

# Term Deposit Report

14 July 2021

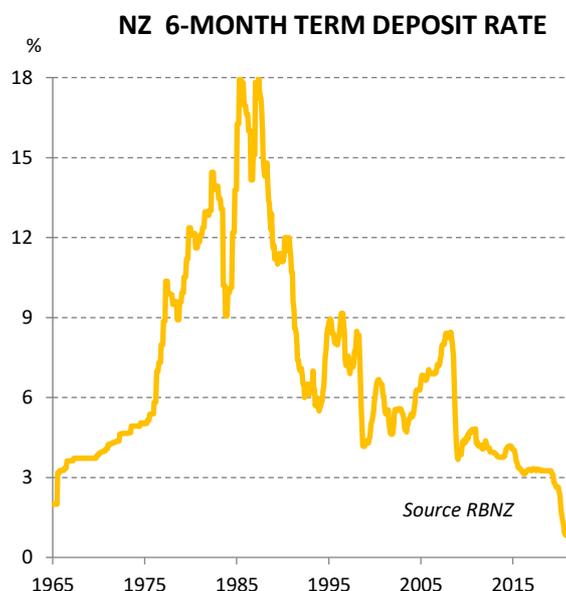
## Long-term rates continue to slowly lift

Over the past year term deposit rates have been at the lowest level on record going back to the 1960s. But we have turned a corner in 2021. There has been a lift off the lows for all but the shorter-term deposit interest rates over recent months, including increases in July. Nonetheless, rates on offer are still very low and are expected to remain significantly below historical averages over the coming years. ASB's term deposit interest rates are [tabled here](#), and selected rates are shown below.

Term Deposit Rates	90-days	6 months	9 months	1 Year	2 years	3 years	4 years	5 years
10-year ave	2.68	3.32	3.37	3.43	3.64	3.81	3.98	4.12
Low	0.35	0.80	0.75	0.75	0.80	0.90	1.00	1.00
Jul-21	<b>0.35</b>	<b>1.00</b>	<b>0.90</b>	<b>1.20</b>	<b>1.40</b>	<b>1.70</b>	<b>1.85</b>	<b>2.00</b>

### Some important considerations are:

- **Term deposit rates have started to lift off their all-time lows, but returns are still expected to remain low relative to historical averages over the course of the year.** The better-than-expected performance of the economy over the past year has significantly reduced the likelihood that New Zealand interest rates will get lower, as we worried about in 2020. In fact, the interest rate movement has been in the opposite direction this year.
- **Inflation has been low but is on the rise and could well erode all the return from term deposits.** Consumer price (CPI) inflation has generally been within the lower half of the Reserve Bank of New Zealand's 1-3% target range over the past five years. However, CPI inflation is expected to lift over 2021, and run at between 2-3% p.a. over the coming years. That's above all the current term deposit rates.
- Related to the inflation outlook, and the strong economic recovery in the wake of the COVID-19 pandemic, we expect the RBNZ to begin slowly lifting the OCR this year. **We expect to see more increases in term deposit rates over the years ahead.**
- **Making sure you are paying the right tax rate** is important, and it's easy to check ASB has the right tax rate details for you.
- **Higher returns are possible** through focusing on longer-term investments and diversification into different assets with different risk profiles.
- It's always important that investors make sure investments suit their personal needs - **talking with an advisor can be a good idea.**
- **Safety of savings is important** – at times like these, savers want to know their money is secure.



## Snapshot and Outlook

Even though we have seen a lift off the record lows over 2021, our view is that interest rates for most term deposits are going to stay historically low for several years.

At the time of writing, ASB's term deposit interest rates for amounts over \$5,000 were largely between 0.35% and 1.20% for terms between 90 days and 1 year, and between 1.25% and 2.00% for terms between 18 months and 5 years. Over the past 10 years, term deposit interest rates have averaged around 2.1% to 2.5% higher than the current rates available for the various terms.

For the popular term deposit rates – short terms up to 1 year – a key influence is what the RBNZ does with the Official Cash Rate (OCR). The RBNZ adjusts the OCR to help it achieve its price stability (inflation) and employment objectives. The RBNZ has a 1-3% target range for inflation and would like it to be around 2% per annum on average. Similarly, it would like employment to be at its maximum sustainable level. Consumer price inflation (CPI) has averaged around 1.5% per annum over the past 5 years but is now on the rise. We expect annual CPI inflation to move above 3% by the end of the year, and average above 2%p.a. over the next five years. Moreover, the labour market is tight, with acute labour shortages. As a result of the stronger inflation outlook, limited spare capacity and strength of the local economy, we think the RBNZ will begin to slowly lift the OCR later this year.

The New Zealand economic recovery is going well, and that's a key reason why we have seen long-term interest rates in the economy lift off the record lows from late last year. We saw a similar lift in long-term interest rates in key offshore economies like Australia and the US, although of late 10-year Treasury yields have ease back a bit.

The late 2021 increase in the OCR should help lift shorter-term deposit rates, which are currently very low. These rates should continue to go up, but only gradually given that we expect the OCR to peak at historically low 1.50% around late 2023. In summary, based on our OCR forecasts and outlook for the economy, we expect further increases in term deposit rates over the next few years, but for the advertised rates to remain significantly below the longer-term averages tabled at the top of this report.

If you are interested in our latest summary of the RBNZ's announcement and outlook, you can [read more here](#).

## Some issues for consideration

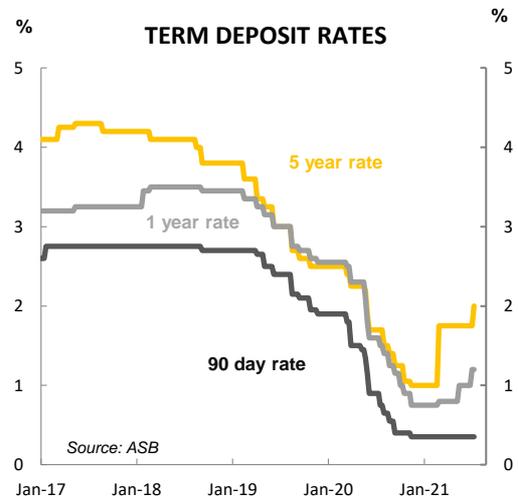
For savers, these expectations of historically low term deposit rates have major implications. We acknowledge that people are rightly concerned about the significant income drop caused by the lower interest rates available today compared to earlier years.

## Access to your money

Short-term interest rates are expected to remain low, but rates for longer terms have started to lift, so investors can get a higher return by investing for longer terms. However, with term deposits, funds are locked in, and only accessible in limited circumstances. This is an important consideration for investors, particularly when weighing up longer terms ([more here](#)). In other words, savers need to weigh up their personal circumstances and need for flexibility when considering what term is best for them.

## Inflation

Inflation has been low, but it's still there, eroding the real value of investment returns, including term deposit interest. In fact, the current 1- to 5-year term deposit rates of between 1.20% and 2.00% p.a. are all lower than what we expect CPI inflation to average over our forecasts for the corresponding periods. (we expect inflation to average above 2% over our forecast horizon). In other words, after taking expected inflation into account, there's not much return from locking money away for several years, which adds to the current challenge of generating income from term deposits.



## Safety of your money

When financial markets are volatile like they have been during the COVID-19 pandemic, many investors become understandably concerned about the safety of their savings. For term deposit customers, it is important to know that ASB is strongly capitalised and maintains a very conservative (high) level of liquidity. This enables us to safely withstand extended periods of market disruption and uncertainty like we have just been through. ASB's credit ratings reflect the independent opinion of three international rating agencies about the capability and willingness of ASB to repay its debts (which includes term deposits). ASB is rated on an international scale as 'strong to very strong'. The RBNZ's website has information about credit ratings [here](#).

## Check you are on the right track

It's worth thinking hard about the timeframe to invest for because the increase in return you can get for making a longer time commitment can make a difference. For example, the current interest rate on a twelve-month term deposit is 0.85% higher than the three-month rate (1.20% vs. 0.35%).

ASB's term deposit interest rates are [tabled here](#). Higher returns are possible through longer-term investments and diversification into different assets with different risk profiles. But you need to be sure those investments suit your needs. Talking to an [ASB advisor](#) could help.

## Check you are paying the correct tax rate

If you are a New Zealand tax resident and have supplied your IRD number but not your tax rate, the default rate is 33%. If you have not supplied your IRD number, then the non-declaration rate is 45%. You can use our [online tool](#) to confirm your Resident Withholding Tax (RWT) rate – it'll only take a few seconds.

The guide then allows you to update your tax rate online using FastNet Classic. If you are a non-New Zealand tax resident the default rate will be the withholding tax rate for your indicated country of tax residence.

## Should you be in a term deposit or a term fund?

An ASB Term Fund is an alternative to a term deposit and may provide a better after-tax return than a term deposit offering the same rate, term, and fees. Tax on your returns is capped at a maximum rate of 28%, so an ASB Term Fund may be worth considering if you're on a higher income tax rate. [Find out more here](#).

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