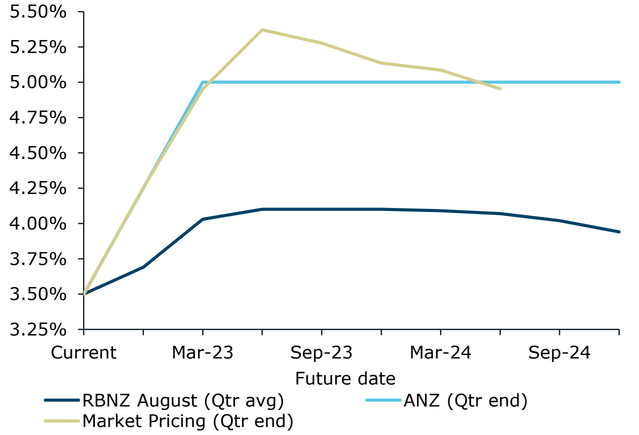
New Zealand Property Focus

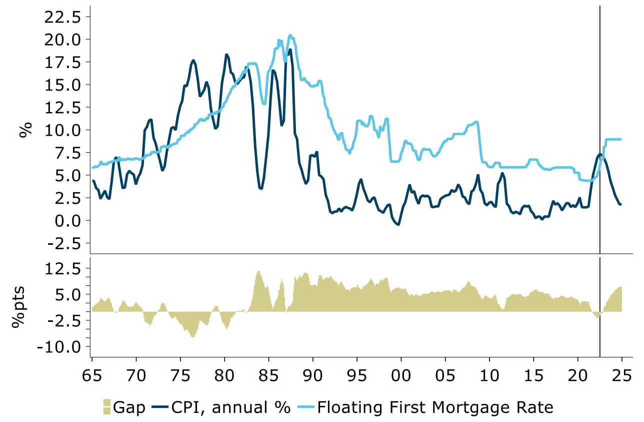
Testing times

At a glance

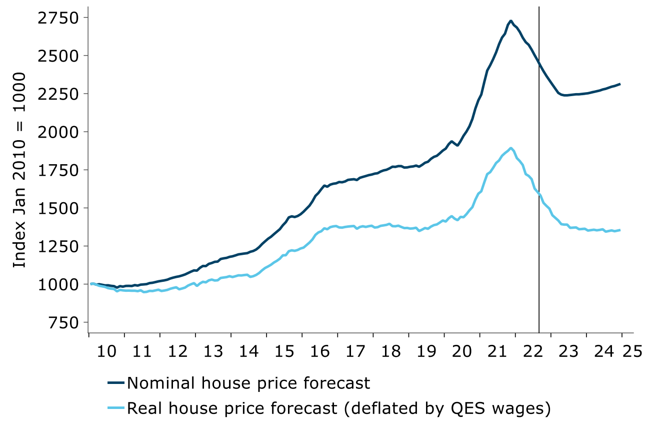
We now expect the OCR to get to 5%, and quickly



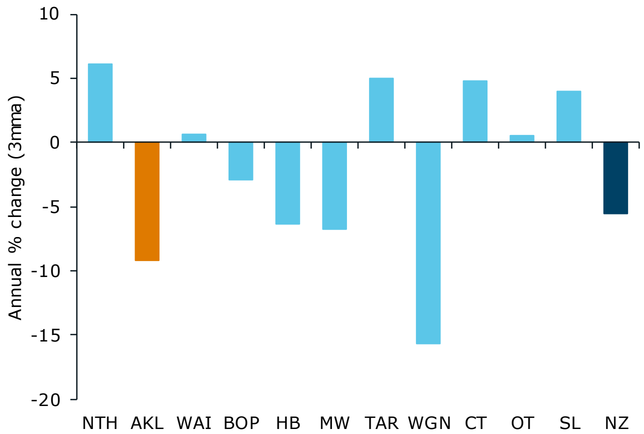
If inflation doesn't fall as forecast, the OCR may need to go higher



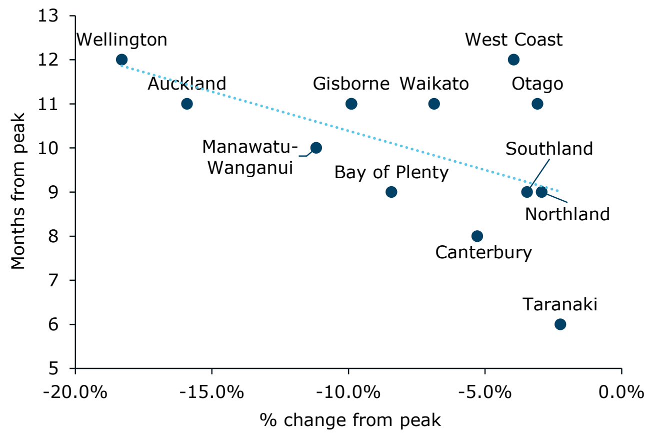
We now expect an 18% fall in house prices (previous: -15%)



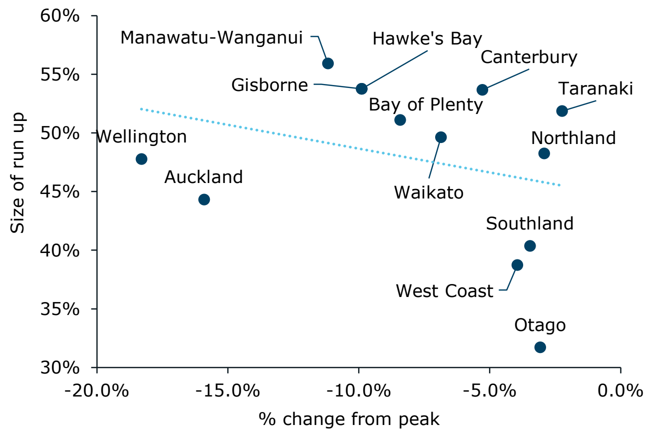
Price divergence by region is stark…



But some of that is just timing…



…and some a function of the post-pandemic run-up



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

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See page 13

INSIDE

ISSN 2624-0629

Publication date: 26 October 2022

Summary

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

Housing market overview

The Q3 CPI data released this month showed domestic and core inflation continuing to accelerate to rates that will be keeping the RBNZ up at night. The case to hike the OCR by more than previously expected is strong, and we now expect two consecutive 75bp hikes to take the OCR to 5% come February. This means higher mortgage rates, and sooner, which will weigh on house prices. We now expect house prices to fall 18% from their late-2021 peak (previously -15%). Of course, pinpointing the eventual floor in the market is fraught with uncertainty, but the direction of revision implied by recent events is abundantly clear. While some of the housing anecdote has improved over the past few months, we suspect there's probably a seasonal element there. Indeed, recent housing data has come in a touch weaker than we expected. Green shoots, if there ever really were any developing, seem to have shrivelled up. But it's still early days in the silly season, so let's see what that brings. See our Market Overview.

Feature Article: Economic update from the Chief Economist

The economy is so far holding up pretty well in the face of a rapid rise in interest rates over the past year and a double-digit fall in house prices from their peaks. While robustness is hard to label 'bad news', it does suggest the RBNZ needs to do more to drive a wedge between supply and demand such that capacity pressures are diminishing meaningfully, reducing inflation pressures. And, unfortunately, for those with a mortgage, the recent CPI data suggest that wedge needs a few more solid whacks from the sledgehammer. For recent first home buyers, and the highly leveraged in general, this is going to hurt. But failure to restore inflation stability would be an even more painful experience. We now expect the RBNZ to deliver two consecutive 75bp hikes, taking the OCR to 5% in February. And if that doesn't see capacity open up, they'll keep going until it does. See this month's Feature Article.

Mortgage borrowing strategy

Fixed mortgage rates have lifted across the board since the last edition of our Property Focus was published. The biggest change has come in the 6-month part of the curve, reflecting expectations that after the very strong Q3 CPI data, the RBNZ will not only need to do more, but do it with even bigger hikes. We have recently upgraded our OCR forecast and now expect a 5% peak (previous 4.75%), and a lot more 'front loading'. We've been flagging the implications of upside CPI inflation surprises for a while now, and despite the fact that these risks have clearly materialised over the past month, we still think it's important to note that upside risks to this new, higher profile remain. Both fixed and floating mortgage rates have lifted over the past month, the former following the OCR higher, the latter reflecting wholesale market expectations that there's plenty more work ahead for the RBNZ. See our Mortgage Borrowing Strategy.

Housing market overview

Summary

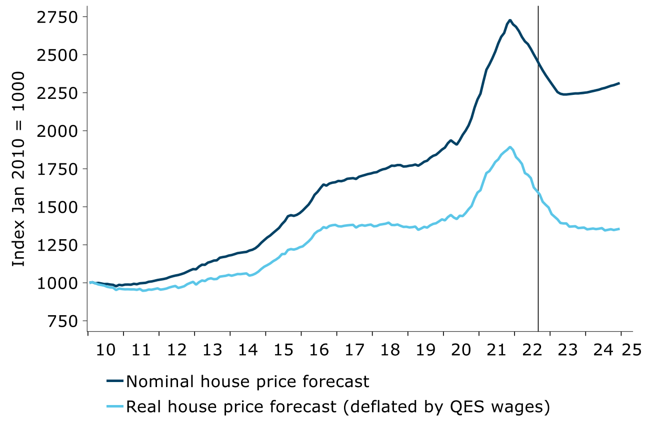
The Q3 CPI data released this month showed domestic and core inflation continuing to accelerate to rates that will be keeping the RBNZ up at night. The case to hike the OCR by more than previously expected is strong, and we now expect two consecutive 75bp hikes to take the OCR to 5% come February. This means higher mortgage rates, and sooner, which will weigh on house prices. We now expect house prices to fall 18% from their late-2021 peak (previously -15%). Of course, pinpointing the eventual floor in the market is fraught with uncertainty, but the direction of revision implied by recent events is abundantly clear. While some of the housing anecdote has improved over the past few months, we suspect there's probably a seasonal element there. Indeed, recent housing data has come in a touch weaker than we expected. Green shoots, if there ever really were any developing, seem to have shrivelled up. But it's still early days in the silly season, so let's see what that brings.

More RBNZ action means a weaker house price outlook

There is way too much CPI inflation in the system. And the worrying thing for the RBNZ is that it's the domestic kind of inflation, which can be difficult to stomp out. Indeed, the September quarter CPI data saw non-tradable (domestic) inflation hit a fresh record high, with core measures of inflation also accelerating. That's something to which the RBNZ will need to respond. Accordingly, we have changed our OCR call, and now expect back-to-back 75bp hikes in November and February, taking the OCR to 5% (previous forecast peak: 4.75%). Thereafter, the outlook for monetary policy very much depends on key data and developments. Assuming the wheels don't fall off the global economy, if the labour market fails to loosen soon, the OCR may need to go higher still in order to prevent the wage-price spiral from developing further. Likewise, should the Government add additional fiscal stimulus to the mix (eg more spending or tax cuts), the RBNZ would need to offset that with a higher-than-otherwise OCR. See our Feature Article for further discussion of the economic situation and outlook.

Our updated OCR outlook implies mortgage rates will lift at a faster pace than previously thought, and to a slightly higher level. That's expected to weigh on house prices. Accordingly, we've downgraded our forecast, and now expect a peak-to-trough decline of 18% (previous forecast: -15%). In percentage change terms this sounds rather drastic, but it's still only a partial unwinding of the COVID period run-up. However, deflated for wage growth (figure 1), this is roughly a full unwind of the 2020-21 bump in *real* house prices.

Figure 1. Nominal vs deflated house price index



Source: Stats NZ, REINZ, Macrobond, ANZ Research

There are a few key economic variables where forecast accuracy tends to be a bit of a lottery, and while economists put a lot of effort into shaping their outlooks, chances are they'll be surprised to some extent. House prices are one of these variables, and not entirely coincidentally, net migration (which has a positive correlation with house prices) is another. We're not saying this to distance ourselves from our forecast – we're comfortable that risks are balanced around our updated outlook – but rather to underline that our forecast should not be interpreted as the one source of truth in terms of what's coming.

Some risks we're keeping in mind:

- Price declines could come in sharper than expected, particularly if household incomes wobble and forced sales pick up, or
- House prices could fall by less than expected if inflation pressures somehow dissipate without the household sector taking a hit and before the RBNZ gets the OCR as high as 5%.
- What if the household sector holds it together a little better than expected in the face of rising interest rates, for example because wage growth stays unexpectedly high? While a more robust household sector might support house prices, if this prevents household demand from softening as much as it needs to for CPI inflation to fall sufficiently quickly, the OCR will need to go higher than otherwise. That would contain any positive influence on the housing market. After all, housing (including residential investment) are one of the more interest rate-sensitive segments of the economy.

So buckle up, the housing market could land on either side of our forecast, but for now it's pretty clear in the data that the slowdown isn't over yet.

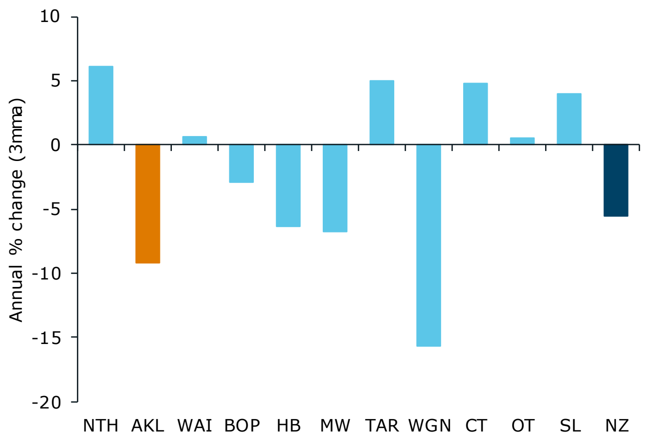
Housing market overview

Data still in rewinding mode

Now that we've covered our updated outlook, let's take a look at the recent housing pulse.

As at September, the REINZ house price index had fallen almost 11% from its November 2021 peak (ANZ seasonal adjustment), taking it back to April 2021 levels. On an annual basis, house prices are down 5.5% (3mma), but there is plenty of divergence by region. Figure 2 shows just how much, with the Wellington HPI down 15.6% y/y on a 3mma average basis and the HPI for Northland up 6.1%. Indeed, Northland, Waikato, Taranaki, Canterbury, Otago and Southland are still in positive annual inflation territory, but all of these markets are slowing, and all are likely to turn negative in time.

Figure 2. Annual house price inflation by region

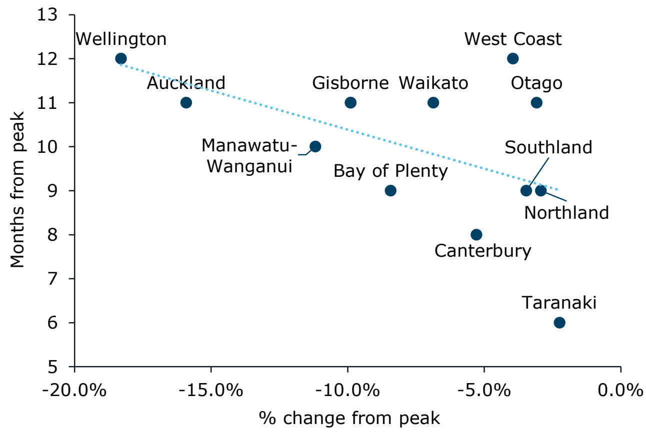


Source: REINZ, ANZ Research

Indeed, the above chart is by no means an indication that the housing slowdown is not broad based. Variances in terms of both the size of the post-pandemic run-up (ie how much prices lifted before they started falling), and for how long prices have been falling are both key factors when it comes to how far regional prices had slipped by September. Put another way, if prices have been falling for longer, and from a higher level, chances are they are under-performing the national average right now. But that's not to say the current over-performers won't catch up and possibly become the nation's under-performers in time.

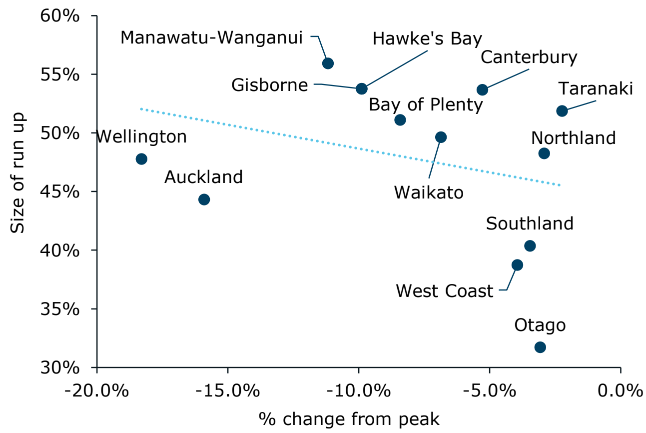
While the relationship between how long ago prices peaked and how far they have fallen so far isn't perfect, the linear trend does have an intuitive slope to it (figure 3), and so too does the trend between the size of the run up and how far prices have fallen (figure 4). Indeed, many regions above the trend line in figure 3 are below the trend line in figure 4 and vice versa. Take the West Coast and Otago as an example. Prices in both these regions peaked a while ago, but their relatively small house price fall to date can be at least partially explained by the fact that there is less post-pandemic unwinding to do (ie prices there didn't go as nutty as in some of the other regions).

Figure 3. Months from peak vs price change from peak



Source: REINZ, ANZ Research

Figure 4. Post-pandemic house price run-up vs price change from peak

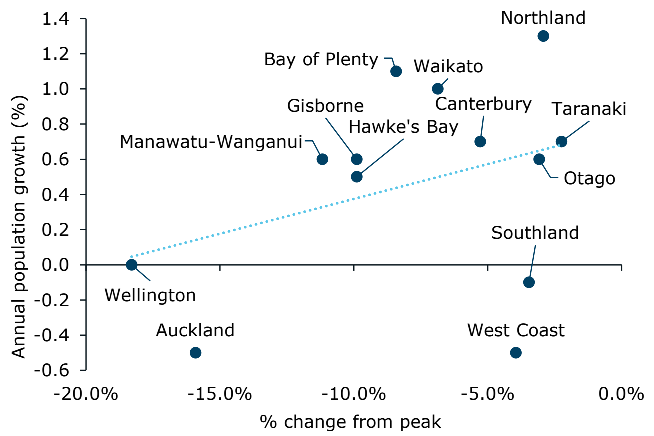


Source: REINZ, ANZ Research

A key factor helping to explain regional outcomes is population growth. At the national level, population growth has been very modest – courtesy of the closed border, and the current small net migration outflow. And that's acted as a key constraint on house price inflation across New Zealand. However, people are moving between regions all the time, and as it turns out, Statistics NZ released these data covering the period to June 2022 just a few days ago. Once again, the slope is intuitive: the decline in house prices to date has generally been larger in the regions with the weakest population growth (figure 5, over page). We should, however, point out that figures 4 and 5 are likely related to some extent. That is, if momentum in population growth has been on the softer side, chances are the post-pandemic run-up was also softer. Auckland is a good example; it's had weaker-than-average population growth

(-0.4% y/y), but also a weaker-than-average post-pandemic run-up. So while continued population drain from the region would represent an ongoing drag on prices in the region, taken together we shouldn't assume that Auckland prices are more vulnerable from here based on the historical population data. Should net migration gradually recover into positive territory over 2023 (as we assume in our outlook), Auckland, being our largest city and with the most jobs on offer, should receive at least its fair share of that.

Figure 5. Population growth vs price change from peak

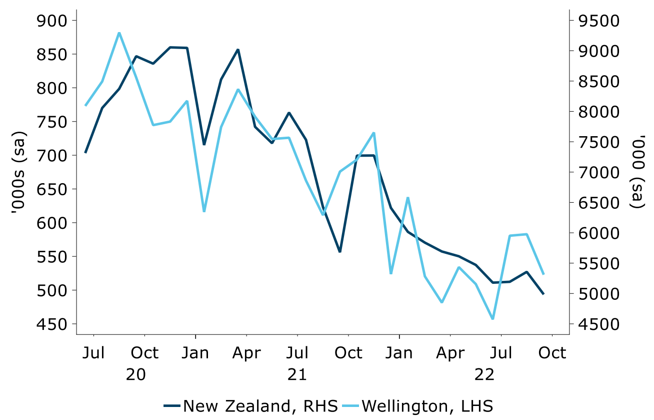


Source: REINZ, ANZ Research

Clearly, some regions are more advanced in their price correction than others, and while some of that appears to be a function of population growth, there also appears to be a timing element at play. The latter suggests the regional-level data may also provide an early indication for when prices at the national-level will eventually find a floor.

Wellington is perhaps the best case study here. Wellington had around a 48% run-up in prices (a little more than the national average of 47.5%), but softer population growth than most. Further, prices peaked a little earlier than the national average (October 2021 vs November 2021). Therefore, it makes sense that price declines there have been on the more severe side. But this also suggests that prices in Wellington are likely to be among the first to find a floor. The first evidence that this may be happening may come from an uptrend in seasonally adjusted house sales (as sales tend to lead prices by around three months). However, the data here can be very volatile on a month-on-month basis (figure 5), so it could take a few consecutively higher outturns before we can confidently diagnose a market floor.

Figure 6. Wellington sales vs all of New Zealand



Source: REINZ, Macrobond, ANZ Research

Coming back to the national-level data, there was little evidence in the broader suite of data to suggest the housing market is done correcting lower. If anything, the September data pulse was on the weaker side:

- House sales fell 6.9% m/m on a seasonally adjusted basis, maintaining the downtrend through what were already sub-par levels.
- The number of days it is taking to sell a house lifted by 1 to 47. That's well above the historical average of 39 days, and suggests the market is still cooling.
- Properties available for sale are at a six-year high, meaning there is plenty of inventory going into the warmer months (when both sales and listing tend to pick up). Unless inventories tighten, the risk that FOMO returns appears contained.

All up, while the floor in the housing market is perhaps a little lower than we previously thought, it's hard to call our forecast anything but a soft landing. But while the housing data remain consistent with a softening path, the apparent lack of 'forced sales' suggests the price correction to date remains orderly. That could change of course, but it'd likely take a household income shock, namely a sharp rise in unemployment. In the meantime, a calm and orderly (yet meaningful) downward adjustment from such a hairy starting point is about the best we can hope for from a housing affordability perspective. That is, house prices relative to incomes are being supported by both falling prices and lifting incomes. But there's still a way to go.

Housing market overview

Housing market indicators for September 2022 (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	$734,949	6.0	-3.2	0.5	0.1	160	0%	54
Auckland	$1,064,910	-8.1	-4.3	-11.1	-5.1	1,538	-6%	45
Waikato	$786,143	-0.3	-4.2	-2.8	-2.8	484	+1%	52
Bay of Plenty	$864,462	-2.9	-2.6	-6.3	-3.8	316	-10%	55
Gisborne	$594,875	-3.6	-7.7	-9.3	-4.0	48	+11%	42
Hawke's Bay	$724,507	-7.8	-1.5	-9.3	-4.0	159	-11%	58
Manawatu-Whanganui	$568,338	-10.2	-2.8	-8.8	-4.1	221	-9%	56
Taranaki	$631,420	18.6	2.7	4.9	-1.1	118	-25%	30
Wellington	$838,603	-3.2	-6.8	-17.3	-5.5	523	-10%	59
Tasman, Nelson & Marlborough	$734,623	-4.7	-5.2			164	+0%	53
Canterbury	$671,124	2.8	-2.4	-0.1	-2.3	741	-8%	36
Otago	$686,079	-3.5	-3.0	-1.4	-1.5	282	-27%	48
West Coast	$370,138	33.4	2.4	-1.5	-1.6	37	-17%	45
Southland	$445,691	2.3	-2.9	1.1	-1.6	114	-11%	42
New Zealand	**$820,903**	**2.1**	**-3.9**	**-8.0**	**-3.8**	**4,985**	**-7%**	**47**

Feature Article: Economic update from the Chief Economist

Summary

An economic update from Sharon Zollner, Chief Economist.

The economy is so far holding up pretty well in the face of a rapid rise in interest rates over the past year and a double-digit fall in house prices from their peaks. While robustness is hard to label 'bad news', it does suggest the RBNZ needs to do more to drive a wedge between supply and demand such that capacity pressures are diminishing meaningfully, reducing inflation pressures. And, unfortunately, for those with a mortgage, the recent CPI data suggest that wedge needs a few more solid whacks from the sledgehammer. For recent first home buyers, and the highly leveraged in general, this is going to hurt. But failure to restore inflation stability would be an even more painful experience. We now expect the RBNZ to deliver two consecutive 75bp hikes, taking the OCR to 5% in February. And if that doesn't see capacity open up, they'll keep going until it does.

New Zealand is special for many reasons, and for better or worse, its current business cycle is one of them. That's because labour shortages emerged here first, core inflation pressures rose here first, and it's now more than a year since interest rates started to rise, a U-turn (and then acceleration) that's subsequently been mirrored globally. That's put an unusually high degree of global attention on the outlook for this small, far-flung economy over the past year.

Accordingly, there is strong interest in how the housing market, households and businesses are coping with the sharp rise in interest rates. The Reserve Bank of New Zealand (RBNZ) has raised the Official Cash Rate (OCR) rapidly from 0.25% to 3.50%, and the market is pricing a lift to around 5.4%.

The canary in the coalmine is hanging in there.

The jump in interest rates has certainly had a strong and unmistakeable impact on the housing market. House prices are down more than 10% in ten months, which puts them about 60% of the way through the 18% fall we are forecasting. While this sounds like a very large drop, it is modest in the context of the near-50% run-up in house prices over the preceding three years. So rapid was the surge that even a double-digit fall pushes only a small proportion of homeowners into a negative equity situation.

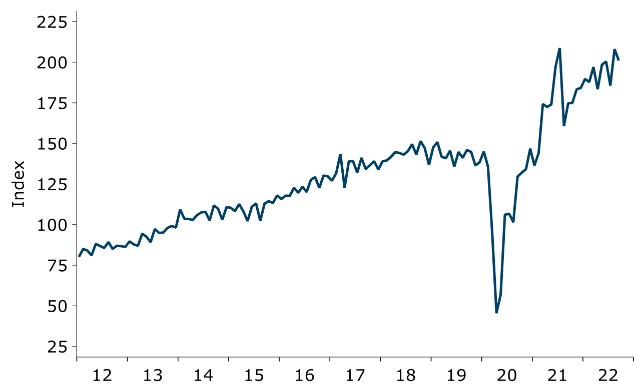
But as many or our regular readers undoubtedly know, it's not only been the lift in mortgage rates that has cooled the housing market. Restrictions on higher-risk lending have been tightened, new consumer protection legislation puts considerable sand into the gears of the mortgage machine, and the removal of tax deductibility of interest payments on investment properties has changed the maths for investors considerably – and more so as interest rates rise.

Higher interest rates have brought about a significant reduction in the amount households can borrow, and this has seen first home buyers face even higher hurdles to entering the housing market despite the fact that prices have fallen. Just as the battle between investors and first home buyers saw the bottom end of the market lift most dramatically, this is where the sharpest falls have been seen.

While relentless, the fall in house prices has been orderly, and it is our expectation that it will remain so. Essentially, very few sellers are in a must-sell situation, and unless household incomes experience a significant shock, the continued orderly correction should remain that way.

A sharp rise in unemployment would expose the amount of clear air that is actually under what are still extremely over-valued house prices by any metric, and that remains an important downside risk. But for now, the labour market remains extremely tight. The unemployment rate is near record lows at 3.3%, and job ads are still very strong (Figure 1). Employment intentions have fallen as firms become warier about the outlook, but they are holding up best among all the activity indicators in our Business Outlook survey, with construction the unsurprising outlier (Figure 2).

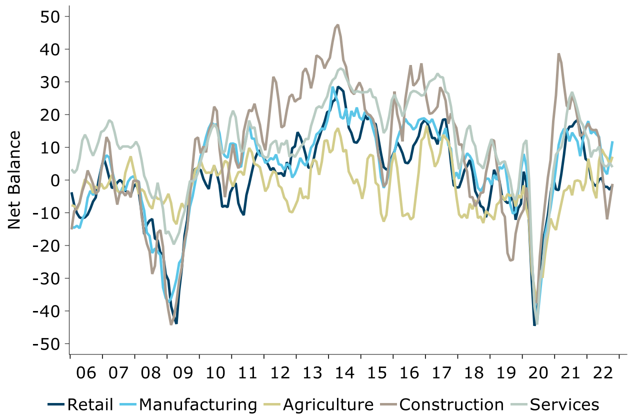
Figure 1. Job advertisements



Source: MBIE, Macrobond, ANZ Research

Feature Article: Economic update from the Chief Economist

Figure 2. Employment intentions by sector



Source: Macrobond, ANZ Research

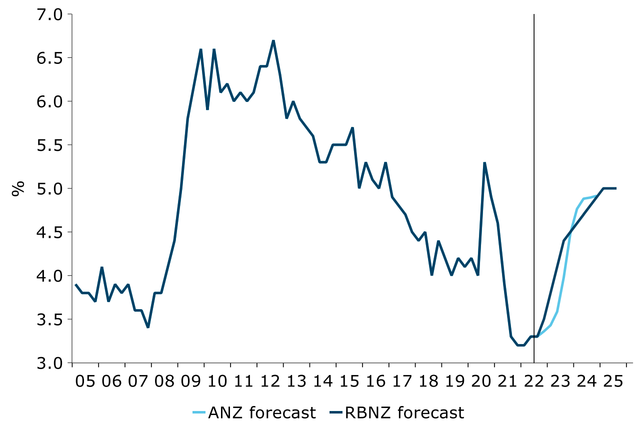
That's certainly not to suggest that growth across the economy has been impressive, nor is it about to become so, despite a strong rebound in GDP growth in the second quarter of the year as Omicron disruptions waned and a seasonally atypical flurry of tourists arrived. Even as COVID disruptions and volatility wane, both demand and supply-side factors (particularly labour shortages) are keeping a lid on activity. The upshot is that it's not obvious that the RBNZ has yet been successful in opening up spare capacity in the economy; it's very unclear how disinflationary weaker growth momentum has actually been.

Household spending, while certainly lower, has remained pretty resilient in the face of rising living costs, higher interest rates, and lower house prices. Discretionary spending is holding up pretty well, and that's because the income side of things is looking robust. Arrears data shows very few people not keeping up with their mortgage (or other debt) payments so far. That's likely because job security is still excellent, and average hourly earnings were up 7% in the year to June, pretty close to the 7.3% rise in the CPI over that period. Since then, CPI inflation has held high at 7.2% in the year to September, but wage growth is expected to have accelerated further. Not everyone will have had their purchasing power restored, but many have. The sharp rise in interest rates will certainly hurt, but not everyone has a large mortgage.

We are forecasting the unemployment rate to rise to 5%, but not imminently, as we suspect that growth in the labour force from net migration will remain subdued for some time yet. That's a difficult one to pick, though, as movements both in and out of the country are lifting strongly (from a very low base), and the net number is subject to extreme uncertainty. We can see, though, that the strong Australian labour market is pulling workers offshore, as it has historically tended to do.

Overall, we see the risks tilted towards unemployment staying low for longer than the RBNZ is forecasting (Figure 3). Overall, persistent core inflation and wage pressures mean that the RBNZ's August MPS plan to stop hiking at about 4% and wait and see from there will be stymied, in our view. Rather, we see the OCR getting to 5% by February next year, with two consecutive 75bp hikes pencilled in for November and February. February feels a long time away, though, in a high-stakes environment of record global debt facing off against very rapid interest rate increases. Our forecast assumes global financial markets hold it together, but as years of easy and practically free money come to an abrupt end, that's not an insignificant assumption.

Figure 3. Unemployment forecast

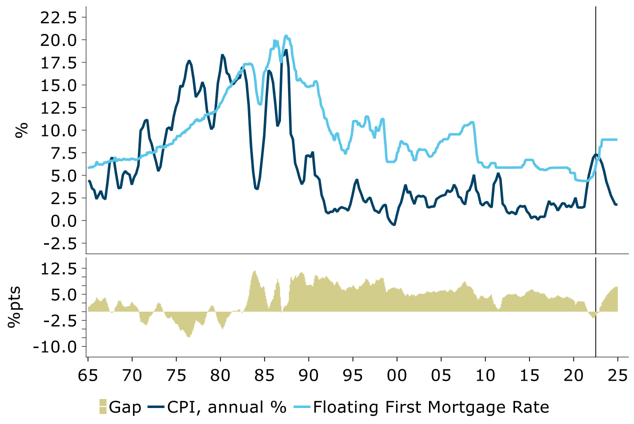


Source: RBNZ, Stats NZ, Macrobond, ANZ Research

While headline inflation is set to fall away from the current 7.2% relatively quickly as tradable inflation drops (the fall in global oil prices alone pretty much bakes that in, as long as we don't see it reverse), there's much greater uncertainty about how quickly non-tradable and core inflation will fall. Real interest rates are still negative, and they need to turn positive promptly in order to provide a nominal anchor for the economy. It's worth noting that in our forecasts, most of that work is done by falling inflation (Figure 4), even with the OCR rising another 150bp. If inflation doesn't fall as fast or as far as projected, the OCR will need to rise by more. There's no getting around that. Inflation just going in the right direction is not sufficient.

Feature Article: Economic update from the Chief Economist

Figure 4. Mortgage rates vs CPI inflation



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

It's worth remembering that New Zealand's business cycles in practice tend to be killed off by global shocks, not monetary policy. There are plenty of risks out there as financial conditions tighten, including the growth outlook for China.

In the medium- to long-term, supply constraints on global food production seem likely to see an uptrend in the relative price of food, which continues to go in New Zealand's favour. But the cycles around the trend can be quite brutal. Dairy prices are around 30% off their peaks currently, but the outlook is murky as the supply and demand push-me-pull-you continues. The super-strong USD is making it difficult for many countries, including China, to afford commodities priced in USD, including food.

If New Zealand were to face an abrupt terms of trade shock that tips the economy into a recession, then the persistent inflation risks we see would be more likely to manifest not in an ongoing creep upward in rates so much as an inability to cut interest rates meaningfully to ease the pain. One way or another, the piper would have to be paid.

There are certainly pockets of weakness in the outlook as things stand. In particular, construction is set to slow markedly as sharply lower house sales work their way through – and that's pretty significant for the broader economy after what's been a spectacular boom. Construction costs have been a huge contributor to domestic inflation over the COVID period – but they've now passed the baton to the broader economy, so while clear signs of waning in this area are a necessary part of the process of getting on top of inflation, it's not going to be sufficient. For that, a broader meaningful slowdown in demand is required.

All up, New Zealand is staring down the barrel of a weaker domestic economy. 2023 is expected to see some of the more interest rate-sensitive pockets of the economy (such as residential and business investment) contract. Whether or not New Zealand avoids recession will be very dependent on the looming net exports recovery (as international tourism recovers and demand for imported goods falls), and the degree of robustness in the household sector.

But with capacity stretch where it currently is, even a recession might not be enough to bring about the much-needed deceleration in core and domestic inflation, if it's just a fall in output. To actually beat back inflation pressures, labour demand needs to fall. Rising unemployment is not a happy prospect for workers or for the housing market. But failing to get on top of inflation would lead to an economy that struggles to perform over the long term, with inflation eroding wealth and complicating long-term decision-making. What price are we willing to pay to avoid that? That's a question that will be asked more and more as the damage from rising interest rates becomes less theoretical and more real.

It's a bit like that old joke: "How do I get to the post office?"

"Well, I wouldn't start from here, lad."

But here we are, and there is no easy road out.

Mortgage borrowing strategy

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Summary

Fixed mortgage rates have lifted across the board since the last edition of our Property Focus was published. The biggest change has come in the 6-month part of the curve, reflecting expectations that after the very strong Q3 CPI data, the RBNZ will not only need to do more, but faster, with even bigger hikes. We have recently upgraded our OCR forecast and now expect a 5% peak (previous 4.75%), and a lot more 'front loading'. We've been flagging the implications of upside CPI inflation surprises for a while now, and despite the fact that these risks have clearly materialised over the past month, we still think it's important to note that upside risks to this new, higher profile remain. Both fixed and floating mortgage rates have lifted over the past month, the former following the OCR higher, the latter reflecting wholesale market expectations that there's plenty more work ahead for the RBNZ.

Upside inflation risks materialised in the Q3 CPI data, and that's had implications for wholesale markets and therefore fixed mortgage rates.

Our OCR call has changed too. We now expect the RBNZ to hike 75bp in both November and February, taking the OCR to 5%. Our previous OCR call was for a 50bp hike in November followed by three 25bp 'top ups' in the first three meetings of 2023, taking the OCR to 4.75%. But inflation is looking more embedded than previously thought, and the RBNZ needs to get on top of that before it's allowed to spiral further.

When our last edition was published on 28 September, market pricing was for the OCR to peak at 4.7% in mid-2023. As we go to print today, that peak is close to 5.4%. Accordingly, fixed mortgage rates (on average across the big-4 banks), are higher across the curve. For more on how the OCR impacts mortgage rates see the August Property Focus.

As shown in Figure 1, floating mortgage rates have practically moved one-for-one with the OCR, up 50bp from last month. Meanwhile, fixed mortgage rates have shot up between 22bp (5-years) and 57bp (6 months). Increases in fixed rates have been larger at the shorter end of the curve (ie the 6-month rate has lifted a little more than the 1-year rate, which has lifted a little more than the 2-year, etc). This is line with the expectation that the OCR will not only need to go higher, but that the RBNZ will deliver larger hikes in the next few meetings than previously thought.

Indeed, market pricing for the November MPS had recently been sitting above 75bp, suggesting some market participants have been putting some weight on the possibility of a 100bp hike. A strong read on the upcoming Q3 labour market data (2 November) may see that resume. If you were to ask us a month ago what the chances are that the RBNZ changes from hiking in 50bp increments to 75bp increments this late in the hiking cycle, we would have said they are slim. Fast forward a month, and that's now our central view. So while we're certainly sticking to our 75bp call, it's useful to highlight just how rapidly the inflation outlook can change, noting that insofar as the core and domestic inflation pulse is concerned, inflation is yet to show any signs of actually turning a corner. Until it does, the RBNZ is going to have to keep meeting positive inflation surprises with a higher-than-otherwise OCR. That means there are still lingering upside risks around the mortgage rate outlook.

Conversely, downside economic activity risks only intensify as the OCR goes higher. But for the RBNZ to be confident that a weaker activity impulse will push inflation lower quickly, they'd likely need to see labour demand plummet. Anything short of that, and inflation could remain too high. In other words, don't bank on the RBNZ coming to the rescue just because the housing market or broader economy disappoints expectations. The RBNZ still need to be convinced that any slowdown will translate into weaker inflation.

Regular readers will be familiar with our breakevens table. Compared to last month there are far fewer breakevens with a 5-handle. For some, that might suggest the ship has sailed, but the extra certainty that comes with longer fixes offer may still appeal to others, especially given upside inflation and interest rate risks haven't gone away.

Figure 1. Carded special mortgage rates^

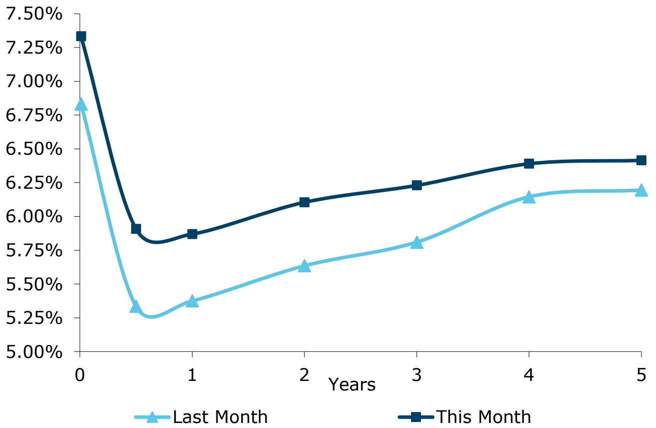

Table 1. Special Mortgage Rates

		Breakevens for 20%+ equity borrowers			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	7.33%				
6 months	5.91%	5.83%	6.28%	6.41%	6.42%
1 year	5.87%	6.05%	6.34%	6.41%	6.48%
2 years	6.11%	6.23%	6.41%	6.54%	6.68%
3 years	6.23%	6.38%	6.56%	6.60%	6.62%
4 years	6.39%	6.46%	6.55%		
5 years	6.42%	#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 (%)													
	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75
200	256	263	270	276	283	290	297	304	311	319	326	333	341	348
250	320	329	337	345	354	363	371	380	389	398	407	417	426	435
300	385	394	404	415	425	435	446	456	467	478	489	500	511	522
350	449	460	472	484	496	508	520	532	545	558	570	583	596	610
400	513	526	539	553	566	580	594	608	623	637	652	667	682	697
450	577	592	607	622	637	653	669	684	701	717	733	750	767	784
500	641	657	674	691	708	725	743	761	778	797	815	833	852	871
550	705	723	741	760	779	798	817	837	856	876	896	917	937	958
600	769	789	809	829	850	870	891	913	934	956	978	1,000	1,022	1,045
650	833	854	876	898	920	943	966	989	1,012	1,036	1,059	1,083	1,108	1,132
700	897	920	944	967	991	1,015	1,040	1,065	1,090	1,115	1,141	1,167	1,193	1,219
750	961	986	1,011	1,036	1,062	1,088	1,114	1,141	1,168	1,195	1,222	1,250	1,278	1,306
800	1,025	1,052	1,078	1,105	1,133	1,160	1,188	1,217	1,246	1,274	1,304	1,333	1,363	1,393
850	1,089	1,117	1,146	1,174	1,204	1,233	1,263	1,293	1,323	1,354	1,385	1,417	1,448	1,480
900	1,154	1,183	1,213	1,244	1,274	1,306	1,337	1,369	1,401	1,434	1,467	1,500	1,534	1,567
950	1,218	1,249	1,281	1,313	1,345	1,378	1,411	1,445	1,479	1,513	1,548	1,583	1,619	1,655
1000	1,282	1,315	1,348	1,382	1,416	1,451	1,486	1,521	1,557	1,593	1,630	1,667	1,704	1,742

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

	Actual			Projections						
Interest rates	Mar-22	Jun-22	Mar-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Floating Mortgage Rate	5.1	5.9	6.7	8.1	8.9	8.9	8.9	8.9	8.9	8.9
1-Yr Fixed Mortgage Rate	3.9	5.1	5.2	5.9	6.3	6.4	6.4	6.4	6.4	6.4
2-Yr Fixed Mortgage Rate	4.5	5.6	5.6	6.2	6.6	6.8	6.7	6.7	6.6	6.5
5-Yr Fixed Mortgage Rate	5.1	6.3	6.0	6.8	7.2	7.2	7.2	7.2	7.0	7.0

Source: RBNZ, ANZ Research

Economic forecasts

	Actual			Forecasts						
Economic indicators	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
GDP (Annual % Chg)	3.0	1.0	0.4	5.0	2.1	2.6	1.6	1.4	1.4	1.4
CPI Inflation (Annual % Chg)	5.9	6.9	7.3	7.2(a)	6.9	6.3	5.4	4.3	3.6	2.8
Unemployment Rate (%)	3.2	3.2	3.3	3.3	3.4	3.4	3.6	4.0	4.5	4.8
House Prices (Quarter % Chg)	3.8	-2.2	-3.3	-3.8 (a)	-4.1	-3.6	-1.8	0.1	0.2	0.4
House Prices (Annual % Chg)	26.2	14.1	3.6	-5.5 (a)	-12.7	-13.9	-12.7	-9.1	-5.0	-1.1

Interest rates	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Official Cash Rate	1.00	2.00	3.00	4.25	5.00	5.00	5.00	5.00	5.00	5.00
90-Day Bank Bill Rate	1.61	2.86	3.85	4.85	5.10	5.10	5.10	5.10	5.10	5.10
10-Year Bond	3.29	4.06	4.67	5.00	5.00	4.75	4.75	4.75	4.50	4.50

Source: ANZ Research, Statistics NZ, RBNZ, REINZ

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Last updated: 1 September 2022

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