New Zealand Property Focus

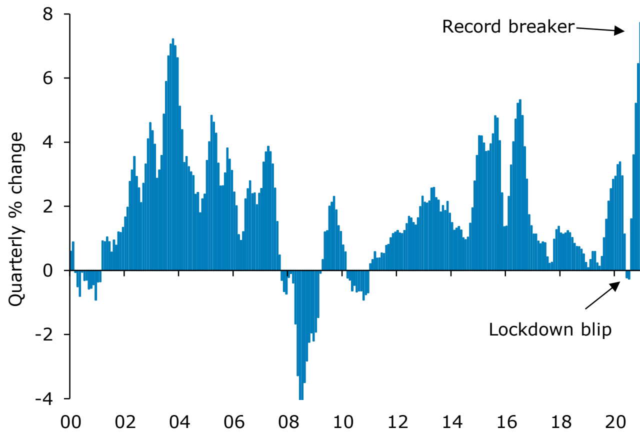
On the horizon – Key themes for 2021

ANZ

At a glance

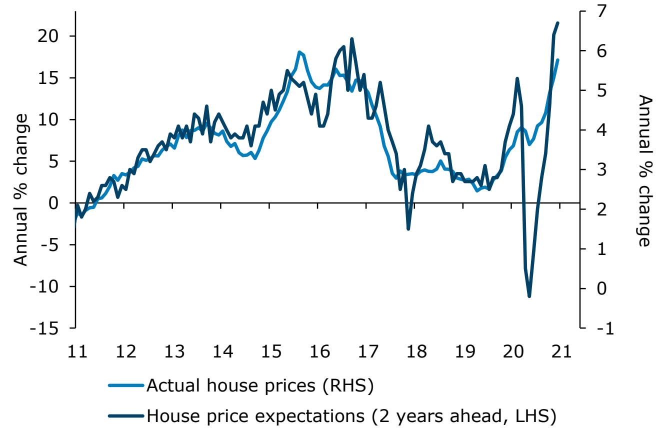
Record breaker for housing

Prices up 8% in December quarter



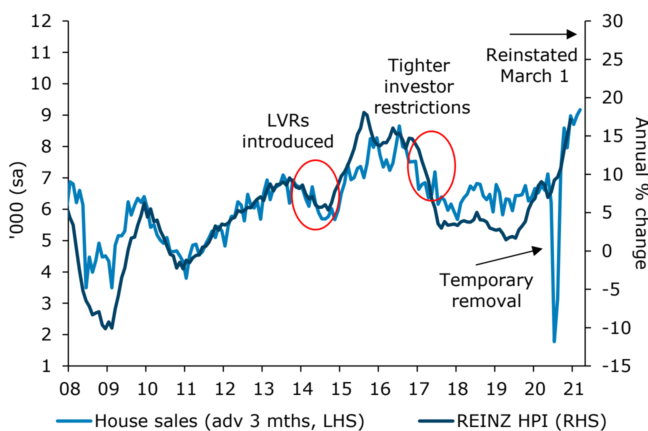
Momentum in short term

Expectations up, market very tight



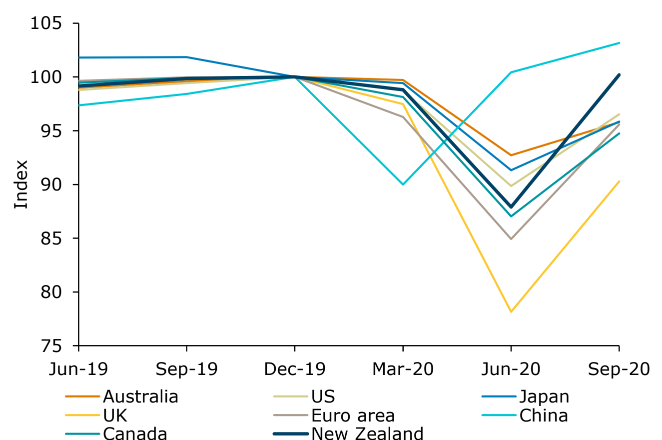
Cooling in time

Momentum to slow, credit a factor



Housing supporting economy

GDP starting point and outlook stronger



Key themes for 2021

1. The path back to normality
2. The unsustainable housing market
3. The nuanced OCR outlook
4. Our lost summer of tourism
5. Business resilience
6. Credit conditions could weigh
7. Inflation risks, supply challenges
8. Market volatility
9. Fiscal policy in the backseat
10. Long-term challenges

Source: REINZ, Statistics NZ, Macrobond, ANZ Research

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

Contact

Liz Kendall, David Croy or Sharon Zollner for more details.

See page 13.

INSIDE

At a glance	2
Housing Market Overview	4
Regional Housing Market Indicators	5
Feature Article: Key themes for 2021	6
Mortgage Borrowing Strategy	11
Weekly Mortgage Repayment Table	12
Mortgage Rate Forecasts	12
Economic Forecasts	12
Important Notice	14

ISSN 2624-0629

Publication date: 19 January 2021

Summary

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

Housing market overview

House prices grew at the strongest quarterly pace on record in December (since REINZ data began in 1992). The market has significant momentum and tightened even further in the month. We expect continued strength in the market in the short term at least, with an eventual gradual cooling in the rate of house price inflation as credit and affordability constraints weigh. This stronger housing market outlook is supportive of economic momentum into the year ahead, even as we face challenges from the closed border and waning fiscal stimulus. A better outlook for demand and inflation underpins our revised forecast that the OCR will not need to go negative, provided downside risks do not eventuate. We now expect just one more OCR cut (of 15bps) to 0.1% in May. See Housing Market Overview for more.

Feature Article: On the horizon – Key themes for 2021

A number of ongoing themes will shape the way forward in the year ahead. The COVID-19 pandemic continues to run rampant globally, and our national fortunes will remain crucially tied to our continued success in keeping the virus out. The path to inoculation will take time, and bumps are possible along the way. Domestically, housing is likely to remain high-profile, with the market ending the year on an unsustainable footing. A degree of cooling seems likely, and credit conditions may become less permissive, though it is also possible that unaffordability continues to worsen, exacerbating longer-term risks. Meanwhile, new challenges look set to come to the fore, like the impact of our lost summer of tourism. Businesses have been remarkably resilient, setting us up well to weather this test. But even so, we need to brace for some impact. Inflation risks have increased too, especially with supply disruptions an ongoing problem, and volatility may return as markets digest the unfolding outlook. For policymakers, trade-offs are becoming trickier to manage and longer-term issues will rear their heads, along with questions about when policy settings might return to "normal". And of course, we will be faced with unknown unknowns in the time ahead – those inevitable uncertainties that will shape the path forward, for better or worse. See Feature Article: On the horizon – Key themes for 2021 for more.

Mortgage borrowing strategy

The 1-year mortgage rate remains the lowest rate available at all of the major banks. It is also where competition is the most intense, and is likely to be the point at which further declines may be seen should wholesale rates move lower. We still expect to see one more OCR cut in May, but prospects of a negative OCR have fallen. Nonetheless, the OCR will remain low for some time. The fly in the ointment for mortgage borrowers is the direction of global interest rates. These are now rising, dragging wholesale term rates higher here. We continue to favour the 1-year term, but a mix of terms out to 3 years is also worth considering now that wholesale rates are rising. See Mortgage Borrowing Strategy for more.

Housing market overview

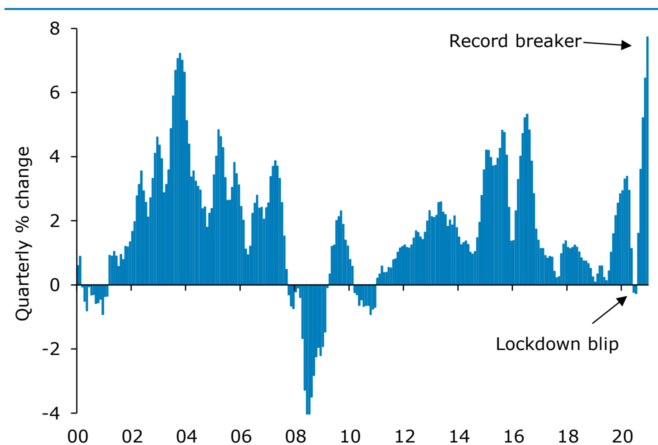
Summary

House prices grew at the strongest quarterly pace on record in December (since REINZ data began in 1992). The market has significant momentum and tightened even further in the month. We expect continued strength in the market in the short term at least, with an eventual gradual cooling in the rate of house price inflation as credit and affordability constraints weigh. This stronger housing market outlook is supportive of economic momentum into the year ahead, even as we face challenges from the closed border and waning fiscal stimulus. A better outlook for demand and inflation underpins our revised forecast that the OCR will not need to go negative, provided downside risks do not eventuate. We now expect just one more OCR cut (of 15bps) to 0.1% in May.

Record breaker

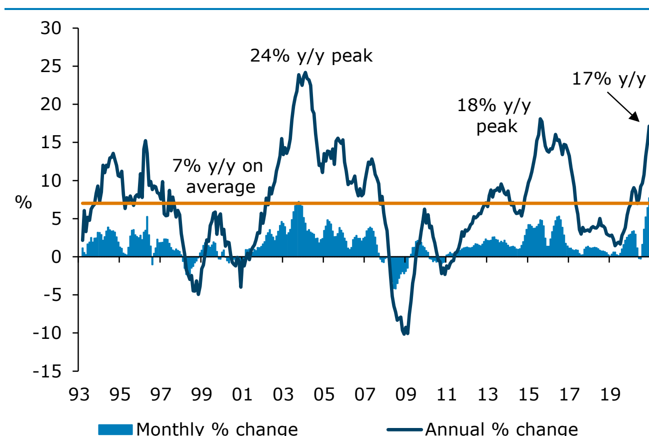
House prices rose 2.9% in December, following similar stellar rises in October and November. This saw a quarterly gain of 7.7% for Q4 (figure 1) – the biggest quarterly gain on record (based on data from 1992). Since the lockdown-induced declines seen in April and May, house prices have risen 16%. This has seen annual house price inflation rise to 17% (figure 2).

Figure 1. Quarterly house price inflation



Source: REINZ

Figure 2. Annual and quarterly house price inflation



Source: REINZ

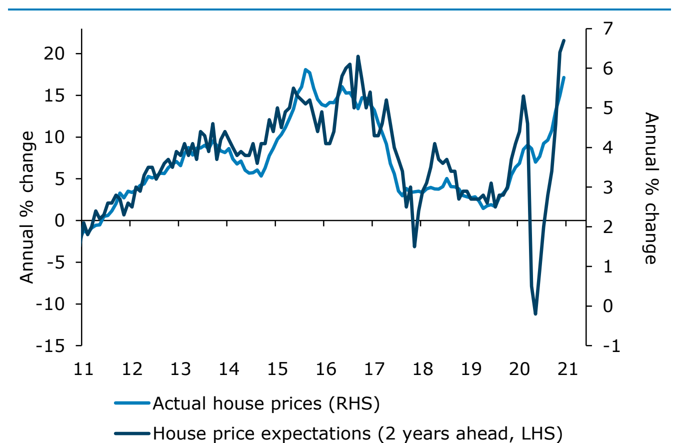
Annual house price inflation is still below the peak seen in February 2004 (24% y/y), which followed a year of solid monthly gains (1.8% m/m on average). The upturn this time has been shorter but sharper, with price rises of 2.1% m/m on average since May.

It is possible that continued momentum could see the 2004 peak in annual house price inflation surpassed. But there are reasons to think that the upturn might not have the same persistence this time around. A key difference is that the economy was very buoyant in the early 2000s, with incomes growing strongly. This time income growth is fairly stagnant and house prices are already very unaffordable relative to incomes – making continued house price inflation at the current pace unsustainable.

Momentum in the short term

We do expect to see some continued momentum in the market over the next few months, with the housing market very tight. Days to sell reduced further in December to just 31 days, compared with a historical average of 39 days. Listings are not coming onto the market fast enough to meet demand, with inventory hitting new all-time lows. This speaks to further upwards pressure on prices, reinforced by the fact that house price expectations have increased as the housing market has strengthened (figure 3).

Figure 3. House prices and expectations



Source: REINZ, ANZ Research

Lower interest rates have played a role in the recent upturn, but this is only part of the story. A speculative dynamic has also contributed, with participants in the market running on the assumption that strong house price gains will continue.

It has been a perfect storm: fear of missing out (FOMO), scarcity of properties and expectations that house prices will get further out of reach, at a time when interest rates have been falling and bank funding has been readily available. This dynamic is expected to contribute to further price gains in the short term at least. We expect the housing market will cool in time, but exactly when is highly uncertain, given that momentum in the market can be slow to moderate.

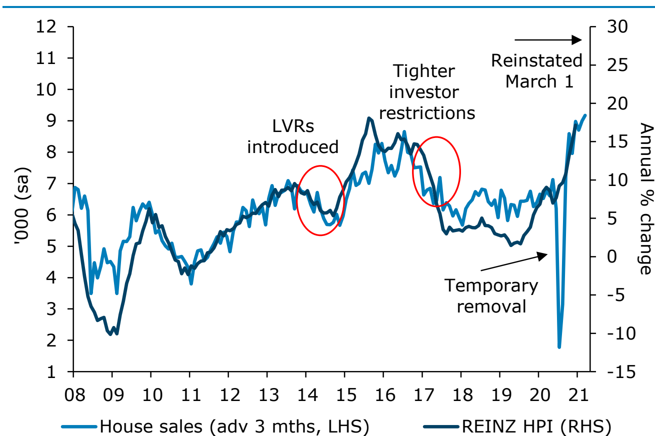
Housing market overview

But cooling in time

Eventually, we expect that an easing in acute market tightness will occur and fundamental factors will return to the fore, including income considerations, weak population growth (with building strong), affordability limits and credit constraints (see Feature Article: Key themes for 2021).

The RBNZ has moved to curb high loan-to-value ratio lending to investors, effective from 1 March, with some banks acting pre-emptively to rein in lending to this segment. This will have some effect in dampening house price inflation (say 1-2 percentage points, according to the RBNZ), though only temporarily, as with previous imposition of such restrictions. Nonetheless, these may play a role in curbing (in the RBNZ's words) "irrational exuberance", thereby contributing to a slowing in momentum (figure 4).

Figure 4. House prices and sales



Source: REINZ, ANZ Research

Overall, we expect house price inflation to moderate (see Economic Forecasts), with solid gains in the next few months, followed by a more marked cooling. House price declines can't be ruled out, but for now that is not our expectation and sits squarely in the 'risks' basket.

OCR expected to stay positive

A stronger outlook for housing is one of the factors supporting our upwardly revised expectations for economic momentum into 2021 (see our recent Data Wrap for more on the updated economic forecasts). This, along with a more resilient business sector, higher export prices, and a better-than-expected starting point suggest we are in better stead to face the challenges ahead, notwithstanding ever-present downside risks.

Against this backdrop, the medium-term outlooks for both inflation and the labour market are now more assured. This means there is less urgency for the RBNZ to provide stimulus, and we no longer expect the OCR will be taken negative. That said, a little more stimulus would be helpful to shore up the outlook. We expect to see one more 15bp cut from the RBNZ in May (to 0.1%) as the last step in the current easing cycle.

From May, we expect that the RBNZ will hold the OCR, while remaining vigilant and willing to do more if necessary. That means that although we don't expect the OCR will go lower at this stage, the prospect of higher interest rates is still years off. Risks remain skewed towards rates going lower rather than higher, especially while a resurgence of COVID-19 on our shores remains an ever-present threat. On the other hand, if momentum in the housing market does not slow, a May OCR cut becomes much less likely.

Housing market indicators for December 2020 (based on REINZ data seasonally adjusted by ANZ Research)

	Median house price			House price index		# of monthly sales	Monthly % change	Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change			
Northland	$656,865	25.2	7.0	15.2	6.1	272	+1%	43
Auckland	$1,024,808	17.2	5.9	18.0	7.8	3,386	+6%	33
Waikato	$668,362	17.5	4.2	14.6	6.0	930	+6%	28
Bay of Plenty	$708,618	13.4	4.9	18.6	9.1	580	0%	32
Gisborne	$583,298	44.3	10.1			62	+9%	34
Hawke's Bay	$662,027	27.4	7.7	24.7	9.5	268	+17%	26
Manawatu-Whanganui	$530,309	31.3	9.6	20.2	11.6	377	+0%	24
Taranaki	$487,611	19.6	3.6	18.0	6.3	200	+18%	22
Wellington	$789,802	18.7	6.7	20.4	10.2	746	+3%	28
Tasman, Nelson & Marlborough	$675,000	13.4	10.0			219	-30%	23
Canterbury	$527,656	16.5	2.9	13.5	4.3	1,367	+11%	31
Otago	$632,349	16.7	8.8	8.1	4.8	456	+2%	30
West Coast	$272,482	30.8	11.7	14.7	6.9	62	-18%	46
Southland	$377,441	14.3	4.7	15.7	5.9	211	+6%	28
New Zealand	**$741,898**	**19.3**	**6.8**	**17.1**	**7.7**	**9,169**	**+2%**	**31**

Feature Article: On the horizon – Key themes for 2021

Summary

A number of ongoing themes will shape the way forward in the year ahead. The COVID-19 pandemic continues to run rampant globally, and our national fortunes will remain crucially tied to our continued success in keeping the virus out. The path to inoculation will take time, and bumps are possible along the way. Domestically, housing is likely to remain high-profile, with the market ending the year on an unsustainable footing. A degree of cooling seems likely, and credit conditions may become less permissive, though it is also possible that unaffordability continues to worsen, exacerbating longer-term risks. Meanwhile, new challenges look set to come to the fore, like the impact of our lost summer of tourism. Businesses have been remarkably resilient, setting us up well to weather this test. But even so, we need to brace for some impact. Inflation risks have increased too, especially with supply disruptions an ongoing problem, and volatility may return as markets digest the unfolding outlook. For policymakers, trade-offs are becoming trickier to manage and longer-term issues will rear their heads, along with questions about when policy settings might return to "normal". And of course, we will be faced with unknown unknowns in the time ahead – those inevitable uncertainties that will shape the path forward, for better or worse.

On the horizon

2020 was a year for the history books. The world was ravaged by the COVID-19 crisis, policymakers pulled out unprecedented policy tools to combat the fallout, and households and firms faced new and enormous challenges.

Although there are reasons to be optimistic about the future, many of those same challenges are still with us as we enter 2021. Around the world, the massive human and economic toll of the pandemic continues. Against that backdrop, a number of themes look set to shape the path ahead – some a legacy from 2020, while other new challenges will come to the fore.

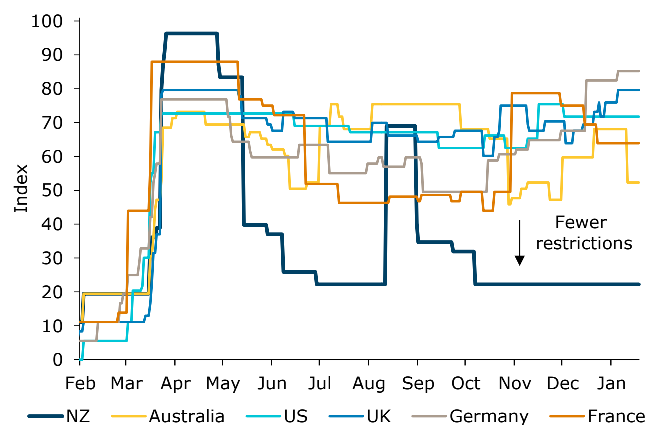
1. The path back to normality

As we enter the New Year, a path to eventual normality is now in front of us, with several vaccines for COVID-19 now being rolled out globally. Eventually, we should be able to achieve widespread immunisation, the world will be able to return to economic normality, and international travel will resume. But until then, the stakes remain huge – and it isn't expected to be quick or smooth sailing. Mass inoculation, herd immunity, and border opening on a global scale will take time.

That means that although the development of vaccines represents a turning point in the crisis, the pandemic still casts a long and worrying shadow over the outlook – and risks remain abundant. Treatment of COVID-19 has improved, but some strains of the virus are now spreading faster than ever. Health systems and economies are under significant pressure, cushioned by an unprecedented policy response.

Globally, New Zealand is an outperformer economically, reflecting the success of our health response, which has enabled us to live in relative freedom apart from the closed border (figure 1). Meanwhile, strict and widespread lockdowns are commonplace in many other countries, and the virus remains an ever-present threat. Truth be told, we don't know how lucky we are.

Figure 1. Oxford Government Response Stringency Index



Source: Oxford University

We expect that widespread inoculation in New Zealand will occur over the second half of 2021, with eventual border reopening from early 2022 – the ultimate game changer for the economic outlook. The possibility of regional travel bubbles in the meantime could alter economic forecasts, but mostly at the edges, and challenges to establishing these remain high.

There may be bumps along the way too. Until inoculation occurs, the battle will continue here to keep the virus out. Our safeguards have improved and we are better at responding when an outbreak occurs. But COVID-19 has evolved to become more easily transmissible, meaning tougher restrictions are now required to achieve the same result. A significant incursion could therefore change our fortunes dramatically and will remain a significant risk until we achieve high rates of immunisation in New Zealand.

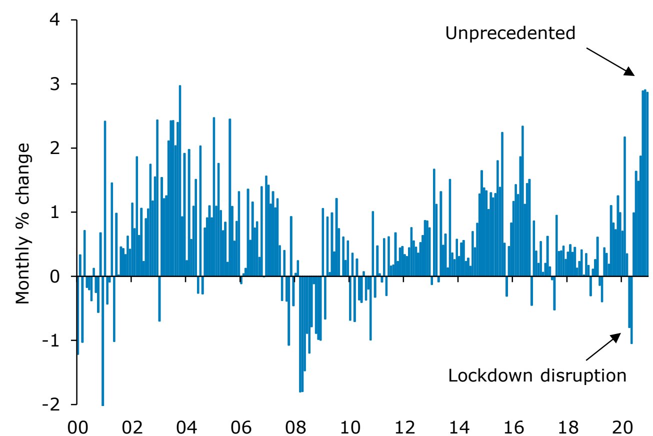
Meanwhile, we are still a small trading nation, with our national income susceptible to fluctuations in global demand. Our export prices have held up remarkably well (a trend that has continued into 2021, with dairy prices marching even higher). Long may that continue. But we do remain vulnerable to the economic fallout globally, even from within our well-locked fortress. The world's ability to pay a premium for our high-quality exports is being compromised.

Feature Article: On the horizon – Key themes for 2021

2. The housing market

Strength in the housing market through the second half of 2020 was unprecedented, with prices rising 16% since May (figure 2). Increases like that are unsustainable in the context of incomes that have been stable at best.

Figure 2. Monthly house price inflation



Source: REINZ

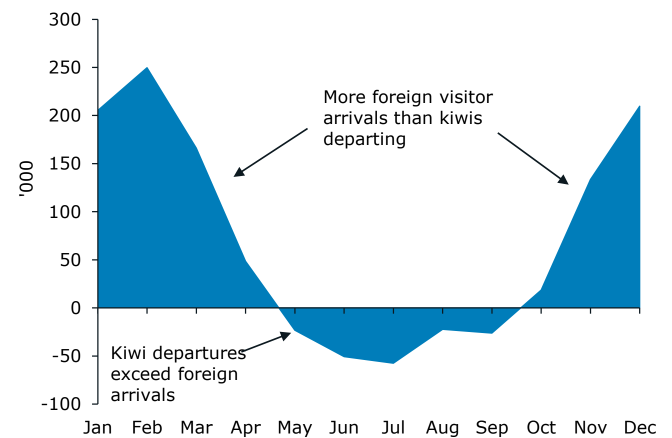
Strength in the housing market is supporting wider economic activity and providing an offset to weakness in other areas, such as tourism and international education – but a key question is how much further the current upturn has to run. The hot housing market has been a high-profile issue, with low interest rates spurring buyers on and a speculative dynamic at play. Reports of rampant house price inflation have inflamed FOMO ("fear of missing out") in a tight, supply-constrained market. This has been a perfect storm for house price rises, but eventually this dynamic will run its course, with affordability and credit constraints weighing on the market and a stagnating economic recovery casting a shadow. This is expected to take some heat out of the market at some point, but when that will occur is highly uncertain. In the meantime, New Zealand's issues with acute housing unaffordability continue to worsen. To reverse the tide, big, bold action is needed urgently (See ANZ Property Focus – Unlocking the solution for more details).

3. Our lost summer of tourism

The domestic economy has been remarkably resilient, relative to what was expected last year when we were looking down the barrel of the COVID-19 crisis. That reflects our successful health response, effective policy action (especially the wage subsidy), and a solid bounce-back in domestic demand.

An element of this resilience has been a matter of timing though, too. It may not feel like it for many, but the impact of the closed border on New Zealand's economy is highly significant – and seasonal. In winter, captive domestic tourists have provided an offset, but that offset is insignificant in the summer months when the influx of international visitors would usually be huge – and kiwis stay home anyway (figure 3). Some businesses that are exposed to tourism are already struggling, but Q1 is the crunch point, with flow-on effects to other industries, which will see, at best, an economic wobble early in the year.

Figure 3. Typical seasonality of international visitor arrivals



Source: Statistics NZ, ANZ Research

4. The nuanced OCR outlook

The policy outlook for the RBNZ has now moved to a more complicated part of the cycle. The time for big-bang stimulus is over, and it is no longer clear-cut that more stimulus is required. In November, we outlined a range of possible scenarios for policy depending on economic conditions. See our ANZ Insight for details on these scenarios and our ANZ Property Focus – Bag of tricks for more on how RBNZ policy works, including new unconventional tools.

On balance, a more positive scenario appears to be playing out: the economy is doing better than expected, businesses are resilient, the housing market is running hot, and inflation is no longer a one-way bet. However, the news is not all positive. A higher exchange rate has seen financial conditions tighten, and mortgage rates have not yet fallen as much as the RBNZ expected. Meanwhile, the path of unemployment and inflation back to target is not assured, with the RBNZ very conscious of downside risks. Weighing it up, we have updated our OCR call to just one more cut in May, down 15bp to 0.1%, but we don't think the RBNZ will feel the need to take the plunge to a negative OCR.

At that point, the RBNZ will deem that it has done enough, then wait and see how developments unfold. New, challenging questions about policy normalisation will come to the fore – if interest rates aren't going down, when are they going up?

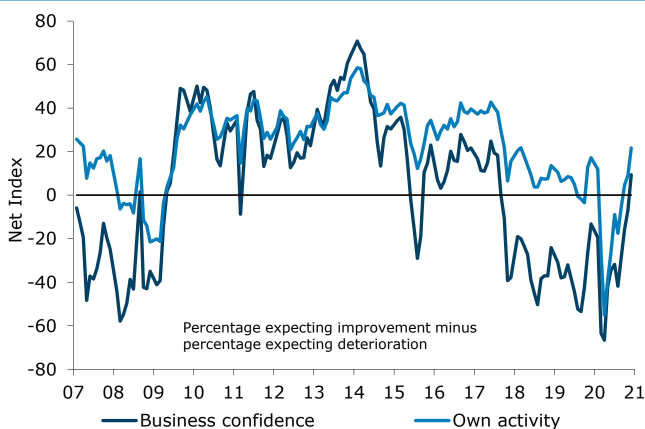
In our view, the RBNZ will be very keen to provide reassurance that it does not intend to withdraw stimulus any time soon – it will not want to see interest rates move higher. A continued easing bias is the path

of least regrets for the RBNZ for quite some time yet, until the outlook is more assured. That won't stop markets and commentators asking the question, though. To push against that speculation, we'd expect to see continued dovishness from the RBNZ, with continued emphasis on downside risks, even in a scenario in which further monetary easing is no longer required.

5. Business resilience

Despite the economy weathering a lockdown-induced sudden stop and the ongoing impact of the closed border, businesses overall are in remarkably good stead according to our ANZ Business Outlook survey. Indeed, sentiment has continued to push higher in recent months to be *above* levels seen pre-COVID (figure 4).

Figure 4. ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ Research

This resilience reflects that incomes were protected and cash-flow pressures were eased during the domestic lockdowns (by way of the wage subsidy, mortgage deferments, and lower interest rates). Firms did not need to hunker down in response to the downturn, which cushioned the blow and ensured that negativity did not become entrenched. Added to that, domestic demand has bounced back strongly. The lockdown prohibited households from spending, but the desire was still there. So when households could go out and spend afterwards, they certainly did – spurred by pent-up demand, low interest rates, and an increase in available funds (deferred travel funds and involuntary savings).

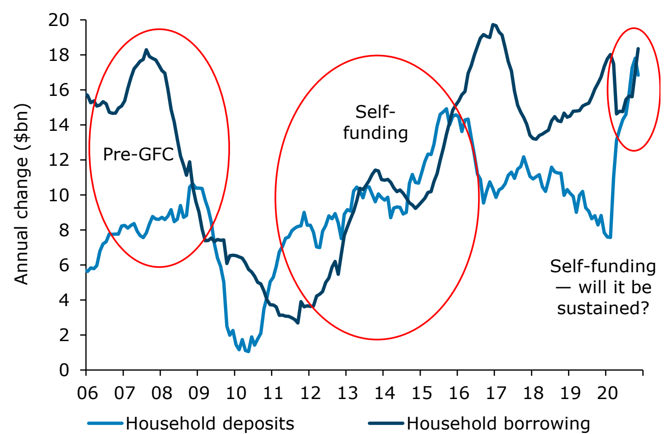
Some businesses exposed to the closed border have been really struggling. But in aggregate, income relief and the domestic spending bounce-back has been more than enough to offset this – so far at least.

Of course, this may not remain true going forward, with our lost summer of tourism expected to make conditions more difficult. But with businesses in a better position than had been feared, that gap is now looking easier to offset. Firms look less vulnerable to a large, sudden change in mood. If relatively positive sentiment is maintained in the midst of closed border impacts, then that will set the tone for the continuation of a more positive scenario than had been previously expected, and less need for monetary stimulus.

6. Credit conditions

Deposit growth has been very strong this year, since the advent of the RBNZ's QE programme and the wage subsidy (see our QE FAQs here and here for more details). This strong deposit growth has helped support lending growth, with abundant funds available to banks to meet very strong demand for mortgages (figure 5).

Figure 5. Bank funding "gap" – household deposits and lending



Source: RBNZ, ANZ Research

However, such strong growth in deposits is unlikely to continue. The ongoing QE programme will continue to support deposit growth, but not to the extent seen last year. With deposit growth expected to slow to some extent, lending growth is likely to slow too, with banks otherwise needing funds from other sources. Although other funding options are certainly available (the RBNZ Funding for Lending Programme, for one), banks are likely to be a bit more cautious in an environment where deposit growth is slower, in order to manage their funding needs. And even if bank funding is plentiful, at some point banks may start to be more cautious about lending terms if the economic outlook is looking more uncertain, or the housing market unsustainable.

A slowdown in lending growth and renewed loan-to-value restrictions are expected to see credit availability reduce to some degree at some stage, resulting in the emergence of a new headwind for the currently buoyant housing market. On the other hand, strong business confidence and resilient investment intentions may see business credit demand start to improve from very low levels, though likely only very modestly given that the economic recovery is set to stagnate.

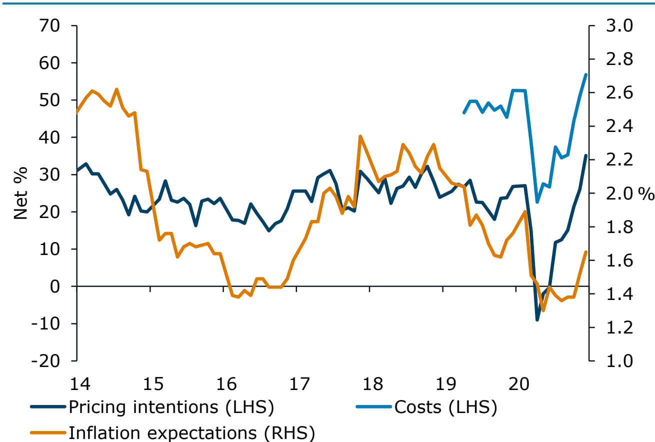
7. Inflation

Super-low inflation no longer appears to be a certainty. Cost pressures are starting to emerge, especially as supply disruptions and rising freight costs pinch globally. And domestically, firms are reporting higher costs and an intention to increase prices, which may see pockets of inflation start to develop.

Typically, "cost-push" inflation is not something to which the RBNZ responds, given that it can be quite short-term in nature and move independently of the overall business cycle. In fact, cost-driven inflation can be bad for growth and has the potential to weigh on business sentiment if margins are squeezed or price rises impact demand.

But positively, cost pressures are starting to flow through into broader inflation expectations (figure 6). If this is sustained, it could lead to persistently stronger inflation outcomes, even once cost pressures ease. Up until very recently, inflation expectations have been worryingly low, and the RBNZ has been concerned that this could see actual inflation persistently away from target. To the extent that inflation expectations rise, this will directly improve outcomes for the RBNZ and reduce the case for more stimulus.

Figure 6. ANZBO inflation indicators



Source: ANZ Research

Looking through potential noise on the costs side, the medium-term outlook for inflation has improved too – though there are now risks in both directions. Inflation expectations are increasing and demand has bounced back strongly, while supply remains a constraint.

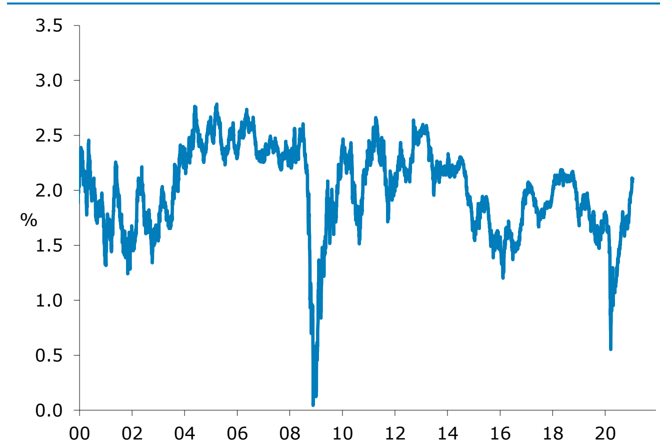
Even so, headwinds suggest that underlying inflation will face a slow grind higher from here. The starting point is very low (1.4% y/y), the economic recovery is set to stagnate, and exchange rate increases will partially offset some upward pressure in the short term. The case for more stimulus from the RBNZ has clearly diminished, but monetary conditions will need to be easy for a long while yet.

8. Volatility

Market pricing for long-term inflation in the US is also trending higher, with cost pressures emerging globally too (figure 7). Inflation isn't expected to roar away, particularly given the still-weak demand environment and with the scars of this crisis likely to take some time to heal. But super-low inflation and ever-increasing monetary stimulus is no longer a given.

The economic outlook and the policy response are becoming more nuanced globally. Market pricing for super-easy policy was a key driver of market developments in 2020 (eg massive increases in equities and very low bond yields). But this view for ever-low interest rates may start to be challenged. While global central banks will continue to provide reassurance that stimulus will remain in place for a long time, even a small spike higher in bond yields has the potential to spook markets in the current environment.

Figure 7. Market-implied inflation expectations



Source: Bloomberg, ANZ Research

Plus, with global economic risks still abundant but not priced, bouts of volatility seem likely. Markets are grappling with how to weigh up the outlook for eventual normalisation in economic activity – and in time, policy – with the short-term carnage that the pandemic is still wreaking on economies. This tug of war will continue to set the tone until a clear path out of the woods lies directly ahead. And at that point, the spectre of tighter monetary conditions globally is likely to loom large, given the massive increase in debt seen in the past year. Even a clear path is likely to be a bumpy one.

9. Fiscal policy

Over 2020, fiscal support from the likes of the wage subsidy provided significant support to incomes and activity. So far, firms have coped very well with the roll-off of these temporary supports, with fewer job losses than previously expected. But the impulse from the strong demand bounce back has now passed and

Feature Article: On the horizon – Key themes for 2021

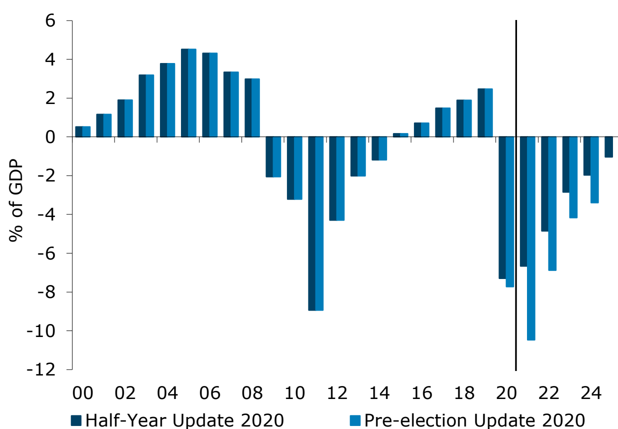
wage subsidy money has been spent. The next challenge is to forge a self-sustaining recovery in the absence of fiscal support, and while grappling with continued income challenges as a result of the closed border.

Fiscal spending will need to pivot to growth-supportive policies that will support the level of activity, but growth cannot continue to be underwritten by the Government getting out the chequebook – that would require an unsustainable, perpetual increase in spending. Already, spending (undertaken and planned) is set to see debt levels rise significantly. Borrowing costs are low, but that money doesn't come from thin air – we do have to pay it back.

Fiscal responsibility requires that the Government rein in its spending deficits over time (figure 8), and this is expected to be a drag on growth in coming years, rather than a boost, at a time when the scars of the economic crisis will still be evident and it may be difficult for the private sector to fill the gap.

We should get more clarity on how the Government intends to get back to "prudent" debt levels early in the year. We may also see other policy initiatives at the same time, including reform to the RMA, housing initiatives and possible tweaks to migration settings.

Figure 8. Total Crown OBEGAL (Operating balance excluding gains and losses)



Source: The Treasury

10. Long-term challenges

During 2020, the COVID-19 crisis was understandably front and centre and it will dominate the stage in 2021 too. But eventually, as return to normality starts to be in our sights, other longer-term issues will increasingly return to the fore.

Climate change, an ageing population, housing unaffordability and intergenerational equality are all likely to get more attention. These issues have not gone away, and in some cases the crisis has only seen existing challenges, like housing unaffordability and wealth inequality, worsen. Policymakers have been focused predominantly on responding to the health crisis that has unfolded before us, but action needs to be taken on these other issues. In some cases, difficult decisions will eventually need to be made.

And then there's the unknown unknowns

This time a year ago, most would not have foreseen the global pandemic that was set to hit us, and its enormous impact on the world in 2020. The themes shaping the outlook changed dramatically as COVID-19 took hold – and the economic outlook shifted many times over the course of the year.

Our understanding of developments was continually tested in new ways, providing a healthy dose of learning. 2020 is now behind us and we can look forward, but challenges clearly remain. And the pandemic reminds us that while there are many unknowns that we know will shape the path ahead, there are many "unknown unknowns" that could impact our fortunes, for better or worse.

Wishing you all a safe and prosperous 2021,
ANZ NZ Research

Mortgage borrowing strategy

This is not personal advice. The opinions and research contained in this document are provided for information only, are intended to be general in nature and do not take into account your financial situation or goals.

Summary

The 1-year mortgage rate remains the lowest rate available at all of the major banks. It is also where competition is the most intense, and is likely to be the point at which further declines may be seen should wholesale rates move lower. We still expect to see one more OCR cut in May, but prospects of a negative OCR have fallen. Nonetheless, the OCR will remain low for some time. The fly in the ointment for mortgage borrowers is the direction of global interest rates. These are now rising, dragging wholesale term rates higher here. We continue to favour the 1-year term, but a mix of terms out to 3 years is also worth considering now that wholesale rates are rising.

Our view

Average mortgage rates are once again little changed since last month, but we have seen a slight decline in the average 1-year rate, taking what was already a record-low rate to a fresh low. While there is no mechanical link between the OCR, wholesale interest rates and mortgage rates, it is likely that the Reserve Bank's Funding for Lending Programme (FLP) played a role. Although banks have drawn only lightly on the FLP, the programme has been designed in such a way that it does not depend on usage; rather it relies on the confidence channel, offering banks surety that they can source funds from the RBNZ should other channels become more difficult to access as interest rates fall.

While we still expect one more OCR cut (from 0.25% to 0.10%) in May, we no longer see the need for a negative OCR. Housing market strength played a significant role in that judgement, alongside the strength of the economic rebound. And with the economy and housing doing better, the prospect of significant further falls in interest rates is slimmer.

Nonetheless, competitive pressures, the FLP and the prospect of an elongated period of OCR stability beyond the final cut in May does point to further downside pressure at the short end of the mortgage curve.

However, global interest rates are now drifting higher, led by the US, where hopes are high that the slim Democratic majority in the Senate will deliver more government spending, which will be funded by issuing more bonds. That is, in turn, driving up longer-term interest rates here (like 10-year and 20-year government bond yields), and that's putting upward pressure on 4-5year wholesale interest rates.

That makes choosing the right mortgage tenor tricky. On the one hand, if 4-5 year wholesale rates are set to rise, and there isn't much scope for 4-5year mortgage rates to fall, perhaps fixing now is a good idea? But with shorter rates under downward pressure still and the OCR heading lower (and on track to remain low), is there any need to fix to "beat" increases?

In our view, the happy middle ground is somewhere between 1 to 3 years. Strictly speaking, we prefer the 1-year, since it is the cheapest and is likely to remain low for some time to come (allowing you to re-fix when it expires). As our breakeven table shows, you have to expect a fairly stiff increase in the 1-year rate over the next year (from 2.44% to 2.89%) in order to make the 2-year rate cheaper than back-to-back 1-year terms. From a pure cost basis, that suggests the 1-year is still the sweet spot (or 18 months if it's at the same rate). However, certainty has value too, and given that 2-3-year rates aren't much higher and are at historically low levels, they are worth considering too, especially for borrowers who like to split their loans into chunks.

Figure 1. Carded special mortgage rates^

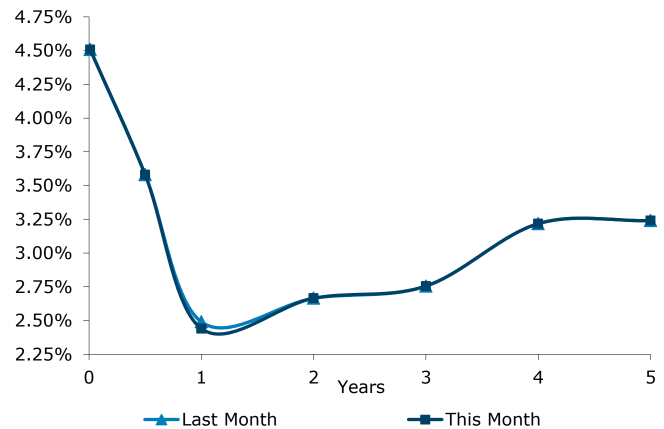


Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	3.58%	1.30%	2.78%	3.00%	2.89%
1 year	2.44%	2.04%	2.89%	2.95%	2.94%
2 years	2.67%	2.49%	2.91%	3.31%	3.77%
3 years	2.76%	2.89%	3.48%	3.57%	3.62%
4 years	3.22%	3.18%	3.44%		
5 years	3.24%	#Average of "big four" banks			

Table 2. Standard Mortgage Rates

		Breakevens for standard mortgage rates*			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	4.51%				
6 months	3.88%	1.90%	3.54%	3.10%	3.36%
1 year	2.89%	2.72%	3.32%	3.23%	3.41%
2 years	3.11%	2.97%	3.36%	3.55%	3.93%
3 years	3.21%	3.27%	3.73%	3.74%	3.83%
4 years	3.52%	3.48%	3.70%		
5 years	3.54%	#Average of "big four" banks			

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

Source: interest.co.nz, ANZ Research

Key forecasts

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

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

Mortgage rate projections (fixed rates based on special rates)

	Actual			Forecasts						
Interest rates	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Floating Mortgage Rate	4.8	4.6	4.6	4.5	4.4	4.2	4.1	4.1	4.1	4.1
1-Yr Fixed Mortgage Rate	3.1	2.7	2.6	2.5	2.4	2.3	2.2	2.2	2.2	2.2
2-Yr Fixed Mortgage Rate	3.3	2.7	2.7	2.7	2.5	2.4	2.4	2.4	2.4	2.4
5-Yr Fixed Mortgage Rate	3.9	3.1	3.1	3.1	3.1	3.0	3.0	3.1	3.1	3.1

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
GDP (Annual % Chg)	0.0	-11.3	0.4	-0.3	0.4	13.4	0.0	1.3	3.3	3.6
CPI Inflation (Annual % Chg)	2.5	1.5	1.4	1.2	1.1	2.1	1.8	1.5	1.2	1.2
Unemployment Rate (%)	4.2	4.0	5.3	5.6	5.8	6.0	5.9	5.6	5.3	5.1
House Prices (Quarter % Chg)	3.4	-0.2	3.6	7.7	3.5	2.0	1.0	1.0	1.0	1.0
House Prices (Annual % Chg)	8.1	7.8	9.9	15.1	15.3	17.8	14.9	7.7	5.1	4.1

Interest rates	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Cash Rate	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10
90-Day Bank Bill Rate	0.30	0.31	0.27	0.17	0.12	0.12	0.12	0.12	0.12	0.12
LSAP ($bn)	100	100	100	100	100	100	100	100	100	100

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 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

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

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

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 contained within is intended to be an invitation, solicitation or offer by ANZ 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 would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any 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, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ 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.

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 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. Past performance is not necessarily an indicator of future performance. The 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 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. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the 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 the 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's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

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

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

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

European Economic Area (EEA): ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. 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 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 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.

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 publication 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 publication have not been reviewed by any regulatory authority in Hong Kong.

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.

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

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Important notice

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 or Oman's Capital Market Authority. 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. Accordingly, 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.

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. This document is distributed in Singapore by the Singapore branch of 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 Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

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**) 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 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 this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this 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: 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 an 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.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand,
Ph 64 9 357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz