BNZ Weekly Overview

6 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.

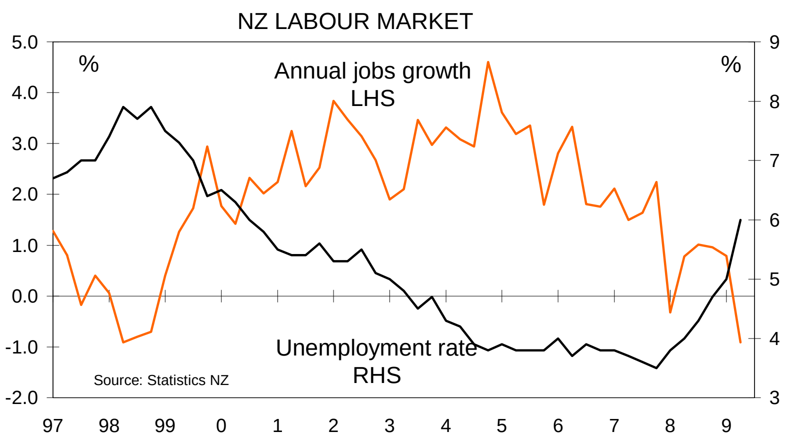
Monthly Survey Time

Many thanks to those many people who have responded to our survey in the past. It gives very good insight into what is happening in a wide range of industries in NZ right at the moment. If you have not already done so from the email itself then if time permits and you feel the inclination please click on the URL below and let us know whether you think the NZ economy will get better or worse over the coming year. And if time permits pen a sentence or two saying how things are in your industry at the moment.

http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur

Weak Labour Market

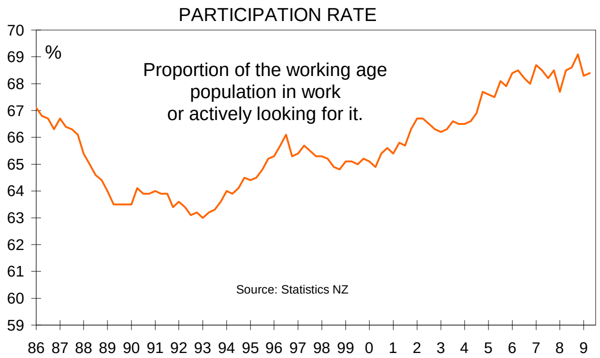
This morning the quarterly Household Labour Force Survey was released. As was widely expected it showed falling employment during the June quarter with the unemployment rate rising. Total job numbers fell by a less than expected 0.5% during the quarter to be 0.9% down from a year ago. That means 20,000 fewer people in work than a year ago which does not sound all that much. However we have to remember that the labour force is always growing so there are many more people out of work than this number implies.

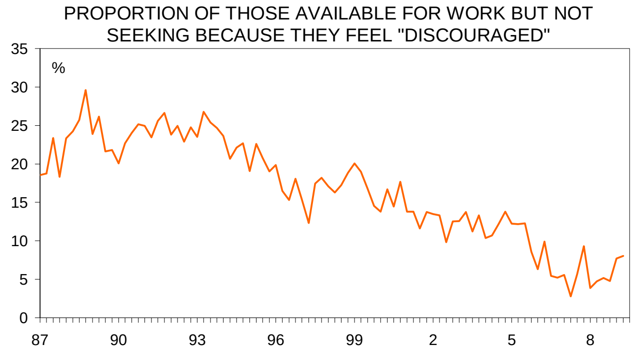


In fact in the June quarter 138,000 people were officially classified as unemployed compared with 114,000 in the March quarter. The increase from a year ago was 48,000 or almost 1,000 a week. The number of people unemployed is now back at levels last seen at the start of 1999. The unemployment rate has now lifted to 6% from 5% in the March quarter which is the equal biggest one quarter rise on record.

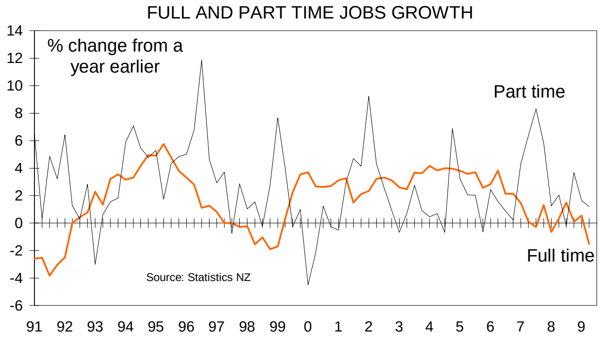
So far so good with regard to the numbers showing the deterioration in the labour market we all know has been underway. But now lets consider two interesting things. The last time the unemployment rate was 6% in 2000 the participation rate was 65.4%. This measures the proportion of the working age population either in work or actively looking for a job. The cycle before that in 1996 at 6% unemployment the participation rate was 65.3%, and before that in 1988 the rate was 64.4%.

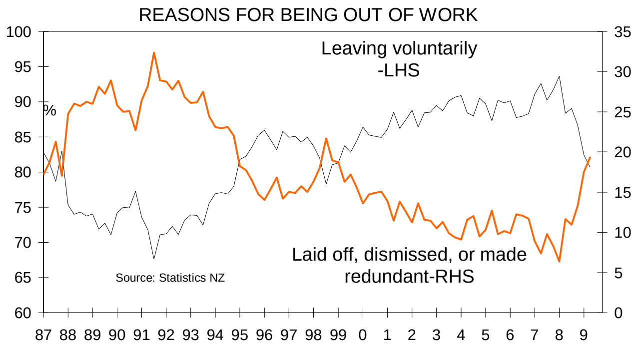
But now the participation rate is still at the unusually high level of 68.4%. This is a very surprising increase from 68.3% in the March quarter and about unchanged from 68.5% a year ago. This tells us something. It says that people are choosing to stay in the workforce actively looking for work rather than sit on their chuffs doing nothing because they reckon there is little hope of finding work. This would be in line with the rebound in consumer confidence. One would not expect consumers to be feeling happy if they felt they had little chance of getting or maintaining employment. Having said that, there has been a rise in the proportion of people saying they are not looking for work because they feel "discouraged". That now stands at 8% of those out of work but looking for it compared with 4.7% a year ago. The numbers have gone to 6,400 from 2,900.





But before anyone starts to dismiss the still negative implications of the labour force data it pays to recognise one other important thing happening. While the number of people in work only fell 0.5% in the quarter, the number of hours worked declined by a relatively large 1.9%. This has happened because people have shifted from full-time to part-time work. During the quarter the number of people working full-time fell by 1.1% while part-time employment grew 1.2%. The proportion of people employed part-time now stands at 23.2% which is the highest June quarter 1999.



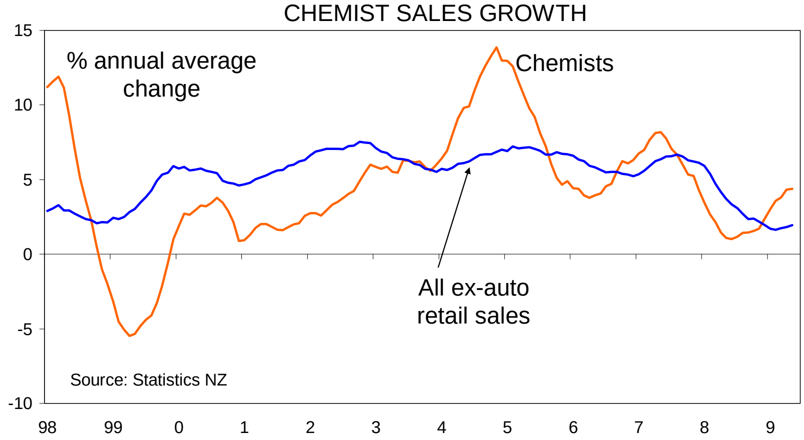


And confidence about employment is clearly not so great that people will easily chuck in their current job to look for another one. Asked about why they left their previous job only 80.7% in the June quarter said they did so voluntarily. In other words almost 20% were laid off one way or the other. The proportion leaving voluntarily is the lowest since 1998 and therefore the proportion being laid off etc. is the highest since 1988.

Overall, the data show only one thing – a weak labour market.

Fiji

Fiji was excellent even though the visit lasted only a day and a half during which a presentation was given to attendees of the PharmacyBrands annual conference. The pharmacy industry is undergoing some change as we learnt from the merger announcement earlier this week, and revenues have of course been affected by the tightening of household budgets since the middle of 2007.



Interestingly, as the graph just above shows, chemist shop sales have feared better than other retail operations since late last year, and that might be because people are diverting previous luxury spending to small items like lipstick rather than new clothing. In addition Swine Flu will have boosted sales and perhaps a consumer desire to avoid high costs of visiting the doctor have led to some increased reliance on pharmacist advice.

The sector is likely to experience broadly improving conditions along with other retailers over the coming two years, and an opportunity presents itself to keep an eye out for improved premises as perhaps some other retail operators give up their leases.

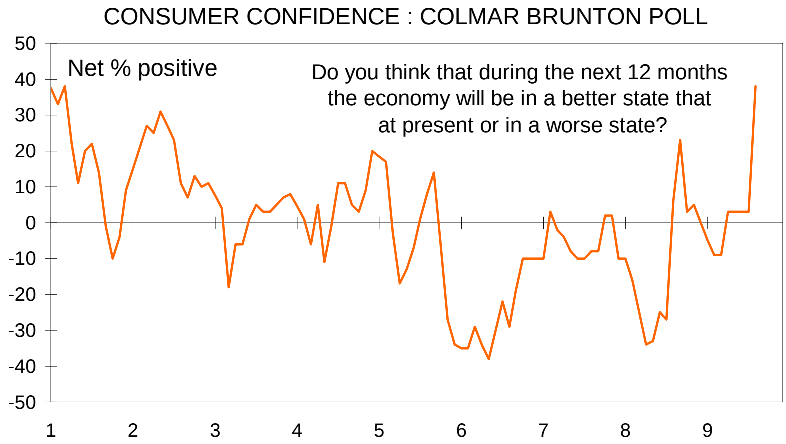
If anyone is running another conference in Fiji, US, France, Italy, Vietnam, etc. etc. etc – feel free to call. I am more than happy to give attendees a run down on what is happening with the NZ economy and why, where things are likely to go, and what you can do about it. All you have to do is pay travel and accommodation.

NZ ECONOMIC DEVELOPMENTS

Monday 3

Consumer Sentiment Soars

Our BNZ Confidence Survey which largely captures the attitudes of businesspeople shot up from depressed levels back in early April. Now, in their first survey since just before then, the One News Colmar Brunton poll has jumped sharply to sit at a net consumer confidence reading of +38% from +3% back then. The average reading for this measure is just over 0% so the result is highly suggestive of strong growth in household spending. The reading is the highest since March 2001.



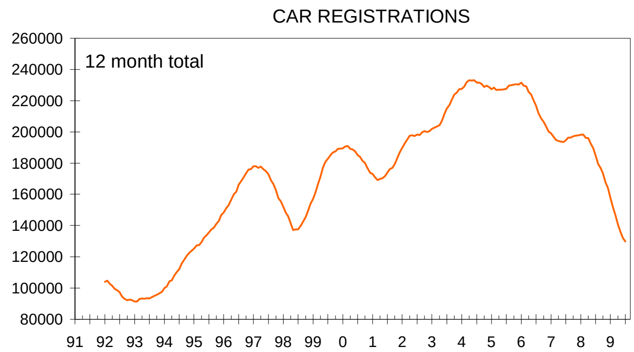
However, as we pointed out with our own survey and a few others which have emerged since March, the soaring confidence readings will contain a very large "sigh of relief" factor. People are explicitly asked whether they think the NZ economy will get better or worse and the fact that light can be seen at the end of the tunnel following the most threatening global economic situation since perhaps the 1930s means the sentiment reading naturally shoots skyward.

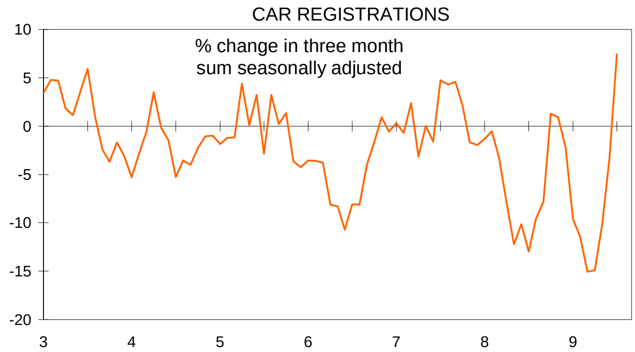
In other words, we are definitely not going to blindly extrapolate the sentiment reading into conclusions such as soaring housing and retailing. It is more that the confirmation of improved consumer sentiment supports the trends we can already see underway involving recoveries in both of those important sectors.

Tuesday 4

Car Registrations Getting Stronger

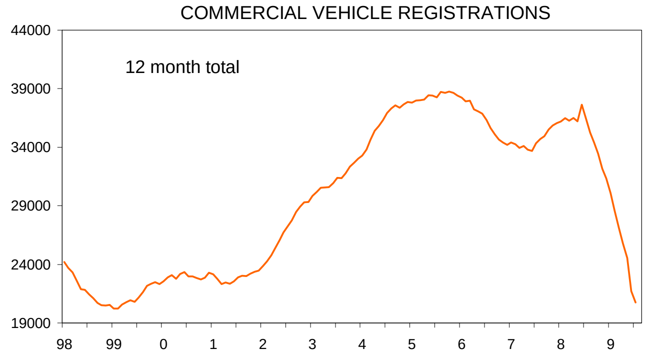
In July there were 10,633 cars registered around New Zealand. This was a 16% fall from a year earlier which sounds bad. But actually it is the smallest annual rate of decline since September last year. In fact, in rough seasonally adjusted terms, over the past three months car regos have improved 7% from the three months to April. This improvement in spending on cars is in line with other indicators such as an improvement in core retail spending in the three months to May and suggests the rises in consumer confidence are feeding through into some higher spending.

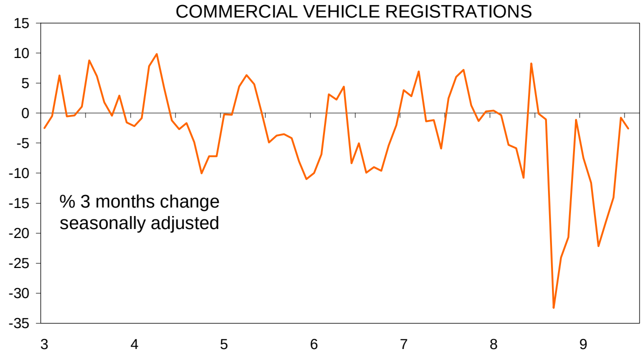




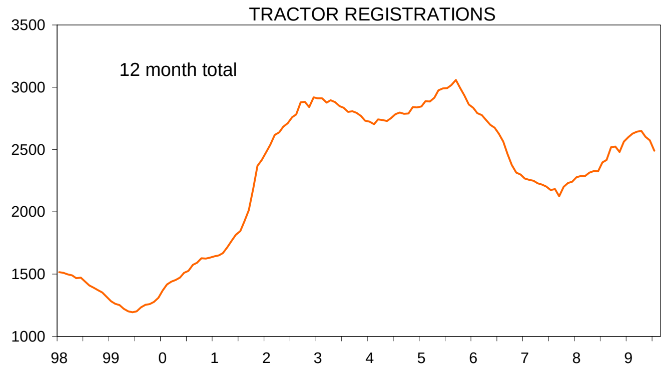
But we would be very cautious about extending the improvement into a good news story for retailers. The upturn is likely to be very drawn out and like all other sectors retailers are going to find that the availability of credit is not what it was in the past. Over the remainder of this year it is likely that we will see further emptying out of retail space around the country. This will provide opportunities for better operators who can more quickly raise capital, have got their cash flows good, and are quick to adapt to changing conditions, to get better premises at better prices from property owners.

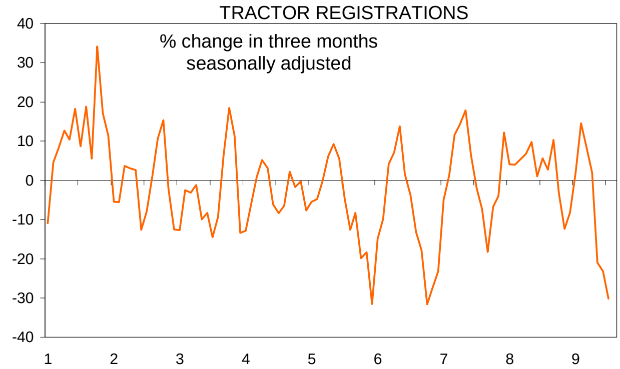
In July there were 1,453 commercial vehicles registered around New Zealand. This was a large 40% fall from a year earlier and means that over the past year such regos have fallen 43%. This is a quick and dirty indicator of the extent to which businesses have slashed their capital spending. But, just as we have found with cars, there is some evidence that things are settling down and cutbacks are largely complete. In the three months to July in seasonally adjusted terms commercial vehicle regos were near flat. This followed a fall of 18% in the three months to April and 7% in the three months to January. Such an ending of the business spending collapse would be commensurate with improving confidence levels.





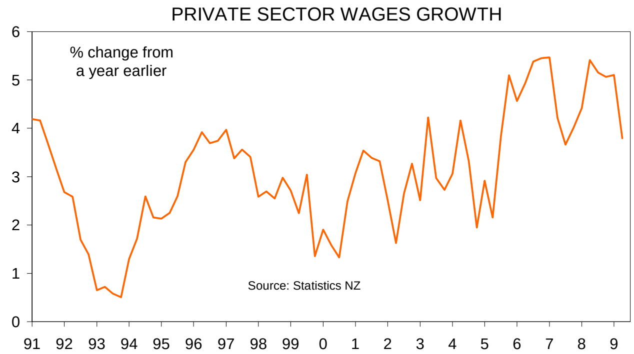
When it comes to activity down on the farm things are not getting better however. In July there were only 132 tractors registered around the countryside. This was a large 39% fall from a year ago which followed an annual decline of 19% in June and 24% in May. In rough seasonally adjusted terms tractor sales have fallen 30% over the past three months. The wallets of farmers are very firmly closed – and understandably so given the dairy payout worries, falling land prices, and tightening lending conditions.

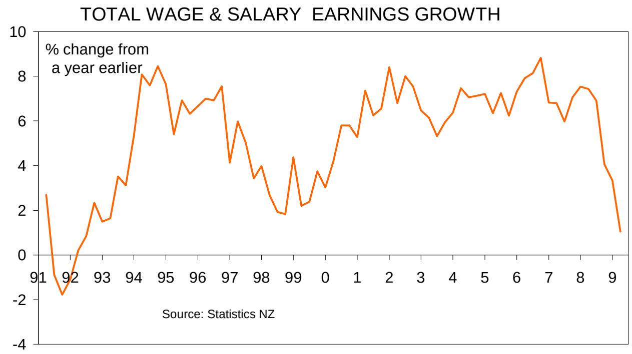




Wages Growth Slows

Getting a decent indicator of wages growth in New Zealand is very difficult. There are a couple of measures and each suffers some deficiencies which mean we have to treat them with a large grain of salt. The one we usually pay slightly more attention to is contained in the Quarterly Employment Survey. It showed this week that during the June quarter average hourly ordinary time earnings in the private sector rose by just 0.7%. In the June quarter last year the gain was 2% and the year before that 1%, the year before 2.2%, and the year before (2005) 1.9%. So this year's 0.7% increase was unusually low.





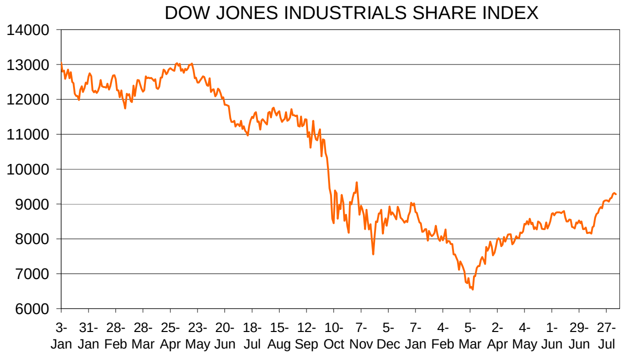
That is hardly any surprise given the weakness in the labour market and because wages growth has slowed there will be some people still in work who would not otherwise be if wages growth had remained strong. Wages growth is now running at 3.8% for the year from 5.4% a year ago and 4.2% two years ago. This is the lowest rate since 2005 which is not all that long ago. That shortness of time when one considers the long period over which businesses had previously been reporting wage shortages reflects the fact that it took a very long time for the earlier gross tightening in the labour market to produce a wages response.

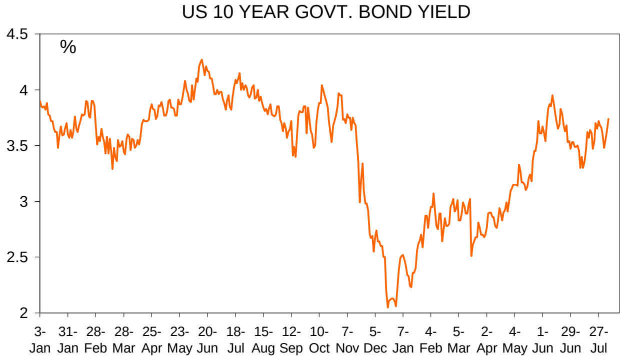
A key point we made many times when things were better was that it was in the best interests of New Zealand for wages growth to double from what it was back then. In an environment of labour shortages that would have forced the closure of low profit firms who could no longer afford people and allow those people – including the business owners – to shift their labour to other employers and in the process probably end up earning more. What we pointed out was that the best way for NZ to grow in terms of average income was to shift labour and other resources to more productive areas but that this process was being held up by the poor price functioning of the country's labour market.

For now we can see that the labour market is functioning on the way down and it will be interesting to see if this quick wage growth response to the deterioration in the labour market will manifest itself the other way around when things start turning around with regard to labour demand next year. One certainly hopes so because the country will get back to a period of severe labour shortages again – perhaps come 2012 – and the stupidest way in which one can seek to boost firm profits and cloud the argument in terms of productivity growth is to suppress market driven wage responses. That is why strong bargaining awareness and power for employees is vital in a properly functioning economy.

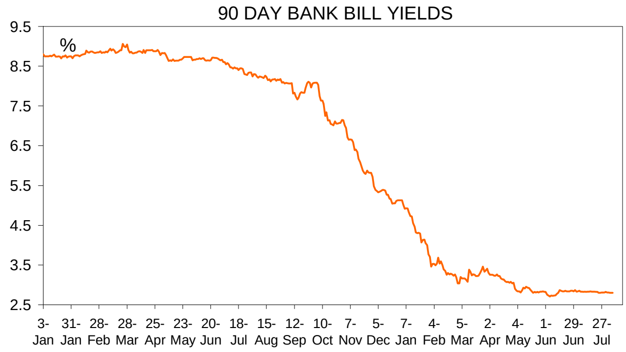
INTEREST RATES

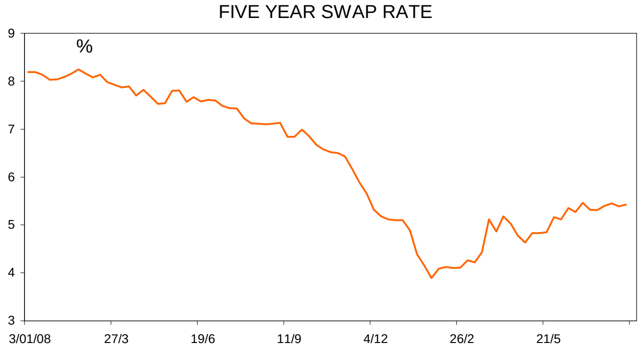
Wholesale interest rates have climbed this week with the two year swap rate ending near 4.07% from 3.97% last week and the five year rate near 5.42% from 5.39%. The rises partly reflect good economic indicators in the United States leading to a continuing shift of assets away from fixed interest securities to shares. The US sharemarket for instance has gained some 2.3% over the past week as measured by the Dow Jones Index, while the US ten year government bond yield has climbed to 3.74% from 3.66% last week.





It remains our expectation that wholesale fixed borrowing costs will continue to drift up over the coming year and anyone planning to fix has little incentive to wait – apart from the strong cash flow benefits gained by simply floating which cannot easily be sniffed at.





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

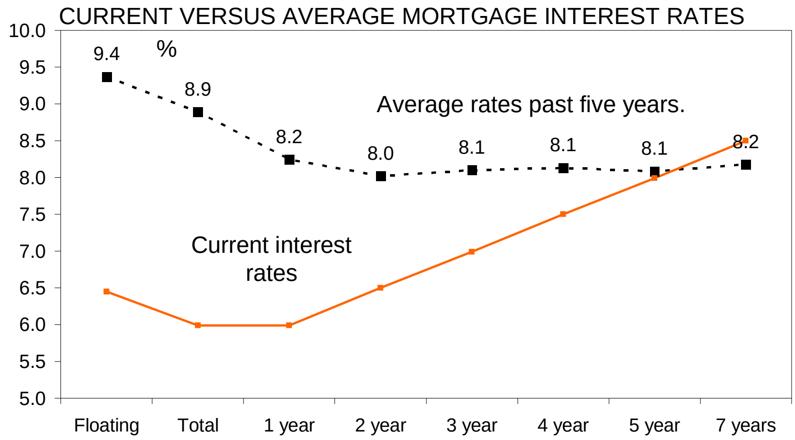
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	8.00	6.2
90-day bank bill	2.80%	2.80	2.83	2.81	8.24	6.5
10 year govt. bond	5.84%	5.79	5.77	5.47	6.10	6.2
1 year swap	3.10%	3.07	3.04	2.98	7.67	6.7
5 year swap	5.42%	5.39	5.31	4.83	7.12	7.0

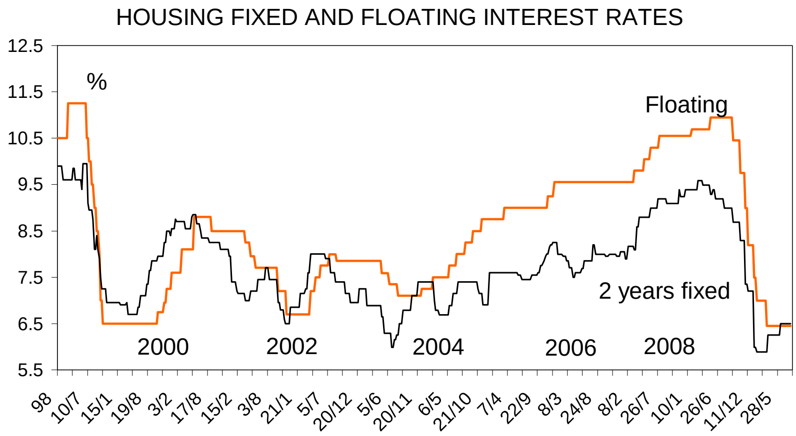
If I Were a Borrower What Would I Do?

I would fix three years at 6.99% and gain good rate certainty. But most people are preferring the cash flow advantage of either floating under Total Money at 5.99% or fixing short term. That is fine – but be sure to budget for your costs rising 2-3% a couple of years from now. It would seem best to take the opportunity to get debt levels down and don't fall into the trap of topping up the mortgage thinking these rates are going to stick around for ever.

Personally speaking one thinks the risk for interest rates lies on the upside from late-2010 given that even now we can see emerging commentary about some labour shortages which will eventually elicit a price response. Plus, by the time we get to 2011 most of the benefits of the rising NZD may already have been accrued in terms of keeping inflation down. That is, the normal cyclical restraint on NZ domestic inflation from a rising economy being offset by a rising exchange rate looks like happening very early in the cycle. Food for thought for the folks at the RB who for the moment will be thinking about cutting their short-term inflation forecasts because of the rising NZD. But they also need to raise their forecasts further out. And the thing borrowers need to remember is that apart from the recent extraordinary circumstances the RB aims its monetary policy at inflation about 18 months from now.

For the moment that means easy policy continues well into 2010. But come late 2010 that 18 month timeframe could produce a stronger policy response than most currently are allowing for. This is not so much a forecast but a warning of where the risks lie.

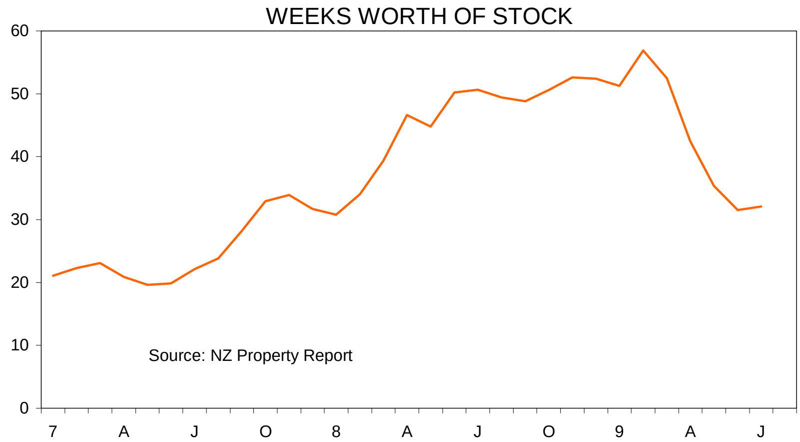




HOUSING MARKET UPDATE

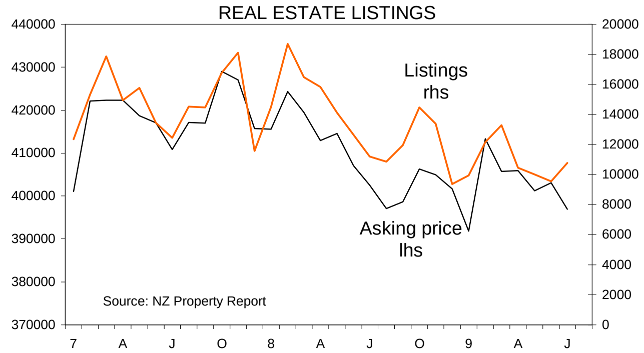
Market Broadly Stabilising

This week the NZ Property Report compiled from www.realestate.co.nz sent through data from which one can extract the following. At the end of July the stock of dwellings listed for sale was the equivalent of roughly 32 weeks worth of selling. This was up from 31.5 weeks in June, however this measure also rose between June and July in 2008 and 2007 (no data before then) so the rise is not suggestive of a market deterioration.



At 32 weeks the stocks measure was well down from 50.7 weeks a year ago and the second lowest reading since January 2008. As such it shows a market not overwhelmed by vendors trying to flog off their properties (though see our comments on Barfoot and Thompson data further on in this section). The actual number of properties listed was 45,731 which was down from 46,563 at the end of June and the lowest total since September 2007.

During the month the median vendor asking price eased a tad to $397,000 from $403,000 in June which is the lowest reading since January. This measure has tended to move around with no obvious trend up or down for almost a year and it will be interesting to see how the various house price measures develop over the remainder of this year.

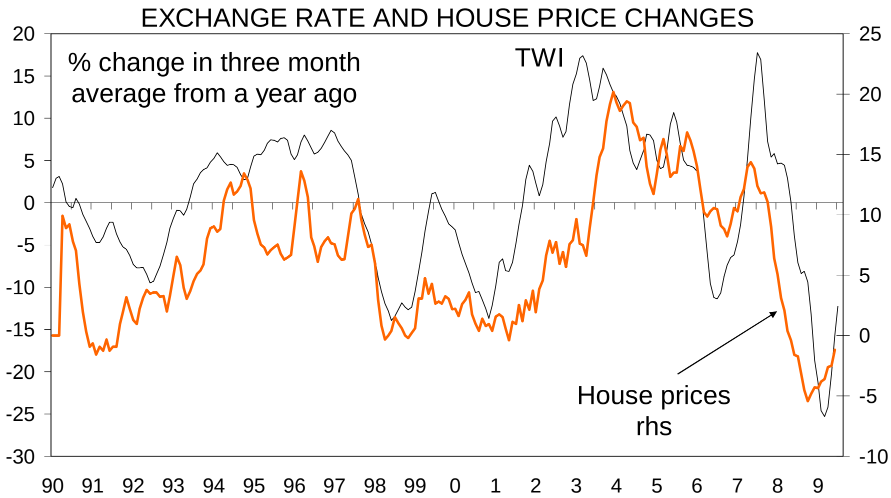


There is mild upward pressure on prices from migration-driven accelerating population growth, low interest rates, the weakest construction since 1965, and absence of a housing over-supply at the start of the downturn. But rising unemployment will keep people cautious about taking on new debt for some time, and lending criteria are thankfully tighter than they were previously.

As with interest rates and the exchange rate, we think the truly interesting thing in the housing market has already happened this year – the recovery from March. Now things are likely to settle down. But as with fixed interest rates and the exchange rate we believe the drift in average house prices is likely to be slowly upward – though remember there are some areas of over-supply. These include Queenstown, some small towns which attracted more outside investors than the fundamental employment outlook ever warranted between 2003 and 2007, and beachside property. As for dairy farms…..

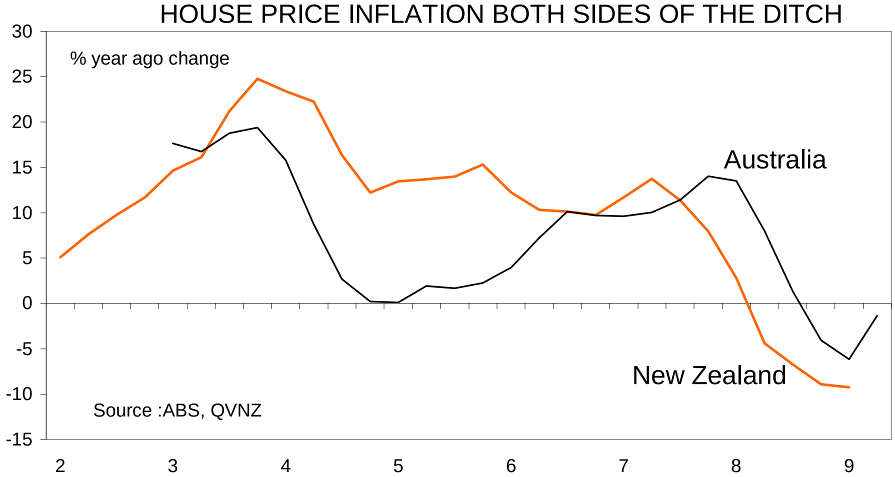
House Prices and the Exchange Rate

Here is an update of a graph we like to run about once a year. Any more than that and some people might get a bit too excited about a potential short term correlation which does not exist. It shows the three month average measures for house prices and the trade weighted index compared with a year earlier. The TWI and house prices tend to move in the same direction though with no obvious indication of whether one leads the other. Worth thinking about but control your fervour.



Ours and Thiers

And now for something completely different …The graph here shows the annual rate of change in house prices in New Zealand and Australia (top 8 cities). Across the ditch their house prices were reported this week as rising 4.2% during the June quarter. This means they were down just 1.4% from a year earlier and are now just 2.2% down from their peak in the March quarter of 2008.



One of the points we have been hammering for 2-3 years now has been the shortage of houses across the ditch. This has arisen because developer costs have gone through the roof in recent years so the returns to investors have been hit. Investors have therefore responded not just by buying fewer properties – but by building fewer. The reduced level of construction has come at a time of strong migration inflows in Australia to produce a severe housing shortage which was the subject of huge debate there 2-3 years ago. See the report “Boulevard of Broken Dreams” from January 2007.

http://www.masterbuilder.org.nz/download.asp?Name=Appendix2_RMBF_Housing_Affordability_Inquiry.pdf

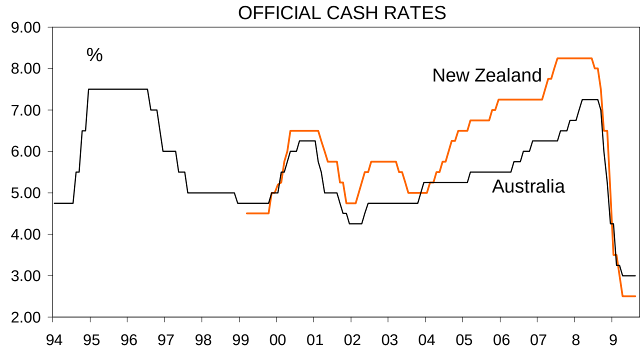
The shortage of houses in Australia has combined with only a mild economic downturn to produce at worst a 6.2% annual fall in house prices in the March quarter of this year – which has now almost been wiped out. The monthly indicators show housing finance and construction starting to lift and a month ago the RBA Governor noted he believes Australian house prices are now rising.

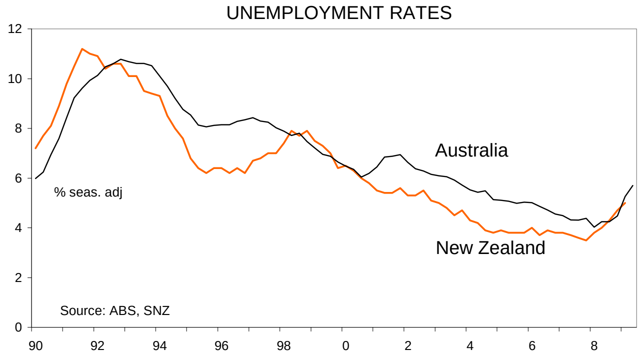
The relevance of these developments for New Zealand is three-fold.

1. Recovering residential construction is going to attract skilled tradespeople out of New Zealand into Australia. That will not be noticed much here for perhaps a year as at just over 14,000 our annual consent total is well below the ten year average of near 25,000. That means – as we have been pointing out for over a year – if you want to get a house built DO IT NOW because come late next year construction costs are likely to be rising again and this will be one of the elements forcing a tightening of monetary policy and your finance costs.

2. The situation in Australia has arisen significantly because of the decreased returns to investors. That means if as a result of the income tax review the government is thinking about here we get a capital gains tax (probability about 0.1%) any negative impact on house prices is likely to be short-lived as housing supply gets newly crunched. In a nutshell – as we have pointed out before – the horse has all but bolted with regard to placing a capital gains tax on investment housing in NZ. The only reasonable way one could do it without making housing availability and therefore affordability tremendously worse would be to initiate some programme explicitly cutting construction costs. Good luck with that because the Commerce Committee's investigation into housing affordability here did not exactly set the world alight with supply boosting/cost cutting recommendations in the final report.
http://www.parliament.nz/NR/rdonlyres/3137FA40-2DF3-4311-B9E9-9621DBD5C7A7/92196/DBSCH_SCR_4170_61892.pdf

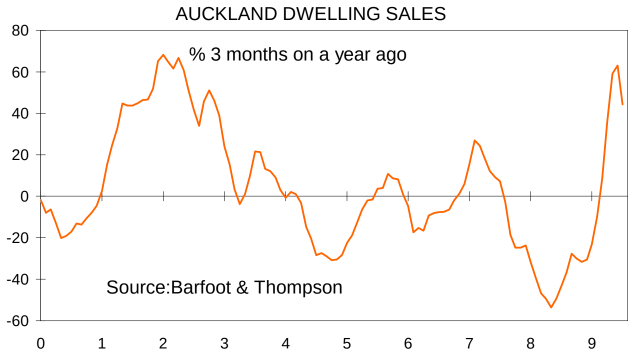
3. You wouldn't want to take bets on quarterly house price movements on the basis of the graph above by any means. But there does appear to be a broad correlation between house price movements in Australia and here. Given the close link our economy has with theirs including in the labour market and with monetary policy, the fact that our housing markets should move approximately together is not too surprising.

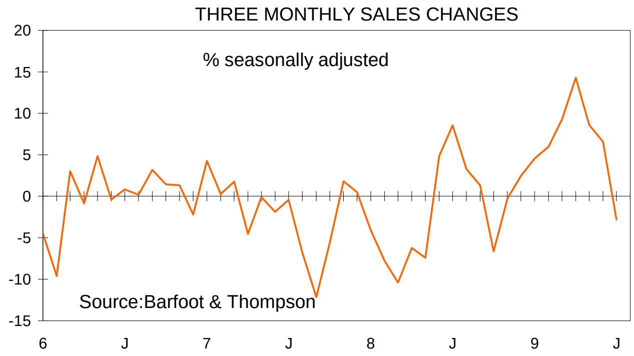




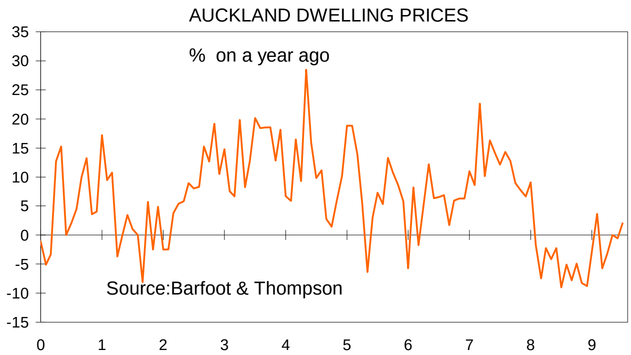
Auckland Housing Market Steadies

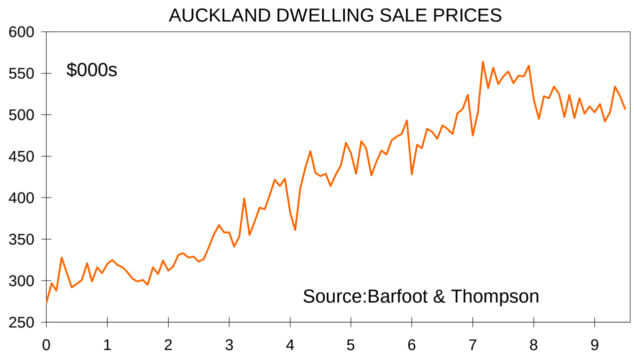
After sales rocketed ahead from March things have now settled down in the Auckland housing market. 779 dwellings were sold by Barfoot and Thompson in July. This was a 24% rise from a year ago. But in rough seasonally adjusted terms it represented a fall from June of about 6%. In addition, the average dwelling sales price eased to $507,000 from $522,000 in June. However this monthly price measure can be quite volatile so we will continue to speak in terms of prices rising rather than make a big deal of the fact that the sales price was in fact 2% ahead of a year ago and that this is the first annual increase since February and before that January 2008.



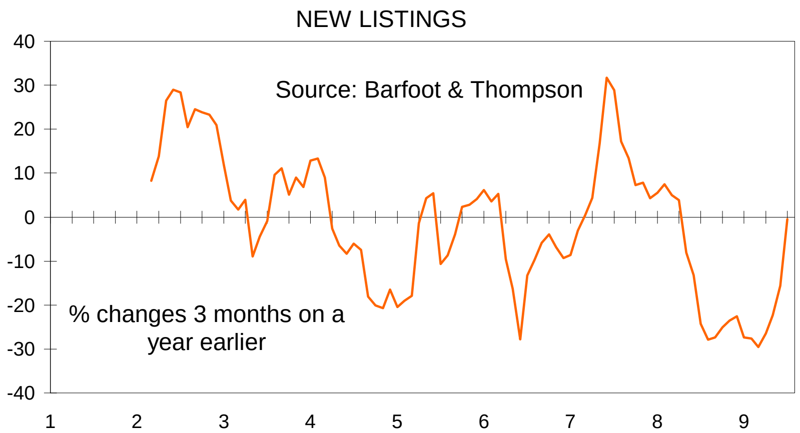


One reason for the slight easing of sales will be a shortage of listings. At the end of July B&T had 5,331 properties on their books. This was 24% fewer than a year ago. However the change from July of -4% was a greater than usual fall. So does this mean the listings shortage is getting worse? We don't think so.

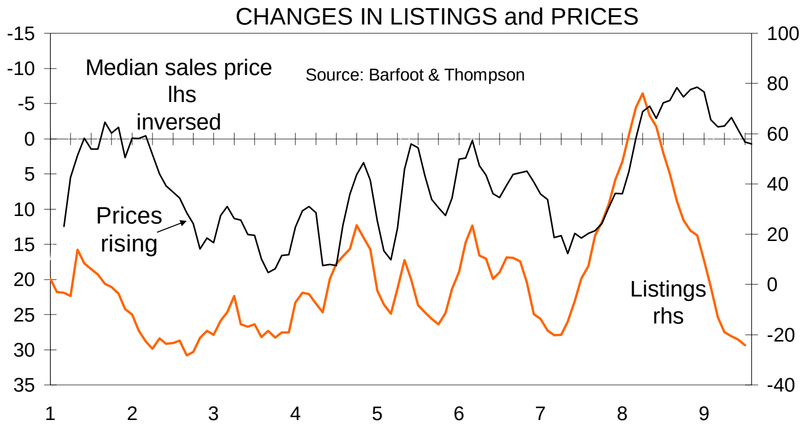


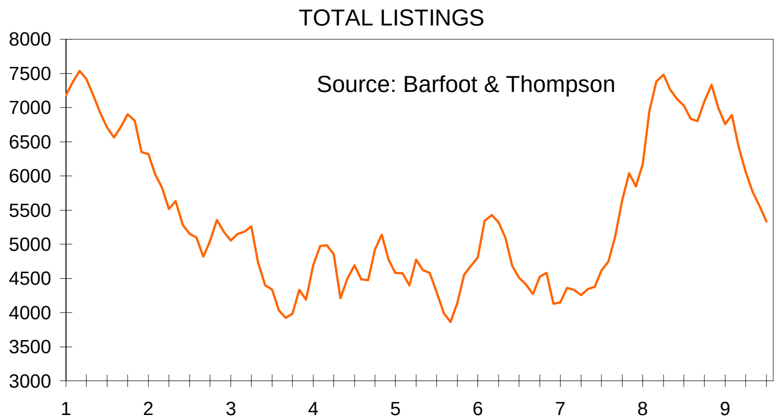


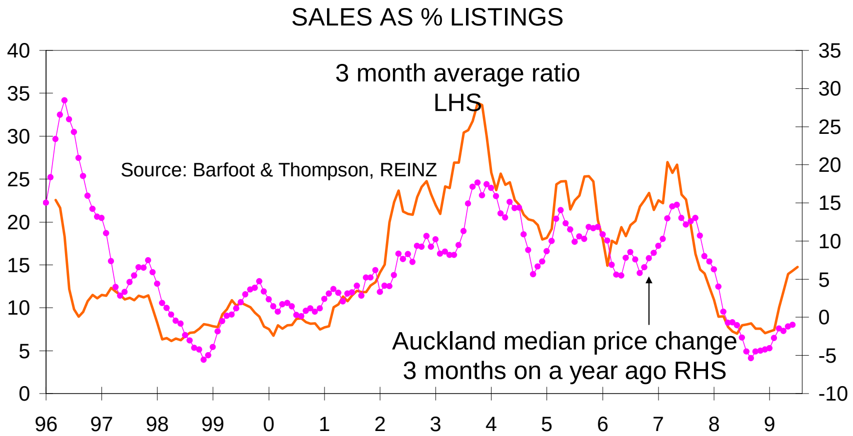
Over July there were 1,386 new listings received. This was 18% more than in July last year whereas new listings in June were down 2% on a year ago. In fact the rise is the first recorded since April last year when interest rates were near 10% and one suspects a lot of buyers were having to offload their properties. So we have an indication that more properties are coming to the market. This implication is made more solid when we note that in July the difference between new listings and sales was 607. This was appreciably more than a 328 difference in June, whereas a year ago this measure fell between the two months, in 2007 it grew 258, and in 2006 it grew 190. You may have lost your way by this point. But suffice to say, we feel one can start to run the argument that signs of life in the housing market are encouraging more vendors out of the woodwork.



So now we get into what is going to be a really interesting Spring. To what extent will the newly hopeful supply of vendors exceed the economic fundamentals (construction, migration, interest rates, existing shortage) and therefore produce a price response – or not. We remain of the opinion that it is unreasonable to write yet in terms of house prices rising by all that much over the coming year. But personally speaking one does have a feel for where the risk lies in this forecast.







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.

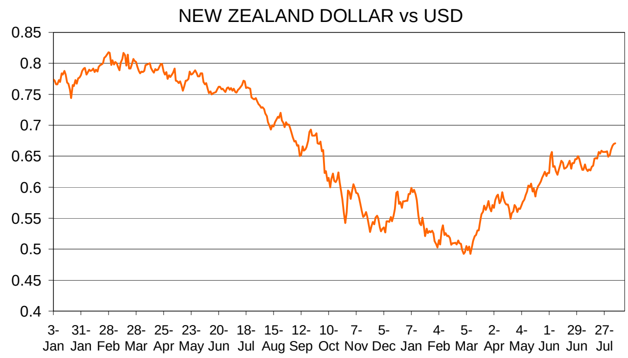
Exchange Rates & Foreign Economies

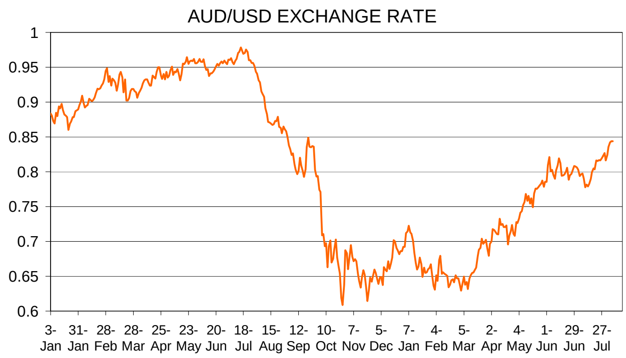
EXCHANGE RATES	This week	Week ago	4 wks ago	3 months ago	Yr ago	Consensus* Frcst Yr Ago	10 yr average
NZD/USD	0.671	0.649	0.628	0.58	0.726	0.684	.592
NZD/AUD	0.795	0.795	0.789	0.78	0.793	0.774	.856
NZD/JPY	63.8	61.6	60.4	57.4	78.6	72.6	66.8
NZD/GBP	0.395	0.396	0.385	0.385	0.372	0.366	.345
NZD/EUR	0.466	0.462	0.45	0.436	0.47	0.47	.51
USD/JPY	95.1	94.9	96.2	99.0	108.3	106.1	113.9
USD/GBP	1.699	1.639	1.631	1.50	1.95	1.87	1.709
USD/EUR	1.44	1.40	1.40	1.33	1.545	1.458	1.156
AUD/USD	0.844	0.816	0.796	0.744	0.916	0.884	0.69

Kiwi Dollar Above US 67 cents

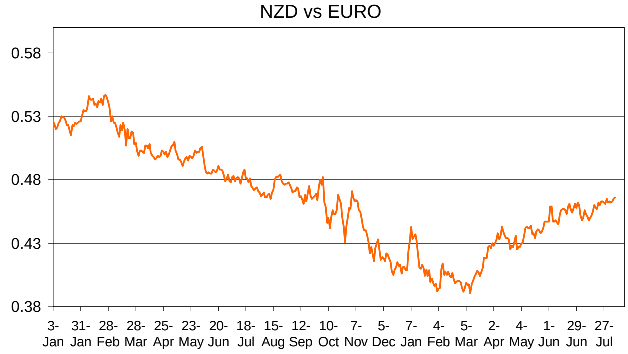
It has been another strong week for the NZD with trade late this afternoon just over US 67 cents compared with just under 65 cents a week ago. Why the two cent rise?

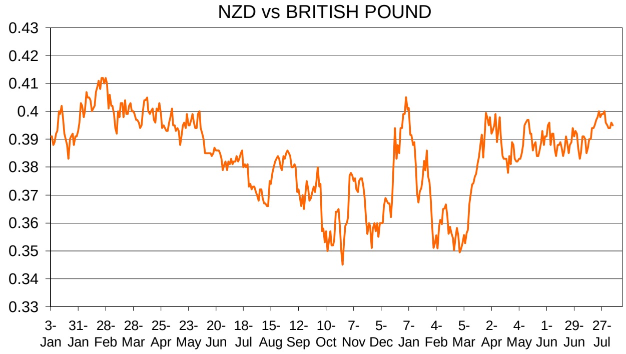
- Better than expected data on the manufacturing sectors in a range of major economies offshore leading to stronger expectations of global economic recovery. Associated with the firm economic data, falling risk aversion by investors leading to increasing purchases of growth and risky assets such as shares and dodgy currencies like the NZD.
- Riding on the coat-tails of the Australian dollar which this week rose to an 11 month high against the USD close to 85 cents from 81.6 cents last week with trade this afternoon near 84.5 cents.
- The 26% jump in prices recorded in Fonterra's regular online milk powder auction.

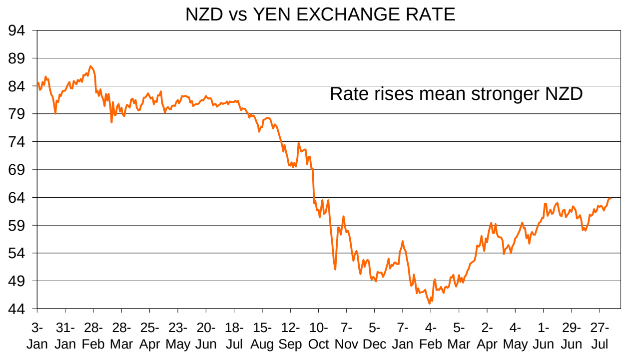




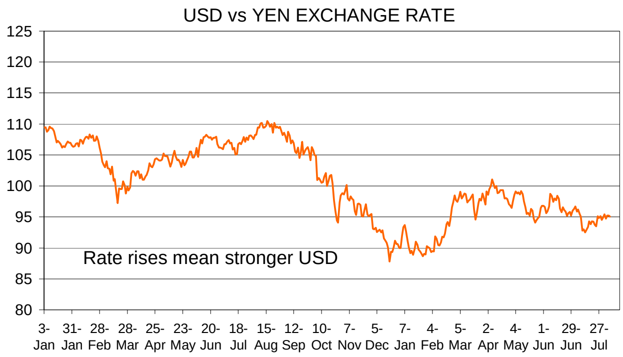
The AUD has been buoyed by generally positive economic data and an ending of expectations that monetary policy will be eased further.

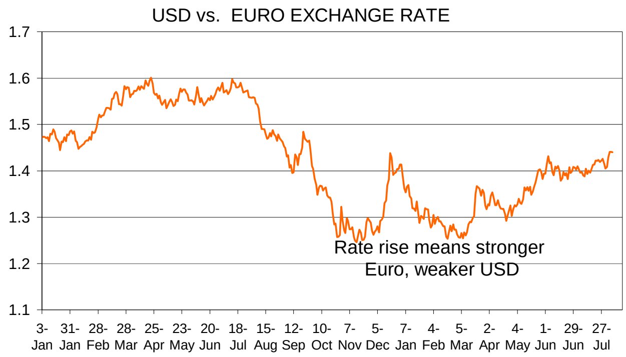


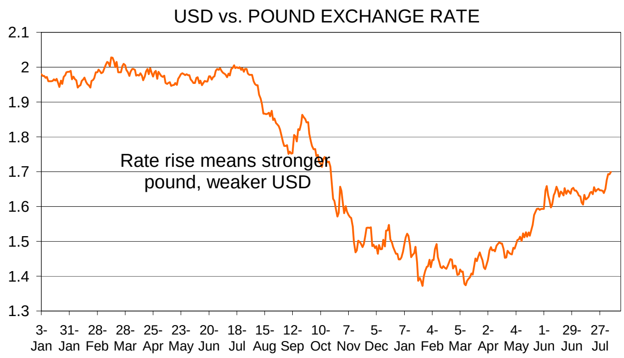




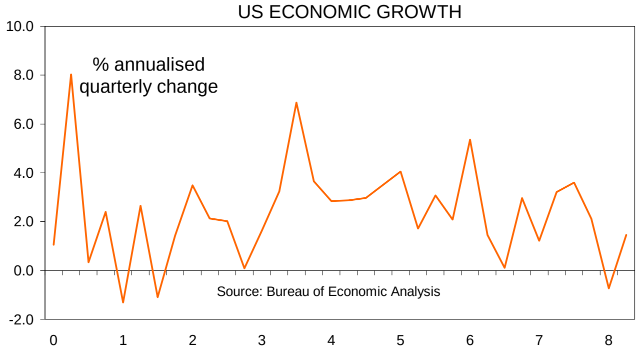
On the crosses the NZD has only really made ground against the Japanese with trade now near 63.8 from 61.6 last week. If we have remained steady on the other crosses while rising against the USD that means that the USD has weakened against everything except the Japanese Yen. The USD weakness in spite of largely good economic data has arisen as investors have felt it is increasingly safe to leave the confines of the greenback and seek riskier and perhaps higher yielding assets elsewhere. This movement away from the USD "safe-haven" also largely explains weakness in the Yen which is also generally considered a "safe haven" currency during uncertain times.

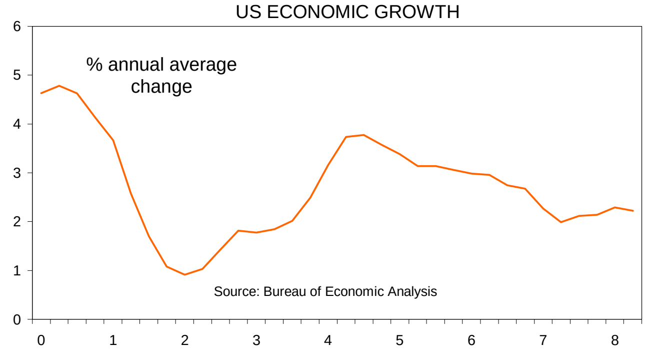




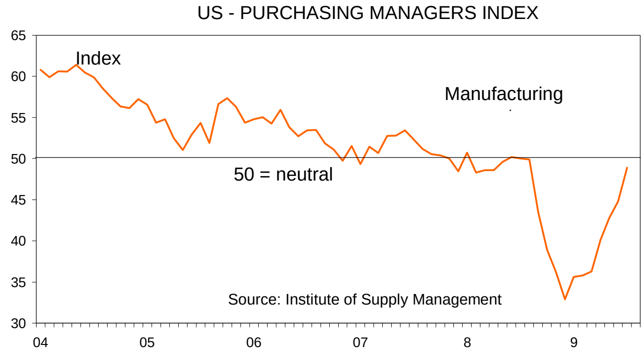


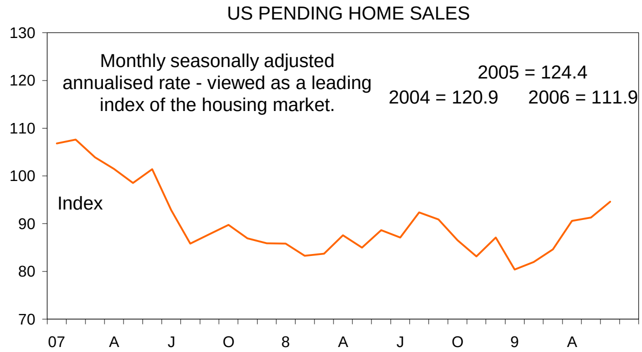
The US economy shrank by less than the 0.4% expected during the June quarter, declining just 0.26% with a lot of this weakness due to inventory reductions. That means the September quarter could produce a respectable growth rate as there has been evidence over the past month or so of stock rebuilding around the planet. The shrinkage during the quarter was far less than 1.6% in the March quarter, 1.4% in the September quarter, and 0.7% in the June quarter last year.





The US manufacturing sector is almost back into positive territory with the much-watched Purchasing Managers Index rising in July to a reading of 48.9 from 44.6 in June. A reading below 50 means the manufacturing sector is still shrinking, but the 48.9 result is the best since August last year just before Lehmans collapsed.



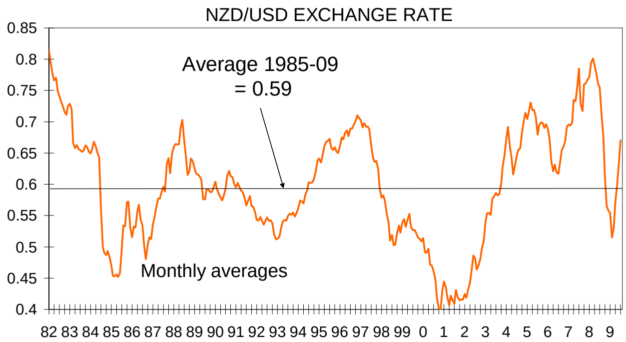


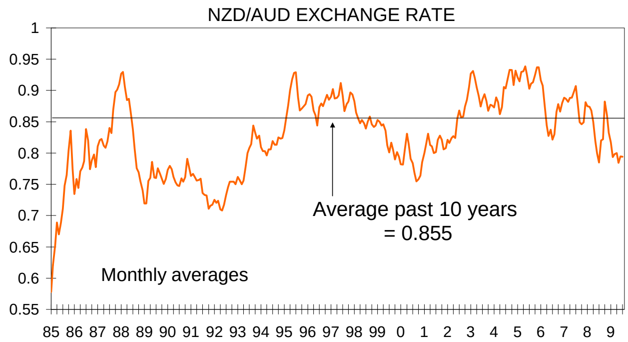
During the week another positive housing market indicator was also released. The number of new homes pending sale (contract signed but transaction not completed) rose by a greater than expected seasonally adjusted 3.6% to be 6.7% up from a year ago. This measure is considered to be a leading indicator of the housing market and as such it suggests the market does not have upward momentum and this is vital for the recovery of the US economy given that it has been falling house prices which has destroyed bank capital bases.

All attention now is on the monthly non-farm payrolls number due out Friday night NZ time. Further job shrinkage is expected.

If I Were An FX Receiver What Would I Do?

While most attention is on the NZD's rise against the USD to an above average rate of exchange, against the Australian dollar at just over 79 cents the NZD is below the ten year average of 85.5 cents. As the second graph here shows we are not far off the lows below 78 cents seen for a few months in late-2000, and before that one must go back to 1993 to get into the end of a period when the rate was lower than it is now.



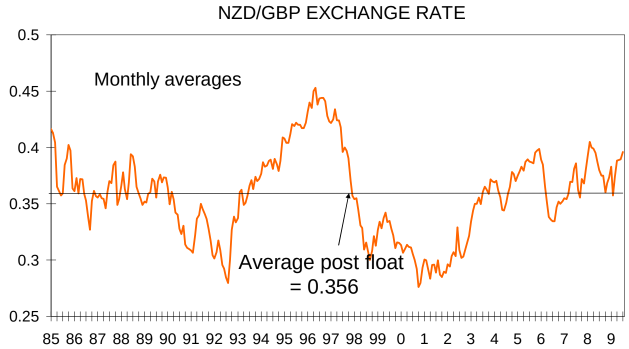


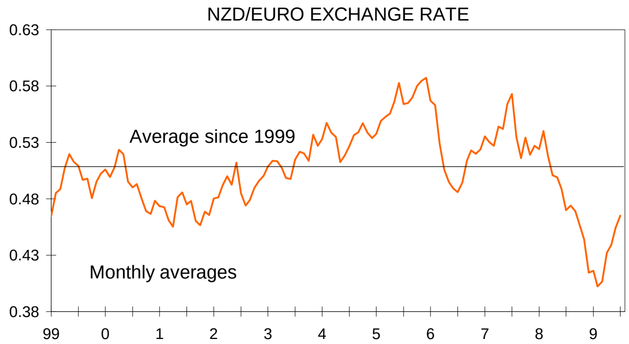
Knowing nothing else one would conclude that now is a good time to boost export hedging against the Aussie dollar and we would agree. But having said that, nothing is jumping out to say the NZD is going to soar against the AUD over the coming year. In fact the way the data are falling on the good side in Australia and monetary policy expectations have changed to expecting a tightening, the chances are the NZD will stay below average against the AUD for some time.

But, as anyone who thought we would stay low against the USD and Yen has learned, the NZD can jump up very quickly. So one's advice would be to avoid falling into the traditional exporter trap of thinking that just because the NZD is low against the AUD that means we have hit the long run involving currency stability at a low level. No way. I'd be inclined to take advantage of the low rate to boost hedging and not worry at all if the NZD fails to appreciate to a substantial degree against the AUD over the coming year.

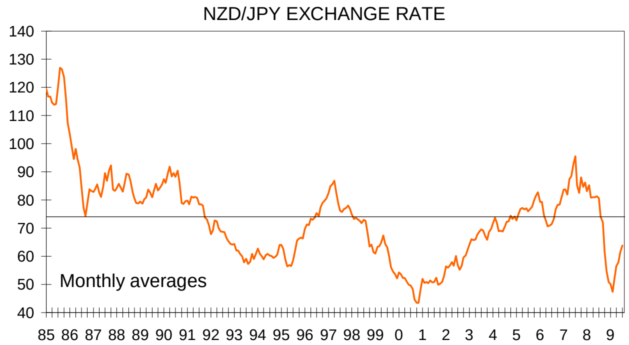
Against the USD the NZD as noted is above average and as we have been indicating for many weeks now, the chances of a sizeable pullback are not that strong. I would remain inclined to build extra USD receipts hedging while perhaps easing off if I were an importer. Having said that, if I really were an importer I would personally be inclined to treat the 67 rate as a gift and lock in payments for the next 6-9 months just in case in the weird world of exchange rates the NZD were to step back down five cents.

Against the British pound as ever we feel we have little to say. The British economy remains in deep doo doo and while one day recovery is likely to see the pound strengthen we are unconvinced one can take a reasonable view on when such a rate adjustment will come. I would tend not to running above average export hedging positions.





Against the Euro the NZD is below average so I would tend to boost hedging, and the same goes for the Yen against which the NZD has crept up to a ten month high this week. Should have hedged the next five years back at 45 Yen in February.



*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	7.75	10.49	9.49
3 yr fixed hsg rate	10 year average = 7.9%	6.99	6.99	6.99	9.09	9.00

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