

Eco-Pulse

'Year of the Refix' redux, post RBNZ

- **Mortgage positioning is looking more balanced, about halfway through a busy 12 months for mortgage refixes**
- **About \$135b or 41% of all fixed-rate mortgages are due to reprice over the coming six months**
- **Evidence is growing that the typical fixing strategy is no longer just about picking the lowest rate**
- **RBNZ cuts cash rate 25bps, we forecast two more**
- **Gentle trend toward longer mortgage terms may continue, but we doubt there will be a rush**

One of the things that jumped out at us at the start of the year was just how 'short' the mortgage book had become. Such was the preference for short fixed terms that over 80% of mortgage borrowings were set to experience a rate reset this year. That was the highest in 13 years, earning 2025 the ['Year of the Refix'](#) tagline.

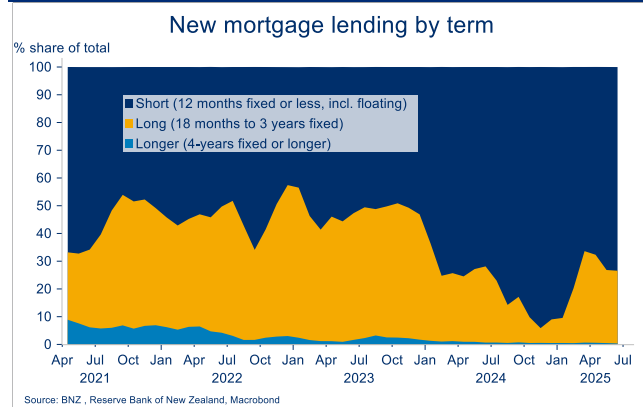
Now that we're about half-way through (data to June), and with the latest Reserve Bank meeting under our belts, we thought it was a good time for an update.

Peak short in the rear view

We expressed some unease about extreme short positioning in our January note. As it turns out, the sentiment shifted relatively quickly thereafter. Indeed, the November 2024 data referenced at the time turned out to be peak short for the mortgage book.

The share of new borrowings on floating and six-month fixed terms has reduced a little, and there's been snatches of increased interest in two-year fixed terms. Consequently, the share of new mortgage borrowing on terms of 12 months or less has fallen from a high of 94% in November, to an average of 71% over the three months to June.

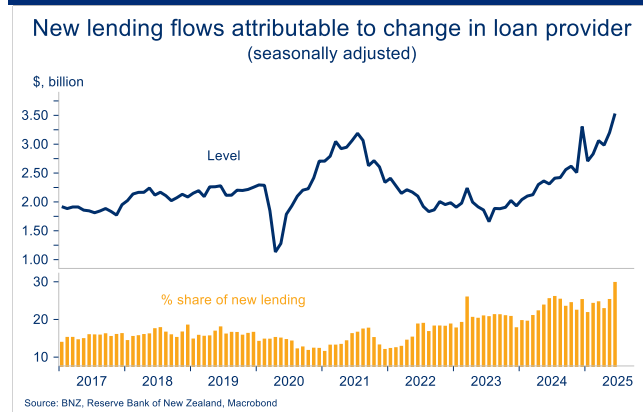
Mortgage positioning more balanced



Through the recent heavy period of refixing activity we've also seen:

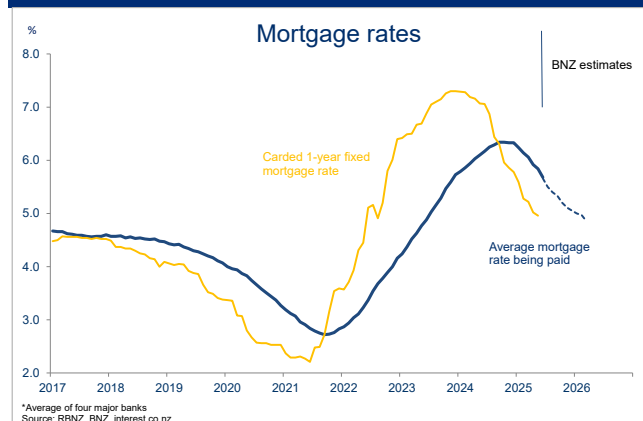
- Many take the opportunity a mortgage rollover affords to switch providers. A record amount of new residential lending in June (the latest data) – 30% – was attributable to mortgage switching.

Switching providers



- A quickening pace of decline in the average interest rate paid on mortgage debt. Heightened refixing activity has sped up the process of borrowers 'rolling down' onto lower mortgage rates. The average paid rate was 5.66% in June, down from a 6.39% peak. It's still got a ways to go. We estimate a decline to around 5% by the end of the year.

Interest rate transmission takes time

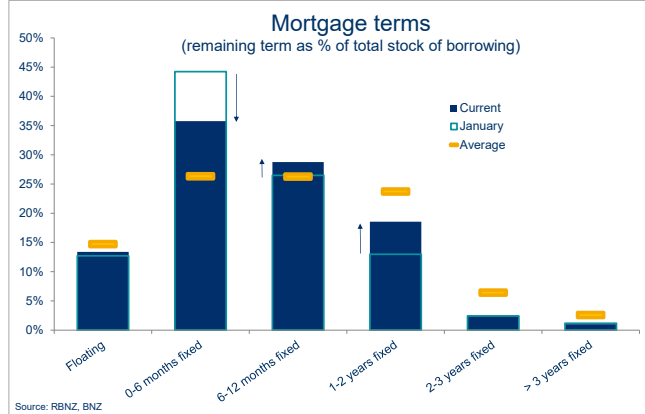


The gradual shifts in term preference evident in new lending flows have been enough to nudge out the term profile of the *stock* of mortgage borrowing.

For example, the share of outstanding fixed-rate borrowings with remaining terms of six months or less has declined from the highly concentrated 44% as of January, to 36% as at June (chart below). There's now a slightly higher share with remaining fixed terms of 6-12 months, while the share in the 1-2 years bucket has lifted a solid six percentage points from January.

The broad conclusion is that mortgage positioning is still shorter than average, but it's more balanced than it was.

Slight lengthening in mortgage book duration



The next question is whether the gentle trend toward longer fixed terms will continue. After all there's still plenty of refinancing due to occur over the coming six months. About \$135b worth, or 41% of all outstanding fixed-rate mortgage debt.

As always, there are many angles to consider. But from a macro perspective, we think there are two major drivers worth thinking about.

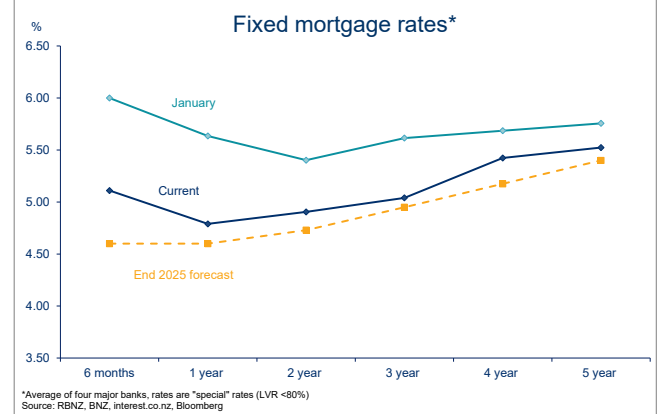
1. Where will rates go?

First, there's what happens to mortgage rates – particularly the relativities between rates for various terms. The vibe of yesterday's RBNZ announcement was supportive of our view additional modest declines in mortgage rates are likely, concentrated more at shorter terms.

The chart shows the current mortgage curve along with our expectations (which are based on our wholesale interest rate forecasts). As mortgage rates have come down this year, shorter term rates have fallen by relatively more. That is, the mortgage curve has steepened. We think this trend has a little further to go.

Forecasts are, as always, only a guide. But the fact fixing for two years or longer may end up a little more costly (upfront at least), relative to fixing for six months or one-year, may encourage some to stick with those shorter fixed terms.

Upward-sloping mortgage curve



It's the old 'picking the lowest rate' strategy that, at times, has been a dominant force in term selection. But perhaps no longer!

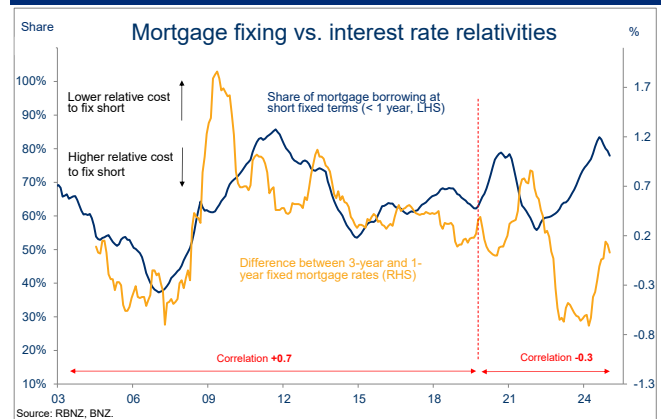
2. Where are we in the cycle?

That brings us to the second big factor influencing mortgage fixing behaviour: where we are in the interest rate cycle. It appears that this more forward-looking approach has become the dominant consideration, at least in aggregate. If so, it's probably something to be celebrated.

Consider the following chart. It plots the difference between three-year and one-year mortgage rates (yellow line) against fixing behaviour (blue line). Up until 2020, fixing activity generally 'chased' the available rate relativities.

So, when relative pricing moved in favour of shorter-terms (one-year rates falling relative to three-year), fixing behaviour followed suit, with the share of mortgage borrowings at terms of less than a year rising. The same was true in the opposite direction. The correlation was strong: +0.7 over the period from 2005 to 2020.

Changing correlations between rate relativities & fixing



But, as we first pointed out [a year ago](#), times are changing. The correlation in the five years since March 2020 has flipped from strongly positive to negative (-0.3). Now, borrowers – in aggregate – appear much more inclined to absorb what might be unfavourable *upfront* cost

relativities to position themselves to potentially benefit long-term as we move through an interest rate cycle.

For example, borrowers shortened their borrowing terms well ahead of the RBNZ's latest easing cycle, despite the extra upfront costs of doing so at the time (with short-term rates above long-term). That proved prescient as rates were subsequently cut aggressively. But as the easing cycle has advanced, borrowers have now started to push out for longer terms even though longer-term rates are above shorter-term equivalents, for the most part.

As illustrated in the chart, this break from the pick-the-lowest-rate ways of the past looks to have coincided, cleanly, with the start of the COVID era in early 2020. We're not sure why (send in your theories!) other than to state the obvious and say all sorts of correlations and relationships changed around this time.

Bringing in the RBNZ

The Reserve Bank yesterday cut the Official Cash Rate (OCR) by 25bps to 3.00%, the seventh cut this cycle. The cash rate is now 2½ percentage points below the peak. Nothing to surprise there. Where we were surprised – in a good way – was with the Bank's new-found conviction that additional cuts beyond this will be required.

For some time, we'd been factoring in one final 25bps cut to a low of 2.75%. We'd flagged the risk of more, and the RBNZ's clear signalling means we've now acted on that. Our forecast trough in the OCR has been pulled down by another 25bps to 2.50%, by November.

There still could be an element of the Reserve Bank feeling its way to the bottom of the cycle. Whatever the exact low point turns out to be, we are edging onto the home stretch for the easing cycle. Borrowers' small step away from shorter fixed terms appears consistent with this.

As to whether that continues, the two factors discussed above, on the face of it, will be working in offsetting directions. However, mortgage fixing behaviour now appears less sensitive to current relative pricing, and more focused on the risks and opportunities from the shape of the next interest rate cycle.

If that holds, we may see the gentle trend towards longer terms continue as borrowers gradually factor in the end of the Reserve Bank's easing cycle. We doubt there will be a rush toward longer-term fixes though. Not while the RBNZ maintains a bias to lower interest rates further, the economy remains weak, and the risk of rate hikes remains a long way off. Our read of mortgage rate 'break-evens' (comparing our interest rate forecasts to implied market pricing) is also consistent with the idea that borrowers have some time up their sleeve.



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Quarterly Forecasts

Forecasts as at 21 August 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.5	0.8	-0.2	0.5	0.7	0.8	0.8	0.7	0.6	0.6
Retail trade (real s.a.)	1.0	0.8	-0.2	0.8	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.1	-5.7	-5.3	-5.1	-4.9	-4.8	-4.7	-4.7	-4.6	-4.6
CPI (q/q)	0.5	0.9	0.5	0.9	0.3	0.4	0.5	0.4	0.3	0.5
Employment	-0.2	0.0	-0.1	0.3	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.2	5.3	5.2	5.1	5.0	4.8	4.8	4.7
Pr. avg hourly earnings (ann %)	4.0	3.8	4.6	4.1	3.4	4.1	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.2	3.0	2.5	2.2	2.3	2.5	2.7	2.9	2.9
CPI (y/y)	2.2	2.5	2.7	3.0	2.7	2.2	2.1	1.7	1.7	1.8
GDP (production s.a., y/y)	-1.3	-0.7	0.1	1.6	1.8	1.9	2.9	3.1	3.0	2.7

Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Forecasts										
Sep	3.00	2.90	3.65	4.50	3.00	3.40	4.10	4.10	4.30	0.20
Dec	2.50	2.90	3.65	4.50	3.05	3.45	4.15	3.70	4.25	0.25
2026 Mar	2.50	2.90	3.75	4.40	3.30	3.55	4.05	3.60	4.10	0.30
Jun	2.50	2.90	3.90	4.40	3.55	3.75	4.10	3.45	4.00	0.35
Sep	2.50	3.05	4.00	4.40	3.85	3.95	4.20	3.20	4.00	0.40
Dec	2.50	3.40	4.10	4.45	4.00	4.10	4.30	3.10	4.00	0.45

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.59	0.65	1.16	1.34	148
Sep-25	0.61	0.66	1.20	1.36	142
Dec-25	0.63	0.68	1.23	1.38	138
Mar-26	0.65	0.71	1.24	1.39	130
Jun-26	0.66	0.72	1.26	1.41	128
Sep-26	0.67	0.73	1.27	1.44	126
Dec-26	0.67	0.73	1.28	1.45	126
Mar-27	0.68	0.74	1.26	1.45	124
Jun-27	0.69	0.75	1.25	1.44	121

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.59	0.91	0.51	0.44	87.8	68.8
Sep-25	0.61	0.92	0.51	0.45	86.6	69.9
Dec-25	0.63	0.92	0.51	0.45	85.9	70.5
Mar-26	0.65	0.92	0.53	0.47	84.8	72.3
Jun-26	0.66	0.92	0.53	0.47	84.8	72.8
Sep-26	0.67	0.92	0.53	0.47	84.4	73.1
Dec-26	0.67	0.92	0.52	0.46	84.4	72.9
Mar-27	0.68	0.92	0.54	0.47	84.3	73.7
Jun-27	0.69	0.92	0.55	0.48	83.5	74.5

TWI Weights

15.6% 18.4% 9.2% 3.9% 5.5%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 21 August 2025	March Years					December Years				
	Actuals			Forecasts		Actuals		Forecasts		
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
GDP - annual average % change										
Private Consumption	3.4	1.0	0.2	2.1	2.8	1.0	0.0	1.8	2.8	2.4
Government Consumption	2.7	2.0	-0.7	-0.5	-0.1	0.8	-0.1	0.0	-0.6	0.4
Total Investment	3.3	-1.1	-5.3	0.4	6.7	-0.1	-5.1	-1.6	6.3	4.3
Stocks - ppts cont'n to growth	0.3	-1.5	0.2	0.6	0.1	-1.4	0.2	0.3	0.3	0.0
GNE	3.7	-0.9	-1.0	1.5	3.3	-0.7	-1.1	0.7	3.2	2.5
Exports	5.6	8.6	2.7	1.4	4.1	11.4	4.1	1.7	3.6	3.8
Imports	4.5	-1.3	1.7	3.0	4.8	-0.5	1.9	2.0	4.9	3.4
Real Expenditure GDP	3.9	1.5	-0.9	1.5	3.0	2.0	-0.5	1.0	2.8	2.5
GDP (production)	3.5	1.4	-1.1	1.3	2.9	1.8	-0.6	0.7	2.7	2.5
GDP - annual % change (q/q)	3.0	1.3	-0.7	1.9	2.7	1.0	-1.3	1.8	3.0	2.4
Output Gap (ann avg, % dev)	2.0	1.0	-1.0	-1.3	-0.4	1.2	-0.5	-1.4	-0.6	-0.2
Nominal Expenditure GDP - \$bn	394	418	431	456	479	413	427	450	474	495
Prices and Employment - annual % change										
CPI	6.7	4.0	2.5	2.2	1.8	4.7	2.2	2.7	1.7	2.1
Employment	2.9	0.9	-0.7	1.5	2.3	2.7	-1.2	0.8	2.5	1.9
Unemployment Rate %	3.5	4.4	5.1	5.1	4.7	4.0	5.1	5.2	4.8	4.7
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	4.1	3.3	6.6	4.0	3.4	3.4	3.2
Productivity (ann av %)	1.4	-1.0	-0.2	1.2	0.5	-1.1	-0.2	1.2	0.5	0.4
Unit Labour Costs (ann av %)	5.5	7.0	4.7	2.4	2.8	7.5	5.0	2.7	2.7	2.8
House Prices (stratified, mth)	-12.8	2.8	-0.6	1.0	4.6	0.6	-0.9	0.8	4.4	4.3
External Balance										
Current Account - \$bn	-33.8	-27.6	-24.7	-22.0	-22.0	-28.6	-26.2	-22.2	-22.0	-21.7
Current Account - % of GDP	-8.6	-6.6	-5.7	-4.8	-4.6	-6.9	-6.1	-4.9	-4.6	-4.4
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-2.3	-2.6	-1.7					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	38.7	41.7	42.7	43.9	45.7					
Bond Programme - \$bn (Treasury forecasts)	28.0	39.3	43.0	38.0	36.0					
Bond Programme - % of GDP	7.1	9.4	10.0	8.3	7.5					
Financial Variables ⁽¹⁾										
NZD/USD	0.62	0.61	0.57	0.65	0.68	0.62	0.57	0.63	0.67	0.68
USD/JPY	134	150	149	130	124	144	154	138	126	123
EUR/USD	1.07	1.09	1.08	1.24	1.26	1.09	1.05	1.23	1.28	1.23
NZD/AUD	0.93	0.93	0.91	0.92	0.92	0.93	0.91	0.92	0.92	0.92
NZD/GBP	0.51	0.48	0.44	0.47	0.47	0.49	0.45	0.45	0.46	0.48
NZD/EUR	0.58	0.56	0.53	0.53	0.54	0.57	0.55	0.51	0.52	0.55
NZD/YEN	83.0	91.1	85.4	84.8	84.3	89.5	88.4	85.9	84.4	83.6
TWI	71.0	71.2	67.9	72.3	73.7	72.0	68.5	70.5	72.9	73.9
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.50	2.75	5.50	4.25	2.50	2.50	4.00
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	3.90	5.63	4.26	2.90	3.40	4.15
5-year Govt Bond	4.40	4.60	4.00	3.75	4.10	4.50	3.90	3.65	4.10	4.05
10-year Govt Bond	4.35	4.60	4.50	4.40	4.50	4.65	4.45	4.50	4.45	4.60
2-year Swap	5.15	4.91	3.35	3.30	4.00	4.93	3.53	3.05	4.00	4.00
5-year Swap	4.50	4.40	3.65	3.55	4.15	4.43	3.63	3.45	4.10	4.20
US 10-year Bonds	3.65	4.20	4.25	4.10	4.00	4.00	4.40	4.25	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.50	0.65	0.05	0.25	0.45	0.60

⁽¹⁾ Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury