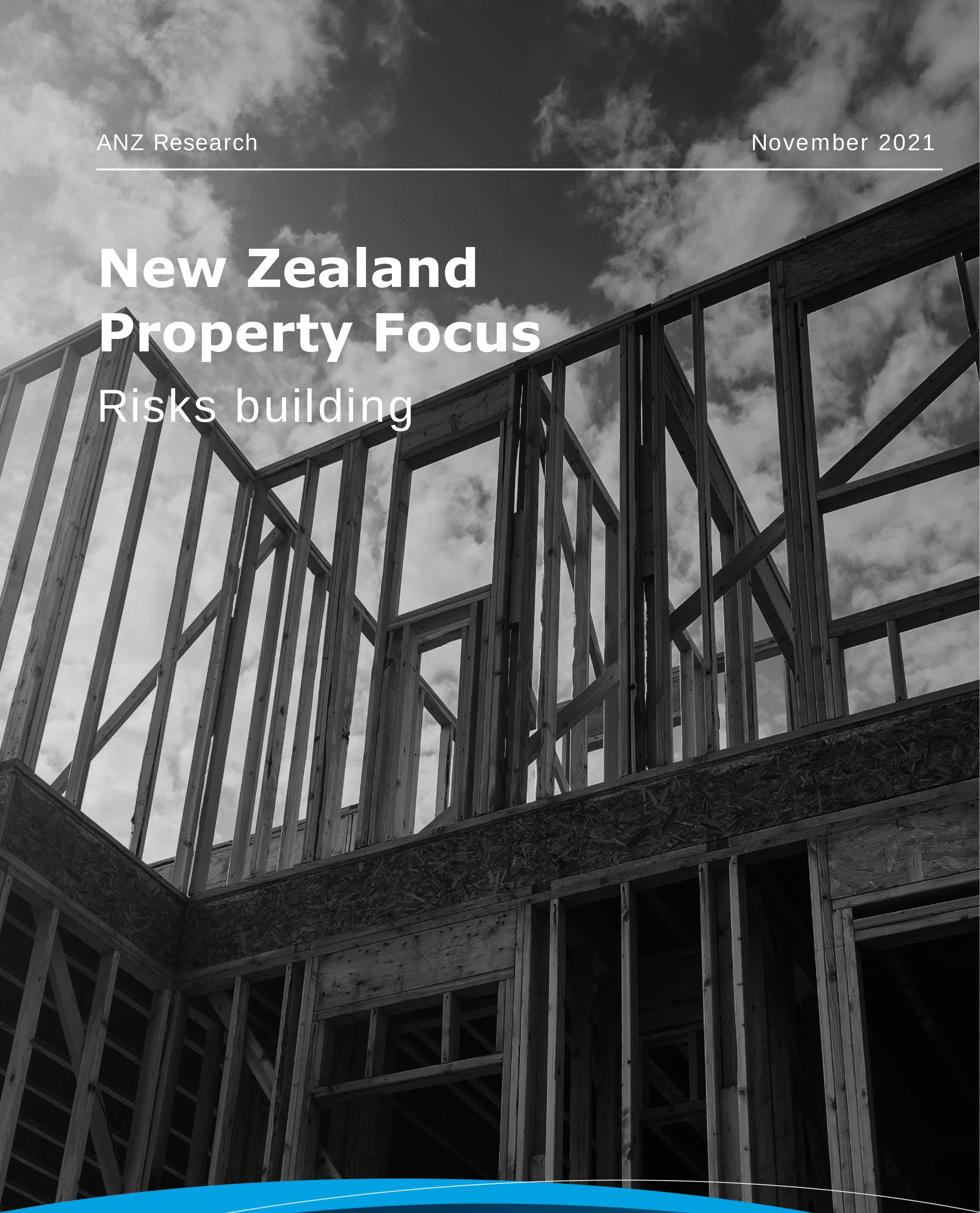


ANZ Research November 2021

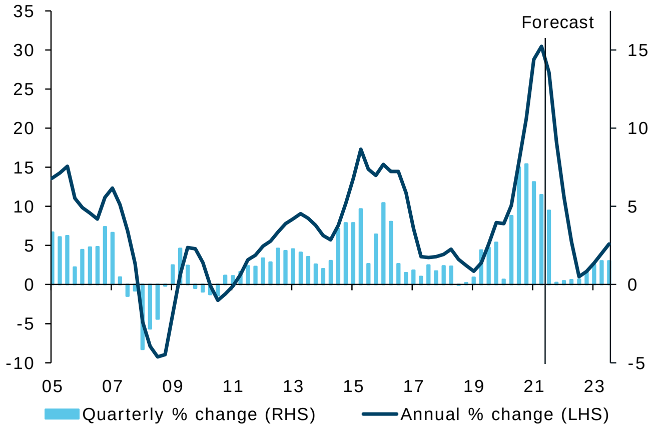
New Zealand Property Focus

Risks building

At a glance

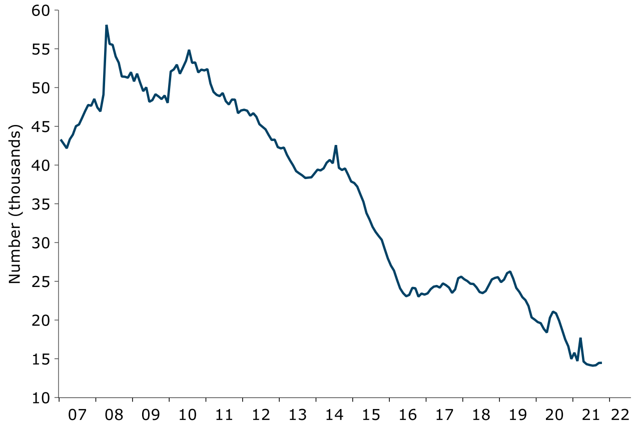
House prices still rising

But annual inflation past the peak



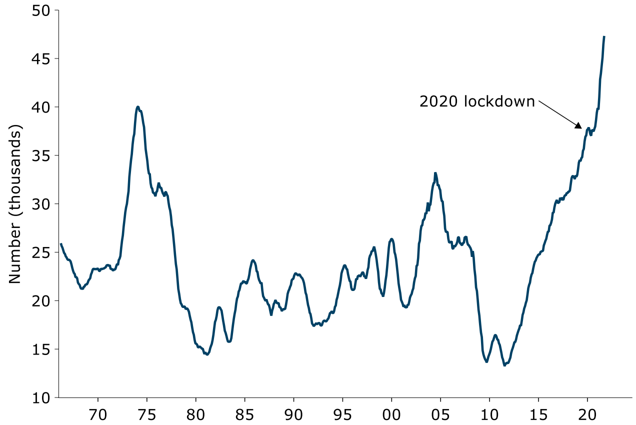
Inventories remain low

Combining with FOMO to boost prices



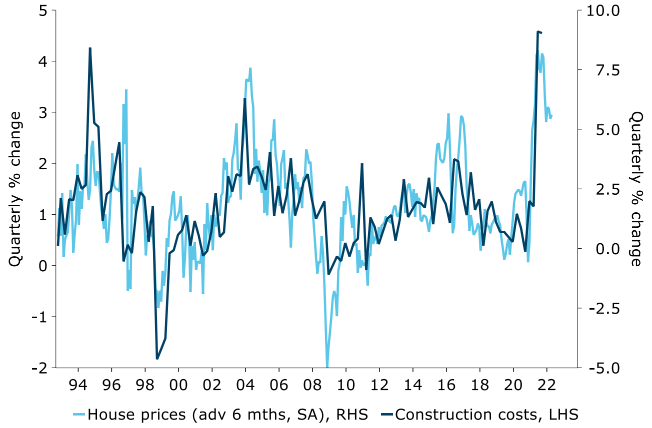
Construction continues apace

As consents set back-to-back records



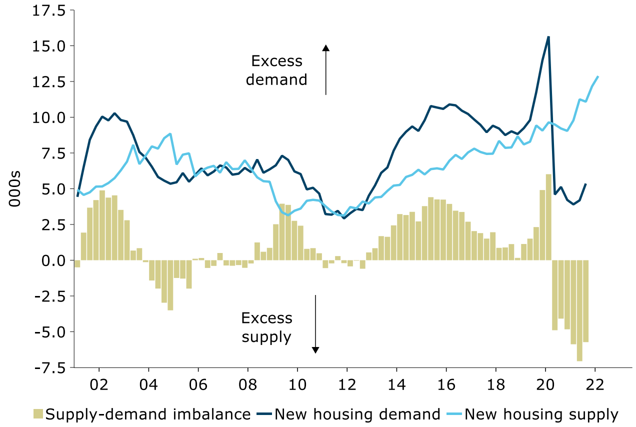
Building costs are surging

And they're not done yet



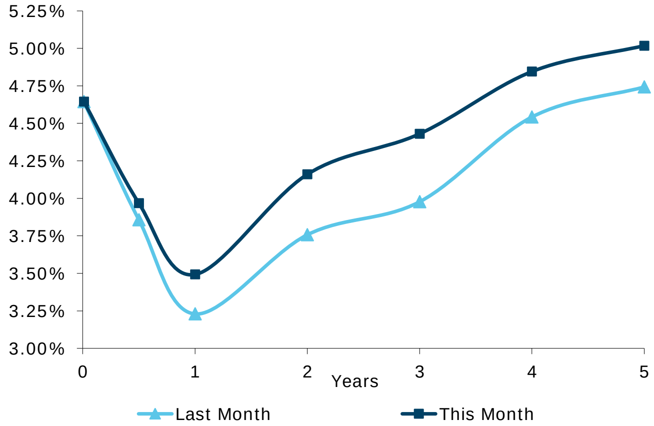
Housing shortage evaporating

As population growth stalls and building surges



Mortgage rates on the rise

With most mortgage lending fixed for less than a year, this will bite soon



Source: RBNZ, REINZ, Stats NZ, Macrobond, Bloomberg, ICAP, RealEstate.co.nz, ANZ Research

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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

Despite October's strong 2.3% m/m lift in house prices, annual house price inflation is now easing. Looking forward, the $64 million question is how quickly will price gains moderate from here? We know the market is currently very tight (even if renewed lockdown noise is making it harder to gauge), but the list of housing headwinds is very lengthy. At such lofty prices relative to incomes, the market is vulnerable to a correction. However, the very strong labour market is expected to prevent housing from tipping into a significant downwards spiral. See our Market Overview.

Feature Article: Risks building

The construction industry has definitely been an outperformer in the New Zealand economy over the past 18 months. The sector has been booming, but with interest rates rising and the housing cycle looking like it's peaking, there's a risk that we could see a hard landing in the industry, dealing a blow to the rest of the economy along the way. But while there are many challenges facing the industry at present, that's not our central view. After all, there is a lengthy pipeline of activity for the industry to work through, and a lingering (but improving) supply-demand imbalance. That said, construction tends to be a bit more cyclical than many other industries, so we'll be keeping a close eye on developments. See this month's Feature Article.

Mortgage borrowing strategy

Fixed mortgage rates have continued to rise rapidly, with rates 1 to 5 year rates up between 0.26%pts and 0.45%pts. These moves followed progressively larger increases observed since mid-year, culminating in the largest 6-monthly rise in fixed rates in over 15 years. Unfortunately, none of the choices right now are attractive. If you fix for a shorter period now, you'll probably end up paying more when you re-fix later. Alternatively, if you fix for longer now, you'll pay more immediately. The opportunity to beat rate rises has likely now past, and if the choice is between 1 or 2-years, on balance we prefer the 1-year. Fixing for 2-years now could end up being cheaper in the long run if we see hefty further increases, but now that market interest rates have already moved, that may not happen. The 1-year is also still the cheapest rate, and while we expect it to increase as the RBNZ hikes the OCR, we still prefer it to floating or 6-months, as these rates are already higher than the 1-year and are also set to rise as the OCR goes higher. See our Mortgage Borrowing Strategy.

Housing market overview

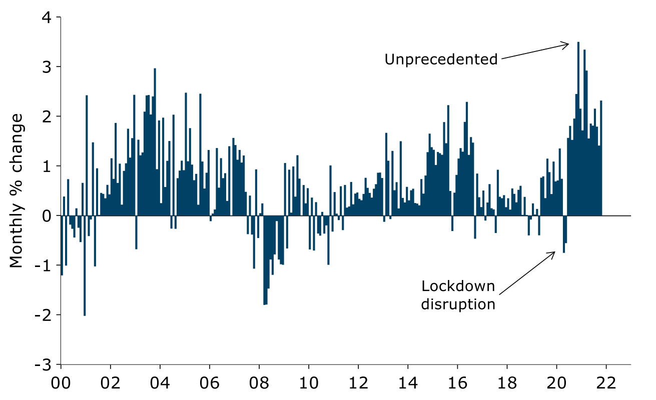
Summary

Despite October's strong 2.3% m/m lift in house prices, annual house price inflation is now easing. Looking forward, the $64 million question is how quickly will price gains moderate from here? We know the market is currently very tight (even if renewed lockdown noise is making it harder to gauge), but the list of housing headwinds is very lengthy. At such lofty prices relative to incomes, the market is vulnerable to a correction. However, the very strong labour market is expected to prevent housing from tipping into a significant downwards spiral.

Slowing, but volatile

October's 2.3% m/m lift in house prices wasn't quite enough to prevent annual inflation from slipping, but almost. On a three-month moving average basis, annual house price inflation slowed 0.2%pts to 30.3%. To prevent further moderation in annual inflation in November, prices would need to rise around 4% m/m – that's more than in any month yet in this cycle, and indeed in at least a couple of decades (figure 1). So looking through the noise, we're convinced we're now past the peak of the current inflation cycle, but the pace of moderation from here remains very uncertain.

Figure 1. Monthly house price inflation



Source: REINZ, Macrobond, ANZ Research

We're comfortable that October's acceleration in house price inflation was more noise than signal. While we've "banked" the stronger starting point, we're still of the view that 2022 will bring much weaker price gains (including a few months of price falls as higher interest rates bite).

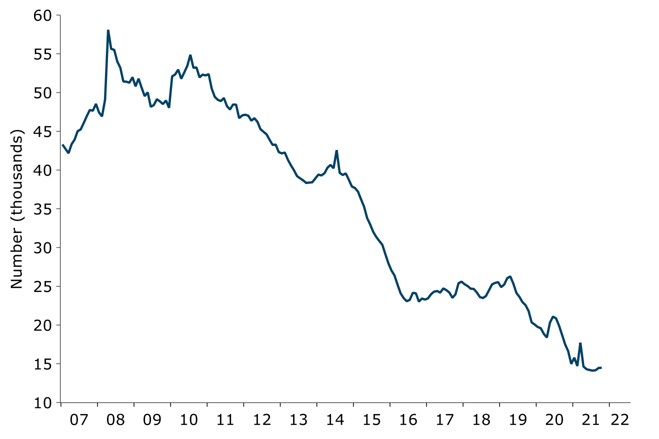
We've been highlighting the growing list of housing headwinds for months now, so we won't go into detail here. But briefly, these include:

- Tightening financial market conditions, including rising mortgage rates, domestic bank funding conditions, and overall bank prudence.
- Tighter macro-prudential policies, including the recent tightening in LVR restrictions for first home buyers.
- Government policy changes, which tend to weigh more directly on investors than first home buyers. But future first-home buyers who are seeing more of their income gobbled up by rent rises are, in part, feeling the higher cost of property investment indirectly.
- Housing unaffordability (house prices relative to incomes) has worsened terribly over the past year or so, and in the absence of significant price declines it could take decades to get back to pre-COVID levels (which were already elevated).
- The gap between housing supply and demand is closing, thanks to a booming construction sector and very low net migration. By our estimates, there's still a couple of years to go at this speed before the market is in balance, but importantly, pressures from the fundamental undersupply problem are diminishing. That said, two years is a long time when it comes to migration dynamics and the health of the construction sector. It's possible that the improving supply-demand balance doesn't hold it together that long (more on risks below).

That's a lengthy list of headwinds, and they may manifest faster than we assume. So what's keeping the market from rolling over already? We think the answer to this is three-fold:

1. House prices are determined at the margin (where a very small share of the overall housing stock turns over). Currently, there is a very limited supply of houses available for sale. As spring wears on listings are lifting, but on a seasonally adjusted basis they are still very low (figure 2). That could change, but there's no sign of it yet.

Figure 2. Listings

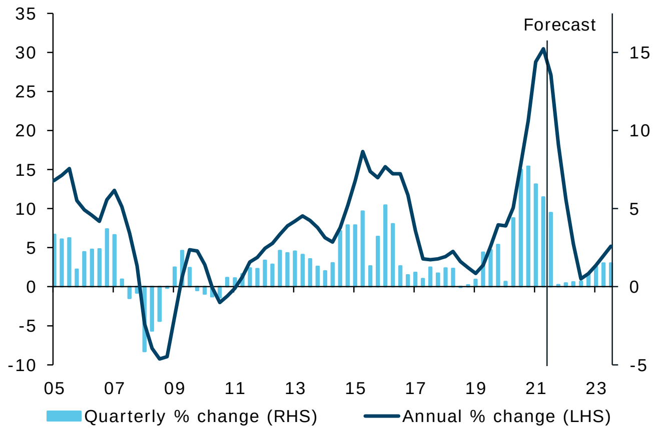


Source: REINZ, Macrobond, ANZ Research

2. FOMO (fear of missing out) is a common characterisation at the moment of the housing market's "animal spirits". Animal spirits is a catch-all term for thinking about the impact of human instincts and emotions on the decision-making process. Right now, FOMO appears to be exerting additional cyclical pressure on the market that cannot be explained by the fundamentals and policy settings alone. But with rising rates, and an eventual confirmation that the market is slowing, this sense of urgency could quickly go the other way.
3. Lastly, perhaps the biggest (and more sustainable) floor under the housing market is the strength of households' balance sheets. The very tight labour market and solid income growth means lifting interest rates are broadly manageable. With employment very strong, it doesn't look like a household income shock is about to force the sale of properties and drive a price correction any time soon. However, with housing debt having lifted very strongly over the past year or so, it'll be a long time before such risks dissipate. Further, and as noted in the feature article, construction has become a larger share of employment in recent years. The tight labour market is certainly more exposed to housing than it was before this crisis.

Balancing the lengthy list of headwinds against the remaining tailwinds, we land at an outlook for a soft landing in the housing market. That Goldilocks scenario certainly has risks on both sides, but at this stage our assessment is that there isn't enough evidence to suggest prices are about to fall off a cliff, nor are there any indicators suggesting we're about to get a second wind. That leaves us with a relatively middle of the road outlook for a period of weaker-than-average growth over 2022, but a gradual return to average over 2023.

Figure 3. House price forecast



Source: REINZ, ANZ Research

But there's a lot that has to go right for our forecast to come to fruition. On balance, given the ridiculous starting point, we continue to characterise the risks as being skewed to the downside.

- As highlighted in last month's edition, the outlook for migration is very uncertain. Policy changes and the potential for a mismatch in the timing of borders reopening around the world make the net migration outlook highly uncertain. NZ could still experience a significant net outflow of people, which could see the housing supply-demand imbalance addressed much sooner than expected (and with less construction activity to boot).
- Conversely, and as noted in our feature article, the construction sector is booming, but it's struggling with significant capacity constraints, delays and cost pressures. This can be a dangerous scenario for developers, and could slow the pace of supply catch-up well before balance is restored.
- Mortgage rates have lifted significantly in recent months. But just how much further they have to go remains uncertain. If inflation pressures really get under the nails of the economy for a sustained period (including wage inflation), the "neutral" OCR could end up being higher than our assumption. That would mean that interest rate hikes may need to be more aggressive than we expect in order to keep consumer price inflation contained.
- Then there's the many global economic and financial market risks that could ruin the party rather abruptly. So far, financial markets have been well supported through this. But the ability of both fiscal and monetary policy to keep the tap running without inflation consequences is looking pretty limited. And that's in context of global debt that's higher than ever and a pace of growth in a range of asset prices that makes them vulnerable to a sharp correction should confidence evaporate.

All up, the housing market (and broader economy for that matter) still has a lot of transitioning to do to get through the COVID crisis and its policy response unscathed. It's unlikely to be smooth sailing on all fronts, but at this stage we remain optimistic that a soft land is at least achievable.

Housing market overview

Housing market indicators for October 2021 (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	$708,416	19.4	-1.8	29.8	7.6	155	-11%	40
Auckland	$1,234,268	24.8	3.2	25.6	4.9	2,471	+74%	49
Waikato	$801,731	23.6	6.4	34.1	5.9	624	+0%	31
Bay of Plenty	$891,318	23.3	4.2	36.7	6.4	430	+5%	36
Gisborne	$606,086	12.5	-9.8	32.3	6.2	54	+19%	38
Hawke's Bay	$797,288	37.6	3.2	32.3	6.2	216	+4%	31
Manawatu-Whanganui	$611,804	29.1	4.7	42.7	4.0	324	+1%	32
Taranaki	$627,260	30.7	2.1	33.7	3.8	159	+4%	30
Wellington	$983,262	26.1	1.6	32.0	3.9	664	-5%	36
Tasman, Nelson & Marlborough	$759,765	16.6	2.2			196	-6%	29
Canterbury	$658,653	31.1	9.7	38.0	9.9	986	+6%	31
Otago	$728,592	11.8	3.8	26.0	5.3	319	-12%	32
West Coast	$281,719	9.1	-6.6	25.8	4.5	32	-10%	37
Southland	$447,715	21.9	2.8	23.6	4.4	132	-19%	30
New Zealand	**$889,038**	**23.2**	**3.4**	**29.9**	**5.6**	**6,755**	**+16%**	**37**

Feature Article: Risks building

Summary

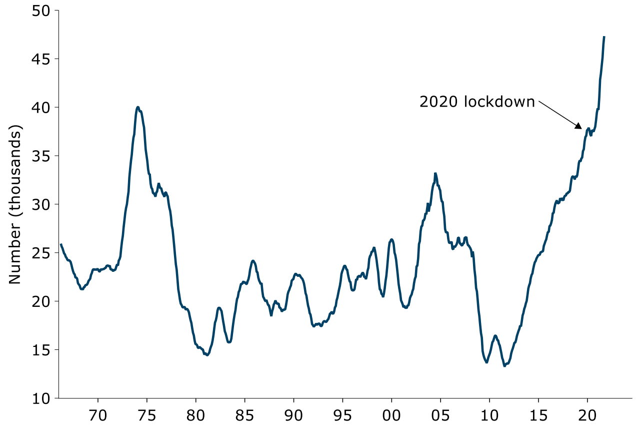
The construction industry has definitely been an outperformer in the New Zealand economy over the past 18 months. The sector has been booming, but with interest rates rising and the housing cycle looking like it's peaking, there's a risk that we could see a hard landing in the industry, dealing a blow to the rest of the economy along the way. But while there are many challenges facing the industry at present, that's not our central view. After all, there is a lengthy pipeline of activity for the industry to work through, and a lingering (but improving) supply-demand imbalance. That said, construction tends to be a bit more cyclical than many other industries, so we'll be keeping a close eye on developments.

Unprecedented demand after COVID

Construction activity has been roaring ahead at record levels in recent quarters – and it's been a long journey to get to this point. The construction industry was particularly hard-hit by the global financial crisis (GFC), with the pace of dwelling consent issuance halving between 2007 and 2009 (figure 1). But since 2011, construction activity has gradually ground higher and higher, with annual consent issuance reaching just under 38,000 at the end of 2019.

Lockdown did cause temporary disruption to building activity in 2020, but since then, housing demand has driven consent issuance to a level never seen in data that goes back to the 1960s. Consents reached a record 47,000 in the year to September, showing there's still a considerable pipeline of demand for the industry to work through – even with the housing market looking like it's peaking.

Figure 1. Annual dwelling consents

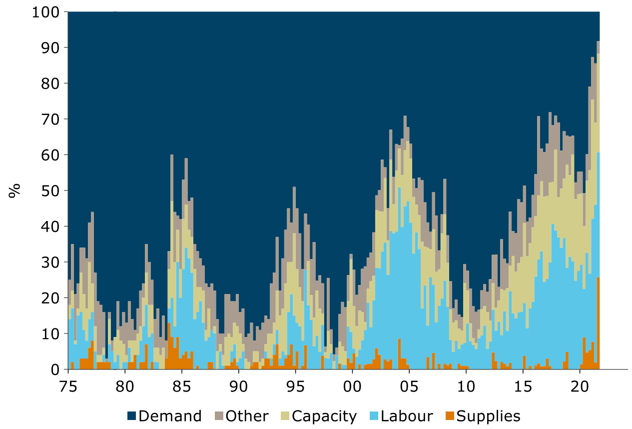


Source: Statistics NZ, Macrobond, ANZ Research

Capacity constraints crippling

Even as demand has been nutty in the housing market, the construction sector has had a pretty tough year, fighting supply disruptions, materials and labour shortages, and soaring costs. In fact, we've never seen demand so low on the list of builders' concerns, nor supplies, labour, and capacity as high (figure 2). The data goes back to 1975, and includes the 2000s property boom and overheated economy immediately prior to the GFC. It's a similar 'stretch' theme for the rest of the economy – but the constraints are dialled up to 11 for construction.

Figure 2. Construction factor constraints



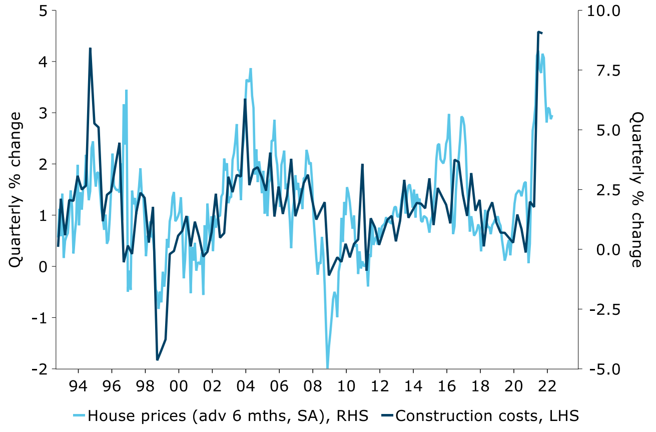
Source: NZIER, Macrobond, ANZ Research

So clearly, even though demand has been this incredibly strong, the industry is fighting an uphill battle to match it. And the construction industry can tend to get itself into trouble during boom times when prices are surging, as it's very easy to see cost blowouts and delays cause cashflow issues and wipe out any potential profit.

Indeed, we've seen some pretty massive increases in construction costs in recent quarters. In both Q2 and Q3 2021, construction costs rose 4.5% on a quarterly basis. That's a reflection of strong demand, a severe shortage of materials needed for construction, and wage costs rising as market conditions shift ever more in favour of workers.

If the usual correlation between house price inflation and construction costs is anything to go by, we may be through the very worst price rises (figure 3). But a smaller percentage increase on a higher price level will still be hard to stomach.

Figure 3. Construction costs and house prices



Source: Statistics NZ, REINZ, Macrobond, ANZ Research

Reports from our ANZecdotes do suggest that construction firms have begun to adjust to the pace of price rises, with fixed price contracts pretty much non-existent now. That should help the industry pass on the rising cost of building, reducing the chance that firms will have to absorb price rises into shrinking profit margins (or worse, go bust). But someone will have to wear those costs, which could see demand for new builds and renovations start to wane. Indeed, anecdotally that's already happening to some extent. Although given the amount of work that's still in the pipeline, that might almost be a relief for tradies rushed off their feet.

That's the problem when supply and demand are so mismatched in this way – the economy is running so hot that we physically can't expand capacity in some industries (at least, not without investment in capital – which takes time, or bringing in more workers – which isn't possible right now).

But demand is surging, aided and abetted by stimulatory policy settings. The only thing that can adjust in this scenario is the price – and that's why we've seen such massive price rises, both in domestic and international settings. For construction, it means that while a record share of national expenditure is going toward residential building investment, the amount of 'real' activity that's actually happening, as a share of the economy, is actually in line with historical experience (figure 4). We're just paying more for every inch of progress we make. This has implications for how Government policy should respond, showing that anything the Government does that adds to demand will just result in even higher prices. Conversely, policies that alleviate supply constraints, will have a real impact.

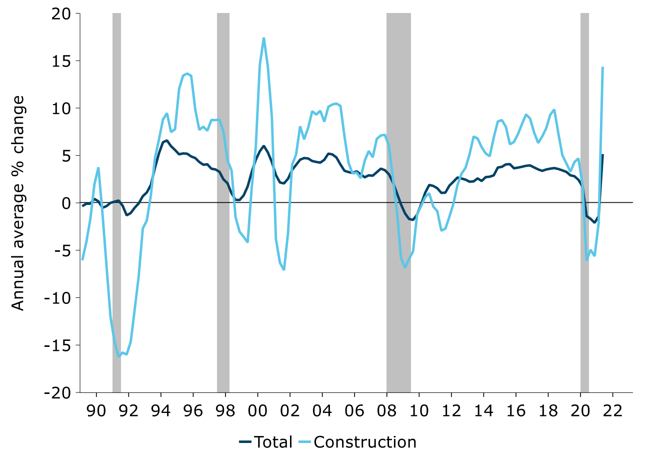
Figure 4. Residential investment (share of GDP)

Source: Statistics NZ, Macrobond, ANZ Research

With inflation now so high, and entrenched in both business and consumer expectations, the RBNZ needs to keep hiking interest rates to get ahead of the curve. The more inflated things get, the more they will need to tighten monetary policy – and the higher the risk of a hard landing in the construction industry (and housing more generally).

The risk of such a hard landing is very real as interest rates rise, and annual house price rises look peaky. Looking at history, the construction sector tends to have a much more volatile cycle than the rest of the economy. Figure 5 shows just how much more pronounced construction cycles tend to be relative to headline GDP (economic recessions are shaded in grey).

Figure 5. Construction vs GDP growth



Source: Statistics NZ, Macrobond, ANZ Research

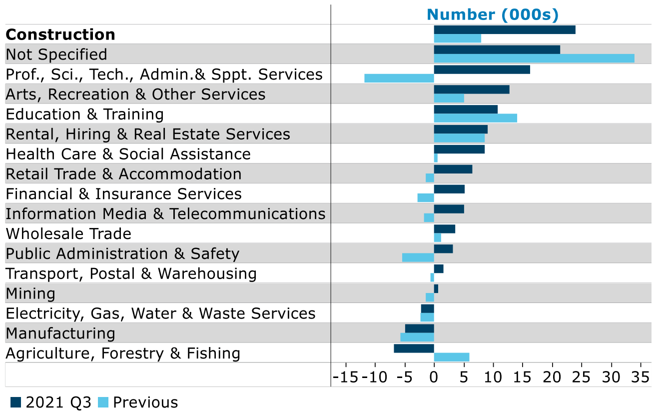
Construction tends to experience larger booms, but also deeper recessions. With the RBNZ trying to slow the economy down with interest rate hikes, there's a risk that the industry suddenly finds itself with very little demand and a whole lot of spare capacity, leading to a pretty severe crunch that could spill over to the rest of the economy. Our forecast is for a soft landing – ideally the RBNZ will raise interest rates enough that the extreme mismatch between supply and demand eases, and that should let the economy keep growing at a more sustainable rate. But clearly, there's a lot that could go wrong.

Labour market exposed to construction

One of the key reasons we expect the economy to keep trucking along over the next year is the strength in the labour market. With unemployment at a record low 3.4%, and firms seeming to have a lot of success pulling people into employment from inactivity, it's clear that household incomes are set for a big boost (in a nominal sense only – wage growth so far isn't even close to matching the rising cost of living).

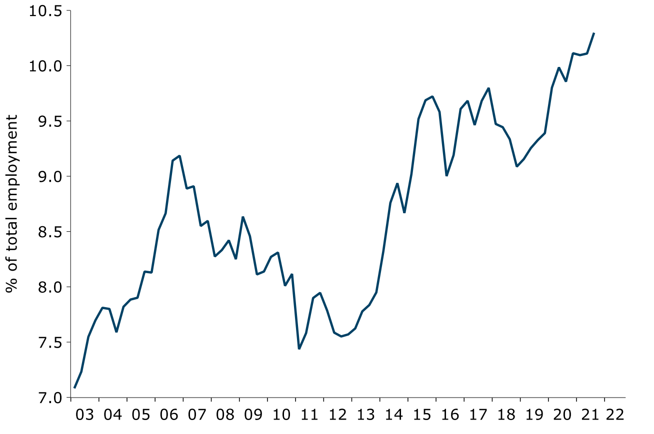
But again, this improvement in the labour market is inextricably intertwined with the surge in construction activity we've seen. In the September quarter, the largest contribution to employment growth came from the construction industry (figure 6). And the employment share of construction has continued to increase, even as demand for workers has become more and more broad-based (figure 7).

Figure 6. Annual increase in employment



Source: Statistics NZ, Macrobond, ANZ Research

Figure 7. Construction employment share



Source: Statistics NZ, Macrobond, ANZ Research

A robust labour market is key to sustaining economic growth over the medium term. But construction industry employment is clearly volatile – rising and falling sharply with the shifting winds of the sector. Should construction activity stall, leading to significant job losses, that would be a significant hit to the labour market, given the ever increasing importance of construction for overall employment. Traditionally the market has then tended to lose workers offshore or to other industries, and then struggled to rebuild capacity when demand picks up once more.

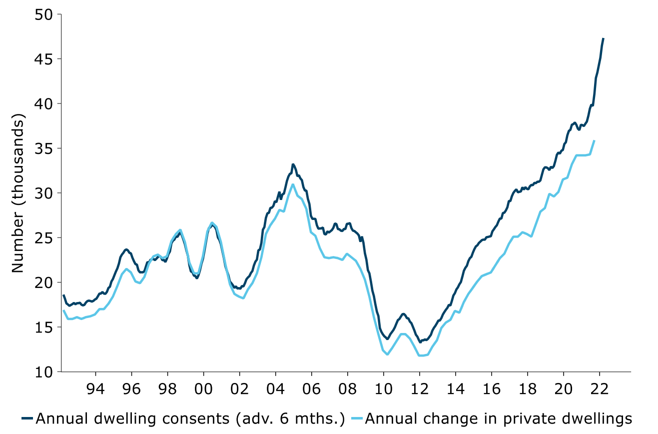
From an economy-wide perspective, it is encouraging that strong employment growth is not limited to construction. Most major industries have experienced higher employment over the past year, and that could mean that even if construction slows as the housing market winds down and interest rates rise, potential jobseekers shouldn't have too much problem finding new work (if it comes to that).

But it's also hard to ignore the fact that the construction sector and housing market are key parts of the New Zealand economic cycle – so there's always the chance that a downturn in construction spills over into the wider economy. We think, the robust labour market will prevent a significant deterioration, but housing is near the top of our list of risks to domestic demand.

Demand and supply normalisation may not happen smoothly

One thing that's becoming increasingly clear is that the incredible surge in house prices we've seen over the past year is on borrowed time. A natural consequence of the construction industry going so hard is that we've built a heck of a lot of houses, and if most of the newly consented dwellings in the past few months get completed, that would see historic levels of new dwellings being added to the national housing stock (figure 8).

Figure 8. Housing stock and consents (annual change)



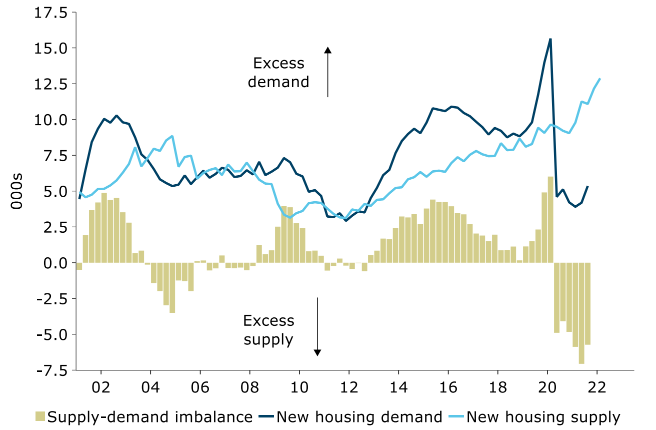
Source: Statistics NZ, Macrobond, ANZ Research

The supply response to housing demand over the past few years has been phenomenal, but that same demand pulse is coming to an end. Population growth has slowed markedly, with Auckland shrinking slightly as people move to the regions, while new migrants are unable to enter. And there are many other headwinds out there – see the Housing Market Overview for more details.

So at the same time that the construction sector has massively increased headcount to try and meet high demand, that demand may well start to drop away. Initially that could be a relief, giving construction firms a chance to catch up on the backlog of work. But over time, they may find themselves seeing competition for dwindling projects start to whittle down profits, driving some out of business.

A key uncertainty amongst all this is where immigration policy will land in a COVID-endemic world. Currently, the borders are pretty much shut – and we've rapidly eroded the housing supply shortage because new housing demand has been highly constrained (figure 9). Without some positive immigration flow into the country, we could shift into housing over-supply over the next few years. That could see house prices drop in a sustained manner, and really take the heat out of residential construction activity. This would be exacerbated if New Zealand's border were to remain closed to many countries, while young Kiwis leave en mass for delayed OEs or in search of higher wages and lower living costs.

Figure 9. Quarterly housing supply-demand imbalance



Source: Statistics NZ, Macrobond, ANZ Research

Some recovery in net migration (which is our central assumption) would keep housing demand trucking along enough to keep the construction sector busy, but not enough that we see the unsustainable supply-demand imbalance that characterised the 2010s. All up it seems likely that we're past the peak in the housing market – so the pertinent question is do we see a hard or soft landing?

Boom times will end

Right now, it's boom times for construction – activity and employment are surging, and firms have been able to pass on cost increases, making the extreme capacity constraints more manageable. But the housing cycle is turning – even if FOMO and low listings have given things a boost. Hopefully, we'll see construction simply slow down to a more sustainable pace of growth.

But the more the industry booms, the more vulnerable it becomes to a correction – and those corrections can be sudden, large, take years to recover from, and risk taking broader economic momentum with them. It's not our forecast – but it's a downside risk which supports the RBNZ moving in well-signalled 25bp OCR hikes, rather than a knee-jerk 50bp hike that could increase the risk of the hard landing we're worried about.

Mortgage borrowing strategy

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Summary

Fixed mortgage rates have continued to rise rapidly, with 1 to 5 year rates up between 0.26%pts and 0.45%pts since last month's edition. These moves followed progressively larger increases observed since mid-year, culminating in the largest 6-monthly rise in fixed rates in over 15 years. Unfortunately, none of the choices right now are obvious winners. If you fix for a shorter period now, you'll probably end up paying more when you re-fix later. Alternatively, if you fix for longer now, you'll pay more immediately. The opportunity to beat rate rises has likely now passed. If the choice is between 1 or 2 years, on balance we prefer the 1-year. Fixing for 2 years now could end up being cheaper in the long run if we see hefty further increases, but now that market interest rates have already moved a lot, that may not happen. The 1-year is also still the cheapest rate, and while we expect it to increase as the RBNZ hikes the OCR, we still prefer it to floating or 6-months, as these rates are already higher than the 1-year and are also set to rise as the OCR goes higher.

Our view

The rapid rise in wholesale interest rates over the past few months has seen fixed mortgage rates rise at the fastest pace seen over a 6-month period in at least 15 years. One only has to think back to March and April, when 1, 3 and 5-year rates were around 2¼%, 2¾% and 3¼% respectively. As table 1 shows, these rates now stand at 3.49%, 4.43% and 5.02%.

Back in March and April, we flagged the opportunity to fix 3-5 years, noting that longer-term rates were not likely to go much lower, and could start rising. As it turns out, that is pretty much how things have panned out. That's not to say that we picked it perfectly – far from it, the rises have happened a lot more quickly than we expected. But it all adds to the feeling that the proverbial horse has bolted in terms of fixing before big rate rises, as we noted last month.

With the RBNZ poised to deliver a second OCR hike this month (and to flag more to come in time), we will likely see further mortgage rate rises from here, especially in the shorter terms like 6-month and 1-year, and floating, which tend to follow the OCR more closely.

But if there is any good news for borrowers, it is that if we are right and the OCR is "only" headed to 2%, then the bulk of the rise in fixed mortgage rates is likely behind us. We say this because wholesale interest rates – upon which mortgage rates depend – have already risen *in anticipation* of the OCR rising. Take the 2-year swap rate for example – even though the OCR is at 0.5%, it is at 2.3% already. What that means is that we're only likely to see the 2-year swap rate move significantly higher if the RBNZ has to hike more quickly, or keep hiking for longer than is currently priced in. If they merely meet market expectations, the 2-year swap rate shouldn't move too much. The 1-year swap rate is not as high – it's around 1.65%. It will also rise to a little above 2% as the OCR gravitates to 2%, but only gradually.

Unfortunately, right now, there isn't really anywhere to hide from rising rates. Longer-term fixes cost more, and the cost rises progressively. Breakevens suggest it probably isn't worth paying the premium to fix for longer. Consider the choice between 3.49% for 1 year or 4.16% for 2 years. Over a 2-year horizon, back-to-back 1-year fixes will end up being cheaper so long as the 1-year rate is below 4.83% next year. So that rate is what you'd have to expect in order to pay up for 2 years now. Such a large increase is possible, but it's more than we expect. And remember, the large increases seen to date are because wholesale interest rates are already factoring in a lot of OCR rises.

Certainty and flexibility have different value to different borrowers. But from a pure cost perspective, we favour the 1-year rate over more expensive, longer terms. The decision to opt for 1-year over floating or 6-months is easy given that the 1-year is lower, and all three rates will likely rise as the OCR goes higher.

Figure 1. Carded special mortgage rates^

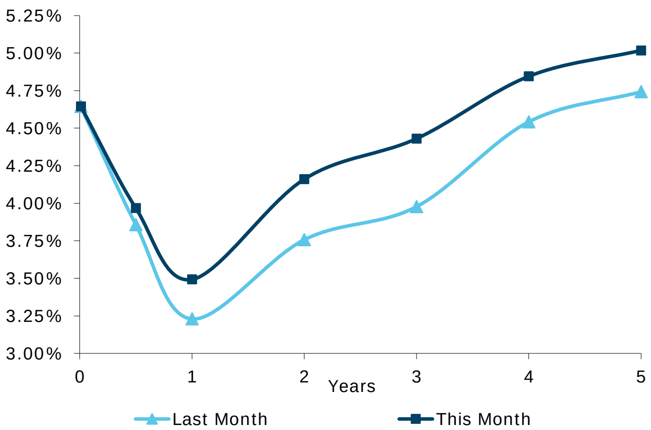

Table 1. Special Mortgage Rates

Term	Current	Breakevens for 20%+ equity borrowers in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.65%				
6 months	3.97%	3.02%	4.66%	5.00%	4.84%
1 year	3.49%	3.84%	4.83%	4.92%	4.97%
2 years	4.16%	4.38%	4.90%	5.21%	5.53%
3 years	4.43%	4.75%	5.30%	5.46%	5.59%
4 years	4.85%	5.05%	5.40%		
5 years	5.02%	#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	207	213	219	225	231	237	243	250	256	263	270	276	283	290
250	259	266	273	281	289	296	304	312	320	329	337	345	354	363
300	310	319	328	337	346	356	365	375	385	394	404	415	425	435
350	362	372	383	393	404	415	426	437	449	460	472	484	496	508
400	414	426	437	450	462	474	487	500	513	526	539	553	566	580
450	466	479	492	506	520	534	548	562	577	592	607	622	637	653
500	517	532	547	562	577	593	609	625	641	657	674	691	708	725
550	569	585	601	618	635	652	669	687	705	723	741	760	779	798
600	621	638	656	674	693	711	730	750	769	789	809	829	850	870
650	673	692	711	730	750	771	791	812	833	854	876	898	920	943
700	724	745	766	787	808	830	852	874	897	920	944	967	991	1,015
750	776	798	820	843	866	889	913	937	961	986	1,011	1,036	1,062	1,088
800	828	851	875	899	924	948	974	999	1,025	1,052	1,078	1,105	1,133	1,160
850	879	904	930	955	981	1,008	1,035	1,062	1,089	1,117	1,146	1,174	1,204	1,233
900	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
950	983	1,011	1,039	1,068	1,097	1,126	1,156	1,187	1,218	1,249	1,281	1,313	1,345	1,378
1000	1,035	1,064	1,094	1,124	1,154	1,186	1,217	1,249	1,282	1,315	1,348	1,382	1,416	1,451

Mortgage rate projections (historic rates are special rates; projections based on ANZ’s wholesale rate forecasts)

	Actual			Projections						
Interest rates	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Floating Mortgage Rate	4.5	4.5	4.5	4.9	5.2	5.7	6.2	6.2	6.2	6.2
1-Yr Fixed Mortgage Rate	2.3	2.2	2.7	3.5	3.6	3.9	4.0	4.0	4.0	4.0
2-Yr Fixed Mortgage Rate	2.6	2.6	3.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
5-Yr Fixed Mortgage Rate	3.0	3.6	4.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
GDP (Annual % Chg)	0.1	2.9	17.4	-4.2	4.1	2.9	1.2	9.8	2.9	3.4
CPI Inflation (Annual % Chg)	1.4	1.5	3.3	4.9(a)	5.5	5.8	5.1	3.9	3.2	2.5
Unemployment Rate (%)	4.8	4.6	4.0	3.4(a)	3.5	3.4	3.2	3.1	3.0	3.0
House Prices (Quarter % Chg)	7.5	7.7	6.6	5.7(a)	4.7	0.1	0.2	0.3	0.3	0.8
House Prices (Annual % Chg)	15.6	21.3	28.8	30.5(a)	27.1	18.2	11.2	5.4	1.0	1.7

Interest rates	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Cash Rate	0.25	0.25	0.25	0.75	1.00	1.50	2.00	2.00	2.00	2.00
90-Day Bank Bill Rate	0.35	0.35	0.65	1.00	1.52	2.02	2.10	2.10	2.10	2.10
10-Year Bond	1.81	1.77	2.09	2.50	2.65	2.75	2.75	2.80	2.80	2.80

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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