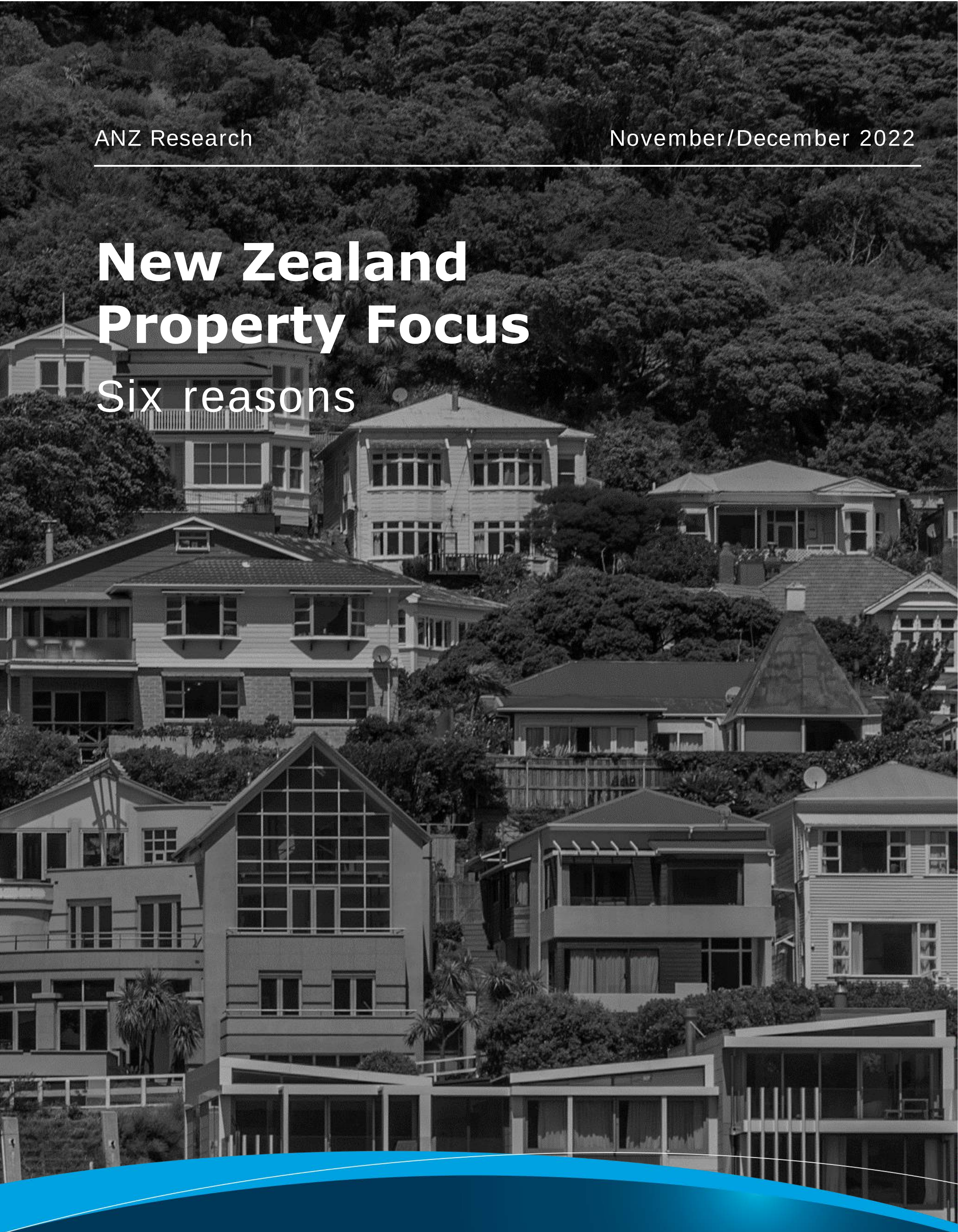
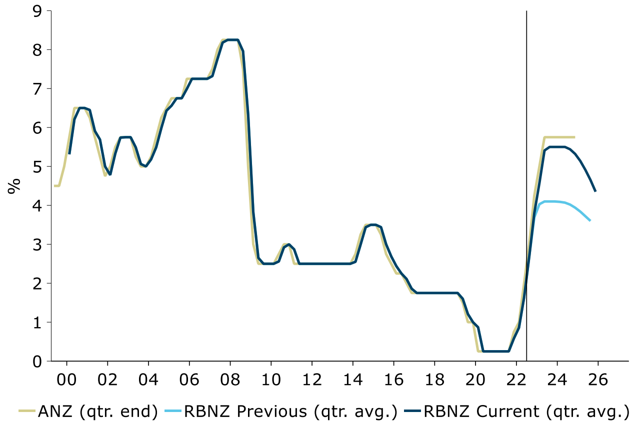


New Zealand Property Focus

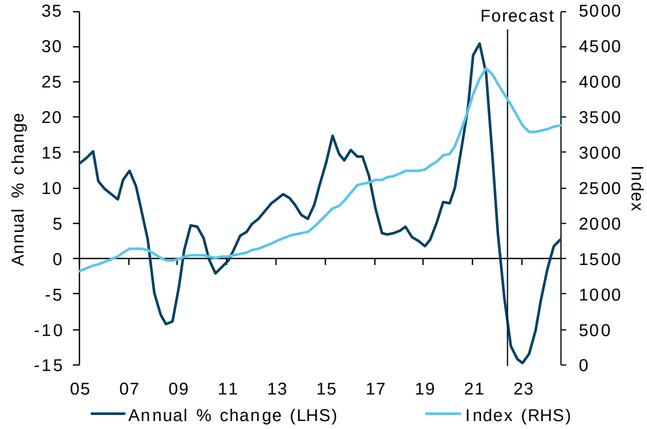
Six reasons

At a glance

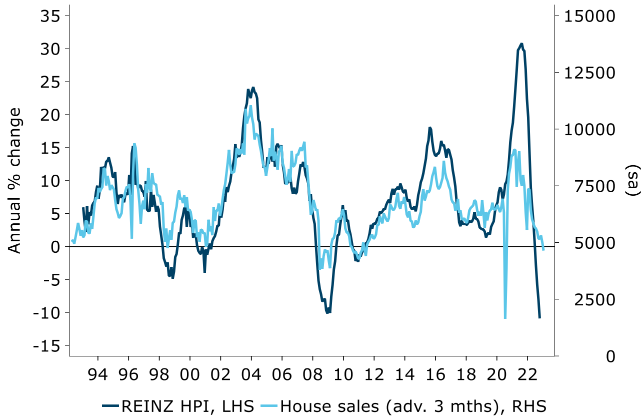
A higher OCR outlook means a weaker outlook for housing



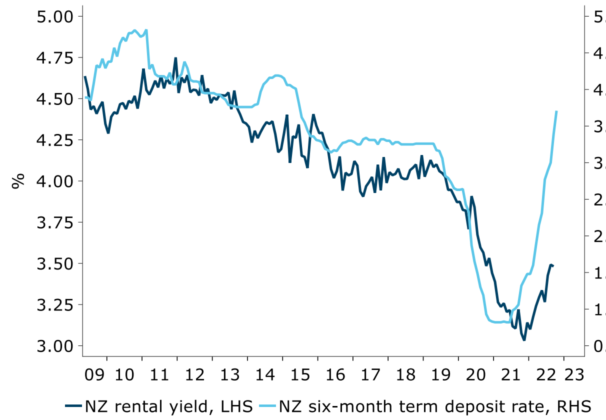
We now expect prices to decline 22% overall (previous: -18%)



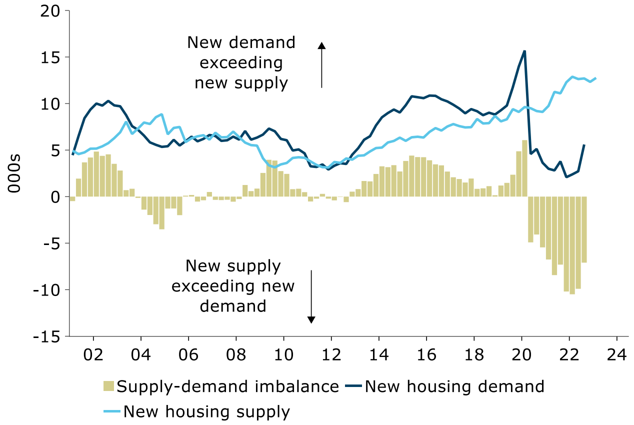
Upside appears limited, with sales still on a softening trajectory...



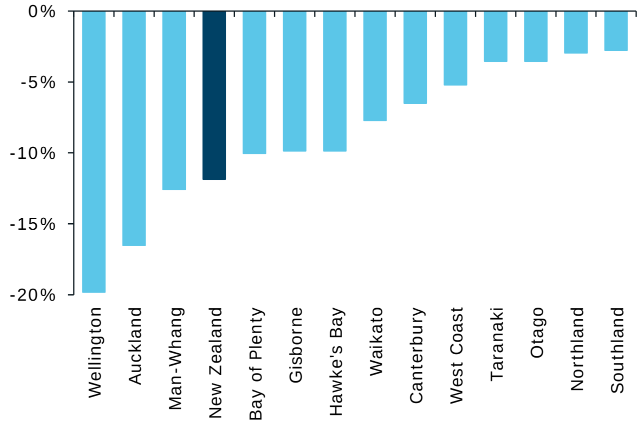
...rental yields relatively low...



...and the 'housing deficit' greatly eroded.



Regional catch-down likely



Source: Stats NZ, RBNZ, REINZ, CoreLogic, BIS, Macrobond, ANZ Research

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Summary

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

Forecast Update

We now expect the OCR to peak at 5.75% (previous forecast peak: 5.0%) and that means a higher mortgage rate outlook and more downward pressure on house prices than otherwise. Accordingly, we have downgraded our house price forecast from a decline of 18% (peak to trough) to 22%. The potential shock value associated with the accelerated pace of rate hikes present additional downside risks to the housing outlook that we cannot, with any confidence, incorporate into our forecast. See our Forecast Update.

Property Focus

The housing market will find a floor at some point. But there's a considerable amount of uncertainty around both the magnitude and duration of price declines that will play out before that floor is discovered. This month we look at six reasons to believe downward house price momentum is yet to ease, but also look at six things to keep an eye on as they may signal the eventual floor can't be too far away. Broadly, all 12 points are consistent with our forecast that we're just over half way through the house price correction, and that the level of house prices will find their floor around Q3 2023. While upside interest rate risks remain a key downside risk for the housing outlook, household income and housing confidence risks are both intensifying, and would likely pack a bigger wallop if they were to materialise. See our Property Focus.

Mortgage borrowing strategy

Fixed mortgage rates are up again this month. While recent increases have been of a lesser magnitude than earlier month-to-month increases this year, fixed rates are nonetheless at their highest levels in over 7 years (in the case of the 5-year) or in over 10 years (in the case of the 1-year). Given that the RBNZ has just hiked the OCR by an unprecedented 0.75% and flagged that the OCR may go up by another 1.25% from here, the risk of further near-term rises is very real. But equally, markets were anticipating the lift in the OCR, and 1 and 2-year wholesale interest rates were already at similar levels to where they are now when many fixed mortgage rates were last increased. Slowing credit growth may also leave banks in less of a hurry to raise mortgage rates as wholesale rates rise. Nonetheless, with inflation not in the bag yet and the RBNZ talking tough, borrowers need to be aware of the risk of higher rates. With not much separating the 1-year rate from longer terms, it is worth considering fixing at least a portion for a longer term. However, be mindful that we are nearer to the end than the beginning of the interest tightening cycle, and there are risks on both sides. See our Mortgage Borrowing Strategy.

Forecast Update

Summary

We now expect the OCR to peak at 5.75% (previous forecast peak: 5.0%) and that means a higher mortgage rate outlook and more downward pressure on house prices than otherwise. Accordingly, we have downgraded our house price forecast from a decline of 18% (peak to trough) to 22%. The potential shock value associated with the accelerated pace of rate hikes present additional downside risks to the housing outlook that we cannot, with any confidence, incorporate into our forecast.

Down how much?

Wage-price spiral risks have materialised, and the RBNZ decided to tackle that head-on in its Monetary Policy Statement last week, forecasting a much higher peak in the OCR than expected. Action is necessary: allowing inflation to run away unchecked would open the economy up to a much greater (and likely more persistent) downturn than we're currently anticipating. But that doesn't mean the next year or two will be a walk in the park. And the housing market is at the front line of the inflation fight.

We can put all the analytical grunt we have into our house price forecast, but that will never compensate for the fact that there are a huge number unobservable drivers that will heavily influence housing outcomes – and that's in addition to the forecast uncertainty around key variables that we can observe. That means house price forecasts always carry a decent amount of uncertainty – but if you didn't know that by now, you haven't been paying attention!

Here's what we do know:

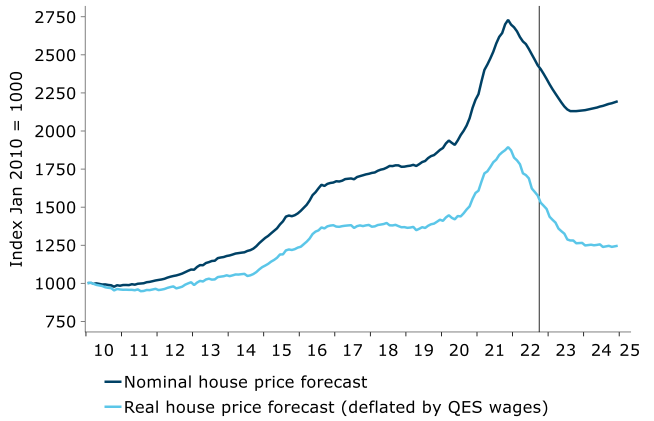
- Rates are rising, putting downwards pressure on house prices.
- The 'housing deficit' has been greatly eroded, meaning less scope for prices to take off again.
- Policy changes mean investors will only become interested at a lower price point.
- Household incomes are growing solidly (a partial offset to rising mortgage rates).

Here's what we don't know:

- How will animal spirits evolve? That is, what are the 'emotional' drivers of outcomes beyond the fundamentals such as FOMO (fear of missing out) vs FOHIR (fear of higher interest rates). Indeed, 75bp OCR hikes could spook the horses (and would-be buyers), leading to a greater downswing than a slower pace of hikes – but to the same eventual level – would perhaps achieve.
- Exactly where is the 'tipping point' before we see forced sales en masse? The aggregated data we have masks a lot of the pain highly leveraged households are feeling. It's likely that either higher interest rates or income loss will mean some people may need to sell their house whether they like the price on offer or not. A little bit of that isn't a problem for the relatively 'orderly' correction. But a lot of this and prices could start to gap lower. Not even the RBNZ knows exactly where this point it. Like us, they are watching the data and developments closely, and remaining nimble.
- Population growth. We don't even know migration last month with any certainty (due to large revisions) – let alone where it'll be six months from now.
- Before this list gets too long, let's just conclude with 'we don't know what we don't know'. Financial vulnerabilities in NZ and abroad exist, and we don't know if the current aggressive pace of monetary tightening is going to expose these. We all have to assume such risks do not materialise (otherwise policy will constantly fall between two stools), but the faster rates go up, the less warning we're likely to get if it all turns to custard.

All up, our forecast can still be thought of as a 'soft landing', but it is bumpier than previously. After a 22% peak-to-trough decline, house prices would still be around 14% above their pre-pandemic level. But when we deflate house prices by wages (to get a measure of the *real* price change) that 22% decline becomes a 32% decline, and the level of wage-adjusted prices ends up around 10% below that prevailing just before the pandemic (figure 1).

Figure 1. House Price Forecast



Source: Stats NZ, REINZ, Macrobond, ANZ Research

The fact that prices are down around 12% already puts us just over half way through our forecast. We see the level of house prices finding a floor in the third quarter of 2023 (not long after interest rates stop rising), with only very modest growth thereafter. Our forecasts assume a relatively steadily (and orderly) pace of monthly price declines going forward (similar to that experienced over the past year).

Property Focus

Summary

The housing market will find a floor at some point. But there's a considerable amount of uncertainty around both the magnitude and duration of price declines that will play out before that floor is discovered. This month we look at six reasons to believe downward house price momentum is yet to ease, but also look at six things to keep an eye on as they may signal the eventual floor can't be too far away. Broadly, all 12 points are consistent with our forecast that we're just over half way through the house price correction, and that the level of house prices will find their floor around Q3 2023. While upside interest rate risks remain a key downside risk for the housing outlook, household income and housing confidence risks are both intensifying, and would likely pack a bigger wallop if they were to materialise.

An eventual turning point

October saw the REINZ house price index (HPI) fall another 1% m/m at the national level (ANZ seasonal adjustment), marking the 11th consecutive monthly decline and taking the index around 12% below its November 2021 peak. That puts the housing market just over half way through the 22% peak to trough decline we've pencilled in.

While we're comfortable that risks around our forecast are balanced, it's important to note that house price forecasts are highly uncertain at the best of times, and these are not the best of times. Economic data remains difficult to interpret given the still-unprecedented economic climate, and the full impacts of aggressive monetary tightening are not yet clear. And even though the RBNZ has upped the ante with rate hikes, there are still some (albeit smaller) upside risks to our call for a peak OCR of 5.75%. Should these risks materialise (ie if the current wage-price spiral turns out to be more advanced than expected), mortgage rates will be higher for it, and housing outcomes weaker. Add to that the fact animal spirits (ie market drivers other than the fundamentals) have the tendency to get pretty 'wild' when it comes to the housing market, and it pays to be nimble when it comes to assessing the housing pulse and its implications for the outlook.

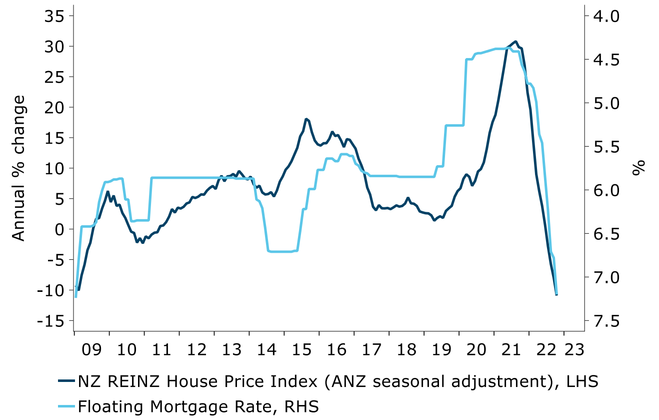
We're constantly on the lookout for both the likely magnitude and duration of price declines. And at the moment, the overall signal is a little mixed. Some data suggest the housing slowdown may be close to finding a floor, while some suggests this is still a while away. However, all these data precede the RBNZ accelerated pace of hiking, meaning any signal that the bottom is close is likely to be fleeting.

The case for ongoing house price weakness

1. Mortgage rates haven't yet peaked

Perhaps the most convincing reason to think the house price correction isn't over yet is the fact that mortgage rates are yet to peak (given our OCR forecast). We are now forecasting OCR hikes will conclude in May 2023 (at 5.75%), with house prices finding a floor not long after that. That would imply higher floating rates ahead, but probably a little less upside on fixed mortgage rates (which are determined by wholesale markets, where a higher OCR over time is already factored in).

Figure 2. Floating mortgage rate and house price inflation

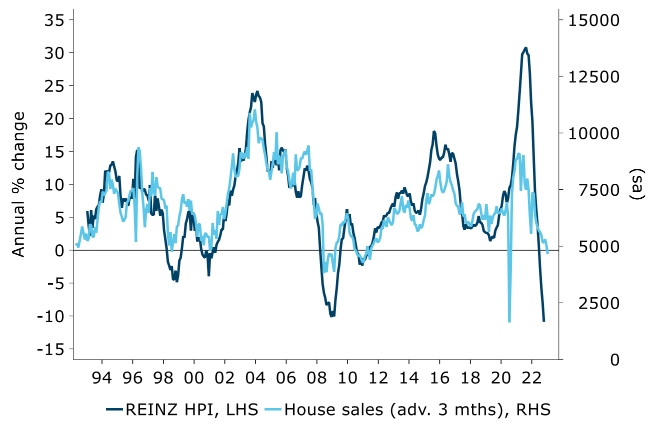


Source: RBNZ, Macrobond, ANZ Research

2. Sales are still trending down

If sales are slowing, chances are demand for housing is too. That's why sales tend to be a decent near-term indicator for price momentum (figure 2). That said, prices significantly overshot on the way up, and are therefore expected to undershoot on the way down. But looking through that, the fact that sales remain in a downtrend (falling another 7.4% m/m in seasonally adjusted terms in October) suggests downwards price momentum still has further to go.

Figure 3. House price inflation vs house sales

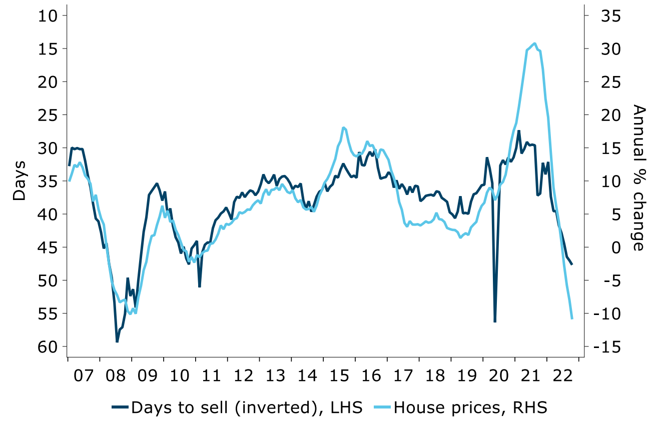


Source: REINZ, Macrobond, ANZ Research

3. Days to sell are high, and trending up

The median number of days it is taking to sell a house can provide a good indication of the supply-demand balance. And at 48 days, this indicator is currently well above its historical average of 39, and is still trending up (figure 4, note days to sell are inverted).

Figure 4. Median number of days to sell vs house prices

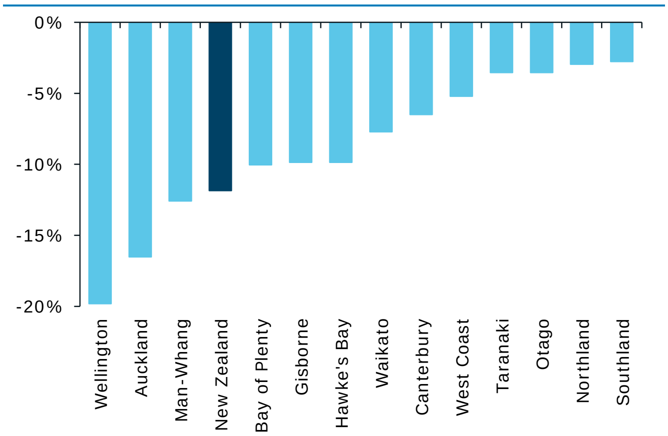


Source: REINZ, Macrobond, ANZ Research

4. Regional catch-down

As we noted last month, despite all regions experiencing the same broad headwinds (in particular, rising mortgage rates), there is still quite a bit of regional divergence out there. Some of that can be explained by variances in population growth, while some of it is a function of just how much prices lifted in the wake of all the pandemic-related stimulus (ie how much nuttiness needs to unwind). But there is a timing story too, with some regions simply leading the others on the downslope (figure 5). We might not see a full catch-up (catch-down?) by the other regions, but our take on the data is that there is further weakness to play out in the current better-performing regions. And with little to suggest the current underperforming regions are about to find a new upwards momentum, that will weigh on the national-level HPI.

Figure 5. Change in HPI from peak



Source: REINZ, ANZ Research

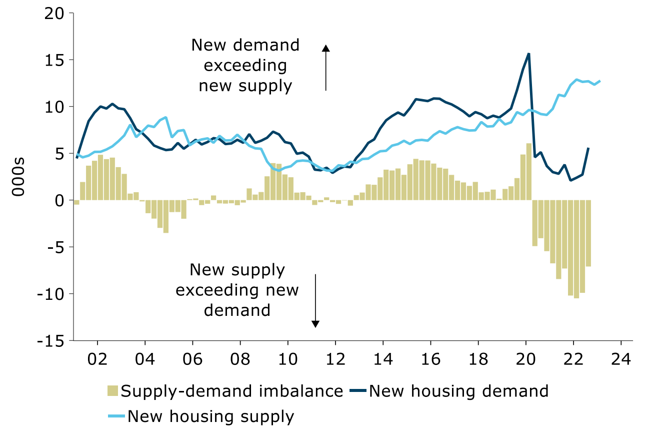
5. The fundamentals just keep improving

With the borders closed and residential investment activity going gangbusters these past couple of years, New Zealand's 'housing deficit' has probably been fully eroded. We say 'probably' because deficit estimates are highly uncertain given the assumptions required to make them:

- when the market was in equilibrium (the point from where we sum up the quarterly surpluses or deficits),
- the depreciation rate (how much new building has to happen to keep the housing stock from shrinking), and
- the optimal number of people per dwelling (moves with typical household size, distance to CBDs, housing affordability, preferences etc).

By moving these assumptions around, estimates of the pre-pandemic deficit can vary between 30,000 and 140,000 houses. But changes in the deficit are easier to estimate, and plugging in the recently released Q3 population estimates shows a catch-up of 81,000 dwellings since the border was closed. That's more than our best-guess estimate of a pre-pandemic deficit of 70,000. And while population growth is now driving narrowing surpluses, from a housing stock perspective these are very different supply-demand fundamentals compared to before the pandemic.

Figure 6. New demand versus new supply

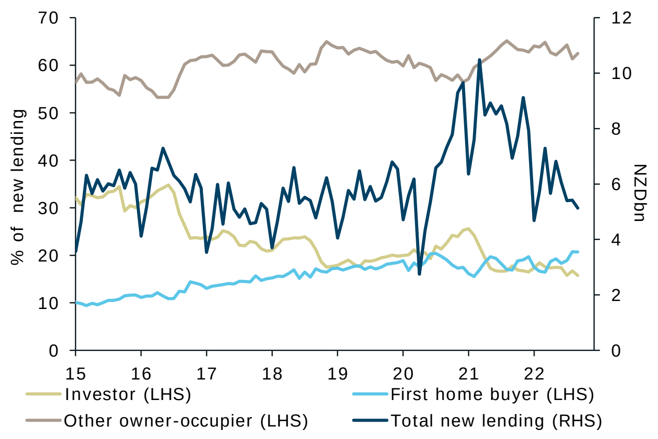


Source: Stats NZ, Macrobond, ANZ Research

6. The investor entry point is lower

There have been a number of housing-related policy changes made over the past few years, much of them targeted at swinging the market away from investors towards first-home buyers. And it appears to be having some impact, with the share of new lending to first-home buyers lifting mildly as the investor share reduces (figure 7, over).

Figure 7. New mortgage lending by borrower type



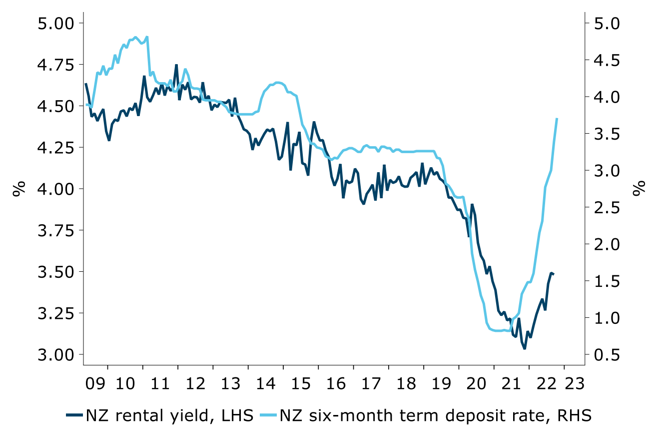
Source: RBNZ, ANZ Research

For investors, the landscape has changed dramatically. Examples of policy changes that will weigh on investor demand to some extent:

- The removal of interest deductibility on investment properties (something that matters a lot more as interest rates rise),
- increased tenant rights,
- the end of 90-day no-cause terminations,
- extension of the bright lines test,
- limits on the frequency of rent increases, and
- healthy home standards

This might not have much bearing on current house price momentum (given all these changes are being factored in already). However, when it comes to gauging the potential floor in the housing market, it does all suggest the 'entry point' (where rental yields, expectations for capital gains, and investment risk perceptions are deemed worthwhile), will likely be lower than it has been in the past.

Figure 8. Rental yields vs 6-month deposit rate



Source: REINZ, RBNZ, Macrobond, ANZ Research

Comparing pure rental yields (ie no capital gain or loss assumed) against other low-risk returns (figure 8) suggests there's more correction to come in the market. That's very unlikely to occur via rising rents alone (given household income limits), meaning house prices likely have further to fall before the market starts looking relatively 'attractive' to investors compared to the simplicity of just putting your money in the bank. And that's before we start thinking about where the new, lower, entry point for investors might be.

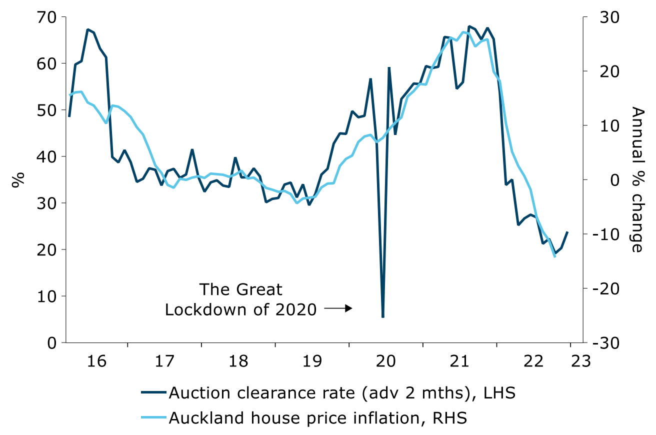
Where will we see early evidence that the floor is nigh?

If wage-price spiral risks hadn't materialised into a higher interest rate outlook so recently, we'd be saying that many of the following indicators signal an approaching floor. However, given the RBNZ's volley across the bow, come December, we wouldn't be surprised to see a new round of housing market negativity come calling. But we may be wrong, so these are great indicators keep an eye on.

1. Auction clearance rates in Auckland

At about one third of the market, Auckland has a lot of influence on national-level housing outcomes. And the Barfoot and Thompson data provides a pretty good timely gauge on what's going on there. In particular, auction clearance rates can provide a good signal of how tight the market is (the theory being price pressures must be weak if more properties are being turned in at auction). And the very recent data suggests clearance rates may have found a floor (figure 9). Of course, the small recent uptick is not outside of typical volatility, so it may yet prove fleeting, but we're watching closely.

Figure 9. Auckland auction clearance rates and house prices

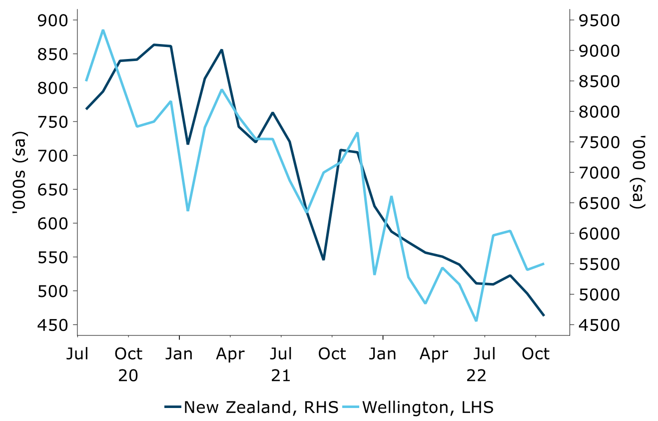


Source: Barfoot & Thompson, REINZ, Macrobond, ANZ Research

2. Sales and days to sell in Wellington

As the country's worst-performing region for housing, it makes sense that the Wellington market might be among the first to find a floor. However, the data can be pretty volatile, meaning we'll need consecutive increases to have any confidence the floor is nigh.

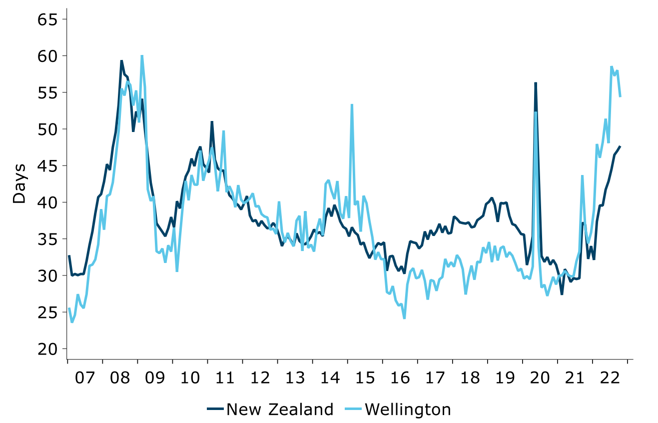
Figure 10. Wellington sales vs all of NZ



Source: REINZ, Macrobond, ANZ Research

As figure 11 shows, days to sell in Wellington fell sharply in October (to still-historically high levels), suggesting the market may no longer be loosening. But a lot has changed on the mortgage rate front since October, so this isn't a time for counting chickens.

Figure 11. Days to sell: Wellington vs national

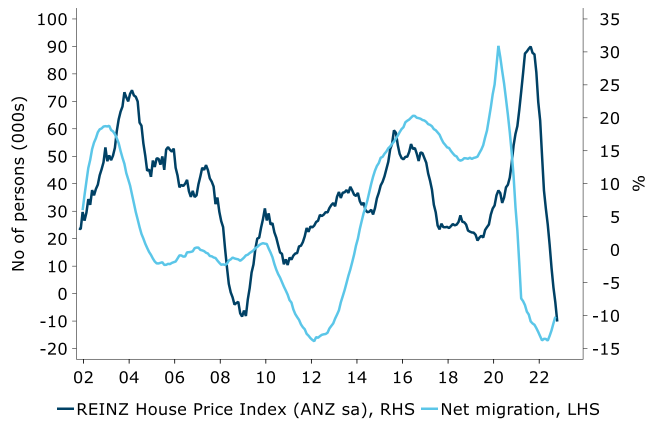


Source: REINZ, Macrobond, ANZ Research

3. Net migration may be picking up more sharply than we think

We have already covered net migration indirectly (under the improving fundamentals section): net migration can make up a significant portion of population growth, therefore adding to our 'new housing demand' estimates. But given the recent data, we thought this was worth a mention – not so much about where annual net migration is currently (figure 12), but where it might be heading. The September net migration figures surprised our expectation to the upside, with an estimated inflow 4600 people over the quarter. At that rate, annual net migration will be positive by the end of the year, with an all-else-equal positive influence on house prices.

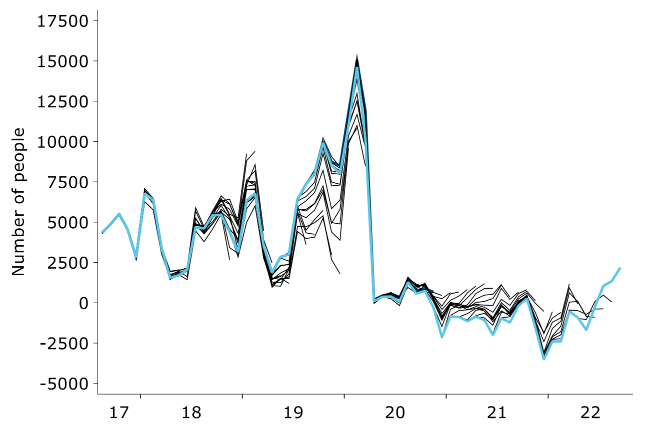
Figure 12. Annual net migration and house prices



Source: REINZ, Stats NZ, Macrobond, ANZ Research

However, the migration data is prone to significant revisions (figure 13) as some estimated migrations turn out to be temporary holidays and vice versa, particularly in the outward direction since the elimination of departure cards. That means we have to be very careful not to read too much into one, two, or even three months of data. Indeed, historical releases have shown monthly net inflows can be revised by as much as 6000 people – that's a story-changing revision.

Figure 13. Vintages of monthly net migration data



Source: Stats NZ, Macrobond, ANZ Research

So while net migration appears to be picking up a little faster than our earlier expectations, we're not yet willing to take full signal from the recent data. Our forecast assumes annual net migration picks up to a net inflow of around 20,000 people over 2023, with departures lifting to above pre-pandemic levels (as the tight Australian labour market beckons), but annual arrivals a little weaker owing to tighter migration policy. Overall, that's a much weaker migration impulse than experienced in the years leading up to the pandemic.

4. New listings are a little weaker than normal

It may just be a timing blip in the data, but October saw a smaller lift in new listings than is typical for this time of year (figure 14). While one month of new listings isn't enough to change the fact that overall inventories are near a six-year high (figure 15), this has helped move the dial a touch.

Figure 14. New housing and apartment listings by year

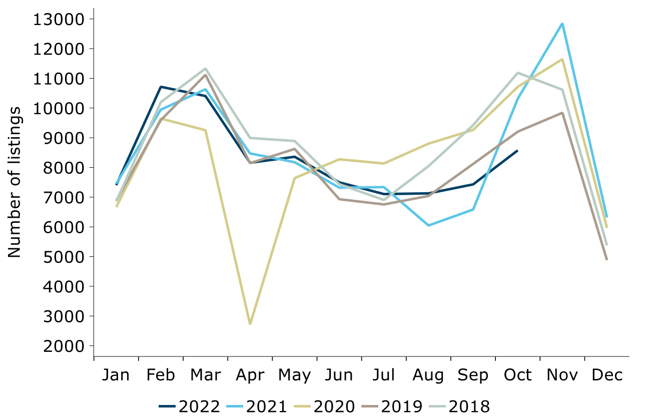
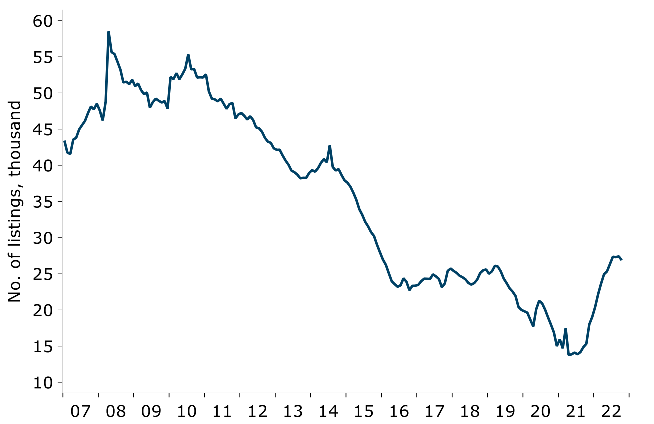


Figure 15. Housing and apartment inventories



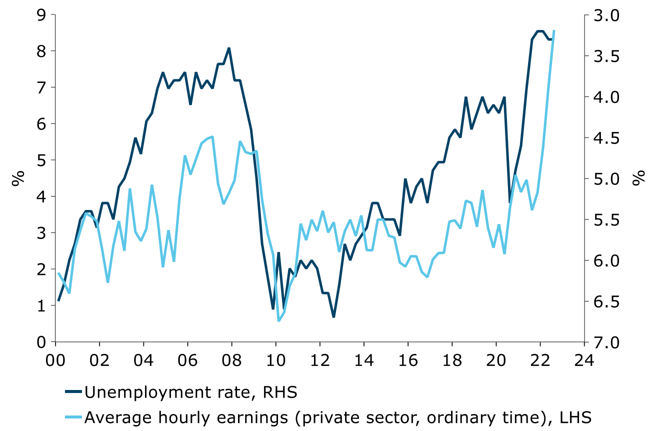
Source: REINZ, Macrobond, ANZ Research

At face value, the fact that new listings are not rising as much as they normally do this time of year suggests households, in aggregate, are not in a must-sell situation. That is, rising interest rates do not appear to be driving households en masse to the point where higher debt-servicing costs are forcing them to sell. And that's partly owing to the very strong labour market, and robust household sector. We'll be watching new listings closely over coming months for any sign that the more-aggressive pace of OCR hikes has changed this.

5. Household sector is robust

Key labour market statistics show records are being broken all over the place. Businesses are desperate for workers, meaning households generally have the opportunity to increase how much they work while record-high wage growth (figure 16) also bolsters their nominal income. All else equal, that means that for many, income growth is providing at least a partial offset to the impact of rising mortgage rates.

Figure 16. Average hourly earnings and unemployment



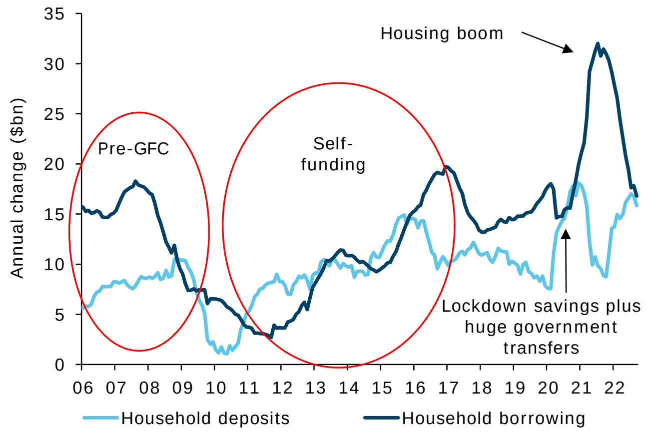
Source: Stats NZ, Macrobond, ANZ Research

However, a labour market this tight is not sustainable from an economic and price stability perspective. Frankly, the labour market has been overstimulated and is currently out of balance. At these levels, higher labour costs are fuelling higher CPI inflation in a wage-price spiral that needs to be contained by higher interest rates. Failure to guide the economy towards a sustainable path could see boom dynamics flip into a deeper and possibly more-prolonged bust further down the track. So while we can think of the robust household sector as a positive thing for the housing market, we should also note that a tighter-for-longer labour market (more inflationary) will also very likely necessitate a higher OCR than otherwise, which we'd expect to net out as a negative for the housing market once the dust has settled.

6. Funding gap has closed

The price of credit may be going up with the OCR, but the signal from 'the funding gap' (the change in deposits versus credit) suggests there are no flashing red lights around broad credit availability. That's a different story to the surging house price environment that saw credit take off and the gap widen at a pace that may have been difficult for banks to sustain.

Figure 17. The funding gap



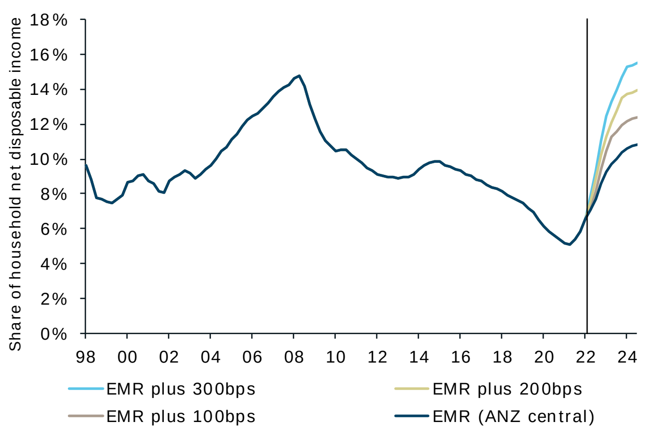
Source: RBNZ, ANZ Research

All up, the recent data (and in particular the higher outlook for interest rates) continue to suggest that house price declines are likely to continue, and for longer than we previously thought. A peak-to-trough fall of 22%, and finding that floor in Q3 2023, are our current working assumptions, but it pays to be nimble. The hurdle for the economy to surprise remains low, and while higher interest rates remain a key risk for the housing market directly, the fate of the labour market is crucial too, as we discuss in the next section.

Household income shock the greatest risk

We've already highlighted that upside CPI inflation risks mean upside mortgage rate risks and therefore downside risks around housing. But by our estimates, there is a 'buffer' before the aggregate household debt-servicing burden breaks previous highs – not least because income growth is so strong.[1] For that, we'd need to add around 300bps to our effective mortgage rate (EMR) assumption (figure 18).

Figure 18. Household debt servicing



Source: RBNZ, ANZ Research

That's not to say higher rates aren't hurting – they are hurting some households a lot! But it does suggest that based on our OCR call, and a couple of assumptions around the likely pace of household income and credit growth from here, that the burden isn't heading to unprecedented levels. And it shouldn't need to – the housing market is in full retreat, a very different scenario to 2007.

But devoting an increasing share of your (growing) income to debt servicing is one thing; facing an increasing servicing burden when your income contracts sharply is a completely different kettle of fish. Insofar as the most pessimistic house price scenario goes, this is it. High unemployment could be triggered by a policy mistake (ie overtightening by central banks, exposing financial market vulnerabilities and/or spooking households too much), geopolitical events, a natural disaster, pandemic, a loss of central bank credibility, or something else. These are what we call low-probability, high-impact risks. They don't factor into our central outlook, but they are important to keep an eye on, because if they materialise they could flip the outlook on its head.

Essentially, if enough people have to accept whatever price is going on the day, we might actually find out what the market-clearing house price is. We're not seeing it now: the housing market is not clearing, as seen by low house sales and low auction clearance rates. It's not great fun to find out what that number is in a hurry; the current stand-off between buyers and sellers and the steady hissing as the air comes out of the market in an orderly fashion is the best adjustment path we can hope to tread on our way back to sanity. While renting millennials might say they want house prices to fall 50% tomorrow, fact is, they would likely struggle to find a job if they did.

[1] We assume average income growth of 7%, and relatively stagnant credit growth

Property Focus

Housing market indicators for October 2022 (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	$729,098	2.8	-1.0	1.6	0.0	101	-40%	48
Auckland	$1,078,462	-12.8	-4.2	-14.4	-5.0	1,417	-9%	45
Waikato	$799,973	-0.2	-3.5	-5.8	-3.0	417	-12%	52
Bay of Plenty	$861,899	-4.4	-2.8	-8.9	-3.8	280	-12%	54
Gisborne	$601,309	-2.9	-7.5	-8.7	-3.7	36	-25%	44
Hawke's Bay	$718,073	-10.9	-2.5	-8.7	-3.7	159	+0%	53
Manawatu-Whanganui	$555,152	-10.2	-5.1	-11.7	-4.5	228	+1%	58
Taranaki	$608,938	-4.7	0.1	-2.2	-0.5	121	+2%	40
Wellington	$824,753	-17.3	-5.5	-19.8	-5.9	540	+2%	54
Tasman, Nelson & Marlborough	$791,914	3.7	-2.8			140	-16%	52
Canterbury	$654,282	-0.7	-4.2	-3.4	-2.9	718	-3%	38
Otago	$659,454	-10.0	-5.8	-3.5	-1.8	283	-5%	51
West Coast	$337,273	6.8	-0.7	-5.2	-0.7	37	-2%	26
Southland	$431,575	-2.8	-1.3	3.5	-1.1	89	-25%	35
New Zealand	**$820,228**	**-7.6**	**-3.3**	**-10.9**	**-4.0**	**4,644**	**-7%**	**48**

Mortgage borrowing strategy

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Summary

Fixed mortgage rates are up again this month. While recent increases have been of a lesser magnitude than earlier month-to-month increases this year, fixed rates are nonetheless at their highest levels in over 7 years (in the case of the 5-year) or in over 10 years (in the case of the 1-year). Given that the RBNZ has just hiked the OCR by an unprecedented 0.75% and flagged that the OCR may go up by another 1.25% from here, the risk of further near-term rises is very real. But equally, markets were anticipating the lift in the OCR, and 1 and 2-year wholesale interest rates were already at similar levels to where they are now when many fixed mortgage rates were last increased. Slowing credit growth may also leave banks in less of a hurry to raise mortgage rates as wholesale rates rise. Nonetheless, with inflation not in the bag yet and the RBNZ talking tough, borrowers need to be aware of the risk of higher rates. With not much separating the 1-year rate from longer terms, it is worth considering fixing at least a portion for a longer term. However, be mindful that we are nearer to the end than the beginning of the interest tightening cycle, and there are risks on both sides.

On average across the big-4 banks, mortgage rates are either up or unchanged since our last edition of the Property Focus. And while these increases have taken fixed rates up to their highest levels in 7-10 years (depending on which term), one thing that remains the same as last month is that the mortgage curve is still pretty flat. By that, we mean that the step-up from 1-year to 2, 3, 4 or even 5 years is still reasonably small.

For borrowers, then, getting the next couple of years "right" from a cost perspective will come down to being fixed for long enough to get through the next few OCR hikes that the RBNZ is threatening to deliver, but not being fixed for so long that they end up being locked in if the economy does sour. That's because in that scenario, longer-term interest rates will eventually fall (they tend to fall before the OCR does). If that sounds like a tricky balancing exercise, bear in mind too that inflation may end up being more persistent than many forecasters think, potentially necessitating an even higher OCR. So there are a lot of things to consider.

Stepping back and considering what has happened over the past month, it's hard to discount the risk of near-term mortgage rate rises. Not only has the OCR just been lifted by 0.75%; wholesale rates have risen too. And as the RBNZ has pointed out, wholesale rates have risen more rapidly than mortgage rates have so far this year. However, going the other way, while the latest 0.75% OCR increase was unprecedented, it was expected by most in the market, and as it happens, wholesale interest rates only rose to earlier highs, not fresh highs. Slower credit growth may also see mortgage rates become less sensitive to rising wholesale interest rates, with banks particularly reluctant to risk any share of a shrinking pie. Putting it all together, we see scope for higher mortgage rates overall, and that's what our projections imply, but we are also acutely aware that all going to plan (ie inflation comes down), we are now nearing the end of the interest rate tightening cycle.

So any strategy ought perhaps ideally to acknowledge near-term upside risks and longer-term downside risks, while also being resilient to inflation surprises. No one rate can do all that; it may pay to spread fixing across a number of terms, especially as there isn't much of a step up from, say, 1-year to 2-year or 3-year. Fixing the lot for 1 year may be the cheapest, but it may not be in the long run if inflation is persistent and the RBNZ has to hike by more. Equally, fixing the lot for 3 years now will cost a bit more, but it'll protect you if inflation proves to be persistent – but you could regret it if rates start to fall before the term is up.

Breakevens show that the 1yr rate wouldn't need to rise by much (from 5.99% to 6.34% in 1 year's time or to 6.44% in 2 years' time) for it to be cheaper in the long run to fix for either 2 or 3 years respectively. That could easily happen if the OCR gets to 5.5% as the RBNZ are projecting, and for that reason, we think a mix of terms has some appeal at this juncture.

Figure 1. Carded special mortgage rates^

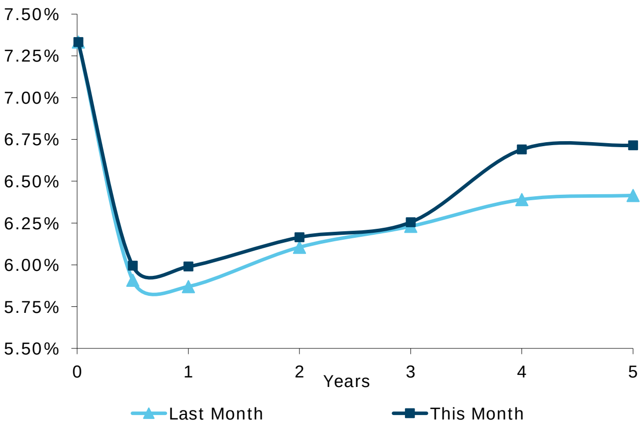

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	7.33%				
6 months	6.00%	5.99%	6.29%	6.39%	6.39%
1 year	5.99%	6.14%	6.34%	6.39%	6.44%
2 years	6.17%	6.26%	6.39%	6.76%	7.22%
3 years	6.26%	6.55%	6.92%	7.01%	7.08%
4 years	6.69%	6.79%	6.90%		
5 years	6.72%	#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 30-year term)

Mortgage Size ($000)	Mortgage Rate (%) 4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00
200	241	248	255	262	269	277	284	292	299	307	315	323	330	338
250	301	309	318	327	336	346	355	364	374	384	393	403	413	423
300	361	371	382	393	404	415	426	437	449	460	472	484	496	508
350	421	433	446	458	471	484	497	510	524	537	551	564	578	592
400	481	495	509	524	538	553	568	583	598	614	629	645	661	677
450	541	557	573	589	606	622	639	656	673	690	708	726	744	762
500	601	619	637	655	673	691	710	729	748	767	787	806	826	846
550	662	681	700	720	740	760	781	802	823	844	865	887	909	931
600	722	743	764	786	807	830	852	875	897	921	944	968	991	1,015
650	782	805	828	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100
700	842	867	891	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185
750	902	928	955	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209	1,239	1,269
800	962	990	1,019	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290	1,322	1,354
850	1,023	1,052	1,082	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371	1,404	1,438
900	1,083	1,114	1,146	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416	1,451	1,487	1,523
950	1,143	1,176	1,210	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495	1,532	1,570	1,608
1000	1,203	1,238	1,273	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573	1,613	1,652	1,692

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

	Actual			Projections						
Interest rates	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Floating Mortgage Rate	5.1	5.9	6.7	7.5	8.6	9.6	9.6	9.6	9.6	9.6
1-Yr Fixed Mortgage Rate	3.9	5.1	5.2	6.5	6.9	7.1	7.1	7.1	7.1	7.1
2-Yr Fixed Mortgage Rate	4.5	5.6	5.6	6.5	6.8	7.0	6.9	6.9	6.9	6.9
5-Yr Fixed Mortgage Rate	5.1	6.3	6.0	7.4	7.5	7.4	7.3	7.3	7.2	7.2

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (Annual % Chg)	3.0	1.0	0.4	5.0	2.1	2.6	1.6	1.4	1.4	1.4
CPI Inflation (Annual % Chg)	5.9	6.9	7.3	7.2(a)	6.9	6.3	5.4	4.3	3.6	2.8
Unemployment Rate (%)	3.2	3.2	3.3	3.3(a)	3.3	3.3	3.5	4.0	4.5	4.9
House Prices (Quarter % Chg)	3.7	-2.2	-3.2	-3.8(a)	-3.8	-4.2	-3.9	-2.5	-0.1	0.4
House Prices (Annual % Chg)	26.2	14.1	3.6	-5.5(a)	-12.4	-14.2	-14.7	-13.5	-10.2	-5.9

Interest rates	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Official Cash Rate	1.00	2.00	3.00	4.25	5.00	5.75	5.75	5.75	5.75	5.75
90-Day Bank Bill Rate	1.61	2.86	3.85	4.85	5.77	5.85	5.85	5.85	5.85	5.85
10-Year Bond	3.29	4.06	4.67	4.50	5.00	4.75	4.75	4.75	4.50	4.50

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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