ANZ Research

August 2020

New Zealand Property Focus

Locked out

At a glance

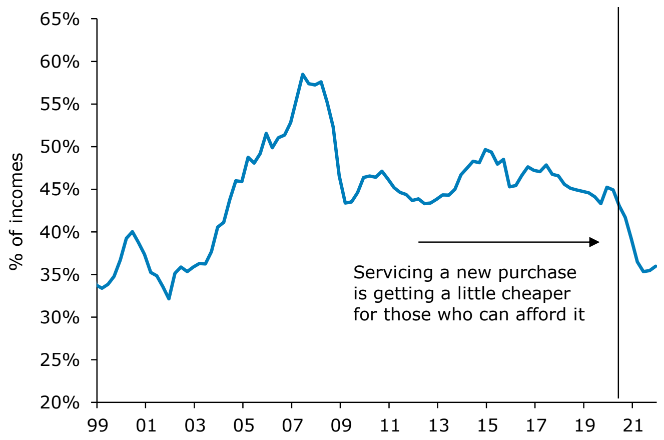
Housing market resilient

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

Servicing getting cheaper

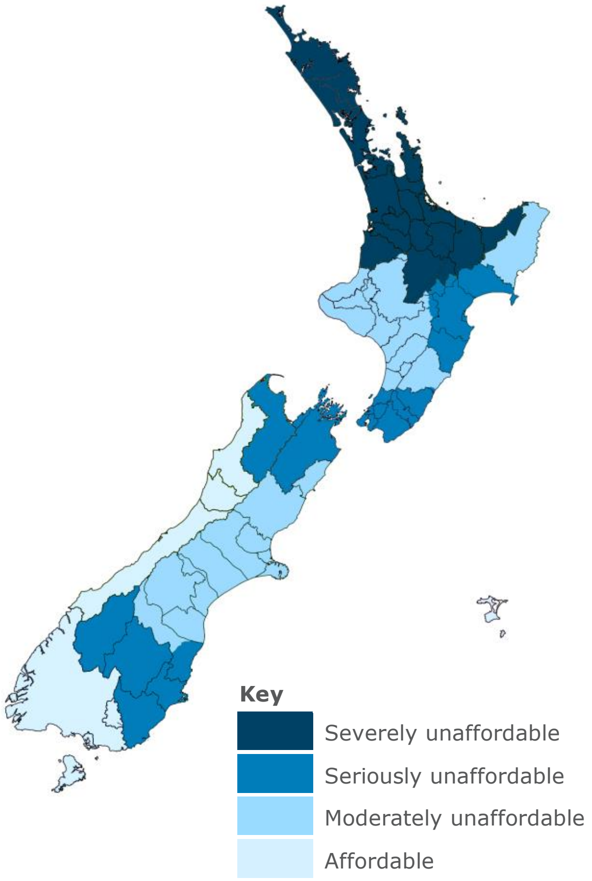
On the back of lower interest rates



Source: Statistics NZ, REINZ, RBNZ, ANZ Research

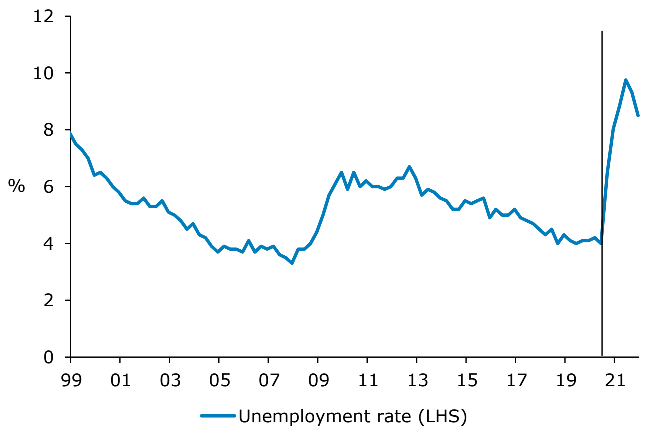
Expensive in most places

That's not set to change much



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

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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.

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

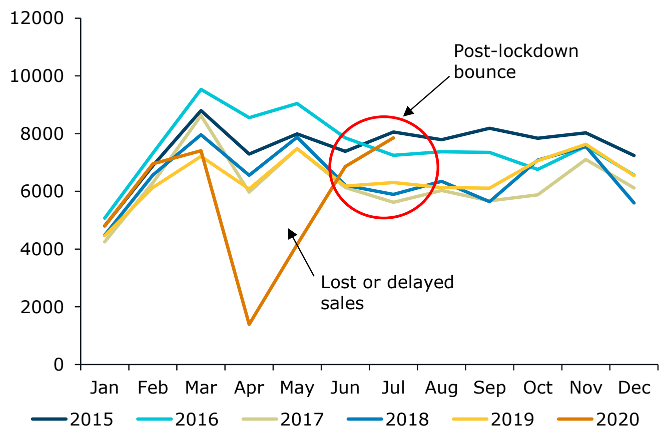
Lower mortgage rates have provided an opportunity for some buyers to enter the housing market, contributing to recent resilience in house prices. There has been a small lift in first home buyer activity, with some loans to buyers with smaller deposits, though households and banks are cautious more generally. 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.

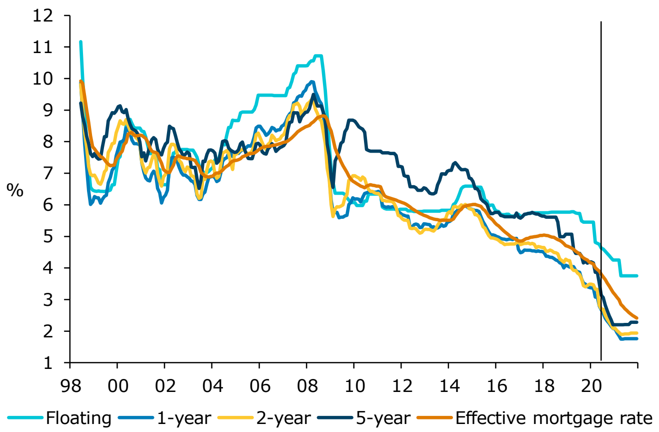
On the whole, the housing market has been remarkably resilient in the face of the enormous disruption of the COVID-19 crisis, with lower mortgage rates and the wage subsidy providing significant support, and the mortgage deferment scheme preventing fire sales. However, these policy supports have been 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

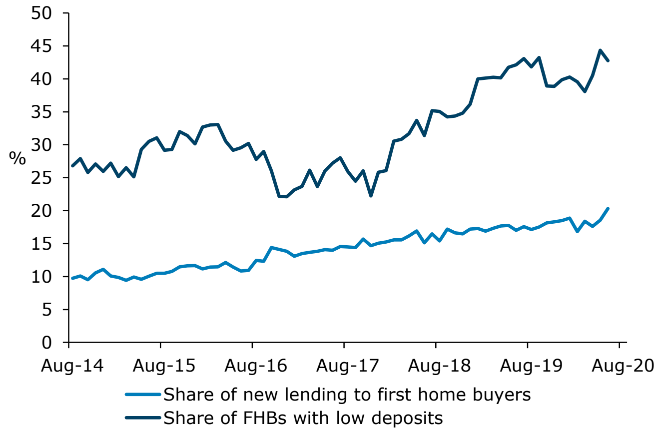
An opportunity for some

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%

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?

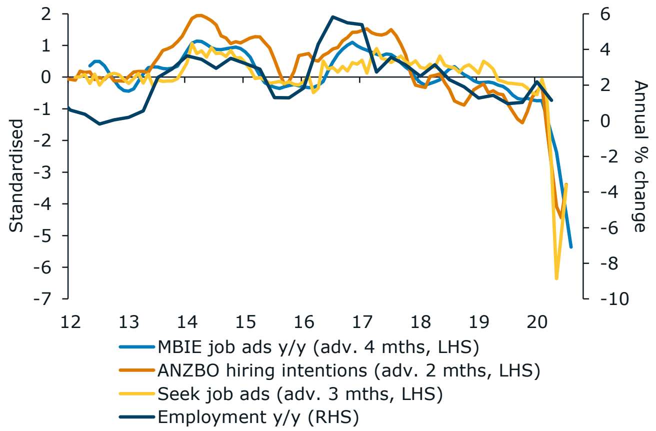
The renewed Alert Level 3 lockdown in Auckland will affect the housing market, even if the current outbreak can be contained quickly. House sales and building will be impaired in Auckland, which comprises about a third of national house sales and 38% of New Zealand's GDP. And even if the lockdown is 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.

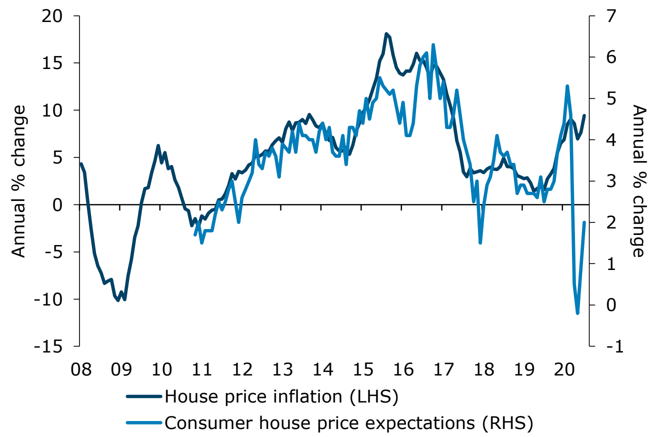
Figure 4. Employment and forward indicators



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 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**

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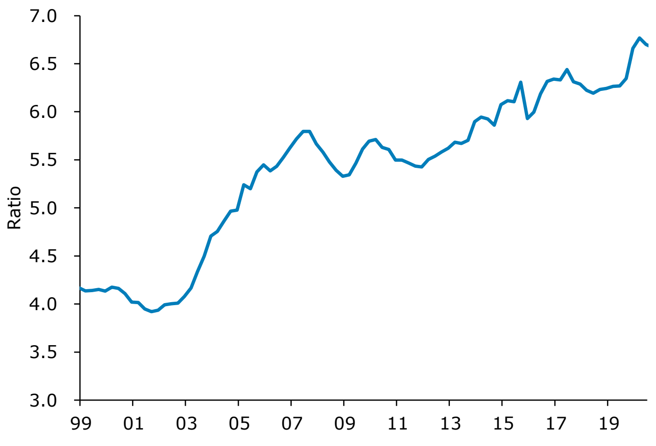
Summary

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)



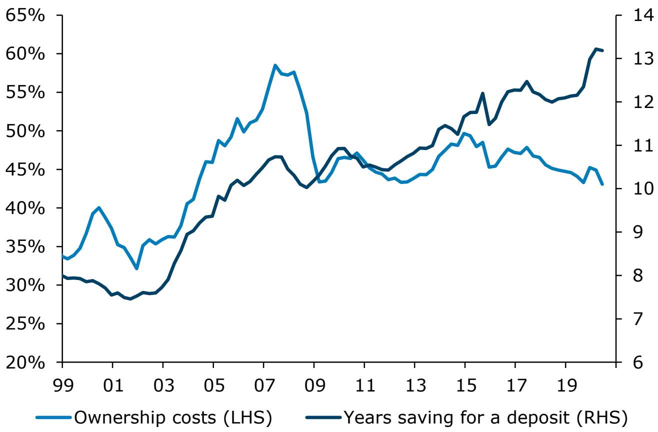
Source: REINZ, Statistics NZ, ANZ Research

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.

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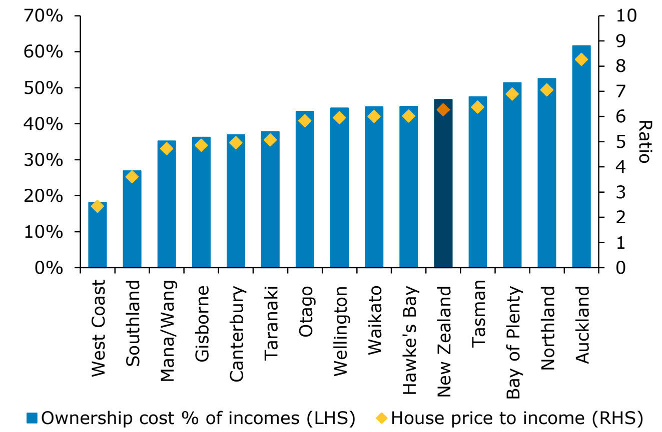
Costs of home ownership can be a significant constraint on housing affordability even with interest rates extremely low. This is because house prices, and by extension debt levels, are very high. Secular declines in mortgage rates have been more than offset by rising house prices over the past few decades.

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).

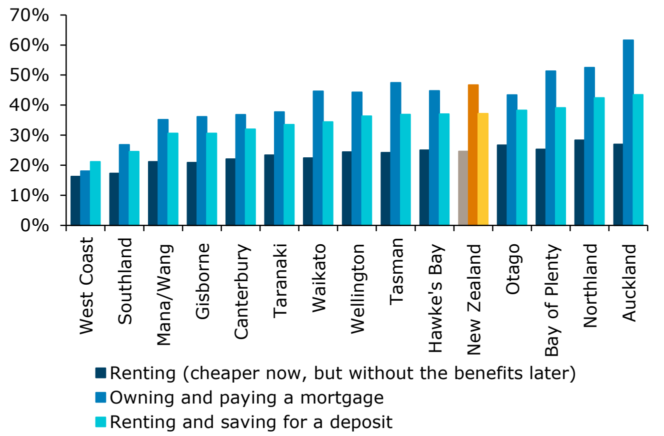
Figure 3. Housing affordability by region (June 2019)



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).

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.

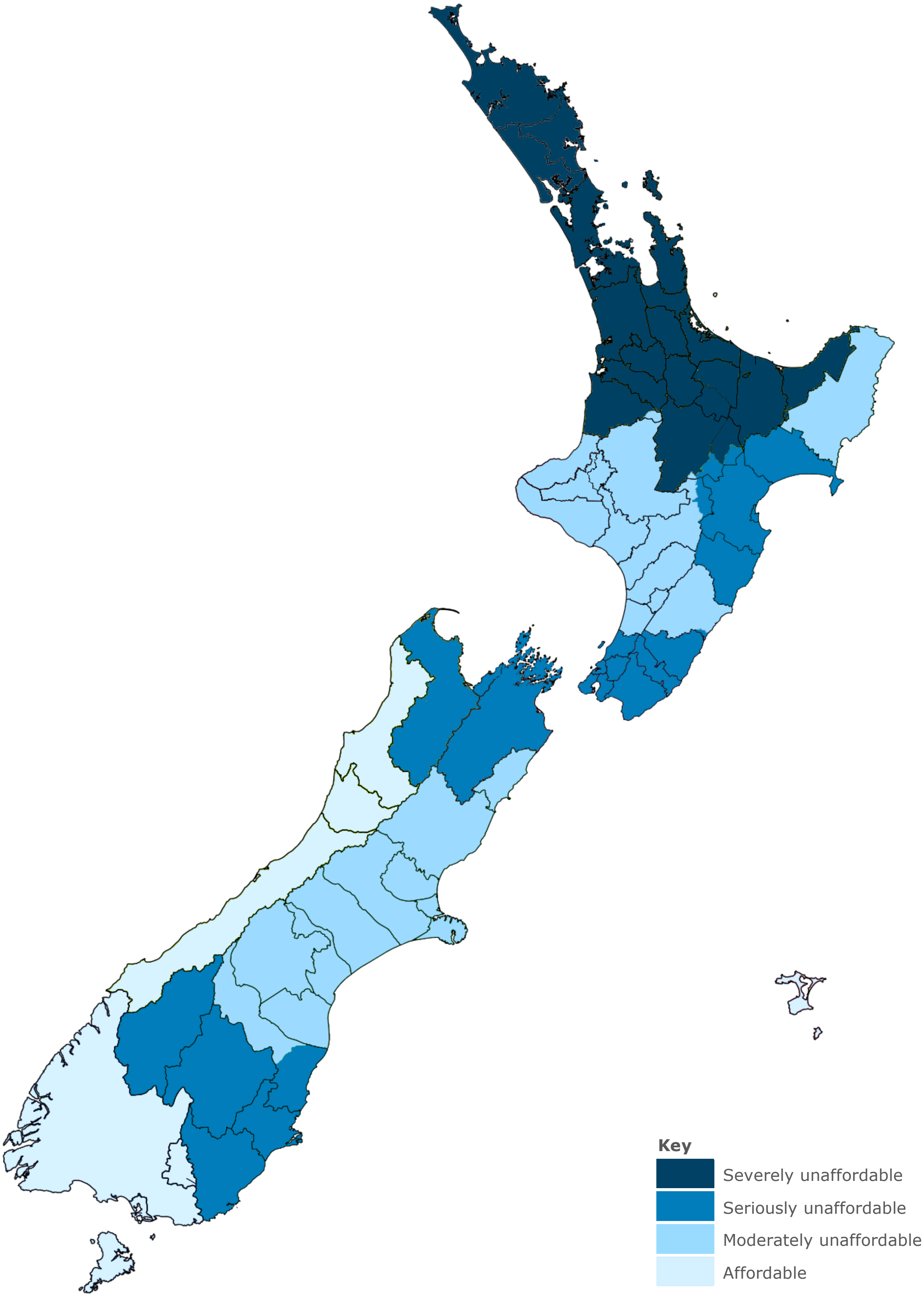
To some extent, population can adjust to high housing costs, with people gravitating to areas where housing is cheaper, and this does occur to some degree, but it is limited. Generally, people will move to where the jobs are. When houses in Auckland get more expensive, people may move to Hamilton and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

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

Heatmap: Regional comparison



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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.

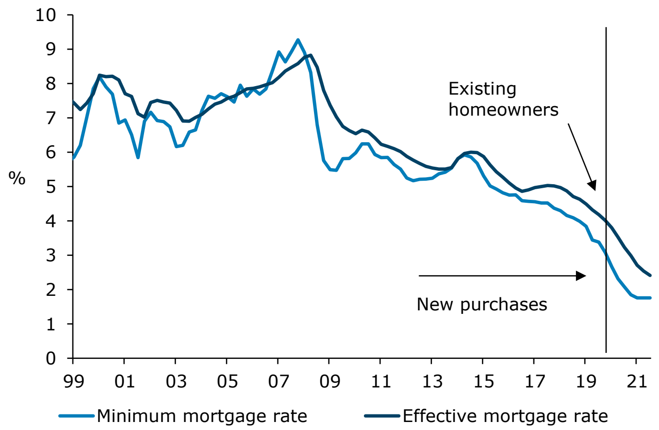
Ownership costs a little cheaper recently

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).

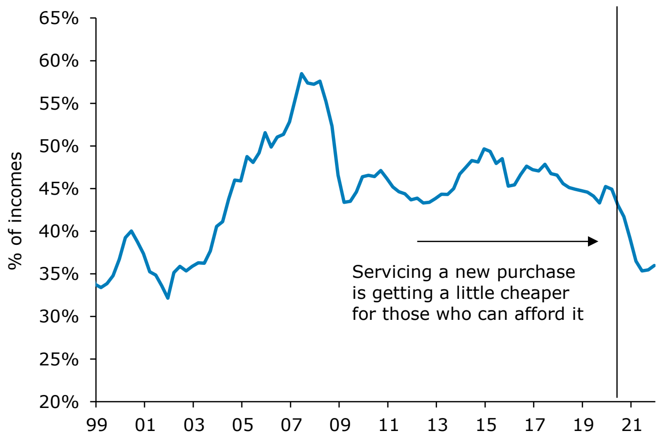
Figure 5. Minimum and effective mortgage rate



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

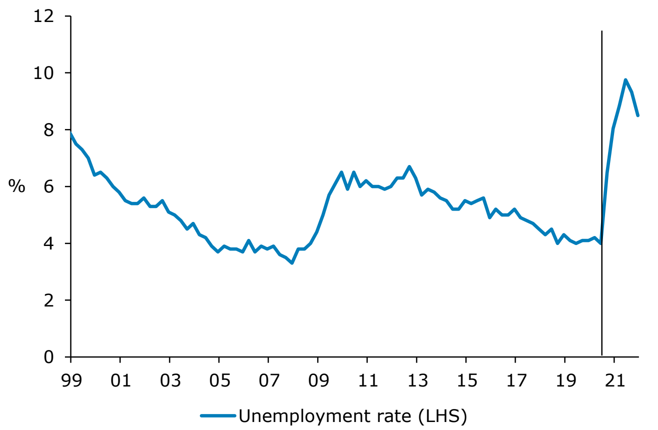
But income strains to more than offset

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.

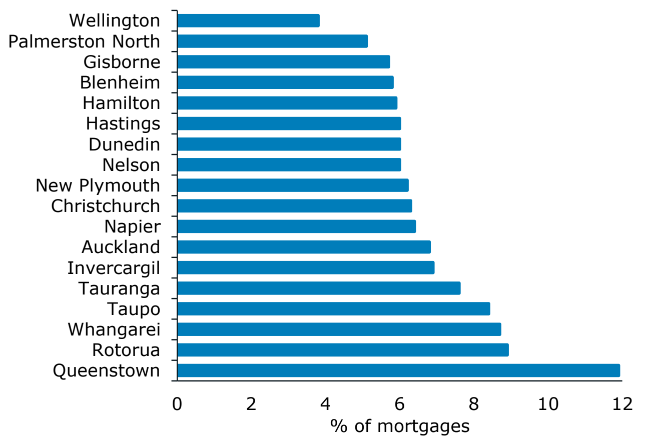
Figure 7. Unemployment rate



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

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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 2001. 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^

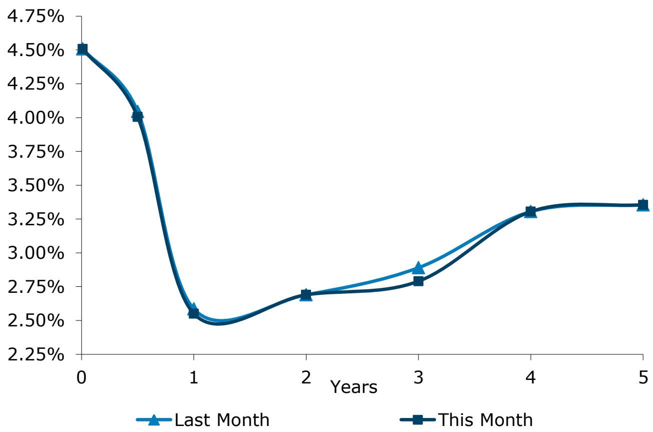

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	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

		Breakevens for standard mortgage rates*			
Term	Current	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)

	Actual			Forecasts						
Interest rates	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Floating Mortgage Rate	5.5	4.8	4.6	4.5	4.3	4.3	3.8	3.8	3.8	3.8
1-Yr Fixed Mortgage Rate	3.4	3.1	2.7	2.3	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

	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 (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	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

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