

# Term Deposit Report

04 March 2021



## Longer-term rates lift, short terms stay anchored

Low interest rates have been helping borrowers and frustrating savers over recent years. Term deposit interest rates were steadily trimmed over 2020 and are significantly below the average levels of the past 10-15 years. In fact, term deposit rates have been at the lowest level on records going back to the 1960s. We appear to be turning a corner in early 2021 and have seen a lift off the lows for the longer-term rates over the past month. However, we still expect term deposit interest rates to remain significantly below historical averages over the coming years.

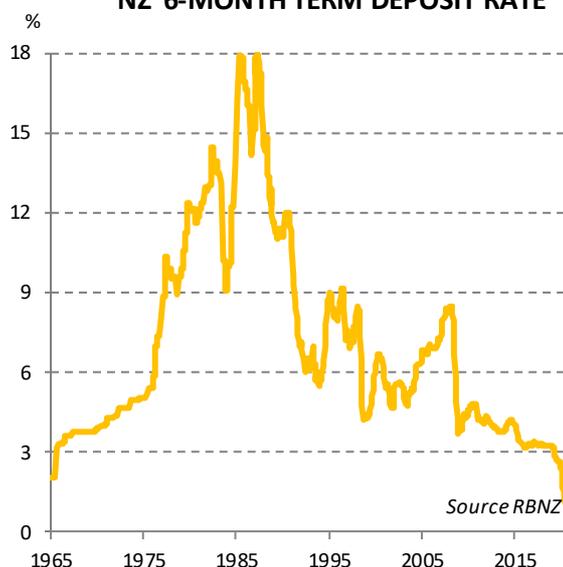
ASB's term deposit interest rates are [tabled here](#), and selected rates are shown below.

Term Deposit Rates	90-days	6 months	9 months	1 Year	2 years	3 years	4 years	5 years
10-year ave	2.80	3.43	3.47	3.54	3.76	3.93	4.10	4.24
Mar-21	0.35	0.80	0.80	0.80	1.00	1.25	1.50	1.75

### 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 recent months has significantly reduced the likelihood that New Zealand interest rates will get lower, as we worried about in 2020.
- **Inflation has been low, but could 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. CPI inflation is expected to remain contained (i.e. around 2% p.a. for several years), but that's above the current term deposit rates.
- Related to the inflation outlook, and the economic impact of the COVID-19 pandemic, we expect the RBNZ to keep the OCR at its current 0.25% setting over the year ahead. This is a key reason why we expect the return on most of the popular term deposit rates of up to 12 months to remain low.
- **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 now savers want to know their money is secure.

NZ 6-MONTH TERM DEPOSIT RATE



## Snapshot and Outlook

Our view is that interest rates for most term deposits are going to stay low for several years, even though we have seen a lift in the longer-term rates this month.

At the time of writing, ASB's term deposit interest rates for amounts over \$5,000 are largely between 0.35% and 0.80% for terms between 90 days and 1 year, and between 1% and 1.75% for terms between 18 months and 5 years. Over the past 10 years, term deposit interest rates have averaged around 2% to 3% 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) objectives. The RBNZ has a 1-3% target range for inflation and would like it to be around 2% per annum on average. Consumer price inflation (CPI) has averaged just over 1.4% per annum over the past 5 years. We expect CPI inflation to remain contained (around 2%), even though the economy is recovering well from last year's shock. This means there isn't a need for a higher OCR setting at present.

The New Zealand economic recovery is going well, and that's a key reason why we are seeing long-term interest rates in the economy start to lift off the record low levels we saw last year. We are seeing a similar lift in long-term interest rates in key offshore economies like Australia and the US.

In our view, the most likely course for the OCR is that the RBNZ holds it steady over 2021 and early 2022. We expect the RBNZ to gradually lift the OCR over several years, most likely starting in the second half 2022. By 2024, we expect the OCR to be only 1% higher than it is today. If the economy struggles again, the OCR could get cut lower than the current 0.25% setting, but hopefully that does not need to happen.

Based on our OCR forecasts, we only expect modest increases in term deposit rates over the next few years, and for 2021, ASB economists aren't expecting too much change from the current rate settings.

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

## Some issues for consideration

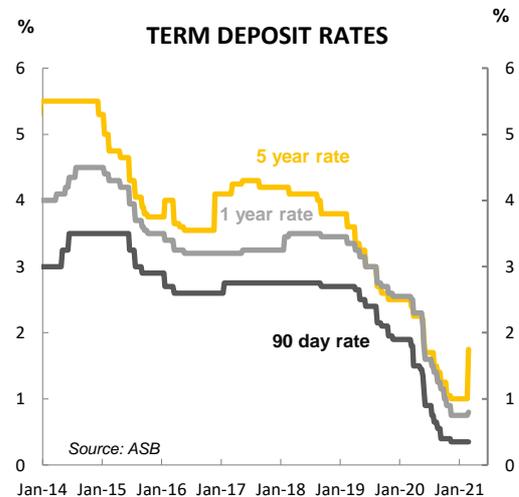
For savers, these expectations of low term deposit rates have major implications. We acknowledge that people are rightly concerned about the significant income drop caused by the lower interest rates available today compared to earlier years.

## Access to your money

Short-term interest rates are expected to remain low, but now 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 is 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 0.80% and 1.75% 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 around 2% over 2021-2024). 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. 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 six-month term deposit is 0.45% higher than the three-month rate (0.80% vs. 0.35% for deposits over \$5K).

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 - if you're on a 30% or 33% income tax rate. [Find out more here](#).

### ASB Economics & Research

Chief Economist  
Senior Economist  
Senior Economist  
Senior Economist  
Senior Economist, Wealth  
Economist  
Publication & Data Manager

Nick Tuffley  
Mark Smith  
Jane Turner  
Mike Jones  
Chris Tennent-Brown  
Nat Keall  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[nathaniel.Keall@asb.co.nz](mailto:nathaniel.Keall@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

### Phone

(649) 301 5659  
(649) 301 5657  
(649) 301 5853  
(649) 301 5661  
(649) 301 5915  
(649) 301 5720  
(649) 301 5660

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