

New Zealand Property Focus






Locked out



At a glance

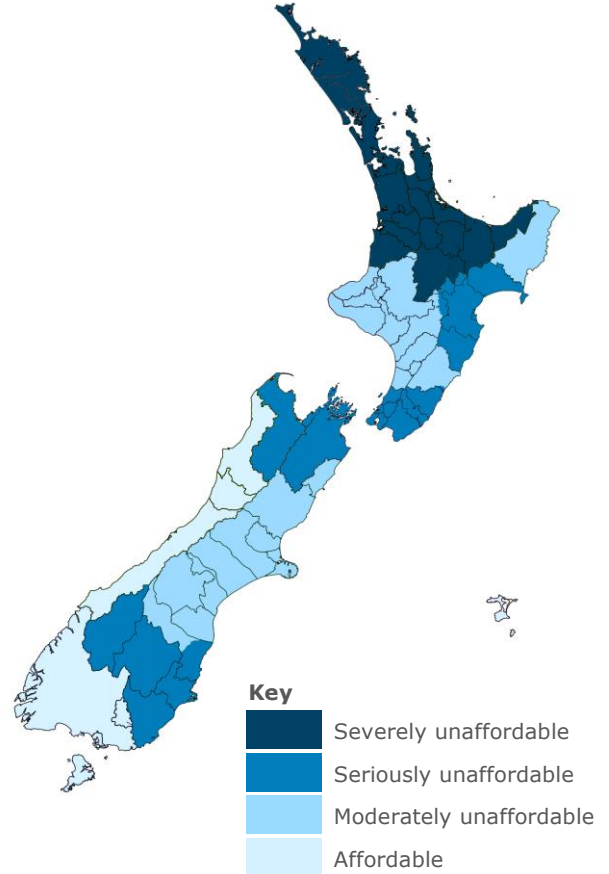
Housing market resilient

With prices at high levels

-  Pent-up demand at play
-  First home buying up a little
-  Lower rates supportive
-  But housing is expensive...
-  ... due to structural factors

Expensive in most places

That's not set to change much



Servicing getting cheaper

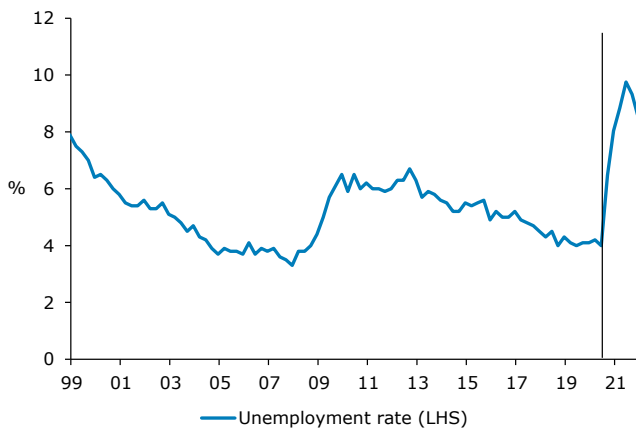
On the back of lower interest rates



Source: Statistics NZ, REINZ, RBNZ, ANZ Research

But a difficult time ahead






Unemployment to rise



Source: Statistics NZ, ANZ Research

Housing market to weaken

As economic outlook deteriorates

-  We see house prices 5-10% lower
-  Uncertainty is high
-  Income strains to weigh longer term
-  But mortgage rates to go even lower
-  1-year mortgage rate offers good value

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the [Important Notice](#).



Contact

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

See [page 12](#).

INSIDE

At a glance	2
Housing Market Overview	4
Regional Housing Market Indicators	6
Feature Article: Locked out	7
Mortgage Borrowing Strategy	12
Weekly Mortgage Repayment Table	13
Mortgage Rate Forecasts	13
Economic Forecasts	13
Important Notice	15

ISSN 2624-0629

Publication date: 25 August 2020

Summary

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

Housing market overview

Lower mortgage rates have provided an opportunity for some buyers to enter the housing market, contributing to recent strength in house prices. There has been a small lift in first home buyer activity, with some loans to buyers with smaller deposits, though households and banks are cautious more generally. The renewed lockdown will see a pause in some segments, even if sales and building work can proceed. And when economic impacts of the current crisis become more evident down the track, we see the housing market weakening. Lower rates will continue to prove a cushion to the market and give cash-flow relief to existing mortgage borrowers, but rising unemployment and a range of other factors will weigh, though the outlook remains uncertain. See [Housing Market Overview](#) for more.

Feature Article: Locked out

The long-term benefits of home ownership are significant, but buying a new home is expensive. Housing affordability has worsened in recent decades; it now costs more to purchase a house and longer to save for a deposit, putting home ownership further out of reach for many. This is true across most New Zealand regions. Recently, lower mortgage rates have made home ownership costs cheaper, benefiting existing homeowners and those who can enter the market. But those who are locked out of the market cannot reap the same benefits, and rising unemployment and income strains are eventually expected to put pressure on the debt-servicing capability of some households. The RBNZ is providing an important cushion to the economy through lower mortgage rates (and other channels), reducing the blow to both house prices and incomes. But it won't solve New Zealand's housing affordability problem; that requires a hard look at structural factors. See [Feature Article: Locked out](#) for more.

Mortgage borrowing strategy

Home loan rates haven't changed much over the past month. However, that's set to change next year if the Reserve Bank cuts the OCR to below zero in April, as we expect. If that occurs, retail mortgage rates are likely to fall further after April. We like the 1-year term at the moment – not only is this the cheapest rate, but it will expire after April, after which it is likely to be cheaper to re-fix (if the OCR goes lower as we expect). With 2- and 3-year rates also very low, they are also worth considering in order to stagger expiry dates. We generally think that's a good long-term strategy, but if the OCR does go lower, those rates are likely to go lower next year too. In our view, that gives the 1-year a slight edge at the moment.



Housing market overview

Summary

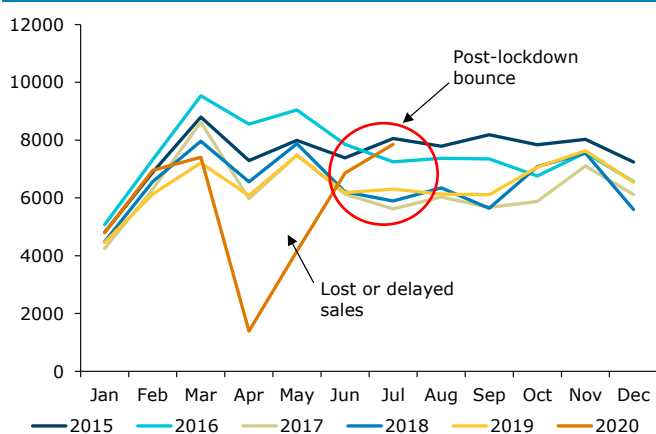
Lower mortgage rates have provided an opportunity for some buyers to enter the housing market, contributing to recent resilience in house prices. There has been a small lift in first home buyer activity, with some loans to buyers with smaller deposits, though households and banks are cautious more generally. The renewed lockdown will see a pause in some segments, even if sales and building work can proceed. And when economic impacts of the current crisis become more evident down the track, we see the housing market weakening. Lower rates will continue to prove a cushion to the market and give cash-flow relief to existing mortgage borrowers, but rising unemployment and a range of other factors will weigh, though the outlook remains uncertain.

The housing market has been resilient

The housing market has seen a solid post-lockdown bounce, driven by pent-up demand, the generalised rebound in economic activity, lower mortgage rates, and support to incomes via the wage subsidy.

Monthly house sales are 16% above February levels, reflecting partial catch-up as sales that were otherwise lost or delayed in lockdown proceed (figure 1). House prices are now 0.5% above March levels in seasonally adjusted terms, after dipping in April and May. However, the recent lift in the market has occurred at a time of the year when it would usually be on the weaker side, and further volatility in the data should be expected.

Figure 1. House sales



Source: REINZ, ANZ Research

Building activity has been elevated too, with new dwelling consents running at just 1.3% under February levels in seasonally adjusted terms. How this fares going forward will depend on the outlook for house sales and prices, along with broader business activity, which tends to be linked to high-value residential construction.

On the whole, the housing market has been remarkably resilient in the face of the enormous disruption of the COVID-19 crisis, with lower mortgage rates and the wage subsidy providing significant support, and the mortgage deferment scheme preventing fire sales. However, these policy supports have been a cushion, not a trampoline, and a number of **fundamental factors** are expected to weigh in time.

Mortgage rates supportive

Lower mortgage rates have contributed to the recent resilience in house sales and prices, with rates having fallen around 85bps from pre-crisis levels (figure 2). Recent declines in mortgage rates are a direct consequence of the RBNZ cutting the Official Cash Rate (OCR) to 0.25%, committing to keep it there, embarking on **quantitative easing** (QE), and recently, talking up the possibility of a negative OCR.

Lower mortgage rates are providing an opportunity for would-be buyers, supporting turnover and bidding power. They are also shaping expectations about future interest costs, and easing cash-flow pressures for existing mortgage holders, supporting both the housing market and spending.

Figure 2. Mortgage rates



Source: RBNZ, ANZ Research

An opportunity for some

The share of new lending to first home buyers has ticked up a little, with a slight increase in those with deposits of less than 20% (figure 3). Lower mortgage rates have provided an opportunity for some first home buyers to take the plunge or spend a bit more on planned purchases, with home ownership costs now a little lower and set to continue falling. **See Feature Article: Locked out** for more.

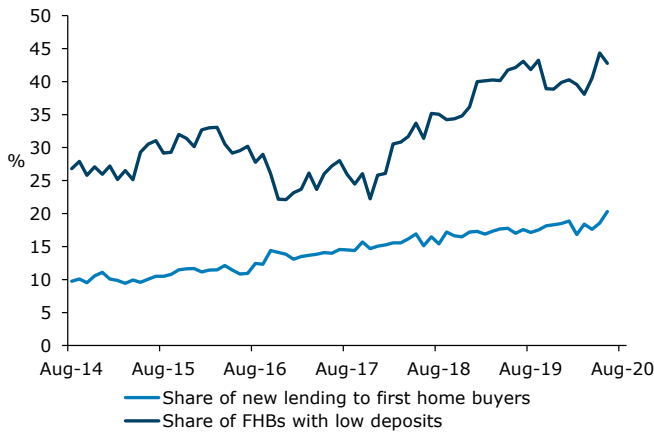
Relaxation of loan-to-value restrictions by the RBNZ may have encouraged the uptick in lower-deposit lending at the margin. But banks have always been able to do a portion of lending at lower deposits (20%



Housing market overview

of owner-occupier lending), and new lending is still well within where the restrictions used to be (there has been a tick up from 13% to 15%, still well within previous limits). So it is unlikely that the restrictions were constraining activity in aggregate prior to the change, but the response and impact may vary from bank to bank.

Figure 3. Lending to first home buyers



Source: RBNZ, ANZ Research

Lockdown pause expected

For house prices, the boost from lower mortgage rates alongside income support from the wage subsidy has been offset by weak net migration, uncertainty about the future, and rising unemployment. Those offsetting forces have seen house prices back around where they were in March. But where to now?

The renewed Alert Level 3 lockdown in Auckland will affect the housing market, even if the current outbreak can be contained quickly. House sales and building will be impaired in Auckland, which comprises about a third of national house sales and 38% of New Zealand’s GDP. And even if the lockdown is relatively short, there are clearly broader output losses, making the outlook worse. Significant regional divergence in the housing market can be expected in the near term, potentially putting the recent rebound on pause in aggregate.

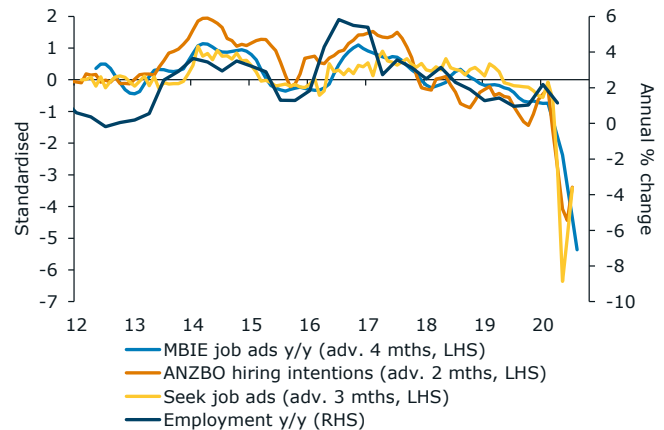
Economic outlook to weigh longer term

Eventually, the impact of a weaker economy is expected to weigh on the market. But this may not be seen until we see the labour market start to weaken materially. Job losses have been reduced and delayed by the wage subsidy and its subsequent extensions, though impacts of the downturn on the labour market cannot be avoided indefinitely. Even before the renewed lockdown began, firms were cutting back on headcount (figure 4) and job losses were rising.

We’ve updated our GDP and labour market forecasts to incorporate a stronger starting point, the negative

impacts of renewed lockdown and weakening in underlying momentum, and the supportive impacts of increased fiscal and monetary stimulus. But downside risks remain, especially on the back of the renewed lockdown. Income strains are expected to intensify as unemployment rises, weighing significantly on spending and the housing market.

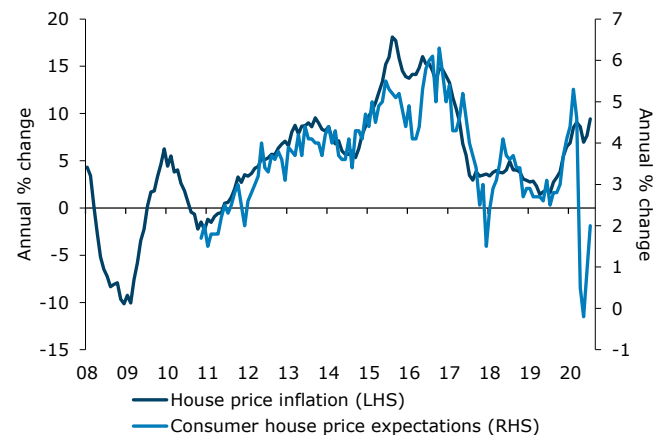
Figure 4. Employment and forward indicators



Source: MBIE, Statistics NZ, Seek. ANZ Research

In the current environment of uncertainty, house price expectations are downbeat (figure 5), and that is expected to affect negotiations and bidding behaviour in auction rooms. Adding to that, banks and households are cautious about credit, and this underlying caution is expected to become more evident once the current flurry subsides.

Figure 5. House price expectations and actual



Source: REINZ, Roy-Morgan, ANZ Research

But mortgage rates to go even lower

Providing an offset, mortgage rates now look set to go even lower than previously forecast.

The RBNZ’s most recent easing in monetary policy through the expansion of QE to \$100bn will flow through into lower mortgage rates in coming months. But more importantly, the fact that the OCR looks set



Housing market overview

to go into negative territory next year will weigh on mortgage rates significantly, even before the policy is deployed. We expect the OCR to reach -0.25% in April next year, with mortgage rates assumed to fall around another 80bps or more from current levels, though the impacts of monetary stimulus on mortgage rates is uncertain (See [mortgage rate forecast table](#)).

Still-lower mortgage rates will provide further support to the housing market, cushioning against the weaker economic outlook we see unfolding.

Overall, we see house prices falling 5-10%, but a fall in the smaller end of this range now looks possible (central forecast is now 6%, versus 9% previously), with this weakening not expected to be seen until later this year and into next, given the extension of the wage subsidy and mortgage deferment schemes.

Without more stimulus, our more downbeat view of the outlook would otherwise weigh on house prices, but monetary policy and the extension of the wage subsidy are expected to provide a potent offset.

However, uncertainty around the economic outlook, and by extension the outlook for the housing market, is large. Downside risks are significant and could see the GDP and labour market outlooks deteriorate more significantly than currently assumed, which could see a more abrupt or larger correction in house prices.

On the other hand, it is possible that the economy can regain momentum on the other side of the current outbreak and generate a more self-sustaining recovery, even with the border closed. This, and/or more potent impacts from policy than we currently expect, could see the housing market remain relatively resilient, rather than weakening as we currently expect. Forecasting the housing market is a fraught exercise at the best of times, and these are not the best of times, with significant uncertainty around migration, unemployment, the impact of unprecedentedly low mortgage rates, and a very uncertain macroeconomic environment more generally.

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

	Median house price			House price index		# of monthly sales	Monthly % change	Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change			
Northland	\$550,667	16.4	5.1	10.1	1.2	219	+20%	49
Auckland	\$938,022	11.7	1.5	9.3	-0.2	2,580	+24%	34
Waikato	\$622,114	17.3	7.9	11.4	1.3	898	+15%	31
Bay of Plenty	\$665,235	15.7	-1.2	7.1	0.1	576	+27%	39
Gisborne	\$490,710	36.9	11.7			35	-35%	37
Hawke's Bay	\$571,787	17.5	1.4	15.7	2.2	283	+22%	29
Manawatu-Whanganui	\$448,082	19.7	2.8	9.6	-5.7	444	+14%	28
Taranaki	\$462,135	23.7	9.7	10.5	0.9	236	+39%	25
Wellington	\$716,975	10.4	-0.2	10.2	-2.1	886	+15%	29
Tasman, Nelson & Marlborough	\$595,000	14.4	-2.8			301	+34%	36
Canterbury	\$482,665	6.7	1.0	7.6	2.5	1,095	+8%	33
Otago	\$537,581	8.5	5.7	9.0	-4.9	460	+5%	35
West Coast	\$227,712	26.6	2.1	5.7	0.1	61	+2%	51
Southland	\$360,365	20.3	6.0	13.2	-0.3	172	-21%	30
New Zealand	\$669,243	14.9	-2.4	9.4	-0.4	8,188	+16%	34



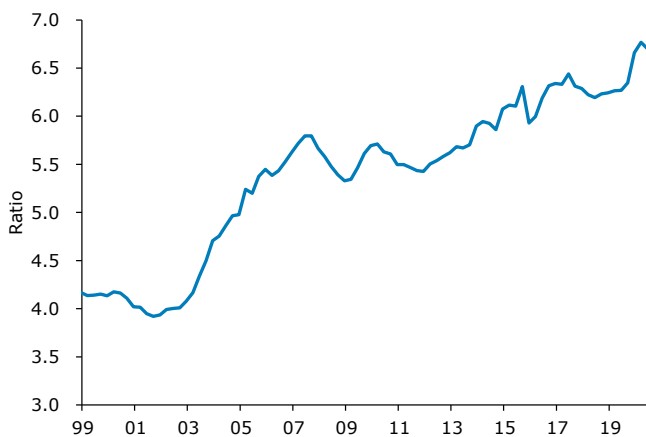
Summary

The long-term benefits of home ownership are significant, but buying a new home is expensive. Housing affordability has worsened in recent decades; it now costs more to purchase a house and longer to save for a deposit, putting home ownership further out of reach for many. This is true across most New Zealand regions. Recently, lower mortgage rates have made home ownership costs cheaper, benefiting existing homeowners and those who can enter the market. But those who are locked out of the market cannot reap the same benefits, and rising unemployment and income strains are eventually expected to put pressure on debt-servicing capability of some households. The RBNZ is providing an important cushion to the economy through lower mortgage rates (and other channels), reducing the blow to both house prices and incomes. But it won't solve Zealand's housing affordability problem; that requires a hard look at structural factors.

New Zealand houses are expensive

Houses have become more expensive over the past two decades. House prices have risen dramatically to be 2.5 times higher than in the late 1990s in real terms. Incomes have risen too, but not to the same extent. House prices have risen from four times to almost seven times incomes over the same period (figure 1).

Figure 1. House prices to incomes (median multiple)



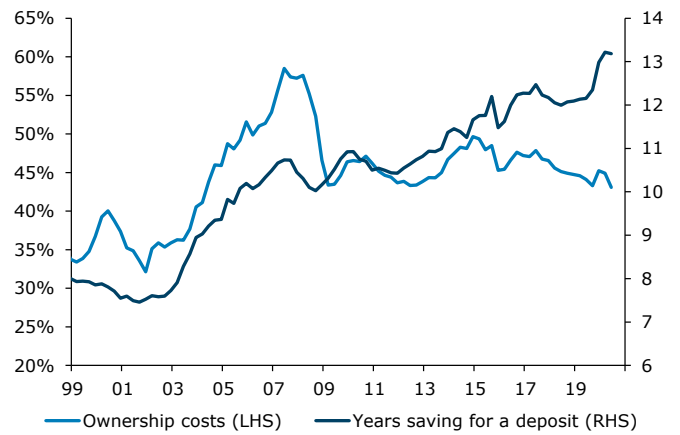
Source: REINZ, Statistics NZ, ANZ Research

House prices relative to incomes is not a perfect measure of housing affordability, because it does not take into account the fact that structural declines in mortgage rates have provided an offset by reducing debt-servicing costs.

We consider two alternative measures, which we view as more representative of housing affordability (figure 2):

- Ownership costs relative to incomes, for those purchasing their first home; and
- Costs of saving for a deposit while renting relative to incomes, for those who are trying to get onto the property ladder.

Figure 2. Alternative measure of housing unaffordability



Source: RBNZ, REINZ, Statistics NZ, ANZ Research

Note: Based on median house price, median incomes, mortgage and deposit rates, and other costs (rates, maintenance, insurance etc.) assumed to equal 2% of property value.

These measures are illustrative, based on median housing values and incomes. In reality, costs will depend on personal circumstances and the particular house one buys or rents. For example, most purchasers choose a lower-value property as their first step on the property ladder, but the same trends will hold.

Based on these measures, houses are expensive and have become more so. Since the late 1990s, ownership costs have increased from about 35% of household incomes to around 45%, and the time taken to save for a deposit (assuming one is saving 10% of pre-tax income) has extended from 8 to almost 14 years. On a like-for-like basis, purchasing a new home costs about twice as much as renting.

Weighing up the decision to rent or buy is very situation dependent and is contingent on personal circumstances, costs, preferences, income expectations, taxes, expectations of capital gains, and other perceived benefits. But for those who do own their own homes, the benefits can be very substantial, including security of tenure and eventual freehold status, especially valuable in retirement.

There will always be some who cannot afford to purchase a house to secure these benefits, and the cohort of people who are able and willing to do so has reduced as houses have become more expensive. The rate of home ownership has fallen from 74% in the early 90s to 65% in 2013.



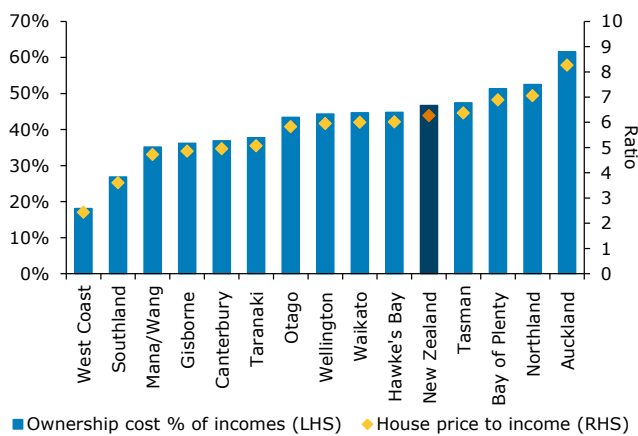
Feature Article: Locked out

Costs of home ownership can be a significant constraint on housing affordability even with interest rates extremely low. This is because house prices, and by extension debt levels, are very high. Secular declines in mortgage rates have been more than offset by rising house prices over the past few decades.

Most regions are expensive

Houses are expensive across most New Zealand regions, with home ownership costs comprising more than 40% of incomes in 8 out of 14 regions, and more than 60% in Auckland (figure 3 and heatmap).

Figure 3. Housing affordability by region (June 2019)



Source: RBNZ, REINZ, Statistics NZ, ANZ Research

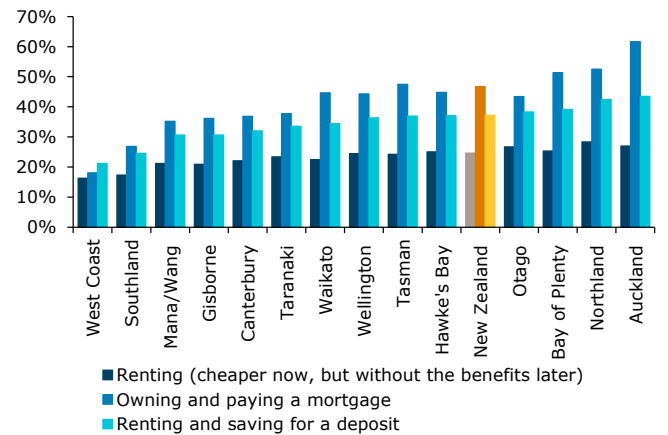
For those looking to get onto the property ladder, saving and renting concurrently on average eats up about 37% of incomes in New Zealand as a whole, and as much as 43% in Auckland (figure 4).

Regional comparison

	House price to annual income	Years saving for a deposit (10% of pre-tax incomes)	Home ownership costs % of incomes	Rent relative to incomes (pre-tax)	Rent + deposit saving relative to incomes	Home ownership cost relative to rents + deposit saving	Home ownership cost relative to rents
Northland	7.1	14	53%	28%	42%	1.2	1.9
Auckland	8.3	16	62%	27%	43%	1.4	2.3
Waikato	6.0	12	45%	22%	34%	1.3	2.0
Bay of Plenty	6.9	13	51%	25%	39%	1.3	2.0
Gisborne	4.9	9	36%	21%	31%	1.2	1.7
Hawke's Bay	6.0	12	45%	25%	37%	1.2	1.8
Manawatu-Whanganui	4.7	9	35%	21%	31%	1.1	1.7
Taranaki	5.1	10	38%	23%	34%	1.1	1.6
Wellington	5.9	12	44%	24%	36%	1.2	1.8
Tasman-Nelson-Marlb	6.4	12	47%	24%	37%	1.3	2.0
Canterbury	5.0	10	37%	22%	32%	1.2	1.7
Otago	5.8	11	43%	27%	38%	1.1	1.6
West Coast	2.4	5	18%	16%	21%	0.9	1.1
Southland	3.6	7	27%	17%	25%	1.1	1.5
New Zealand	6.3	12	47%	25%	37%	1.3	1.9

Source: Statistics NZ, MBIE, REINZ, ANZ Research

Figure 4. Costs of owning versus renting (June 2019)



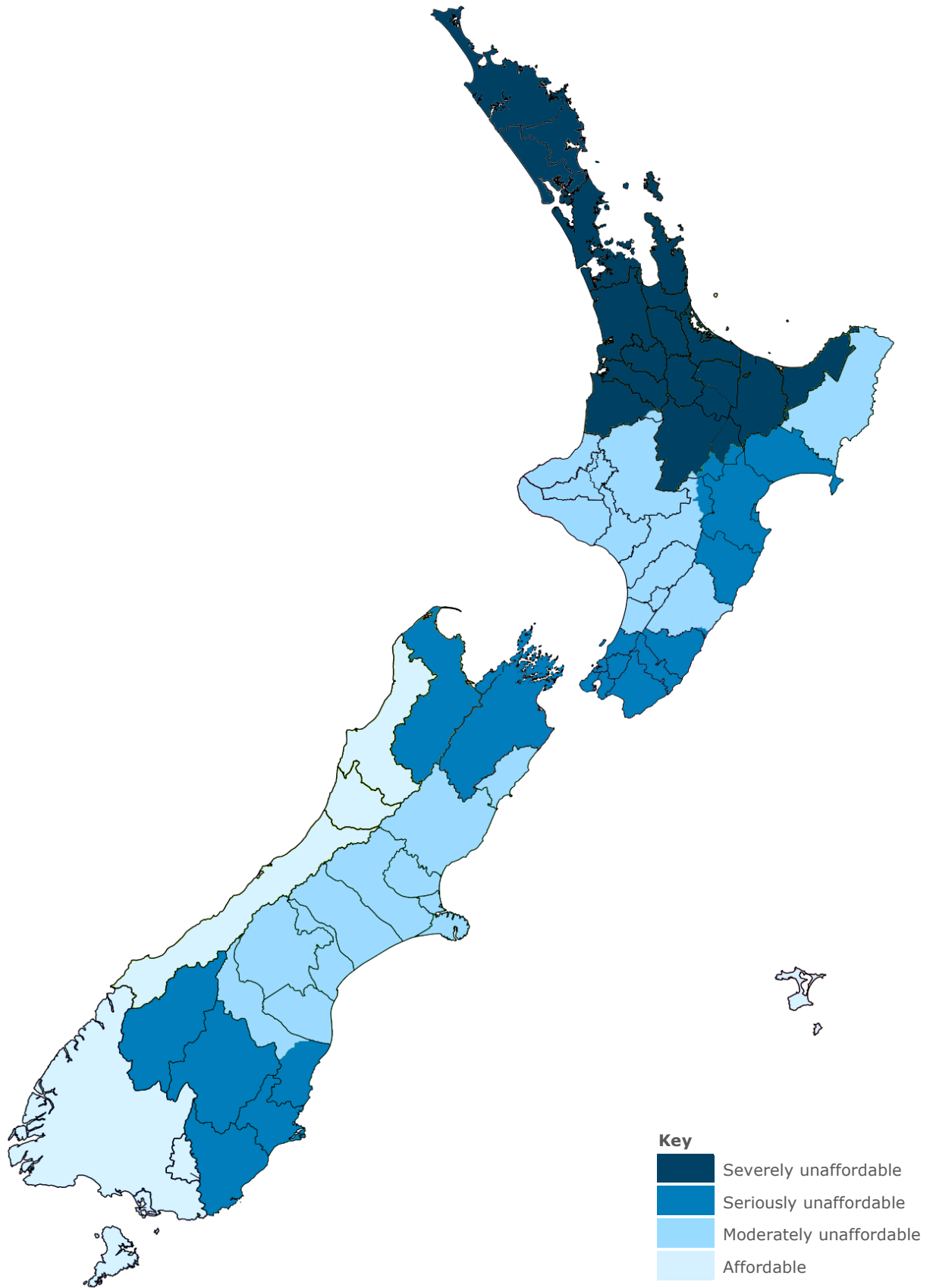
Source: MBIE, RBNZ, REINZ, Statistics NZ, ANZ Research

High house prices in regions like Auckland reflect the desirability of living there and also that population growth tends to be strong, with the region getting a significant portion of new migrants. In general, people (including those with a high willingness to pay) will pay a premium to live in vibrant centres, with amenities, good weather, natural capital, good infrastructure, plentiful jobs, and growth potential.

To some extent, population can adjust to high housing costs, with people gravitating to areas where housing is cheaper, and this does occur to some degree, but it is limited. Generally, people will move to where the jobs are. When houses in Auckland get more expensive, people may move to Hamilton and Tauranga, but Southland is a less obvious substitute.



Heatmap: Regional comparison





High house prices reflect structural factors

The reasons why housing has become more expensive tend to be structural in nature. Demand for housing has been very strong in a supply-constrained environment. Supply constraints exist because of land-use constraints, regulatory restrictions and slow responsiveness of new building. Demand pressures have been a result of migration-driven population growth, increased credit availability, and a trend decline in neutral interest rates (largely owing to structural factors, not cyclical monetary policy). If housing supply could easily respond, then these demand pressures would result in more building (both more and bigger houses), but in a supply-restricted environment, higher demand ends up being reflected to a greater degree in the price.

Addressing New Zealand's housing affordability problem would require a hard look at land supply, building regulation, migration settings, and structural policies. Affordability metrics may ebb and flow in the future around current levels as conditions change, but a significant shift is hard to imagine. With an enormous amount of wealth tied up in housing and changes both logistically and politically difficult, it's difficult to achieve the sorts of structural changes that would elicit a meaningful difference. The current Government has made efforts to free up land supply and solving greenfields infrastructure funding challenges, but it's not easy.

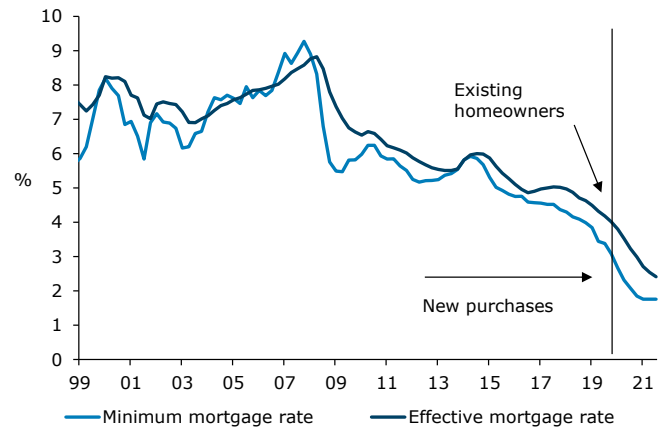
Ownership costs a little cheaper recently

Recently, declines in mortgage rates have contributed to resilience in house prices (see [Housing market overview](#) for more details). For new purchases, the minimum mortgage rate has fallen about 80bps. And we assume this will decline by another 80bps, though the outlook is uncertain. We are currently pencilling in total falls across the curve of 160-195bps between February 2020 and May next year.

The catalyst for further falls is predominantly expected to be a move to a negative OCR next year. No, your bank won't be paying you to borrow, but it will mean further downward pressure on mortgage rates. QE will also drive the term structure flatter, meaning particular pressure on longer-term rates. However, there is uncertainty about the pass through of these policies to mortgage rates in practice.

For existing homeowners, the effective mortgage rate on outstanding debt will take a bit longer to decline, as fixed mortgage parcels roll off and are re-fixed at lower rates. We assume that it will fall gradually from 4.1% pre-COVID, to 3.7% now, to 2.4% at the end of 2021 (figure 5).

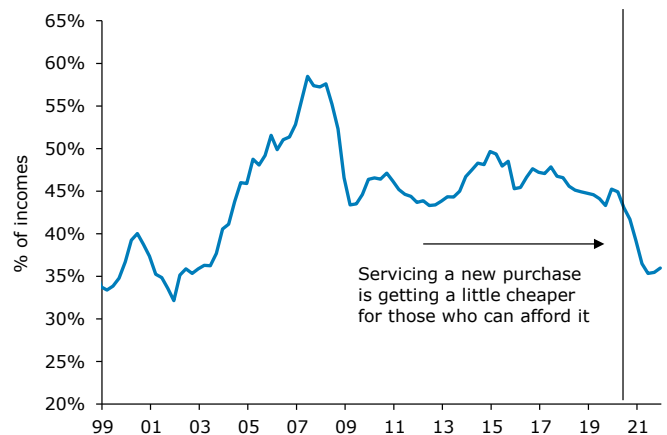
Figure 5. Minimum and effective mortgage rate



Source: RBNZ, ANZ Research

As minimum mortgage rates have fallen, home ownership costs for those entering the market have eased a little to 43% of incomes (figure 6), with incomes also coming under pressure recently. We expect home ownership costs will decline further, to perhaps 35% of incomes, as mortgage rates fall further, with weakness in house prices dampening costs for new purchases too, but weaker incomes providing an offset.

Figure 6. Home ownership costs (for new purchases)



Source: RBNZ, REINZ, Statistics NZ, ANZ Research

But income strains to more than offset

Although some new and existing homeowners are benefiting from lower mortgage rates, overall ability to service debt has the potential to be much more negatively impacted by firm difficulties and rising unemployment, especially for those directly affected. This will weigh on house prices and spending generally.

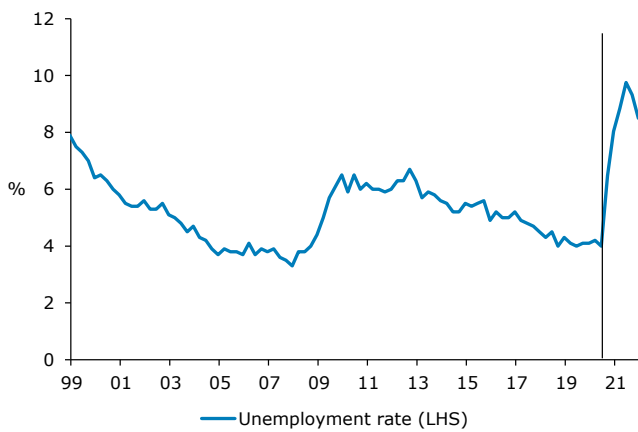
Income strains and job losses are expected to be further exacerbated by the renewed lockdown in Auckland, dampening the GDP outlook, although the extent of this is uncertain. More monetary stimulus and extended fiscal supports are likely to cushion the blow,



but the scars of the current crisis are likely to worsen as the lack of normality becomes more prolonged and [closed border impacts hit](#), especially with some businesses coming out of the previous lockdown in an already-fragile position.

The RBNZ is fulfilling a crucial role to cushion the blow, stimulating demand through lower mortgage rates and a range of other channels. But monetary policy is a blunt instrument and can't offset all of the painful economic adjustment taking place due to the closed border. We see unemployment rising to 10% (figure 7), but a bit later than previously expected, with the brunt of the economic impact to become clear later this year.

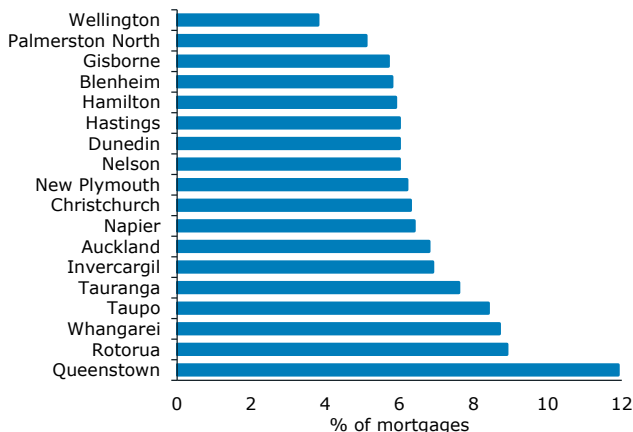
Figure 7. Unemployment rate



Source: Statistics NZ, ANZ Research

The impact of income strains will be felt unevenly by region. Disparate regional impacts across the country are already being borne out in mortgage deferment data, which suggest that households in tourism hotspots Queenstown and Rotorua are feeling the most financial strain (figure 8). Some areas are [particularly vulnerable](#) to house price falls, while other areas are likely to see more resilient prices.

Figure 8. Mortgage deferment by region



Source: Centrix

No game changer for housing affordability

RBNZ stimulus will boost both incomes and house prices, so the implications for overall housing affordability are unclear. Generally speaking, inflation-targeting monetary policy is a cyclical policy to stabilise the economy, rather than being a structural driver of unaffordable house prices.

There is a risk that the current crisis sees equilibrium interest rates lower for a long time (due to reduced productive capacity in the economy, higher debt burdens and/or lower inflation expectations), which could see house prices to income ratios worsen slightly for a time, though lower mortgage rates would offset in terms of home ownership costs. But on the other hand, there is a risk that a more abrupt adjustment in house prices could see house price to incomes reduce.

Our current forecasts have house prices to income declining, but not moving too far from current levels, though the exact path is uncertain. The point is: we don't see the current crisis, or the dramatic change in the stance of monetary policy that has occurred, as being a game changer for housing affordability in either direction.

There are always winners and losers in terms of policy impacts, though. For those saving for a deposit (and for savers generally), lower interest rates will mean it takes longer to build up a nest egg. However, if interest rates were not lower, income prospects would be worse for many people. And the hardship and inequalities that arise from people not being able to find employment should not be underestimated.



Mortgage borrowing strategy

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

Summary

Home loan rates haven't changed much over the past month. However, that's set to change next year if the Reserve Bank cuts the OCR to below zero in April, as we expect. If that occurs, retail mortgage rates are likely to fall further after April. We like the 1-year term at the moment – not only is this the cheapest rate, but it will expire after April, after which it is likely to be cheaper to re-fix (if the OCR goes lower as we expect). With 2- and 3-year rates also very low, they are also worth considering in order to stagger expiry dates. We generally think that's a good long-term strategy, but if the OCR does go lower, those rates are likely to go lower next year too. In our view, that gives the 1-year a slight edge at the moment.

Our view

Average mortgage rates haven't changed much over the past month, but that is all set to change as we head into 2021, with most forecasters including ANZ now expecting the Reserve Bank (RBNZ) to lower the OCR to below zero in April. At the outset it is worth highlighting that we and the RBNZ do not have any expectation that retail interest rates will end up falling below zero – that's not what is likely to happen. But if we do see wholesale interest rates fall further, that has important implications for retail interest rates. In fact, it is worth adding that the whole reason why the RBNZ increased the size of its Large Scale Asset Purchase (QE) programme this month was to "further lower retail interest rates in order to achieve its [inflation and full employment] remit". In plain English: the RBNZ want retail interest rates to fall, and they will set monetary policy to make sure that it happens.

So if the likelihood of mortgage rates falling further is on the cards, readers may ask themselves: why fix at all? There are two good reasons. First, floating rates are a lot more expensive than, for example, the average 1-year fixed rate. Mortgage rates are based on wholesale interest rates, which now incorporate an expectation of lower interest rates. But the 1-year rate is mostly lower because that's the part of the market where banks like to compete the most, and because of that, we tend to view a 1-year fixed rate as a close proxy to floating, albeit a vastly cheaper one. The second reason (and it isn't always the case – but it is now) is that the RBNZ have committed to not lowering the OCR till at least March 16th 2021. So that means they won't cut at their February meeting, but they can in April, **and that's what we expect them to do.**

The logic of using a fixed rate as a proxy for floating also applies to the 6-month, but the 6-month rate is

higher than the one-year and we don't see the RBNZ cutting till April, making it a less attractive proposition.

Staggering fixed terms has merit as it spreads out the risk of unexpected moves in interest rates. But it tends to better suit times when one is more confident that interest rates are rising. At the moment, the RBNZ is clearly signalling lower rates. Nonetheless, it's worth doing the maths, and breakeven analysis can help. For example; the 1-year breakeven rate in one year's time is 2.83%. If the choice is between 1-year at 2.55% or 2-years at 2.69%, you'd be financially better off selecting the 1-year and re-fixing for another year in a year if you thought the 1-year would likely be below 2.80% in a year. And because we think rates are biased to go lower, that tilts the decision towards the 1-year, with a view to re-fixing once the OCR is lower in 2021.

Figure 1. Carded special mortgage rates[^]

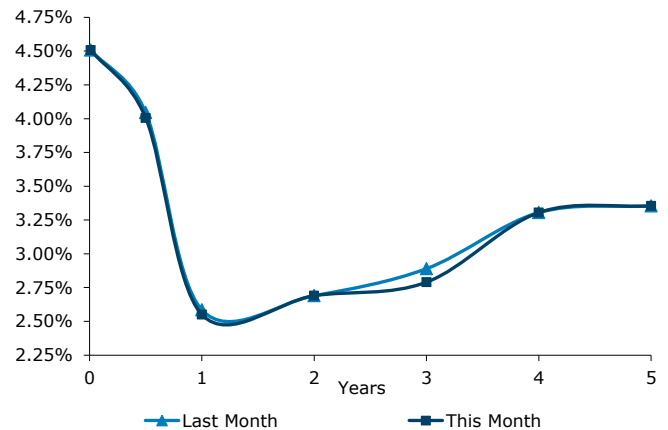


Table 1. Special Mortgage Rates

Term	Current	Breakevens for 20%+ equity borrowers			
		in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	4.01%	1.10%	2.76%	2.90%	2.94%
1 year	2.55%	1.93%	2.83%	2.92%	2.99%
2 years	2.69%	2.42%	2.91%	3.37%	3.92%
3 years	2.79%	2.89%	3.56%	3.69%	3.80%
4 years	3.31%	3.25%	3.56%		
5 years	3.36%	#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	4.16%	2.35%	3.49%	3.33%	3.79%
1 year	3.25%	2.92%	3.41%	3.56%	3.89%
2 years	3.33%	3.24%	3.65%	4.01%	4.51%
3 years	3.52%	3.64%	4.14%	4.27%	4.44%
4 years	3.92%	3.93%	4.18%		
5 years	4.00%	#Average of "big four" banks			

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

Source: interest.co.nz, ANZ Research



Key forecasts

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

Mortgage 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

Mortgage rate forecasts (fixed rates based on special rates)

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

Source: RBNZ, ANZ Research

Economic forecasts

Economic indicators	Actual				Forecasts						
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	
GDP (Annual % Chg)	2.4	1.8	-0.2	-17.8	-5.4	-4.7	-4.6	16.8	1.7	2.5	
CPI Inflation (Annual % Chg)	1.5	1.9	2.5	1.5	1.3	0.9	0.5	1.1	0.8	0.6	
Unemployment Rate (%)	4.1	4.1	4.2	4.0	6.5	8.0	8.8	9.8	9.3	8.5	
House Prices (Quarter % Chg)	1.6	3.2	3.3	0.2	0.0	-3.0	-3.0	0.0	2.0	2.0	
House Prices (Annual % Chg)	2.7	5.3	8.2	8.5	6.8	0.4	-5.7	-5.9	-4.0	0.9	

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

Source: ANZ Research, Statistics NZ, RBNZ, REINZ



Contact us

Meet the team

We welcome your questions and feedback. Click [here](#) for more information about our team.



Sharon Zollner
Chief Economist

Follow Sharon on Twitter
[@sharon_zollner](#)

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

General enquiries:
research@anz.com

Follow ANZ Research
[@ANZ_Research](#) (global)



David Croy
Senior Strategist

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

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



Susan Kilsby
Agricultural Economist

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

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



Liz Kendall
Senior Economist

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

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



Miles Workman
Senior Economist

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

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



Kyle Uerata
Economic Statistician

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

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



Natalie Denne
PA / Desktop Publisher

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

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



Important notice

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Important notice

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

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

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

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

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

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

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

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

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

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

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

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