BNZ Weekly Overview

14 May 2009

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

In this week's issue….

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line.

Reserve Bank Misses The Mark

This week when releasing their Financial Stability Report the Reserve Bank expressed concern about what they consider to be an unjustifiably high margin between the cost to us banks of floating rate borrowing and floating rate lending. Unfortunately their maths is off the mark.

Three weeks ago the RB cut their cash rate 0.5%. Normally this would lead to a 0.5% cut in floating mortgage rates. They have remained unchanged. Over the past year the official cash rate has been cut 5.75%. Floating mortgage rates have fallen 4.5%. What gives? The answer is the biggest global credit crisis in the lives of practically all of us shattering traditional interest rate dynamics – and the Reserve Bank should be aware of this.

The official cash rate in simple terms is the cost to us banks of borrowing money for 24 hours from the RB to balance our account with them at the end of the day. The account can get out of balance if our customers write more cheques than they receive. The money we borrow gets paid back to the RB usually in a very short time.

The Reserve Bank – outside of some special contingency funding associated with the current offshore credit crisis – does not supply the money we lend to businesses and home buyers. We do not fund a 25 year mortgage by borrowing from the RB for 25 years. We have to get that money from depositors and investors offshore. The relationship between the rates of interest we pay depositors and investors offshore and the official cash rate set by the Reserve Bank has collapsed because of the global crisis.

Consider a 90-day term deposit. Normally the rate we offer would be well below the 90-day bank bill yield where that bill yield is closely tied to the RB's official cash rate currently at 2.5%. But with bill yields now at 2.9% our 90-day term deposit rate is 4.25%.

In fact consider the dynamics compared with a year ago shown in the following table. A year ago the cash rate was 8.25% and 90-day bank bill yields 8.7%. Our 90-day term deposit rate was 7% and the floating mortgage rate 10.95%. The margin between the mortgage rate and the bill yield was 2.25%. A year later that margin has blown out to 3.6%. But not only are we funding some of our floating rate lending offshore with premium costs adding up to an extra 3% to the bill yield, we also fund using term deposits so these need to go into the calculation.

So even if we assume half of our funding was at the 90-day bank bill rate and half the term deposit rate we get the margin shrinking as shown in the last column from 3.1% to 2.95% - before allowing for the extra funding cost offshore.

	OCR	**Bill**	**90-day term Deposit**	**Floating Mort. Rate**	**Margin 1**	**Margin Mixed**
May 2008	**8.25%**	**8.7%**	**7.0%**	**10.95%**	**2.25%**	**3.1%**
Now	**2.5%**	**2.9%**	**4.25%**	**6.49%**	**3.6%**	**2.93%**

There is no firm basis for the RB's claim that floating mortgage interest rates are too high. In fact they are too low.

The upshot of this discussion is that the Reserve Bank are not giving the full picture when they make comments regarding the level of interest rates they would like to see. We do not fund anyone's mortgage or business loan at the official cash rate. In the past we have written extensively about the RB's diminished ability to heavily influence other than very short term interest rates during the period 2004 - most of 2006. Now, in the midst of this credit crisis and a structural shift in term deposit rates and offshore funding costs, they have practically lost that ability as well. Their comments are undoubtedly driven by intense frustration at the ending of firm monetary policy influence in New Zealand for the time being and as such can be forgiven.

But here is where the real problem emerges for the tens of thousands of people who might look to our central bank to give them some guide as to what to do with their mortgage. The RB have emphasised they plan cutting the cash rate further, they will keep it low until late-2010, and current floating rates "should" come down. They are inviting people to float. But….

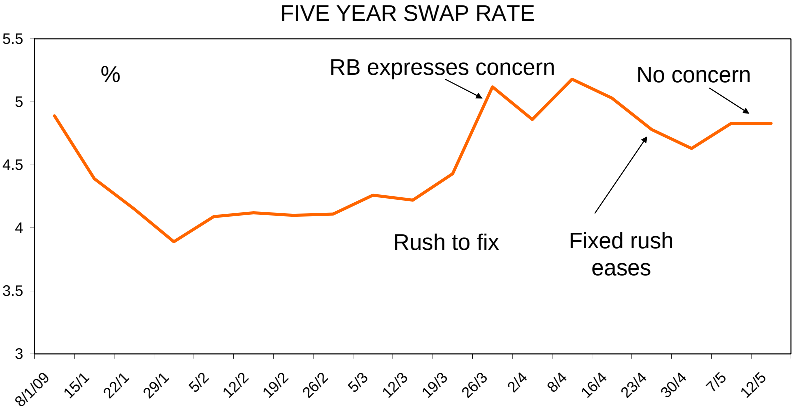
1. Floating interest rates are very unlikely to fall further.
2. The chances are the RB will raise its cash rate earlier than late-2010.
3. Fixed borrowing costs are drifting up.

By getting into the discussion about whether bank customers float or fix they have stepped outside their area of expertise and muddied the waters for borrowers. Leaving one's mortgage at a floating rate has not worked for those who missed record low rates two months ago. It is also not working for those floating at 6.49% when they could fix one year at 5.49%. It will also probably not work for those waiting for a decent dip in fixed rates before fixing – and these are things we expand on in the interests of borrowers in our Interest Rates section.

Seemingly, High Swap Rates Are Not A Problem

While getting it wrong regarding the margins on floating rate lending the Reserve Bank have also unfortunately (though for a logical reason) done a flip-flop with regard to wholesale fixed interest rates. They released a statement on April 1 expressing "…concern over the recent strength of long-term wholesale interest rates."
http://www.rbnz.govt.nz/news/2009/3598327.html

Lets read "long term" as meaning for three years and beyond. Back then the three year swap rate was almost 4.5% and up from 3.7% in mid-March. It is now 4.15%. The five year swap rate was near 5.2% from 4.2%. It is now near 4.85%. So rates have fallen, but not by all that much. They were near 4% and 4.6% respectively three weeks ago. So presumably something has changed to make the run up in rates acceptable this time whereas it was not previously.



The problem for the Reserve Bank is that these rates are usually only slightly affected by the Reserve Bank's official cash rate but are heavily influenced by the strength of global economic winds and the short term level of fixed rate borrowing demand from NZ householders.

Back in late-May following our "FIX NOW" comment of March 19 literally billions of dollars in mortgage lending was switched by borrowers from floating to fixed interest rates. People got rates such as seven years at 6.79% compared with 8.1% now, five years 6.49% versus 7.5% now, and three years at 5.99% versus 6.75% now.

The surge was too much for the system to handle so the period over which we banks borrowed fixed to match our lending fixed extended for weeks rather than days. And of course the price of fixed rate money shot upward because the surge in demand was not matched by a surge in supply.

Since late-April the surge in demand has eased and we are back to what appears to be a similar sized pool of money sitting floating waiting to fix as was the case back in the third week of March. (Interesting) But while long term wholesale fixed interest rates eventually fell away over 0.5%, they are now back up and only slightly below those late-March levels. Yet this time we have no statement expressing concern about such fixed rates from the RB. Why?

The reason will be that the RB are likely to understand the reason for the high fixed rates is not some disorder on the part of borrowers fixing but simply the improving outlook for global growth which is leading to decreasing willingness of investors to lend at fixed interest rates. Which means of course the next time we get a surge of borrowers wanting to switch their loans from floating to fixed these swap rates could jump even higher – and at this point it might pay to read our Interest Rates section if you are one of those borrowers.

The Reserve Bank this week have however criticised what they consider to be excessively high floating mortgage rates being charged by banks. Why have they done this? Possibly because they are starting to worry quite seriously about the advice they have been implicitly offering to people to float instead of fixing.

The RB quite rightly seeks to get maximum reduction in household and business debt servicing costs during this period of economic weakness by getting people on low floating rates. But the problem here is that we Kiwis know full two very important things.

1. Interest rates in this small country can be hugely volatile, and if they are unusually low at the moment the next bout of volatility to shock everyone is more likely to be upward than downward.

2. We traditionally have high interest rates by world standards in New Zealand. So if an opportunity comes along to lock in at an historically low interest rates and avoid the high interest rate scenario for the next few years the logical thing to do is grab it. Hence the desire by people not to float simply to stay floating, but only to float as they ponder when to fix.

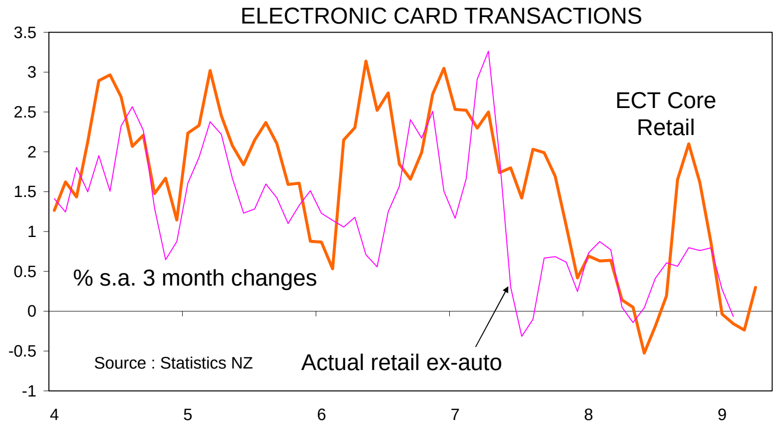
The RB would like their advice to look insightful by having floating mortgage rates come down. But their problem is that they cannot get further falls in floating interest rates as we noted above. That means the incentive to float is minor given slowly building upside risk to fixed rates from current levels and the absence of future floating rate cuts. At a minimum anyone thinking of floating should consider fixing a full 1% lower for one year! But more on that in our Interest Rates section below.

NZ ECONOMIC DEVELOPMENTS

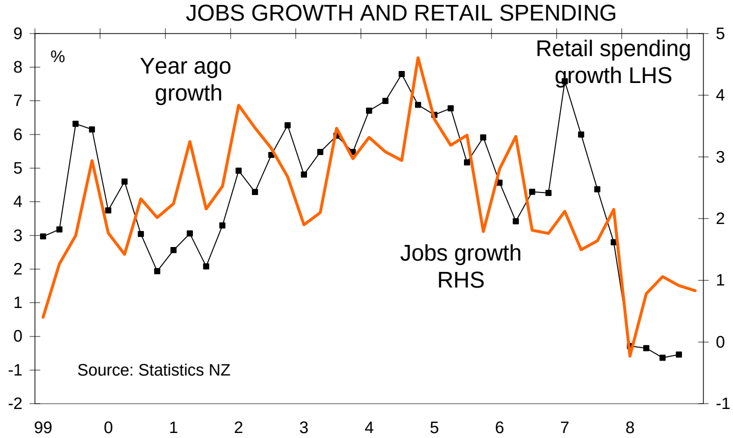
Monday 11

Card Spending Up

The value of electronic card transactions in core retail areas (autos excluded) improved in seasonally adjusted terms by 0.5% after rising 0.8% in March. These improvements have shown up in the three month rate of change measured by the orange line in the graph below turning up recently. In the short term there is not all that good a correlation between these numbers and retail sales and Statistics NZ do not intend the numbers to be used to estimate retail spending – in which case why look at the things at all! Clearly we do look at them for an indication well ahead of time of what the retail numbers will show when they eventually appear six weeks or so later.



In that regard the numbers correspond with the improving confidence being seen in various surveys which suggest some improvement in household spending in the short term. But one should not extrapolate this recent strength into an upturn in retail spending. We expect continuing job losses over the rest of this year possibly into 2010. That translates into weak retail spending growth as shown in the following graph.



The importance of the numbers is that they are in line with others showing the worst may be past with regard to the rate of decline in economic activity but we cannot interpret them as revealing an upturn as such though this is highly likely to happen before the labour market starts improving.

INTEREST RATES

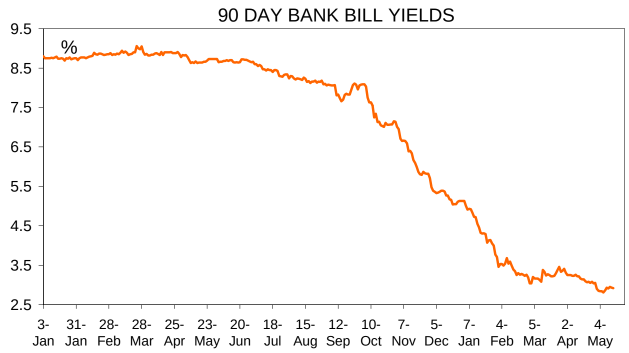
Imagine someone flying a kite on a gently sloping hillside. Where they stand is the level of the Reserve Bank's official cash rate. All other interest rates for increasingly longer terms are represented by points along the string with the kite itself being at about the 15 year period. When the Reserve Bank cuts the cash rate the person walks slightly down the hill. All interest rates decline. When the RB raises the cash rate the person walks up the hill and the kite and string also move up.

What we have at the moment is this. The Reserve Bank has marched the person down the hill to the 2.5% mark. All interest rates have fallen. But since early March the wind has picked up. This wind represents the strength of positive attitudes about the NZ and global economies going forward. Green shoots have been appearing offshore leading to portfolio shifts away from fixed interest assets to shares. The stronger wind lifts the kite as anyone who has flown a kite knows.

And so to the crux of this analogy. The RB can walk the kite flyer further down the hill and lower the piece of the string near the person. But as the wind picks up the kite actually rises from where it was before the cash rate reduction. So it is that since the RB cut the cash rate 0.5% to 2.5% the ten year piece of the string close to the kite has risen from near 5.3% to around 5.8%. The five year piece of the kite string has risen slightly less, from about 4.7% to near 5%. The two year mark has risen from near 3.4% to 3.65%, the one year bit from 2.9% to 3.1%.

And that is why there have not been cuts in bank lending rates apart from around the six month piece of string term. That is also why the more positive – or at least less than expectedly evil – data we see released here and offshore the higher will the kite and fixed interest rates go because the economic wind will be blowing stronger.

Only if the wind drops – data collapses anew – will the kite and fixed borrowing costs decline. And so to the next section below after noting that this afternoon the 90-day bank bill yield very close to the kite flyer has ended near 2.92% from 2.86% last week.



Key Forecasts

- Monetary policy easing with the official cash rate at 2.0% come mid 2009.
- Medium to long term housing rates have seen their multi-year lows – stop-start rises now lie ahead. Speed unclear.

FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	3.00	3.50	8.25	6.2
90-day bank bill	2.92%	2.86	3.22	3.39	8.67	6.5
10 year govt. bond	5.52%	5.51	5.38	4.57	6.36	6.2
1 year swap	2.99%	2.98	3.13	3.09	8.20	6.7
5 year swap	4.83%	4.83	5.03	4.12	7.54	7.0

If I Were a Borrower What Would I Do?

If cuts in the official cash rate were going to keep affecting floating mortgage rates these rates would have fallen after the 0.5% OCR reduction two weeks ago. They have not. If the RB cuts another 0.5% again we will almost certainly see no further rate reductions. And if the green shoots keep appearing overseas fixed funding costs facing us banks will continue to rise, scope for fixed housing rates to decline will diminish, and just as we saw in mid-March, these rates may even rise.

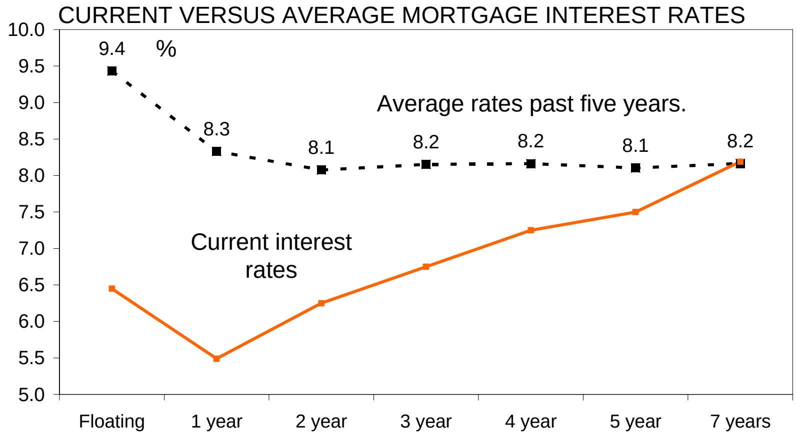
So what would I do if I were a borrower at the moment?

1. If I reckon that RB cuts will eventually affect floating rates, or I believe the economy will tank anew, or I intend paying the mortgage off within two years, or I simply have to float to minimise my current cash outflows – I would not be floating at 6.49%. I would simply fix one year at 5.49% and instantly save 1% compared with floating both now, and probably for the entire next 12 months.

2. If I am only floating at the moment so I can fix, I would fix three years at 6.75%. This term gives me some good rate certainty at a cost still a healthy 1.4% below the average over the past five years. The chances are fixed rates will rise in coming months, and while the road ahead remains very rocky, one cannot rule out a wholesale markets selloff akin to what we saw in March should global economic data keep getting better.

Nothing is jumping out at the moment to actually say a round of fixed interest rate rises is on the way. In addition, as global economic conditions improve the willingness of investors to fund banks will rise and the current 2.5%-plus risk premiums we pay to fund offshore will diminish. Note however that at the same time that happens we are likely to see general strategic changes in bank attitudes toward the increasingly high desirability of domestic retail term funding. That will probably manifest itself as rising term deposit rates. Hence if I were a term depositor I would be inclined toward the short rates at the moment.

Our punt is that for the remainder of this year at least the extent of risk premium declines will be outweighed by generalised fixed borrowing costs increases hence delivering slowly (anyone's guess) rising fixed housing interest rates. Only if one completely discounts the green shoots offshore are rates likely to decline by anything other than token amounts.

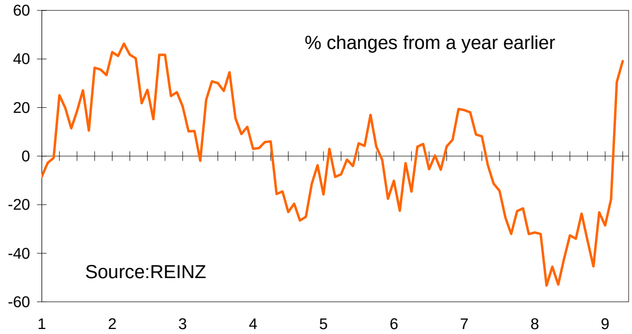


HOUSING MARKET UPDATE

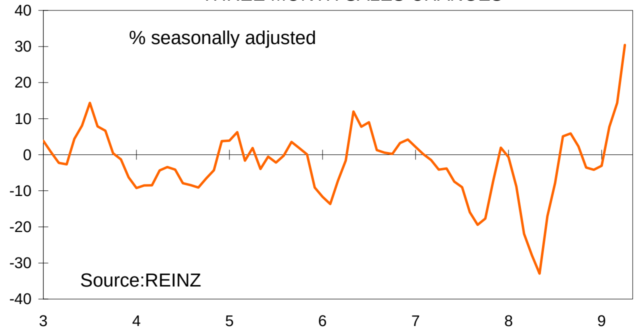
REINZ Numbers Firm

The REINZ this week reported that in April their members sold 6,210 dwellings around New Zealand. This was a large 39% jump from a year ago which followed a 30% annual rise in March. It was also the third large monthly seasonally adjusted improvement in sales – and it is in terms of improvement from a low base that one needs to interpret these numbers rather than strong activity as such. For instance, in April 2007 10,989 dwellings were transacted, 2006 7,576, 2005 8,876 and 2004 9,594.

DWELLING SALES

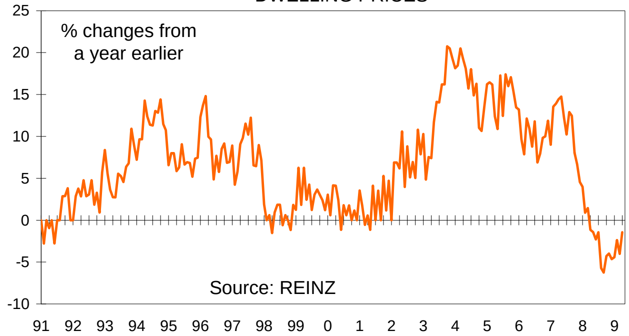


THREE MONTH SALES CHANGES

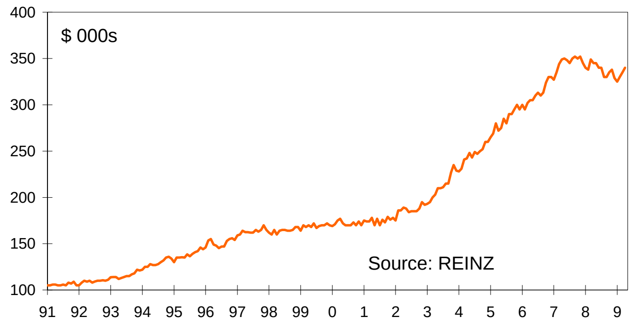


The median dwelling sale price improved for the third month in a row to $340,000 from $335,000 in March and a low of $325,000 in January. That is interesting because it strongly suggests when QVNZ eventually release their March quarter official house price numbers we may see the ending of the period of quarterly house price declines which added up to 8.9% late last year.

DWELLING PRICES

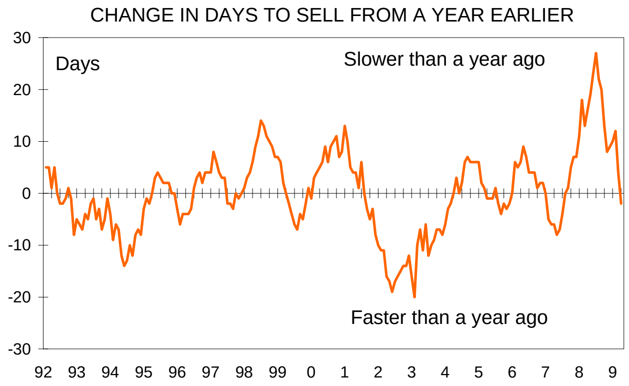


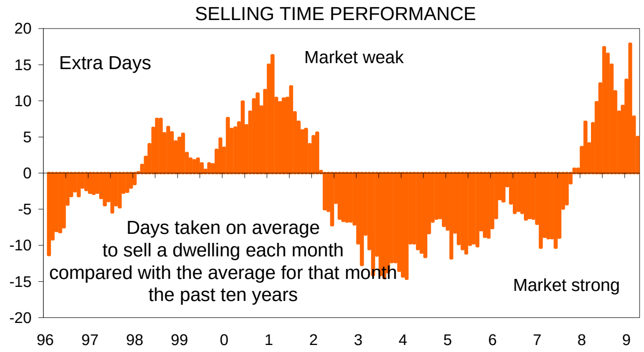
MEDIAN DWELLING PRICES



Again the results strongly counter the arguments of those who have been strangely predicting house prices will fall in New Zealand to the same degree as they have in the United States where housing market conditions are vastly different. Over there a massive property over-supply exists and banks are bulldozing houses they know they will never sell. Here we have a housing shortage and the worst construction activity in half a century – at a time when we appear to be in the early months of a migration boom. Plus more homes are about to be bulldozed for the motorway link in Auckland!

Another indicator of the strength of the market can be seen in the average number of days taken to sell a dwelling falling to 42 from 44 in March and 62 in February. A year ago this reading was 44 days and compared with an average April the latest result is only five days above average. March was 7.8 days, February 17.9 days and January 12.9 days. This is the best such result since March last year.





Our Survey Results Very Positive

Our monthly BNZ Confidence Survey has revealed a sharp jump in business sentiment overall, and in the housing market near universally strong conditions. Buyers are increasing in numbers, properties are selling quickly, and listings are in short supply. There is undoubtedly an element of stock clearing at work here and we would not recommend anyone blindly extrapolate the recent months' numbers into a straight line housing activity and prices upturn.

Having said that the fundamentals remain in favour of prices not falling any further on average very soon if not already. Specifically, accelerating population growth at a time of a rapidly worsening housing availability situation, plus low funding costs. But one must be mindful of the worsening labour market and tightening of lending criteria.

Here are the real estate comments we received in the survey.

- Sales going well, shortage still of listings, as soon as you list a property a multiple offer scenario exists from keen buyers for properties up to $400k. Banks lending "by the book"
- Real estate sales. The market particularly in Hastings/Havelock North is very very confident with the number of settled sales in both March and April rivalling those of 2 years ago. If only we knew why..........
- Residential Real estate - Howick and surrounding. We are experiencing a busy market place at present. Correctly priced properties are selling very quickly - some within days. Also having multiple offer situations. On the flip side if the vendor overprices the property (even a small amount) it just gets no enquiry. Will it last? Who knows we are just taking it as it comes.
- The volume of sales are better this year than last year. March/April were our best months in the past 14 months. I own two Real Estate Offices and things have been pretty bad for us all last year.
- Real Estate Tauranga - The market has lifted in the last three months. Indications are that we are close or have indeed hit the bottom of the market with respect to sale values. I predict a level market for the next 12 to 18 months. Good to see Bollard confirming low OCR for until late next year.
- Mixed signals in the Auckland market. Some areas North Shore, West and more central suburbs are quite positive when we talk to both sellers and buyers, expecting prices and confidence to return within 6 to 12 months However the mind set in South Auckland (Manukau) is very depressed with very little optimism and confidence. Both buyers and sellers expecting prices to continue to fall. Prices in South Auckland appear to have fallen significantly more than the reported percentages. Some areas 20 to 25 %. Much of this is investor driven both as sellers and buyers. Major over commitment on borrowing. I have been heavily involved over the last 12 months with mortgagee sales. The vast majority of properties coming to the market as mortgagee sales have had mortgages arranged by brokers and the stories of over committing vendors and manipulated income figures is staggering.
- My Company sells high end residential real estate and we have seen an increasing level of buyer confidence and, consequently, sales over the last three months. Appears that the downturn experienced through late 2007-08 may have take us to the bottom of the 7 year cycle.
- Real Estate - Residential Auckland Eastern Suburbs. We had a our best month for settlements since December 2007. Most business between $400K and $900K. Sparse pickings over $1M. Multiple offers

on many properties and good auction clearance rates. Good buyers in plentiful supply but listings now in short supply so the next few months will be interesting.

- House sales - Palmerston North. Listings are very short at present. Houses are still selling readily. If things continue then supply and demand should mean that house prices will start lifting.
- Real Estate Gisborne; if unconditional sales are a measure of confidence then Mar/Apr suggest we are in a very healthy state.
- Sales volumes are high, with many buyers actively looking. Multiple cash offers are common, and prices are being achieved over RV on a regular basis. Stock levels are running out fast.
- Real Estate - No listings - vendors are holding on thinking they will not get the price the want and where will they go. Only those that have to sell are selling. Purchasers are hot! Multi offers galore.
- Real estate around Warkworth, Rodney: last month was great with sales, more buyers around, good results at auctions, this month looking similar
- Real estate in Hastings/Havelock North - have had record months for the last 2 months, prices have not increased, but now have a shortage of investor units and flats. Time frame for selling a house has been as short as a week, but not aware of the trend yet.
- Real Estate - still ticking along, a lot of interest from buyers
- Property Investment Things are heating up and people are buying like crazy. I have missed out on a number of great investments as lots of investors scramble to snap them up.
- Real estate agent in Auckland selling top end property- Market Above 1 million is almost dead, media talking things up, only selling 3 properties in last yr, compared to one every month from 04-08.
- Real Estate Central Eastern Suburbs - it's been a very busy time indeed as evidenced by the recent spike in sales volumes. I reckon listing shortages should see prices stay flat through winter unless too many people throw their homes on the market because everyone is spruiking that it feels like a seller's market.
- Real Estate. April a very good month sales wise, all the agents on our team made money. May will see the problem with not enough listings, if no stock things will slow down.
- Residential Real Estate Christchurch ,very short of good stock ,very busy property priced to the market is selling very quickly .We are well ahead of last year in all areas of our business. One property first day advertised today and three offers .
- Things have been constantly improving all year in the residential investment property sector.
- Property industry. There are more opportunities at present - for those with cash - than at any time in living memory.
- Nth Shore Real Estate, Lower end price range .Feb, March good mths, April even better. Still a shortage of listings which is pushing prices up .
- Residential Real Estate - Volume of sales are rising rapidly, vendors are meeting the market and getting on with their lives, purchasers are feeling bullish and enjoying the availability of cheap money, investors very active and top end of the market, $1m-$4m, seem to be relatively unaffected by the economy and still buying.
- I am a mortgage broker, and it is fair to say that the phone is not ringing as much as it was even 3 weeks ago.
- Definitely more activity than we've seen in the past 12 months. Real estate
- Real Estate Eastern Suburbs . Listings are the new gold, plenty of buying interest generating some outstanding results. Excess salespeople leaving the industry with more to go - about time. Evidence over 3 months indicates we have found the bottom, seems the economic difficulties will be more survivable than pundits predicted.
- I am in Real Estate and can honestly state that since Jan this year I have sold a house a week which is pretty good by any ones standard. More people are at open homes and multiple offers are common now.
- Property, bare land and section sales showing firmer interest over last 3 - 4 weeks with buyers committing
- Residential Real Estate Christchurch good housing stock becoming very difficult to list . The tightening listing situation is well illustrated when you compare the mid March edition of the cities multiple listing publication The Realtor which had 100 pages of properties with the current edition which has 68.

- Real Estate Taupo; a pervading sense of optimism reigns supreme this week, culminating in the receipt of an invite from my dealer to come and view the new BMW 7 Series, hors d'oeures (sic) and wine to be served for my enjoyment...wow was it all just a bad dream?? Bugger...where's the keys to my Skoda....?
- I am investing in Dunedin university properties for the last 16years . I revalued 6 of them with all of them increased about 10-15% from may 2007 .things are looking pretty good with cash flow as good as never before
- Real Estate. More sales, first home buyers, investors start to buy again.
- Real Estate Agency - Auckland. The real estate market is going ballistic! 79% increase in sale volume compared with same month last year. Sales happening fast, multiple offers on many homes, dozens through each open home, majority of auctions selling under the hammer.
- Real estate lifestyle blocks Tauranga; very low demand at this stage
- Residential Property: bigger numbers of vendors than ever before wanting to sell but unwilling to 'put their property on the market' for fear of failure, wasting marketing investment, receiving offers way below the vendors desirable price.

Some French Stuff

It should be noted that it is not only the NZ housing market which is showing signs of life. As one who is learning French and now (almost) reading newspapers on-line the headline from one paper on May 11 gelled with what is happening here to some degree “Les agences immobilières voient revenir les clients”. Or, “Real estate agents are seeing clients coming back”. Mais bien sur. C’est parce que les taut d’intérèt sont tombé de 5.2% à 4.1% fixe sur quinze ans. = The 15 year fixed interest rate has fallen from 5.2% to 4.1%. Imagine how much money we silly debt-loving Kiwis would borrow at even 5.2% let alone 4.1%. One shudders at the thought.

Key Forecasts

- Dwelling consent numbers to slowly recover from the middle of this year.
- Real estate sales have bottomed for this cycle. Activity is likely to fluctuate and begin a drift upward before year end with potentially firm activity over 2010.
- House prices at worst to fall another 5%, stabilising now possibly, then rising slightly over 2010.

Exchange Rates & Foreign Economies

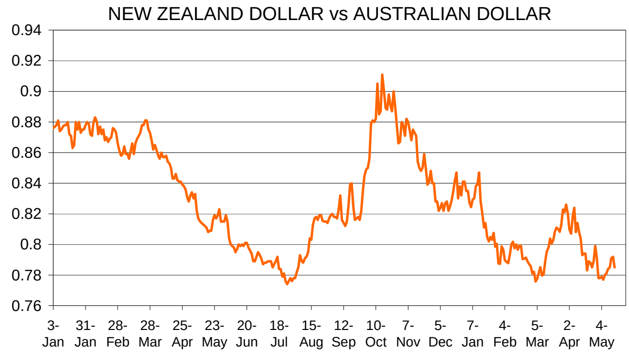
EXCHANGE RATES	This week	Week ago	4 wks ago	3 months ago	Yr ago	Consensus* Frcst Yr Ago	10 yr average
NZD/USD	0.593	0.587	0.592	0.522	0.765	0.729	.592
NZD/AUD	0.786	0.781	0.808	0.80	0.813	0.849	.856
NZD/JPY	56.6	57.9	59.2	47.9	80.2	75.8	66.8
NZD/GBP	0.392	0.388	0.398	0.367	0.39	0.385	.345
NZD/EUR	0.437	0.442	0.443	0.408	0.49	0.504	.51
USD/JPY	95.4	98.6	100.0	91.8	104.8	104	113.9
USD/GBP	1.51	1.51	1.487	1.42	1.947	1.892	1.709
USD/EUR	1.357	1.33	1.336	1.28	1.55	1.445	1.156
AUD/USD	0.754	0.752	0.733	0.652	0.94	0.859	0.69

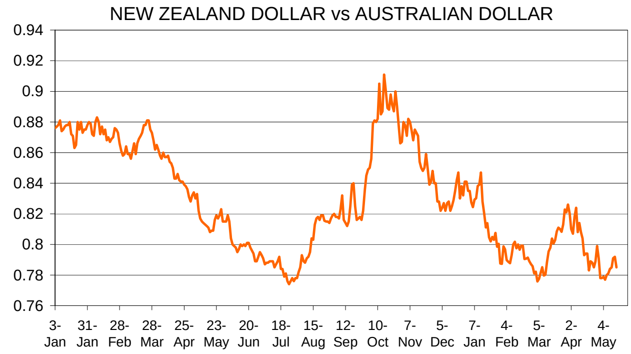
NZD Just Under 60 cents

The Kiwi dollar started the week with a hiss and roar rising above US 60 cents on the back of newly heightened willingness of investors to purchase growth and risky assets. But last night the NZD fell back to just above the 59 cent area on the back of some weak data on retail spending out of the United States and a resulting fall in the US sharemarket leading to selling of other risky assets.

All this means of course that the NZD remains as much a hostage as ever to fluctuations in perceptions about the world economy and therefore the willingness of investors to shift funds around. Our concern is that the markets may have been getting ahead of themselves with regards to the green shoots theory – in particular extrapolating things a bit too much into growth territory for economies whereas all the offshore numbers are really showing is an easing in economic shrinkage.

The chances are the NZD will pull back a bit further in the near future, especially as the sharemarkets offshore seem overdue for a decent round of profit-taking from the early investors who got in over March.





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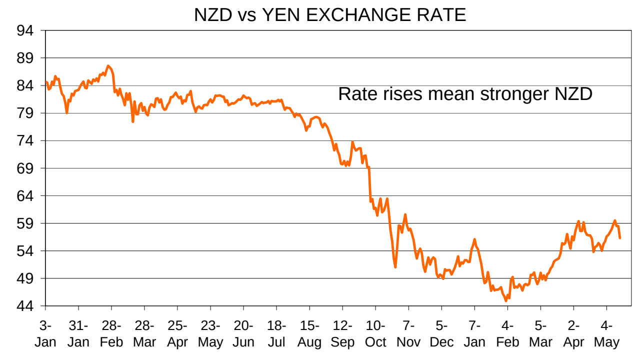
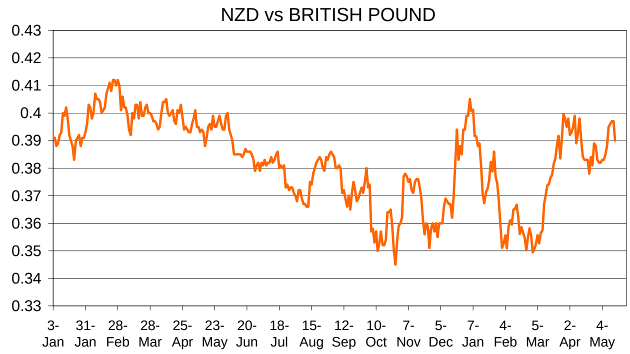
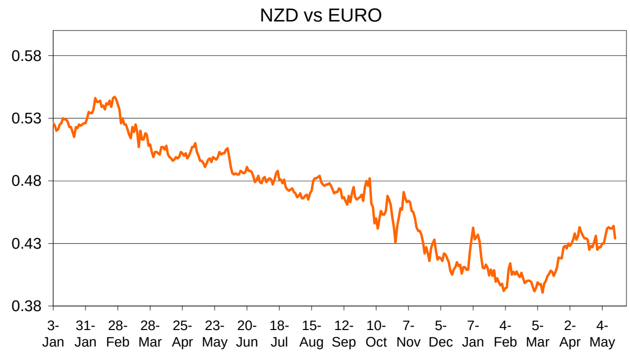
The NZD has ended mid-afternoon against the greenback near 59.3 cents from 58.7 last week. Against the Aussie dollar we have ended only slightly ahead near 78.6 cents from 78.1. Against the Japanese yen for a while we traded almost at 60 but have ended near 56.6 from 57.9. The Kiwi-yen exchange rate is one heavily influenced by changes in risk perception because we are a current account deficit country and Japan run's a current account surplus. We Kiwis are always greedily looking for someone to lend us money, the Japanese are always looking for somewhere reasonable to place the dosh they simply refuse to spend. Their sensitivity to risk is very high – as being seen by the tourism industry currently with hundreds of Japanese deciding not to travel here because a few weeks ago we have some Swine Flu cases. One imagines there are not many countries at all they are travelling to now then given the way the disease has popped up around the planet.

The upshot though is that as the world economy eventually more seriously improves the NZD is likely to make firm progress upward against the Yen.



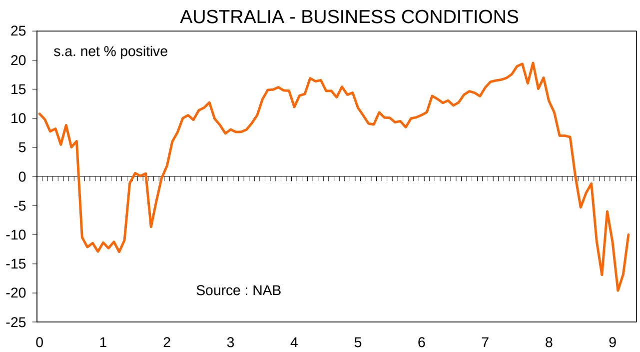


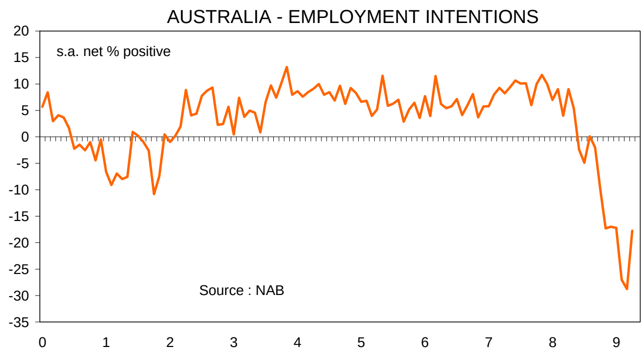


Against the British pound we have ended unchanged close to 39 pence and against the Euro down slightly near 43.7 from 44.2.

Offshore this week's better than expected news included the following.

- US job numbers fell by "only" 539,000 in April rather than over 600,000 as was commonly expected. The unemployment rate however rose to 8.9% which is a 25 year high.
- German factory orders rising 3.3% in March. Much stronger than expected.
- US weekly jobless insurance claims came in hugely lower than expected last week signalling a better labour market in the US than thought.
- Results of the Federal Reserve's stress tests revealed bank balance sheets in better condition than expected, though they still need to raise US$75b before late this year.
- The monthly NAB business survey in Australia has revealed a significant improvement in current business conditions to a reading of -10 in April from -17 in March and -20 in February. Employment intentions also improved along with forward orders.

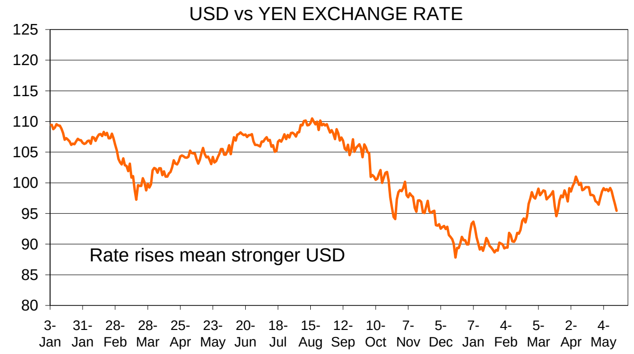


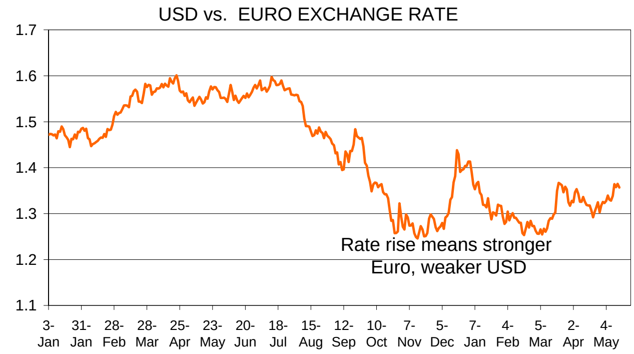


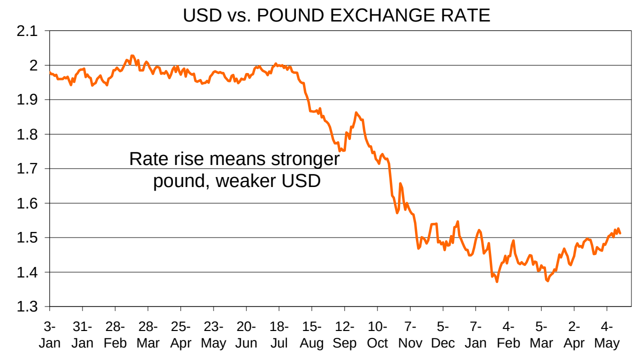
- The number of Australian owner-occupier home loan approvals rose 4.9% seasonally adjusted in March while investor approvals rose 4.7%. These results have encouraged our NAB economists to lift their projected low point for the RBA's cash rate from 2% to 2.5%. The rate is currently 3.25%.
- In the UK better than expected numbers were released in areas of manufacturing, the trade balance and jobless insurance claims.

But as noted above, last night US retail spending in March was weaker than expected with a fall of 0.4%. Eurozone industrial production also fell 2% whereas a decline of 1% had been anticipated.

Over the week the greenback has lost ground against the Japanese Yen to sit near 95.4 from 98.6 last Thursday. It has ended unchanged against the British pound near $1.51, and slightly weaker against the Euro near $1.36 from $1.33. All up, the graphs here show no clear trend in the greenback underway in recent weeks.

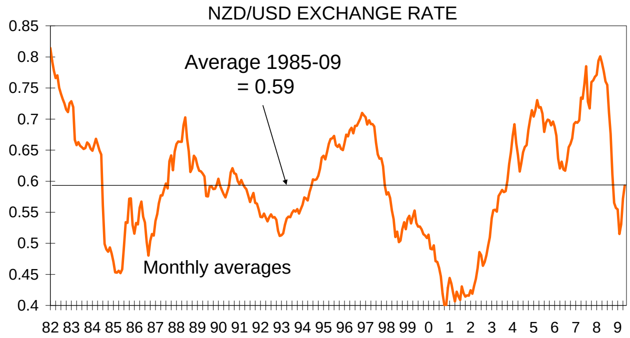


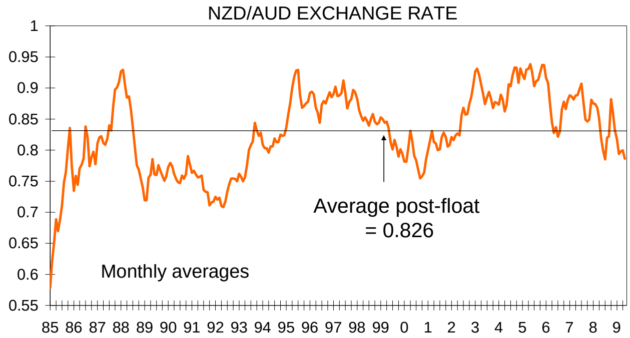


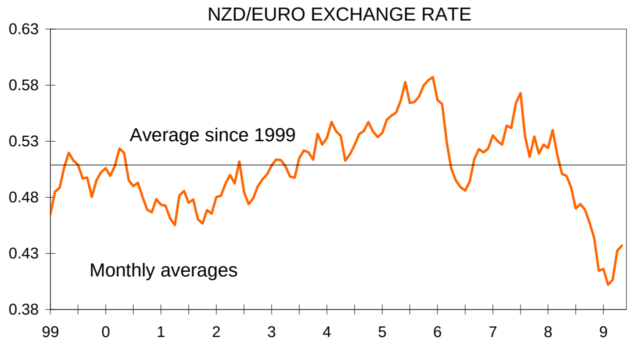


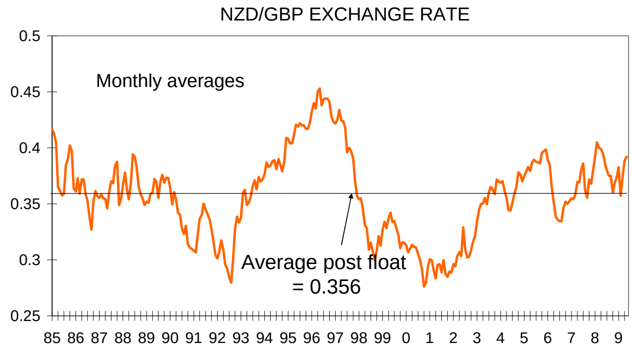
If I Were An FX Receiver What Would I Do?

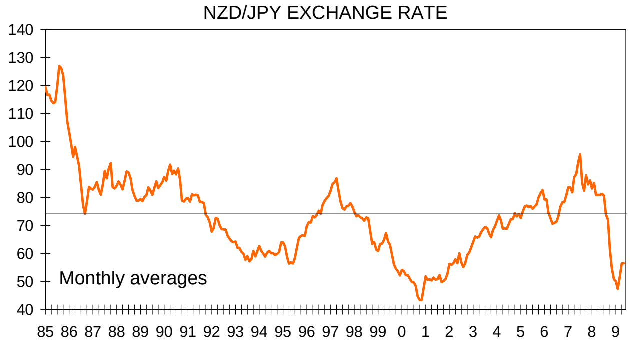
We still think the FX markets have got a bit ahead of themselves pricing excessively good times into risky currencies like the NZD. The cyclical drift is now definitely upward so for those exporters with a 2-3 year horison the time remains right for putting in place more hedging. For those with a shorter horison we think time exists to wait for a pullback in the NZD of a few cents. Unfortunately, as the past few weeks have shown, while one waits for a pullback the currency can keep moving away from one's concept of current short term fair value. C'est la vie.











*Sourced from Consensus Economics. http://www.consensuseconomics.com/

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	-0.5%	1.5	3.4	3.2	2.7
GDP growth	Average past 10 years = 3.0%	-0.9	-0.5	0.3	3.2	1.9
Unemployment rate	Average past 10 years = 5.3%	5.0	4.7	......	3.8	3.8
Jobs growth	Average past 10 years = 1.9%	-1.1	0.6	0.8	-0.2	2.1
Current a/c deficit	Average past 10 years = 5.5% of GDP	8.9	8.6	......	8.2	9.0
Terms of Trade		-0.9	-1.0	1.8	8.8	3.8
Wages Growth	Stats NZ analytical series	1.5	1.1	5.3	4.8	5.1
Retail Sales ex-auto	Average past 9 years = 3.8%.	-0.0	-0.2	-0.5	5.2	4.2
House Prices	Long term average rise 5% p.a. QVNZ	-2.0	-2.1	-8.9	8.0	9.7
Net migration gain	Av. gain past 10 years = 10,400	+7,482	3,814yr	......	4,675	12,090
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-3.9	-0.3	-3.9	2.1	2.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	3	-9	3	-34	-4
Business activity exps	10 year average = 26%. NBNZ	-3.8	-21.2	-11.4	-3.8	22.5
Household debt	10 year average growth = 11.3%. RBNZ	3.1	3.8	7.3	11.7	13.5
Dwelling sales	10 year average growth = 3.5%. REINZ	30.5	-17.7	-23.7	-53.3	8.9
Floating Mort. Rate	10 year average = 8.1%	6.49	7.49	10.95	10.69	9.55
3 yr fixed hsg rate	10 year average = 7.9%	6.75	5.99	8.69	9.54	8.50

ECONOMIC FORECASTS

Forecasts at Apr. 16 2009	March Years					December Years				
	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010
GDP - annual average % change										
Private Consumption	2.8	3.2	-0.4	0.5	1.8	2.6	4	0.1	-0.1	1.8
Government Consumption	4	4.3	3.7	3.7	3.4	4.6	3.9	4	3.8	3.3
Investment	-0.6	4.3	-10.3	-16.1	5.9	-0.4	5	-5.7	-18.6	1.8
GNE	1.4	4.4	-2.1	-2.8	3.2	1.4	4.5	-0.3	-4	2.4
Exports	3.1	2.9	-4.1	-4.9	1.2	1.8	3.8	-1.8	-6	-0.5
Imports	-1.6	9.6	-2.6	-10.3	2.2	-2.6	8.6	2.5	-12.4	0.2
GDP	1.8	3.1	-0.8	-0.8	3	2	3.2	0.2	-1.6	2.3
Inflation – Consumers Price Index	2.5	3.4	3.1	1.4	0.5	2.6	3.2	3.4	1.7	0.7
Employment	1.8	-0.2	1.3	-3	2.8	1.4	2.5	0.9	-3.8	2.8
Unemployment Rate %	3.7	3.7	5.1	7.3	7.1	3.8	3.4	4.6	7	7.1
Wages	2.8	3.2	-0.4	0.5	1.8	2.6	4	0.1	-0.1	1.8
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.7	0.8	0.58	0.6	0.65	0.69	0.77	0.56	0.58	0.65
USD/JPY	117	101	99	105	118	117	112	91	103	115
EUR/USD	1.32	1.55	1.32	1.35	1.43	1.32	1.46	1.34	1.3	1.42
NZD/AUD	0.88	0.87	0.79	0.83	0.84	0.88	0.88	0.83	0.82	0.86
NZD/GBP	0.36	0.4	0.38	0.4	0.38	0.35	0.38	0.37	0.4	0.39
NZD/EUR	0.53	0.52	0.44	0.44	0.45	0.52	0.53	0.41	0.44	0.46
NZD/YEN	81.9	81.1	57.1	63	76.7	81	86.3	50.9	58.9	74.8
TWI	68.6	71.6	57.1	60	64.6	68	71.6	55.1	58.2	64.6
Official Cash Rate	7.47	8.25	3	3	5	7.50	8.25	5.00	2	4.75
90 Day Bank Bill Rate	7.78	8.83	3.24	3.37	5.2	7.64	8.77	5.23	2.58	4.95
10 year Govt. Bond	5.91	6.35	4.77	5.6	6.4	5.77	6.38	4.88	5.5	6

All actual data excluding interest & exchange rates sourced from Statistics NZ.

The BNZ Weekly Overview is prepared by Tony Alexander, Chief Economist at the Bank of New Zealand. Ph 04 474-6744.