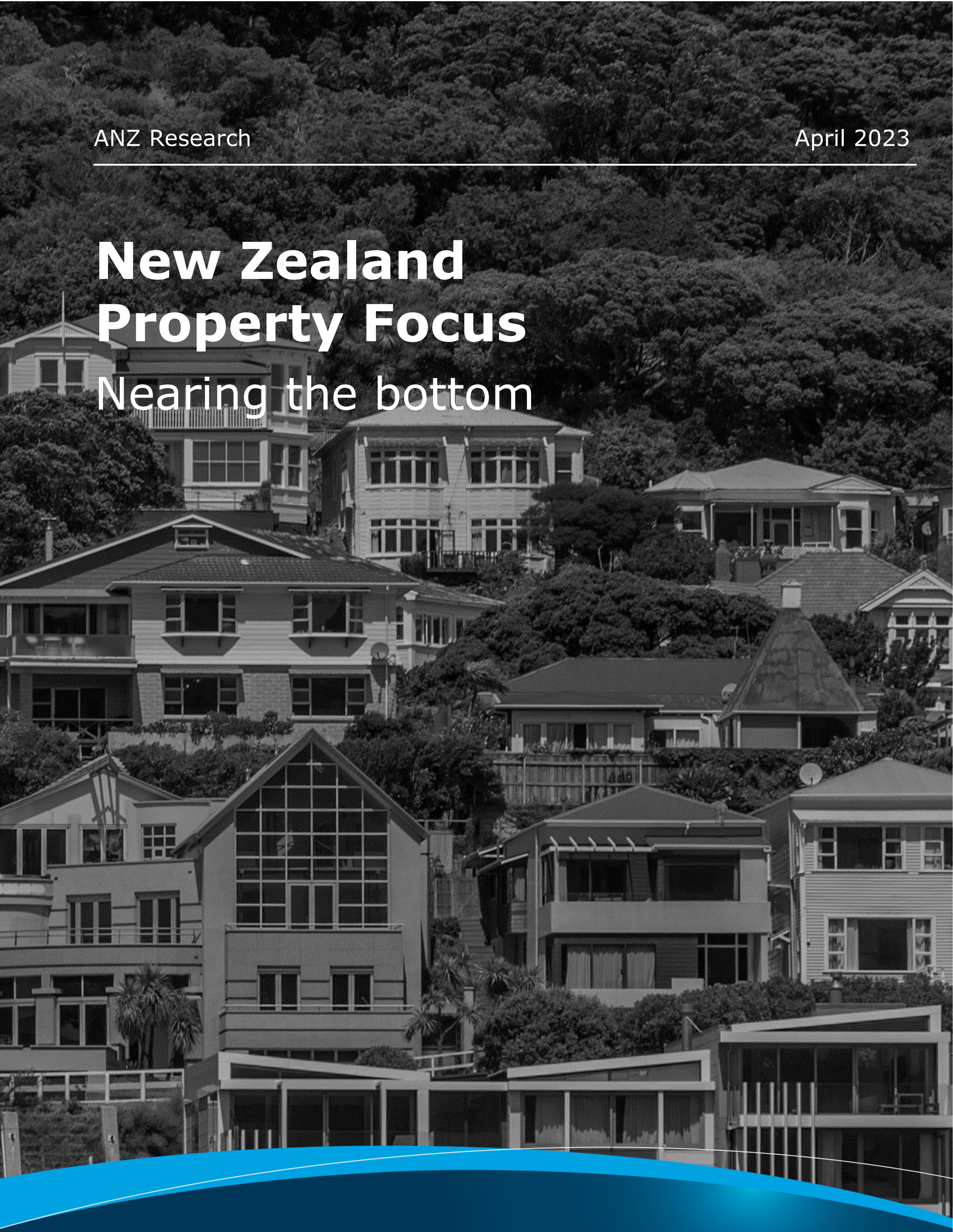
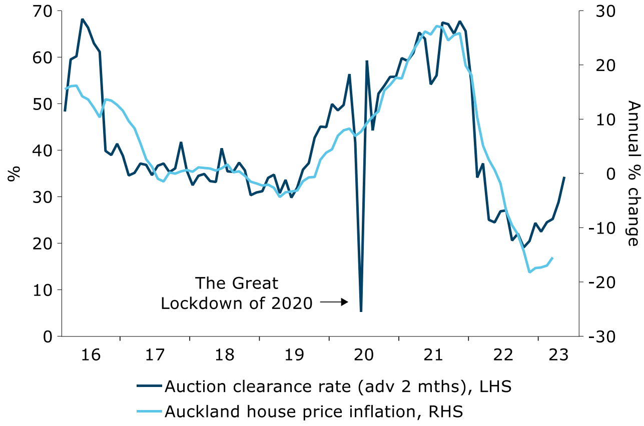


New Zealand Property Focus

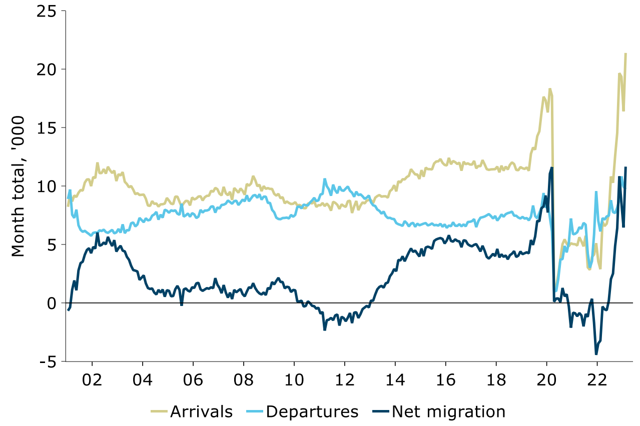
Nearing the bottom

At a glance

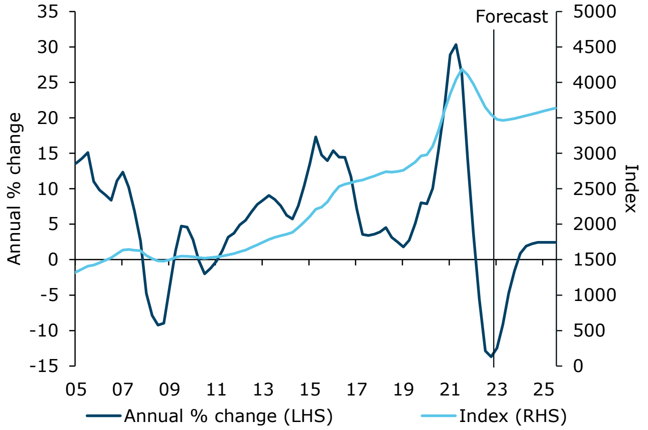
Housing may be turning a corner in some regions…



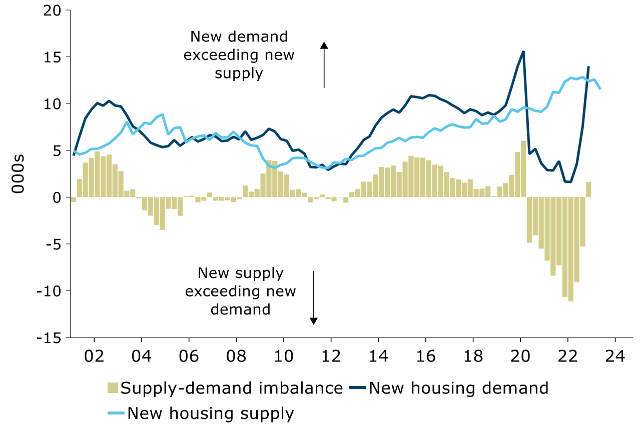
…as demand via net migration provides a boost



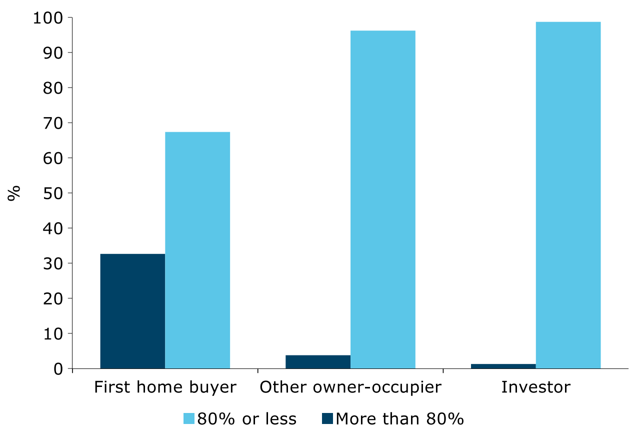
We've lifted our house price forecast from a peak to trough decline of 22% to 18% …



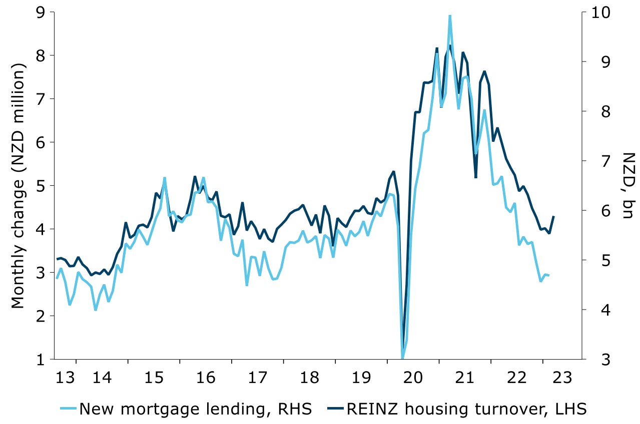
… as quarterly housing surpluses look set to make way for potentially sizeable deficits



The RBNZ is set to ease LVR restrictions, which impact first home buyers most…



… contributing to new mortgage lending potentially bottoming out soon



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

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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

Housing market data has come in a little stronger than expected of late. On the back of that, some falls in fixed mortgage rates and the proposed easing of high loan-to-value restrictions, we've revised up our forecast for house prices to a 18% fall from the November-2021 peak versus 22% previously. With prices already down around 16%, that means there is only around another 2% to go, with our forecasts assuming prices bottom out in June. See the Property Focus section.

Feature Article: LVR restrictions

The RBNZ is proposing that loan-to-value restrictions be eased. With inflation still well outside the target band, why would they want to juice the housing market? In our view, this isn't the right way to think about it. Decisions about macro-prudential tool settings are not made through a monetary policy lens. That said, they're relevant, and all else equal, any easing of financial conditions presents upside risk to the Official Cash Rate. See this month's Feature Article.

Mortgage borrowing strategy

Mortgage rates have all changed a little over the past month, with the moves seen (on average across the big banks) exacerbating the inversion of the mortgage curve out to 3 years. As a consequence, it is now progressively cheaper to fix the longer one chooses to do so, all the way out to 3 years. As it was last month, the main debate in financial markets and among mortgage borrowers is centred on how many more hikes the RBNZ will deliver before pausing, and after that, when we might see cuts. We expect one more hike, followed by a pause, and cuts in late 2024. But we still see the near-term risks to the OCR as tilted to the upside, given sticky inflation. That's the main challenge we'd put to anyone taking the view that fixing for shorter is the way to go, especially given that it's now cheaper to fix for longer. Obviously being fixed for a shorter period will end up being a better strategy if interest rates fall, and that could happen. But we're not as convinced as financial markets currently are that they will, and the RBNZ has warned that it doesn't want mortgage rates to fall. See our Mortgage Borrowing Strategy.

Property Focus

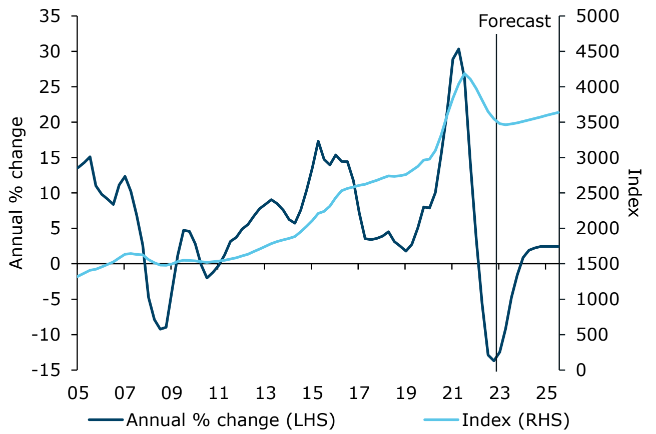
Summary

Housing data has generally come in on the stronger side of our expectations of late, and with net migration surging, some fixed mortgage rates falling, and the LVR restrictions set to be tweaked looser, we've concluded that a 22% peak-to-trough decline in house prices (our previous forecast) is a little too weak. So, we are now forecasting a 18% peak-to-trough decline in prices, based on the OCR peaking at 5.5% in May. If the housing market proves much more resilient than this, the RBNZ may conclude that they aren't quite getting the traction they need to bring inflation down, and the OCR may need to go higher. With CPI inflation as high as it is, the RBNZ is unlikely to have a lot of tolerance for green shoots in housing, as that's likely to lead to higher consumer demand and CPI inflation than otherwise. The good news is that Q1 CPI inflation wasn't quite as high as the RBNZ's February forecast, so for now we think housing should get a 'free pass'. In fact, arguably, it just did with the just-announced easing in high-LVR lending restrictions. Finally, it's important to note that downside risks haven't suddenly vanished just because we're taking a bit more upside signal from the timely data. House price forecasts are notoriously uncertain – the 18% decline we have pencilled in represents what we see as the 'most likely' of many plausible outcomes. Net migration is a key upside risk; a harder landing than anticipated in the labour market is a key downside one.

Forecast update: closer to the floor

Recent housing data have surprised versus our forecast with enough consistency of late that we think a forecast update is in order. We are now pencilling in a 18% peak-to-trough decline in house prices versus our previous pick of -22%. As at March, prices were already a little over 16% below their November 2021 peak, so according to our updated outlook, there isn't too far to go (figure 1).

Figure 1. House price forecast



Source: REINZ, ANZ Research

The broad narrative around our outlook hasn't undergone a major overhaul:

- higher mortgage rates are weighing on demand (even if they have stopped rising);
- household incomes are looking less assured as labour demand softens, and;
- price pressures owing to supply-demand imbalance are greatly reduced.

But relative to our previous forecast, pressure on fixed mortgage rates has become a less intense as wholesale interest rates stabilise, and net migration has been surprising to the upside (to the point that this is threatening to create a renewed housing deficit). Together, these factors appear to go a long way towards explaining the stronger-than-expected housing data of late. And now, we have a new upside risk: restrictions on high-loan-to-value lending are being eased a little (see the Feature Article for more).

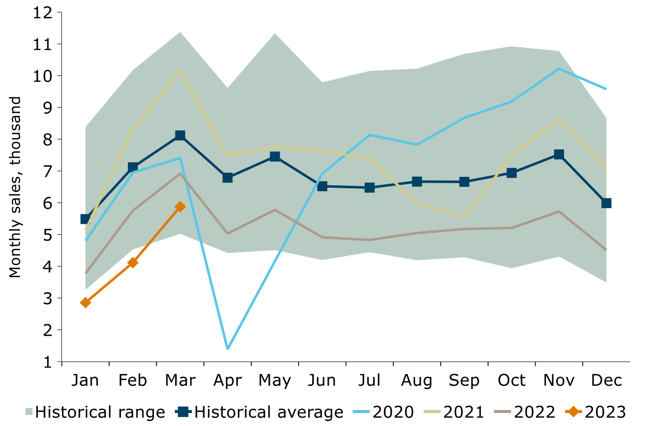
But just because we are revising our central forecasts up, that doesn't mean downside housing risks have suddenly gone away. CPI could prove more persistent than expected, necessitating further rate hikes (and therefore higher mortgage rates), or monetary policy lags could be just about to catch up to the labour market, with a larger shock to household incomes and more forced house sales than we assume. Indeed, for housing, it doesn't really matter which side of the tightrope the RBNZ falls. If it overshoots, housing will likely deteriorate via the income channel (higher unemployment associated with a hard landing); if it undershoots housing will likely deteriorate via the interest rate channel, as the RBNZ has to play catch-up with the OCR down the track. There are upside risks too, to be fair: recent data suggests net migration is booming. Our advice: take anyone's house price forecast with a grain of salt.

Green shoots?

Recent data reads suggest the floor for the housing market is approaching a little faster than we previously forecast:

- After recording their lowest-ever level for the months of January and February, house sales picked themselves up off the floor in March but are still at sub-par levels (figure 2, over). Sales tend to provide around a three-month lead on prices, so are worth keeping a close eye on for a turn in broader momentum. At the same time, it's worth remembering that these data can be volatile on a month-on-month basis, and one data point certainly does not make a trend! But it's consistent with anecdote and with the lift in the Barfoot and Thompson auction clearance rate.

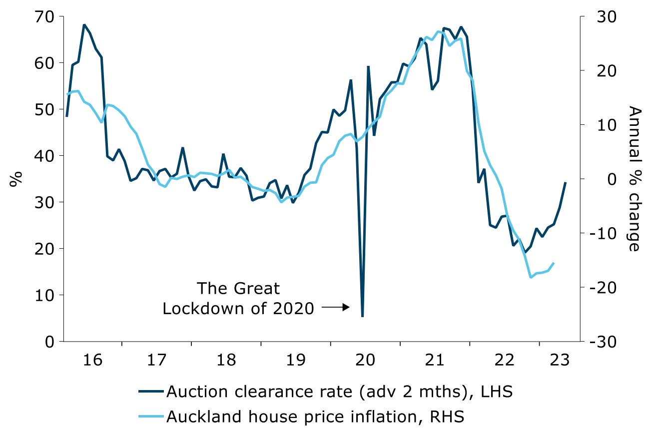
Figure 2. House sales



Source: REINZ, Macrobond, ANZ Research

- Indeed, auction clearance rates in Auckland suggest downward price momentum in New Zealand's largest market (Auckland accounts for around a third of all sales) may have already turned a corner. Clearance rates and prices tend to move together, as a tighter market will typically see more properties sold under the hammer than by negotiation. Figure 3 suggests we may not be far away from prices lifting in Auckland (they were flat m/m in March after seasonal adjustment). As at March, the Auckland house price index was around 21% below its November 2021 peak, so not too inconsistent with our previous national-level forecast for a 22% peak-to-trough decline. But given its size, if Auckland prices start lifting even as some other regions continue to soften, national level prices are unlikely to continue falling with the same momentum as over the past few quarters.

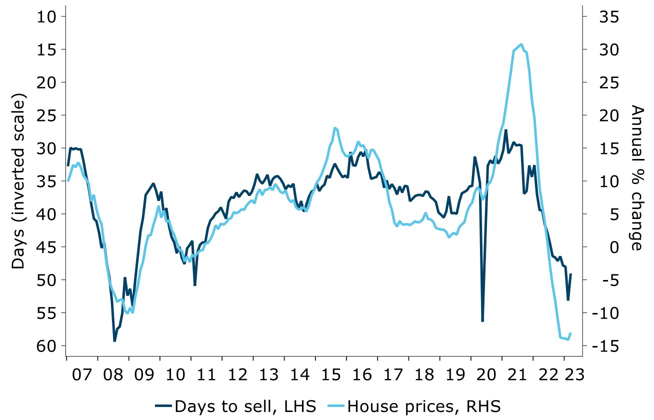
Figure 3. Auction clearance rates



Source: REINZ, Barfoot & Thompson, interest.co.nz, Macrobond, ANZ Research

- Days to sell remain at historically high levels (indicative of tough going for sellers), but fell by 4 days in March. Like sales, the number of days it is taking for houses to sell is a useful forward momentum indicator. And like sales, this indicator says the market is loose, but possibly on a tightening trajectory.

Figure 4. Days to sell and house prices



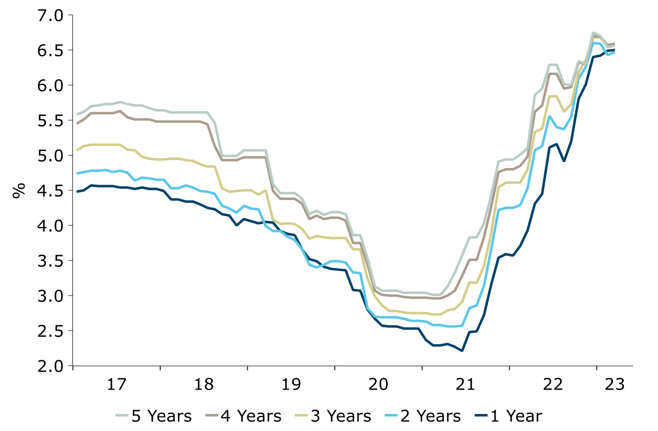
Source: REINZ, Macrobond, ANZ Research

- Meanwhile, housing anecdotes have been mixed. There are still plenty of tales from the coalface about the negative impacts of higher mortgage rates on demand. But there has also been the odd anecdote suggesting first-home buyer interest might be picking up in some areas. That makes sense if would-be buyers believe rates don't have much further to rise (or are at the peak), house prices don't have much further to fall, and job security is intact. Of course, these same would-be buyers should be aware that monetary policy tends to impact the labour market with a considerable lag, meaning job security and household incomes are likely to deteriorate to some degree in the period ahead. In addition to that, although inflation is falling, it's still entirely possible that it doesn't fall as far or as fast as the RBNZ is expecting, representing upside mortgage rate risks. And if rates are falling rapidly, it's probably because unpleasant things are happening to the economy. So even if the housing market does find a floor earlier than expected, we still see limited scope for prices to surge higher anytime soon.
- And finally, the RBNZ has just announced that it proposes easing high loan-to-value (LVR) restrictions from 1 June, allowing a little more lending to happen over an 80% LVR. Given broker reports that demand for borrowing at these levels is outpacing its availability, this is likely to lead to more mortgage lending than otherwise – more house sales, and more support for house prices. At this stage it isn't possible to quantify the impact of these changes, but the direction will be towards house price falls petering out sooner rather than later. See our Feature for more discussion.

Broadly speaking, housing market resilience appears to be driven by a couple of key factors:

- Fixed mortgage rates could be close to their peaks, and some longer-term fixed rates have even fallen recently (see our Mortgage Borrowing Strategy for further discussion). It's unclear at this stage if the RBNZ will be happy with this development. On the one hand, any newfound strength in housing would likely lead to higher-than-otherwise CPI inflation, but on the other hand, the RBNZ probably has a little more wiggle room than it thought it had given that Q1 CPI came in (at 6.7%) weaker than they were forecasting in February (7.3%). Collectively, we think these two factors probably offset each other. But if the RBNZ feel differently, they'll get the chance to say so at the May Monetary Policy Statement. If they feel mortgage rates should be a little higher than currently, perhaps because wholesale pricing and bank funding spreads are not quite consistent with their assumptions, then they will hike by more to get them there. This might be offset by longer-tem rates pricing in a greater chance of cuts down the track, but at the end of the day, they can just keep on going if they have to.

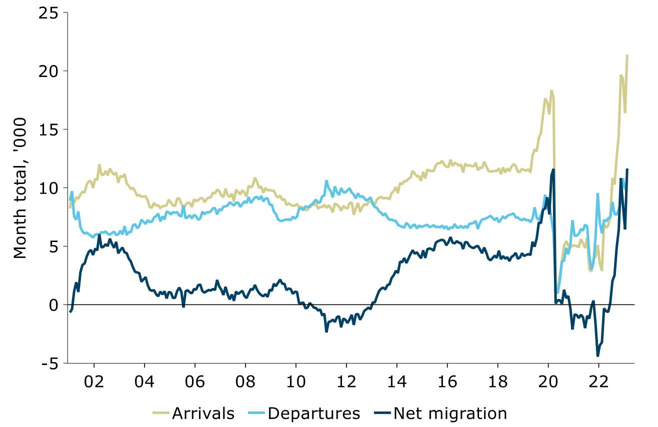
Figure 5. Average special new mortgage lending rates



Source: RBNZ, Macrobond, ANZ Research

- Net migration (figure 6) has surged in recent months, and if sustained at recent levels could end up leading to materially stronger activity and housing outcomes than we currently expect. Our working assumption is that after pent-up demand dynamics have played out, net migration will settle at an annual net inflow of around 40k in 2023. But if the February pace was maintained for a year, we'd be looking at an annual inflow of 140k by this time next year, so the risks look skewed strongly to the upside! As we noted recently, a 'miss' this size could be significant enough to keep the economy out of recession, and it would certainly have implications for the housing market – both house prices and rental markets.

Figure 6. Monthly migration



Source: Stats NZ, Macrobond, ANZ Research

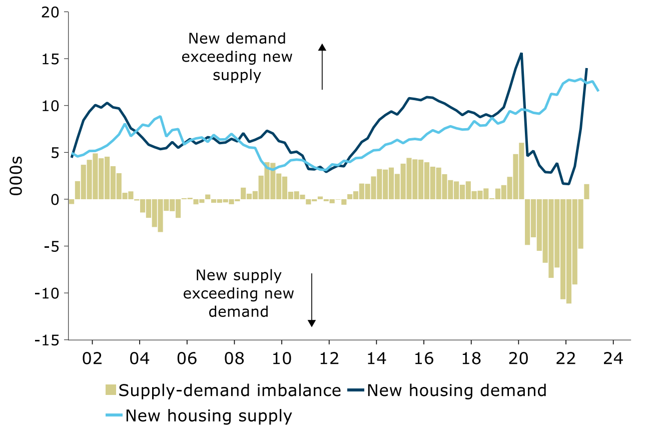
Increased fundamental demand for housing (via migration) appears to be occurring just as residential construction activity is slowing (possibly very sharply, figure 7). That's monetary policy in action. It's what's needed to take the heat out of the economy and get inflation lower, but it isn't great for New Zealand's housing supply-demand balance, particularly if migration does surge to new highs.

Figure 7. Residential investment, consents, and intentions

Source: Stats NZ, Macrobond, ANZ Research

We estimate the pre-pandemic housing deficit (around 75,000 houses) had been almost fully eroded as at Q3 2022, reflecting gangbusters construction activity over the prior two and a half years and slower population growth following closed borders. Come Q4 2022, and high migration alongside moderating consents saw New Zealand record its first quarterly deficit in net housing supply since closing the border. And while this was a relatively small deficit (around 1600 dwellings), the Q1 read is not going to be pretty. And if net migration proves persistent at higher levels than we assume, we could easily be looking at a housing deficit of 20-30k by this time next year. Although the housing market is affected by a great many factors, the fundamental demand-supply balance is a very important one.

Figure 8. New housing demand vs supply



Source: Stats NZ, Macrobond, ANZ Research

Lastly, it's important to note that 'animal spirits' in the housing market can get very wild, and these are extremely difficult to capture in a consistent way in econometric modelling – which is at the end of the day largely why economists (yes, all of us!) are so bad at forecasting the housing market. Ultimately, house price forecasts require a decent dose of judgement on top of any 'fundamentals' view. And we are very aware of the possibility that we've got this wrong (we're just not sure if we're too pessimistic, or too optimistic). As the eventual floor in housing approaches, we are becoming wary that there's a potential cohort of would-be buyers out there, waiting to get in at the low point. The irony is, if they do this in droves and housing picks up steam, it'll probably stoke CPI inflation along the way, and if the RBNZ deem that to be premature and inappropriate, it'll very likely lead to a renewed round of OCR hikes and an eventual renewed downtrend in house prices. So while animal spirits may well surprise our (and the RBNZ's) outlook, the RBNZ has the tools to tame this beast if needed, no matter how wild it gets.

Housing market indicators for March 2023 (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	$663,675	-14.6	-6.1	-9.9	-5.0	118	+2%	68
Auckland	$981,888	-16.4	-4.2	-15.4	-3.2	1,279	-2%	48
Waikato	$732,348	-12.3	-0.7	-11.9	-3.1	458	+18%	52
Bay of Plenty	$804,635	-11.8	-7.4	-13.3	-2.9	306	+19%	67
Gisborne	$601,756	-12.1	2.3	-12.0	-2.3	34	+40%	52
Hawke's Bay	$655,247	-16.7	-4.3	-12.0	-2.3	156	+33%	72
Manawatu-Whanganui	$523,525	-14.0	-3.6	-12.5	-3.7	238	+10%	52
Taranaki	$597,825	-7.8	-0.8	-5.7	-1.8	117	0%	43
Wellington	$736,588	-19.8	-3.8	-18.5	-3.6	461	+3%	55
Tasman, Nelson & Marlborough	$720,331	-8.2	-2.9			164	+6%	59
Canterbury	$663,438	-2.7	1.1	-7.2	-1.6	724	+3%	40
Otago	$661,774	-9.5	-0.2	-6.5	-1.9	291	+9%	50
West Coast	$353,559	6.7	-2.5	-8.1	-2.3	29	-6%	30
Southland	$444,340	2.2	-1.8	-5.1	-3.0	98	+3%	42
New Zealand	**$760,861**	**-12.9**	**-2.6**	**-13.0**	**-2.8**	**4,410**	**+3%**	**49**

Feature Article: Evolving LVR restrictions

They did what?

The Reserve Bank announced this week that they are proposing an easing of the 'speed limits' on high loan-to-value (LVR) restrictions from 1 June.

At the moment, the limits are as follows:

- 10% limit for loans with LVR above 80% for owner occupiers, and
- 5% limit for loans with LVR above 60% for investors.

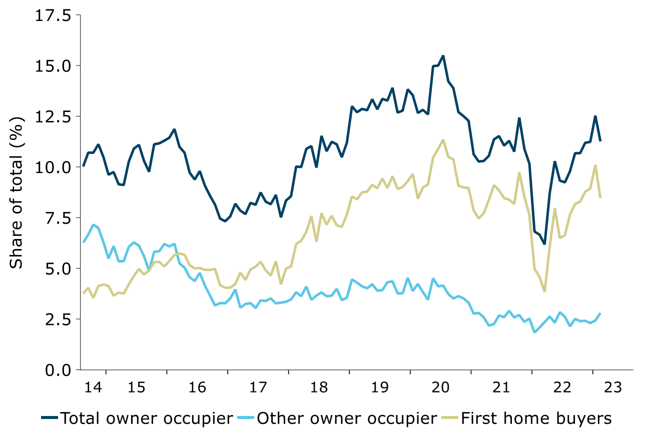
The RBNZ is proposing easing them to:

- 15% limit for loans with LVR above 80% for owner occupiers, and
- 5% limit for loans with LVR above 65% for investors.

The easing for owner occupiers is more significant than that for investors. Still, at first glance, any easing might seem an odd decision given the RBNZ is attempting to cool the economy, indeed send it into a mild recession, in order to bring inflation down – and the housing market is a key channel through which monetary policy operates. Isn't potentially stimulating the housing market in this way counterproductive?

Strictly speaking, it could be, from a monetary policy perspective. Any increase in the availability of credit is a loosening of financial conditions. All else equal, this means more work for monetary policy to do via the Official Cash Rate (OCR). Given banks are currently pretty much filling their high-LVR lending allotments (figure 1), the change is likely to result in more mortgage lending than otherwise, more house sales, and a slightly higher floor in house prices.

Figure 1. Share of lending by LVR

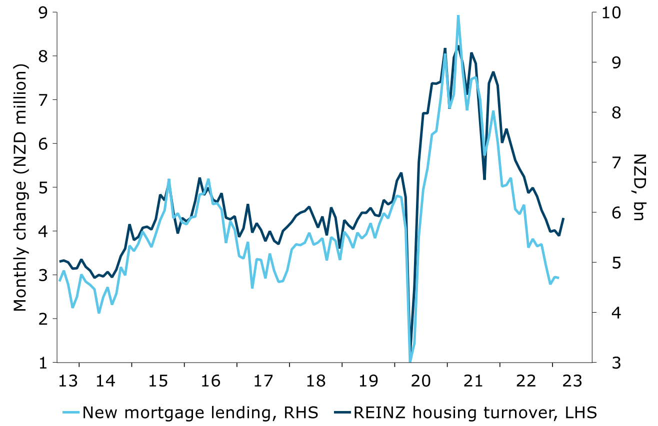


Source: RBNZ, Macrobond, ANZ Research

The change for investors is not likely to make a huge difference, given it is difficult to make the maths work on a highly leveraged property investment given the change to interest deductibility rules, and the change is small.

However, the change for owner occupiers is more substantive. Five percent more might not sound like much, but it's a 50% increase in the proportion of lending that can be >80% LVR. And it's not a fixed amount of lending; it's a proportion of a total that can go up and down, and growth in mortgage borrowing and house sales may be close to bottoming (figure 2). That 15% could represent a higher percentage of a higher number.

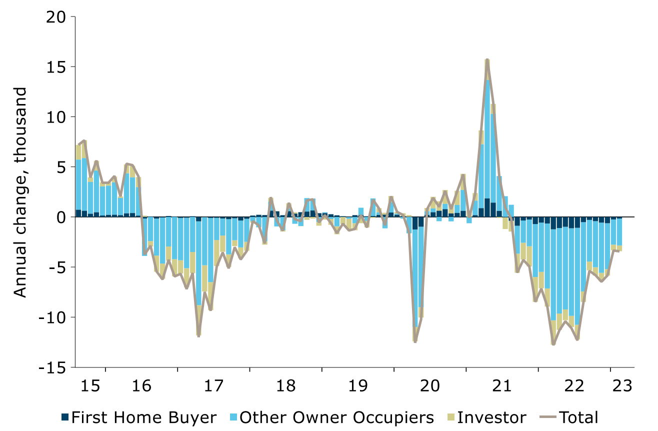
Figure 2. House sales and new mortgage lending



Source: RBNZ, REINZ, Macrobond, ANZ Research

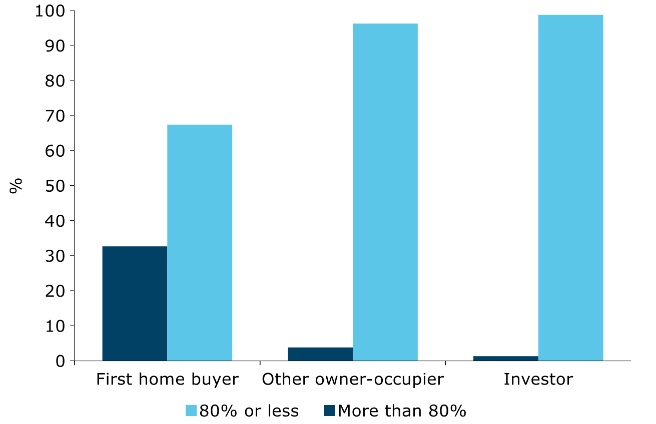
Similarly, while the number of borrowers is still lower than a year ago, the rate of decline is decreasing, and could tick positive before long (figure 3). Overall, then, the tweak does have the potential to have an impact on the availability of mortgage credit to owner occupiers (particularly first home buyers, who typically need to borrow larger amounts – figure 4), and therefore on the housing market.

Figure 3. Number of borrowers by type



Source: RBNZ, Macrobond, ANZ Research

Figure 4. New mortgage lending by borrower type



Source: RBNZ, Macrobond, ANZ Research

So why did they do it?

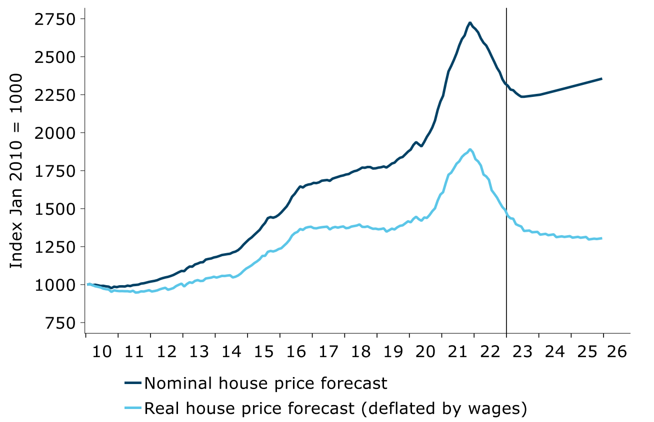
The RBNZ stated several reasons why they believe a tweak to the LVR restrictions is appropriate. In their words:

- "Our assessment is that the risks to financial stability posed by high-LVR lending have reduced to a level where the current restrictions may be unnecessarily reducing efficiency. In particular, impeding the provision of credit to some otherwise creditworthy borrowers, which is not proportionate to the level of risk that we see."
- "National house prices have fallen towards a level that is more consistent with medium-term fundamentals. As a result, while house prices may continue to fall, the probability of a further large correction in house prices has reduced."
- "Alongside this, lending conditions have tightened significantly as banks' debt servicing assessments allow for higher interest rates."

These points make it very clear that LVR restrictions are not a monetary policy tool. There is no mention of inflation, or the potential economic impacts of the change, or any interaction with monetary policy. Attempting to use the policy for these purposes would muddy the waters considerably, and suffer from the "two birds, one stone" problem. One tool, one target, is the principle, with LVR restrictions designed purely to "promote financial stability". And in that context, the principle is that as long as the system is operating within acceptable risk parameters, the financial system should be left to it, as unnecessary intervention impedes financial system efficiency.

On the second point, we estimate that real house prices (deflated by QES wage growth) have already fallen 24% from their November 2021 peak (figure 5). They are therefore, by definition, a lot closer to sustainable levels than they were.

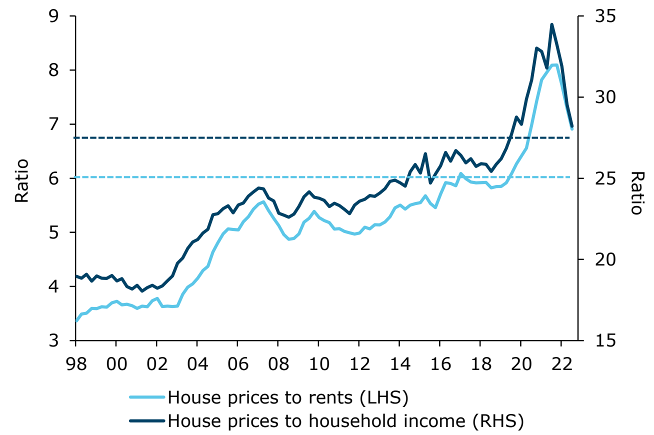
Figure 5. ANZ real and nominal house price forecast



Source: Stats NZ, REINZ, Macrobond, ANZ Research

This doesn't rule out further large falls, however. As figure 6 shows, house prices are still richly valued compared to both rents and incomes, versus where they used to be. In an economic hard-landing scenario, further large falls in house prices are still possible. But there are other tools for ensuring financial stability in such a scenario, particularly required bank capital levels, which have been beefed up substantially in recent years. The LVR tool doesn't have to cancel out every risk in the financial system on its own.

Figure 6. House prices relative to rents and incomes



Source: REINZ, Stats NZ, ANZ Research

Finally, on the third point, banks' debt-servicing test rates ("Could you still afford your mortgage payments if mortgage rates went to x%") have naturally increased as actual mortgage rates have risen. Having troughed under 6%, they are now not too far off double digits. This has mechanically reduced the amount that can be borrowed.

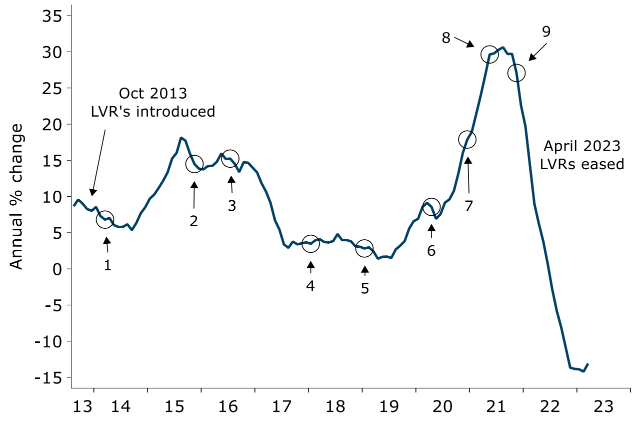
Incidentally, this pattern is true even if the *real* interest rate (adjusted for inflation) is the same. It is one of the (some would say unfortunate) side effects of the success of inflation targeting over recent decades that it allowed households to leverage themselves up to a degree never seen before (and thus allow house prices to reach new heights relative to incomes), via this mathematical mechanism.

What will the impacts be?

It is difficult to quantify the potential impacts of the proposed change in LVR restrictions given the uncertainty around the outlook for the housing market. Given they are defined as a share of lending, they act as a magnifier to some extent – the additional amount of high-LVR lending will be greater if overall mortgage lending picks up, or possibly not much greater if mortgage lending stays low or falls further. In addition, there are always many moving parts and isolating the impact of one development is difficult at best. But suffice to say, we'll be watching lending statistics with interest over coming months, to gauge how much unmet demand for high-LVR lending is out there, and what the consequences of unleashing it might be.

Figure 7 below shows annual house price inflation with key points in the history of LVR restrictions marked (click here for more detail).

Figure 7. Key LVR decisions and house price inflation



Source: RBNZ, Macrobond, ANZ Research

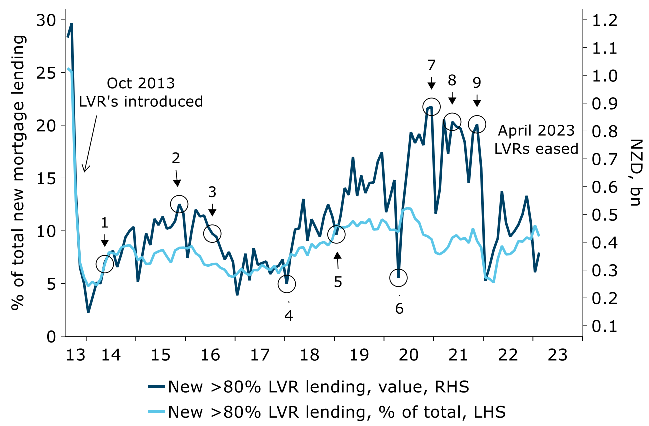
The numbered events above reference the following:

1. New builds excluded
2. Tighter rules for Auckland
3. Regional rules dropped. LVRs tightened a lot for investors
4. LVRs eased
5. LVRs eased
6. LVRs suspended for 12 months
7. LVRs reinstated
8. LVRs tightened for investors
9. LVRs tightened for owner-occupiers

The causality between house price inflation and LVR restrictions can go both ways – putting on restrictions can reduce credit availability, stifling the market, but the latest decision was an example of reverse causality: the RBNZ decided that the large fall already seen in house prices made further large falls less likely, reducing financial stability risks.

Figure 8 shows how high-LVR lending has accordingly waxed and waned over the near-decade that the LVR tool has been available.

Figure 8. Proportion of lending that is high-LVR



Source: RBNZ, Macrobond, ANZ Research

These are clearly not toothless tools. The most dramatic example of this is the surge in high-LVR lending and house prices that occurred following event 6, the 12-month suspension of the LVR restrictions when COVID hit. Of course, the significant cut in interest rates was very important too, but the removal of the LVR suspensions definitely played a part.

However, it's important to note that raising the cap on high-LVR lending doesn't necessarily mean that banks will lend up to the new limit. Banks make their own risk assessments at both the macro and customer level, and customer demand for large loans comes and goes depending on job security, expected wage growth, actual and expected interest rates, and expected capital gains.

Currently,

- job security is generally still very good (though set to decline),
- recent strong wage growth is likely to have boosted expectations of future increases,

- interest rates have soared, making servicing very large loans much more challenging,
- a narrative is taking hold that interest rates have definitely peaked (we are not so sure), and
- expected capital gains are minimal, according to our Consumer Confidence survey.

Overall, though, it does appear that the current cap is binding (based on both broker feedback and the data on the proportion of lending that is high-LVR), so it is reasonable to assume that there will be a lift in high-LVR lending as a result. Whether this is enough to result in house prices actually lifting remains to be seen. As outlined in the previous section, headwinds for the housing market remain. And if the market nonetheless takes off, it would rapidly become a victim of its own success, with the RBNZ unlikely to tolerate such a development as long as inflation remains so far outside the target band.

Mortgage borrowing strategy

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Summary

Mortgage rates have all changed a little over the past month, with the moves seen (on average across the major banks) exacerbating the inversion of the mortgage curve out to 3 years. As a consequence, it is now progressively cheaper to fix the longer one chooses to do so, all the way out to 3 years. As it was last month, the main debate in financial markets and among mortgage borrowers is centred on how many more hikes the RBNZ will deliver before pausing, and after that, when we might see cuts. We expect one more hike, followed by a pause, and cuts in late 2024. But we still see the near-term risks to the OCR as tilted to the upside, given sticky inflation. That's the main challenge we'd put to anyone taking the view that fixing for shorter is the way to go, especially given that it's now cheaper to fix for longer. Obviously being fixed for a shorter period will end up being a better strategy if interest rates fall, and that could happen. But we're not as convinced as financial markets currently are that they will, and the RBNZ has warned that it doesn't want mortgage rates to fall.

Mortgage rates have moved in both directions over the past month. Shorter-term rates moved up in the wake of the RBNZ's bigger-than-expected 50bp hike in April. However, longer-term fixed rates have fallen, taking their lead from lower global long-term interest rates (which tend to influence local long-term wholesale rates). Floating rates also lifted for the first time since December, having held steady following the prior OCR hike in February. These moves have seen the mortgage curve invert further, to the point where it is progressively cheaper (on average, across the major banks) to fix for all terms out to 3 years.

The inverted mortgage curve, in turn, leaves mortgage borrowers in a bit of a quandary. We say that because an inverted (wholesale) yield curve has often been a harbinger of recession, and is certainly a sign that financial markets think that cuts are on their way (even if not until the second half of the year, and after one more hike). That's what markets are expecting.

We certainly think the balancing act faced by borrowers is now much more difficult than before, with markets now expecting a turn in the cycle. The timing of turns is notoriously difficult to predict, and it's almost as hard to accurately pick the level (ie does the OCR peak at 5.5% or at 6%, or has it peaked already, at 5.25%?). Fixing for a shorter term is now more expensive, yet it comes with less certainty. As such, it is something you would only do if you were pretty sure that interest rates will fall in the future. On the other hand, fixing for a longer term costs less, offers more budget certainty and essentially bakes in market expectations that rates will fall in future. The trick is to figure out by how much, and to compare that to your own expectations.

We use breakeven analysis to guide us. Consider, for example, the choice between fixing for 1 year at 6.72% or 2 years at 6.56%. There isn't much in it, but you'd have to expect the 1-year rate to fall 6.40% or below in a year's time in order for it to end up being cheaper doing back to back 1-year fixes. Fixing for 2 years essentially "locks" that 0.32% fall in.

What ultimately matters (from a purely financial perspective, ignoring the value of certainty) is where rates will be in a year's time. As noted, financial markets expect them to fall, with OCR cuts priced in beyond July. This is based mostly on the idea that the global (and NZ) economies will slow *more* than central banks expect due to the rate hikes to date, seeing inflation fall fast. That might happen. Certainly our economic forecasts have a slowdown in both activity and inflation built in. But we not as convinced as financial markets are that inflation has been tamed, and see the OCR staying high for longer.

Indeed, the OCR hasn't even reached 5½%, yet annual measures of core and domestic inflation remain well above that (between about 5.7% and 6.8%), the jobs market remains strong, and migration inflows have picked up again. We'd therefore caution against counting on rates falling as soon as markets expect. Yet if one chooses to fix for a shorter term, one is essentially taking a punt on that occurring.

Figure 1. Carded special mortgage rates^

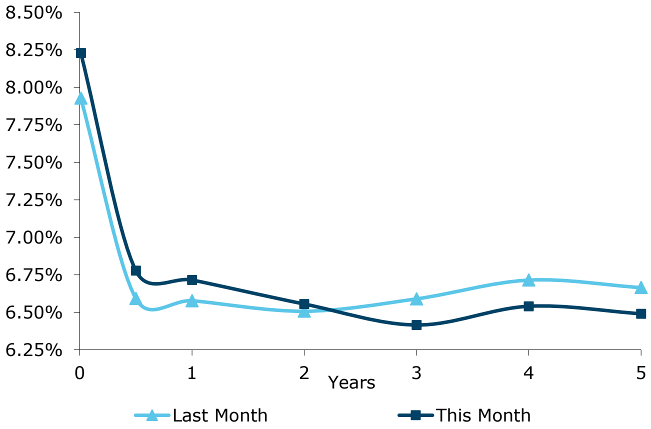

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	8.23%				
6 months	6.78%	6.65%	6.49%	6.30%	6.21%
1 year	6.72%	6.57%	6.40%	6.25%	6.14%
2 years	6.56%	6.41%	6.27%	6.36%	6.53%
3 years	6.42%	6.43%	6.48%	6.45%	6.45%
4 years	6.54%	6.48%	6.43%		
5 years	6.49%	#Average of "big four" banks			

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

Source: interest.co.nz, ANZ Research

Key forecasts

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

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

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

	Actual			Projections						
Interest rates	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Floating Mortgage Rate	6.7	7.8	8.0	8.7	8.9	9.0	9.0	9.0	8.8	8.3
1-Yr Fixed Mortgage Rate	5.2	6.4	6.5	6.6	6.5	6.3	6.2	6.0	5.9	5.7
2-Yr Fixed Mortgage Rate	5.6	6.6	6.5	6.5	6.3	6.2	6.0	5.9	5.7	5.6
5-Yr Fixed Mortgage Rate	6.0	6.8	6.6	6.5	6.4	6.3	6.3	6.2	6.2	6.1

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
GDP (Annual % Chg)	0.4	6.4	2.2	2.9	1.6	-0.4	-0.4	-0.8	-1.0	-0.4
CPI Inflation (Annual % Chg)	7.3	7.2	7.2	6.7(a)	6.1	5.9	5.2	4.7	4.0	2.8
Unemployment Rate (%)	3.3	3.3	3.4	3.4	3.5	4.0	4.5	5.0	5.2	5.3
House Prices (Quarter % Chg)	-3.2	-4.0	-4.3	-2.8(a)	-1.8	-0.4	0.3	0.4	0.6	0.6
House Prices (Annual % Chg)	3.6	-5.6	-12.9	-13.7(a)	-12.5	-9.2	-4.8	-1.6	0.9	1.9

Interest rates	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Cash Rate	3.00	4.25	4.75	5.50	5.50	5.50	5.50	5.50	5.25	4.75
90-Day Bank Bill Rate	3.85	4.65	5.23	5.60	5.60	5.60	5.60	5.43	4.93	4.85
10-Year Bond	4.30	4.47	4.20	4.15	3.75	3.50	3.50	3.75	4.00	4.00

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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