

Stuck in the slow lane

- **Stodgy housing market momentum to stick around**
- **We lower our house price inflation forecasts**
- **Clearer upswing not expected until next year**
- **Expected timing of first cash rate cut pushed back to February, from November**

The view, in brief

We've revised down our short-term house price forecasts. We now expect a small 2% lift in prices over calendar 2024 (previously 5%), rising to 7% over calendar 2025. For this year, the risks to our forecasts are to the downside.

Last year's short string of monthly house price gains now look like a false start. And we think current scratchy momentum will stick around for longer amid high mortgage rates, a deteriorating economic and labour market backdrop, and a jump in unsold inventory.

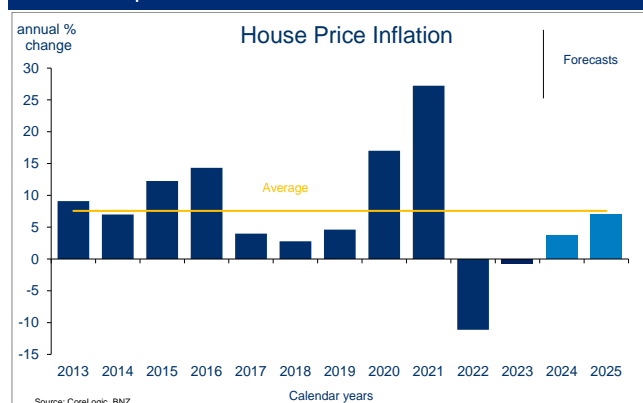
We still expect the current period of house price stasis to give way to a more obvious upswing next year. Most important in this regard is our view that mortgage rates will start trending lower in 2025. More demand-friendly housing policies, population pressures, and a stabilising economy will add support. Acting in the other direction, affordability and cash flow constraints will cap the magnitude of any upturn.

Welcome to our second *Property Pulse* for 2024. Supporting our more regular [EcoPulse](#) updates, the aim here is to chat through recent housing and mortgage rate happenings, and provide our take on the outlook.

Included in report:

- [The view, in brief](#)
- [House price outlook](#)
- [Mortgage rate outlook](#)
- [Appendix 1: Valuation chart-pack](#)
- [Appendix 2: Regional Heatmap](#)

BNZ house price forecasts



Impact of macro drivers of our house price view

The table below summarises the various drivers of house price inflation and their directional impact on our view.

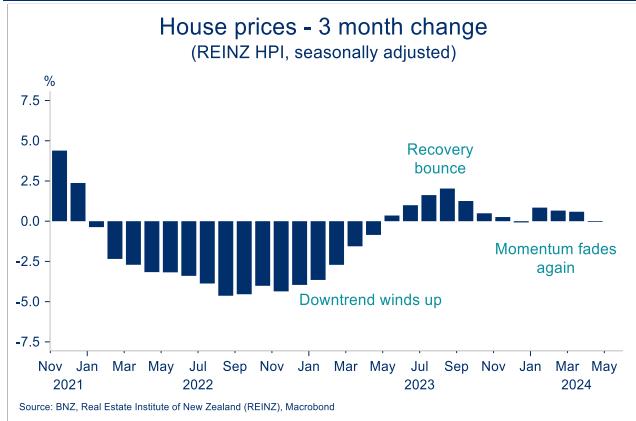
	Short-term	Further ahead	View summary
Mortgage rates			Mortgage rates are now expected to go sideways for longer, ahead of a downtrend next year
Housing supply			A burst of new listings has seen unsold inventory hit 7-year highs. Further ahead, falling rates of new construction may pose issues.
Labour market			Labour market conditions are rapidly easing. Wavering job security and falling wage growth will dampen housing demand
Housing policy			The restoration of interest deductibility and easing of LVR restrictions are mild supports. The introduction of DTI restrictions and the wind back of the Brightline test are assumed to have neutral impacts, initially
House price inflation			After a flat 2024, momentum is expected to pick up next year

False start

Top-line indicators of NZ’s housing market continue to depict a market that’s plodding at best.

After a string of monthly house price increases through the latter stages of last year, the tentative upswing has run out of puff. The latest slug of REINZ housing data showed the House Price index recording essentially no growth from January to April (adjusted for seasonality). That leaves house prices holding about 3% above the February 2023 cycle low.

Momentum fades

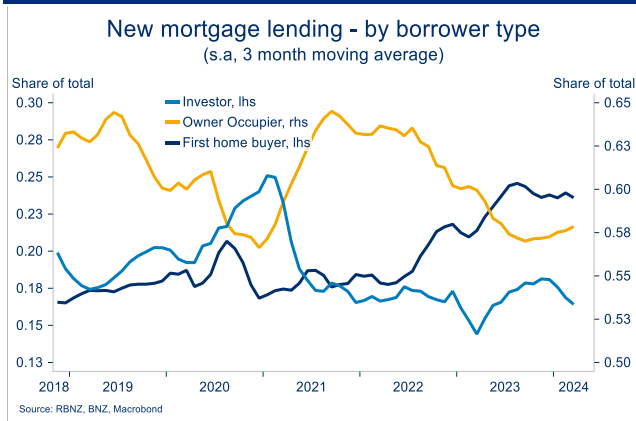


There have been more signs of life in housing turnover. Monthly house sales are still tracking below average but, at around 6000 per month, are now about 40% above early 2023 levels.

First home buyers making hay, investors MIA

A lift in interest amongst first home buyers (FHB) remains a feature of this extra housing activity. The share of new mortgage lending attributed to FHB has been running at a historically elevated 24% of the total for almost year now (chart below).

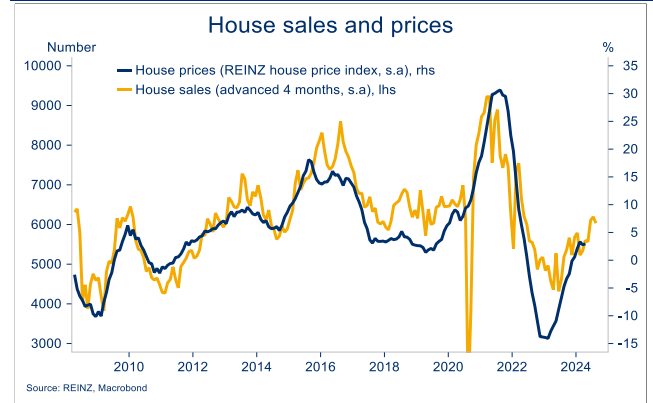
First home buyers most active



Investors, by contrast, are less interested. New investor lending diverged noticeably from that of FHB in 2022 and has tracked down to about 16% of total. In absolute terms, it has yet to substantively recover from the lows struck around the start of 2023.

Any positive impact on investor demand from the new government’s change in investor tax policies, so far, seems to be being offset by the cash flow hit from high interest rates and soaring insurance, rates, and maintenance bills. The anecdote points to investors remaining on the sidelines in the short-term. It’s possible we see a lift in investor selling intentions once the Brightline Test shifts back to two years in July, but we’d expect this impact to be small.

House sales trending higher



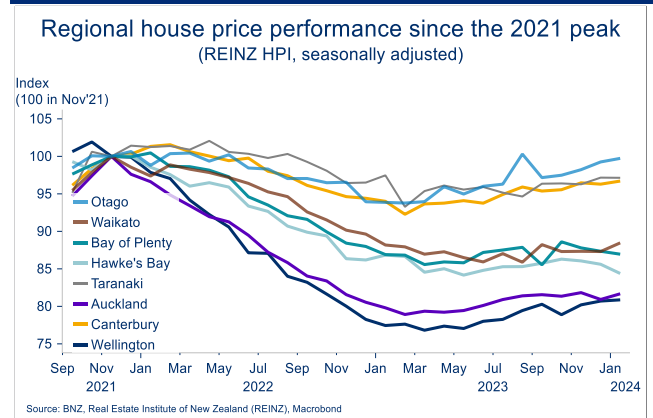
Ordinarily, the shift up in sales activity would be a reliable indicator that house price appreciation is to follow (chart above). This may come through at some stage, but in the short-term we’re not convinced.

Listings > sales

That’s because new listings continue to rise even faster than sales. There’s excess supply, in other words. Unsold inventory increased again in April to a fresh seven year high (s.a.). The extra choice and time available to buyers –median days to sell a property are well above average – are not the sort of conditions to squeeze house prices higher.

Indicative of such, we note that those regions that have experienced the largest lift in inventory since January – namely Auckland (+15%) and Wellington (+22%) – have been relative underperformers in the house price stakes (chart below).

Inner city pressure



Duck on a pond

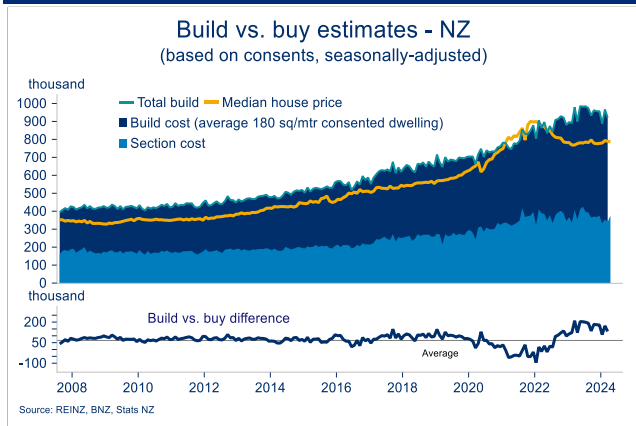
Stepping back out of the weeds, the current status of the housing market brings to mind the duck on the pond analogy. Calm and largely static on top of the water, but

with lots of countervailing forces colliding below the surface.

Stacking up house price fundamentals, first on the supportive side, we have:

- ➊ **Booming population growth.** In the year to March, the population grew by 131,000 (that’s two Napiers). Buoyant net migration inflows and rent inflation for new tenancies are now slowing, but they remain at levels indicative of heightened pressure on housing resources.
- ➋ **High build costs.** It’s still much more expensive to build a new home than it is to buy an existing one, at least on our numbers. Since we first [wrote](#) on the topic our estimate of the gap has reduced a little. But it’s still well above average, meaning marginal housing demand will be directed relatively more into the existing market.

Build costs > Buy costs

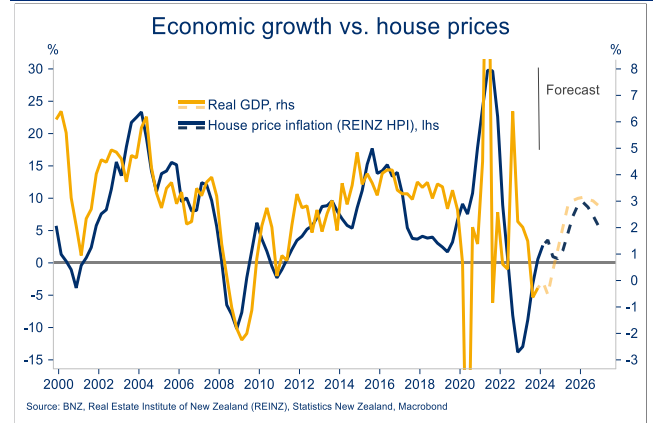


- ➌ **Housing policies** are tilting more supportive. Interest deductibility is now back to 80% and will go to 100% next year, the Reserve Bank has flagged an easing in loan-to-value ratio requirements later this year, and proposed debt-to-income ratios won’t be immediately binding. The winding back of the Brightline Test to two years from ten could support investor demand at the margin, but some investors may also be more willing to sell once it is shortened up. We’ve assumed a neutral impact.

On the negative side:

- ➍ **Cash flow crunch.** Mortgage rates are going to stay high all year, and the process of adjustment to past increases continues. The average paid mortgage rate has lifted to 6.1% and will rise a further 0.5% or so from here. Insurance, rates, and maintenance costs have soared.
- ➎ **Economic sentiment is in the doldrums** and probably won’t improve substantively until next year. We don’t see economic growth resuming until the third quarter of this year at the earliest (chart opposite).

Cycle links being restored



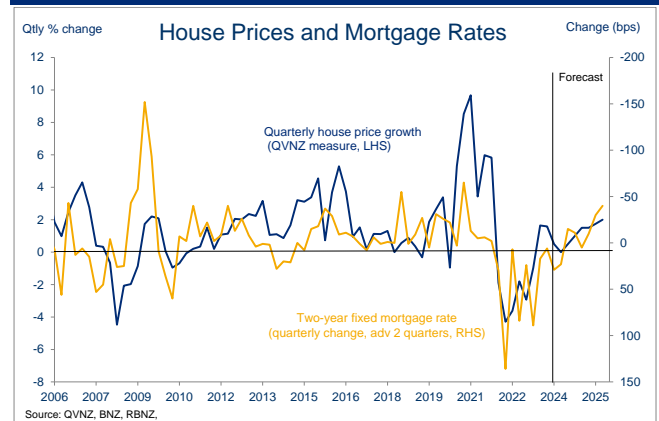
- ➏ **Labour market conditions are deteriorating.** The unemployment rate has risen to 4.3% on its way to a 5.5% forecast next year. Reduced job security, wage growth, and general job opportunities are impinging upon housing demand and this trend has further to run. Mortgage arrears and stress metrics are still low in historical terms, but will deteriorate further before they improve.

The final tally

Weighing up the balance of the above, house price fundamentals are overall less supportive than at the time of our [last](#) update. Economic and labour market conditions have deteriorated, mortgage rates are set to stay higher for longer, and the jump in unsold inventory will take time to work off. We’ve shaved back our 2024 house price inflation expectations as a consequence.

Further ahead, we remain of the view the current period of house price stasis will eventually give way to a clearer upswing in prices. Most important in this regard is our view that mortgage rates will start trending lower next year (chart below and [next section](#)). More demand-friendly housing policies and a recovering economy will add support. Acting in the other direction, affordability and cash flow constraints will cap the magnitude of the upturn.

Trend change in 2025



Mortgage rate outlook

Our view at a glance*

	Short-term	12 months ahead	Comment
Floating rates	➡	➡	Sideways for the rest of 2024, with falls through 2025 as the RBNZ lowers the OCR
Short-term (1-2 years) fixed	➡	⬇	Sideways bias remains for this year ahead of falls early next year
Longer term (3+ years) fixed	➡	➡	Less downside than shorter-term rates
Fix or float?	More value in shorter fixed terms		

*Based on our forecasts for wholesale interest rates

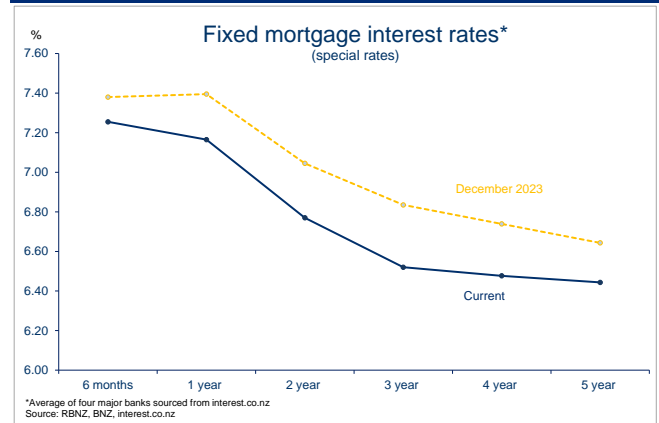
Floating rates – holding pattern

Floating rates have barely moved in almost a year (chart below). There’s little prospect of this changing in the short-term.

In the wake of the Reserve Bank’s (RBNZ) higher-for-longer messaging, we’ve pushed back the expected timing of the first cash rate cut to February (from November). If this pans out, floating rates could be expected to start falling around the same time. But meaningful falls from current levels around 8.5% back towards 7% and beyond will have to wait until the second half of 2025.

The deteriorating economic backdrop and slow-but-steady progress on inflation mean we continue to believe the cash rate can be lowered earlier than RBNZ forecasts imply (now late 2025). Our best guess on the timing is February 2025, but significant uncertainty remains.

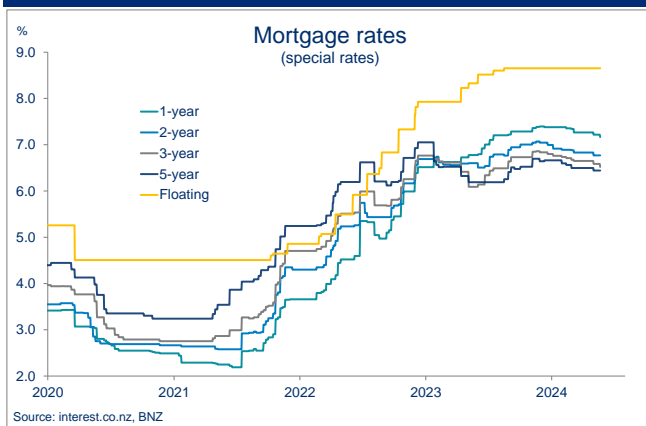
December high water mark



For some time, our mortgage interest rate view has trod a relatively unexciting middle ground between calls for higher interest rates and speculation of imminent sharp declines. In essence, this sideways-to-mildly-lower view of fixed mortgage rates remains. It reflects a combination of:

- A gradual downtrend in wholesale interest rates.** We suspect wholesale interest rate markets will continue to price in early RBNZ rate cuts, despite this week’s higher-for-longer messaging from the Bank. Particularly if the flow of incoming economic data remains on the softer side, as we expect.

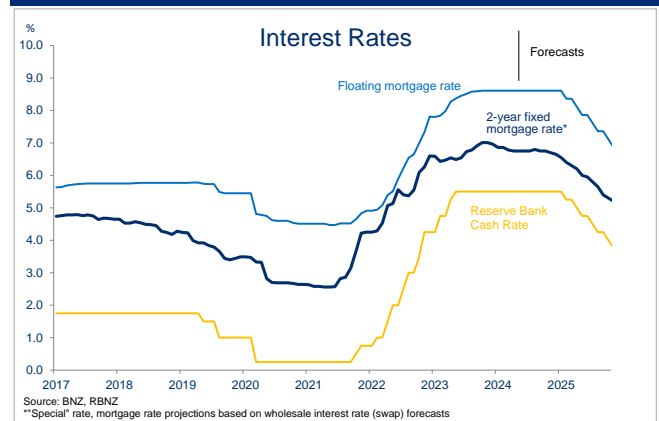
Holding pattern



Fixed rates – also holding pattern

Fixed mortgage rates look to have peaked in December. They’ve since pulled back a small 15-30bps, depending on which term you look at (chart opposite).

Cash rate cuts from February

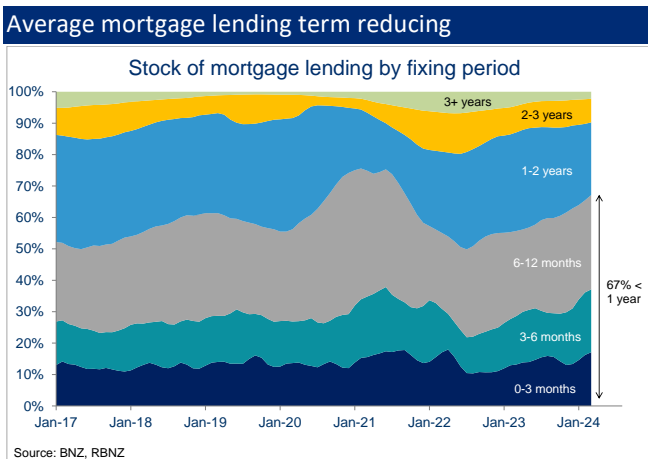


2. **Rising bank funding costs** blunting some of the impact of lower wholesale rates on mortgage rates. Rates on term deposits (the bulk of bank funding) have yet to fall to any significant degree and older, low cost bank funding continues to roll off.

Fix or float?

Before diving into the fixing debate, it’s worth reiterating that getting a mortgage strategy “right” is more about meeting a borrower’s financial needs and requirements for certainty, than trying to pick the next rate move. The latter is fraught with difficulty.

Mortgage rates at all terms are ever so slightly lower than at the time of our last update. But the essence of the mortgage term decision hasn’t changed. Six-month and one-year fixed rates remain 50-80bps above longer-term two-and three-year rates. In other words, the mortgage curve remains “inverted”. Fixing for shorter terms, at higher rates, can thus be thought of as “buying” the option to roll onto lower rates in future, should they transpire.



Doing so remains overwhelmingly popular. In February and March (the latter being the latest we have RBNZ data for), three quarters of all new mortgage lending was done at terms of one year or less. The stock of all existing mortgage borrowing is similarly tilted, with 67% by value having a term to maturity of one year or less (chart opposite).

In short, the majority of borrowers are positioned for mortgage rates to fall. For new or refinancing borrowers, the question is how far do interest rates need to fall in future to make paying more for shorter-term fixes worthwhile? ‘Breakeven’ analysis can be useful in this regard.

It’s easiest to consider an example. It’s currently possible to fix for two years at around 6.75%.¹ Alternatively you could fix for one-year at around 7.15% and then, assuming rates do fall, roll onto a lower one-year rate in a year’s time. Based on market pricing, to breakeven on the rolling shorter-term strategy relative to the two-year strategy, the one-year rate needs to be about 0.8 percentage points lower in a year’s time (around 6.35%).

On the face of it, our interest rate view and forecasts suggest there’s a good chance of that scenario playing out. All else being equal, that indicates there may be value in fixing for a shorter term like the one-year.

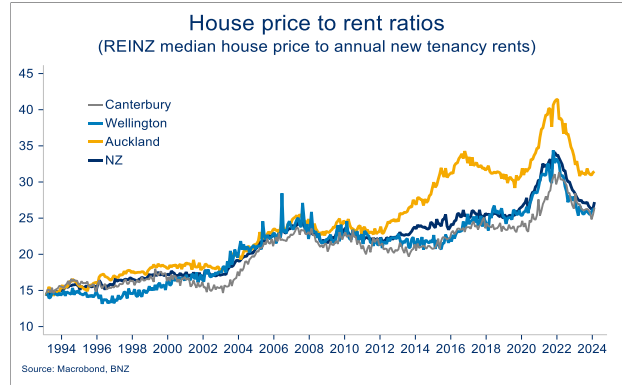
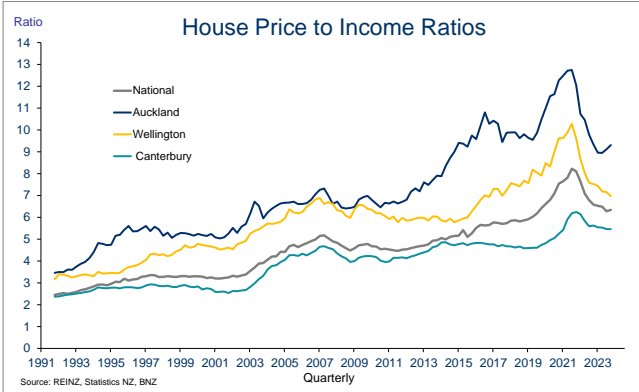
That option also provides less certainty about future payments though, and there’s still plenty of interest rate uncertainty around. There may thus be value for some borrowers to spread some of their risk out into the longer 18-month and two-year terms. Interest rates at those terms are also a little lower.

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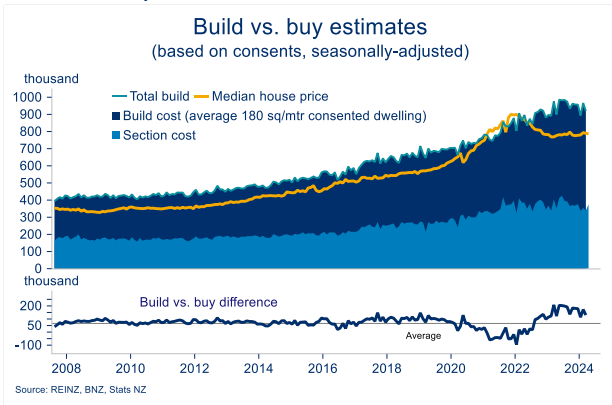
¹ Average of ‘big four’ bank “special rates”, sourced from interest.co.nz

Appendix 1: Valuation chart-pack

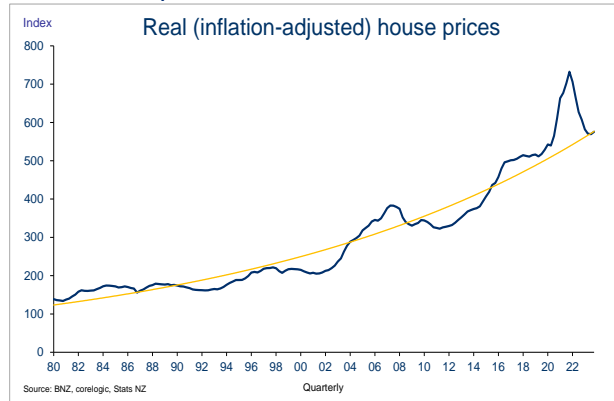
Valuations: Still expensive but less so than before



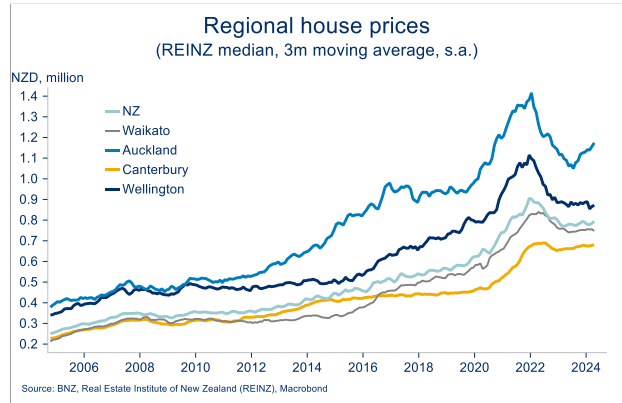
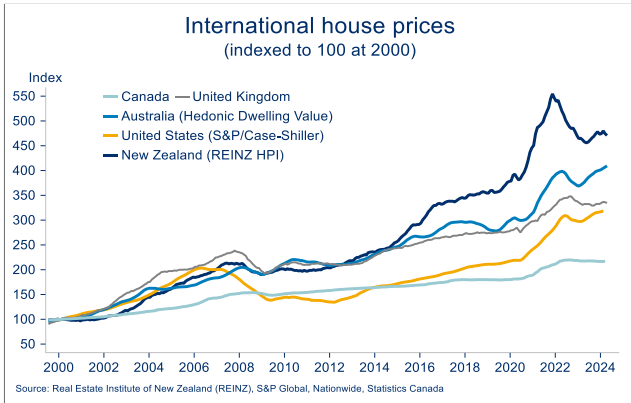
New build premium elevated



Real house prices back to trend



International and regional perspectives



Appendix 2: Regional Heatmap

Our housing market heatmap provides a snapshot of the *relative* strength of housing markets around the country.

Regional Housing Market Heatmap - April data*								Relative strength
Region	House prices ¹			House sales	Days to sell	Rents ²		
	Median price	3m/3m %	Annual %	3m/3m %	Deviation from av	Per week	Annual %	
Northland	\$713,333	0.0	3.8	3.1	-7%	\$536	5.6	
Auckland	\$1,174,045	-0.2	2.0	13.9	23%	\$634	7.3	
Waikato	\$747,592	0.2	1.1	6.3	-2%	\$507	9.0	
Bay of Plenty	\$803,728	2.7	5.0	2.7	-2%	\$603	7.6	
Gisborne	\$602,759	1.3	2.1	33.8	6%	\$545	10.8	
Hawke's Bay	\$679,822	1.3	2.1	19.1	1%	\$564	6.9	
Manawatu-Whanganui	\$541,694	0.5	3.3	1.0	11%	\$468	5.1	
Taranaki	\$607,308	0.1	0.3	7.5	-5%	\$526	5.2	
Wellington	\$871,989	-0.3	4.1	10.7	7%	\$604	4.3	
Nelson, Tasman, Malborough	\$726,085	-1.0	-2.7	13.9	6%	\$495	3.4	
Canterbury	\$679,794	1.5	4.8	9.7	-5%	\$530	9.4	
West Coast	\$375,000	0.9	1.9	4.5	NA	\$373	3.5	
Otago	\$682,538	2.0	5.4	4.2	-2%	\$528	5.0	
Southland	\$443,355	2.4	6.0	14.9	-1%	\$420	NA	
New Zealand	\$789,890	0.4	2.9	11.1	11%		7.1	

*Notes: All data seasonally adjusted by BNZ; (1) House price data (other than Median Price) based on REINZ HPI; (2) Feb data, based on new tenancies.

Sources: REINZ, Statistics NZ, BNZ, realestate.co.nz, NZ tenancy service, Macrobond.



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