BNZ Weekly Overview

29 April 2010

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.

Positives, A Big Negative Offshore, And Lots Of Uncertainty Still

The week has brought presents for the optimists and the pessimists. For the optimists we have seen Fonterra revise their projected payout up by 40 cents, a leap in business activity expectations and hiring plans in the NBNZ monthly survey, upward revisions to IMF global growth forecasts, and sharemarkets not doing too badly in spite of the big negative. That negative of course is the situation in Greece. Standard and Poors have cut their Greek bond credit rating three levels to junk status, they took Portugal down two points, and last night took Spain down one.

Investors are increasingly shying away from the debt of indebted European governments amidst fears that Greece is increasingly likely to default and that their debt problem is actually far far greater than the €45bn package which may or may not be supplied by the Euro-zone economies and the IMF. There is growing talk that the pain the IMF require from Greece will be too great and the government may simply opt for default with the potential aim of quitting the Euro – if not the EU (unlikely) if in their time of need support is not coming.

But then that support has been flowing for a long time now and in the minds of the Germans in particular pricking this particular cargo-cult mentality bubble is better than feeding it with German taxpayer funds for goodness knows how many more years.

The upshot is that while the world economy is improving and the week has brought strong data in some economies, major risks continue to abound – including Iran and the Korean Peninsula. These risks need to be borne in mind when considering forecasts for the pace of monetary policy tightening in NZ and exchange rate moves in particular. Going through the next decade with a strong balance sheet, firm diversified cash flows, and low debt seems like a very good idea. Hence perhaps why the very high level of business sentiment in NZ is not yet translating into higher credit demand, and perhaps why households also seem very unwilling to borrow more. Many uncertain elements remain in play.

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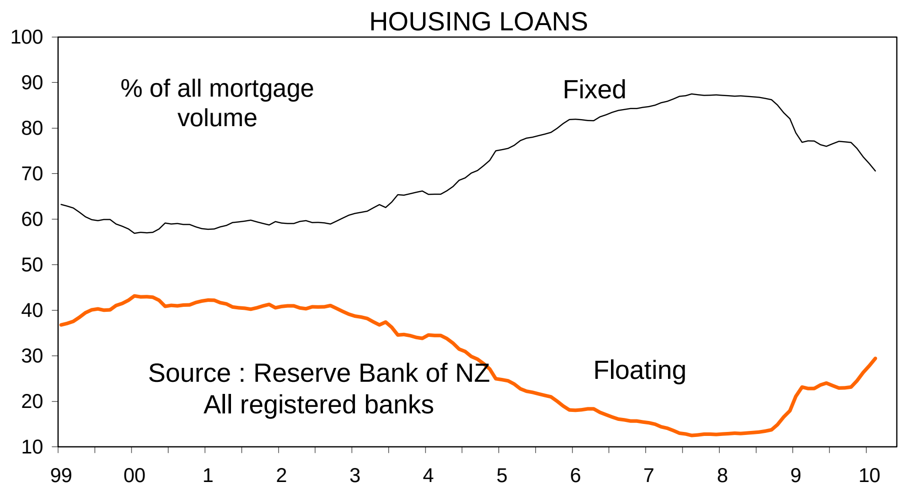
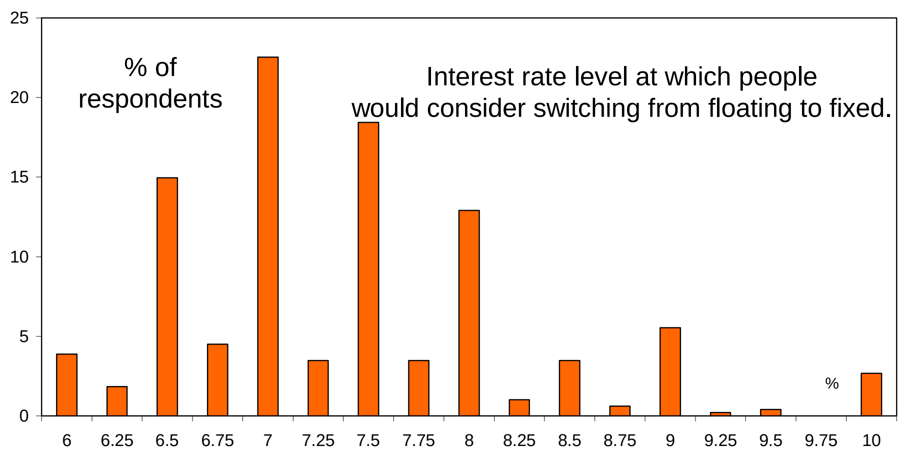
During the week we ran a special survey of Weekly Overview readers asking if people were thinking about switching their mortgage from floating to fixed over the next 12 months and at what level of floating rate they would consider shifting – assuming fixed rates were up 0.5% - 1.0% by that time. One was silly enough to think that not many people would respond so only used buttons for the first question and not for various interest rate levels for the second question. Duh! Over 1,250 people responded and one spent a very drawn out time recording the answers to the second question and gathering the comments people offered.

The upside of this good response is that we can try some other survey further down the track – but not for a while. The WO database has been set up primarily for distribution of the WO and not for surveys so don't get worried about a plethora of questions coming through. The results….

Of the 1,264 responses 44% said they do not think they will switch into a fixed rate in the next 12 months, 33% said they would, and 24% were unsure. As at the end of February 29% of mortgages were on a floating rate basis and 71% fixed. Therefore with between 44% and 68% of people saying they may stay floating as rates rise we could be looking at a substantial shift away from the norm for interest rates in NZ which has been to have them fixed.



We also asked people if possible to indicate the level of the floating mortgage rate that would encourage them to hop into a fixed rate. Of those who specified a rate most indicated they would jump from floating to fixed once floating rates got to between 7% and 8%.



Here are about 20% of the comments people made with regard to their mortgage management thoughts.

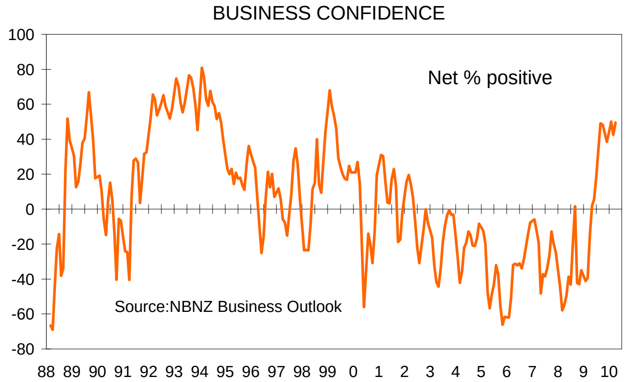
- I would switch to fixed when I can see that all rates are starting to rise. At which exact point I will switch I am unsure.
- Only when the floating becomes higher than the fixed would I consider changing to fixed.

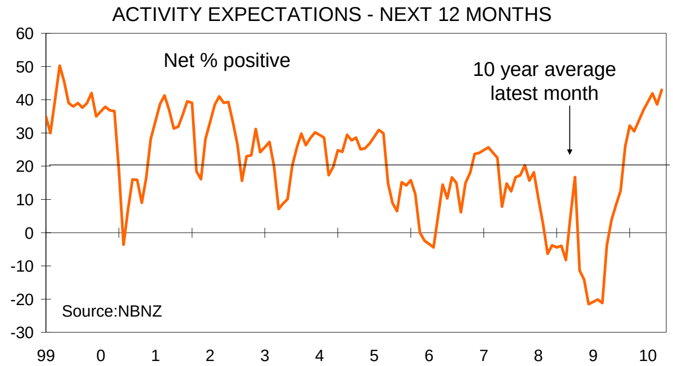
- It depends on what the local and world economies look like they will do and this can only be assessed on a daily/weekly basis. This seems to be a whole new ball game and you need to remain flexible and ready to react on current information.
- It's not the rate - its expectations around direction and extent of change over the next 12-18 months.
- Unlikely to switch through this interest rate cycle.
- Would try to switch to 7.1 before they go up
- While I'm intending to keep loans on floating at the end of their fixed periods, from past experience I tend to loose my nerve once floating gets above 10% (hence fixing at 9.35% back in Apr '08). Even though the rates in '08 were above the long term average and expected to go down, the pressure on cash flow was such that the risk of it not going down as quickly as expected was too much for me. So I split the risk and fixed $450k 1yr @9.15%, $300k 2.5yrs @ 9.4% and $540k 4 yrs @9.3%. This was to also spread them out between other fixed interest loans, which luckily were fixed at lower rates. Obviously, it didn't take long before I was wishing that I had held my nerve a bit longer and had kept them on floating - so, for me, it seems to be a floating rate of 10% that causes me to discard logic and fix.
- A portion of my income is quarterly bonus and as things are picking up, the ability to receive lump sums (approx $7k net per 1/4)probably makes it worthwhile to keep 1/3 of my mortgage floating / interest only.
- No, but if within a short few months the rates rose 2 or 3 times I would go to fixed for the portion of mortgage which I do not anticipate to repay in the next 3 years.
- 3 years for 60% Floating for balance
- Quite a bit of crystal ball gazing and assumptions required to answer this properly but suspect that would consider once floating rate exceeds fixed rate. Whether I would fix at that point depends on what the world looked like at that point.
- We are selling our rental property with the intention of paying off our own mortgages.
- Already on fixed rate - picked 5 year rate in June 2009. Personally prefer to fix for cash flow certainty rather than take the gamble with rates. This does mean I have been paying more interest over the last 12mths than what I needed to, but I am sheltered from rate rises for the next 4 years.
- If you had asked this 4 months ago I would have been sure we would be fixing very soon. With interest rates staying low we are likely to stay floating until we see that interest rates are likely to rise significantly over a short term. So....for now only maybe 6% would tempt me
- If the floating rate climbs faster than fixed rates and if it gets to a position between the 1 and 2 year rate I would consider fixing. Unless there was a credible reason for making this change earlier. The reason for this is that I prefer the flexibility of more short term loans than long term loans. I would consider longer term if there was good evidence to suggest that floating and fixed rates are likely to go up significantly in the longer term.
- Floating would have to be 0.5 - 1% higher than fixed before we would consider fixed as we expect to have significant cash inflows over the next 2-3 years and want the flexibility to pay off the principal faster.
- I would be looking for the cheapest 5 yr term I could get and I would be in search mode....I would go with any bank that offered the best rate.
- 1.0% would do it for me but....
- I am already 99% fixed for three years at under 6%pa so the tiny remaining amount ($20k) isn't a source of concern. But if I had a lot floating I'd be looking to fix for a long term right now. I just don't see long term rates getting cheaper because of things like our RB tightening the OCR, overseas economies heating up, some inflation returning to some economies demand rising from house buyers for home mortgages and Asia and Oz steaming ahead. Therefore, I see slow but steadily rising fixed rates. The real reason though is that the last two years have been a bit turbulent and I feel that small-time amateurs like me will opt for certainty over uncertainty - even if it costs a little more. Plus, lots of us don't even know how to do the simple calculation that determines if we're better off floating or fixing short term. So I expect heaps of little people like me to switch from floating to fixed in the next year. Cheers.
- Not fixing as good chance will sell in next year or so. If wasn't looking at selling would probably fix for short term (1 or 2 year) when floating got to 7%
- I would 50% floating and 50% fixed for a 3 year term. It is very tempting to stay float as more unexpected surprises like in 2008 credit crunch are in the pipeline.

- Probably 1% above. However, I have historically worked on the basis of splitting my loans into say three parts with differing terms to spread the risk i.e. short, medium and long term. The decision is based on the interest rates for each term period. For the initial value of the floating rate loan, I work on being what one could pay off within the next 12 month period, and have all income going into this Rapid Repay loan account. This process would be repeated as each loan came up for renewal.
- To me it's more of where the fixed rates are at if I can get 3 years at a good rate, which I think is close. I don't trust what could happen in the economy and if people have learned nothing rates could move quickly. So I am prepared to pay a bit more now to have several years of certainty and get debt levels down and save towards lump sum reductions at the end of those times as well.
- I am about 80% fixed at 6.5% in March 2009 (c2m), so for the remainder I am going to stay short (FL or 6mths) and as you say ride it out. By locking in at 6.5%, my properties are cash flow positive pre tax/depreciation, which is great.
- I would not fix until the floating rate is higher than the 2 year fixed rate or is expected to be higher. Probably when the floating rate gets to about 7.5%.
- I have a mixture of loans. My short term loans will always remain floating as the principal paid early will compensate for any increases in interest rates. Long term rates I will fix when I believe the short term gain of lower interest rates no longer out weighs the rate security. Probably 18 months or so away or when the rate curve is a lot flatter. Will be unlikely to fix more than 2 years. I am however one of the lucky ones who 'fixed now' for 3 years in March last year for my largest chunk of my mortgage - Cheers for the advice!
- Probably will try to fix once rates start to rise. Timing... timing.
- Fixed rate of 8.5% expires early May so will float in meantime. Will look to fix again for 2 years when those rates start to move - 6 months time?
- We have loan facility where we split loan three ways. We have just fixed 25% of loan for one year. Current thinking is to keep75% floating as we think the economy will struggle to support lifting of rates.
- I have always and will continue to remain with the floating rate. (Ed note. Whenever I read a line like that I always think of Spock dying.)
- My broker has a simple approach which I trust. Spend as much time BELOW the long term average fixed rate as possible (which we estimate to around 7.5 - 8%). We think fixed rates will lead the rises, then pendulum around the other way for floating to again be higher as the cycle repeats!
- Our mortgage is split over floating and various fixed terms and I would look to continue to achieve some degree of certainty by retaining this approach. I would certainly consider refixing any borrowings that came off a fixed term even if at a premium of 1.0% or even 1.5% above the float.
- It all depends on what happens to the fixed rates. It is a toss of a coin to fix for two years soon or ride it out. I have a number of loans that are now floating and will probably want to cover a number of bases by fixing some and leaving others floating.
- It depends on the difference in rates between fixed and floating. It would have to be well over 1% difference.
- 7%-8% - but depends on what I think the outlook is for rates and what the fixed rate is
- Once the floating rate goes above 7% I would then look to fix for approx 3 years depending on rates.
- At the moment I have a large number of mortgages and fix most for 1yr given that the 1yr rate is very close to the floating rate. As the rates diverge (if 1yr fixed becomes much higher) I would float more. I managed to snaffle a couple of 5yr rates at the low.
- Already fixed at 6.49% for 5 years as advised by you. My current thinking is there will be no reason to fix while there is a premium on long term funds. With the new bank rules, short term money should remain relatively cheap.
- As my floating rate mortgage will be paid off in 18 months I won't change. However even if I still had five years to go I think I would stay with floating as the dynamics of interest rates seems to have changed and with the advantage of being able to pay off lump sums at any time with no penalty, floating is the better option.
- I would need a fixed rate 4-5 years at under 7.5% unless floating rates went over 9%. Then I would look at 3-6 months at a rate lower than 8%
- Probably depends on prediction of how much higher they will go and how fast as opposed to the exact level.

Businesses Quite Happy

Perhaps assisted by some delaying of the timing for the first monetary policy tightening and the NZD failing to soar ahead anew business sentiment has improved quite strongly over the past month. The NBNZ monthly Business Outlook survey for April – taken about three weeks ago – has found that a net 50% of respondents expect the economy to improve over the coming year. This was up from 43% in March and back to where the reading was in February which was the strongest in ten years.

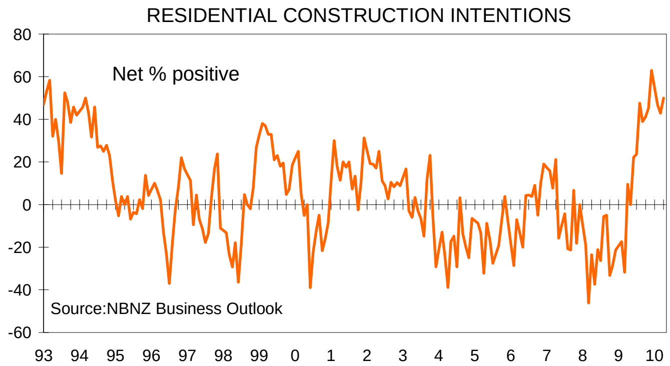


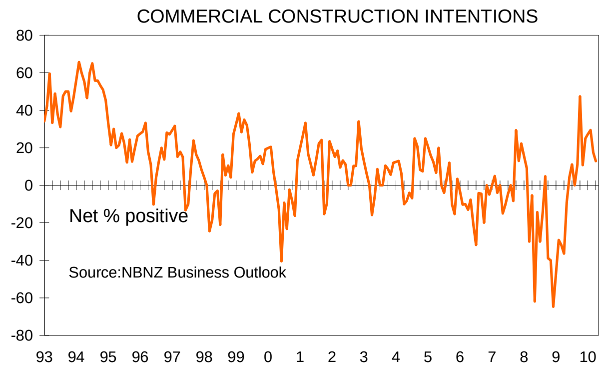


The important reading for the level of activity businesses expect for themselves also bounced up in the month to a net 43% positive from 39% in March and -4% a year ago. This also is the strongest reading in about ten years and bodes well for the economy growing 3% and more over the coming year.

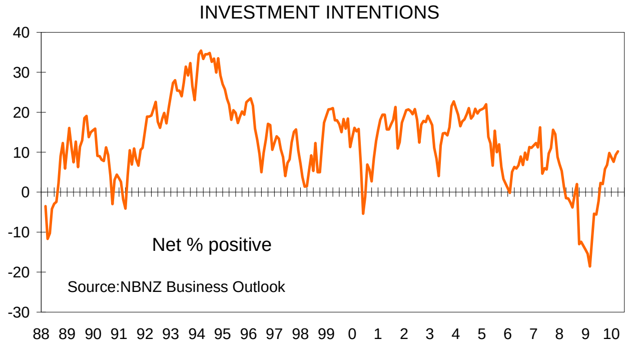
In particular one feels justified in having good growth expectations from looking at the other measures in the survey. A very high net 50% of residential builders expect their activity levels to go up in the coming year. This is up from 43% in March, 10% a year ago, and a ten year average reading of just 2%. This feeds well into our long running forecast that a key supporting factor for the economy going forward will be residential construction – a sector which has a wide multiplier effect through the economy involving materials manufacturers and distributors, the builders themselves, services providers, and suppliers and manufacturers of home furnishings etc.

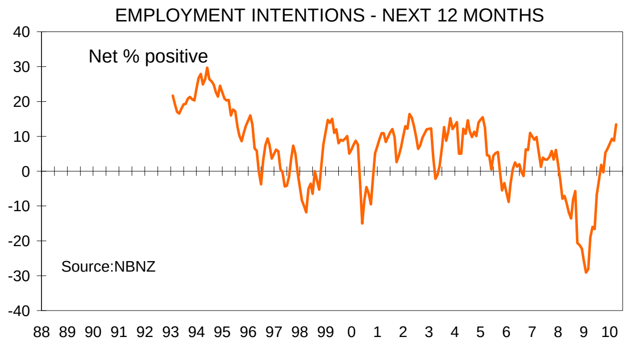
A net 13% of respondents expect higher levels of commercial construction. This reading is above the average of 2% but the weakest level since November. We doubt there will be much growth in non-residential construction in the coming year outside of infrastructure work given the growing oversupply of such buildings in many parts of the country.





A net 10% of businesses say they plan spending more on capital equipment over the coming year which is bang on the long term average and the best reading since November 2007. As yet however we are not seeing any great flood of companies coming through our doors looking to raise finance for such investment and it remains our expectation that this relatively important component of economic activity may not show any decent growth until next year. Before then we expect a continued firm focus on debt repayment and some underlying caution regarding sustainability of currently improving business cash flows.

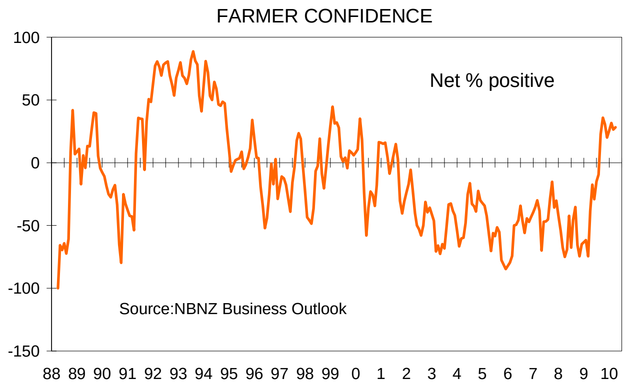


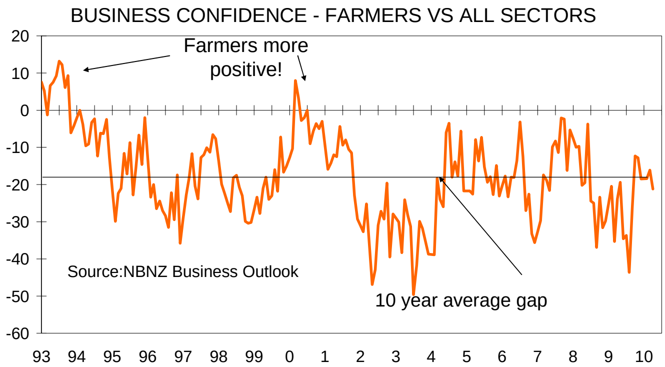


Employment intentions have continued to improve with a net 13% of businesses expecting to ire more people over the coming year up from 9% in March and well above the ten year average reading of just 3%. This bodes well for our expectation that the labour market's turnaround will accelerate later this year with employee shortages appearing again from some point in 2011 especially as we lose more and more good people to the fast growing Australian economy – which already has shortages of employees.

Manufacturers also indicated in the NBNZ survey that they are happy about things with a net 46% expecting the economy to improve, a net 50% expecting their activity levels to rise (average = 20%) and a net 43% expecting higher exports. This export reading was 37% in March and has averaged 28% over the past ten years. The strength will reflect the fact that about half NZ's manufactured exports go to Australia and those exports are being supported by Australia's strong growth plus the NZD/AUD exchange rate sitting about eight cents below the ten year average of 85.5 cents.

Overall the survey is strongly consistent with improving growth in the economy. In that regard, taking into account the spreading drought around the country (not down south where it has poured down all week), but allowing for soaring commodity prices, a net 28% of farmers are confident about the economy. The average reading for this measure is -35%. A net 4.4% of farmers expect to hire more people – the average is -0.7%, a net 28% expect their activity levels to rise versus an average of 23%. When even the most pessimistic group of people in the country is optimistic it is hard to feel too bad about the economy's prospects.





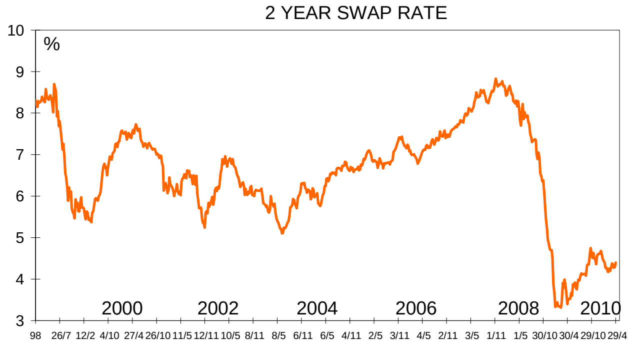
INTEREST RATES

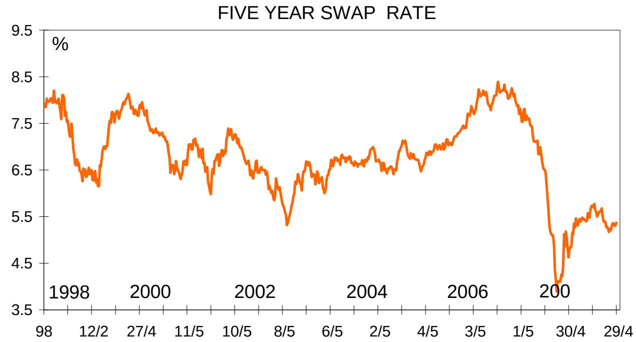
As had been universally expected the Reserve Bank left the official cash rate at 2.5% this morning - the rate they took it to a year ago when worries were high regarding the world economy and its effect on a NZ economy still at the time believed to be in recession. Actually in the June quarter of last year we came out of recession, but the RB has kept the cash rate low because lots of spare resources were thrown up by the recession and because of ongoing worries about credit availability during and following the greatest global financial shock since the 1930s.

Those latter worries are now much less than they were before though lending standards are tighter globally than in the past and banks – while able to comfortably raise funds offshore – have to pay more for it than in the past and target more long term funding under altered RB rules.

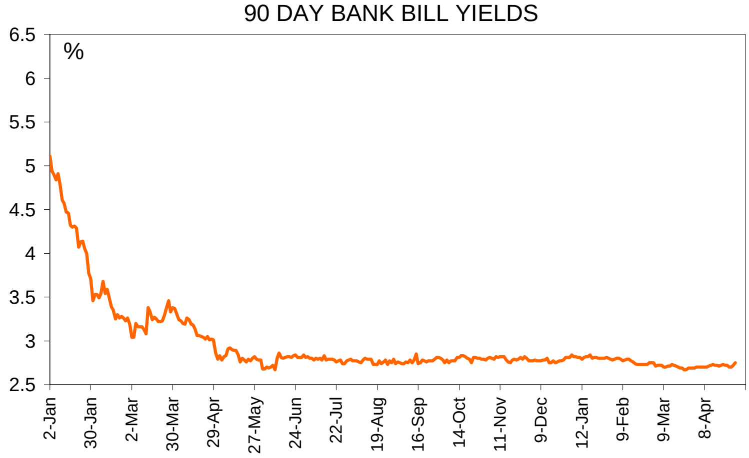
In leaving the cash rate unchanged the RB however altered their comment that they expect to raise the rate around the "middle of the year". It is now "…we expect to begin removing policy stimulus over the coming months…" This is a slight weakening which increases the chances that the first rate rise is delayed but still leaves open the strong possibility that tightening starts in early June. After all, just this week we have seen good news in the form of the very strong NBNZ survey plus Fonterra lifting their forecast payout by 40 cents to $6.10.

In fact we still at a pinch expect a June 10 start. But interestingly the markets had become of the firm view recently that the tightening may not start until much later and failure of the R to significantly alter their timing to something like "late in the year" caused a selloff which has pushed swap rates to their highest levels in a month.





90-day bank bills remain glued to just over 2.7% while the three year swap rate has ended near 4.84% from 4.75% last week.



Key Forecasts

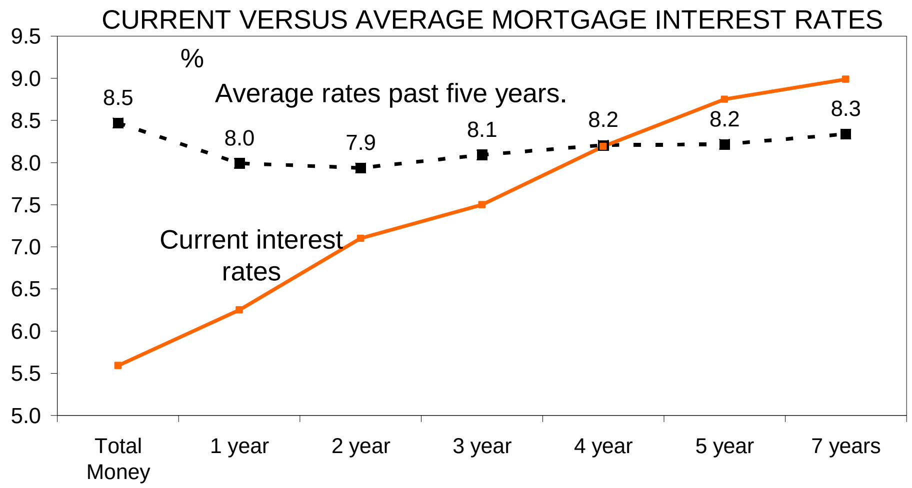
- Tightening mid-2010.
- Medium to long term housing rates to rise again in a few months.

FINANCIAL MARKETS DATA

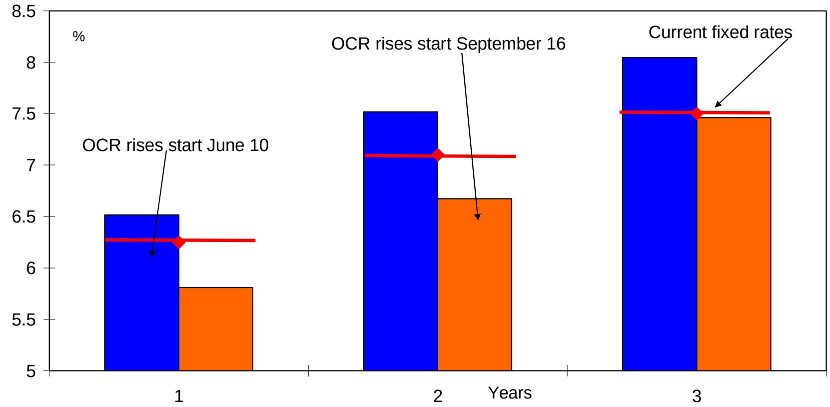
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	3.00	6.2
90-day bank bill	2.75%	2.72	2.69	2.80	3.01	6.5
1 year swap	3.60%	3.51	3.54	3.65	2.90	6.7
5 year swap	5.37%	5.31	5.36	5.38	4.63	7.0

If I Were a Borrower What Would I Do?

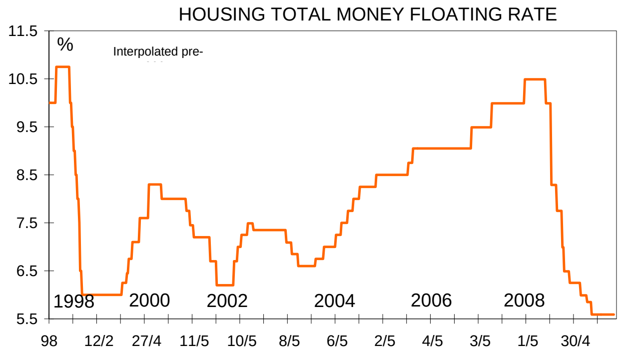
Nothing has changed really so I remain willing to sit floating. Once we get closer still to the floating rate rising however I will take a look at where the one and two year fixed rates sit and may contemplate taking one of them in order to shave a bit off my likely cost over the next one or two years. But if I fix it will be merely an opportunistic thing and not a substantial change in risk profile given the two terms I will consider. The opportunity to lock in a nice low long term fixed rate is unlikely to come around again for a few years – though those who really love certainty could do worse than locking in at the three year rate which is 0.6% below its average level over the past five years.

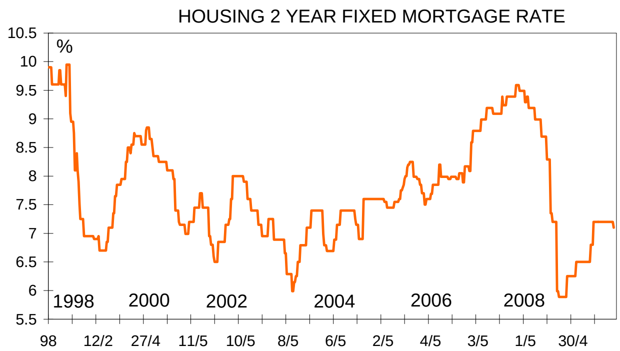


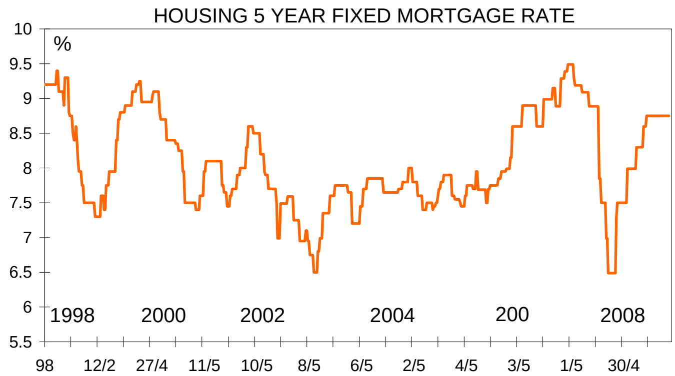
This following graph shows where we expect floating mortgage rates to average over the next one, two and three year periods if our forecasts prove correct. The blue bars assume the tightening cycle starts in June while the orange bars assume a September starting point. Both forecast paths assume continual rises in the cash rate to a level of 6% in 2012 and an unchanged margin between bill yields and the floating mortgage rate. The short red lines show current fixed rates. If tightening is delayed until September it clearly pays to stay floating at the moment. But if tightening starts in June as we still expect then for those planning to have a mortgage exposure for three years there is a forecast benefit near 0.5% for fixing three years rather than floating. This benefit shrinks for the two and one year terms.



So why would I not fix three years given my expectation of having a mortgage for a period of time longer than that and vague expectation that really low fixed rates don't come back until about 2013? I don't think the 1-3 year fixed rates are on the verge of being raised therefore can continue to enjoy the low floating rate for longer while keeping repayments at a very high level. I can then get down to the serious business of thinking about fixing a few weeks from now whereas at the moment it is more of a task one can put off for a bit longer. Procrastinate while one has the chance!







If I Were a Term Deposit Investor What Would I Do?

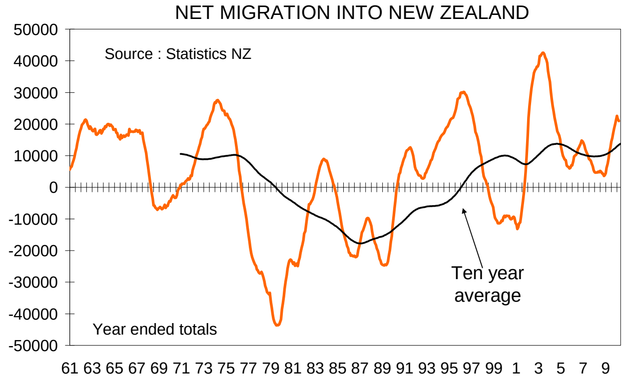
The six month rate has been cut this week from 4.9% to 4.7% increasing therefore the incentive for a term deposit investor to go longer to get a higher return. One could go 18 months and get 5.3%, four years and get 6.2%, or five years and get 6.75%. Personally for myself I am happy to stick with the short rate still for now waiting for better long term rates to come along. Others with more cash flow need may opt for a longer rate but should be aware that as monetary policy tightens and especially as business credit demand eventually picks up there will likely be upward movements in those long rates. I am prepared to sit and wait for those movements.

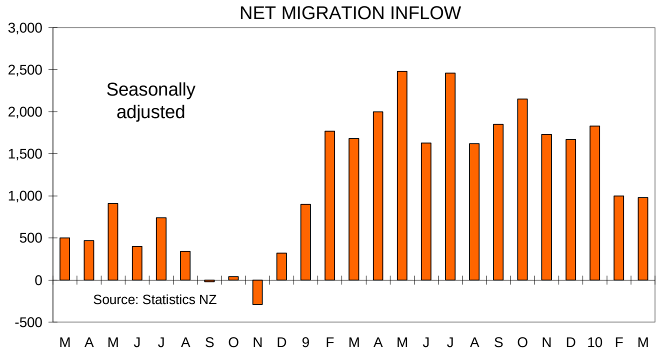
In six months time the five year rate only needs to be 0.22% higher than it is now to compensate for sitting at 4.7% between now and then rather than locking in 6.75% now.

HOUSING MARKET UPDATE

Migration Flows Easing Off

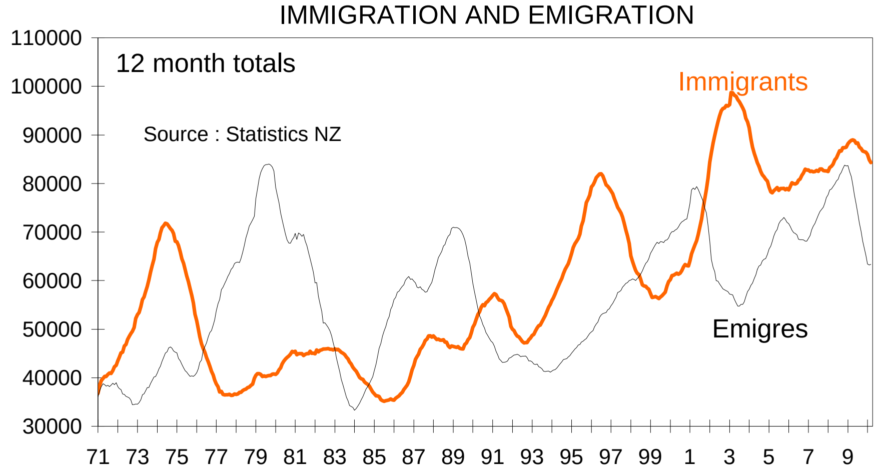
In March there was a net loss to the country's population from migration flows of 332 people. This sounds bad, but March is usually one of the weakest net inflow months of the year and in seasonally adjusted terms the flow was actually a net gain of 980 people. This adjustment cannot hide the fact that net inflows peaked in January and for the last two months things have been easing off. To whit…, in the year to January the net gain was 22,588 people. Now it is 20,973. A year ago the flow was 7,482.





In the past three months the annualised net seasonally adjusted gain was 15,240 from 22,200 in the December quarter. Compared with a year ago gross migrant inflows were down 8% (5.1% full year) while gross outflows were down 8.6% (down 22.1% full year.

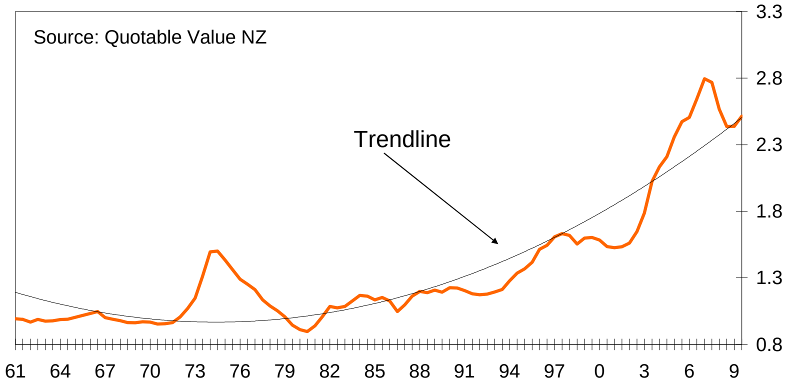
The gain in the net migration flow to January's peak from the cyclical low of 3,569 in November 2008 was entirely due to fewer Kiwis leaving. Now those outflows are starting to pick up but there is no recovery in inflows.



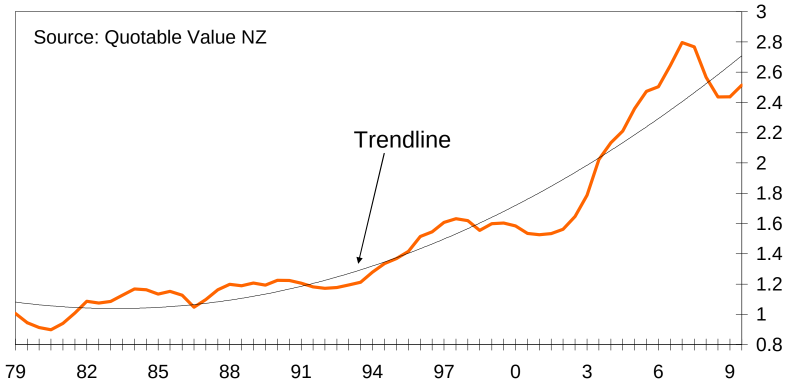
The upshot is that the full year net migration gain has seen its peak for this cycle and now we head back down again. Guessing where we end up is fairly hard given the various factors in play including NZ growth versus growth in foreign economies, NZ growth versus Australia, and catch-up departures. But it seems reasonable – given what the monthly seasonally adjusted numbers are telling us – to talk in terms of reverting to the ten year average net inward migration flow of 13,400 easily before the end of the year then going below that over 2011. We'll need more information on things before saying the net flow will probably turn negative.

For the housing market the relevance of this is that for the moment net migration flows are supportive. But they will become below average supportive late this year and an outright detraction perhaps from some point in 2011. it will however take some time we believe before the still worsening (mild) housing shortage is ended because residential construction is still running only just above four decade lows. Once the labour market picks up and the effects of the tax changes likely to be included in the Budget work their way through the market higher buyer interest is likely to offset the migration effect. Then again there are rising mortgage rates to take into account. It seems to still add up to stalled activity for a few more months then a recovery in sales and prices to some extent from later this year.

RATIO OF ALL-NZ HOUSE PRICE INDEX TO CPI



RATIO OF ALL-NZ HOUSE PRICE INDEX TO CPI



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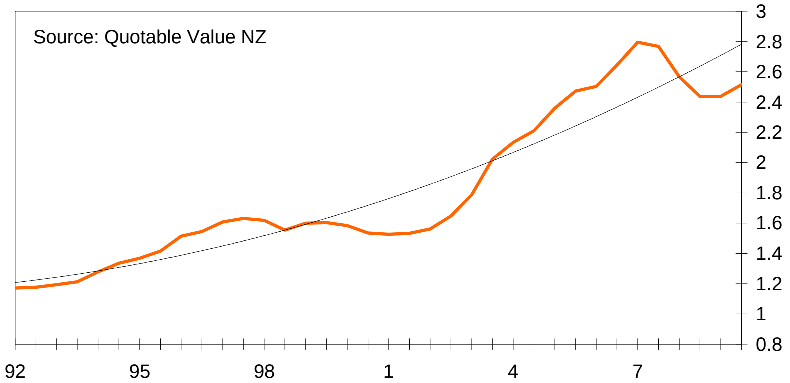


Are You Seeing Something We Are Not?

If so, email us at tony.alexander@bnz.co.nz with Housing Comment in the Subject line and let us know.

Key Forecasts

- Dwelling consent numbers to recover now with potentially good activity from late-2010.
- House prices edging higher after tax change effects wend their way through.
- Sales recovering later this year.

Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.715	0.710	0.705	0.706	0.56	0.535	0.592
NZD/AUD	0.775	0.765	0.779	0.788	0.791	0.778	0.856
NZD/JPY	67.10	66.10	65.00	63.40	54	53.5	66.8
NZD/GBP	0.471	0.461	0.472	0.437	0.383	0.357	0.345
NZD/EUR	0.542	0.530	0.523	0.505	0.425	0.404	0.51
USD/JPY	93.85	93.10	92.20	89.80	96.43	100.0	113.9
USD/GBP	1.518	1.540	1.494	1.616	1.462	1.50	1.709
USD/EUR	1.319	1.340	1.348	1.398	1.318	1.324	1.156
AUD/USD	0.923	0.928	0.905	0.896	0.708	0.688	0.69

Kiwi Up A Bit

A week ago the Kiwi dollar was trading near US 71 cents and this afternoon it is slightly higher near 71.5 cents having hit 72 cents during the week. The NZD's gain early in the week largely reflected some better than expected data on foreign economies (US durable goods orders and new home sales, German business confidence) and rising sharemarkets. The decision by Greece to activate their bail-out package from the EU and IMF also improved global risk appetite for a day. Then reality set in.

Greece's financing requirement is far greater than the subsidised loans on offer and there are still substantial risks associated with the Greek fiscal crisis – not to mention the risk that other high deficit countries also find themselves with financing problems. During the week Standard and Poors downgraded Greek government debt to junk status and cut ratings for Portugal and Spain. Other agencies still have Greek debt ratings above junk so for now the bonds are still okay as collateral used by EU banks for funding from the European Central Bank. But if other agencies downgrade the debt then a new wave of bank lending restrictions could sweep through Europe.

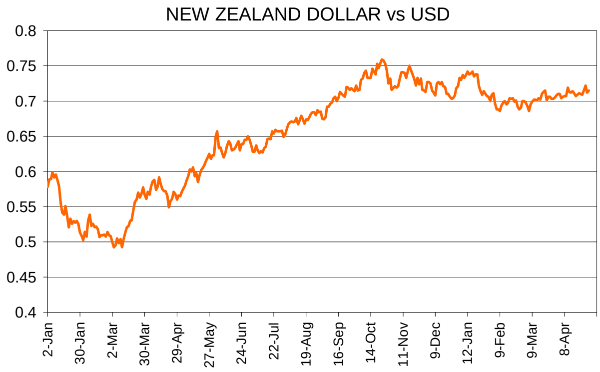
The situation in Europe remains extremely fluid with the Germans waiting to see implementation of a substantial spending reduction plan by Greece before they will agree to the bail-out plan. But that intransigence is leading to worries that the Greeks may find the cost of the package in terms of many years of a shrinking economy to be simply too high. Social unrest is growing sharply in Greece and there are worries the government may decide to quit the Euro. Then one worries along the same lines for Spain, Portugal and Ireland. Then one wonders when investors will start more appropriately pricing British government debt – especially in light of the failure of the top three candidates to outline where they would cut spending.

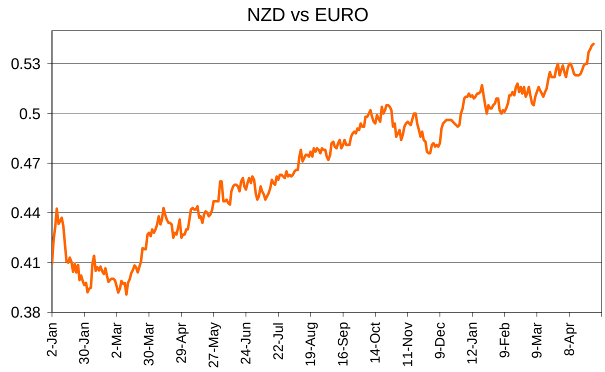
Greece is being viewed in the same light that Lehmans was – a potential trigger for a credit market rout this time coming from the government bond sector rather than private financing. But Greece is also being viewed like Bear Sterns which was bailed out in March 2008 – that is as perhaps the last bailout the large economies and the IMF are willing and able to prevent.

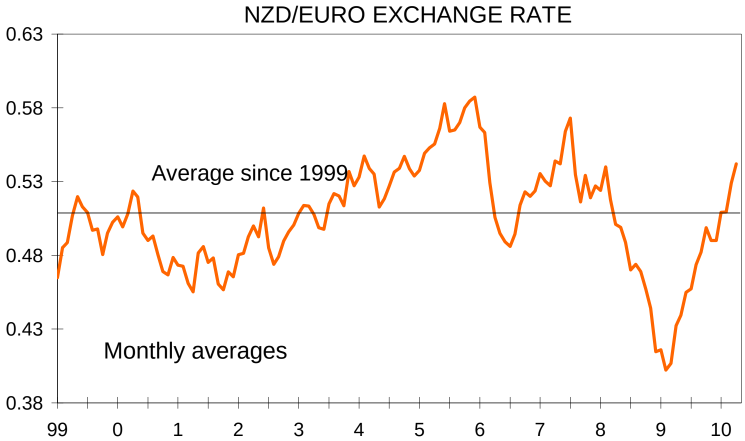
In other words, one may want to treat very cautiously the upward pressure on the NZD and sharemarkets stemming from the focus on generally improving economic data around the world. Things could still go decidedly bad again.

With regard to the current bout of heebie jeebies, the Japanese Yen and US dollar have benefited by being considered "safe havens". One wonders how much longer Japan will be considered in that way given that their ratio of government debt to GDP is approaching 200% compared with about 115% in Greece (NZ 29%).

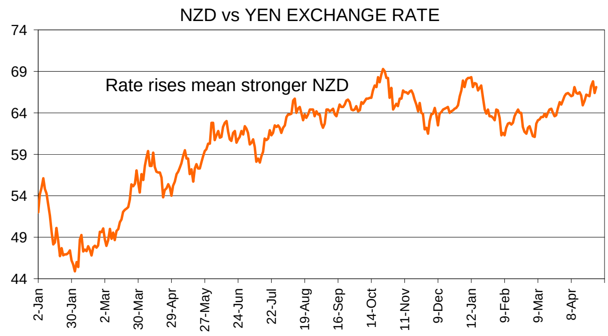
The NZD ahs ended this afternoon buying 54.2 centimes (Euro) from 53 last week. That is a three year high.

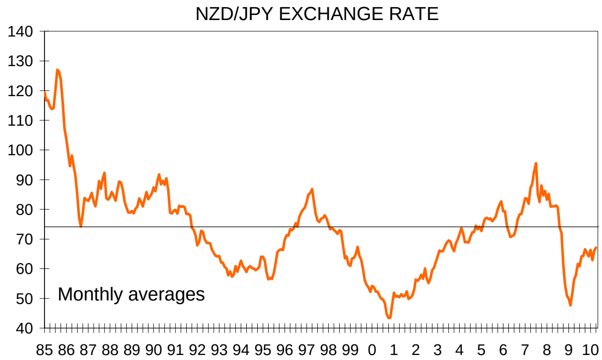






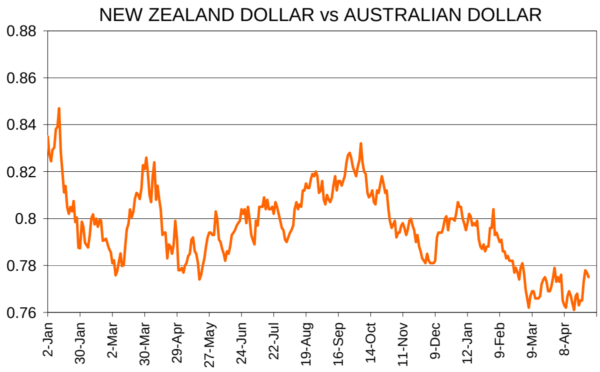
Against the Japanese yen the NZD has ended near 67.1 from 66.1 last week.

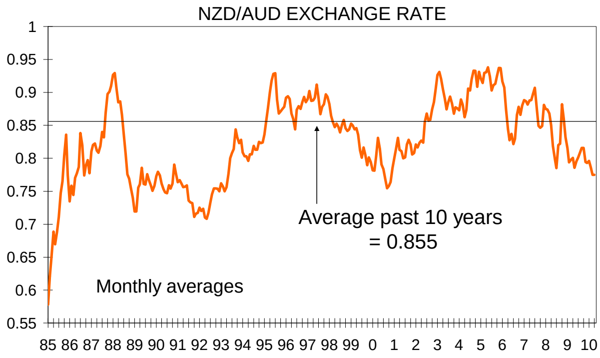




Against the British pound we have finished near 47.1 pence from 46.1 last week. The pound received a small boost from a comment from Moodys that a hung parliament may not necessarily lead to a credit downgrading. But some weakness followed March quarter GDP growth coming in at only 0.2% rather than the 0.4% rise expected and selling then followed through fiscal association with Greece. British public debt is around 65% of GDP.

Against the AUD the NZD has edged up a tad during the week to 77.5 cents from 76.5 last week which is no big thing considering the trading range over recent times.





An email….

"I am travelling to UK and Europe at the end of June and have noticed the Euro is at an excellent rate as at today. Due to the volcanic disruption of their airports overseas, will this have any effect on the exchange rates? E.g. will it cause the Euro to continue rising against the NZ dollar or start reducing?'

The markets have already factored in the recent eruption so I would not expect additional Euro movements on that basis. The risk is frankly that the Euro weakens further in the near future as Greece approaches its end game in financing markets. But remember forecasting currencies is largely a waste of time. I travel to the UK and Europe in a few weeks and will take the rate at the time.

For more detailed commentaries from BNZ and the NAB group on foreign currencies, commodities, etc click on the following link.
https://research.bnz.co.nz/Research/Pages/default.aspx

*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	0.4%	-0.2	2.0	3.0	3.4
GDP growth	Average past 10 years = 3.0%	+0.8	0.3	-1.6	-0.1	2.8
Unemployment rate	Average past 10 years = 5.3%	7.3	6.5	......	4.7	3.5
Jobs growth	Average past 10 years = 1.9%	-0.1	-0.8	-2.4	0.9	2.1
Current a/c deficit	Average past 10 years = 5.5% of GDP	2.9	3.2	......	8.7	8.0
Terms of Trade		5.8	-1.6	-8.2	1.8	8.8
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.8%.	1.3	0.7	1.3	-0.6	2.8
House Prices	REINZ Stratified Index	-1.3	2.8	6.4	-7.4	2.9
Net migration gain	Av. gain past 10 years = 11,700	+20,973	21,253yr	......	7,482	4,675
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	4.2	-0.0	4.2	-3.9	2.1
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	46	36	57	3	-34
Business activity exps	10 year average = 26%. NBNZ	43	39	31	-4	-4
Household debt	10 year average growth = 11.3%. RBNZ	2.7	2.7	2.4	4.2	12.4
Dwelling sales	10 year average growth = 3.5%. REINZ	-3.8	-1.1	39.3	-17.7	-32.1
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.59	5.99	6.25	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.50	7.95	7.75	6.75	9.49

ECONOMIC FORECASTS

Forecasts at Apr. 8 2010	**March Years**					**December Years**				
	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.2	-1.1	0.6	3.1	2	3.9	-0.3	-0.6	3.1	2.1
Government Consumption	4.9	4.2	0.8	2.2	2	4.4	4.8	1.4	1.8	2.1
Investment	5.5	-7.2	-9.9	5.8	8.9	5.5	-3.6	-12.3	2.6	9.5
GNE	4.6	-1.6	-3.3	5.6	3.2	4.6	0.4	-5.1	5.1	3.5
Exports	3.1	-3.4	2.4	1.2	5	3.8	-1.4	0	1	4.8
Imports	10	-4.7	-9.9	7.4	4.7	8.9	1.9	-14.9	7.3	4.6
GDP	2.9	-1.4	-0.4	3.6	3.2	2.8	-0.2	-1.6	3	3.5
Inflation – Consumers Price Index	3.4	3	2.3	4.8	2.8	3.2	3.4	2	4.8	2.7
Employment	-0.2	0.8	-1.3	2.5	3.2	2.3	0.9	-2.4	1.6	3.4
Unemployment Rate %	3.8	5	7.2	6.9	6.1	3.5	4.7	7.3	7.1	6.3
Wages	4.3	5.1	2.7	1.8	3.6	4	5	3.1	1.8	3.2
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.7	0.72	0.66	0.77	0.56	0.72	0.73	0.68
USD/JPY	101	98	91	104	108	112	91	90	100	106
EUR/USD	1.55	1.31	1.36	1.32	1.28	1.46	1.34	1.46	1.33	1.29
NZD/AUD	0.87	0.8	0.77	0.81	0.81	0.88	0.83	0.79	0.8	0.82
NZD/GBP	0.4	0.37	0.47	0.41	0.37	0.38	0.37	0.44	0.43	0.38
NZD/EUR	0.52	0.41	0.52	0.54	0.52	0.53	0.41	0.49	0.55	0.52
NZD/YEN	81.1	51.8	63.7	74.4	71.3	86.3	50.9	64.2	73	71.6
TWI	71.6	53.8	65.1	68.3	65	71.6	55.1	64.7	68.7	65.9
Official Cash Rate	8.25	3	2.32	4.25	6	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.67	4.57	6.15	8.9	5.23	2.78	4.07	6.07
10 year Govt. Bond	6.36	4.77	5.86	6.3	7	6.4	4.88	6.02	6.1	6.8

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.

*extrapolated back in time as Total Money started in 2007