

# Property Focus

New Zealand

July 2009

## Keeping a level head

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### Summary

- > Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we focus on whether there is a shortage of housing in New Zealand and, if so, where?

### The month in review (page 2)

- > Most indicators show a pick up in the health of the housing market. Lower mortgage rates are proving to be the necessary tonic, resulting in an improvement in household confidence, house sales, migration and mortgage lending. But, just yet, we are wary of discharging the patient.

### Property gauges (page 3)

- > Improving home affordability, migration gains and lower mortgage rates continue to underpin the housing market. Building consents are an obvious laggard but the latest data has reported a modest improvement – albeit off a very low base.

### Economic backdrop (page 5)

- > After a period of extended weakness, we expect the economy to rebound in late 2009. A cyclical upswing will combine with preparations for hosting the Rugby World Cup from 2010 and over 2011. But the bigger picture points towards an elongated period of relatively subdued growth as the economy rebalances.

### Mortgage borrowing strategy (page 6)

- > While the housing market is recovering, it is off remarkable lows, and in itself is insufficient to alter our favoured borrowing strategy. We continue to favour being patient and taking advantage of low six month rates.

### Feature article – A shortage of houses? (page 7)

- > There is no shortage of housing across the country. Rising migration and natural population growth mean current consent issuance isn't keeping pace with demand, but there is sufficient excess supply from previous years to cover the imbalance. However, regional data reveals excess demand intensifying in Auckland, whereas areas outside of the main centres have an overhang of supply.

### Key forecasts (page 10)



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## The month in review

Most indicators show a pick up in the health of the housing market. Lower mortgage rates are proving to be the necessary tonic, resulting in an improvement in household confidence, house sales, migration and mortgage lending. But, just yet, we are wary of discharging the patient.

- Levitating.**

  - > **REINZ housing data – June.** Our seasonally adjusted estimates of house sales showed a rise of 9.3 percent in June, following a 12.4 percent fall in May. Compared to a year ago, house sales are up an impressive 40 percent. But this merely reflects the dire levels that house sales got to a year ago. Current housing turnover levels (adjusted for the size of the housing stock) is still akin to the level recorded at the bottom of previous house price downturns in the early and late 1990s.
- Less leaving.**

  - > **Net Migration – May.** The net inflow of 2,690 people in May is the biggest rise since July 2003, and takes the 12 month net inflow to 11,202. The increase based on a three month annualised rate is even more impressive at 26,400. The RBNZ's June *Monetary Policy Statement* probably had more references to migration than anything else, and the latest data will lend further weight to the view that the RBNZ is done cutting interest rates.
- Lending.**

  - > **Mortgage Lending – May.** Credit data for May rose 0.4 percent, the largest monthly increase since August 2008. Historically, this is still a low rate of monthly credit growth, but it is double the rate seen a few months ago. It's another sign of life returning in line with improving real estate sales activity.
- Low.**

  - > **Building Consents – May.** The headline number showed a modest 3.5 percent increase, though stripping out apartments, the numbers fell 3.1 percent. Consent numbers remain at very low levels, but we expect the level to pick up over coming months, given the rebound seen in house sales. However, we do have to bear in mind that any rebounds are coming off extremely low levels. Non-residential consents continue to trend lower but remain resilient in the face of the recession.
- Liking it.**

  - > **Westpac/McDermott-Miller consumer confidence – June.** Household sentiment rose to its highest level in 18 months. The improvement in confidence was driven by increases in both the present conditions and future conditions indexes. While there are still a number of factors that are weighing on households, lower mortgage rates and signs of life in the housing market are bound to be key reasons for the improvement in sentiment in the quarter. The big uncertainty of course remains the labour market and how households respond to less job security. While we expect consumer spending to begin heading forward later this year (with recent migration gains providing an added kick), de-leveraging will remain a key headwind.

## Assessment

The housing market continues to recover. This reflects a base effect but also the support being provided from other areas, such as migration (although as we have cautioned before, this migration cycle is very different in composition compared to previous ones). We find these trends encouraging in aggregate, although we suspect the urban/rural divide is set to open. Auckland is showing FIFO characteristics, while the Heartland has yet to feel the full impact of the fall in the dairy payout. A lot of attention at present seems to be directed at the limited stock on the market and we offer our insights on page 7. We think the issue of a shortage is overblown.

## Property gauges

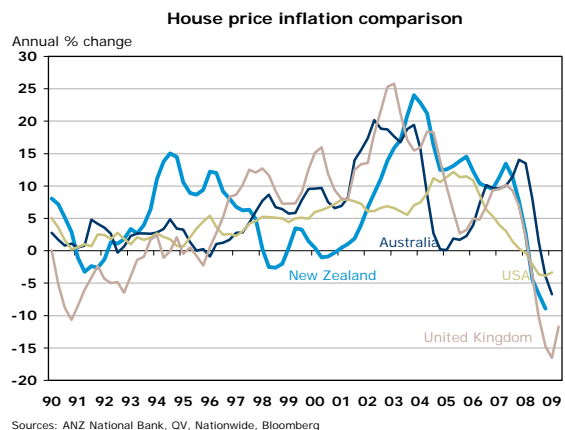
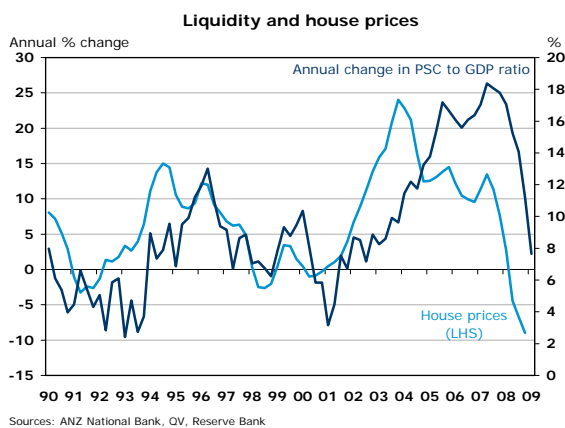
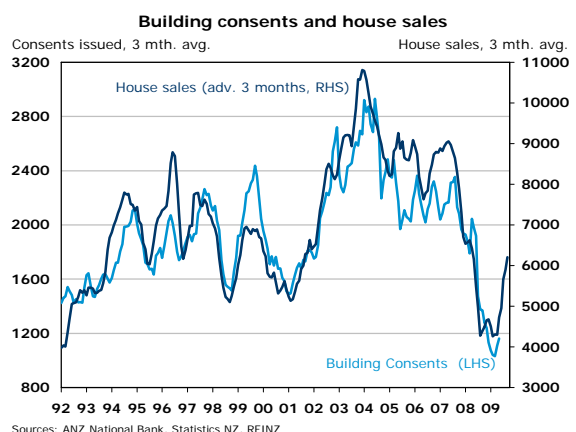
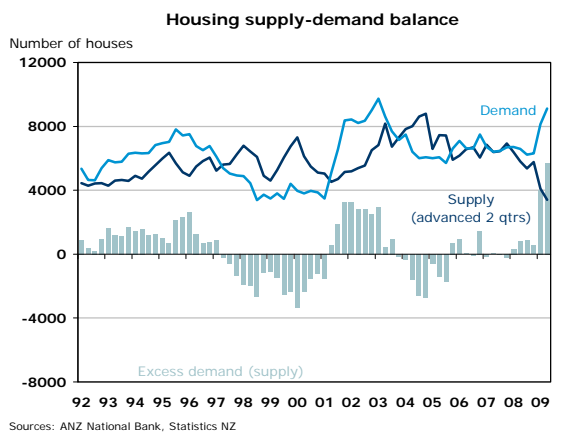
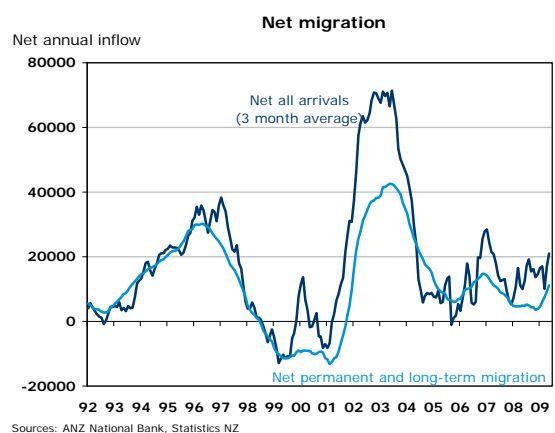
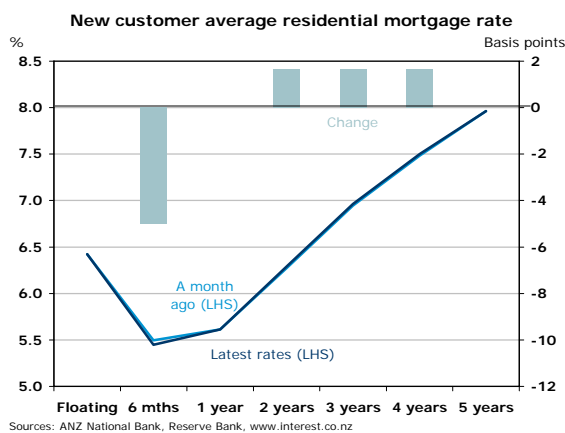
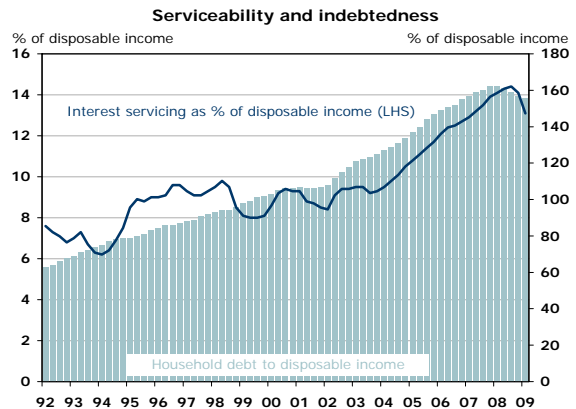
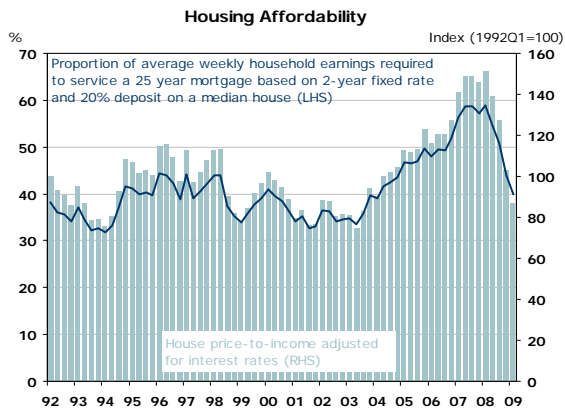
Improving home affordability, migration gains and lower mortgage rates continue to underpin the housing market. Building consents are an obvious laggard but the latest data has reported a modest improvement – albeit off a very low base.

We use eight gauges to assess the state of the property market and whether warning signs are emerging.

- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.
- > **Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.
- > **Migration.** A key source of demand for new housing.
- > **Supply-demand balance.** We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.
- > **Consents and house sales.** These are both key gauges of activity in the property market.
- > **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.
- > **Globalisation.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

On an annual basis, net migration has risen to 11,202 people, more than double the level a year ago. If sustained, this level of net migration will provide a welcome boost to domestic demand and the housing market, although the economic impetus will be less than if it had been driven solely by more arrivals. The housing market typically enters a lull in winter, and it won't be until spring that we will get a clearer picture of whether the recovery is set to carry on, or whether we enter another soft patch.

Indicator	Level	Direction for prices	Comment
Affordability	Close to average	↔	Affordability is back to a level close to its long-term average.
Serviceability / indebtedness	Turned but still high	↓	Households remain in debt.
Interest rates	Unmoved	↔/↓	Little change to mortgage rates.
Migration	Rising	↑	A key source of improvement but the mix is different this time around.
Supply-demand balance	One sided	↔/↑	The gap is widening.
Consents and house sales	Going up	↔/↑	The only way is up.
Liquidity	Easing	↓	A lagging indicator which is only starting to reflect conditions.
Globalisation	Turning	↓	The UK's bungy cord reached its longest length and is now pulling back.
<b>On balance</b>		↓	<b>Will spring live up to its name or will the housing market lose its impetus?</b>



## Economic backdrop

After a period of extended weakness, we expect the economy to rebound in late 2009. A cyclical upswing will combine with preparations for hosting the Rugby World Cup from 2010 and over 2011. But the bigger picture points towards an elongated period of relatively subdued growth as the economy rebalances.

## Our core economic view

The economy is still in recession, or moving down one side of the bathtub. Forward indicators continue to point to an economy that is contracting, though the pace of contraction is moderating. The unemployment rate is rising rapidly and is set to continue heading higher into next year. Despite tax cuts and lower mortgage rates, consumer spending remains subdued as households increase their precautionary savings. Private consumption has now fallen for an unprecedented five consecutive quarters. Building consents are at levels not seen since the 1960s, and residential investment is down over 30 percent from its 2007 peaks. Business profitability has been under pressure and firms have been responding accordingly. Business investment has been cut back, falling 15 percent from a year ago – the steepest fall since the early 1990s.

A base is still forming. House sales are up 50 percent from their lows, as buyers respond to lower interest rates. We expect this to flow through to a sizeable recovery in building consents in the second half of 2009, and into actual residential construction activity late this year and early next year. Natural population growth is also providing underlying support to demand. Firms' own activity expectations from the National Bank *Business Outlook* (NBBO) survey – a key leading indicator – is now back in positive territory. Consumer confidence is similarly back above the key 100 level, indicating that optimists once again outnumber pessimists. Net migration is running strong, with the last three months seeing an annualised gain of 26,400 people, representing a key source of upside support to the domestic economy. All are welcome.

At this stage we are still cautious about the economic outlook. There is a base effect to be wary of as the bungy-cord dynamic takes hold. House sales may be up, but they are 30 percent below levels seen two years ago. The global scene remains fragile and we see an elongated adjustment panning out. Firms are now being forced to react via reduced investment and employment. The NZ economy is still facing a protracted period of structural adjustment as the economy rebalances away from a model built around debt fuelled consumption and towards export and earning sector growth. This is a transition that will take time.

We expect forward momentum to be regained from late 2009. However, even a subdued recovery will mask heavy regional and sectoral disparities. 2008 was really an Auckland or upper North Island centric recession, as weak housing activity, retailing and a squeeze on income from rising costs (i.e. petrol and food prices) bit. There is still some intensity in these pockets, but increased housing activity in Auckland is now outstripping other parts of the country. Conversely, collapsing manufacturing activity, weakening tourism flows and the big show-stopper – a lower forecast payout to the dairy sector – are set to impact heavily on tradable or export aligned regions. Rural land prices in particular are under significant pressure, and the flow-on effects from a tighter farming chequebook should not be underestimated. While the economy will be travelling along the bottom of the bathtub from the second half of 2009, it will remain a bathtub with waves.

## Mortgage borrowing strategy

While the housing market is recovering, it is off remarkable lows, and in itself is insufficient to alter our favoured borrowing strategy. We continue to favour being patient and taking advantage of low six month rates.

### Our view

Aggressive competition for deposits is keeping pressure on borrowing rates. Borrowers need to appreciate the structural aspect to this story. With the RBNZ "telling" (and changing liquidity policy as such) banks to get more term funding in place (75 percent needs to be greater than one year), there will be two broad consequences. First, competition for deposits will remain intense, and particularly for term funding. This will keep the curve steep. If depositors are being rewarded, then, of course, borrowers have to pay. Second, this will remove (eliminate) the temptation for banks to fund aggressive demand for credit by issuing short-term debt, as was the case during the previous upswing. Reduced fuelling of the housing market via aggressive credit demand (and supply) should reduce the need to raise the OCR as aggressively over the next cycle. Collectively, these are key structural issues that impact heavily as we weigh up the relative attractiveness of different borrowing rates.

In terms of the broader economy, improvements in the housing market is leading to some speculation that the RBNZ could be raising rates in early 2010. This is supported by the historical experience that shows relatively short windows between the last cut and the first hike.

While we acknowledge the pick-up in the housing market and speculation of a shortage, we are mindful of the wider picture. The unemployment rate is rising, the global scene fragile, lower dairy payouts have yet to hit the rural areas, and there is no shortage of housing (see page 7). We continue to concur with the RBNZ in terms of their outlook for the economy, where they note, "*it is likely to be some time before the recovery becomes self sustaining and monetary policy support can be withdrawn*".

In this environment, and coupled with intense political pressure that is being placed on the financial services industry, we maintain our bias towards short-term rates, and at this juncture the six month rate in particular.

Our breakeven table (refer our May edition for a full description) is presented below. All breakeven rates are higher than current rates, so the decision for borrowers is really about making the most of near-term cash-advantages, whilst remaining mindful of not giving it all back (and then some) a few years down the track. At some stage there will be the odd year where you end up paying more. But what the table shows is that short-term rates would need to rise very aggressively for you to lose on average. We struggle to see this given the economic backdrop and regulatory changes.

Fixed Mortgage Rate		Break-evens			
Term	Current	in 6mths	in 1year	in 18mths	in 2years
6 months	5.45%	5.55%	6.67%	7.33%	8.10%
1 year	5.50%	6.11%	7.00%	7.72%	8.47%
18 months	5.89%	6.52%	7.37%	8.09%	8.57%
2 years	6.25%	6.91%	7.74%	8.26%	8.75%
3 years	6.99%	7.54%	8.17%	8.67%	9.15%
4 years	7.50%	8.03%	8.61%		
5 years	7.99%				

## Feature comment – A shortage of houses?

There is no shortage of housing across the country. Rising migration and natural population growth mean current consent issuance isn't keeping pace with demand, but there is sufficient excess supply from previous years to cover the imbalance. However, regional data reveals excess demand intensifying in Auckland, whereas areas outside of the main centres have an overhang of supply.

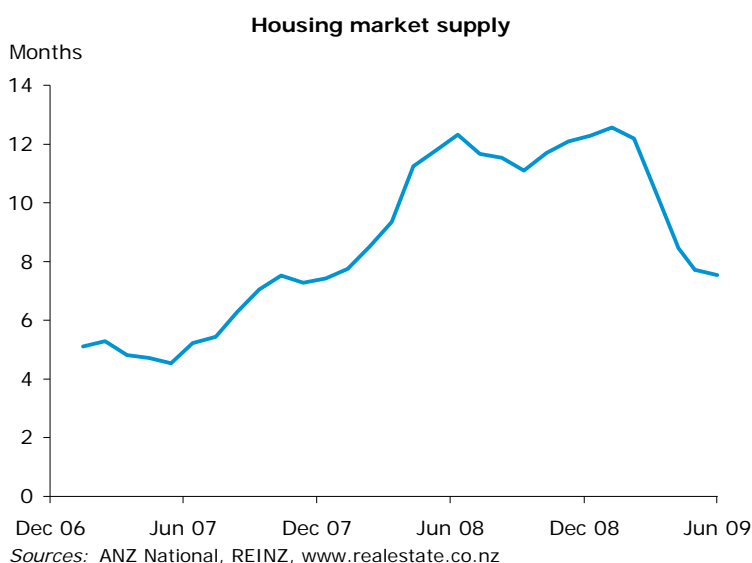
### Overview

There are widespread anecdotes and talk of a shortage of housing. This in turn has been used as one justification for house prices moving back up.

From the outset we believe much of the commentary in relation to the physical housing supply misses a key point in terms of the housing market correction. This cycle is concentrated as a land price adjustment as opposed to a physical housing story. The majority of the price appreciation during the boom appeared in the former, and while land may be in limited supply in Auckland, this is certainly not the case nationally. When it comes to land prices, there is no debate that a speculative unwind is still unfolding and we fully expect the "ripple" effects to filter into suburb and regional valuations, just as they did during the upswing.

But we nonetheless feel the need to respond to the analysis that is being presented in relation to the physical housing supply, particularly in relation to it potentially driving up property prices and another mini-boom.

Building consents have collapsed to levels last seen in the 1960s. The number of dwelling consents issued in the last three months ran at an annualised rate of 14,000. Yet, net migration has accelerated to an annualised rate of 26,400 (based on the data to May). Throw in natural population growth of around 35,000 a year and applying the average household size suggests there is fundamental demand for over 20,000 new dwellings over the coming 12 months. And this does not even take into account the depreciation of the existing housing stock.



Based on this, it is easy to see that an excess demand situation for housing has developed. On the face of it, this would point to upward pressure on house prices. Indeed, there have been anecdotes of late that new listings have been getting scarcer. The rebound in the number of house sales has



resulted in a lower market “inventory” from the equivalent of over 12 month’s sales at the end of last year to under 8 months currently (still higher than an inventory of 5 month’s equivalent sales prior to the housing market correction).

So are we really heading for a housing shortage crisis? To answer this question, it is important to distinguish between the flow and the stock. Based on recent flows (i.e. new demand from population growth versus new houses being constructed), there is no doubt that excess demand exists, as described earlier. But we need to take into account the fact that this comes after several years of excess supply.

Data since 1991 shows that the last time there was excess demand was in 2002 and 2003 (see table on page 9). This was brought about by a surge in net migration. But since 2004, there has been excess supply as migration eased, while consent issuance remained higher for most of that period.

Indeed, when we add up the cumulative demand-supply situation since 1991, there has been an excess supply of around 37,000 dwellings. There is some uncertainty in regards to key assumptions, such as average people per household and depreciation. But tweaking these does not change the broad story. There is a housing “buffer” that can be used to absorb any temporary excess demand. This is also evident when we look at the total number of households currently versus the total number of dwellings in the country (the housing stock), which suggests there is still enough vacant houses to satisfy several year’s worth of new demand.

The last comprehensive snapshot was the 2006 Census, which recorded 110,000 dwellings that were empty (6.7 percent of total dwellings) and a further 13,500 that were under construction. Of course, we know that some of those houses are vacant for a reason (holiday homes, etc). But nonetheless, they can be occupied if need be.

While there does not appear to be any housing imbalance at the national level, the regional picture paints a contrasting view. We used regional population estimates and adjusted it using household size information from the Census to derive housing demand. After factoring in depreciation, we arrive at the demand-supply situation based on consents data at the regional level. What struck us immediately was the persistent excess demand situation in Auckland over the past few years. Even assuming no depreciation of the existing housing stock in Auckland, the number of consent issuance has fallen short of household growth.

Calendar Years	Excess Supply (Demand) for Housing					
	Auckland	Waikato	Wgtn	Rest of Nth Is	Canty	Rest of Sth Is
1997	-2470	850	40	2290	890	1650
1998	-1190	840	820	2020	1070	1420
1999	3750	1760	1240	3570	1880	2070
2000	630	1310	1150	2770	980	1430
2001	860	1540	690	3750	760	1020
2002	-2820	120	-250	890	-640	480
2003	-4850	490	-460	1010	-600	610
2004	260	790	-210	2050	0	850
2005	-1450	990	250	2830	580	1310
2006	-2130	1150	-170	2290	240	1310
2007	-2730	1630	210	3550	940	1640
2008	-3400	590	290	1830	40	930
<b>2009(e)</b>	<b>-6850</b>	<b>260</b>	<b>-230</b>	<b>420</b>	<b>-850</b>	<b>610</b>



In contrast, other parts of the country have been increasing their housing stock at a faster rate than growth in underlying demand. This is particularly so in parts of the North and South Islands outside of the main centres. No doubt the recent flurry of activity around coastal properties and holiday homes has been a part of this.

Given that Auckland is likely to be the main beneficiary of the net migration inflows, the excess demand situation is likely to intensify over the coming year. This will potentially lead to upward pressure on rents and house prices in the region, if housing supply does not start to respond soon. However, other parts of the country which do not face any excess demand will continue to face downward pressure on house prices. Particularly those in the popular holiday home hotspots.

### The upshot

There is no housing shortage at the national level. Simple static or a one year snapshot of demand (population plus migration) relative to supply (consents) is too simplistic. You need to look at the cumulative picture over a number of years. There has been sufficient excess supply in the past few years to absorb the rise in housing demand in the short-term.

So what about the limited number of listings? We suspect diminished listing activity is reflective of the broader de-leveraging dynamic across the economy. When you buy a property (as an owner occupier) the tendency is to trade up and typically take on more debt. This is where altered lending appetites and reduced job security could be playing a role. In this environment, the bias is to stay put (the supply side). In practice this effect should influence both supply (listings) and demand (the decision to buy). Hence, we will be paying close attention to prices, which should remain capped if this dynamic is at work.

Calendar Years	Population Growth from			Household Size	Underlying demand			Building Consents	Excess Supply (Demand)
	Migration	Natural	Total		Households	Depreciation	Total		
1991	6500	33800	40300	2.79	14400	3500	17900	17500	-400
1992	4600	31600	36200	2.79	13000	3540	16540	17700	1160
1993	13900	31800	45700	2.78	16400	3740	20140	18700	-1440
1994	19900	30400	50300	2.78	18100	4620	22720	23100	380
1995	28500	30000	58500	2.78	21000	4220	25220	21100	-4120
1996	24800	30800	55600	2.79	19900	4560	24460	22800	-1660
1997	7600	32700	40300	2.79	14500	5020	19520	25100	5580
1998	-6400	33000	26600	2.77	9600	4140	13740	20700	6960
1999	-8900	30900	22000	2.76	8000	5280	13280	26400	13120
2000	-11300	33100	21800	2.74	8000	4020	12020	20100	8080
2001	9700	33500	43200	2.73	15800	4100	19900	20500	600
2002	38200	35100	73300	2.74	26800	5440	32240	27200	-5040
2003	34800	37300	72100	2.74	26300	5980	32280	29900	-2380
2004	15100	37600	52700	2.73	19300	6280	25580	31400	5820
2005	7000	39700	46700	2.71	17300	5200	22500	26000	3500
2006	14700	35700	50400	2.70	18700	5200	23900	26000	2100
2007	5500	35700	41200	2.68	15400	5120	20520	25600	5080
2008	3800	35200	39000	2.67	14600	3700	18300	18500	200
<b>2009(e)</b>	<b>20000</b>	<b>35000</b>	<b>55000</b>	<b>2.67</b>	<b>20600</b>	<b>3200</b>	<b>23800</b>	<b>16000</b>	<b>-7800</b>

Note: The table shows nationwide new housing demand from migration and natural population growth each year (adjusted for household size), taking into account depreciation of the existing housing stock. An excess supply situation exists if the number of building consents issued that year exceeds the total underlying demand. An excess demand situation is where demand exceeds supply in that year.

Sources: ANZ National, Statistics NZ

## Statistical Annex

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
100	135	138	142	145	149	152	156	159	163	167	170	174	178	182
150	202	207	212	218	223	228	234	239	244	250	256	261	267	273
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1000
600	809	829	850	870	891	913	934	956	978	1000	1022	1045	1068	1091
650	876	898	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182
700	944	967	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273
750	1011	1036	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364
800	1078	1105	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454
850	1146	1174	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545
900	1213	1244	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636
950	1281	1313	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727
1000	1348	1382	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818

Housing market indicators for June 2009 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	2.4	1.7	168	(+7%)	70	Days to sell back over 2 months and is the slowest in NZ
Auckland	0.0	3.2	2,016	(+2%)	32	A \$435k median sale price for the third time in 4 months
Waikato/BOP/Gisborne	0.9	1.7	935	(+10%)	51	Median house prices hit a 12-month high of \$319,000
Hawke's Bay	7.3	2.4	236	(+5%)	49	Largest annual percentage increase in house prices
Taranaki	6.3	2.2	188	(+6%)	32	After a blip last month, time to sell fell to a national low
Manawatu-Wanganui	3.7	-2.0	328	(+3%)	49	The median days to sell is now at an 18-month low
Wellington	2.3	0.8	734	(+19%)	43	The greatest number of monthly house sales since 2007
Nelson-Marlborough	-0.3	2.9	232	(-2%)	44	The only place with a drop in the number of houses sold
Canterbury/Westland	-1.3	1.2	944	(+6%)	37	The median time to sell a house is the lowest since 2007
Otago	-2.6	-0.4	256	(+18%)	52	Third slowest location to sell, from the fastest last month
Central Otago Lakes	-14.6	-3.9	99	(+17%)	53	Largest annual fall in house prices, by a large margin
Southland	6.0	4.9	167	(+4%)	50	Gap of days to sell above NZ level is a 9-year extreme
NEW ZEALAND	0.0	2.8	6,292	(+9%)	40	The New Zealand housing market still shows resilience

## Key forecasts

Economic indicators	Actual			Forecast						
	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
GDP (Ann Avg % Chg)	1.7	0.2	-1.0	-2.0	-2.6	-2.6	-2.0	-1.1	0.2	1.5
CPI Inflation (%)	5.1	3.4	3.0	1.6	0.8	1.8	1.8	2.2	2.2	2.6
Unemployment Rate (%)	4.3	4.7	5.0	5.6	6.4	7.0	7.5	7.7	7.9	7.8
Interest rates	Actual			Forecast (end month)						
	May 09	Jun 09	Latest	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11
Official Cash Rate	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.0
90-Day Bank Bill Rate	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.6
Floating Mortgage Rate	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.9
1-Yr Fixed Mortgage Rate	5.6	5.6	5.6	5.6	5.6	5.7	5.7	5.7	5.8	6.4
2-Yr Fixed Mortgage Rate	6.3	6.3	6.3	6.3	6.2	6.4	6.5	6.6	6.7	7.1
5-Yr Fixed Mortgage Rate	7.8	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.1	8.3

## NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

### *Qualifications, experience and professional standing*

#### Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

#### Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

#### Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

#### Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

#### Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

#### Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

### *Other interests and relationships*

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

### *Securities about which investment advice is given*

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

## PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

#### Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

**Auditing**

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

**Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

**NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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