ANZ RESEARCH

NEW ZEALAND ECONOMICS
ANZ PROPERTY FOCUS

APRIL 2014

INSIDE

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WAY TO GO

SUMMARY

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

THE MONTH IN REVIEW

House prices continue to move up, though headline house price figures tell an exaggerated story given shifts in the composition of housing (i.e. more higher priced units selling in Auckland). Easing volumes, a slight up-tick in average days to sell, and a slight moderation in credit imply the market has softened. Building consents continue to trend up, and we need more of the same if semblances of supply-demand balance are going to return at some stage, particularly with net migration trends extremely buoyant.

PROPERTY GAUGES

The jostling continues between structural gauges such as affordability and serviceability metrics – which flag caution for the property market – and more cyclical measures, including surging migration trends, which signal strength. Affordability is on the decline with interest rates (a key cyclical influence) on the rise. With interest rates set to move up further, the heat in the property market will cool.

ECONOMIC BACKDROP

The economy continues to perform strongly and we are expecting 3 percent plus growth over the next 2 years. Various surveys flag stronger growth, but New Zealand continues to be saddled by legacy issues – including a weak balance sheet – which temper the outlook. With 3 percent plus growth New Zealand will still be one of the strongest performers in the developed world over the coming years. Strong growth means rising inflation, with resources being sapped. We're not picking the inflation genie to pop out of the bottle, and as such, have pencilled in only a modest lift in interest rates. Key judgements here are that a building boom is not followed by a consumption equivalent, the NZD remains high, and uplifts in productivity help keep unit labour costs contained. If these judgements prove to be over-optimistic, the OCR will be moving up aggressively.

MORTGAGE BORROWING STRATEGY

With the exception of a higher floating rate and an extraordinarily attractive 2yr fixed rate for borrowers with 20 percent equity or more, ANZ's carded mortgage rates for both standard and high-LVR borrowers are little changed from last month. The attractiveness of the 2yr rate – which sits back where it was in December – makes it hard to look past for borrowers who can access it. However, high-LVR borrowers are likely to be attracted to 6-18 month tenors, where lending rates are closer to floating. Outside the specials, we see limited value in fixing now that wholesale interest rates are pricing in rate hikes flagged by the Reserve Bank.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

It is now nearly seven months since the Reserve Bank introduced measures to cool the housing market. Stricter high-LVR lending restrictions, introduced in October last year, led the way. These were backed up with a 25 basis point hike in the Official Cash Rate last month. In this issue we supplement our range of property gauges presented on page four with a more in-depth commentary on the current state of the property market and wider domestic economy.

THE MONTH IN REVIEW

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STATISTICS NZ, BUILDING CONSENTS – FEBRUARY

Building consents eased 1.7 percent in February. However, **the details generally show an improving trend.** The ex-apartment series was up 3 percent (+21.6 percent y/y). **Smoothing through monthly volatility shows the floor area of residential issuance was up 9.1 percent in the three months to February.** Consent issuance is trending up from historically low levels, with consent numbers now just 9 percent below historical averages as a proportion of the dwelling stock, which compares to a 21 percent shortfall 12 months ago. **21,842 residential consents were issued in the 12 months to February, the highest 12 month total since July 2008.** Residential consent numbers in Canterbury continued to hit record highs, climbing to 6,031 in the February 2014 year. Auckland annual consent issuance is firming (6,361) but remains well below historical averages.

REINZ, HOUSE SALES – MARCH

Sales volumes dropped 1½ percent in March, with a 12 percent cumulative fall since the October 2013 introduction of high-LVR speed limits. REINZ figures showed a widespread regional slowdown in sales volumes, with a sharper fall in volumes for lower-priced dwellings also noted – confirmation that the speed limits have impacted most severely on the lower tier of the market. While housing turnover is slowing, this is yet to translate into an impact on the pricing side. The stratified house price index, which controls for the composition of dwellings sold, rose a non-seasonally adjusted 3.4 percent in March (+1.9 percent seasonally adjusted) to be 9.2 percent higher than a year ago. Auckland and Canterbury remain head and shoulders above the rest of New Zealand in terms of annual house price inflation. The median days to sell a house climbed 1 day to 36 days.

RBNZ, HOUSEHOLD CREDIT GROWTH – FEBRUARY

Mortgage lending increased 0.4 percent in February, mirroring the lifts recorded in December and January but down marginally on trends over prior months. Annual growth in household credit sits at 5.7 percent. That's above income growth and indicative of some pre-2008 style behaviour re-emerging (credit growth in excess of income growth). That's one reason LVR restrictions are in place.

STATISTICS NZ, EXTERNAL MIGRATION – MARCH

Another strong net migration inflow of 3840 persons, took the annual gain to 31,900. Around two-thirds of the movement in permanent and long-term migration over the year has come from fewer departures. Looking at the last 3 months and annualising the figures we're tracking around 40,000 pa and look set to hit that mark over 2014. The previous peak for migration was 42,500 in the May 2003 year: we may well nudge close to this.

RBNZ, MORTGAGE APPROVALS – MID-APRIL

Mortgage approvals (volumes and values) are tracking around 7 percent below levels seen over the same quarter of the previous year. To put this in perspective, approvals were up 13 percent between 2012 and 2013 when the market was lifting. The decline is another sign LVR restrictions and movements up in interest rates are softening the market.

PROPERTY GAUGES

The jostling continues between structural gauges such as affordability and serviceability metrics – which flag caution for the property market – and more cyclical measures, including surging migration trends, which signal strength. Affordability is on the decline with interest rates (a key cyclical influence) on the rise. With interest rates set to move up further, the heat in the property market will cool.

We use ten gauges to assess the state of the property market and look for signs that changes are in the wind.

AFFORDABILITY. For new entrants into the housing market, we measure affordability using the ratio of house prices to income (adjusted for interest rates) and mortgage payments as a proportion of income.

SERVICEABILITY / INDEBTEDNESS. For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

INTEREST RATES. Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.

MIGRATION. A key source of demand for housing.

SUPPLY-DEMAND BALANCE. We use dwelling consents issuance to proxy growth in supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

CONSENTS AND HOUSE SALES. These are both key gauges of activity in the property market.

LIQUIDITY. We look at growth in private sector credit relative to GDP to assess the availability of credit in supporting the property market.

GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

HOUSING SUPPLY. We look at the supply of housing listed on the market, recorded as the number of months needed to clear the housing stock. A high figure indicates that buyers have the upper hand.

RENTAL GROWTH. We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	No gain, no pain	↔/↓	Mortgage repayments as a proportion of income are at a 4-year high and approaching the 50 percent level.
Serviceability/ indebtedness	New era	↔/↓	Rising mortgage rates starting to bite.
Interest rates / RBNZ	Slow grind up	↔/↓	A slow grind up is well foreshadowed.
Migration	Visitation rights	↑	Net PLT migration is at a 10-year high and climbing.
Supply-demand balance	Swimming against the tide	↔/↑	Demand has outstripped supply for 6 successive years.
Consents and house sales	LVR and OCR effect	↔	Both consents and sales have weakened in the past month.
Liquidity	Warming	↔	Big turnaround from 2 years ago.
Globalisation	Caught up	↔/↓	NZ's time at the top of the table is over.
Housing supply	Testing the water	↔/↓	Auckland listings ease, with the rest of NZ catching up.
Median rent	More is hard to flaw	↔/↑	Rental increase returns to 5 percent rate of growth.
On balance	**Seeing is believing**	↔	**OCR rises are set to continue.**

PROPERTY GAUGES

FIGURE 1: HOUSING AFFORDABILITY

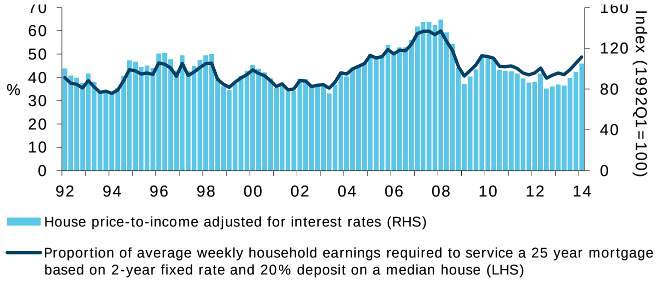


FIGURE 2: SERVICEABILITY AND INDEBTEDNESS

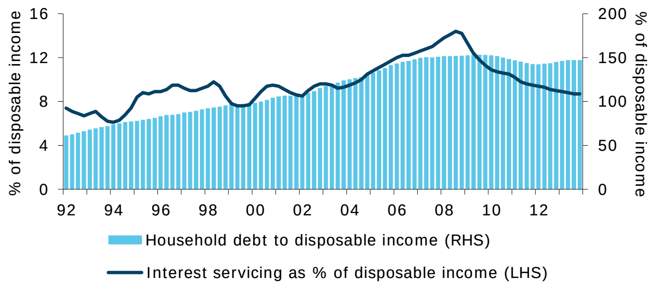


FIGURE 3: NEW CUSTOMER AVERAGE RESIDENTIAL MORTGAGE RATE (<80% LVR)

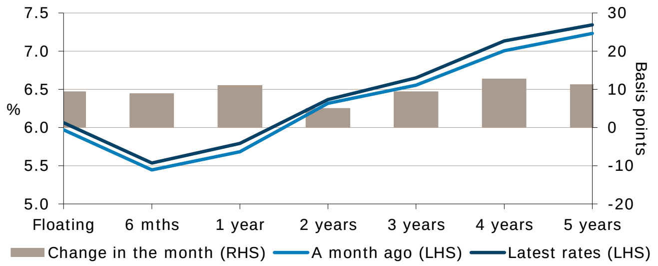


FIGURE 4: NET MIGRATION

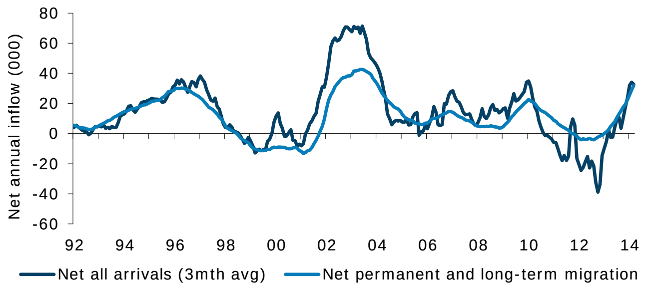


FIGURE 5: HOUSING SUPPLY-DEMAND BALANCE

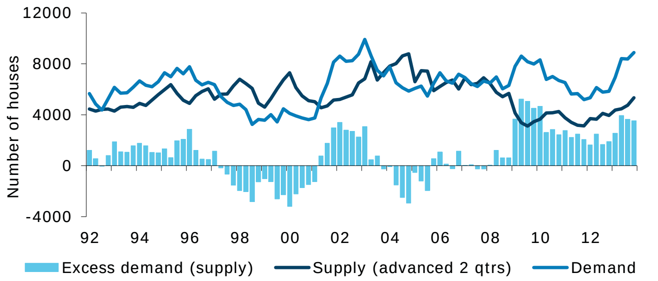


FIGURE 6: BUILDING CONSENTS AND HOUSE SALES

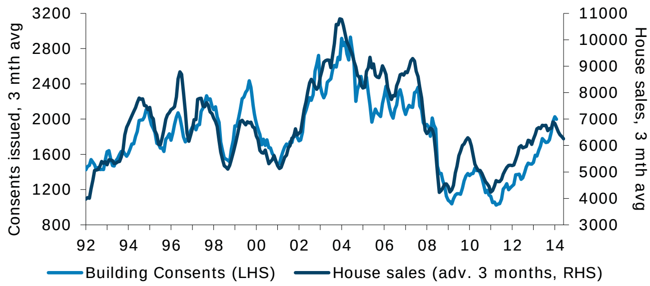


FIGURE 7: LIQUIDITY AND HOUSE PRICES

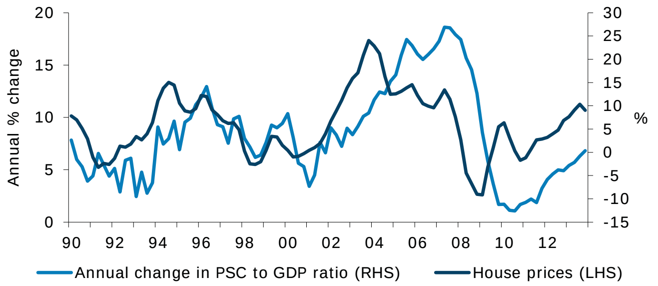


FIGURE 8: HOUSE PRICE INFLATION COMPARISON

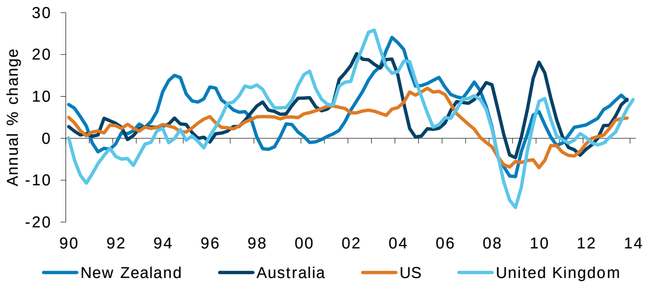


FIGURE 9: HOUSING SUPPLY

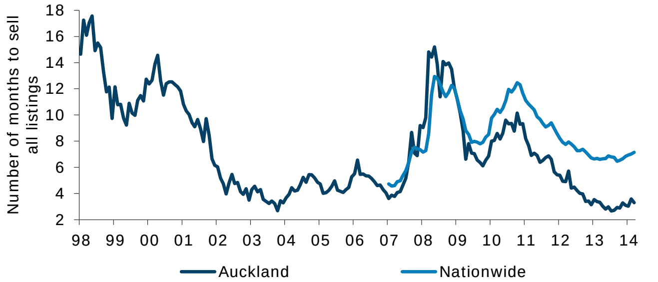
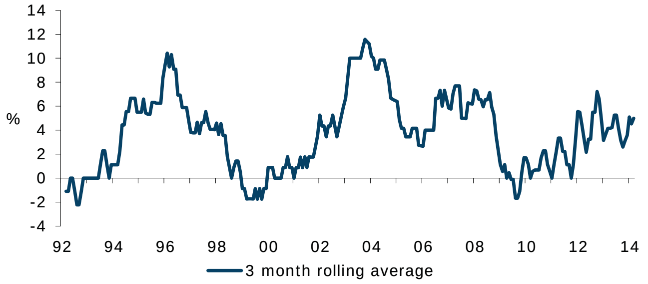


FIGURE 10: MEDIAN RENTAL, ANNUAL GROWTH



Source: Statistics NZ, REINZ, RBNZ, www.interest.co.nz, QVNZ, Nationwide, Bloomberg, Barfoot & Thompson, www.realestate.co.nz, Department of Building and Housing, ANZ

ECONOMIC BACKDROP

SUMMARY

The economy continues to perform strongly and we are expecting 3 percent plus growth over the next 2 years. Various surveys flag stronger growth, but New Zealand continues to be saddled by legacy issues – including a weak balance sheet – which temper the outlook. With 3 percent plus growth New Zealand will still be one of the strongest performers in the developed world over the coming years. Strong growth means rising inflation, with resources being sapped. We're not picking the inflation genie to pop out of the bottle, and as such, have pencilled in only a modest lift in interest rates. Key judgements here are that a building boom is not followed by a consumption equivalent, the NZD remains high, and uplifts in productivity help keep unit labour costs contained. If these judgements prove to be over-optimistic, the OCR will be moving up aggressively.

OVERVIEW

The NZ economy continues to perform strongly, underpinned by stimulatory financial conditions, recovering construction activity (inspired by a recoil from lows, housing shortages, and a city rebuild) and a 40-year high in the goods terms of trade. Business and consumer confidence are elevated and flag the potential for 6 percent growth. New Zealand's weak balance sheet rules that out, but we like the spirit across sentiment surveys; things are moving along nicely. Net migration inflows are strong. Headwinds exist in the form of an overvalued NZD, contractionary fiscal policy, and a leveraged national balance sheet. Mother Nature is once again proving to be fickle with very dry conditions in some regions, though recent rain has helped. We expect 3.5-4 percent growth in 2014, and 3 percent the following year. That will make New Zealand one of the strongest performers in the OECD.

Dairy prices have fallen by around 20 percent over the past couple of months, though they remain at historically high levels. Overall, NZ commodity prices have changed little, with prices in many soft commodity groups hitting new highs. We continue to expect a $7+/kg/MS payout in the 2014/15 season. This will keep the terms of trade elevated, generate income across the economy, and support the rural-aligned regions.

There are other nuances under the radar that are supporting medium-term growth prospects, including unlocking NZ's natural resource endowment, a reasonable political platform (particularly relative to what we see offshore), building connectivity with Asia, and progress in the free-trade arena. These subtleties add another layer of robustness to the general economic picture.

Recent statistics point to an improvement in productivity growth, which ties in with anecdotes on the ground. With the economy performing well, and spare capacity being eaten into, the trend for productivity growth over the coming years will have a huge influence on the outlook for inflation and interest rates. We are constructive on the outlook for productivity over the coming years. This will help prevent inflation pressure rising aggressively.

Inflation is nonetheless starting to rise, particularly across non-tradable pockets of the economy. The Official Cash Rate has started to move up. We expect a third 25 basis point hike in coming months (with the risk of another) before a pause to assess the impact. Just under 75 percent of mortgage borrowing is either floating or fixed for up to a year, which will give the RBNZ considerable policy traction as the OCR is tweaked. However, the economy has built up a fair head of steam in some pockets.

Consumer restraint is a necessity if NZ's building boom is to be accommodated over the years ahead and inflation is to remain in check. The economy simply doesn't have the resources to accommodate both a building boom and a consumption equivalent. With the former a necessity, the latter needs to make way.

The NZD will remain in an elevated trading zone given prospective lifts in the Official Cash Rate. We expect the NZD/USD to oscillate within a 0.80-0.86 range and the NZD/AUD to remain around 0.90-0.95.

One thing we are watching closely at present is developments across emerging markets. China has become a key source of income generation for New Zealand, with the nation now our largest export partner. With rising connectivity comes associated vulnerability if their business cycle turns. With quantitative easing (QE) now being wound back in the US we expect greater attention to be paid to nations that leveraged heavily during the period of low interest rates, and particularly those with weaker domestic fundamentals. Attention is centered on previously cited emerging market darlings. Weak fundamentals can be overlooked when liquidity is ample. Attention to fundamentals returns when liquidity-driven support is wound back.

MORTGAGE BORROWING STRATEGY

SUMMARY

With the exception of a higher floating rate and an extraordinarily attractive 2yr fixed rate for borrowers with 20 percent equity or more, ANZ's carded mortgage rates for both standard and high-LVR borrowers are little changed from last month. The attractiveness of the 2yr rate – which sits back where it was in December – makes it hard to look past for borrowers who can access it. However, high-LVR borrowers are likely to be attracted to 6-18 month tenors, where lending rates are closer to floating. Outside the specials, we see limited value in fixing now that wholesale interest rates are pricing in rate hikes flagged by the Reserve Bank.

OUR VIEW

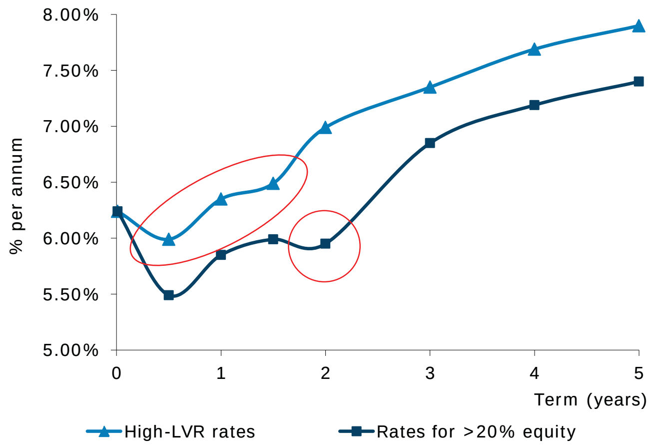
Borrowers with 20 percent equity or more will find it hard to look past ANZ's 2 year special rate of 5.95 percent. Not only is this rate below both the 18mth and 3yr rates, but it is also below the new carded floating rate. Given the upward-sloping wholesale interest rate curve, this represents a significant discount for this tenor. Of course, the 6-month rate remains the cheapest, and is thus attractive. However, whereas a borrower who fixes for 6 months will almost certainly get hit with "rate shock" in 6 months time given the likely rise in the OCR, those who select the slightly more expensive 2yr rate will be afforded greater protection – albeit at a slightly higher upfront cost.

The proposition for high-LVR borrowers is less clear, and our preferences are the 6 and 18-month terms. Again, the 6-month rate is below floating, but it too will be exposed to "rate shock", and the 0.5 percent jump for an extra year's protection is likely to prove worthwhile should the OCR go higher, as we expect.

The question many borrowers will be asking is; why not fix for longer if the RBNZ is about to lift rates again? This is a good question – and **the short answer is, it's already too late.** Indeed, the very fact that the market now fully expects the RBNZ to lift the OCR again explains why the mortgage curve is so steep (i.e. longer fixes cost much more). The trick is to get in before the market arrives at that view, but that is always tricky. We have had a preference for fixed over floating for about a year now, but beyond the specials, it is now very much a line call at current levels. Of course, **fixing brings certainty, and fixing is as much about risk management as it is about winning every time, so a selection of terms makes sense.**

Nonetheless, it is worth doing the maths using our breakeven tables. If we look, for example, at where **the 2-year rate needs to go in the future to make it worthwhile fixing for, say 4 years, we find that it needs to rise fairly briskly** (from 5.95 percent to 8.43 percent rises for 20 percent+ equity; and from 6.99 percent to 8.39 percent for high-LVR borrowers). We may well see rises of that magnitude, but the chances of interest rates rising by more are slimmer in our view. Specials do of course skew the results, but the upshot is, **the market is "fully priced" for what the Reserve Bank is about to deliver, so the focus now should be on specials, rather than trying to beat the market. The horse has bolted, so to speak.**

ANZ CARDED MORTGAGE RATES



Source: ANZ

Carded Mortgage Rates		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.24%				
6 months	5.49%	6.21%	6.27%	5.83%	8.20%
1 year	5.85%	6.24%	6.05%	7.02%	8.65%
18 months	5.99%	6.10%	6.77%	7.71%	8.45%
2 years	5.95%	6.63%	7.35%	7.79%	8.43%
3 years	6.85%	7.28%	7.64%	7.95%	8.37%
4 years	7.19%	7.52%	7.79%		
5 years	7.40%				

Low-Equity Rates		Breakevens for low equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.24%				
6 months	5.99%	6.71%	6.77%	8.49%	7.89%
1 year	6.35%	6.74%	7.63%	8.19%	8.07%
18 months	6.49%	7.32%	7.72%	8.21%	8.23%
2 years	6.99%	7.47%	7.85%	8.29%	8.39%
3 years	7.35%	7.78%	8.14%	8.45%	8.51%
4 years	7.69%	8.02%	8.29%		
5 years	7.90%				

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

SUMMARY

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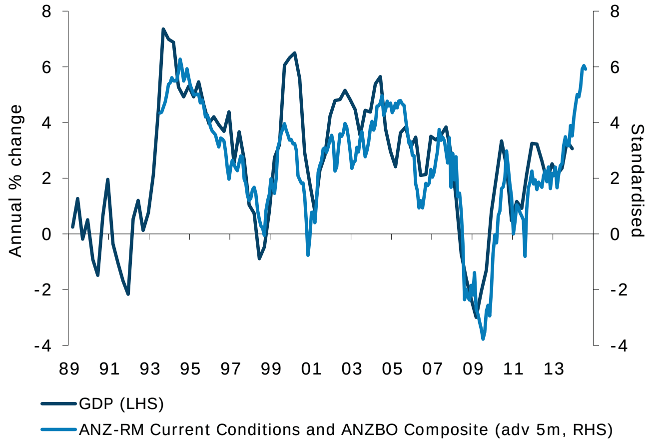
FIGURE 1. GDP VS COMPOSITE CONFIDENCE

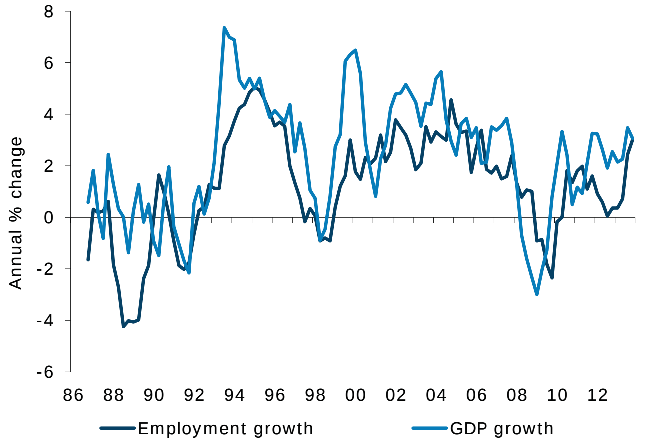


Source: Statistics NZ, Roy Morgan, Westpac, McDermott Miller, ANZ

Our ANZ Confidence Composite indicator (a combination of business and consumer sentiment) is signalling **New Zealand is poised for accelerating economic growth.**

The Confidence Composite is now flagging the potential for 6 percent annual growth by Q3 this year. This looks a stretch given the economy's resource capacity, but it's hard to disagree with the spirit of improvement and a feel-good factor starting to be felt across the wider economy. To date, movements higher in interest rates have done little to dent consumer sentiment. This story may change once the RBNZ tugs further on the OCR lever, but for now it all looks dandy.

FIGURE 2. EMPLOYMENT GROWTH AND GDP

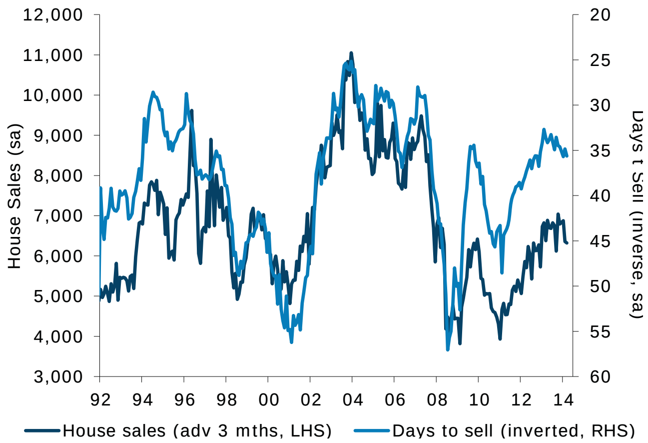


Source: Statistics NZ, ANZ

There has been a strong lift in employment, with the official measure of the number of people employed increasing 3.0 percent over the 2013 calendar year. Wages gains are becoming more prevalent, lifting incomes. The resultant lift in household income is providing support to the housing market.

However, incomes are still failing to keep pace with rapid house price growth; hence affordability is still deteriorating. The nationwide ratio of house prices to incomes touched a new high of 8.9 to 1 in March. Auckland leads the nation in this metric (prices are 10.3 times the region's average income). The Bay of Plenty has the second-highest ratio, at 10.3 times income, followed by Northland at 8.5.

FIGURE 3. HOUSE SALES VS DAYS TO SELL



Source: REINZ, ANZ

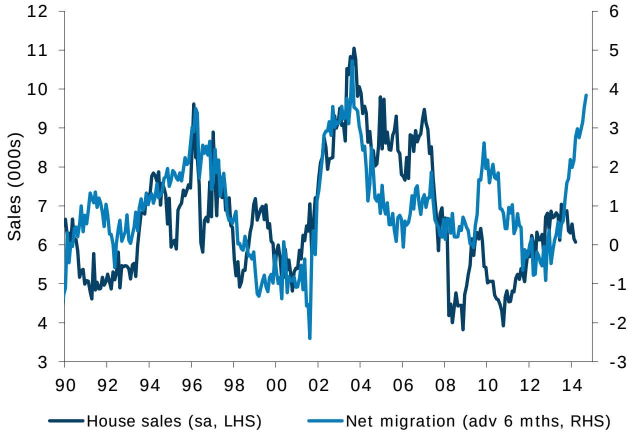
Since the introduction of LVR restrictions, **the volume of homes sold and the length of time to sell have bowed**, but are only back to levels that prevailed around the end of 2012.

Both metrics touched recent extremes over June or July last year. The volume of sales touched a six-year high (7,041, seasonally adjusted) and the median time to sell was a five-year low (33 days). By March, sales volumes had eased to 6,069 and the length of time to sell a house had drifted up to 36 days.

Canterbury has consistently recorded the quickest time to sell for 19 successive months, with Auckland playing second fiddle.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

FIGURE 4. HOUSE SALES VS NET MIGRATION

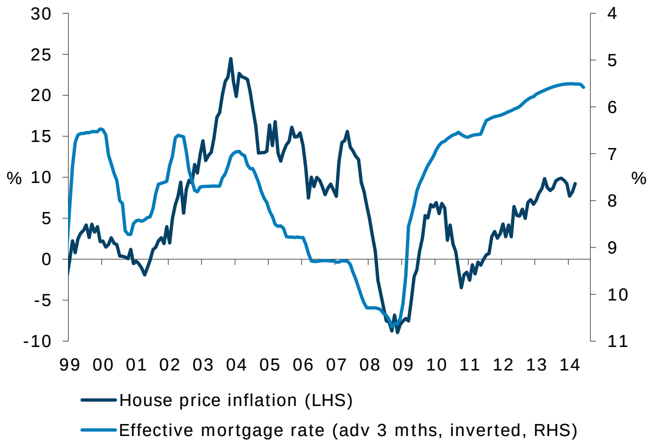


Source: REINZ, Statistics NZ, ANZ

Migration flows are a major influence on housing market cycles in NZ. The mid-1990s and 2003-07 booms coincided with large net migration inflows. The Reserve Bank has calculated that an additional inflow of migrants equal to 1 percent of the population over five years causes a 7 percent increase in house prices.

We've experienced a strong lift in migration inflows recently, with the strongest gains in migrants going to Auckland and Canterbury. This has exacerbated housing pressures in an already tight marketplace.

FIGURE 5. HOUSE PRICES VS MORTGAGE RATES

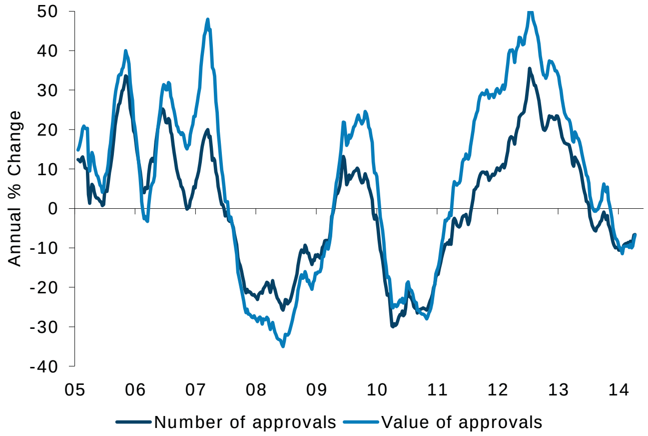


Source: REINZ, RBNZ, ANZ

House price inflation increased to a 7-year high last year, peaking at 10.9 percent in November. The real estate market benefitted from a rising level of consumer sentiment and employment, and was spurred on by the lowest levels of mortgage rates in over a generation.

Mortgage rates are now rising, with the Official Cash Rate 50bps off its lows and further hikes well signalled and built into fixed rates. House sales typically respond promptly; house prices with a lag of a few months.

FIGURE 6. HOUSING LOAN APPROVALS



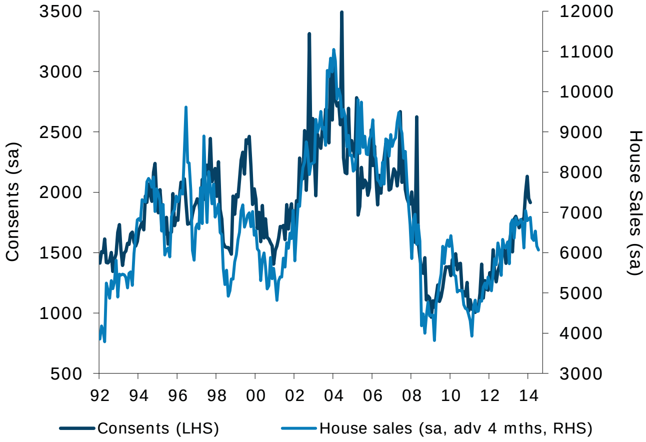
Source: RBNZ, ANZ

There was a small blip up in housing loan approval figures in September last year, in anticipation of the introduction of stricter high-LVR lending requirements a month later. Following that, lending approvals stepped down into negative territory.

On a rolling 3-month basis, **the number and value of mortgage approvals reached 21 and 20-month lows respectively in January.** The figures have rebounded by just over 3 percent, but remain about 5 percent below the levels that prevailed a year earlier.

FEATURE ARTICLE: THE PROPERTY MARKET IN PICTURES

FIGURE 7. DWELLING CONSENTS AND HOUSE SALES

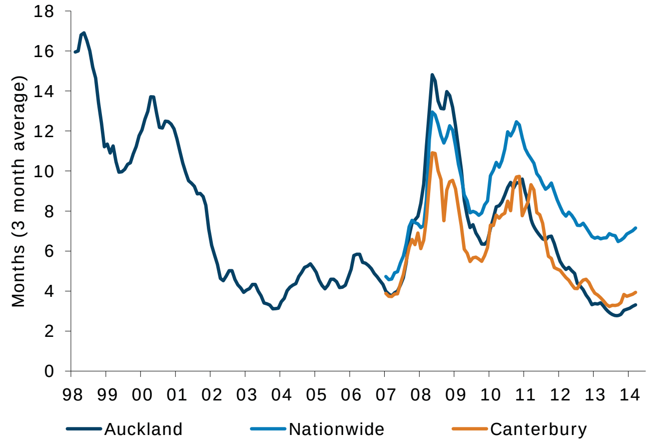


Source: REINZ, Statistics NZ, ANZ

The volume of dwelling consents hit a 5-year high in December, with 2,132 dwellings consented in the month. A year earlier only 1536 permits were issued. **In the latest data point (February), permit numbers have eased to just 1,915**, the third-best monthly outcome in six years but a reasonably sharp (10 percent) decrease from just two months earlier.

The Canterbury rebuild is a key source of recent strength, accounting for 26 percent of consent issuance. This is twice the 13 percent average recorded over the ten years from 2000-2009.

FIGURE 8. HOUSING SUPPLY (SEASONALLY ADJUSTED)

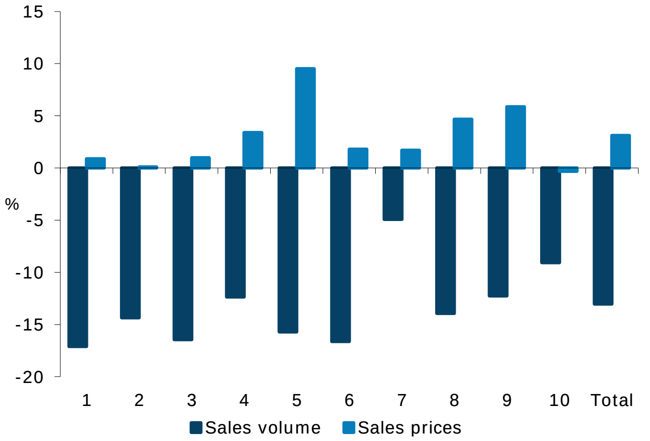


Source: REINZ, RBNZ, ANZ

A lower number of available property listings is keeping sales volumes lower than they would otherwise be. The time to sell the nationwide stock of real estate listings has crept up over the past year. In March it would take 27 weeks to clear all the properties listed on the real estate market, the longest time in 13 months.

Looking across the regions, it would take around 14 weeks to sell the entire inventory of Auckland's real estate listings. Canterbury, in second place, has a figure of 17 weeks to sell all the houses listed. These are 13 and 14-month highs respectively. At the other end of the spectrum, the West Coast and Bay of Plenty would take the longest time for the real estate market to clear, at 186 and 90 weeks respectively.

FIGURE 9. CHANGE IN PRICES AND VOLUMES BY DECILE SINCE OCTOBER 2013



Source: RBNZ, ANZ

It is also interesting to look at real estate sales data by value tier. The Real Estate Institute publish stratified sales results over ten value tiers. Intuition would suggest that the lower end of the market (a lower numbered tier in the chart opposite) is likely to have been harder hit by the LVR restrictions due to the disproportionate impact on highly leveraged first home buyers.

The bottom 60 percent of the market has clearly experienced a sharper drop in sales since LVR restrictions were introduced. The cheapest 30 percent of houses (deciles 1 to 3) – and intriguingly the very top tier – have experienced the most modest price rises. The middle part of the market has largely sailed on.

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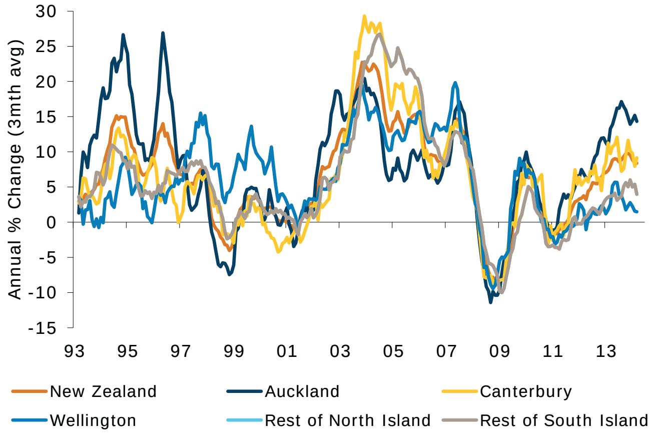
FIGURE 10. HOUSE PRICE INFLATION



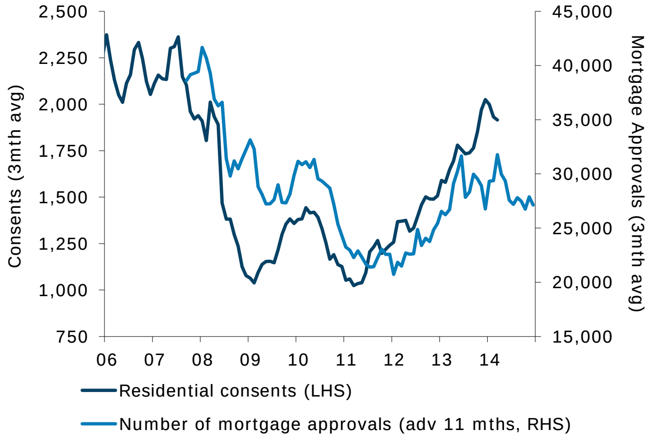
Source: REINZ, ANZ

Where sales go, house price inflation follows, typically with a lag of a couple of months. Using a 3-month rolling average, the increase in nationwide house prices peaked at 9.8 percent in November 2013, drifting down to 8.4 percent four months later.

The lift in Auckland's house prices has been widely heralded, recording continuous double-digit growth since October 2012. A peak rate of increase (17 percent) was recorded in August 2013, and has since eased to 14 percent.

While Auckland has been running hot, Wellington has experienced a peak of only 5.7 percent, with the latest rate of increase at 1.5 percent.

FIGURE 11. MORTGAGE APPROVALS AND RESIDENTIAL BUILDING CONSENTS

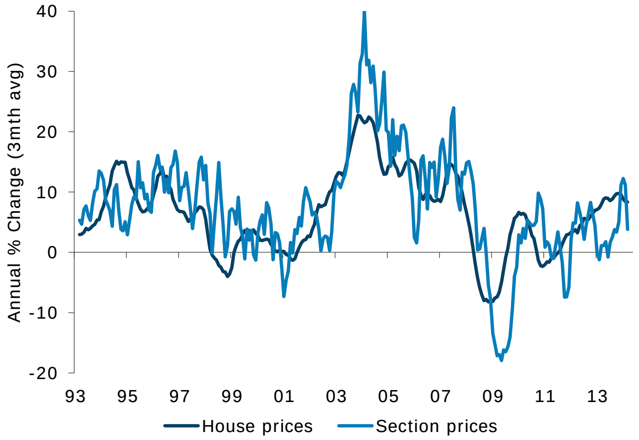


Source: REINZ, Statistics NZ, ANZ

The volume of mortgage approvals has proven to be a handy leading indicator of building consent issuance. The slowing in mortgage approvals is likely to foreshadow a similar pattern in residential building consents.

But with mortgage rates at generational lows, it was only a matter of time before New Zealanders' appetite for home ownership returned. The introduction of high-LVR lending restrictions has proved to be the speed bump it was intended to be, but the full impact on the property market has yet to be revealed.

FIGURE 12. HOUSE AND SECTION PRICES



Source: REINZ, ANZ

Section prices are more cyclical than prices for existing dwellings. Section prices slumped following the global financial crisis and have had a roller-coaster growth profile ever since. Growth in residential section prices has trailed prices for existing dwellings for most of the period since 2008, a trend that has continued. In the past 4 months, section prices have recorded double-digit rates of increase between December and February, with a peak in January – two months after the peak in house prices.

The number of sections sold lifted to a six-year high in January, underpinned by a surge in Canterbury, where sales of sections account for 23 percent of all sales. In the ten years to 2010, Canterbury accounted for 14 percent of sales. In Auckland, where new housing is in dire need, section sales account for 26 percent of all sales, up from a decade average of 19 percent in 2010.

KEY FORECASTS

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

Mortgage Size ($'000)	Mortgage Rate (%)													
	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	8.25
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1,000
600	809	829	850	870	891	913	934	956	978	1,000	1,022	1,045	1,068	1,091
650	876	898	920	943	966	989	1,012	1,036	1,059	1,083	1,108	1,132	1,157	1,182
700	944	967	991	1,015	1,040	1,065	1,090	1,115	1,141	1,167	1,193	1,219	1,246	1,273
750	1,011	1,036	1,062	1,088	1,114	1,141	1,168	1,195	1,222	1,250	1,278	1,306	1,335	1,364
800	1,078	1,105	1,133	1,160	1,188	1,217	1,246	1,274	1,304	1,333	1,363	1,393	1,424	1,454
850	1,146	1,174	1,204	1,233	1,263	1,293	1,323	1,354	1,385	1,417	1,448	1,480	1,513	1,545
900	1,213	1,244	1,274	1,306	1,337	1,369	1,401	1,434	1,467	1,500	1,534	1,567	1,602	1,636
950	1,281	1,313	1,345	1,378	1,411	1,445	1,479	1,513	1,548	1,583	1,619	1,655	1,691	1,727
1000	1,348	1,382	1,416	1,451	1,486	1,521	1,557	1,593	1,630	1,667	1,704	1,742	1,780	1,818

Housing market indicators for March 2014 (based on REINZ data)

	House prices (ann % change)	3mth % change	No of sales (sa)	Mthly % change	Avg days to sell (sa)	Comment
Northland	4.5	-2.6	159	-12%	61	Median house price eased to a 9-month low
Auckland	12.7	2.5	2,366	0%	32	Prices show no sign of abating, up 3.2 percent in the month
Waikato/BOP/Gisborne	7.0	2.3	795	-5%	47	The volume of houses sold slipped to a 15-month low
Hawke's Bay	0.7	3.6	184	-2%	50	The 3-mth change in house prices rose to a 10-month high
Taranaki	-0.3	-1.2	230	-8%	61	Median selling time the slowest in over 4 years
Manawatu/Whanganui	0.5	-4.4	156	+4%	48	The number of homes sold lifted to a 5-month high
Wellington	3.4	-1.2	612	-3%	37	Average selling price back below $400k, at a 6-month low
Nelson/Marlborough	3.6	1.0	210	-9%	39	The volume of homes sold dropped to a 2-year low
Canterbury/Westland	11.2	3.0	819	0%	29	Median house price topped the $400k level for the first time
Central Otago Lakes	-3.3	-7.4	106	-22%	52	Recorded the weakest 3-month change in house prices
Otago	6.2	6.7	219	+2%	32	3-mth change in prices driven by 3.3% lift in March
Southland	-15.2	4.3	132	+6%	44	House prices fell sharply in March, drifting to a 2½ year low
NEW ZEALAND	9.5	1.4	6,069	-2%	36	Prices prove to be the sole indicator not to buckle

Key forecasts

	Actual			Forecast						
Economic indicators	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
GDP (Ann Avg % Chg)	2.2	2.6	2.7	3.1	3.5	3.6	3.7	3.7	3.5	3.3
CPI Inflation (%)	0.7	1.4	1.6	1.5	1.8	1.6	1.8	2.0	2.2	2.2
Unemployment Rate (%)	6.4	6.2	6.0	5.7	5.6	5.5	5.5	5.5	5.4	5.4
	Actual			Forecast (end month)						
Interest rates (carded)	Feb-14	Mar-14	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Cash Rate	2.50	2.75	3.00	3.25	3.25	3.50	3.75	3.75	4.00	4.25
90-Day Bank Bill Rate	2.97	3.12	3.30	3.5	3.5	3.9	4.0	4.0	4.4	4.5
Floating Mortgage Rate	5.6	5.9	6.1	6.3	6.3	6.6	6.8	6.8	7.1	7.3
1-Yr Fixed Mortgage Rate	5.5	5.7	5.9	6.2	6.5	7.0	7.1	7.1	7.3	7.4
2-Yr Fixed Mortgage Rate	6.0	6.0	6.1	6.3	6.6	6.8	6.8	6.8	7.2	7.4
5-Yr Fixed Mortgage Rate	7.1	7.2	7.4	7.4	7.4	7.5	7.5	7.5	7.5	7.6

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