ANZ Research

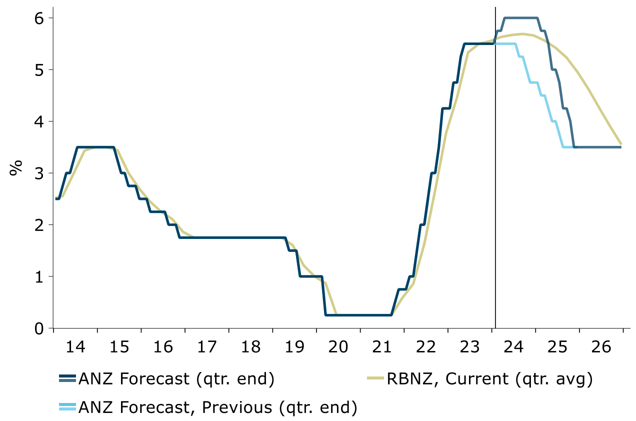
February 2024

New Zealand Property Focus

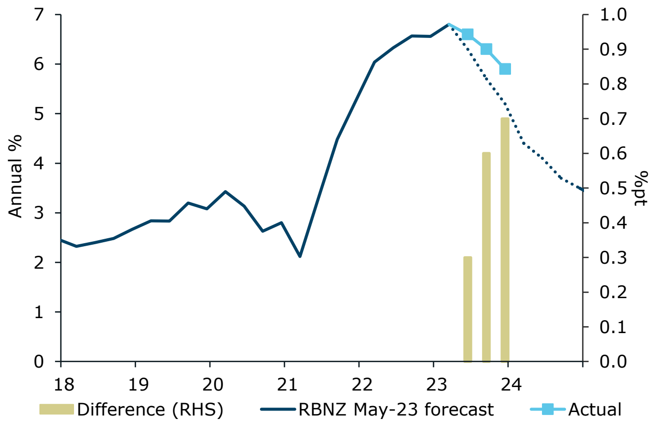
Cruel summer

At a glance

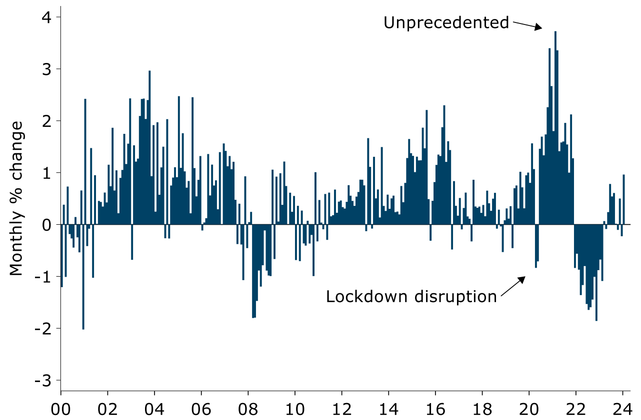
We expect the RBNZ to lift the OCR twice more…



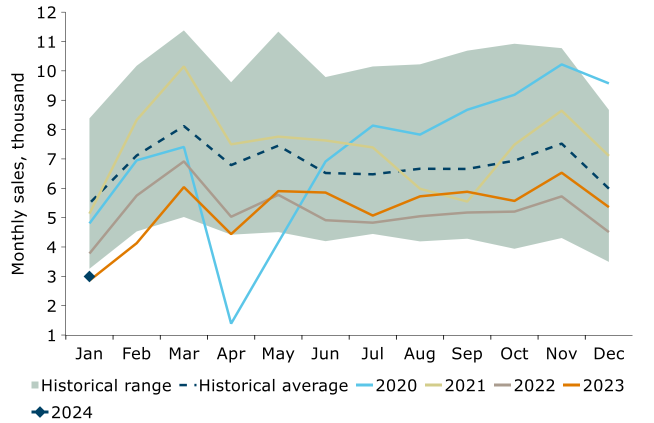
… to combat sticky domestic inflation



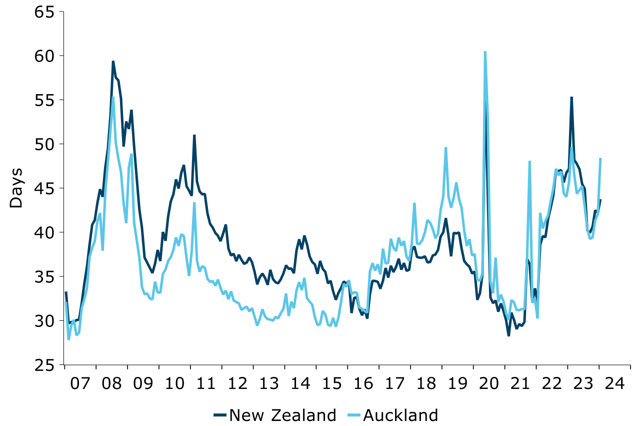
House prices had a large bounce in January…



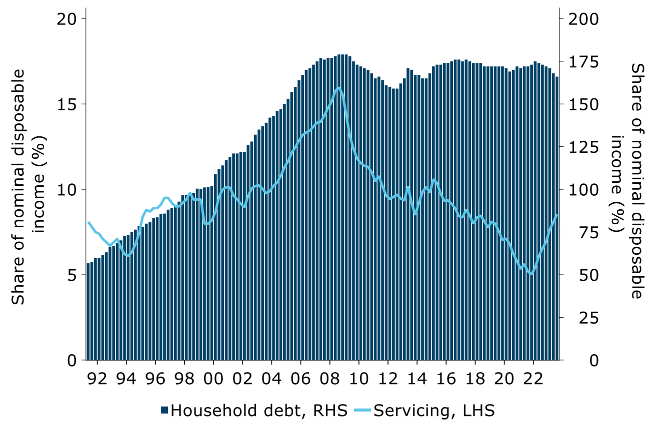
…off the second-weakest January sales since 1992



Days to sell have risen back towards their 2022 peaks



Homeowners are bearing a smaller debt-servicing burden than 2007



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

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See page 11

INSIDE

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Summary

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

Property Focus

The housing market looks stagnant. While January house prices were stronger than we expected, sales were abnormally soft, listings continue to rise and days to sell are back near their 2022 peaks, especially in Auckland. We are expecting the Reserve Bank of New Zealand (RBNZ) to lift the Official Cash Rate (OCR) two more times to combat increasingly stubborn domestic inflation. Homeowners should be conscious that mortgage rate cuts in the near future are not a sure-fire bet, as the RBNZ will be unwilling to provide mortgage rate relief until they're confident that inflation will stay in their 1-3% band. Our expectations for further lifts in the OCR put the risk of further house price falls back on the table. At this stage, it's a risk only, because the HPI remains robust in the face of a deteriorating outlook. We still expect house prices to go broadly sideways over the first half of this year, but the picture is looking a lot less certain than it was at the end of last year. See the Property Focus section.

Mortgage Borrowing Strategy

Mortgage rates are little changed this month, with average carded rates a touch lower for some terms. That's left the term structure of the mortgage curve as it was last month, with floating marking the high point, and rates generally declining with term. Given we are forecasting an OCR hike later this month and again in April, many readers might be wondering; is it worth fixing for longer? We think it may be from the perspective of more certainty, particularly given the possibility that we may see mortgage rates rise if wholesale market interest rates lift following a hike. But equally, we are confident that a hike now would bring inflation back to target sooner, paving the way for cuts in 2025 with greater certainty as policy settings re-normalise. Terms of 12-18 months are likely to provide protection during that period, whereas a shorter term like 6 months may not. Longer terms like 2-3 years are cheaper and may suit borrowers looking to stagger their fixed terms, but they may expire after rates start falling again. See our Mortgage Borrowing Strategy.

Property Focus

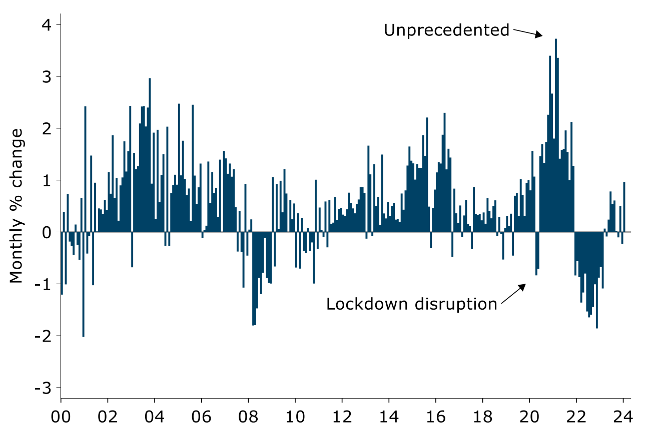
Summary

The housing market looks stagnant. While January house prices were stronger than we expected, sales were abnormally soft, listings continue to rise and days to sell are back near their 2022 peaks, especially in Auckland. We are expecting the Reserve Bank of New Zealand (RBNZ) to lift the Official Cash Rate (OCR) two more times to combat increasingly stubborn domestic inflation. Homeowners should be conscious that mortgage rate cuts in the near future are not a sure-fire bet, as the RBNZ will be unwilling to provide mortgage rate relief until they're confident that inflation will stay in their 1-3% band. Our expectations for further lifts in the OCR put the risk of further house price falls back on the table. At this stage, it's a risk only, because the HPI remains robust in the face of a deteriorating outlook. We still expect house prices to go broadly sideways over the first half of this year, but the picture is looking a lot less certain than it was at the end of last year.

Lifting, but running on fumes

This month's housing market data were a jumble of indicators pointing in divergent directions. On the one hand, house prices nationwide lifted 1.0% m/m, but on the other hand sales were abysmal and days to sell lifted.

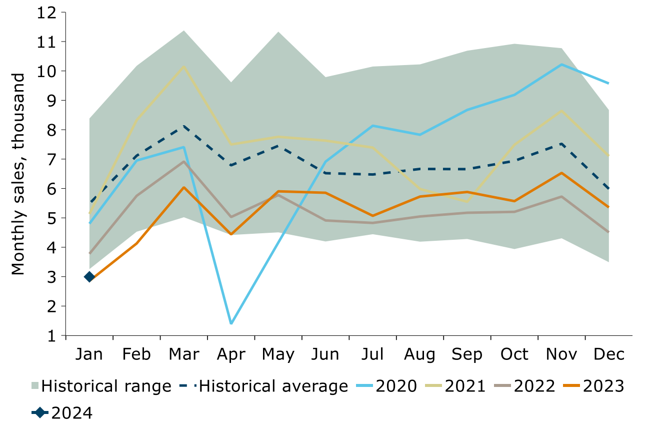
Figure 1. Nationwide house prices



Source: REINZ, Macrobond, ANZ Research

The lift in house prices was broad-based throughout the country. Auckland led the rise, up 1.2% m/m and all regions other than Gisborne and Hawke's Bay saw month-on-month rises. January is always an abnormal time of year in the property market. For the first half of the month buyers, sellers and agents tend to be in holiday mode, often travelling away from home to see friends and family. Every year, this leads to soft house sales in January and more volatility in house prices than at other times of year. Even after accounting for the usual post-Christmas lull, this year looked unusually soft, with the second-weakest sales since 1992, only out-done by 2023, when house prices were falling.

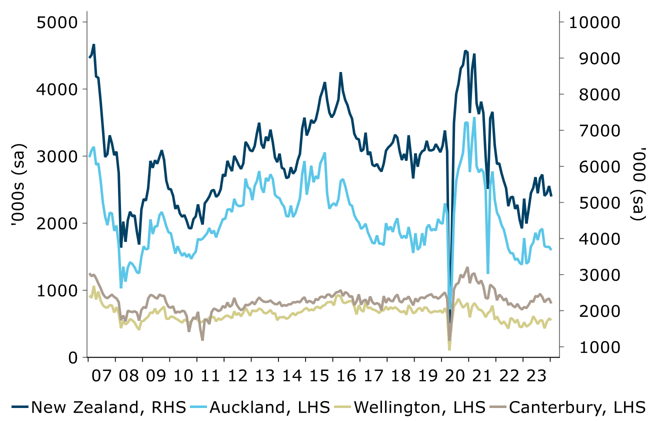
Figure 2. Unadjusted house sales vs historical range since 1992



Source: REINZ, Macrobond, ANZ Research

If it was just a one-off soft month for sales, we would put it down to noise, but that's not the case. House sales have been on a mild downwards trajectory since mid-2023, with the latest data just another piece of that puzzle. Over that time house prices have gone broadly sideways.

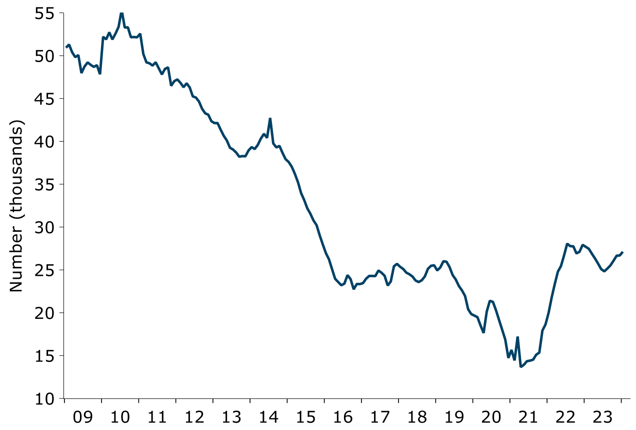
Figure 3. House sales



Source: REINZ, Macrobond, ANZ Research

Growing inventories are matching this story, as sellers see signs of a rising market, while buyers remain choosy. Inventories can remain disconnected from prices for a while, as sellers choose not to accept a lower price to secure a sale.

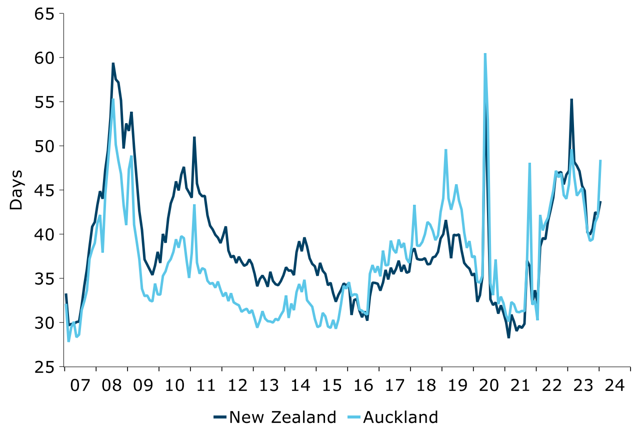
Figure 4. Lifting inventories



Source: realestate.co.nz, Macrobond, ANZ Research

The same story is playing out in days to sell, especially in Auckland. Days to sell in Auckland are back near their 2022 peak, with the average home taking around 48 days to sell. The rest of country is still a touch more vibrant, but the trend here has turned too.

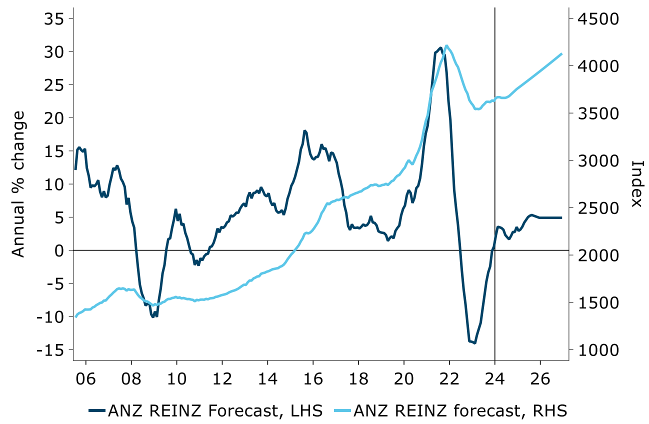
Figure 5. Days to sell



Source: REINZ, Macrobond, ANZ Research

High inventories and long times to sell houses can't last forever in an environment of soft sales because some homeowners always need to sell quickly even at a price that is lower than their initial expectations, such as those who are moving countries, securing cash in a relationship break-up, or needing to do a mortgagee sale. If these are the only homes that are selling, they can drag down the overall house price index on soft sales. We haven't yet seen enough evidence that this dynamic will play out and accordingly it's still in our 'risks' bucket. After the recent mixed bag of data, our forecasts remain broadly unchanged from our January Property Focus, having banked the strong starting point. We're picking a 3% rise in house prices this year. But we certainly aren't ruling out further house price falls from here, given a lot of the leading indicators are similar to where they were in 2022 – and we are forecasting more rate hikes.

Figure 6. Our house price forecasts

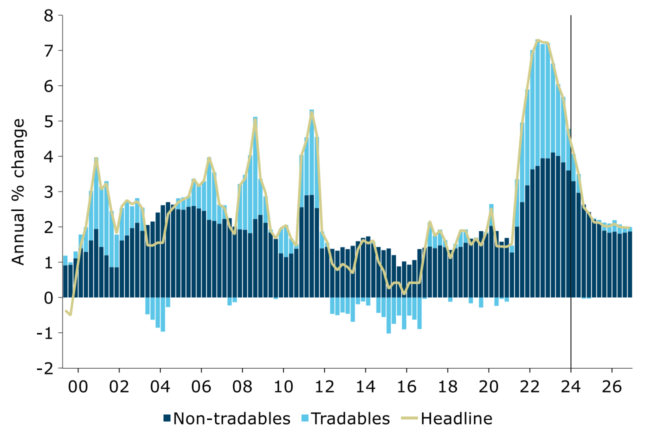


Source: REINZ, Macrobond, ANZ Research

Two more interest rate rises

The Reserve Bank of New Zealand (RBNZ) has lifted the Official Cash Rate (OCR) 525 basis points (bp, 1/100th of a percent) since 2021, from 0.25% to 5.5%. While high interest rates mean those with mortgages have to pay more, and depress property prices by reducing the borrowing capacity of home buyers, they do squeeze excess inflation out of the economy, in part by reducing how much households spend on discretionary items – initially the indebted households, and later those who find themselves with wobblier job security or reduced profits from their businesses.

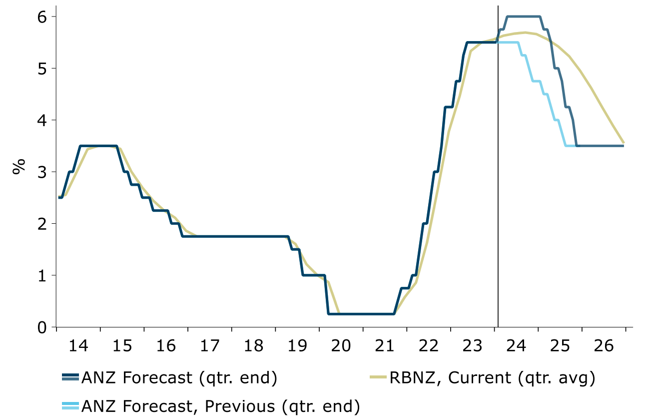
Figure 7. CPI inflation forecast



Source: Stats NZ, Macrobond, ANZ Research

The RBNZ is committed to returning inflation to a low and stable range around 2%, back where it was through most of the 2010s, before anyone knew what COVID was – and when the cost of living was lower down the list of consumers' concerns. While inflation has declined, we don't think the RBNZ has done enough to sustainably return inflation to these levels and expect that the RBNZ will deliver two more 25bp OCR increases to provide them with further confidence that high inflation is on the way out.

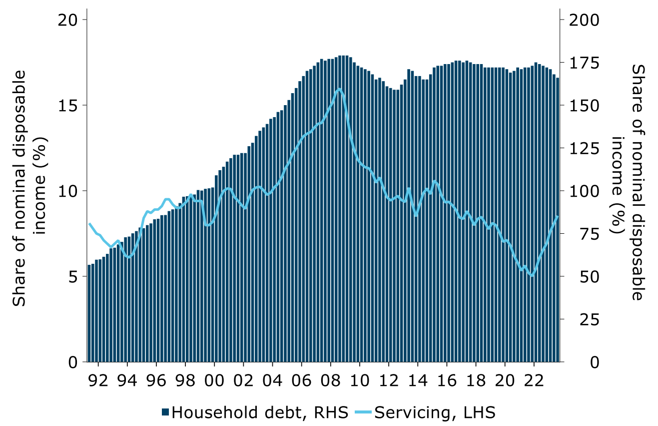
Figure 8. OCR forecast



Source: RBNZ, Macrobond, ANZ Research

While these OCR increases will be painful for some households, especially those who took out large mortgages at low interest rates at the peak of the 2021 housing boom, the average household will still pay much less in interest costs as a proportion of their income than they did in 2007, when the OCR was increased to 8.25% in order to contain inflation. We don't think the OCR will reach those lofty peaks this time around, but we certainly wouldn't rule it out either and prospective homeowners should consider their ability to service a mortgage that is 2-3 percentage points above current rates before taking it on.

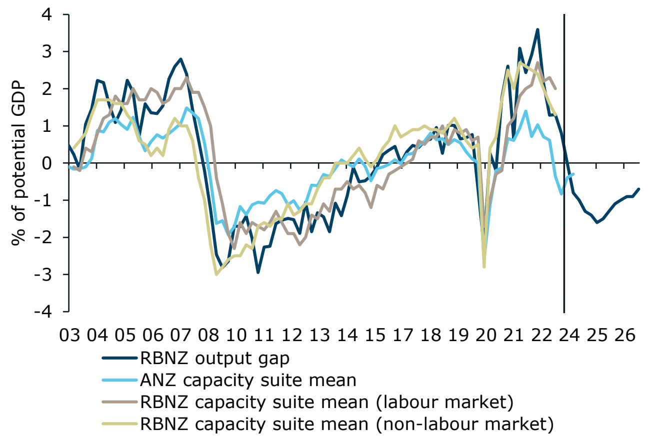
Figure 9. Household debt and debt servicing burdens



Source: Stats NZ, RBNZ, Macrobond, ANZ Research

Why do we now expect the OCR to go higher? In their November Monetary Policy Statement (MPS) the RBNZ said that "If inflation pressures were to be stronger than anticipated, the OCR would likely need to increase further". No one data point has changed our view on the strength of inflationary pressures or where the OCR will go next. Rather, the RBNZ has had a series of small, but collectively meaningful data surprises since the November MPS that suggest that inflationary pressures are a bit stronger than they anticipated – and even, based on our capacity suite, could be increasing again.

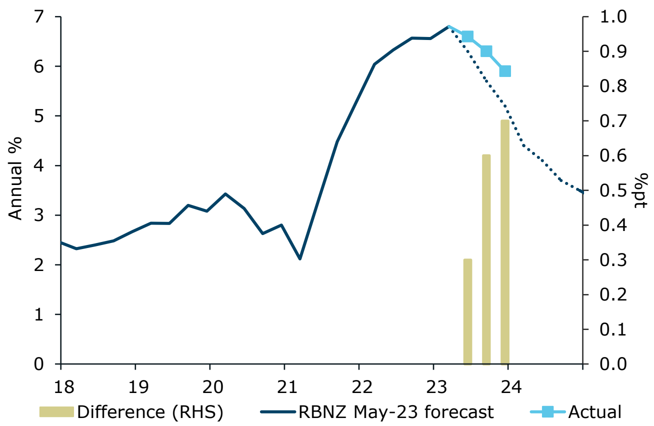
Figure 10. Measures of capacity pressures



Source: Stats NZ, RBNZ, ANZ Research

Looking more directly at inflation, the RBNZ has had a series of upwards surprises on domestically generated non-tradable inflation, which is likely to concern them. At this rate of decline it is likely to take far too long to sort out New Zealand's embedded inflation problem.

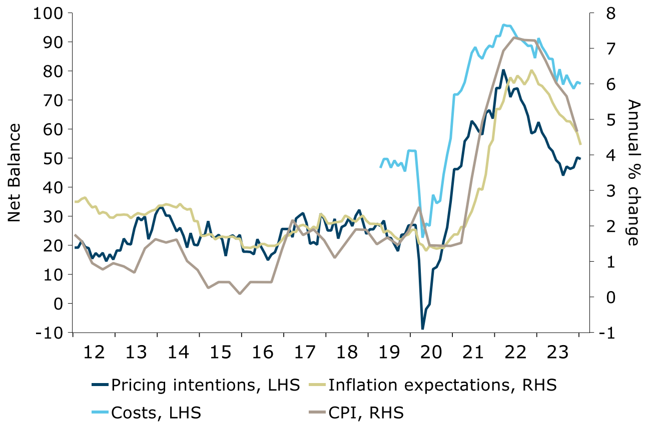
Figure 11. Non-tradables inflation vs RBNZ's May MPS forecast



Source: Stats NZ, Macrobond, ANZ Research

This matches the expectations of businesses in the ANZ Business Outlook. Around twice as many net firms are expecting to raise their prices in the next three months as tended to be the case when inflation was near 2%. And the expected size of those price increases hasn't fallen for about six months. These expected future price rises are likely to keep inflation high for some time yet. It's not that businesses are being greedy; their costs have skyrocketed and are still well above where they were pre-pandemic.

Figure 12. ANZBO inflation indicators

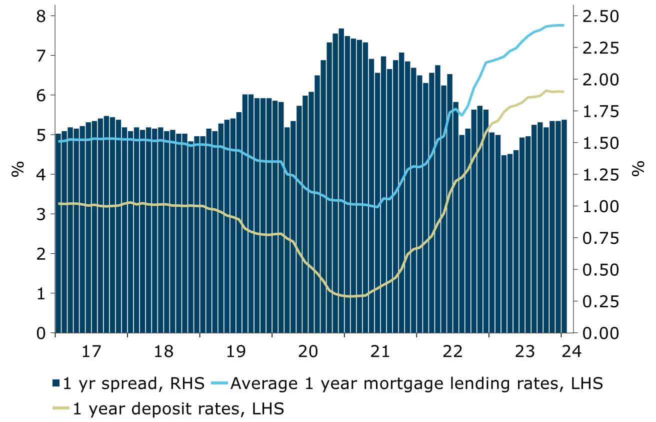


Source: Macrobond, ANZ Research

While a higher OCR, and interest rates more broadly, will increase costs for businesses with debt in the short term, over the medium term tighter monetary policy will mean cost pressures are less acute as some firms cease passing on price increases due to weak demand. It's not a pleasant fix, but it prevents the economy from ending up in a situation where high and unpredictable inflation makes planning difficult, and makes for arbitrary winners and losers.

The OCR – both its level and market expectations of where it's going – influences where banks set mortgage rates. When a homeowner comes to a bank for a mortgage, the bank borrows that money from depositors or in the wholesale markets at swap rates, and passes the funds through to the homeowner at a (higher) retail interest rate, using the difference to fund their operations and turn a profit. For example, right now the OCR is at 5.5%, the one-year swap is around 5.6%, one-year term deposits are around 6%, the average 1-year special rate across banks is around 7% and the average one-year standard rate is around 7.8%.

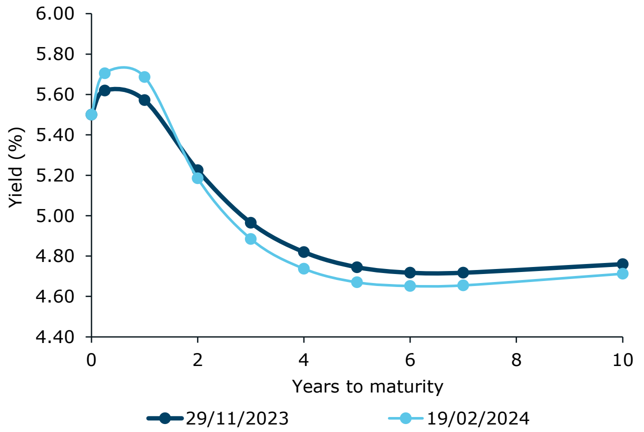
Figure 13. 1-year mortgage and deposit rates



Source: RBNZ, Macrobond, ANZ Research

Expectations in wholesale interest rate markets for where the OCR will go have a large impact on wholesale swap rates and thereby affect where banks price mortgage rates for different fixing terms. Right now, wholesale markets expect the OCR to decline over the next few years, meaning that longer fixing rates are lower– see our mortgage borrowing strategy. The upshot is that evolving expectations of future monetary policy matter at least as much as the RBNZ's decisions on any given day.

Figure 14. Wholesale swap rates at different fixing horizons



Source: Bloomberg, ANZ Research

Property Focus

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

	Median house price			House price index		Sales		Average days to sell
	Level	Annual % change	3-mth % change	Annual % change	3-mth % change	# of monthly sales	Monthly % change	
Northland	$607,894	-14.6	-7.9	-3.6	1.1	153	+3%	74
Auckland	$1,028,098	0.9	0.2	0.5	0.4	1,648	+0%	42
Waikato	$750,199	2.0	0.5	-2.9	0.3	540	+3%	43
Bay of Plenty	$827,361	-5.1	1.0	-0.7	0.9	370	+12%	49
Gisborne	$555,150	-5.1	-9.2	-0.2	0.8	37	+51%	44
Hawke's Bay	$647,010	-5.6	-2.6	-0.2	0.8	202	+29%	52
Manawatu-Whanganui	$519,818	-5.4	-2.7	-1.9	0.0	280	+10%	44
Taranaki	$628,621	3.1	2.9	0.7	1.4	126	-1%	43
Wellington	$787,031	1.7	-0.1	2.5	0.9	578	+9%	37
Tasman, Nelson & Marlborough	$706,464	-3.7	-2.3			224	+31%	50
Canterbury	$661,746	3.1	0.6	2.0	0.7	876	+2%	35
Otago	$662,751	0.5	-1.3	5.6	0.4	337	+10%	42
West Coast	$349,781	5.5	5.0	-1.5	0.7	34	+0%	40
Southland	$441,549	2.2	-0.9	-0.1	1.2	129	-2%	48
New Zealand	**$776,125**	**-0.6**	**-1.4**	**0.6**	**0.4**	**5,454**	**+4%**	**42**

Mortgage borrowing strategy

This is not financial advice about any product or service. The opinions and research contained in this document are provided for information only, are intended to be general in nature and do not take into account your financial situation or goals. Please refer to the Important Notice.

Summary

Mortgage rates are little changed this month, with average carded rates a touch lower for some terms. That's left the term structure of the mortgage curve as it was last month, with floating marking the high point, and rates generally declining with term. Given we are forecasting an OCR hike later this month and again in April, many readers might be wondering; is it worth fixing for longer? We think it may be from the perspective of more certainty, particularly given the possibility that we may see mortgage rates rise if wholesale market interest rates lift following a hike. But equally, we are confident that a hike now would bring inflation back to target sooner, paving the way for cuts in 2025 with greater certainty as policy settings re-normalise. Terms of 12-18 months are likely to provide protection during that period, whereas a shorter term like 6 months may not. Longer terms like 2-3 years are cheaper and may suit borrowers looking to stagger their fixed terms, but they may expire after rates start falling again.

Mortgage rates are again either unchanged or down a touch on average this month on account of a handful of minor mortgage rates cuts seen for some terms. The changes seen haven't shifted the dial on the term structure of mortgage rates, with floating being the high point for all banks, and rates generally lower for longer terms. The broad implication of that is that borrowers who are on floating ought to seriously consider fixing, even if it's for only a short term like 6 months, which is a reasonable proxy for floating, but comes with a sizeable discount (7.38% vs 8.65%). Floating will work out cheaper if rates fall sharply, but that seems unlikely given both our forecasts and RBNZ messaging. Over a 1-year time horizon, for example, if someone is on floating with the view that rates may fall, they would need to see them fall to at least 6.11% within the next 6 months for that to be cheaper than fixing for a year at 7.38%.

As important as it is to highlight the alternatives to floating, most people aren't contemplating whether to float or fix, and are more likely to be contemplating for how long to fix. In that regard, regular readers will be aware that in past editions, we have discussed how we felt the 1-year term offered a good balance between a degree of certainty and time protection versus the ability to participate in a fall in mortgage rates once inflation gets closer to the RBNZ's 2% target. What may surprise readers is that even with our call for a higher OCR over the near term, we remain broadly of that view. That's because we think a higher OCR now will see inflation return to target sooner and head off the risk of inflation remaining entrenched, ultimately allowing the OCR to normalise over 2025. It's a stretch to say we're envisaging a "stitch (or two) in time saves nine", but getting inflation much closer to target (and being confident it will get there) is a prerequisite to a lower OCR.

Breakevens analysis – which essentially asks how far rates need to fall for one strategy – say 1yr – to be better than, say, 2yrs – still puts the 1yr in a positive light, even with a higher OCR over the near term. As our breakeven table shows, for back-to-back 1yr fixes to work out cheaper than fixing for 2 years at 6.89%, the 1yr rates needs to fall to 6.43% or below in a year's time. While that's a chunky fall (6.43% is 0.95%pts below the current rate of 7.38%), our projections (based on our wholesale rate forecasts that assume that a hike now will ultimately pave the way for cuts later) have it falling further, to around 5.8%. If rates do fall that far, then back-to-back 1yr fixes will thus end up being cheaper than 2yrs. Fixing now (be that for 1 or 2 years) is also likely to save a bit of money if mortgage rates rise in response to another hike, which is a risk. As always, borrowers need to be confident in their fixing decisions, and as fixing for a shorter period offers less time certainty, it is riskier by definition. Borrowers can always spread their risk by dividing their debt into chunks split over several terms.

Figure 1. Carded special mortgage rates^

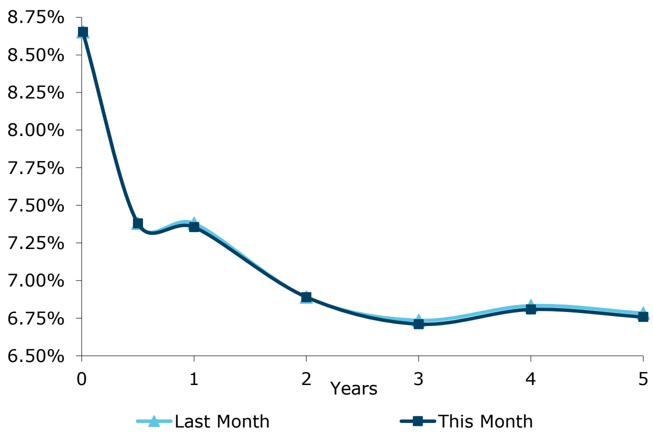


Table 1. Special Mortgage Rates#

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.65%				
6 months	7.38%	7.33%	6.59%	6.26%	6.44%
1 year	7.36%	6.96%	6.43%	6.35%	6.35%
2 years	6.89%	6.66%	6.39%	6.50%	6.73%
3 years	6.71%	6.66%	6.63%	6.62%	6.67%
4 years	6.81%	6.71%	6.61%		
5 years	6.76%	#Average of "big four" banks			

Source: interest.co.nz, ANZ Research.

Key forecasts

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

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

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

	Actual			Projections						
Interest rates	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Floating Mortgage Rate	8.5	8.6	8.6	8.9	9.2	9.2	9.2	8.9	8.2	7.4
1-Yr Fixed Mortgage Rate	6.9	7.2	7.3	7.5	7.1	6.6	6.1	5.7	5.4	5.3
2-Yr Fixed Mortgage Rate	6.5	6.9	7.0	6.9	6.6	6.3	5.9	5.6	5.4	5.4
3-Yr Fixed Mortgage Rate	6.3	6.7	6.8	6.6	6.4	6.2	5.9	5.7	5.5	5.5
5-Yr Fixed Mortgage Rate	6.3	6.5	6.7	6.8	6.6	6.3	6.1	5.9	5.7	5.7

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
GDP (Annual % Chg)	2.1	1.5	-0.6	0.4	1.0	0.7	1.1	0.9	0.8	1.0
CPI Inflation (Annual % Chg)	6.7	6.0	5.6	4.7(a)	4.0	3.5	2.6	2.5	2.3	2.2
Unemployment Rate (%)	3.4	3.6	3.9	4.0(a)	4.2	4.4	4.6	5.0	5.2	5.3
House Prices (Quarter % Chg)	-2.6	0.0	1.6	0.4(a)	1.1	-0.1	0.6	1.4	1.3	1.2
House Prices (Annual % Chg)	-13.6	-10.6	-5.0	-0.7(a)	3.1	2.9	1.9	3.0	3.2	4.6

Interest rates	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Cash Rate	5.50	5.50	5.50	5.75	6.00	6.00	6.00	5.75	5.00	4.25
90-Day Bank Bill Rate	5.71	5.74	5.64	6.09	6.05	5.74	5.50	4.92	4.30	3.72
10-Year Bond	4.62	5.31	4.32	5.00	4.75	4.50	4.25	4.25	4.25	4.25

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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