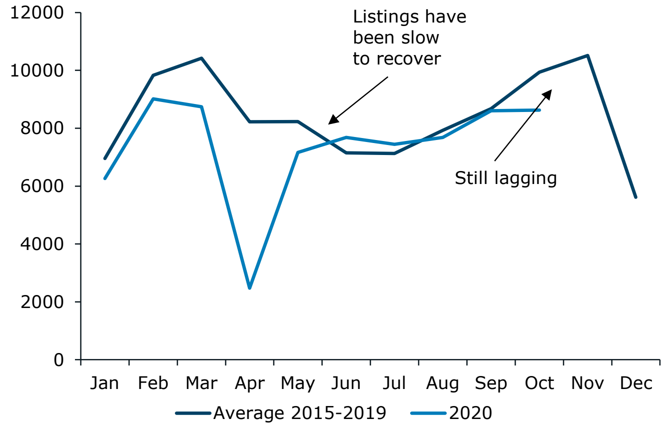
New Zealand Property Focus

Bag of tricks

Perfect storm for price rises

Strong demand but listings lagging

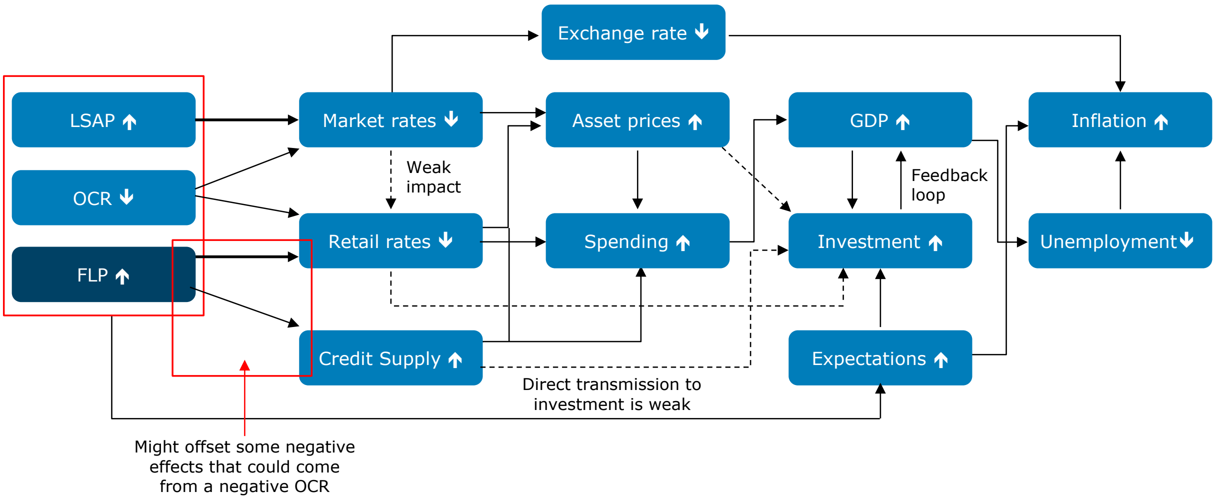


Market "frothy", risks rising

Speculative dynamic at play

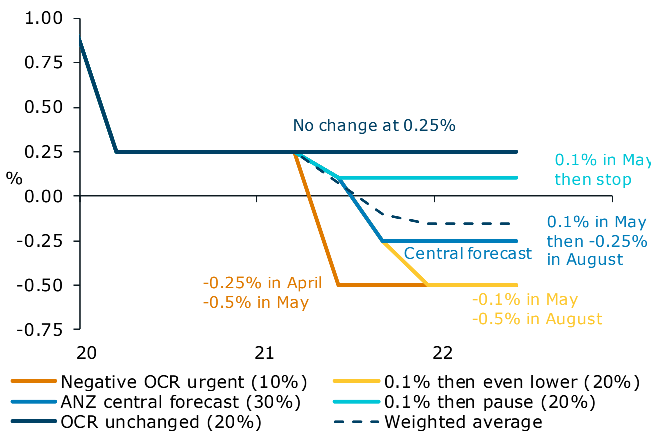
- It's not just low mortgage rates
- Investors are leveraging up
- Some FHBs have risky debt to income
- House price expectations are rising
- FOMO (fear of missing out) is a factor

Funding for Lending to provide some further support



Negative OCR less likely

Range of scenarios possible



Housing at a crossroads

Strength doesn't look sustainable

- RBNZ to re-impose LVR restrictions
- Credit already tightening for investors
- Supply increasing, migration weak
- Income strains increasing
- Affordability has its limits

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

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.

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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

Housing demand has remained strong, spurred by low mortgage rates and a speculative dynamic. Added to that, a lagged response in new listings has meant that buyers are chasing relatively few properties – a perfect storm for house price rises. We are wary about the sustainability of the upturn, though. Low mortgage rates will provide ongoing support, but the market appears out of step with fundamentals. The RBNZ is planning to re-impose LVR restrictions, and banks have already signalled a tightening in credit conditions for investors. The outlook is uncertain and the market has momentum, but on balance, we see some cooling in the market in time. See Housing Market Overview for more.

Feature Article: Bag of tricks

With the OCR near zero, the RBNZ has had to work with a new bag of tricks since the COVID-19 crisis hit. This month we provide a simple explainer of how these tools work and affect the economy. The latest tool to be introduced is the bank Funding for Lending Programme (FLP), which is aimed at lowering interest rates on mortgages and other bank loans. It’s hard to know what impact it will have, but it might lower interest rates by another 20-40bps. Looking forward, a test for the economy lies ahead. The outlook for policy is finely balanced though, and developments in the housing market are one of many possible factors that could tip the balance towards erring away from a negative OCR. A negative OCR is a mind-bending idea, and could have some negative consequences, but for most people on the street the implications would be the same as for a regular cut in the OCR. See Feature Article: Bag of tricks for more.

Mortgage borrowing strategy

Average home loan rates across the four major banks are once again little changed over the past month. As such, the overall interest rate picture remains the same: the 1-year is the lowest rate, and it remains a good proxy for floating, given how low it is. The RBNZ has said that it plans to launch its new Funding for Lending Programme (FLP) in December. The aim is to lower mortgage rates by making it easier for banks to lower term deposit rates. But even if we do see lower mortgage rates in coming months, they are unlikely to fall quickly enough to make back-to-back 6-month fixes cheaper than a straight 1-year term. In our view, that makes the 1-year term the most attractive. See Mortgage Borrowing Strategy for more.

Housing market overview

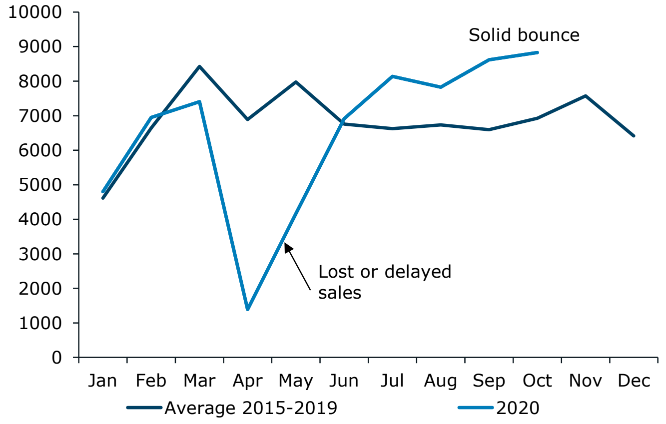
Summary

Housing demand has remained strong, spurred by low mortgage rates and a speculative dynamic. Added to that, a lagged response in new listings has meant that buyers are chasing relatively few properties – a perfect storm for house price rises. We are wary about the sustainability of the upturn, though. Low mortgage rates will provide ongoing support, but the market appears out of step with fundamentals. The RBNZ is planning to re-impose LVR restrictions, and banks have already signalled a tightening in credit conditions for investors. The outlook is uncertain, but on balance, we see some cooling in the market in time.

Sales flurry continues

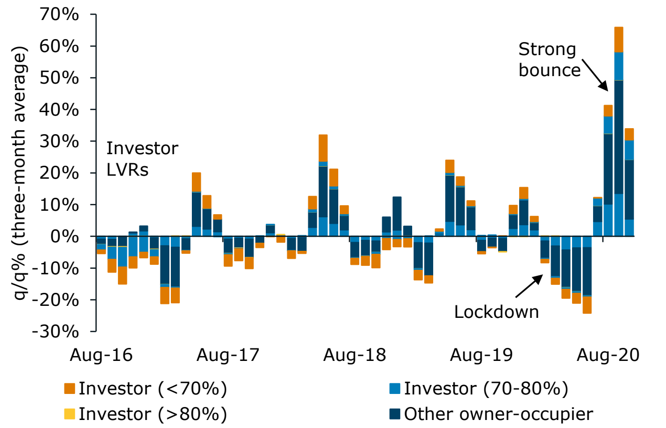
The housing market remained very hot into spring. Lower mortgage rates have played a role, but there also appears to be a degree of "catch-up" that has contributed to recent eye-watering strength, and which we do not think will be enduring. House sales have now recovered the losses that we estimate occurred due to lockdown (figure 1). That sharp drop was driven particularly by a lack of purchases from existing owner-occupiers, but this has now recovered (figure 2).

Figure 1. House sales over the year



Source: REINZ

Figure 2. Contribution to new lending growth by borrower type

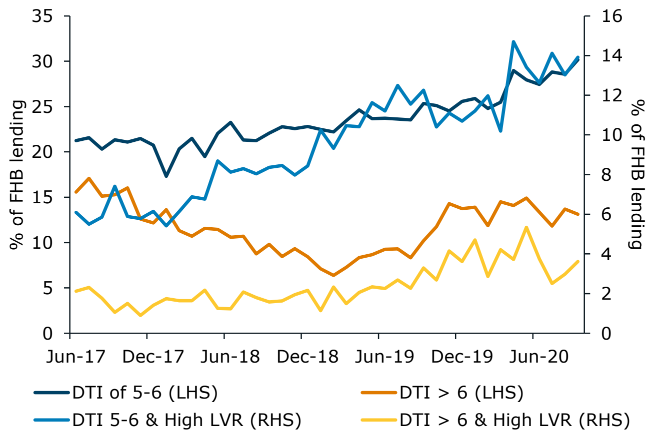


Source: RBNZ, ANZ Research

Existing owner-occupiers may have been particularly cautious about purchases relative to other buyers given uncertainty about their own selling prospects. However, confidence in the market has now returned, with house price expectations recovering as the housing market has surged following lockdown.

The recent flurry in sales has been supported by lower mortgage rates and the emergence of a speculative dynamic more recently (see our last ANZ Property Focus). Investors have been searching for yield and leveraging up, while some first home buyers have been entering the market with high debt-to-income levels, driven by fear of missing out (figure 3).

Figure 3. Riskier lending as a share of total FHB lending

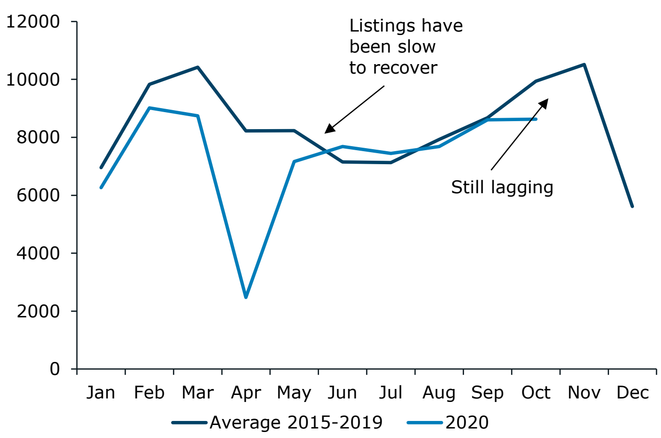


Source: RBNZ

Perfect storm for house prices

Meanwhile, new listings have lagged the rest of the market and are yet to catch up (figure 4). This means that the housing market has been exceptionally tight, with buyers chasing a very low inventory of available properties. That's the perfect storm for rising house prices, with prices up a whopping 10% since May.

Figure 4. New house listings over the year



Source: realestate.co.nz

To the extent that home-owners have experienced reluctance, followed by a renewed optimism about purchasing new houses, this will have had a knock-on, lagged effect on listings. The recovery we have seen in sales is expected to see listings normalise in coming months, as some people who have bought new houses look to sell their existing ones, and as sellers' confidence improves more generally. But given how tight the market is already, it may take a while for this to happen, with further pressure on house prices certainly possible in the meantime.

The question is how long this raucous party can go on. We remain wary about the sustainability of the upturn given that the housing market appears out of step with fundamentals. Population growth is very weak, new builds are coming available, and income strains are likely to increase as the impact of the closed border on the economy becomes clear and direct fiscal support wears off. And for those whose incomes are unaffected, affordability constraints are expected to be a constraint at some point, even at low interest rates.

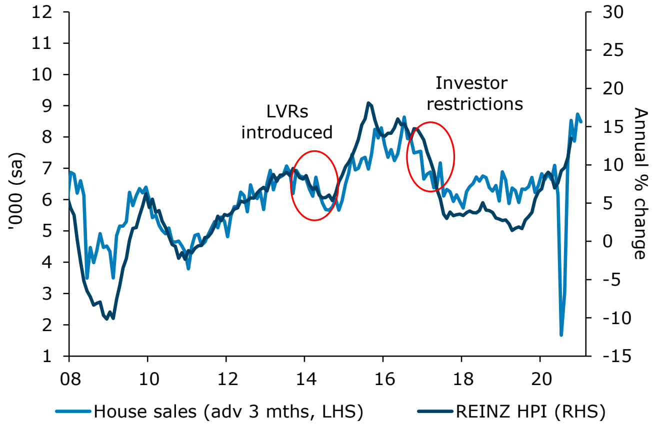
Given these factors, we think that heat from the market will abate in time, though the support of low interest rates and abundant liquidity will provide a continuing offset, particularly with the RBNZ having introduced the Funding for Lending Programme (FLP) and further policy easing expected (see Feature article: Bag of tricks for more).

Time for a change

Tightening in credit supply may well be the catalyst for a change in market conditions. The RBNZ has announced that it intends to consult on re-imposing loan-to-value ratio (LVR) restrictions in March next year, in response to increasing financial stability risks. The limits would curb lending to investors at LVRs of more than 70% and lending to other owner-occupiers at LVRs of more than 80%.

With investors in the 70-80% LVR bracket currently comprising 8% of new lending, the restrictions are expected to have a meaningful impact on the market, as in previous episodes when restrictions have been imposed or tightened (figure 5). In some cases, this will provide an opportunity for other buyers to snap up opportunities, but overall demand pressure will be nonetheless reduced.

Figure 5. House sales and prices



Source: REINZ, ANZ Research

We may not have to wait long to see an impact from the changes, either. Credit standards have already shifted, with banks moving pre-emptively to require investors to hold deposits of at least 30%.

As the economic recovery stagnates in 2021, our current expectation is that the housing market will lose some steam, with a possible wobble expected. The outlook is uncertain and the market has momentum for now, but overall, we don't expect the current heat to be sustained.

Housing market indicators for October 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	$595,331	16.7	8.0	12.8	2.2	257	+6%	40
Auckland	$991,757	16.2	5.2	15.3	5.6	3,107	+2%	34
Waikato	$651,697	16.1	4.6	11.4	5.0	904	-3%	31
Bay of Plenty	$726,182	15.9	9.9	10.6	3.5	560	-11%	37
Gisborne	$529,441	33.5	10.6			64	+50%	33
Hawke's Bay	$583,409	9.9	3.9	17.0	4.7	269	-6%	28
Manawatu-Whanganui	$457,439	17.6	4.7	12.9	5.7	377	-21%	27
Taranaki	$484,377	22.7	7.8	13.6	5.5	194	-1%	24
Wellington	$790,997	20.7	8.0	16.7	8.4	693	-24%	28
Tasman, Nelson & Marlborough	$653,000	18.3	7.4			290	-4%	27
Canterbury	$501,391	9.5	6.6	8.8	3.8	1,167	-6%	32
Otago	$628,425	22.2	11.9	5.0	3.4	380	-14%	34
West Coast	$263,237	24.9	10.7	12.5	5.6	50	-19%	42
Southland	$372,461	17.8	2.7	8.9	2.0	203	+3%	33
New Zealand	**$724,731**	**19.7**	**9.8**	**13.5**	**5.4**	**8,484**	**-5%**	**31**

Feature Article: Bag of tricks

Summary

With the OCR near zero, the RBNZ has had to work with a new bag of tricks since the COVID-19 crisis hit. This month we provide a simple explainer of how these tools work and affect the economy. The latest tool to be introduced is the bank Funding for Lending Programme (FLP), which is aimed at lowering interest rates on mortgages and other bank loans. It's hard to know what impact it will have, but it might lower interest rates by another 20-40bps. Looking forward, a test for the economy lies ahead. The outlook for policy is finely balanced though, and developments in the housing market are one of many possible factors that could tip the balance towards erring away from a negative OCR. A negative OCR is a mind-bending idea, and could have some negative consequences, but for most people on the street the implications would be the same as for a regular cut in the OCR.

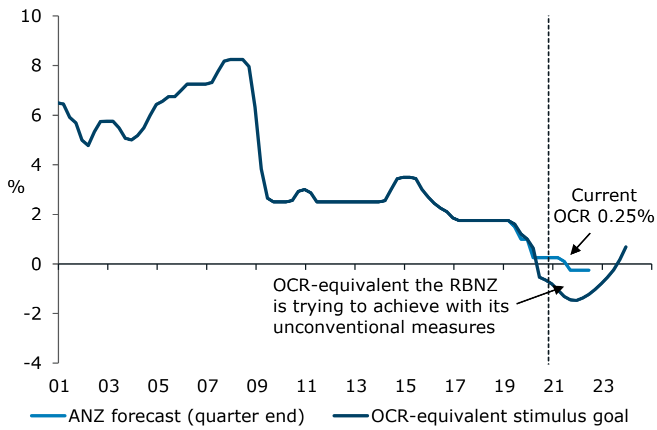
Another one from the bag of tricks

At the November Monetary Policy Statement (MPS) earlier this month, the RBNZ announced the deployment of a Funding for Lending Programme (FLP). The FLP represents a new, unconventional means of stimulating the economy with monetary policy.

The Large Scale Asset Purchase Programme (LSAP) implemented earlier this year (sometimes called "Quantitative Easing" or "QE") is another one of these new, unconventional measures. Beyond the LSAP and new FLP, the RBNZ also has other options in its bag of tricks, including possibly taking the Official Cash Rate (OCR) negative.

Usually, the RBNZ would lower the OCR to stimulate the economy, sometimes very significantly in times of severe downturns (see Box A). But after dropping the OCR 75bps in April to 0.25%, scope to take the OCR lower was limited (figure 1). New tools were required.

Figure 1. Official Cash Rate



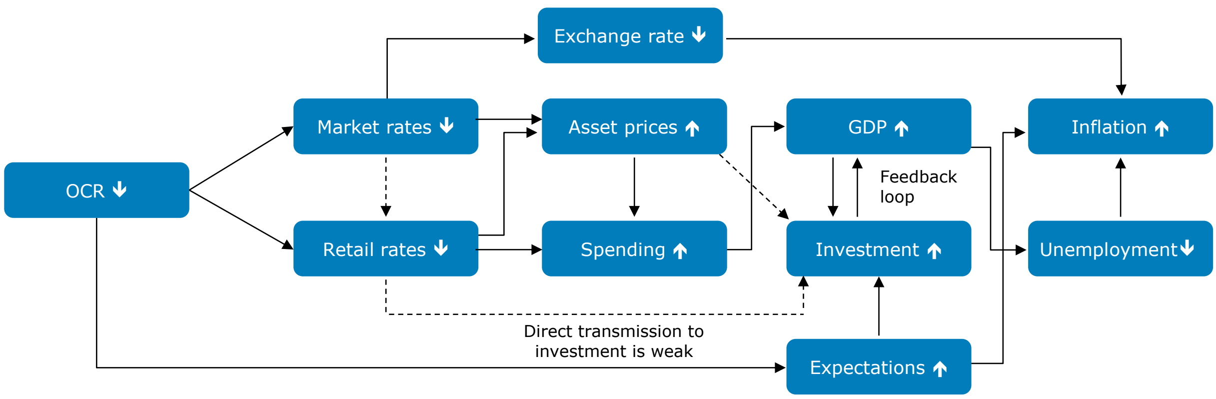
Source: RBNZ, ANZ Research

Box A. How does monetary policy usually work?

Broadly speaking, monetary policy is the practice of expanding (or contracting) the supply of money to stimulate (or rein in) the economy. To do this in practice, the RBNZ lowers the OCR, which directly lowers inter-bank traded interest rates, with flow-on effects to market ("wholesale") and retail interest rates (on mortgages and other bank loans). Lower market interest rates also keep a lid on the exchange rate.

Lower market interest rates, a lower exchange rate, and effects on asset prices, expectations and confidence boost domestic spending and net exports. This supports economic activity, employment and inflation.

For the RBNZ, the overarching goal is to achieve maximum sustainable employment and see inflation not too hot and not too cold, near an annual rate of 2% over the medium term (roughly a few years out). This is thought to be the best way that monetary policy can support the prosperity of New Zealanders.

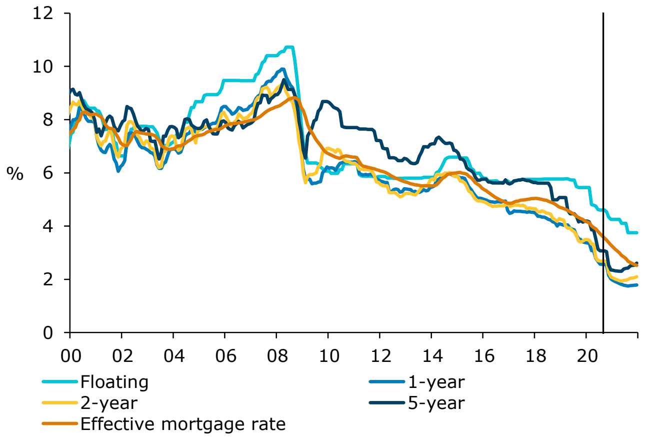


The reason the OCR had so little room to move at the onset of the COVID-19 crisis was because interest rates have been trending down for a number of decades, reflecting a range of structural factors (see our introduction to a negative OCR for more). This long-run downward trend in interest rates has been largely outside of the RBNZ's control, though the success of inflation targeting globally has contributed. The RBNZ elicits shorter-term movements in interest rates around this longer-term trend.

The RBNZ's first move into unconventional territory was to introduce the LSAP in March (see Box B for how this works), along with a number of other measures to support market functioning and the flow of credit in the economy.

The LSAP has been reasonably effective at lowering market interest rates, which have fallen about 200bps. However, retail interest rates (on mortgages and other bank loans) have moved only a little more than the 75bp drop in the OCR (figure 2). This difference reflects the fact that the LSAP is aimed at wholesale markets, while retail rates are influenced by a range of other factors, such as bank funding costs and availability, balance sheet considerations, risk appetite and assessments, and competition. A drop in the OCR would usually tend to have a reasonably strong effect on both retail and wholesale rates, though again, the pass-through to retail rates is not necessarily one-to-one, reflecting the range of factors above.

Figure 2. Mortgage rates



Source: RBNZ, ANZ Research

For now, the current LSAP programme has run its course in terms of its impact, given that there are limits to how many bonds the RBNZ can (and would want to) buy.

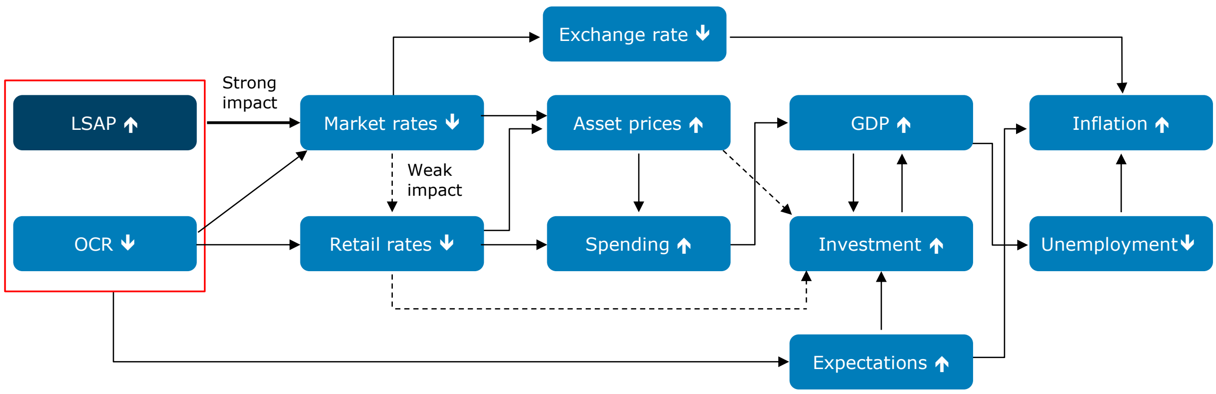
But at the November MPS, the RBNZ deemed that it needed to provide a bit more stimulus to the economy, in order to meet its employment and inflation targets. And to do this, the RBNZ would like to see retail interest rates move lower.

Enter the FLP from stage right.

Box B. How does the LSAP ("QE") work?

Under the LSAP, the RBNZ purchases New Zealand Government bonds from existing bond holders (rather than directly from the Government) with newly created electronic money. This directly reduces borrowing costs for the Government (though supporting Government borrowing is not its primary purpose) and injects liquidity (new money) into the financial system.

By making Government borrowing costs cheaper, this encourages investors to buy other bonds or assets, with flow-on effects to borrowing costs faced by those who access funds via markets. This keeps market ("wholesale") interest rates (and expectations of where they might go in the future) very low, with flow-on impacts through the economy. However, the pass-through to retail borrowing costs (mortgages and other bank loans) is weaker than with a conventional cut in the OCR. For more on how the LSAP works, check out our FAQs here and here.



FLP, what was that?

Essentially, the FLP can be thought of as a retail version of the LSAP (though there are technical differences), with the direct aim of seeing retail interest rates move lower. By offering funds at the OCR, the programme lowers banks' funding costs and increases banks' confidence in their ability to raise funds. This puts downward pressure on retail interest rates and potentially increases credit supply, with flow-on effects to the economy (see Box C). The scheme's measure of success will be the impact it has on household and business borrowing costs, rather than how much of the available funds are borrowed.

Behind the curtain

The key elements of the scheme are as follows:

- The RBNZ offers banks three-year loans, lent out at a floating interest rate (the prevailing OCR).
- Banks pledge existing high-quality assets ("securities") to the RBNZ in exchange for cash.
- This swap doesn't technically impact total funds; it just makes them cheaper. Additionally, the scheme can encourage banks to lend.
- The amount of available funding is linked to the size of banks' balance sheets, with some additional funding available if banks expand lending.
- Initial loans will be available for access for 18 months and loans linked to the additional caps for a following six months.

Will it do the trick?

It's hard to say how effective the FLP will be in lowering retail interest rates and boosting the economy. Although bank funding costs will be lower, the impact on retail interest rates will depend on banks' expectations and financial positions (banks' "net interest margins"– the margins between lending and deposit rates – have been trending down), along with broader competitive pressures and the strength of incentives to lower deposit rates.

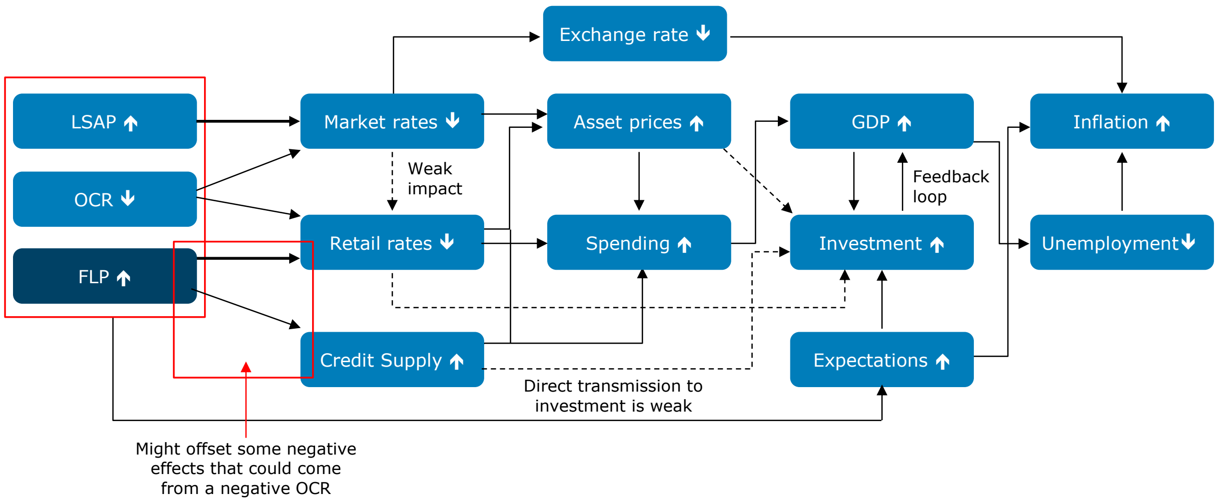
We estimate that we could see retail interest rates fall by 20-40bps, but it is quite uncertain. This will have some impact in stimulating the economy. However, based on the current outlook, the FLP may not be quite enough to achieve the medium-term outlook the RBNZ is looking for, meaning a negative OCR is still on the table. See our November MPS Review for more details.

Box C. How does the FLP work?

Under the FLP, the RBNZ lends directly to banks at a cheap rate (the current OCR). This lowers the funding costs faced by banks and also provides a funding backstop that means banks can compete a bit less for other sources of funding (like deposits) and interest rates on these can be priced lower. This in turn leads to lower retail lending rates (for mortgages and other bank loans).

The availability of FLP funds is also partially linked to loan growth. This may encourage banks to lend and increase credit supply. And because the FLP provides a funding backstop, this could allay fears of future funding constraints (there are none at present), perhaps making banks feel a little more confident to lend as well.

Lower retail rates combined with a possible expansion in the supply of credit has flow-on impacts through the economy. For more on how the FLP works, see our FAQ here.



More up their sleeve

The RBNZ has signalled that it could take the OCR lower or even negative if the economy needs even more of a boost. However, it is now looking less likely, given the resilience that has been seen in the economy.

A negative OCR is a mind-bending possibility but for most people on the street it would work in the same way as a normal OCR cut. Retail rates (on loans and deposits) would be unlikely to go negative, so it would mean lower, but not negative, interest rates. The implications in financial markets would be a bit more complicated though, since wholesale interest rates and some deposit rates for large corporates would go negative. Generally speaking, the economy would be affected in much the same way as with a regular cut in the OCR (shown in Box A).

That said, at a certain point, a negative OCR can have diminishing or even counter-productive effects on the economy – potentially more than offsetting other stimulatory effects from the likes of a lower exchange rate. This is because as well as potentially damaging confidence, a negative OCR can squeeze bank profits and reduce the availability of credit.

A squeeze on bank profits can occur because there are limits to how far deposit rates can fall without severely impacting customer retention – at a certain point people would rather take their money out as cash and store and insure it! If lending rates are under pressure but banks cannot lower their deposit rates further, this will squeeze net interest margins.

One of the additional benefits of the FLP is that it can potentially offset some of the perverse effects that a negative OCR could have on bank profits and credit supply. Because of the FLP, banks have an additional source of cheap funding, giving them confidence to lower deposit rates a bit more, reducing some of the margin squeeze. However, the FLP can only offset so much of this impact, meaning there is still a point when a lower OCR can become problematic.

For this reason, we think there is a limit to how low the RBNZ would be willing to take the OCR, perhaps in to -0.5% or -0.75%. We also think that because of these (and potential other) negative effects, the hurdle to take the OCR negative is a bit higher than for a regular OCR cut – and if a negative OCR was deployed, a gradual, feel-your-way path lower is probably more likely than a very abrupt shift.

The big reveal

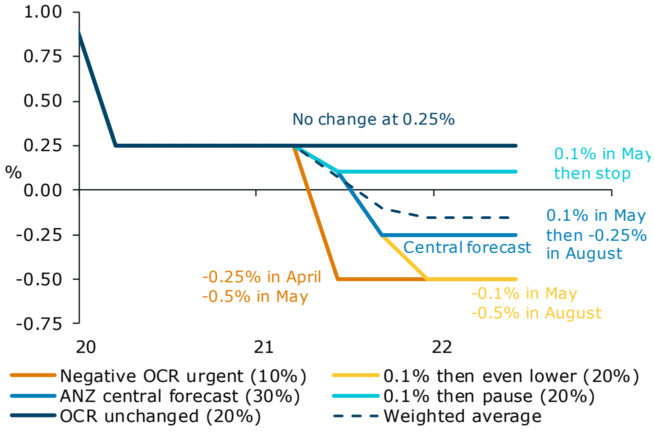
Although the RBNZ has previously signalled that a negative OCR is a very real possibility, it is now looking less likely and may not occur at all.

All forecasters have been surprised by the economy's resilience to the current downturn, which means urgency for further stimulus has diminished. Partly this is because incomes have been supported by the wage subsidy, but that's now finished. The economy faces a test in coming months, especially because tourism arrivals are very seasonal, and it is through the summer months that we will feel the pinch there.

On balance, it looks to us like the economic recovery will stagnate as we head into 2021, and that in time the RBNZ will deem that a little more stimulus is needed. Our current forecast is that by May next year a little more stimulus will be deemed helpful and the OCR will be lowered to 0.1% (or somewhere very close to 0% but slightly above). Then by August, we think some continued disappointment in the data flow will mean that the hurdle to a negative OCR will be met, with a further cut in the OCR to -0.25%.

The policy outlook is highly uncertain though and has become more finely balanced, depending on developments. The case appears to be building to err on the side of not employing a negative OCR, but we will continue to wait and see how developments unfold. We can imagine things playing out in a number of different ways (figure 3). See our recent ANZ Insight: Weighing it up – Possible OCR paths for more on possible scenarios and our ANZ Data Wrap for key data and milestones affecting the outlook.

Figure 3. Possible OCR paths



Source: RBNZ, ANZ Research

We expect that the shine will come off the housing market in coming months, but the outlook is uncertain. A better outlook for the housing market than we expect would reduce the need for the RBNZ to take the OCR lower.

Smoke and mirrors

The RBNZ has recently come under scrutiny for the impact that lower interest rates are having in stoking house price inflation. Lower interest rates have certainly played some role in pushing house prices higher on the way to boosting the economy, and stimulus from the FLP and potentially a lower OCR will provide continued support. But this is a natural consequence of monetary policy; longer-term housing affordability challenges aren't something the RBNZ can fix (see our recent ANZ Property Focus).

The RBNZ has done what is necessary to shore up the outlook for inflation and employment – and on that score, policy has been very effective, which means that the case for further stimulus has significantly diminished. Conditions are nowhere near as bad as they could have been.

This week, the Minister of Finance weighed into the public discussion around the impact of low interest rates on house prices, suggesting that the RBNZ remit include a consideration to avoid unnecessary instability in house prices. This idea is likely to form part of a broader discussion about the issue of high house prices and it is unclear if it will gain any traction.

Under this proposal, the primary goals of price stability and maximum sustainable employment would remain unchanged. House prices would be of lesser concern. In reality, under the proposal, policy setting wouldn't actually be much different.

Consideration for house prices already forms a key part of policy deliberations for the RBNZ, since developments in the housing market have implications for the broader economy, including the outlooks for inflation and the labour market, and given considerations for impacts on financial stability.

It's true that the odds of a negative OCR have reduced, but that's a consequence of broader economic developments, including in the housing market, not the proposal that the RBNZ remit be changed. To the extent that the housing market remains buoyant and this is supportive of the broader economic outlook, the hurdle to further easing will be higher – but that would have been true anyway.

That means that any change in remit would have little effect on the policy in practice or the outlook, unless a monetary policy decision was a line-ball call. Certainly, we don't think it would have changed how policy has played out this year at all, nor does it affect how we think about the outlook for the OCR at present.

That's the way it should be too. International evidence suggests that keeping interest rates higher than what would be consistent with the Bank's primary objectives (in order to lean against high house prices and financial imbalances) actually leads to worse societal outcomes through job losses, income strains and the like.

That's not to say that monetary policy doesn't have costs, trade-offs, side effects and constraints. It does. That's why each policy decision has to be weighed up carefully to achieve the best outcomes possible, even though they may not be perfect. It's also why good fiscal, regulatory, and prudential policy are so important – to help address the problems monetary policy cannot solve.

One thing that could help would be an expansion of the RBNZ's toolkit to alter macro-prudential policy in response to financial stability risks. The RBNZ is proposing to re-introduce loan-to-value restrictions, but there is also scope to expand the toolkit to include the likes of debt-to-income (DTI) caps. Although this would make it difficult for some to enter the market, it could help to curb demand and limit some of the riskier lending that has accompanied recent strength in the market.

Putting the spotlight on monetary policy to address rising house prices misdirects attention away from where it is urgently needed: addressing the inadequate responsiveness of housing supply and other structural issues in the market. The RBNZ cannot control these settings, but the Government can. Something needs to be done, but focus should be on policy changes that can actually make a meaningful difference.

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

Average home loan rates across the four major banks are once again little changed over the past month. As such, the overall interest rate picture remains the same: the 1-year is the lowest rate, and it remains a good proxy for floating, given how low it is. The RBNZ has said that it plans to launch its new Funding for Lending Programme (FLP) in December. The aim is to lower mortgage rates by making it easier for banks to lower term deposit rates. But even if we do see lower mortgage rates in coming months, they are unlikely to fall quickly enough to make back-to-back 6-month fixes cheaper than a straight 1-year term. In our view, that makes the 1-year term the most attractive.

Our view

Average mortgage rates are once again little changed over the past month. Some are a fraction lower, but changes have been negligible. As has been the case for a while, the 1-year rate remains the cheapest rate. And being so much lower than both the 6-month rate and the floating rate, it is also a good proxy for floating, especially if borrowers spread their loans across a number of staggered terms. Remaining floating in the hope of being able to fix at a lower rate later on simply doesn't stack up unless we see a dramatic fall in mortgage rates in the very near future.

To illustrate that, suppose you had a $500k mortgage. At a rate of 4.51%, your repayments would be $641 per week (over a 25-year loan term). However, if you fixed for 1-year at 2.49%, your repayments would fall to $517 per week. Over 12 weeks, staying floating will cost $1,488 more. To make that back on a 1-year fix, you would need to see the 1-year rate fall to around 1.99%. That could happen, but it's a big punt to take, especially with mortgage rates already at record lows, wholesale markets backing off the idea of a negative OCR in the wake of better data, and concerns that low interest rates are stoking the housing market.

If floating doesn't stack up, then how does fixing for 6-months stack up? Ahead of potentially lower mortgage rates next year (as we project, and the RBNZ expects), the maths around fixing for 6-months now with a view to re-fixing again in six months doesn't stack up, as was the case last month. Indeed, as our breakeven table shows, the 6-month rate would need to fall from its current rate of 3.58% to 1.40% over the next six months for the interest bill on a pair of back-to-back 6-month terms to be less than the interest bill on a 1-year term at 2.49%. That could happen, but again only at a stretch.

The RBNZ's FLP is designed to, and will likely lead to, lower mortgage rates, but they may not fall as quickly as borrowers will "need" them to fall in order to make it cheaper to remain floating for the time being. Our mortgage rate projections do fall fairly quickly, but these are based on technical assumptions, and the recent rise in wholesale interest rates might delay upcoming declines.

With longer-term fixed rates also very low, it is worth asking: is now a good time to fix for longer – for, say five years? We don't think it is – mainly because we expect the OCR to remain low for some years. That said, some banks are offering 18-month rates similar to their 1-year rates, or 2-year rates that are not a lot higher. If borrowers do have staggered fixed loan expiries, and wholesale markets are debating whether we will actually see a lower OCR, we believe it is worth considering perhaps adding some 18-month or 2-year fixes into the mix.

Figure 1. Carded special mortgage rates^

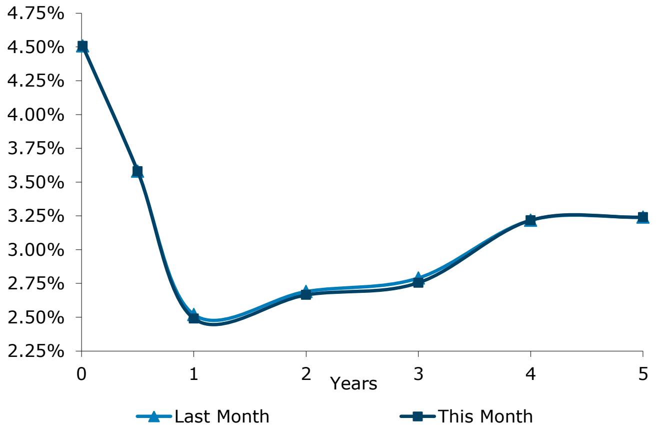


Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	3.58%	1.40%	2.75%	2.93%	2.89%
1 year	2.49%	2.08%	2.84%	2.91%	2.94%
2 years	2.67%	2.49%	2.89%	3.29%	3.77%
3 years	2.76%	2.89%	3.46%	3.55%	3.62%
4 years	3.22%	3.18%	3.43%		
5 years	3.24%	#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	3.88%	2.00%	3.44%	3.10%	3.36%
1 year	2.94%	2.72%	3.27%	3.23%	3.41%
2 years	3.11%	2.97%	3.34%	3.55%	3.93%
3 years	3.21%	3.27%	3.71%	3.74%	3.83%
4 years	3.52%	3.48%	3.69%		
5 years	3.54%	#Average of "big four" banks			

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

Source: interest.co.nz, ANZ Research

Key forecasts

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

	Mortgage Rate (%)													
Mortgage Size ($'000)	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	5.25
200	196	201	207	213	219	225	231	237	243	250	256	263	270	276
250	244	251	259	266	273	281	289	296	304	312	320	329	337	345
300	293	302	310	319	328	337	346	356	365	375	385	394	404	415
350	342	352	362	372	383	393	404	415	426	437	449	460	472	484
400	391	402	414	426	437	450	462	474	487	500	513	526	539	553
450	440	453	466	479	492	506	520	534	548	562	577	592	607	622
500	489	503	517	532	547	562	577	593	609	625	641	657	674	691
550	538	553	569	585	601	618	635	652	669	687	705	723	741	760
600	587	604	621	638	656	674	693	711	730	750	769	789	809	829
650	635	654	673	692	711	730	750	771	791	812	833	854	876	898
700	684	704	724	745	766	787	808	830	852	874	897	920	944	967
750	733	754	776	798	820	843	866	889	913	937	961	986	1,011	1,036
800	782	805	828	851	875	899	924	948	974	999	1,025	1,052	1,078	1,105
850	831	855	879	904	930	955	981	1,008	1,035	1,062	1,089	1,117	1,146	1,174
900	880	905	931	958	984	1,011	1,039	1,067	1,095	1,124	1,154	1,183	1,213	1,244
950	929	956	983	1,011	1,039	1,068	1,097	1,126	1,156	1,187	1,218	1,249	1,281	1,313
1000	978	1,006	1,035	1,064	1,094	1,124	1,154	1,186	1,217	1,249	1,282	1,315	1,348	1,382

Mortgage rate projections (fixed rates based on special rates)

	Actual			Forecasts						
Interest rates	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Floating Mortgage Rate	4.8	4.6	4.6	4.3	4.3	4.1	3.8	3.8	3.8	3.8
1-Yr Fixed Mortgage Rate	3.1	2.7	2.6	2.0	1.9	1.8	1.8	1.8	1.8	1.8
2-Yr Fixed Mortgage Rate	3.3	2.7	2.7	2.1	2.0	2.0	2.0	2.1	2.1	2.1
5-Yr Fixed Mortgage Rate	3.9	3.1	3.1	2.4	2.3	2.4	2.5	2.6	2.6	2.6

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (Annual % Chg)	1.8	-0.1	-12.4	-4.3	-2.4	-2.0	12.2	2.5	0.8	3.3
CPI Inflation (Annual % Chg)	1.9	2.5	1.5	1.4(a)	1.2	1.1	1.7	1.4	1.1	1.0
Unemployment Rate (%)	4.1	4.2	4.0	5.3(a)	6.1	6.4	6.8	7.2	7.5	7.1
House Prices (Quarter % Chg)	3.0	3.2	-0.4	3.8(a)	3.5	-2.0	-1.0	1.0	2.0	1.0
House Prices (Annual % Chg)	5.3	8.1	7.7	9.9(a)	10.5	4.9	4.2	1.4	0.0	3.0

Interest rates	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Official Cash Rate	0.25	0.25	0.25	0.25	0.25	0.10	-0.25	-0.25	-0.25	-0.25
90-Day Bank Bill Rate	0.49	0.30	0.31	0.27	0.20	-0.02	-0.25	-0.25	-0.25	-0.25
LSAP ($bn)	30	60	100	100	100	100	100	100	100	100

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

Contact us

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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

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