BNZ Weekly Overview

13 August 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.

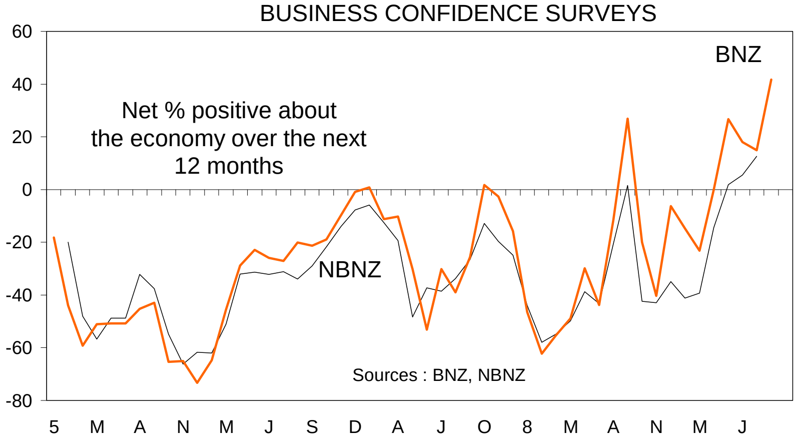
In this week's issue….

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.

Survey Shows Optimists To The Fore

Many thanks to those people who responded in our monthly BNZ Confidence Survey. If you are on the emailing list for the WO then you will already have the results. But in the absence of anything really spectacular happening this week and the need to write this on Wednesday night ahead of a quick trip to the Gold Coast on Thursday here are the main points we gleaned from the responses.

First, sentiment has shot up to a record level of a net 42% positive about the economy over the coming year. Our survey tends to be the first business sentiment reading for each month and as the results appear three days after the survey you cannot get anything more up to date. They tell us that in spite of exporters' concerns about the high NZ dollar businesses believe there is definitely light at the end of the tunnel. The big question is whether this will translate into plans to hire people and boost capital spending.



The best up to date measures in those areas will come in the monthly NBNZ Business Outlook survey taken at a similar time as our own but released at the end of the month. That survey last month showed employment intentions at their strongest level in ten months but still negative at -7%. The level of investment intentions was also at a ten month high but again negative at -2%. Given our survey results and the near flood of positive news form offshore – and Australia in particular – positive intentions could be reported this month.

When asked about how things are in their own industry we found across most sectors more participants indicating increased numbers of customers coming through the doors than has been the case for many months. The situation in the dairy sector continues to look dim and this is going to ensure that prime dairying regions around the country lag the upturn we believe has probably just kicked off in slow fashion. Tourism centres will also continue to underperform in the coming year while in the commercial property sector the negatives continue to easily dominate.

In the housing market we have for the first time seen replies indicating some increases in prices. We already have in hand the REINZ and monthly QVNZ series showing that and there was a lot of excitement this week when a long established economics forecasting group predicted good price gains over the next three years. We discuss the housing market as usual in the housing section further on but it needs to be noted that while one or two respondents said a few more vendors are coming out of the woodwork, many more reported continuing listings shortages.

There were fewer grumbles in the survey about finance availability than three months ago – but wait for next year. At the moment as banks are forced to tighten lending standards credit demand is weak. But next year as credit demand recovers with the economy growing those tighter standards will become more binding for businesses. The message here is that the availability of credit here and overseas is never again going to be what it was heading into 2007.

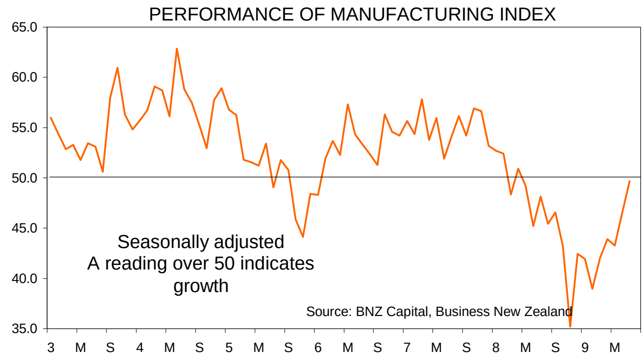
Credit rating agencies, our central bank, and investors offshore are demanding that NZ banks make greater attempts to reduce their and the country's reliance upon offshore funding. That means higher term deposit rates on average compared with bank bill yields and the official cash rate than in the past. But it also means higher lending rates for any given level of wholesale funding costs as we will need to set aside more capital for lending than in the past. Plus one would not be surprised if the Reserve Bank looks to supplement the sometimes very ineffective official cash rate with prudential policy changes as a means of influencing credit growth and therefore inflation.

Businesses who may for the moment be sitting sweet with good cash flows should not think that the altered environment is irrelevant to them. From now on when businesses look to expand they will need higher debt servicing coverage than in the past, lower debt to equity ratios, and far stronger regular reporting to their financier than in the past. It would be best to get ready for that by building up one's capital and keeping an eye out for new capital sources to replace debt.

Overall our survey shows it is valid to buy into the economic recovery scenario. But one should not lose sight of the fact that the recovery is very imbalanced with too much domestic growth to occur and not enough export activity. Plus considerable uncertainty continues around the planet so there are highly likely to be occasional shocks which run through sharemarkets and send confidence levels back down for a while.

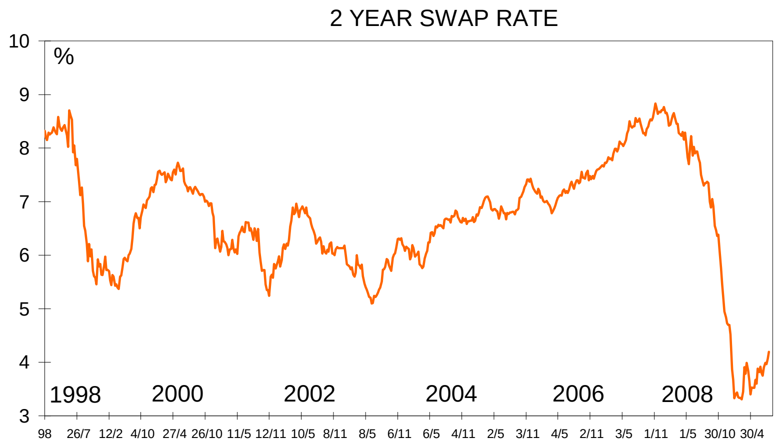
NZ ECONOMIC DEVELOPMENTS

The only really decent piece of info this week was the BNZ-Business NZ PMI which has almost moved back into growth territory (above 50) with a reading in July of 49.7 from a low of 39 in February. More info at www.businessnz.org.nz



INTEREST RATES

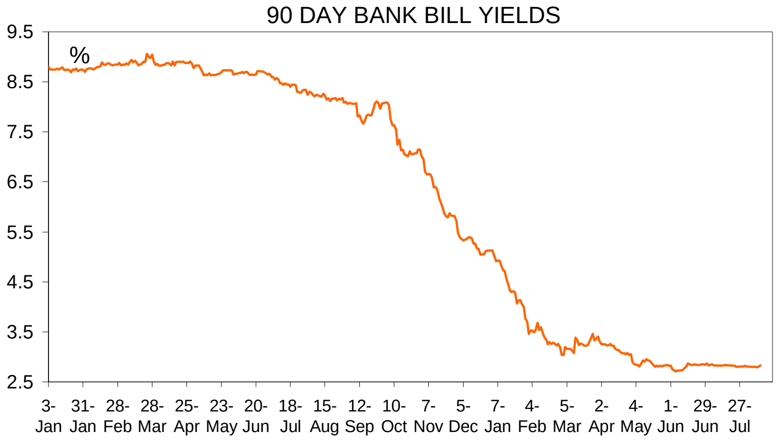
Wholesale interest rates have crept a tad higher this week – as we have been expecting. The one year swap rate has moved to 3.20% from 3.10% last week and 3.13% a month ago. The two year rate is now 4.14% from 4.07% last week and 3.91% a month ago. The five year rate is now 5.48% from 5.42% last week and 5.40% a month ago.



The rate rises have been driven by the continuing growth in acceptance of the economic recovery scenario here and overseas. Most notably, the better than expected jobs data in the United States last Friday generated new upward pressure on sharemarkets which one can think about in terms of being funded by investors selling their fixed interest securities.

But more than that, across the Tasman the flow of economic data has been very strong (business and consumer sentiment jumping up sharply this week) and forecasters are bringing forward their expectations for when the monetary policy tightening cycle will start. Many favour early 2010 but some warn that this year is possible. This is relevant to interest rates in New Zealand as we tend to compete in the same market as Australian borrowers seeking to raise funds offshore and if their rates are rising then investors naturally demand we pay extra as well. That means the 40% of funding we banks need to arrange to lend money to us debt-hungry over-borrowing Kiwis gets more expensive.

Our expectation for now remains that the RBNZ will not need to tighten monetary policy until sometime near the middle of next year.



Key Forecasts

- No more monetary policy easing this cycle.

- 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	2.50	2.50	8.00	6.2
90-day bank bill	2.83%	2.80	2.83	2.92	8.26	6.5
10 year govt. bond	5.91%	5.84	5.60	5.52	6.20	6.2
1 year swap	3.20%	3.10	3.13	2.99	7.69	6.7
5 year swap	5.48%	5.42	5.40	4.83	7.11	7.0

If I Were a Borrower What Would I Do?

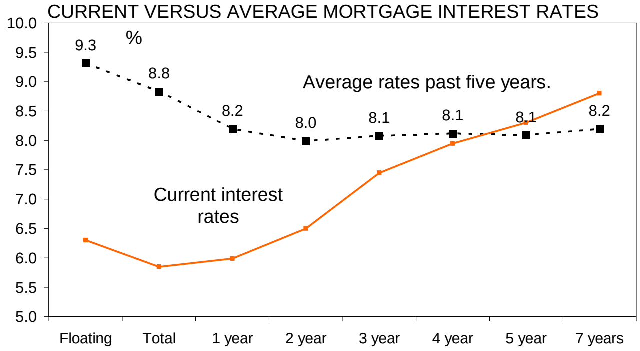
Obviously, given what we wrote here back on March 19 I would already be fixed seven years at 6.79% so would be sleeping very easy at the moment with people now only able to get a rate lower than that if they accept a lot of interest rate risk and either float or fix short term up to two years at 6.5%. The obvious choice for those who are determined not to fix long is fix 18 months at 5.99% because come the middle of 2010 there will be some firm worries about increases in the short term borrowing rates. Why?

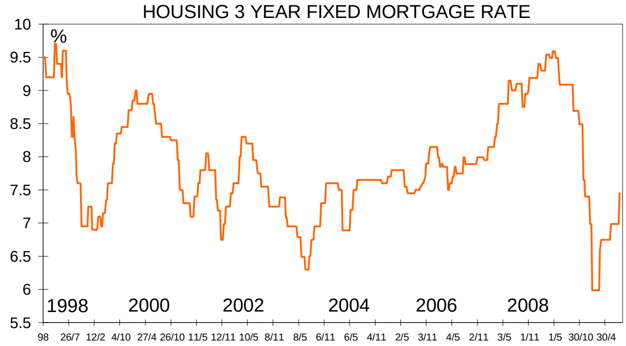
There is something many people may not have got their heads around when it comes to what has happened over the past few years. First, over the past couple of decades a view developed that monetary policy should be used here and overseas to get rid of recessions if at all possible. That meant at times interest rates would go to unusually low levels and eventually stoke higher house prices. Going forward when central banks next feel the need to ease interest rates (a few years from now) in order to combat economic weakness they will probably not take them down as far as before. That is an issue for further out and not really relevant for current borrowers thinking about what to do.

Second, again over the past couple of decades, a view developed among central bankers that one should not use monetary policy (higher interest rates) to combat asset price inflation such as from soaring house prices. The global credit collapse shows that approach is wrong and going forward we should expect central banks to more quickly react to rising asset prices than in the past. That means, if you happen to have a view that NZ house prices will appreciably rise over 2010-11 you had best factor in upside risk for interest rates.

This week we have seen the first round of increases in fixed housing rates since the first week of June. The rises have come in response to the rising wholesale borrowing costs we have long been writing about and mean that if I were to fix three years now as I have been opting for over the past few weeks I would pay 7.45%. That rate is still 0.6% below the average for the past five years but it is becoming too expensive in comparison with other shorter rates.

So if I were in the position of one of those people who for some reason have been sitting believing fixed rates will go back now then I'd be forced to accept the risks inherent in not fixing three years or more and fix two years at 6.5%. But you should have fixed very long term back in mid-March shouldn't you!





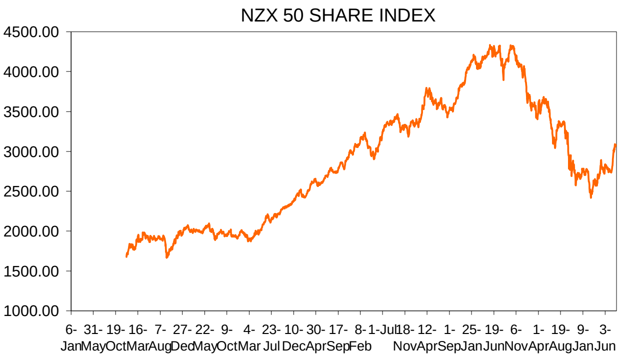
HOUSING MARKET UPDATE

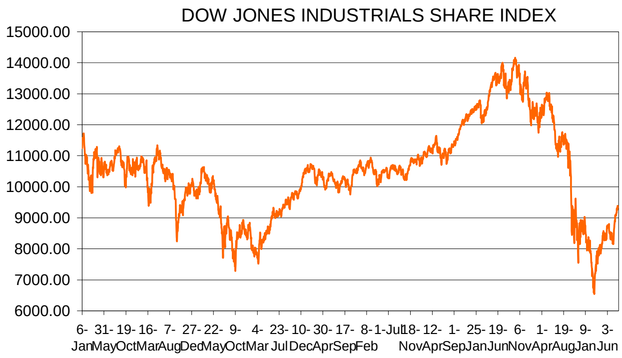
The general thrust of housing data and anecdotes over the past few weeks has remained decidedly in favour of the housing market continuing to improve – and what is notable over just the past week or two is the movement of commentary toward the obvious price implications. We say obvious in the sense that when one combines an existing shortage of affordable accommodation with very low interest rates, the worst construction since 1965, and accelerating population growth the pressure on prices can only be in one direction. Plus there is one factor we have not really mentioned for many months but is relevant also. With the collapse of so many finance companies and new regulation by the Reserve Bank of those which remain the availability of money from finance companies to fund speculative housing developments has structurally declined. This will limit the construction response this cycle and has clearly played a part in the decline in annual consent numbers from 25,000 at the start of 2008 to 14,175 in the year to June 2009.

Our monthly BNZ Confidence Survey discussed below contains some positive price commentary and Infometrics this week released a report prepared for QBE LMI forecasting price rises of 11% in the coming year and 24% over the next three years. Even the monthly QVNZ price release which we tend not to report on because it is a poor shadow of their quarterly release and far less up to date than the REINZ data, has shown prices rising for the past three months.

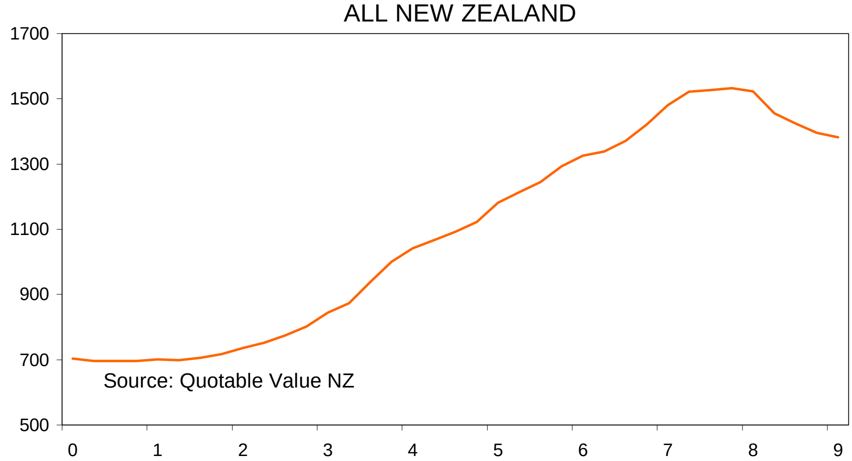
Given the continuing uncertainties in play putting numbers on house price forecasts in this environment is risky – but a worthy exercise in the sense that it will soon help generate discussion regarding the undersupply of affordable housing in New Zealand. While housing affordability measures are worthless when it comes to forecasting price movements they do contribute to the debate from a social policy angle. And it is that angle which is going to increasingly occupy people's minds over the coming few years.

While it would be socially desirable if house prices fell another 20% and then rose only about 3% above the inflation rate each year that is not going to happen. Consider the position of someone who has listened to the financial advisors over the past ten years and done the following. They have added to their housing portfolio by diversifying into things like forestry and managed funds. Forestry has been a very poor performer and personally speaking one's "investment" in short rotation acacia forestry has completely disappeared down the gurgler. The following graphs show how sharemarkets have performed since 2000 (the X axes are a mess).





And here is the graph showing average NZ house prices. So now put yourself in the shoes of an investor with some cash to slot away for the next decade or so. They know house prices in New Zealand are expensive by historical standards. But they also know we Kiwis hardly ever walk away from our homes, that construction costs keep rising from all sorts of environmental and council development costs, that no-one wants to allow open slather building outside strict city boundaries, that net migration flows now average over 10,000 per annum, and that other investors are always talking about housing.

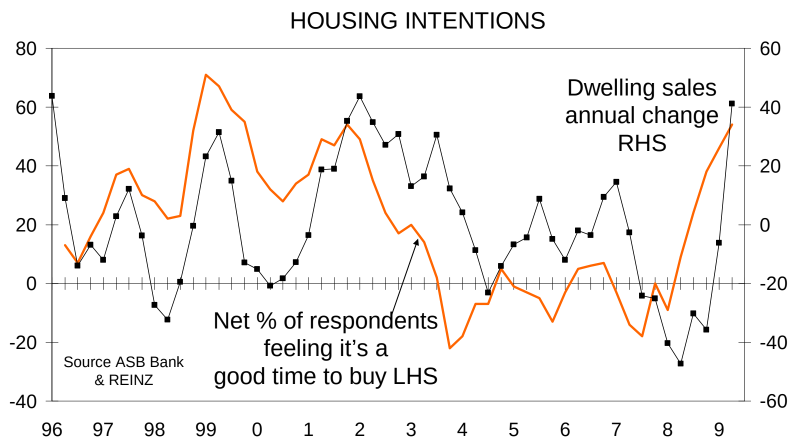


As undesirable as it may be from a social equity point of view we Kiwis are going to keep buying houses. Prices will rise over the next three years by some unguessable amount. Policy-makers will wring their hands in angst – and do practically nothing to reduce construction costs or free up resources because the same hand-wringers also lobby for greater undeveloped land spaces and more environmentally – meaning expensive – planning and construction policies. And the horse has bolted on a less generous tax regime for housing because reduced potential returns to investors will merely retard construction even further.

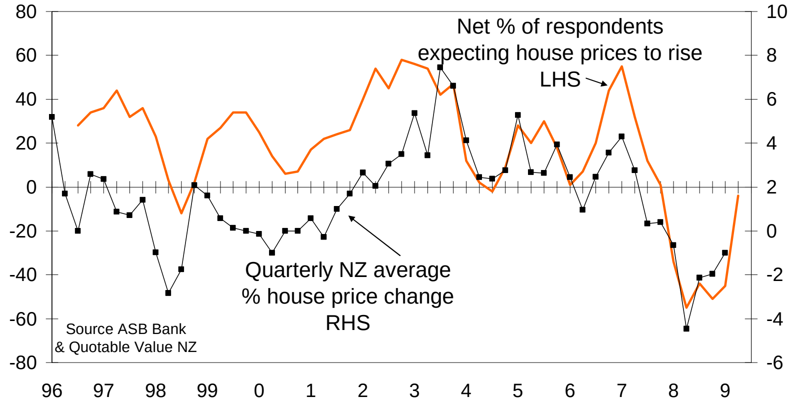
We expect house prices will rise over the coming three years but we do not have a model which gives a solidly supportable basis for saying x% per annum instead of y% per annum. In fact personally speaking I can say every model seen over the past 15 years for forecasting house prices has been inaccurate. Could the gains average 8% per annum? Yes – unfortunately.

Housing Intentions Improve Strongly

This week the ASB Housing Intentions surveyed revealed that in the three months to July a net 54% of people felt it was a good time to buy a house. This was up from a net 46% in the March quarter, 9% a year ago, and was in fact the strongest result in eight years. The first graph here shows that there is a good correlation between sentiment toward housing and what actually happens with house sales. In this regard the sentiment indicator mainly reflects what is already happening with real estate activity rather than predicting where things will go.



The same relationship applies between the net percent expecting prices will rise and what is happening with prices. In the June quarter a net 4% of respondents said they expect prices to decline. This was a sharp improvement from a net 45% in the March quarter and the best result since December quarter 2007. As the graph shows that we can reasonably expect the annual rate of change in house prices to soon turn positive using the QVNZ quarterly measure of which so far we only have the March quarter result.



The survey doesn't shed any particular fresh light on the housing market. But it does show general acceptance of the house price flattening scenario, a clear rejection of scenarios postulating continuing house price declines, and if sentiment transfers to actions then it means buyer demand rising.

Housing Sentiment Firm

Everyone on the list to receive the BNZ Weekly Overview will have received results of our monthly Confidence Survey on Monday night. For those who have not seen the results, for the housing market they reveal continuing listings shortages around the country, multiple bidding with quickening sales of properties, rising prices in some areas, but with a few more vendors indicating perhaps they are ready to go back to the market.

For those who missed out here are the comments we received of relevance to the housing market.

- Property Investment - reduced building consents, increase in inward migration suggest a housing shortage may begin to emerge and a stabilisation in prices followed by a lift in values.
- Rotorua residential investment: Likely to be boosted by the long-awaited announcement of Rotorua airport to be used for international flights.
- Residential rent returns stable and occupancy rates excellent with the least vacancy gaps in many years.
- Still short on listing stock but houses moving well, prices surprising in some cases ... more than expected, auctions going well, multiple offers (Real Estate - Manawatu)
- Christchurch residential property development. Sales are up significantly, almost back to 2006/7 levels surprisingly (although margins are not as big!!). Can't build enough homes to keep up with our sales team. Hopefully this will extend forth into spring with another lift.
- Real Estate - prices have risen 11% in the Eastern Beaches, Auckland between January and June this year. Median price in January, 2009 was $500,000 and in June, 2009 $555,000. Having said that listings remain tight.
- Real Estate, increase in buyer enquiry, slow with the top end market.
- The real estate industry is ticking along better than many expected, with a good volume of sales occurring and some good prices being achieved too.
- Real estate in ChCh is looking fantastic
- Real Estate, seems to be more genuine enquiry, and more realistic sellers, so more sales coming in. It is about supply and demand an at present we have a shortage of good stock to sell.
- Real Estate Hastings/Havelock North. Inquiry continues to be constant. Still more buyers than sellers. Vendors very market aware and making rational decisions on sell price when offers are on the table. Few only signs of forced sales.

- More positive attitude from people looking to buy property in our holiday home area on the Coromandel.
- Property Valuer - after a couple of busy months with a lot of clients refinancing, most likely to take advantage of the lower fixed interest rates, it appears to have gone quiet again.
- Real estate Auckland City Fringe, Piha & Whangarei Coastal - residential and commercial up to $1.5m deals are being negotiated between willing sellers and prudent purchasers who want the property for its intended use with speculative and investment purposes a secondary consideration.
- We have seen consistent sales volume over the last 5 months which show a return to "normal" movement, July was a little down on previous months, however, that is normal for this time of year. Demand is still outstripping supply and the pressure on prices is increasing, we are seeing many "multiple offer" situations and most properties are selling close to asking price. There is hope that some properties will return from the rental pool in the short term to help relieve the pressure on supply until the building industry regains its feet to meet the growing demand. My concern is that this may not happen in time to prevent a "mini boom" in residential property prices due to the demand.
- Real estate (Hamilton) Things are very strong here. Fast turnover of listings, and great buyer demand across all price ranges. (Even top end properties that have been slow). Still a distinct lack of stock coming to the market, compared to buyer demand.
- Real Estate: Gisborne: Listings are scarce, but as well inquiry has slowed noticeably these last two weeks.
- Property valuation, work still reasonably slow however good signs of increased activity being increased sales of vacant sites, and developed sales volumes increasing, prices have stabilized.
- Real Estate. Slow but improving. Buyers are out looking but there is limited "stock" available. I would say there will be an improvement in number of properties coming to the market in Spring and Summer which is traditionally typical. Prices will not be driven upwards but more plateau for a while until there is more positive movement with the economy and unemployment.
- Real estate - things are moving along quite well however we are not expecting great things to happen for a while yet - probably next year we may see a lift.
- Real estate, Auckland central. Its a sellers market. We need more listings.
- The property market is beginning to 'hot up' with many vendors looking to list their properties in the next few months (Spring) - this toppled with increased buyer demand is set to cause a buying frenzie.
- Better...real estate.
- Real Estate Johnsonville. Listings still very slow coming in but better than past months. Good number of buyers around waiting for properties to come to the market. Prices being achieved are near RV or just a little under.
- I am in Real Estate. There is now a shortage of houses on the market in Wanaka (from a surplus 6 months ago). Buyers are starting to buy sections again after 2 years of apathy. There are small signs prices may be rising slightly
- Valuation (mostly residential) North Shore & Rodney. More activity but still slow against 2002-2007. Clients appear more stable and many finishing building projects that were stopped in 2008 because on 'money trouble'. Less desperation from clients. Some very low forced sales being snapped up by investors. Some signs of res-rentals with positive cash flow. Many now aware of the change in market values - but still some with heads in the clouds who can not accept that many values are back near 2006 levels. Values appear to now be mostly holding level with some brackets and types moving at different rates (e.g. few want vacant land or luxury property). Middle value bracket in home owner areas mostly stable.
- Self Employed Property Coach. Enquiry is getting stronger. Leads are better qualified to meet bank criteria. Sales are increasing month by month. Outlook is positive and people are more certain about their job security.
- Real Estate. Shortage of listings mean prices are stronger, often more than one offer on a property. Real buyers and sellers are alive and well
- Auckland Apartment market; Real Estate sales. Bottom end steady if anything upward trend, middle market shallow, top end over $1ml difficult.
- Real Estate - Far North east coast. Under $350k house / bach has taken off. Company record for revenue and number of transactions in July. No increase in price, just a big increase in volume
- Residential Real Estate market in Palmerston North is going along nicely at present. Realistically priced houses are selling within a week or two. Currently more buyers than sellers and most homes are now selling above their rateable value.
- Property - confidence is nudging up

- Residential real estate sales. South Auckland. Strong demand with a few more listings just coming available. Prices seem to be stable now and maybe a slight rise in high demand/low stock price ranges.
- Residential Real Estate Taupo/ Turangi; July 2009 was our best month for sales since January 2008, with that same trend likely to carry on into August. New listing stock also apparent. All in all the Winter looks done and dusted!
- Real estate investing. Great time to buy property right now but agents are reporting a lack of listings. Good volume of buyers attending open homes in Auckland close to CBD.
- Residential Real Estate – ChCh I own a low-commission company in ChCh and we are currently selling 80% of homes before the first open home. 3 quarters of these have had between 2-4 multiple offers which have resulted in bidding wars and in 2 recent cases $60k above asking price. Buyer demand very strong. Listings still steady for us however larger companies are reporting listing shortages. Spring will be interesting with typically the bulk of homes coming to the market.
- Mainly small value transactions of people needing to sell property. A few larger transactions taking advantage of bargain price asset sales.
- Real estate -- pretty steady with a lack of properties, but definitely clearing out old stock and prices are pretty acceptable.
- Real Estate - "booming - lots of sales and lots of buyers at open homes if there is any negative - it is a lack of new stock to sell people.
- Residential real estate Christchurch, desperate shortage of listings, strong numbers at open homes. If you can list a property you know you will soon sell it. Auctions gaining more and more ground as the preferred marketing method. The real worry is that we are well down on appraisals compared to previous years, suggesting the stock shortage could be with us for sometime.
- Property valuations showing a mild recovery of confidence in Auckland market but values static this year even though demand good and supply now limited apart from oversupply of second tier investment properties
- Real Estate - Market is improving
- Residential Sales (South Auckland)There is more activity in the marketplace in the $300K - $400K segment. Open-home attendances have increased and buyers are making offers more quickly than over the past year as many have missed out on other properties through tardiness.

Key Forecasts

- Dwelling consent numbers to recover now with potentially good activity from late-2010..
- Real estate sales continuing to increase but the rise limited by listings shortages.
- House prices edging higher.

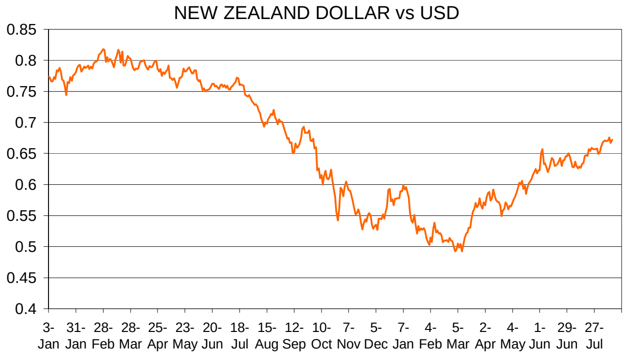
Exchange Rates & Foreign Economies

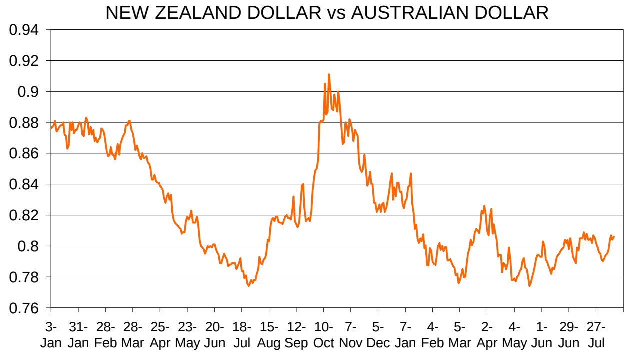
EXCHANGE RATES

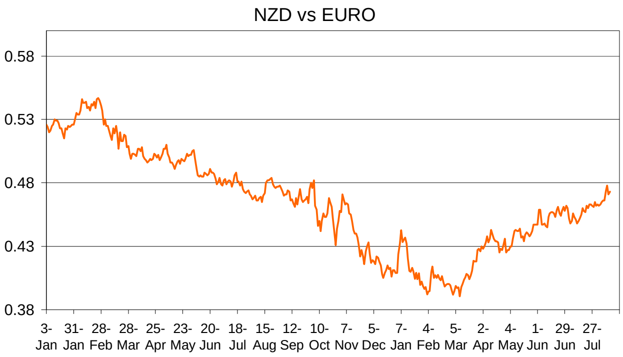
	This week	Week ago	4 wks ago	3 months ago	Yr ago	Consensus* Frcst Yr Ago	10 yr average
NZD/USD	0.672	0.671	0.627	0.606	0.693	0.684	.592
NZD/AUD	0.806	0.795	0.805	0.792	0.795	0.774	.856
NZD/JPY	64.5	63.8	58.0	58.5	75.8	72.6	66.8
NZD/GBP	0.408	0.395	0.387	0.397	0.366	0.366	.345
NZD/EUR	0.473	0.466	0.45	0.444	0.465	0.47	.51
USD/JPY	96.0	95.1	92.5	96.5	109.4	106.1	113.9
USD/GBP	1.647	1.699	1.62	1.53	1.89	1.87	1.709
USD/EUR	1.421	1.44	1.39	1.36	1.49	1.458	1.156
AUD/USD	0.834	0.844	0.779	0.765	0.872	0.884	0.69

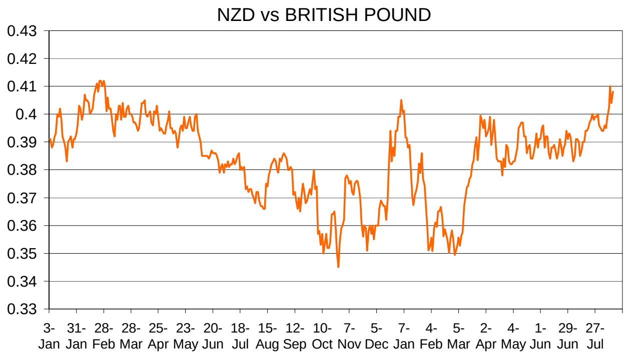
Still Above 67 cents

The Kiwi dollar late this morning was trading still just above the US 67 cent level right where it was last week. But we have made ground against all the crosses ending against the Aussie dollar near 80.6 cents from 79.5 last week, 64.5 Yen from 63.8, 0.408 pence from 0.395, and 0.473 against the Euro from 0.466.





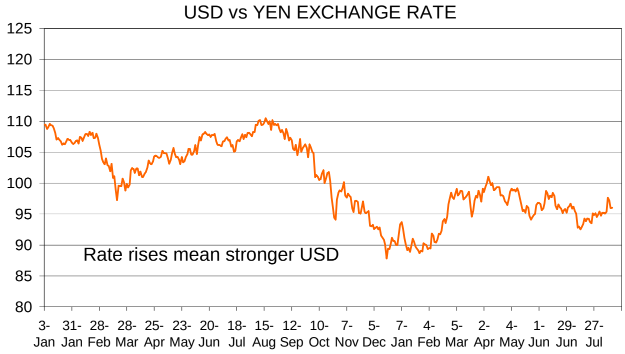


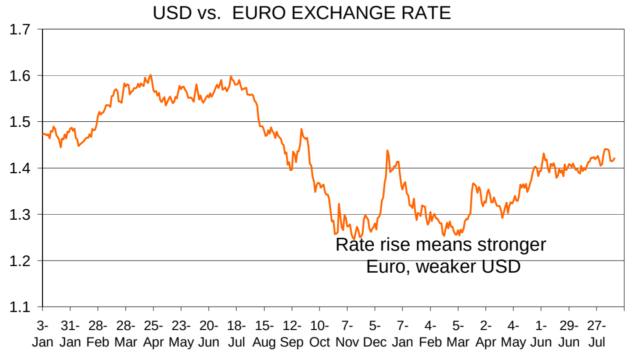


There was big interest last Friday night in the monthly US non-farm payrolls report which came in far less worrying than expected. Whereas the markets had got themselves ready for a fall in employment of 325,000 the actual decline was just 247,000. More than that the previously reported decline in June of 467,000 was revised down to 443,000. In addition the unemployment rate actually fell to 9.4% from 9.5% in June and an expected rate for July of 9.6%.

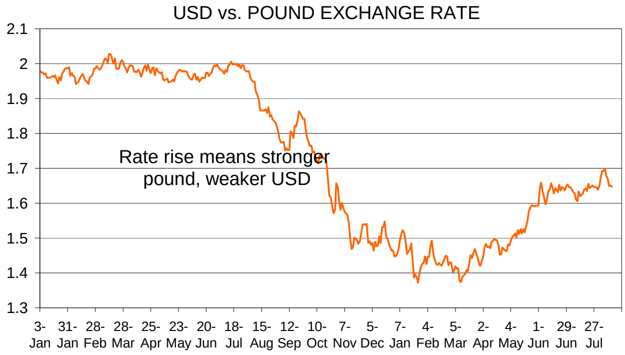
The result still shows job losses continuing – so far adding up to 6.7mn people since the recession started in December 2007. But the numbers imply that it is increasingly reasonable to buy into an improving economic outlook. This has meant further gains for the US and other sharemarkets, extra upward pressure on interest rates, and yet again extra demand for risky currencies like the Kiwi dollar.

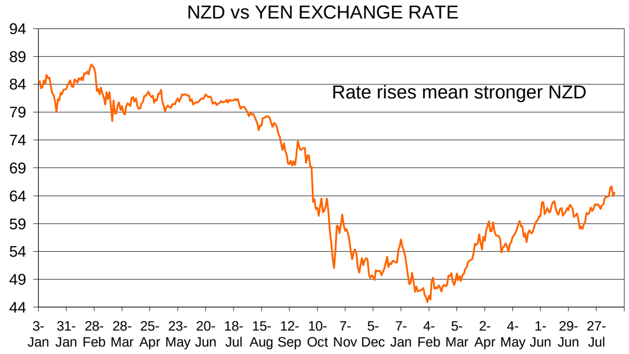
The USD itself strengthened marginally against the Euro, Yen and Pound after the release because it shows even more starkly that for the coming 12-18 months the US economy could put in a far superior performance than the European and UK economies. In fact only a few days ago we learnt that the Bank of England has felt the need to boost its money printing actions because of deep concerns about the economy which commercial banks clearly share because they are continuing to tightly restrict credit to households and especially businesses.





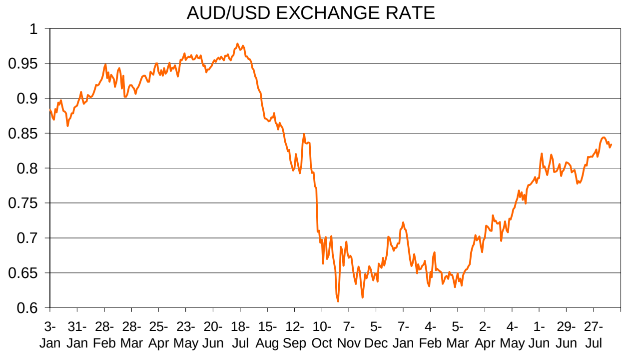
The dollar's gains against the Yen reflect further willingness of generally highly risk tolerant Japanese money out of Japan for better yielding investments elsewhere.





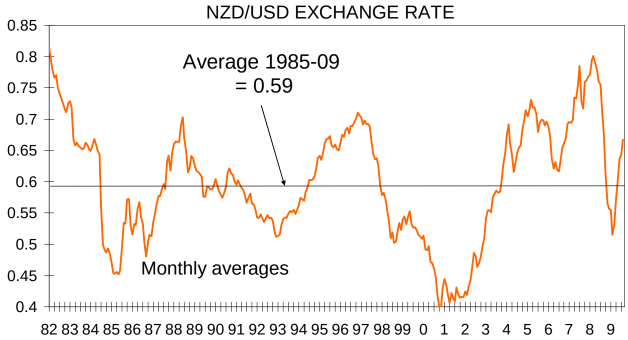
These developments – the USD holding its own against a stronger greenback – have seen the NZD gain on the crosses this week.

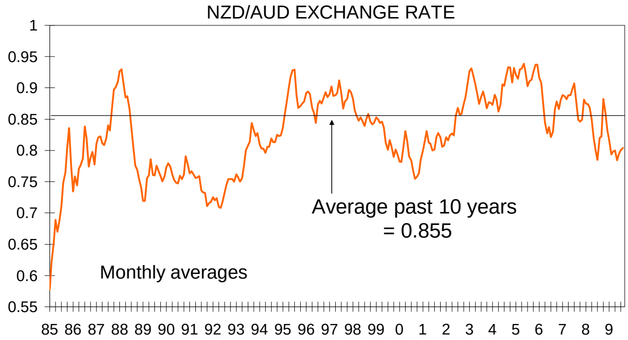
Looking ahead we still think the general drift for the NZD is going to be up – but watch the volatility.

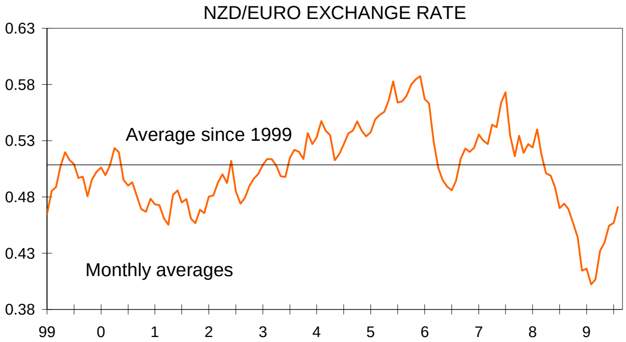


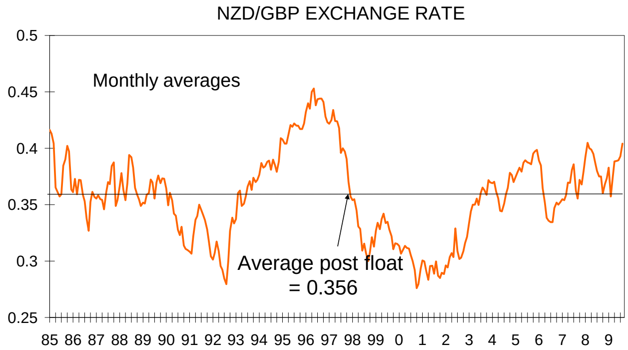
If I Were An FX Receiver What Would I Do?

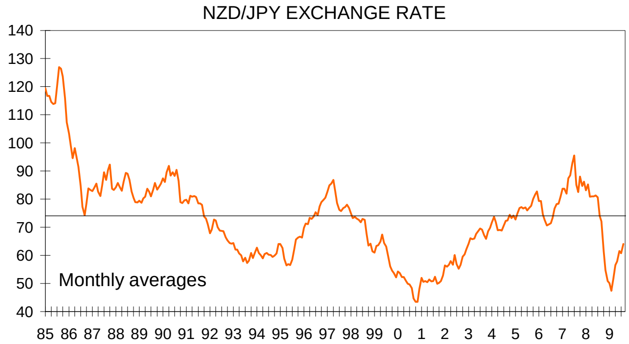
Same old same old. The NZD may be rising early in the cycle but it is rising. It is only going to head firmly south again if the world once again embraces a Depression scenario. That is tremendously unlikely. So if I were an exporter I would continue to boost my hedging as we have been suggesting for many months. As an importer I would either ease off on hedging, or maybe admit that the NZD is currently well above where I thought it would be when planning earlier in the year and simply set and forget now for the coming 12 months.











*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	0.6%	0.3	1.9	4.0	2.0
GDP growth	Average past 10 years = 3.0%	-1.0	-1.0	-1.0	3.1	1.8
Unemployment rate	Average past 10 years = 5.3%	6.0	5.0	......	4.0	3.7
Jobs growth	Average past 10 years = 1.9%	-0.5	-1.4	-0.9	0.8	1.5
Current a/c deficit	Average past 10 years = 5.5% of GDP	8.5	9.0	......	8.0	8.5
Terms of Trade		-3.0	-1.0	-5.2	11.6	4.5
Wages Growth	Stats NZ analytical series	0.6	0.8	4.6	5.6	4.6
Retail Sales ex-auto	Average past 9 years = 3.8%.	-1.2	-0.0	-0.8	3.2	4.9
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	+12,515	7,482yr	......	4,735	10,080
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-2.8	-3.9	-2.8	0.9	3.4
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	38	3	-9	6	-8
Business activity exps	10 year average = 26%. NBNZ	12.6	8.3	-20.8	-8.2	12.4
Household debt	10 year average growth = 11.3%. RBNZ	2.4	2.6	4.2	8.5	13.7
Dwelling sales	10 year average growth = 3.5%. REINZ	43.9	-39.1	-45.4	-52.9	-3.7
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.99	5.99	6.99	10.49	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.45	6.99	5.99	9.09	9.10

ECONOMIC FORECASTS

Forecasts at July 23 2009	**March Years**					**December Years**				
	2007	2008	2009	2010	2011	2006	2007	2008	2009	2010
GDP - annual average % change										
Private Consumption	2.8	3.3	-0.7	-0.5	1.8	2.6	4.1	0	-1.3	1.7
Government Consumption	4	4.3	3.4	3	2.8	4.6	3.9	3.9	2.9	2.9
Investment	-0.6	4.3	-8.9	-15.1	5.9	-0.4	5	-5.1	-16.8	1.4
GNE	1.5	4.2	-2	-3.9	2.9	1.5	4.5	0	-5.3	2
Exports	3.1	2.9	-3.4	-2.9	1	1.8	3.8	-1.6	-3.8	-0.4
Imports	-1.6	9.6	-4.4	-12.8	2.3	-2.6	8.6	2	-16.2	0.7
GDP	1.8	3.1	-1	-1.2	3	2	3.2	0.2	-2.1	2.3
Inflation – Consumers Price Index	2.5	3.4	3	2.2	0.7	2.6	3.2	3.4	2.2	0.8
Employment	2.1	-0.2	0.8	-2.7	2.9	1.7	2.3	0.9	-3.5	2.9
Unemployment Rate %	3.8	3.8	5	7.3	7	3.8	3.5	4.7	6.8	7
Wages	5.5	4.4	5.1	2.4	1.5	5.5	4	5.1	3.1	1.3
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.7	0.8	0.53	0.67	0.69	0.69	0.77	0.56	0.65	0.69
USD/JPY	117	101	98	102	108	117	112	91	100	107
EUR/USD	1.32	1.55	1.31	1.41	1.43	1.32	1.46	1.34	1.4	1.43
NZD/AUD	0.88	0.87	0.8	0.8	0.81	0.88	0.88	0.83	0.79	0.81
NZD/GBP	0.36	0.4	0.37	0.39	0.39	0.35	0.38	0.37	0.39	0.39
NZD/EUR	0.53	0.52	0.41	0.48	0.48	0.52	0.53	0.41	0.46	0.48
NZD/YEN	81.9	81.1	51.8	68.3	74.5	81	86.3	50.9	65	73.3
TWI	68.6	71.6	53.8	63.4	65.6	68	71.6	55.1	61.7	65.1
Official Cash Rate	7.50	8.25	3.7	2.5	4.25	7.50	8.25	6.25	2.5	3.75
90 Day Bank Bill Rate	7.78	8.82	3.67	2.7	4.62	7.64	8.77	6.3	2.7	4.12
10 year Govt. Bond	5.91	6.35	4.6	5.75	6.4	5.77	6.38	5.49	5.7	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.

*extrapolated back in time as Total Money started in 2007