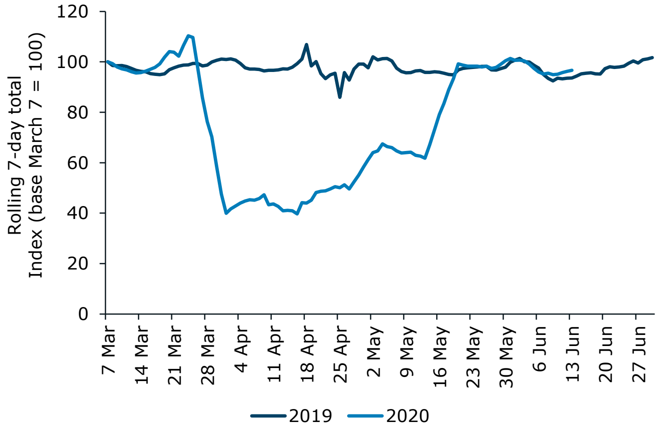
Figure 1. ANZ GDP forecasts



Source: Statistics NZ, ANZ Research

We are currently seeing a post-lockdown spending flurry, after households were not able to spend in lockdown. For some, this period saw a temporary increase in savings. Since then, daily spending has returned to pre-lockdown levels (figure 2). However, it has not increased above those levels, which would be required for households to make up for lost time. It is our expectation that spending will revert to a slightly weaker trend once the freedom party subsides.

Figure 2. ANZ card spend data (daily spend)



Source: ANZ Research

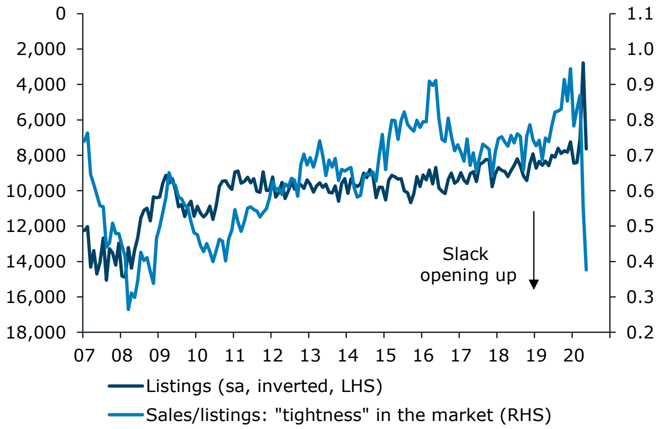
Positive housing vibes not expected to last

A similar resurgence in demand has been seen in the housing market, after sales were not able to proceed in alert level 4, and real estate activity was somewhat limited in levels 2 and 3. This has fuelled a number of positive anecdotes about the housing market.

There have been reports of busy open homes and strong demand. But listings were low coming out of lockdown. The recent flurry of sales in May took place after relatively few houses were available in April (houses usually take about a month to sell on average). Over this period, the housing market was "tight" and this supported prices, with only a modest decline in house prices (-1.2%) seen since March.

More recently, a tick-up in listings has taken place post lockdown, and there are now many more houses available for those looking to buy. Tightness in the market has abated (figure 3). This slackening and an end to the post-lockdown flurry should see more downward pressure on prices emerge in coming months, especially as the economy settles at a weaker trend after the post-lockdown bounce.

Figure 3. Listings and tightness in the market



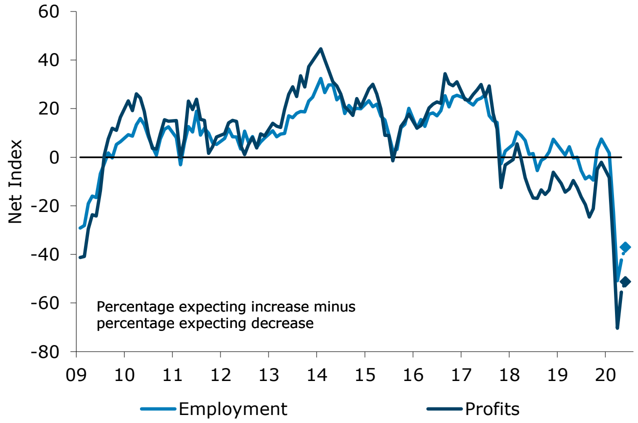
Source: REINZ, realestate.co.nz, ANZ Research

A challenging period lies ahead

Although economic disruption has now ended (aside from border restrictions), we are moving to a new phase of the economic downturn. The worst of the economic impact has already occurred in GDP terms. But for most people on the street, the worst of the recession is yet to be felt.

Although wage subsidies and other fiscal policy measures are masking and deferring the impact, unemployment is rising, and more job losses are on the way. Firms profits are expected to be lower (especially in hard-hit sectors like tourism and hospitality) and some will shut up shop. To keep costs low and respond to lower demand, many firms intend to reduce headcount (figure 4). Hours worked may reduce.

Figure 4. ANZBO profit expectations and hiring intentions (including June flash)



Source: ANZ Research

The unemployment rate is expected to peak at 10% in Q3 (compared to 4% before the crisis began). That's where the rubber meets the road for many households. Income expectations will be weaker, job security will take a hit even for those who remain employed, and households and firms will be cautious in their spending, including when thinking about home purchases.

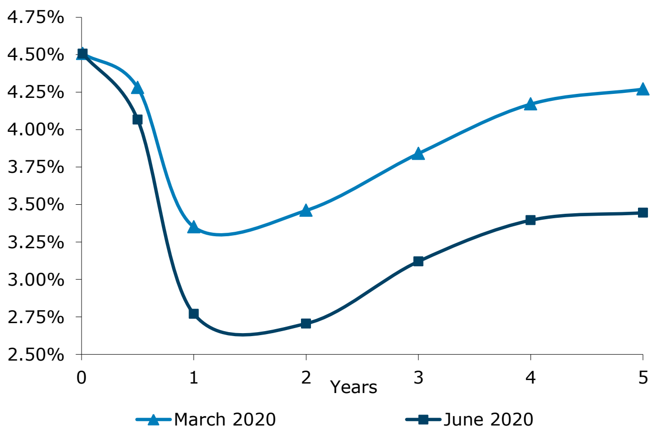
As the economy has exited lockdown, more economic activity has become possible, but that doesn't mean it will all necessarily happen. Lost income, weak demand for our exports, primary sector challenges, and persistent impacts on industries like tourism will all create an economic hole. Spending in the economy (as measured by GDP) is not expected to return to pre-crisis levels until the end of 2022.

Low mortgage rates will cushion the blow

With the economic recovery expected to be slow, inflation and unemployment will take a long time to return to the RBNZ's targets. This means the Official Cash Rate is expected to be held at its current low of 0.25% for the foreseeable future, and more quantitative easing is also expected. See our recent FAQs here and here for more on quantitative easing).

Retail mortgage rates are also expected to remain low for a long time, and have fallen further over the last month to be down as much as 75bps since March (figure 5). This downward pressure is likely to continue for a while longer as the knock-on of quantitative easing lowers funding costs for banks and increases liquidity. See our mortgage borrower strategy for more details on current mortgage rates and the outlook).

Figure 5. Carded special mortgage rates



Source: interest.co.nz, ANZ Research

Recent declines in mortgage rates will cushion some of the impacts of this crisis. The housing market will experience less of a downturn than otherwise. For some households, low mortgage rates will make home buying and spending more attractive, and may be particularly welcome for some first home buyers. Expectations of low interest rates for a prolonged period will also boost demand for a range of assets. Some people will take on a bit more risk in the pursuit of better returns, with some looking to move more of their money into real estate.

For many households, low mortgage rates will help to relieve pressure on financial positions by lowering debt-servicing costs. Fiscal policy is cushioning the blow for these households too, through wage subsidies, unemployment benefits, and the like. Those whose jobs have been lost or whose incomes have taken a hit will get a small reprieve via lower interest rates, but it's only a partial offset to a much bigger income shock and some will still find themselves in a position where they can no longer afford to service their debt.

For other households, low mortgage rates will present an opportunity to shore up financial positions. Lower interest payments provide an attractive opportunity to pay down principal faster. This option is likely to appeal particularly to those who are unsure about their income prospects or who are quite indebted.

Feature Article: Where the rubber meets the road

Weak incomes, uncertainty and reduced job security will weigh on the housing market, reducing purchasing power and willingness to buy. Lower mortgage rates will provide an offset but only a partial one. There will also be more houses available relative to demand, adding further downward pressure on prices.

The housing shortage is expected to erode

New Zealand currently has a housing shortage, which has been building steadily and contributing to house price pressures in recent years. However, that picture is now expected to change very quickly. Demand pressures are no longer building and we expect that supply of housing is now outpacing demand.

Before the crisis began, we estimated that the housing shortage could be 50k or more. It could be as high as 100k, depending on how many people would choose to live in smaller households if houses were cheaper. See last month's ANZ Property Focus for more details.

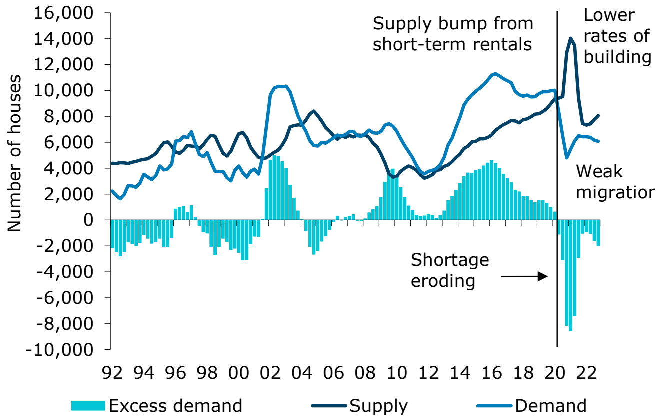
Looking forward, demand for houses is expected to grow more slowly in coming years, due primarily to a slowdown in migration-led population growth. Meanwhile, the supply of available houses is expected to increase in the short term. A significant reduction in tourism-related demand for accommodation will reduce the need for houses as short-term rentals. Some of these may stand empty for a time, but we expect that some will move to the long-term rental market or be sold.

Weakness in new building is expected to eventually emerge after lockdown-induced volatility subsides and the housing market softens. But new building is expected to be supported by the recent backlog of consents for a time, even though some projects may be cancelled. Looking further out, we see a trough in the level of home building at 24% below pre-crisis levels next year, before recovering.

We have run some calculations and found that the shortage of housing could potentially fall by 35-40k between now and the end of 2022 (figure 6). This assumes weak net migration, slow new building, and a small decline in household size as house prices and rents fall – tempered by the fact that young people tend to bear the brunt of unemployment increases and are usually more willing/able to live in larger households if necessary. We have also made an adjustment to our estimate of housing supply to include an increase from short-term rentals coming available.

Of course, the outlook for each of these factors is very uncertain. Housing supply, demand, household size and house prices are all related variables that depend on each other.

Figure 6: Housing supply-demand balance



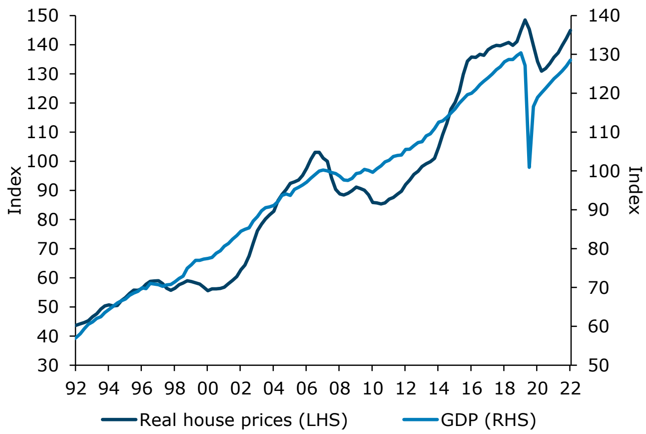
Source: Statistics NZ, ANZ Research

House prices to fall, more in some regions

We have nudged up our house price forecasts on the back of a slightly better economic outlook and lower mortgage rates, but only slightly. We expect that house prices will fall 12% (only a little above our previous forecast of 13½%), but risks are now considered more balanced.

House prices often fall in economic downturns, especially in real terms (that is, adjusted for how much other prices have increased). This downturn is expected to be no different, though we'd discount the impact of the initial fall in GDP due to the lockdown, as this reflects imposed constraints on activity rather than individual economic choices (figure 7).

Figure 7: Real house prices and GDP

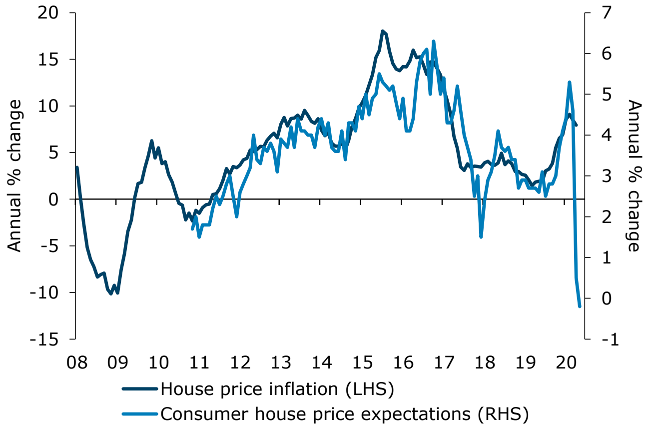


Source: Statistics NZ, REINZ, ANZ Research

Both people's willingness and ability to pay for houses will be affected by the economic downturn. Firm revenue and household income expectations will be lower, while unemployment and business failure rates are expected to increase. Some homeowners will experience job losses and financial distress. Uncertainty is huge, and households and firms are expected to be cautious, including when it comes to taking on debt.

Adding to that, the shortage of housing is starting to be eroded, and expectations of house price gains have already shifted (figure 8). Previously, expectations of continued strong population growth had contributed to strong rises in house prices, but the outlook has changed a lot.

Figure 8: House price inflation: expectations and reality



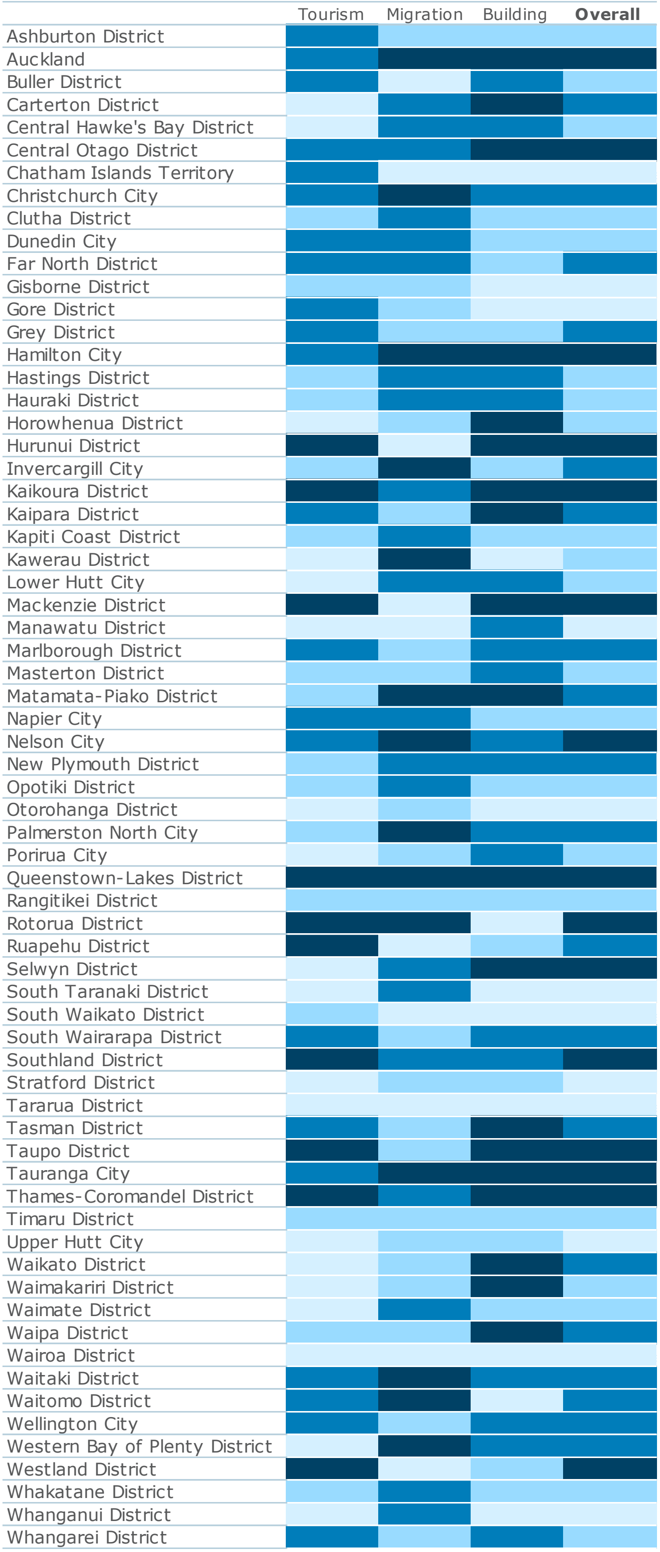
Source: REINZ, Roy Morgan, ANZ Research

Risks of a sharper correction in house prices have dissipated a little, partly due to policy responses from the RBNZ to ensure that money is flowing effectively in the financial system. Banks are expected to be a little cautious about the outlook, but a widespread credit crunch now appears less likely.

Job losses, increased supply of short-term rental properties, and uncertainty will weigh most heavily on house prices in regions exposed to tourism (table 1 and heatmap). This will contribute to more downward pressure on housing markets in those regions, which will weigh on spending in places where the economic outlook is already weak. In those places, it will be difficult to fill a tourism-shaped economic hole. The recovery will be slower, and the recession will be felt more acutely.

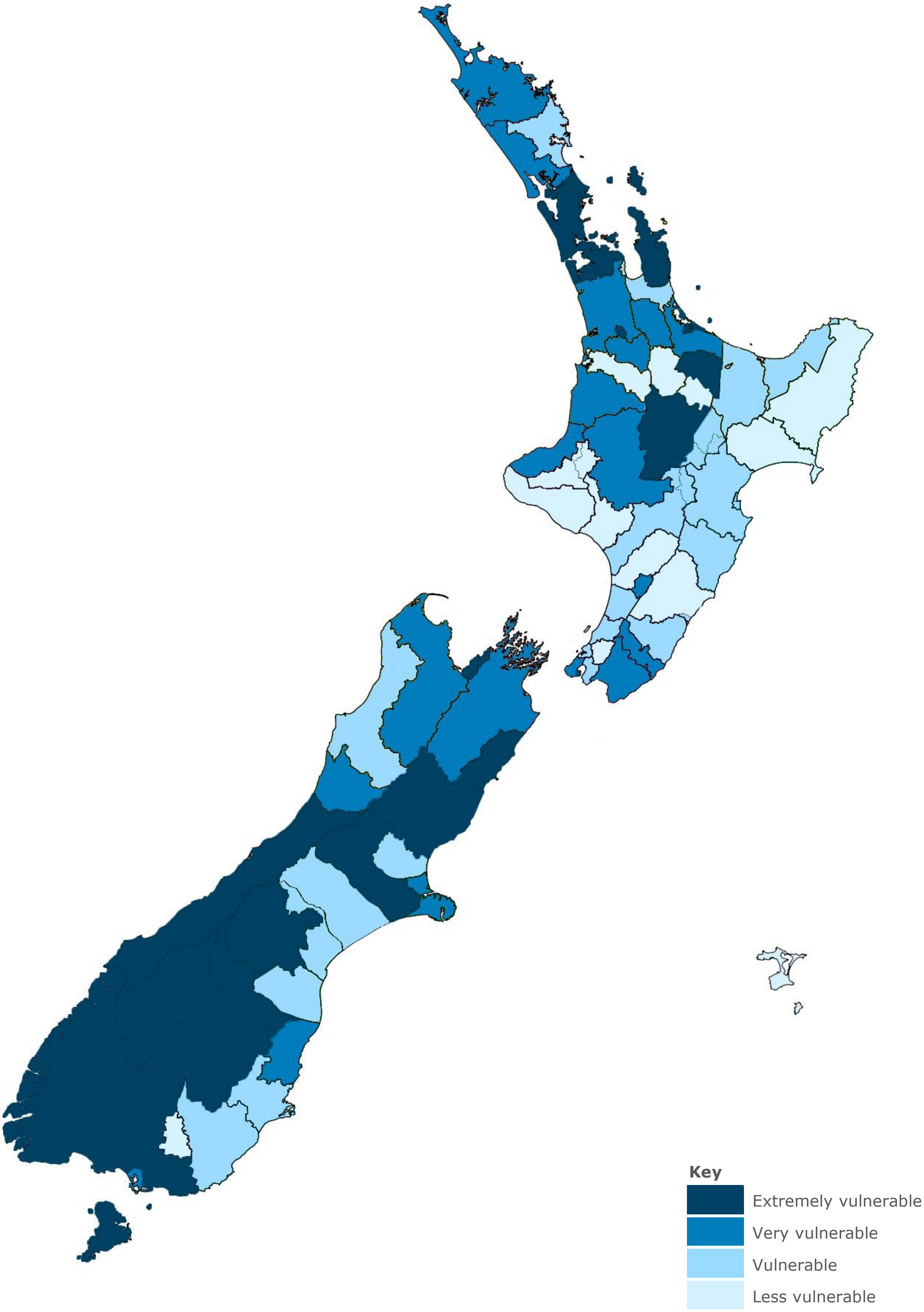
Table 1. Vulnerability to house price falls by region

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



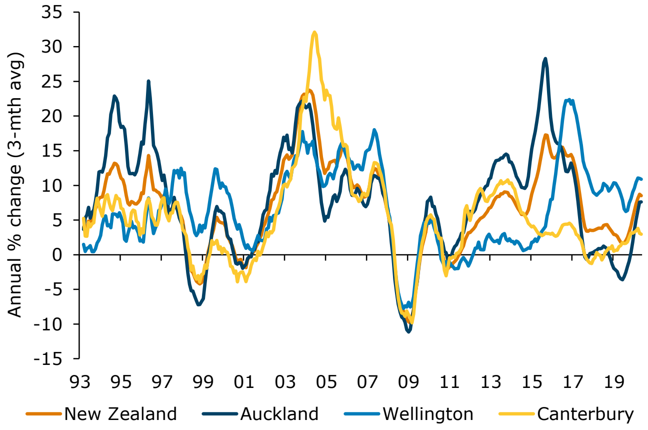
Source: MBIE, Statistics NZ, ANZ Research

Heatmap: Vulnerability to house price falls by region



Property Market in Pictures

Figure 1. Regional house price inflation

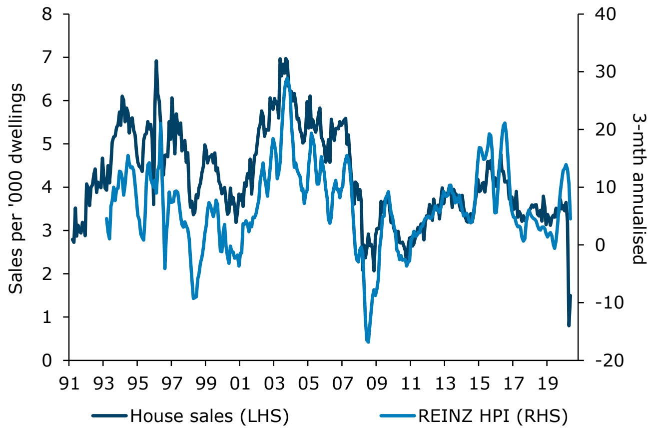


Source: ANZ Research, REINZ

House prices fell 0.3% m/m in May to be down 1.2% since March. A post-lockdown buying flurry supported sales in the month, due to pent-up demand from sales not being able to take place in lockdown. This occurred when inventories of houses in the market were still low, making the market relatively tight. Lower mortgage rates also provided support. All of these factors stemmed the decline in prices in the month, with more weakness expected to become evident in time.

Since March, house price falls have been largest in Otago (-3.3%), Manawatu-Wanganui (-2.0%) and Auckland (-1.7%). However, some volatility is expected. See the feature article for more on regions most vulnerable to house price falls.

Figure 2. REINZ house prices and sales

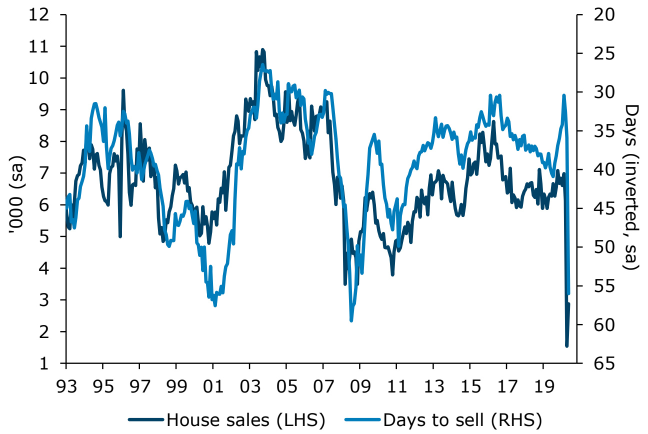


Source: ANZ Research, REINZ

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

House sales increased 87% m/m in May, after falling 75% in April on account of lockdown. After this bounce, sales are now 53% lower than in March. Part of this weakness is due to a low volume of houses being on the market when lockdown ended. Inventory has since lifted. That means sales may lift further too, but overall the market now has more slack, which will weigh on prices going forward. Sales are expected to settle at a weaker level than before the crisis, but there may be a little more volatility before the dust settles. Compared to March, sales are down the most in Auckland (-53%), Northland (-49%) and Tasman, Nelson, Marlborough (-48%).

Figure 3. Sales and median days to sell



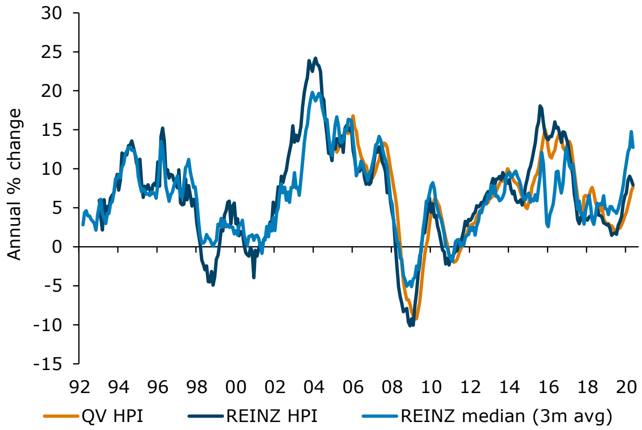
Source: ANZ Research, REINZ

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 recently. It rose from 36 to 56 days in May, but that's not surprising since the majority of sales couldn't take place in lockdown. Although days to sell lengthened as we exited lockdown, the market was actually pretty tight, supporting prices. But with houses on the market having increased, slack is now emerging. This will see prices under pressure in time, especially as underlying weakness in demand to becomes evident.

Property Market in Pictures

Figure 4. REINZ and QV house prices

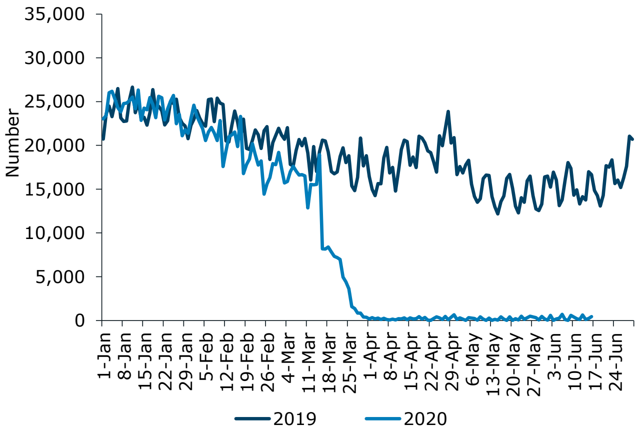


Source: ANZ Research, REINZ, QVNZ

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 to 7.9% y/y in April. The QVNZ measure (7.7% y/y) is the only measure yet to turn (reflecting lags between sale and settlement), but slowing will happen. The REINZ median dipped from 15% to 12% y/y, with previous strength due to composition.

Figure 5. Arrivals to New Zealand

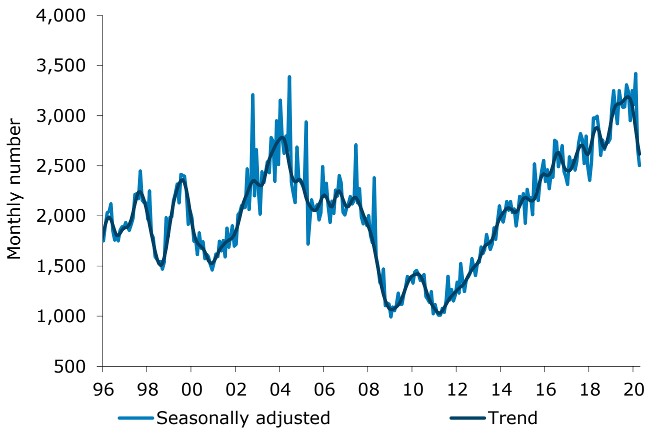


Source: Statistics NZ

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 some 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.

Figure 6. Residential building consents

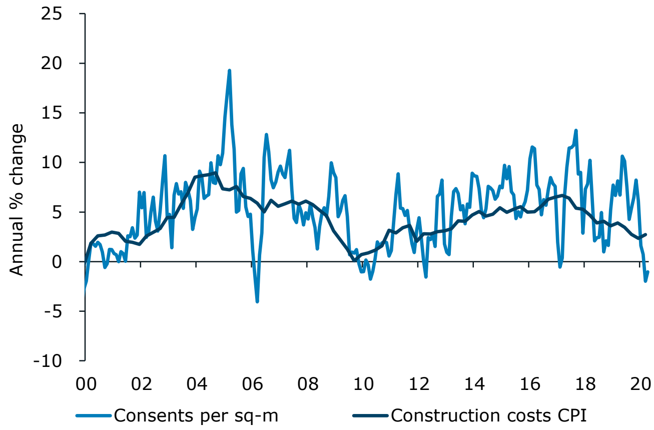


Source: ANZ Research, Statistics NZ

Residential building consents fell 6.5% in April, following a 22% fall in March. Continued weakness in April reflects the fact that consenting and building activity both hit pause during lockdown. An initial rebound is expected in the May data. However, some of the projects that have recently been consented may be cancelled, given that the economic landscape and income prospects have changed dramatically since the start of the year.

The previous backlog of consents will provide some support for building activity as construction gets back to work. But beyond that, softer demand is expected to weigh on consents and building activity. This may expose some profitability and construction challenges in the construction 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 been low recently, down 1% y/y in April. The data is extremely volatile (largely due to the different types of dwellings being consented). However, the recent downward trend is expected to continue for some time, especially given the weak demand pulse that is expected to emerge.

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.

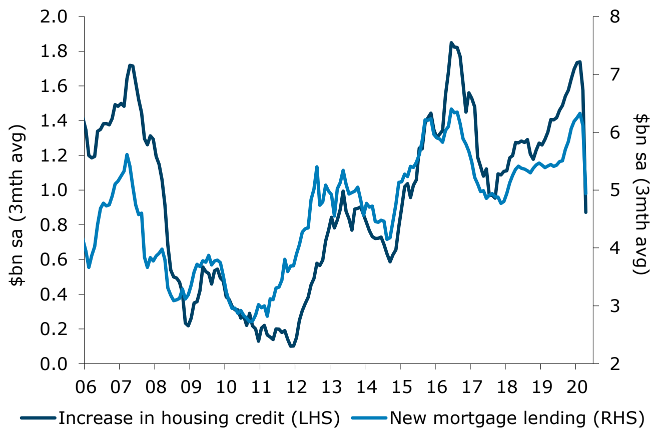
Figure 8. New mortgage lending and housing turnover

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 56% m/m in April. This reflects the impact of house sales and settlements stalling under lockdown, partially offset by any new mortgage lending taken out by households to get through the crisis. A bounce is expected in May, supported by recent declines in mortgage rates, but weakness is then expected to emerge. Weak income prospects, downbeat sentiment and caution towards debt will weigh on households' willingness and ability to purchase houses and new lending. We expect banks will be prudent in their lending decisions too.

Figure 9. New mortgage lending and housing credit

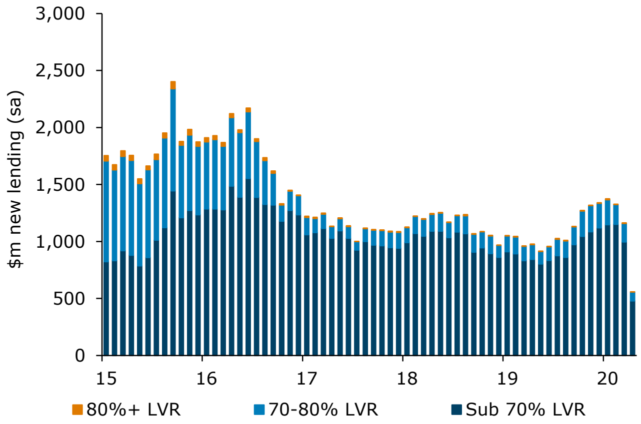


Source: ANZ Research, REINZ, RBNZ

Housing credit fell 0.1% in April. Softness in new lending is weighing, but an increase in saving may have allowed people to pay off some principal in lockdown too. Consumer credit fell 8.3% in April, after a 2.8% drop in March.

Some households and businesses have increased their reliance on debt to get through the current difficult economic period, with lower interest rates easing debt-servicing costs a little. Meanwhile, others are hunkering down, consolidating their financial positions and putting off purchases. Overall, we expect to see a trend towards weaker credit growth in time, due to weakness in housing turnover and household caution, although low interest rates will continue to provide an offset.

Figure 10. Investor lending by LVR

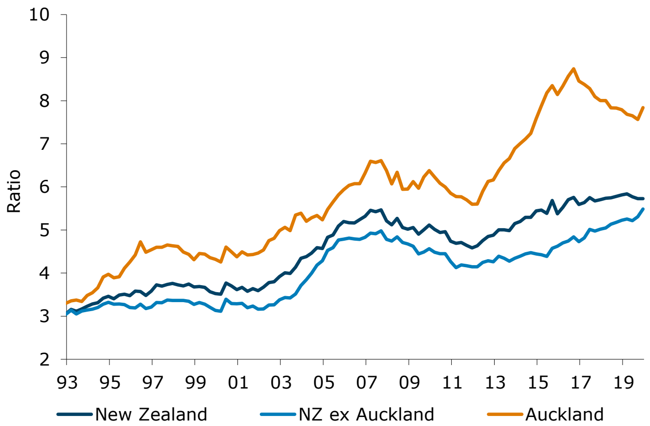


Source: ANZ Research, RBNZ

Lending to investors continues to slide, down 53% m/m in April, after a 11% slide in March and 5% fall in February (seasonally adjusted, ANZ estimate). This reflects the stall in sales and settlements. Lending to investors, first home buyers, and other owner-occupiers have fallen in tandem so far. However, the current period, with low mortgage rates and house price falls expected, could present opportunities for some owner-occupiers.

The share of riskier lending remains broadly stable although there was another tick up in interest only (for all borrowers) in April. There is no sign of an increase in the share of high-LVR lending, despite the RBNZ loosening LVR restrictions.

Figure 11. Regional house prices to income

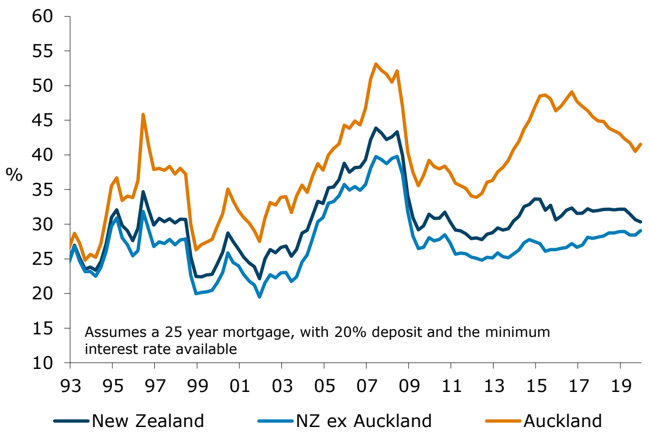


Source: ANZ Research, REINZ, Statistics NZ

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 economic slump underway, especially with unemployment rising, income prospects more shaky, and the outlook uncertain. Volatility will continue in coming months, but a weaker housing demand impulse is expected to become evident. We expect house prices to fall 10-15% this year, but have nudged up our central forecast from a fall of 13½% to a fall of 12% on the back of a better economic outlook and lower mortgage rates. Risks are now considered more balanced. 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 will settle at a lower trend after dropping to zero with borders closed.
Supply-demand balance	Shifted	↓	The balance has shifted to more supply, with short-term rentals coming available and demand building less quickly.
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. QE is providing a boost, 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.
On balance	**Down**	↓↓	**House prices are expected to be under significant downward pressure, eventually recovering when the economy does.**

Property gauges

Figure 1: Housing affordability

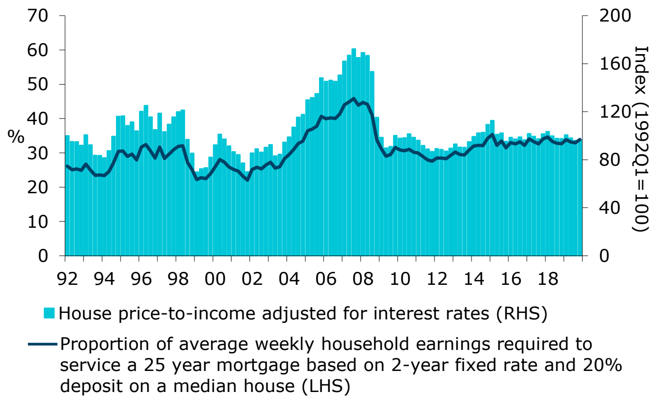


Figure 2: Household debt to disposable income

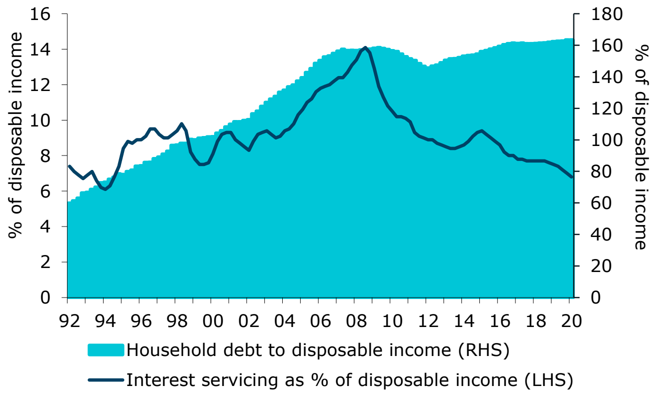


Figure 3: New customer average residential mortgage rate (<80% LVR)

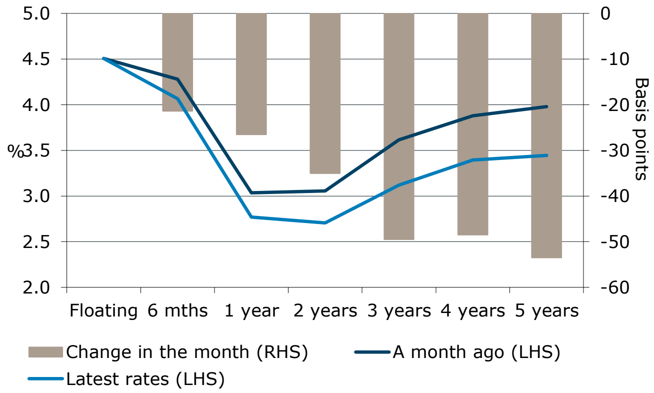


Figure 4: Housing supply-demand balance

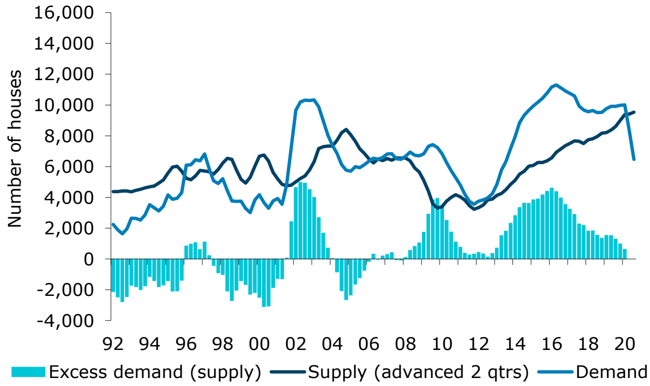


Figure 5: Building consents and house sales

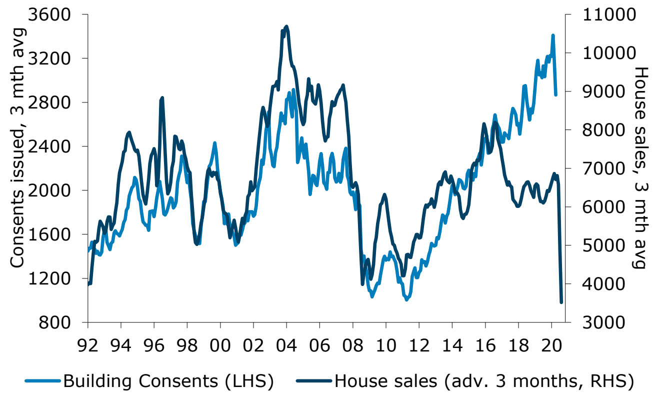


Figure 6: House price inflation comparison

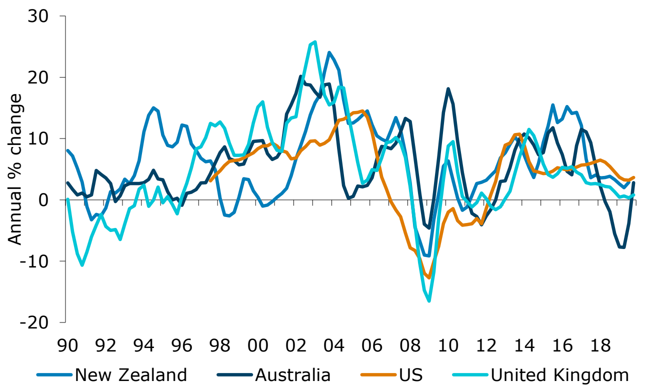


Figure 7: Housing supply (listings)

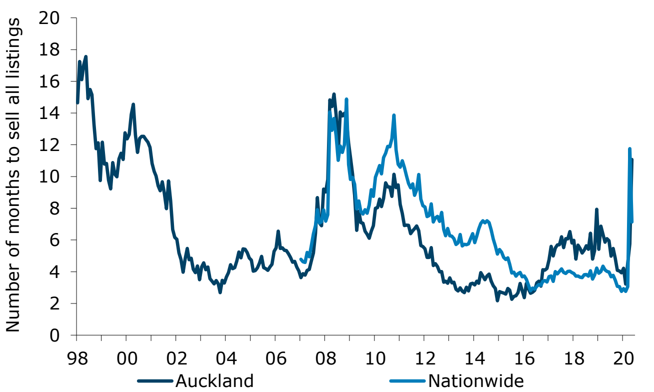
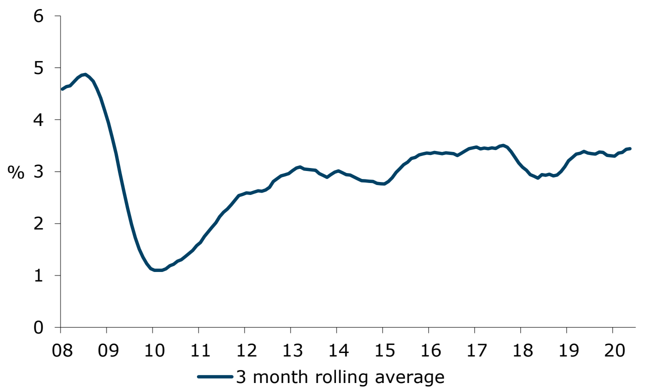


Figure 8: Median rental, annual growth



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

Mortgage borrower strategy

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Summary

Improving financial market conditions and increased competition in the mortgage market have seen home loan rates drop further over the past month, taking fixed rates down another notch. For the first time in decades, mortgage rates (on average across the "majors") are below 3%. Competition is heating up in the floating rates space, but even so, it's hard to go past 1-2 year rates at the moment, which are generally lower. We had been expecting rates to fall, and more falls are likely as the RBNZ presses ahead with quantitative easing (QE), but the pace of falls from here is likely to be slower. We still favour the 1-year, but for the first time in a long time it might be worth considering the 2-year, which has a further decline in rates "baked in". Longer rates are less attractive.

Our view

Fixed mortgage rates continue to move lower, with falls in 1-2 year special rates now widespread as opposed to only at one or two banks, which has been sufficient to take average rates across the major banks comfortably below 3% for the first time in decades. The move over the past month (Figure 1) has been the starkest we have seen in some time, and adds to the move seen last month (the drop in most fixed rates since March has been around three-quarters of a percent).

These moves have been driven by QE, and have in turn gradually lowered wholesale swap interest rates, where banks hedge the risk on their mortgage books. QE has also been successful in driving down wholesale credit spreads, including bank funding spreads, making it cheaper for banks to fund. In a nutshell, it is now cheaper for banks to both fund and hedge their mortgage exposures, and that has translated into lower rates for consumers.

Competition has also heated up in the floating rate space, which has typically been more expensive for borrowers and thus less popular, with many homeowners using generally much lower 6-12 month fixed rates as proxies for floating. Should we see further intensification of competition in the floating space, it may become more attractive. However, for now, we are not aware of any bank offering a lower floating rate than its lowest fixed rate.

For now, given the gap between average floating rates and shorter-term fixed rates, we believe there is limited benefit in remaining floating and waiting for fixed rates to fall. They have already fallen a long way, and while further significant falls could happen, that's unlikely unless the OCR goes lower, which the RBNZ has said isn't on the cards, at least until March 2021.

With interest rates unlikely to rise for some time (likely years rather than months), we favour shorter-term fixed rates over longer terms. The 1-year remains attractive, but the average 2-year is now even lower, "baking in" a further mild decline in rates, which makes it worthy of consideration too. This is demonstrated by our breakeven table[1]. Fixing for 2 years at 2.71% would, for example, cost the same as fixing for 1 year at 2.77% and rolling for another year (in 1 year) at 2.62%. By selecting the 2-year fixed rate, you've baked that fall in the 1-year rate in.

Figure 1. Carded special mortgage rates^

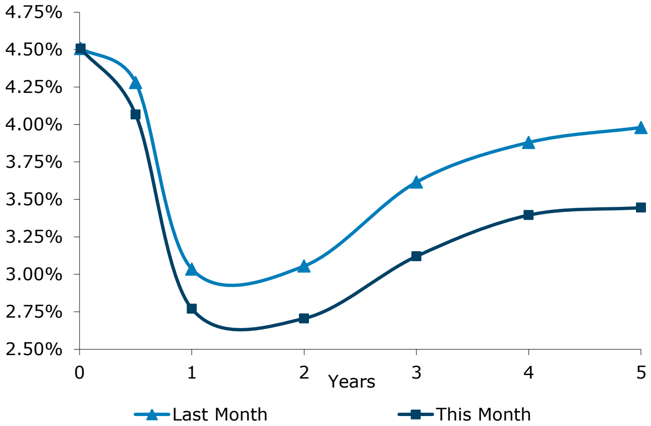

Table 1. Special Mortgage Rates

Term	Current	Breakevens for 20%+ equity borrowers in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	4.07%	1.47%	2.67%	2.61%	3.74%
1 year	2.77%	2.07%	2.64%	3.18%	3.95%
2 years	2.71%	2.62%	3.30%	3.65%	4.09%
3 years	3.12%	3.12%	3.60%	3.76%	3.94%
4 years	3.40%	3.34%	3.61%		
5 years	3.45%	#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	4.32%	2.70%	3.35%	3.45%	4.68%
1 year	3.51%	3.02%	3.40%	4.07%	4.93%
2 years	3.46%	3.55%	4.16%	4.48%	4.82%
3 years	3.95%	3.99%	4.34%	4.53%	4.71%
4 years	4.14%	4.15%	4.39%		
5 years	4.21%	#Average of "big four" banks			

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

Source: interest.co.nz

[1] 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 May 2020 (based on REINZ data)

	Median house prices		No of sales (sa)	Mthly % chg	Avg days to sell (sa)
	Ann % chg	3mth % chg			
Northland	13.8	-0.8	100	+121%	64
Auckland	7.1	2.3	939	+65%	58
Waikato	9.4	-2.5	330	+163%	54
Bay of Plenty	4.5	-4.2	224	+180%	58
Gisborne	-5.8	-3.2	31	+291%	58
Hawke's Bay	16.1	10.6	138	+217%	56
Manawatu-Whanganui	18.9	-0.5	228	+327%	46
Taranaki	17.1	0.1	110	+257%	50
Wellington	9.4	2.7	447	+268%	51
Tasman, Nelson and Marlborough	11.3	0.6	131	+285%	58
Canterbury	3.5	-0.4	490	+120%	59
Otago	5.4	-12.3	180	+249%	48
West Coast	5.1	-7.6	23	+105%	45
Southland	23.5	2.1	83	+485%	42
New Zealand	**7.0**	**1.1**	**2,877**	**+87%**	**56**

Key forecasts

	Actual			Forecasts						
Economic indicators	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
GDP (Ann % Chg)	2.4	1.8	-0.2	-19.3	-7.1	-8.0	-4.6	18.9	3.5	5.1
CPI Inflation (Annual % Chg)	1.5	1.9	2.5	1.6	1.0	0.4	0.1	0.7	0.9	0.8
Unemployment Rate (%)	4.1	4.0	4.2	7.6	10.0	9.7	9.3	9.2	8.9	8.4
House Prices (Annual % Chg)	2.5	5.3	8.2	5.6	0.0	-7.0	-11.8	-8.6	-3.6	2.0
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	0.26	0.26	0.26	0.26	0.26	0.26	0.26
LSAP ($bn)			30	60	90	90	90	90	90	90

Source: ANZ Research, Statistics NZ, REINZ

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