ANZ Research

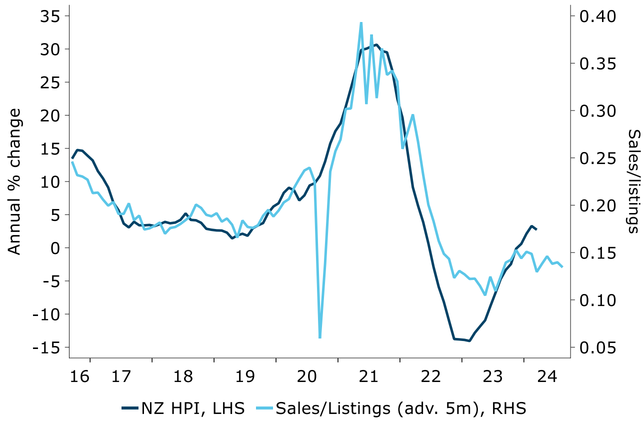
May 2024

New Zealand Property Focus

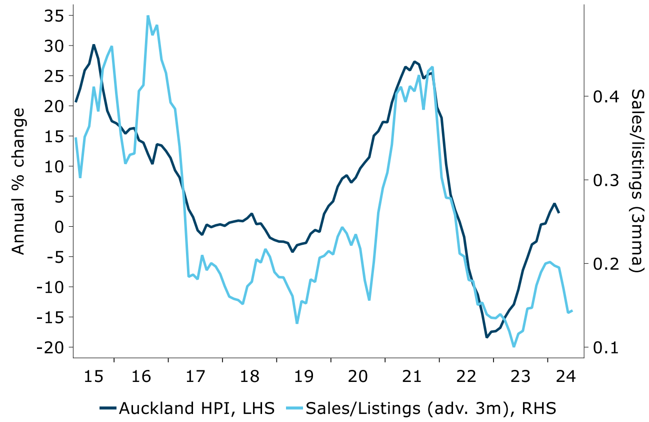
Soggy – and unaffordable

At a glance

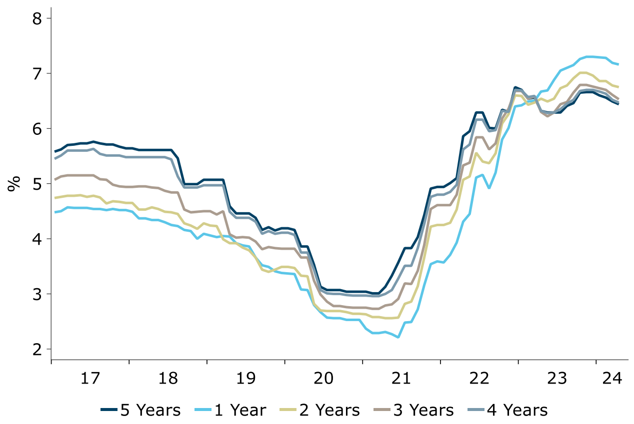
The sales to listings ratio suggests soggy prices nationwide…



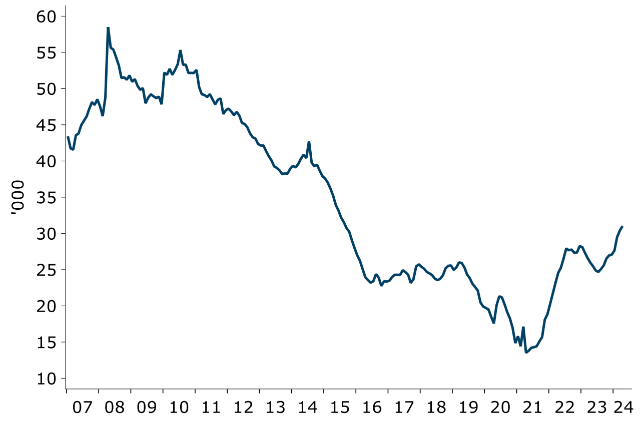
… and particularly in Auckland



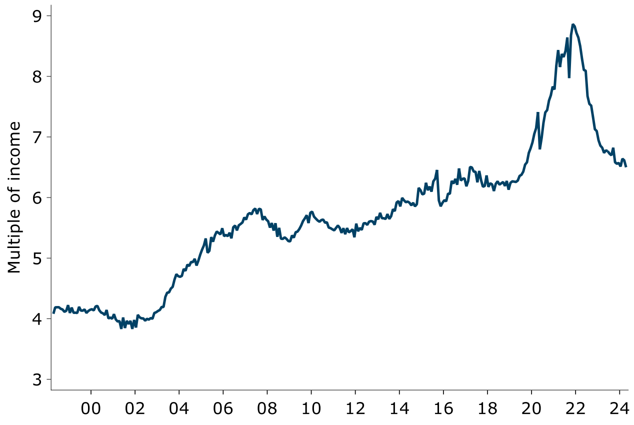
Mortgage rates have eased a bit



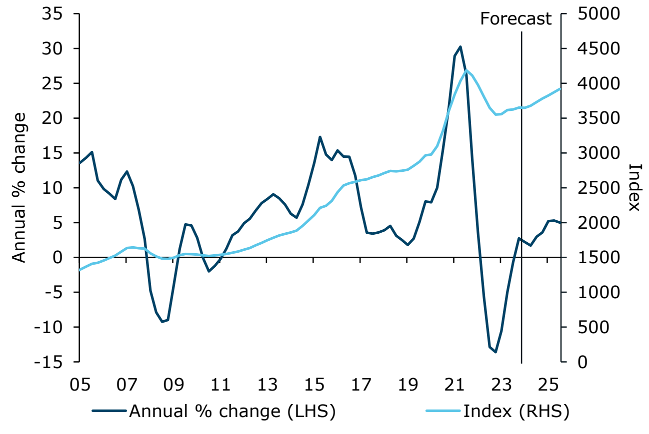
Listings are rising and bright-line test changes could bring more



Houses are still very expensive relative to incomes



There's downside risk around our near-term house price forecast



Source: REINZ, Stats NZ, RBNZ, realestate.co.nz, Barfoot & Thompson, Macrobond, ANZ Research

This is not personal advice nor financial advice about any product or service. 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. Please refer to the Important Notice.

Contact

Miles Workman,
Sharon Zollner, or
David Croy for more details.

See page 14

INSIDE

ISSN 2624-0629

Publication date: 30 May 2024

Summary

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

Property Focus

The housing market remains on ice, with sales subdued for this time of year, and prices going nowhere fast. Listings are high, with property investors finding the cashflow on their investments less tolerable in an environment of flat to falling prices. Changes to the bright line test from 1 July could see a surge of listings into the spring that keeps the power on the buyers' side of the table. That points to some downside risk around our house price forecast for a modest 3% rise in prices over 2024. But every cloud has a silver lining: a moribund housing market, all else equal, will make the RBNZ more relaxed about the market tendency to price cuts in the OCR earlier than they themselves are forecasting, a dynamic that has seen fixed mortgage rates ease a little from their peaks in recent months. However, the RBNZ's hawkish tone this month saw the market back away considerably from its early rate-cut bets. Expectations aside, all else equal, a soggy housing market is a tick in the "earlier" rate cut column. But the main thing currently for the monetary policy outlook is getting more runs on the board in terms of getting domestic inflation down. See the Property Focus section.

Feature Article: Soggy – and unaffordable

Housing affordability deteriorated significantly following the pandemic, with house prices relative to incomes touching highs never seen before. It's been a particularly bumpy ride for new entrants, who have not only had to save a larger proportion of their income to come up with a deposit (and/or wait longer), but who now face a much higher debt-servicing cost as a share of income compared to the decade preceding the pandemic. The good news is that the worst is hopefully behind us. But international comparisons show that some economies may have it even worse, implying that the recent peaks in unaffordability seen in NZ may still be shy of any "natural limit". We present a range of affordability indicators as well as a weighted affordability index based on some of these measures. Plugging in our forecasts show that the only major relief on the affordability front over the next few years is expected to come via the debt-servicing channel as mortgage rates decline. But overall, our outlook implies housing will remain less affordable over the next few years than it was prior to the pandemic. See this month's Feature Article.

Mortgage Borrowing Strategy

Mortgage rates are slightly lower again this month on average. Falls reflected earlier drops in wholesale interest rates, but these have subsequently reversed following the RBNZ's hawkish tilt at the May MPS. While at face value that might be a reason to worry that mortgage rates may rise again, competition among banks is heating up and bellwether wholesale rates like the 1 and 2yr are only back to where they in late April. That may be enough to forestall or at least dampen rises. Looking ahead, while we don't expect the RBNZ to cut the OCR until 2025, markets are likely to continue to press for earlier cuts, and that should keep lid on wholesale rates, barring any major surprises. See our Mortgage Borrowing Strategy.

Property Focus

Summary

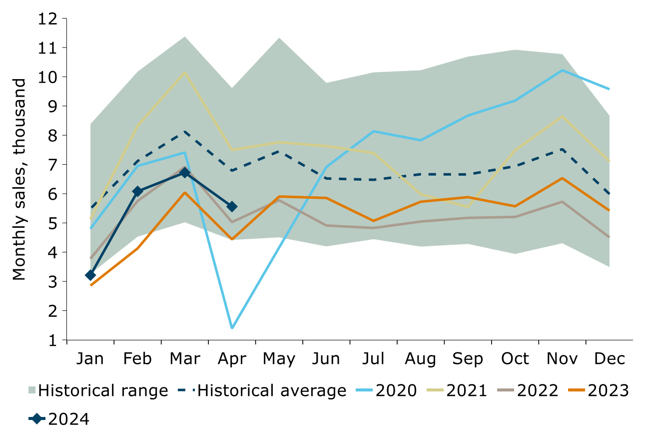
The housing market remains on ice, with sales subdued for this time of year, and prices going nowhere fast. Listings are high, with property investors finding the cashflow on their investments less tolerable in an environment of flat to falling prices. Changes to the bright line test from 1 July could see a surge of listings into the spring that keeps the power on the buyers' side of the table. That points to some downside risk around our house price forecast for a modest 3% rise in prices over 2024. But every cloud has a silver lining: a moribund housing market, all else equal, will make the RBNZ more relaxed about the market tendency to price cuts in the OCR earlier than they themselves are forecasting, a dynamic that has seen fixed mortgage rates ease a little from their peaks in recent months. However, the RBNZ's hawkish tone this month saw the market back away considerably from its early rate-cut bets. Expectations aside, all else equal, a soggy housing market is a tick in the "earlier" rate cut column. But the main thing currently for the monetary policy outlook is getting more runs on the board in terms of getting domestic inflation down.

Gauging the housing pulse

The REINZ house price index lifted 0.1% m/m in April (ANZ seasonal adjustment). By region it was a mixed bag. Falls in Auckland (-0.4%), Northland (-0.2%), Taranaki (-0.4%), Gisborne/Hawke's Bay (-0.3%), Wellington (-0.1%) and West Coast (-0.3%) broadly offset positive growth elsewhere. Southland (+1.8%) was the outperformer, followed by Waikato (+1.5%). Canterbury's house price index (HPI) lifted 0.4% m/m.

House sales rose 0.8% (sa) but remained well below par for the month of April (figure 1).

Figure 1. Unadjusted sales versus range from 1992

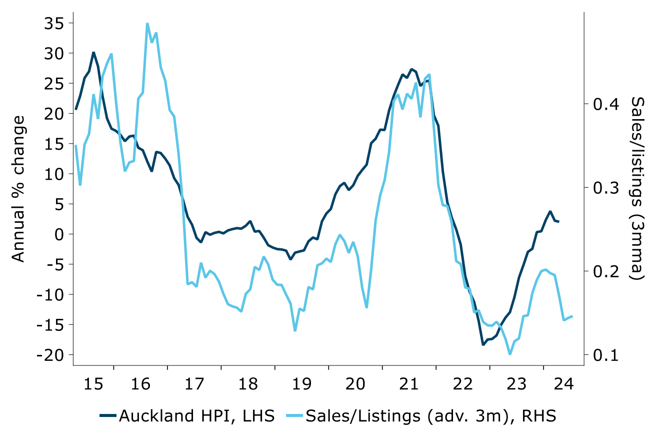


Source: REINZ, Macrobond, ANZ Research

The ratio of sales to listings is a useful measure of the heat in the housing market, as it reflects both supply (listings and inventories) and demand (sales). Depending on how much you smooth the data (we often use a three-month moving average), this indicator can provide a three to six month lead on house price momentum.

Starting with Auckland (New Zealand's largest housing market and often the canary in the coalmine) the Barfoot and Thompson sales/listings data has found a tentative floor in the past couple of months but overall continues to suggest the market is quite soggy (figure 2) and that price momentum could soften further over coming months.

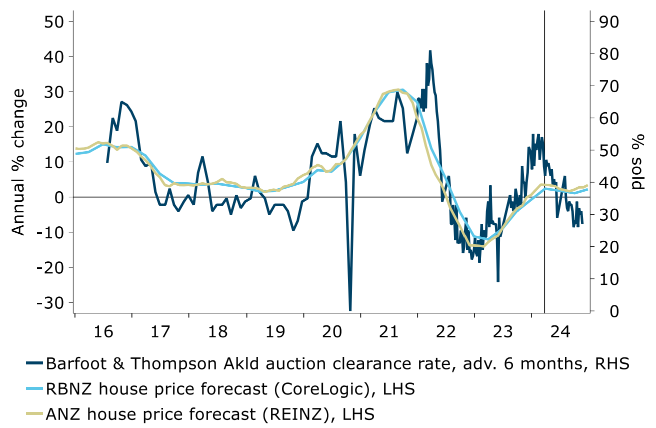
Figure 2. Auckland sales to listing ratio vs house prices



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

Auction clearance rates for Auckland can provide even more lead time on where prices are headed, as turning points here tend to lead sales by a couple of months. They're noisy, and certainly can overstate their case, but they are also suggesting downside risk to our house price forecast for this year (figure 3).

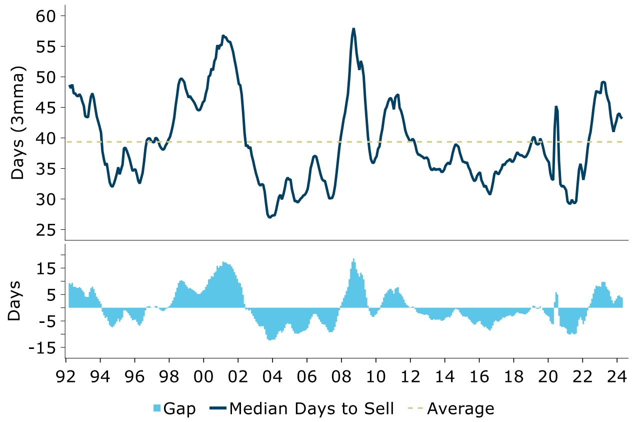
Figure 3. Auckland auction clearance rates



Source: CoreLogic, REINZ, B&T, interest.co.nz, Macrobond, ANZ Research

Turning back to the nationwide picture, the number of days it is taking houses to sell also provides a gauge on the tightness of the market, and it's another indicator sitting on the "loose" side of neutral. On a three-month moving average basis, it was taking 3.8 days longer to sell a house in April compared to the historical average (figure 4). In Auckland, it was taking 6½ days longer than average, 2.7 days longer than average in Wellington, and 1 day quicker than average in Canterbury.

Figure 4. Days to sell vs average



Source: REINZ, Macrobond, ANZ Research

Headwinds and tailwinds

So, where to from here? One only needs to look at the surprises the last few years have delivered to appreciate that definitive statements about where the housing market is going are fraught. Certainly, for now, while the housing market is a must-watch for any economic forecaster, there isn't a lot to see. It's very quiet out there. But let's look at the main headwinds and tailwinds that are affecting the market currently or which will come into play soon. Hint: they're big, so data surprises would not surprise us!

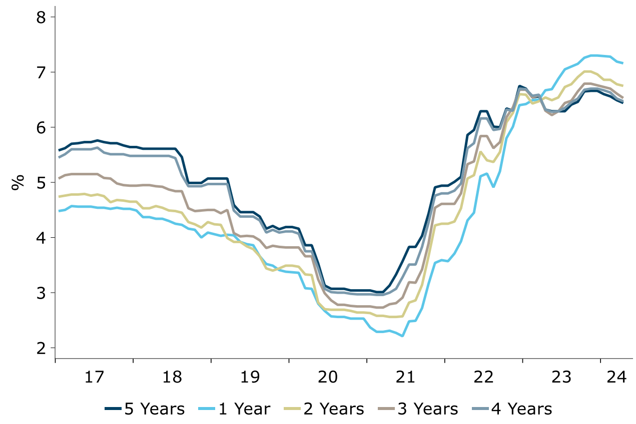
Interest rates: Definitely still a headwind, but a (very) gradually easing one (figure 5). Rates haven't come down a great deal yet, as the RBNZ is still sounding quite alarmed about the slow speed at which non-tradable inflation is falling (see our MPS Review).

We're optimistic the RBNZ will be able to cut before they currently expect (which isn't until August next year), and wholesale market participants are in aggregate still punting on a rate cut this year (though much less than they were before the MPS). It's market expectations that determine fixed mortgage rates, not the RBNZ's forecasts, but the latter can of course impact the former. Wholesale rates jumped this month when the RBNZ sounded (even) less keen to cut than the market had expected. All else equal, a cautious RBNZ means fixed mortgage rates will come down more slowly than otherwise.

That said, the RBNZ also sounded very reluctant to hike, and as long as cuts are a question of "when" rather than "if", then that is a clear relative positive for the housing market compared to the days when estimates of how high interest rates would go were constantly being revised up along with inflation forecasts.

But the data will have the last laugh versus any forecaster's take, as always. Bad news on the economy and the housing market is good news regarding when rates are likely to come down. You can take a glass-half-full or a glass-half-empty view of that dynamic, as you prefer.

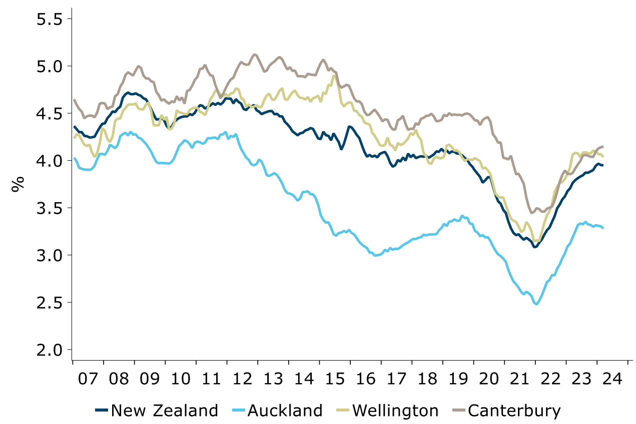
Figure 5. Fixed mortgage rates



Source: RBNZ, Macrobond, ANZ Research

Net migration: Population growth is a tailwind for the housing market, though an easing one. How strong a tailwind? It is less likely to be significant for house prices than the immigration cycles of the 1990s and 2000s were, as there is now a foreign buyer ban, and this particular wave of immigrants skews more towards low-skilled workers. But even if new migrants can't buy, they need somewhere to live, and rental inflation has been rising strongly. Rental yields are still far from enticing (figure 6), but since when have property investors in New Zealand invested for yield? Some apartment investors, yes, but generally the game has been – and is likely to remain – expected capital gains.

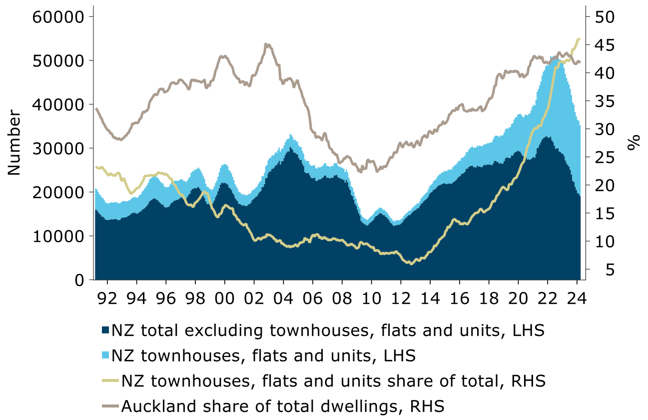
Figure 6. Residential property yields



Source: REINZ, MBIE, Macrobond, ANZ Research

Housing supply: The total number of consents issued has been falling steadily (figure 7), and in the context of strong population growth, it's clear that the fundamental demand-supply balance is now a tailwind for house prices. Our model suggests the housing deficit could be widening to the tune of over 5000 dwellings per quarter and that over the past five quarters alone the cumulative deficit is close to 30k dwellings.

Figure 7. Annual consents by type



Source: Stats NZ, Macrobond, ANZ Research

Rising unemployment: Our forecast is for the unemployment rate to rise to a peak of 5.5% in late 2025, and real estate agents are reporting that income and job security are now significant concerns for would-be home buyers. Fear of unemployment may not only deter buyers; actual unemployment could put some people in a must-sell situation. We are not expecting unemployment to rise to a high peak compared to previous recessions, but with feedback loops in the economy now kicking in, it is hard to be definitive about the extent to which the labour market will deteriorate.

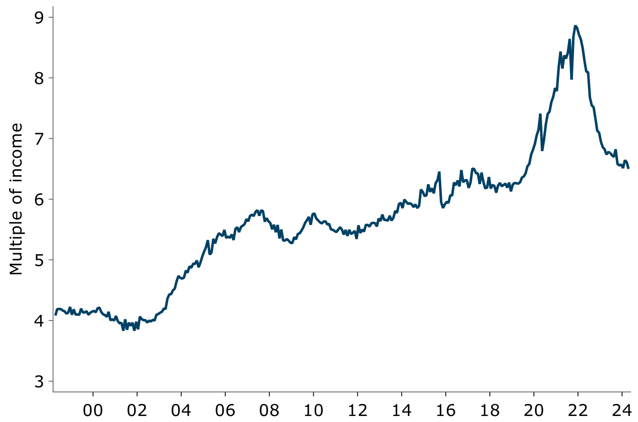
Policy changes: The reduction in the Bright Line Test to 2 years means we may see a surge of listings from 1 July and into spring as a number of investors who have been waiting to offload their properties test the market. Stronger supply, for a given level of demand, naturally puts downward pressure on prices.

That said, being able to sell a house more quickly than before without incurring tax makes it a more liquid investment and therefore more attractive than otherwise. And the reinstatement of interest deductibility for landlords clearly lifts the net present value of a given housing investment and is thus a positive for prices. How these impacts will net out remains uncertain, but if would-be sellers feel a greater sense of urgency than would-be buyers, the overall package of changes may well be a net negative for the market this year.

In the macroprudential space, the net impact of signalled debt-to-income restrictions and marginally looser loan-to-value restrictions are also expected to be a net positive for housing demand in the near term, though the impact may be lost in the wash.

Affordability: Whether looking just at house prices relative to incomes (figure 8) or taking into account interest rates as well, housing affordability, while off its recent highs, remains dire relative to history. Without a solid dose of FOMO (which there is certainly no sign of currently, given the sheer amount of stock on the market), buyers are likely to still be wondering why they'd bother. We look more closely at the affordability question in our special feature on page 8.

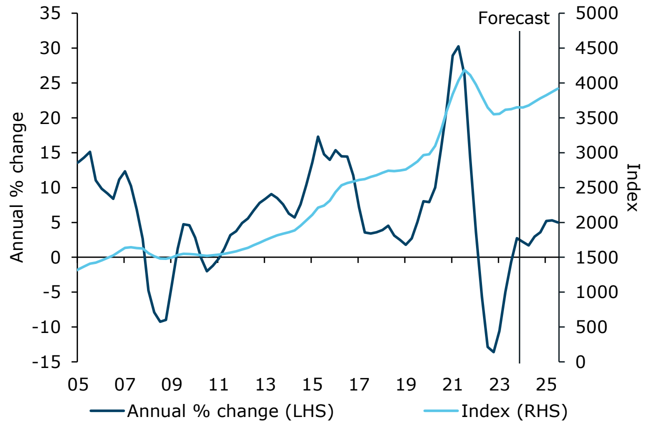
Figure 8. Ratio of house prices to household income



Source: Stats NZ, REINZ, Macrobond, ANZ Research

Overall, our take is that 2024 is shaping up to be yet another soggy year for the housing market, but while we are expecting a little more weakness to come in the near term, for now, we maintain our forecast that house prices will eke out a modest (3%) gain over 2024. Downside risks are accumulating at this point, however.

Figure 9. House price forecast



Source: REINZ, Macrobond, ANZ Research

Housing market indicators for April 2024 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		Sales		Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change	# of monthly sales	Monthly % change	
Northland	$690,201	-1.4	0.6	3.8	0.2	166	+10%	56
Auckland	$1,050,804	6.2	2.2	2.0	-0.2	1,976	+6%	45
Waikato	$742,676	0.2	-1.1	1.4	0.2	574	-5%	47
Bay of Plenty	$818,922	-0.5	0.5	5.0	2.7	353	-7%	51
Gisborne	$627,436	3.8	9.8	2.1	1.3	42	-9%	45
Hawke's Bay	$655,471	-11.8	1.9	2.1	1.3	210	+1%	45
Manawatu-Whanganui	$545,618	-0.3	2.9	3.3	0.5	260	-5%	51
Taranaki	$623,927	9.9	1.0	0.3	0.0	145	+1%	43
Wellington	$796,970	1.4	0.6	4.1	-0.3	590	-9%	39
Tasman, Nelson & Marlborough	$727,838	5.3	0.6	--	--	209	+0%	45
Canterbury	$673,342	0.6	0.8	4.8	1.5	994	+4%	34
Otago	$685,881	2.7	2.1	5.4	2.0	340	+4%	41
West Coast	$428,307	19.5	3.9	1.9	0.9	36	-7%	53
Southland	$453,832	7.1	-0.3	6.0	2.4	134	-8%	39
New Zealand	**$786,720**	**1.3**	**1.5**	**2.9**	**0.4**	**6,012**	**+1%**	**44**

Feature Article: Soggy – and unaffordable

Summary

Housing affordability deteriorated significantly following the pandemic, with house prices relative to incomes touching highs never seen before. It's been a particularly bumpy ride for new entrants, who have not only had to save a larger proportion of their income to come up with a deposit (and/or wait longer), but who now face a much higher debt-servicing cost as a share of income compared to the decade preceding the pandemic. The good news is that the worst is hopefully behind us. But international comparisons show that some economies may have it even worse, implying that the recent peaks in unaffordability seen in NZ may still be shy of any "natural limit". We present a range of affordability indicators as well as a weighted affordability index based on some of these measures. Plugging in our forecasts show that the only major relief on the affordability front over the next few years is expected to come via the debt-servicing channel as mortgage rates decline. But overall, our outlook implies housing will remain less affordable over the next few years than it was prior to the pandemic.

Soggy – and unaffordable

Housing affordability matters. The costs of unaffordable housing are well documented, ranging from higher-than-otherwise poverty rates, worse health outcomes, and lower-than-otherwise human capital, just to name a few of the most significant ones.

But as we discussed in our February edition, the deterioration in New Zealand's housing affordability hasn't been bad news for everyone. Through the power of leverage, those who got on the property ladder at the right time have tended to see their wealth grow at a much faster rate than a renter putting their savings to work. But as housing has continued to offer some households a channel through which to grow their wealth, others have found themselves locked out. That is, deteriorating housing affordability is also a wealth inequality story, with both winners and losers.

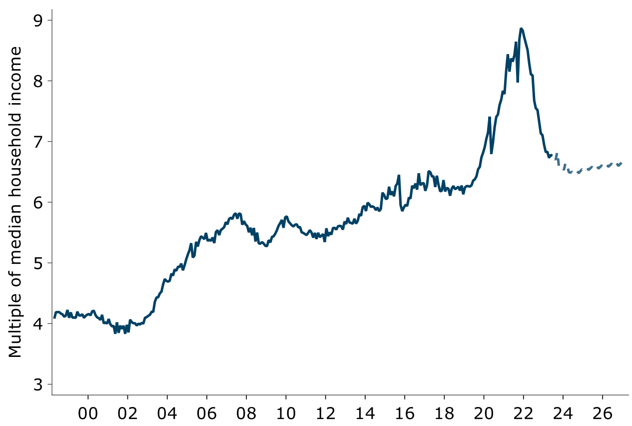
What precisely is "housing affordability" anyway? This month we present several ways to look at that question and discuss how these measures have evolved in recent years and how they are expected to evolve over the next few. The good news is that it looks like we're past the worst of the COVID stimulus-driven spike in unaffordability, but in an absolute sense, the overall level of where these indicators are expected to sit over the next few years is certainly nothing to celebrate for those who are not yet in the market.

(Un)Affordability indicators

The **ratio of house prices to incomes** is perhaps the most common measure of housing affordability – it certainly tends to be our first port of call, as it's very intuitive and simple to calculate. We look at the median sale price as a multiple of annual median household income. We've also recently started forecasting both these measures (along with median rents), meaning not only can we show how affordability has changed over the past few years, but we can also discuss how we expect it to evolve from here.

Sitting at just above 6.5 times income currently, the house price to income ratio is significantly lower than its recent peak of just under 9 times income which was hit following the surge in house price inflation after COVID stimulus. Looking forward, our expectation for relatively modest growth in household income (reflecting the loosening labour market) and modest house price growth is expected to keep this ratio relatively stable, but with a very slight gradual uptrend over the next few years, consistent with that prevailing before the pandemic. Health warning: forecasting is hard, and anyone's forecasts for both incomes and particularly house prices should be taken with a grain of salt. After all, house prices went up 30% in the 12 months following everyone's forecast that they would fall double-digit when COVID hit. But it's useful to understand how our forecasts for the two variables offset.

Figure 1. House price to incomes

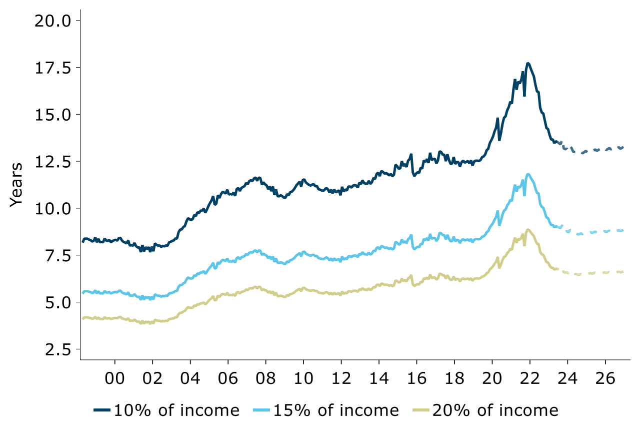


Source: Stats NZ, REINZ, Macrobond, ANZ Research

Another way to frame up the same data is to calculate **how many years it might take a household earning a median income to save a 20% deposit** (based on saving a fixed proportion of their income each year and the going median sale price).

Figure 2 (over) presents the number of years based on saving 10%, 15% and 20% of household income. For example, if a household earning the median income wanted to buy a house at the median sale price it would currently take around 13.5 years if they saved 10% of their income and little less than 7 years if they saved 20% of their income. Like the house price to income ratio, this has trended higher over time. In 2000, saving 15% of income would produce a 20% deposit in around 5 years' time; today it'll take almost 9 years. Four more years of saving is long time to wait. Our house price and income forecasts imply this ratio will remain relatively elevated but stable over the next few years.

Figure 2. Number of years to save a deposit

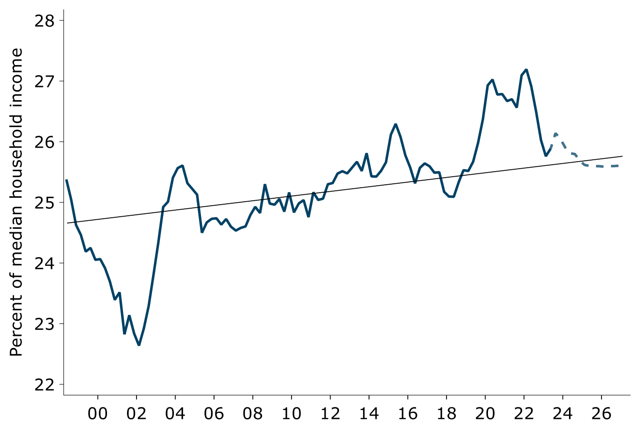


Source: Stats NZ, REINZ, Macrobond, ANZ Research

Of course, households in the process of saving to buy a house are likely to find themselves renting (if not living with ma and pa), and the amount they can save will be in part determined by how much rent they must pay.

Figure 3 presents annual **median rents as a share of median household income**. The chart shows that, while volatile, this ratio has also been trending higher over time. That means renters today have a smaller share of their income available for other essentials such as food and clothing, and also less for both leisure and for saving that deposit.

Figure 3. Median rents share of median household income

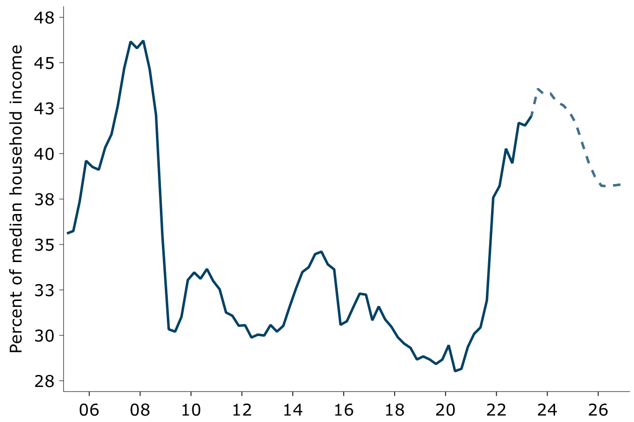


Source: Stats NZ, MBIE, Macrobond, ANZ Research

Our forecast for median rents, which tend to reflect both house prices and weekly earnings, is consistent with a relatively stable rents to income ratio over the next few years. But this is one measure where surprises certainly wouldn't surprise. The recent surge in net migration, combined with a widening housing deficit, is a key upside risk to rents. But on the other hand, a softening labour market also implies a softening outlook for household income, which will apply a speed limit to how fast rents can rise. There's also the hotly debated impact of changes to interest deductibility settings for landlords, and how that may or may not have an impact on rents. We're not wading into that question as the migration impacts are uncertain enough (particularly given how volatile and subject to revision the migration data is). But all in all, we certainly wouldn't rule out the possibility that rents end up gobbling up a larger share of household income over the next few years than we expect.

But what about those who have transitioned recently from renter to owner-occupier? For anyone with a sizable mortgage, the lion's share of their housing costs is paying interest on that debt (see our February edition for further discussion on long-run renter vs buyer cash flows).

Figure 4. Servicing a mortgage

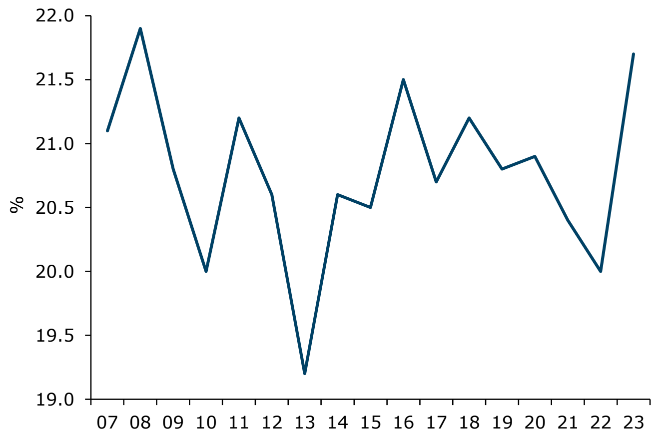


Source: RBNZ, MBIE, Macrobond, ANZ Research

Expressed as a share of household income, figure 4 shows **the cost of servicing a home loan** (principal and interest) based on a loan-to-value ratio of 80% of the median house price, the rolling 1-year mortgage rate, and the loan documented over 30 years. This measure of affordability can be thought of as a proxy for what affordability might look like to a new entrant to the housing market. Plugging in our forecasts for these variables shows this measure of affordability is on the cusp of improving. Note the dotted forecast line starts in Q3 2023 because household income is a forecast from that point onwards, but the big driver behind the easing in the debt-servicing burden for new entrants is falling fixed mortgage rates – a process that has already begun, albeit in a stop-start fashion due to the RBNZ still appearing very nervous about the slow pace at which non-tradable inflation has fallen.

Statistics NZ also produce data on how much household income is being gobbled up by **housing costs**. This is a relatively holistic measure, covering rents, mortgage payments, council rates and insurance. As at June 2023, 21.7% of household disposable income was spent on housing costs figure 5). That's the highest level since 2008 (21.9%) and is broadly consistent with the change in servicing costs outlined in figure 4.

Figure 5. Housing cost share of disposable income



Source: Stats NZ, ANZ Research

While the Statistics NZ measure provides good coverage, the data isn't very timely (the last release is for almost a year ago) nor frequent (June years).

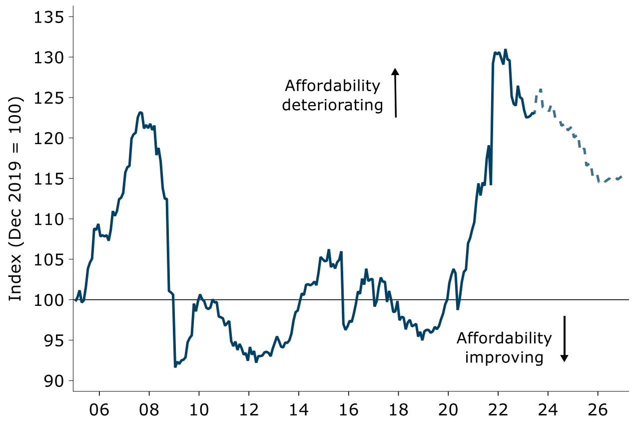
Introducing the ANZ housing affordability index

We've combined:

- house prices to incomes,
- rents to incomes, and
- the cost of servicing a new mortgage

into a single index (with equal weights), into which we're also able to plug our forecasts. This generalised measure of affordability, while off its peak, remains very elevated compared to history, and is expected to remain high for a long time yet. It is above pre-pandemic levels over our full forecast horizon out to December 2026. Over the next year it's still around the peak it reached before the Global Financial Crisis.

Figure 6. ANZ housing affordability index

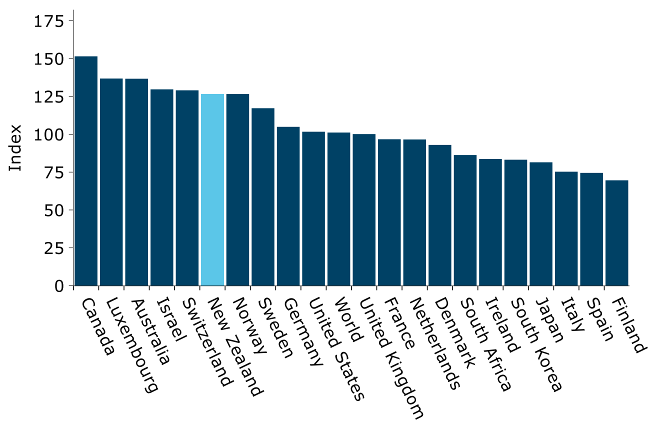


Source: Stats NZ, RBNZ, REINZ, MBIE, Macrobond, ANZ Research

All in all, housing affordability in New Zealand is pretty dire right now no matter which way you cut it. But glass half full: it was worse a couple of years ago, and the adjustment has been very orderly (sudden improvements in housing affordability via crashing house prices can take a lot of jobs with them, causing an offsetting deterioration in affordability from the income side).

Now it's worth asking how New Zealand stacks up against some of the other countries to which we tend to compare ourselves. While we haven't built a comprehensive affordability index for every country, it's easy enough to find comparable data for house prices relative to incomes. While certainly not the worst country out there, as at Q4 2023, New Zealand certainly ranked at the less-affordable end of the spectrum.

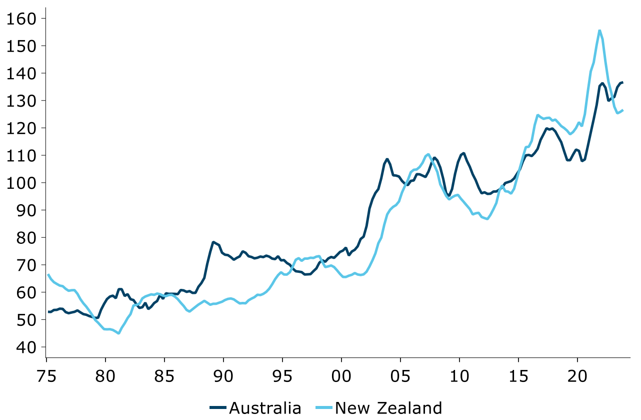
Figure 7. House price to income ratio (Q4 2023)



Source: Dallas Fed, Macrobond, ANZ Research

Given we Kiwis like to compare ourselves to our Aussie cousins, figure 8 compares how house prices relative to incomes have evolved over the past few decades. Both economies experienced a sharp rise following the pandemic, but New Zealand's was off a higher base and has since fallen meaningfully from its peak. That largely reflects the impact of the RBNZ's relatively aggressive tightening cycle. While house prices to incomes in New Zealand have almost returned to pre-pandemic levels, Australia's ratio is still holding up.

Figure 8. House prices to incomes (NZ vs AU)

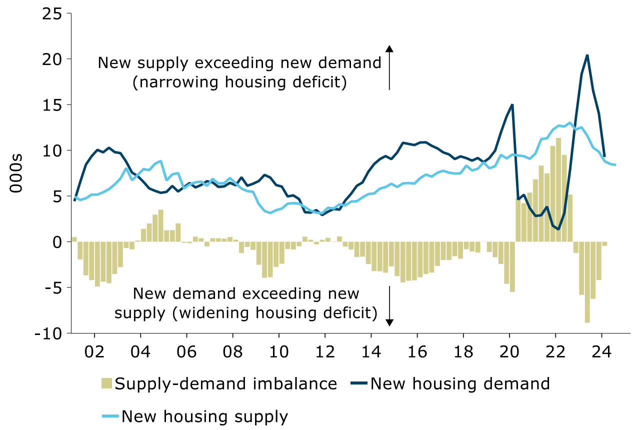


Source: Dallas Fed, Macrobond, ANZ Research

The fix?

The long-run answer to unaffordable housing is on the face of it very simple: make sure housing supply persistently outpaces demand. But unfortunately, that's not even close to happening at present. We estimate New Zealand's housing shortfall is widening by a few thousand dwellings every quarter, given very strong net immigration and a steady decline in housing consents (figure 9).

Figure 9. Housing deficit dynamics



Source: Stats NZ, Macrobond, ANZ Research

That all said, given land values account for the lion's share of a house values, we probably don't even need to build dwellings very quickly in order to make housing more affordable. If we insist on growing our population rapidly through immigration, then policy makers 'just' need to free up a lot more land for development. But this is where the issue rapidly get messy.

- What about all the land around our cities that is already zoned for housing and held by developers but is being released only in dribs and drabs to maximise long-run profit?
- Who should foot the bill for the extra infrastructure needed to build more houses? That's a particularly hard nut to crack given councils already face significant infrastructure and budget challenges.
- What about the climate change and liveability impacts of urban sprawl?
- What about all the areas (often where we already have houses built) where we probably shouldn't have housing, due to flood risk, sea level rise or other natural hazards?
- How do we make sure we don't zone our most productive agricultural land for housing?
- What about protecting our natural assets?
- And of course, what about all those people (read: voters) out there who don't want to see the value of their house go down?

Like all seemingly simple solutions, there are trade-offs and externalities once you start delving a bit deeper. But New Zealand's economic model of "just come, and we will build it" is clearly not working.

Mortgage borrowing strategy

This is not financial advice about any product or service. 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. Please refer to the Important Notice.

Summary

Mortgage rates are slightly lower again this month on average. Falls reflected earlier drops in wholesale interest rates, but these have subsequently reversed following the RBNZ's hawkish tilt at the May MPS. While at face value that might be a reason to worry that mortgage rates may rise again, competition among banks is heating up and bellwether wholesale rates like the 1 and 2yr are only back to where they in late April. That may be enough to forestall or at least dampen rises. Looking ahead, while we don't expect the RBNZ to cut the OCR until 2025, markets are likely to continue to press for earlier cuts, and that should keep lid on wholesale rates, barring any major surprises. With rate cuts expected within 12 months it is worth considering fixing for only 1yr, but whether that works out to be cheaper than fixing for 2yrs depends crucially on how quickly the RBNZ cuts, and it's a bit of a line call. For those who expect early cuts, with the 6mth rate about on par with the 1yr rate, selecting that term gives more optionality.

Mortgage rates are down a touch again this month on average, continuing the trend of incremental declines that started in January. Ahead of what almost all forecasters think is likely to be a lower OCR ahead, but against the backdrop of a RBNZ that is not yet ready to signal cuts (and instead hinted that they may yet need to hike again), borrowers are likely to again feel in limbo, awaiting relief that is in sight, but never seems to come.

For our part, we are forecasting declines in wholesale rates as markets anticipate cuts next year, and more as cuts finally arrive, but that is expected to be a gradual process, and as we saw when rates rose after the May RBNZ meeting, there's likely to be volatility.

However, there are two things that ought to give borrowers some comfort. The first is that although we have seen wholesale 1 and 2yr rates rise in recent weeks, they haven't exceeded levels seen in late April, and in fact, average levels over the whole month are actually a few basis points lower.

The second is that even though OCR cuts are likely coming later (in November if you believe markets, first half of next year if you believe us, or late next year if you believe the RBNZ), markets aren't afraid to take the RBNZ on. History shows that markets will front-run the RBNZ, even if that means getting repeatedly disappointed, because when cuts come, they'll get rewarded. While it's tough work for financial market participants, all this proverbial "banging their heads against a brick wall" is benefiting borrowers, because it's keeping a lid on wholesale interest rates, and by extension, on mortgage rates too.

Back to where things are now, our sense is that 6mth, 1yr and 2yr are reasonable options to consider, but while nothing is certain, 3yrs plus may prove to be well out of market in a couple of years.

The 6mth rate may suit those who are expecting early cuts, who want the option of re-fixing for longer after rates fall, if they do indeed fall sooner. The opportunity cost of doing this is currently low, as there is just 0.09% separating that rate and the next-shortest alternative – the 1yr.

But it's the 2yr where things get interesting. As table 1 shows, for back-to-back 1yr fixes to work out cheaper than fixing for 2 years at 6.77%, the 1yr rate needs to fall from 7.26% to below 6.38% in a year's time. That's further than we expect it to fall, but not by much (based on our wholesale rate forecasts, we see it at around 6.6% next May). Mathematically, that suggests that the longer 2yr fix may be a better choice. But borrowers who are prepared to risk a little disappointment (just like wholesale investors have been!) may prefer the 1yr and the flexibility that gives if rates start to fall. Whatever your expectations, a mix of terms spreads risk and rules out the worst-case scenario.

Figure 1. Carded special mortgage rates^

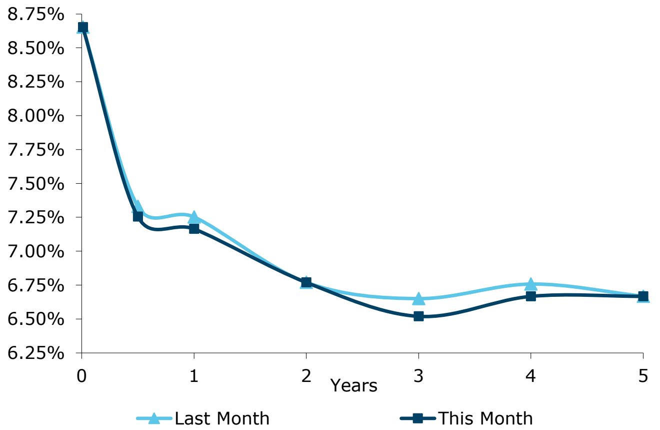


Table 1. Special Mortgage Rates#

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.65%				
6 months	7.26%	7.08%	6.39%	6.37%	6.15%
1 year	7.17%	6.73%	6.38%	6.26%	6.02%
2 years	6.77%	6.49%	6.20%	6.36%	6.57%
3 years	6.52%	6.48%	6.50%	6.55%	6.60%
4 years	6.67%	6.59%	6.54%		
5 years	6.67%	#Average of "big four" banks			

Source: interest.co.nz, ANZ Research.

Key forecasts

Weekly mortgage repayments table (based on 30-year term)

2Mortgage Size ($000)	Mortgage Rate (%)													
	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75
200	262	269	277	284	292	299	307	315	323	330	338	347	355	363
250	327	336	346	355	364	374	384	393	403	413	423	433	443	454
300	393	404	415	426	437	449	460	472	484	496	508	520	532	544
350	458	471	484	497	510	524	537	551	564	578	592	606	621	635
400	524	538	553	568	583	598	614	629	645	661	677	693	709	726
450	589	606	622	639	656	673	690	708	726	744	762	780	798	816
500	655	673	691	710	729	748	767	787	806	826	846	866	887	907
550	720	740	760	781	802	823	844	865	887	909	931	953	975	998
600	786	807	830	852	875	897	921	944	968	991	1,015	1,040	1,064	1,089
650	851	875	899	923	947	972	997	1,023	1,048	1,074	1,100	1,126	1,153	1,179
700	917	942	968	994	1,020	1,047	1,074	1,101	1,129	1,157	1,185	1,213	1,241	1,270
750	982	1,009	1,037	1,065	1,093	1,122	1,151	1,180	1,209	1,239	1,269	1,299	1,330	1,361
800	1,048	1,077	1,106	1,136	1,166	1,197	1,227	1,259	1,290	1,322	1,354	1,386	1,419	1,452
850	1,113	1,144	1,175	1,207	1,239	1,271	1,304	1,337	1,371	1,404	1,438	1,473	1,507	1,542
900	1,178	1,211	1,244	1,278	1,312	1,346	1,381	1,416	1,451	1,487	1,523	1,559	1,596	1,633
950	1,244	1,278	1,313	1,349	1,385	1,421	1,458	1,495	1,532	1,570	1,608	1,646	1,685	1,724
1000	1,309	1,346	1,383	1,420	1,458	1,496	1,534	1,573	1,613	1,652	1,692	1,733	1,773	1,814

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

	Actual			Projections						
Interest rates	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Floating Mortgage Rate	8.6	8.6	8.6	8.7	8.7	8.7	8.7	8.4	8.2	7.9
1-Yr Fixed Mortgage Rate	7.2	7.3	7.2	7.2	7.1	7.0	6.8	6.4	6.2	6.0
2-Yr Fixed Mortgage Rate	6.9	7.0	6.8	6.6	6.4	6.4	6.2	6.1	5.9	5.8
3-Yr Fixed Mortgage Rate	6.7	6.8	6.6	6.4	6.3	6.2	6.1	6.0	5.9	5.8
5-Yr Fixed Mortgage Rate	6.5	6.7	6.5	6.5	6.4	6.3	6.2	6.1	6.0	6.0

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
GDP (Annual % Chg)	1.5	-0.6	-0.3	0.3	0.0	0.6	1.0	1.1	1.3	1.6
CPI Inflation (Annual % Chg)	6.0	5.6	4.7	4.0(a)	3.5	2.8	2.6	2.4	2.2	2.0
Unemployment Rate (%)	3.6	3.9	4.0	4.3(a)	4.6	4.9	5.1	5.2	5.4	5.4
House Prices (Quarter % Chg)	0.2	1.6	0.2	0.7(a)	-0.4	1.1	1.5	1.3	1.2	1.2
House Prices (Annual % Chg)	-10.6	-5.0	-0.7	2.7(a)	2.2	1.7	3.0	3.6	5.2	5.3

Interest rates	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Cash Rate	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.75
90-Day Bank Bill Rate	5.74	5.64	5.64	5.59	5.54	5.49	5.44	5.25	5.00	4.75
10-Year Bond	5.31	4.32	4.99	4.65	4.50	4.50	4.50	4.50	4.50	4.50

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
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

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, GDP and activity dynamics, fiscal and monetary policy.

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

Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@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

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

Important notice

Last updated: 20 February 2024

The opinions and research contained in this document (in the form of text, image, video or audio) are (a) not personal financial advice nor financial advice about any product or service; (b) provided for information only; and (c) general in nature and do not take into account your financial situation or goals.

This document may be restricted by law in certain jurisdictions. Recipients must observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared by ANZ Bank New Zealand Limited (ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand). This document is distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**), a company incorporated in Australia or (if otherwise stated), by its subsidiary or branch (herein collectively referred to as **ANZ Group**). The views expressed in it are those of ANZ Economics and Markets Research, an independent research team of ANZ Bank New Zealand Limited.

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

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

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

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

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

This document may contain forward looking statements or opinions including statements regarding our intent, belief or current expectations regarding economic and market conditions, financial instruments and credit markets. Such statements are usually predictive in character, may not be accurate once the future becomes known and should not be relied upon when making investment decisions. Past performance is not a reliable indicator of future performance. ANZ does not accept any responsibility to inform you of any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this document.

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

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

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

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

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

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

Brazil. This document is distributed on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this document, and no securities have been and will not be registered with the Securities Commission - CVM.

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

Cambodia. The information contained in this document is confidential and is provided solely for your use upon your request.
This does not constitute or form part of an offer or solicitation of any offer to engage services, nor should it or any part of it form the basis of, or be relied in any connection with, any contract or commitment whatsoever. ANZ does not have a licence to undertake banking operations or securities business or similar business, in Cambodia. By requesting financial services from ANZ, you agree, represent and warrant that you are engaging our services wholly outside of Cambodia and subject to the laws of the contract governing the terms of our engagement.

Canada. This document is general information only, is intended for institutional use only – not retail, and is not meant to be tailored to the needs and circumstances of any recipient. In addition, this document is not intended to be an offer or solicitation to purchase or sell any security or other financial instrument or to employ a specific investment strategy.

Chile. You understand and agree that ANZ is not regulated by Chilean Authorities and that the provision of this document is not subject to any Chilean supervision and is not guaranteed by any regulatory or governmental agency in Chile.

Important notice

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

Hong Kong. This document is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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

Israel. ANZ is not a holder of a licence granted in Israel pursuant to the Regulation of Investment Advising, Investment Marketing and Portfolio Management Law, 1995 ("Investment Advice Law") and does not hold the insurance coverage required of a licensee pursuant to the Investment Advice Law. This publication has been prepared exclusively for Qualified Clients as such term is defined in the First Schedule to the Investment Advice Law. As a prerequisite to the receipt of a copy of this publication a recipient will be required to provide confirmation and evidence that it is a Qualified Client. Nothing in this publication should be considered Investment Advice or Investment Marketing as defined in the Investment Advice Law. Recipients are encouraged to seek competent investment advice from a locally licensed investment adviser prior to making any investment.

Macau. Click here to read the disclaimer for all jurisdictions in Mandarin. **澳门.** 点击此处阅读所有司法管辖区的免责声明的中文版。

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

New Zealand. This document is distributed in New Zealand by ANZ Bank New Zealand Limited. The material is for information purposes only and is not financial advice about any product or service. We recommend you seek advice about your financial situation and goals before acquiring or disposing of (or not acquiring or disposing of) a financial product.

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

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

Peru. The information contained in this document has not been, and will not be, registered with or approved by the Peruvian Superintendency of the Securities Market (Superintendencia del Mercado de Valores, **SMV**) or the Lima Stock Exchange (Bolsa de Valores de Lima, **BVL**) or under the Peruvian Securities Market Law (Legislative Decree 6 861), and will not be subject to Peruvian laws applicable to public offerings in Peru. To the extent this information refers to any securities or interests, it should be noted the securities or interests may not be offered or sold in Peru, except if (i) such securities or interests were previously registered with the Peruvian Superintendency of the Securities Market, or (ii) such offering is considered a private offering in Peru under the securities laws and regulation of Peru.

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

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar, and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC.

The financial products or services described in this document have not been, and will not be:

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

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

Singapore. To the extent that this document contains any statements of opinion and/or recommendations related to an investment product or class of investment product (as defined in the Financial Advisers Act 2001), this document is distributed in Singapore by ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act 2001 of Singapore). ANZ is licensed in Singapore under the Banking Act 1970 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act 2001 of Singapore. In respect of any matters arising from, or in connection with, the distribution of this document in Singapore, please speak to your usual ANZ contact in Singapore.

Important notice

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

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

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

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