BNZ Weekly Overview

24 February 2011

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.

Impact of the Earthquake

The most significant event this week is clearly the devastating earthquake in Christchurch and our hearts go out to all those affected by this new disaster. It goes without saying that just as the September 4 earthquake disturbed economic activity for some time so too will this one and that means the near zero growth we think occurred during the December quarter is going to be not much bettered in the first quarter of this year if in fact there is any growth at all. The interruption to growth is enough that we now see little chance that the Reserve Bank will feel the economy is strong enough and inflationary pressures great enough that they will raise interest rates this year. At this stage we pencil in the next rate rise for January 2012. That means we are likely to spend practically all of this year with the same comment in our 'If I were a borrower what would I do/" section. Stay floating.

The reduced outlook for interest rates implies the Kiwi dollar will be slightly lower than would otherwise have been the case, especially as inflation rhetoric is picking up in the UK and Europe raising the chances that interest rates will be increased in those economies well before the end of the year. Yet perversely the exchange rate effect of the earthquake improves even further the outlook for the country's dairy sector which seems well on the way to reclaiming its throne (recently held by the now shrinking tourism sector) as the country's largest export earner.

This week Fonterra revised up their forecast payout for this season from $7.30 -$7.40 to $7.90 - $8.00. This payout will incorporate the traditional milk solids payout of $7.50 plus a distributable profit range of 40-50 cents.

What Do We Need To Know?

Economics is an interpretive and predictive art based on theories and incomplete information in a never-constant environment. Or in plain English, there is a lot of stuff we economists just guess at, and a lot of stuff we are simply ignorant of. Our monthly BNZ Confidence Survey gives great insight into what is happening in a range of industries. But we welcome input into our thoughts at any time. So..

If you feel there is some vital piece of information we are missing please send an email so it can be thrown into the mix. 0HTony.alexander@bnz.co.nz

Is Our Economy Getting Better or Worse?

In this simple summary section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

Signs of things growing are rare but there are a few. Farmers are spending more on tractors and buying each other's farms, imports of capital equipment are rising strongly, the rate of growth in lending to the business sector is picking up, and perhaps manufacturing is growing. But apart from that retail spending volumes have fallen for two quarters in a row, real estate sales growth is close to flat, house building is in a deepening recession, merchandise exports are barely rising, and tourism receipts are falling. The economy is registering very little if any growth and forecasts of an upturn remain only that – forecasts quite out of line with the experience of most on the ground.

Are householders opening their wallets more?

This week we have no useful new evidence in hand. January credit card data were released but we already have the January Electronic Transactions Data in hand so nothing useful frankly can now be gleaned from a series which at best was only ever a very vague indicator of actual retail spending changes. The core ECT measure showed a strong rise of 2.4% in January but that followed a 1.6% fall in December and we must remember that the December quarter's change in this measure showing a 0.9% rise was well off not only the actual inflation-adjusted retail change for the quarter of a 0% change but the nominal rise also of -0.1%. So always treat these monthly ECT numbers with a good degree of caution, and that is why unless we see a big rise in February of over 1% we are prepared to discount the apparent good news retailing story that their January numbers imply.

Is business output rising?

There were also no new data releases allowing us to gauge changes in business output this week. The BNZ-Business NZ Performance of Services Index fell back to a barely growing reading of 50.8 in January from 52.1 in December. But we have no data series of real economic activity in hand against which we can measure the effectiveness of the series even though we believe it gives insight into what non-manufacturing, non-farming etc. parts of the economy are up to.

Are businesses hiring more people?

Nothing new this week.

Are businesses boosting their capital spending?

Also nothing new this week.

INTEREST RATES

Growth vs. Economic Slack

In a nutshell this is what drives inflation along with institutional arrangements, imported inflation, and exchange rate changes. If you want to forecast monetary policy you need to monitor these things. So we will, adding stuff here when we learn it. The current common view is rate tightening from September. Have we learnt anything this week which alters this outlook?

This week in the media there has been increased attention paid to companies in New Zealand reporting that they are facing staff shortages.
http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10707139
Three points are relevant here. First, this is the sort of thing the Reserve Bank will be keeping an eye on as they try to guesstimate what the inflationary pressure will be from the labour market next year when the labour market is tighter than it is now.

Second, the issue cuts to the heart of one of the factors identified as contributing to New Zealand's low rate of growth in productivity – a combination of the brain drain across the ditch, mismatching of what the education system produces and what businesses want, the difficulty NZ has attracting skilled people from overseas given that global-level incomes cannot be offered as reason for moving here, and general employer concern about the quality of skills offered by the workforce.

Third, the labour market has tightened up in recent quarters in spite of the economy going nowhere. That is, if we assume the December quarter gross domestic product change was zero then in that quarter the economy will be slightly smaller than it was in the March quarter. Yet the proportion of employers reporting skilled labour as hard to find has already been reported in the NZIER's quarterly survey as rising from a net 9% saying things were easy to a net 7% saying finding staff is hard. The reading for unskilled employees has gone from a net 33% easy to 19% easy.

That is, even with the economy not growing but the population rising about 1% the labour market is tightening up. Employers had better be up to play with this development because it will act to constrain growth in the economy over 2012 while at the same time encouraging tightening of monetary policy which would not otherwise occur if staff were more readily available.

But while we believe this resources issue is worsening the other side of the coin has changed dramatically. The new Christchurch earthquake is clearly going to disturb economic activity anew and that means less immediate pressure on the resource base. There is some offset to this from the upgrade to Fonterra's forecast payout this season, but overall, and taking into account the weakness we continue to report in our section above looking only at actual economic activity, we now see practically no chance that the Reserve Bank will tighten monetary policy this year.

For the record we have the next rate rise pencilled in for January. But as we have warned for perhaps two years now forecasting monetary policy in this very uncertain environment is extremely difficult and it is near certain that forecasts will change – it is simply a matter of when, how much, and in what direction. We continue to advise borrowers against devising strategies based upon any particular set of forecasts for where interest rates will go in the future.

Other Inflation Influencers

The Reserve Bank conducted their Quarterly Survey of Expectations a week or so ago and released the results this week. One probably does not want to get too excited about the information value of this survey. For the March quarter they surveyed 119 businesspeople and only 64 replied. Therefore when one sees the two year ahead average inflation expectation rising from 2.6% to 2.64% you don't need a third year statistics course to realise the change is 100% meaningless. In similar vein we would suggest the shift in the one year ahead expectation from 3.4% to 2.9% is probably only just getting into the statistically significant territory.

At least it went down as people, if they were thinking about the issue, allowed for the GST increase falling out of the number. But frankly the GST rise makes interpreting the numbers even more fraught than usual so we would not suggest the Reserve Bank has found all that much of use in the survey with regard to gauging how wage and price setting behaviour will move over the coming 12-24 months.

Rate Movements This Week

Following the earthquake the markets have completely priced out any rate rises this year and have started to price in a rate cut of 0.15% - 0.5%. We do not completely rule a cut out but think it is very unlikely as it would do little to assist the immediate needs of Christchurch people and businesses and when the stimulatory construction effort gets underway a faster pace of rate rises would be necessary to offset the eventual lift in inflationary pressures.

Therefore borrowers facing rates determined by the wholesale curve may want to consider taking some extra hedging during this rally period. The Reserve Bank next review their cash rate on March 10.

The one year swap rate has fallen to 3.05% from 3.38% last week, the three year rate to 4% from 4.2%, and the five year rate to 4.62% from 4.77%. The yield on 90-day bank bills has eased to 3.04% from 3.22%.

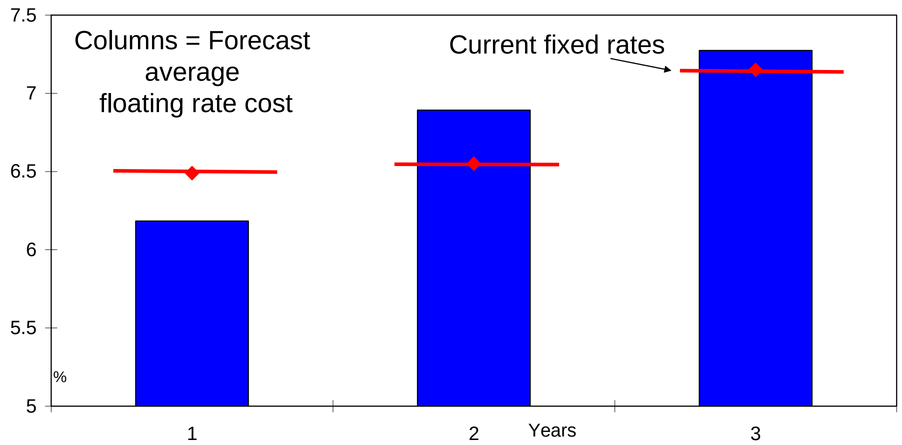
FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	3.00%	3.00	3.00	3.00	2.50	5.9
90-day bank bill	3.04%	3.22	3.21	3.20	2.70	6.2
1 year swap	3.05%	3.39	3.44	3.52	3.44	6.3
5 year swap	4.62%	4.77	4.73	4.81	5.23	6.6
180-day term depo	4.10%*	4.10	4.80	4.90	3.15	6.0
Five year term depo	6.50%	6.50	6.75	6.75	6.00	6.5

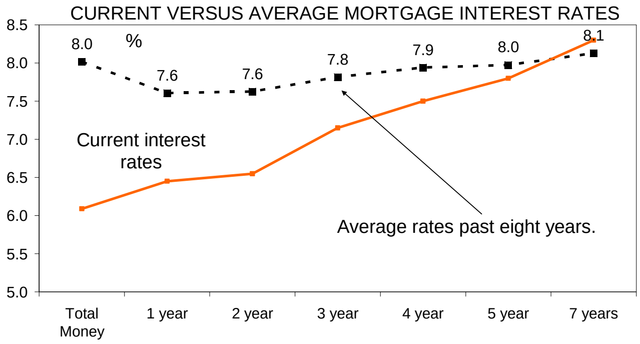
* 160 days = 5.2%

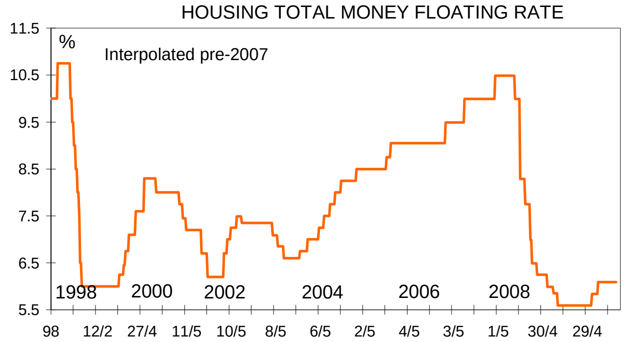
If I Were a Borrower What Would I Do?

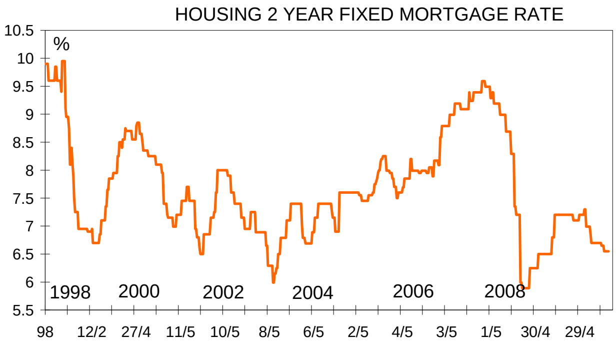
Stay floating. It is as simple as that. There will probably not be another increase in the official cash rate until January next year at the earliest. The graph below uses the blue bars to show what we think the floating mortgage rate will average over the next complete one, two and three year periods. The red lines show what our current fixed rates are for those periods. There is no value in fixing one year at 6.49% when we expect the floating rate to average 6.18% for the coming 12 months. We forecast that the floating rate will average 6.9% for the next two years which is more than the current two year fixed rate of 6.55%. So there is value in fixing two years – but only if we thought we were at the point of fixed rates rising. We are not.

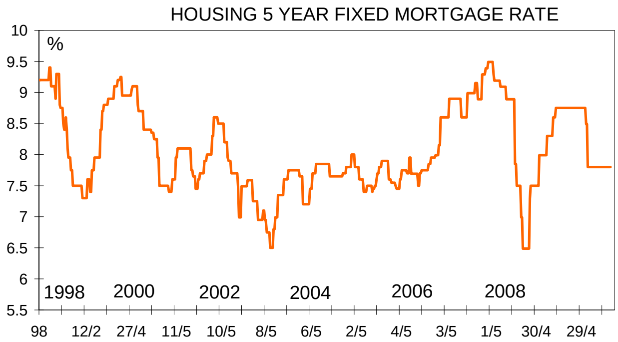


I personally would let my floating rate mortgage stay floating and work away at getting the principal down over a period of low rates running much longer than looked likely a year ago. In fact just for your guide and to back up the warning we have long been giving regarding treating interest rate forecasts with a huge bag of salt in this uncertain environment, we have now moved out our expectation for when the cash rate will shift from the current 3% to 3.25% by a full 16 months. Such is forecasting.



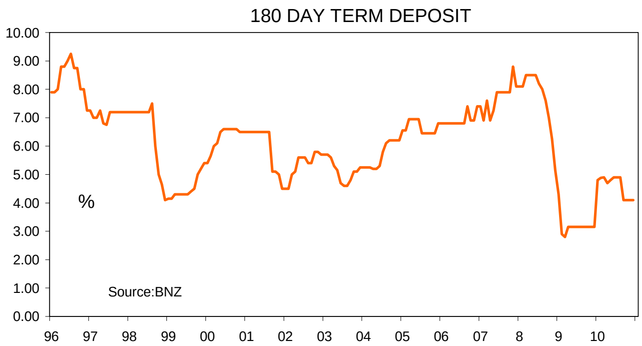


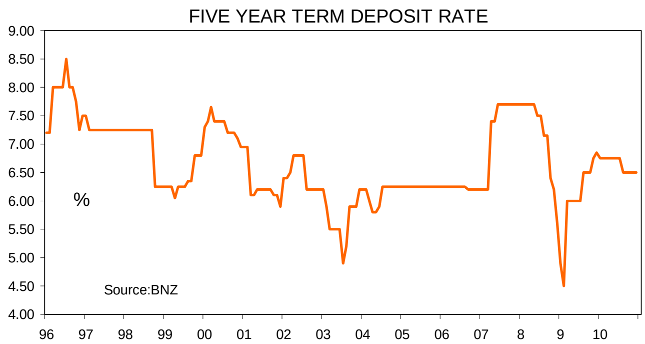




If I Were a Term Deposit Investor What Would I Do?

Well I guess I should have locked in a bit more of my funds at a longer time period over a year ago when instead I was saying I'd just keep it all short waiting to ride rising rates upward. C'est la vie. Personally I still find myself reluctant to place funds for longer than 18 months.





HOUSING MARKET UPDATE

Turnover is weak, construction falling, and prices essentially flat on average.

Little New

This week we have received no fresh information on the state of the housing market apart from a couple of comments emailed in. To whit…

"I'm a landlord. I advertised a two bed roomed house in Newlands over the weekend. I'd estimate I had over 100 people call me about the house and over 1000 hits on the Trade me listing in 48 hours. I was amazed at the response as I thought the rental market was still slow. Of the 60 or so people who viewed the house here's the trend I noticed.

Lots of professional Kiwi's returning to NZ from UK and Europe as they feel the job opportunities are better here now than Europe and UK at the moment and costs of living is less here. A few said better to be broke in NZ than in the UK or Europe. All the ones in the situation had picked up jobs again back in NZ quickly.

I interviewed quite a few professional European immigrants. They came here for life style choice, also the recession was still biting back home and they needed a change of scenery. I'd estimate about 25 people were tenants who's landlords were selling their rentals. I assume the tax changes around depreciation taking effect from the new financial year might be the key reason.

I rented the house to an English doctor. She said the recession was getting too depressing in the UK and had heard NZ wasn't as badly impacted. She was very happy living in NZ and said people are generally much happier here."

"I am an avid reader of your business confidence survey and felt the need to correspond a dramatic lift in activity in our market which will not be evident yet in sales figures available. I have been in real estate 18 years and opened my own office in 2003. Whilst being a principal I still sell full time with the help of two full time assistants. I have sold 6 properties in the last 10 days (5 cash), with my selling a further 5 and 3 contracts being worked on right now. There have been 3 multiple offer situations in the last week and significant numbers of buyers through open homes (134 groups weekend of 12 & 13 Feb), and pre auction offers at levels good enough to stop the auction process. I have not experienced activity like this since 2007, and as much as we pride ourselves on being very professional in our approach, I suspect others in our industry are experiencing a similar trend."

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 improve further out. House prices edging higher from second half of 2011.

MAJOR OFFSHORE ISSUES

There are many important things happening offshore not easily covered in the one country commentaries we have traditionally included when time permitted in the FX section below. So this new section will concentrate solely on developments in the areas occupying the minds of the markets, policy makers and politicians around the world. In some weeks certain sections will be empty because nothing new will have occurred.

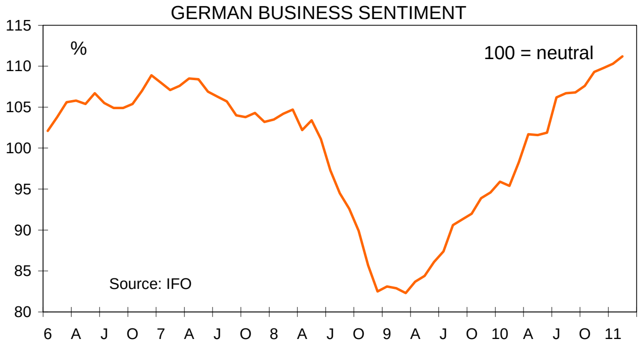
European Debt

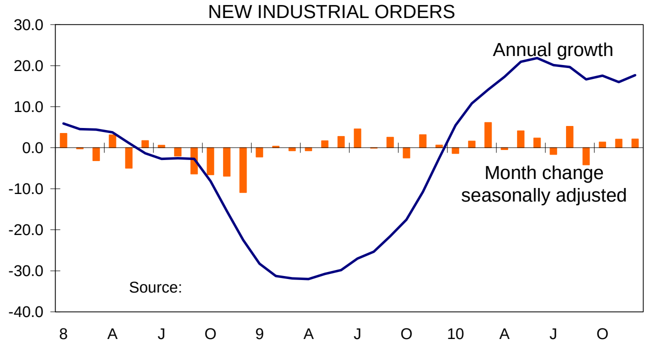
Southern Euro-zone governments have soaring debts and/or deficits due to taking on their private sector's debts, or simply their own fiscal incompetence. Concerned by these developments and the lack of suitable EU-wide institutions for handling crises investors are demanding higher and higher interest rates before investing in more debt, causing debt servicing budget blowouts for the recalcitrant borrowers. To try and keep investor confidence some governments are radically slashing spending, raising taxes and restructuring but still borrowing costs climb and the citizenry grow increasingly restless. The logical route is they restructure their debt but that can't happen yet because the bulk of such debt is held by French and German banks and the capital losses could send them bankrupt thus crushing their own economies. What happens then? Lots more investor worries, more official bailout packages as already done for Ireland and Greece, more fiscal austerity and rioting, then when bank capital bases are secure enough debt restructuring will almost certainly come for Ireland, Greece, Portugal and maybe Italy and Spain.

What's new?

Bank borrowing from the European Central Bank has increased recently and that is making the markets just a tad nervous that others may be nervous about the European debt crisis again and its nexus with bank capital bases exposed to prices of sovereign bonds.

Germany is Europe's biggest economy and the numbers coming out recently have largely (though not universally) fallen on the positive side. That is good for euro-wide growth but highlights more and more the increasing disparity between Germany's growth and the long term poor performance and frankly prospects for southern European economies struggling with debt they built up rapidly in recent years. The monthly IFO business climate index improved to a reading of 111.2 in February from 110.3 in January. This is the strongest reading since the series began in 1991.





Germany's economy grew 0.4% during the December quarter last year while the entire euro-zone grew 0.3% with growth suppressed by extremely bad weather. The good IFO result suggests that the German economy at least is bouncing back strongly in the first part of the year. But that is just going to worry the less stellar economies because of the increased risk that the European Central Bank will tighten monetary policy this year.

A good euro-wide piece of news last night was that for the second month in a row industrial goods orders rose by a firm 2.1% seasonally adjusted in December. Orders are now 17.7% ahead of a year earlier and signal good manufacturing sector growth for the remainder of the year.

Early this week a rash of ECB officials made comments indicating they are keeping a close eye on inflation and that the idea of tightening policy is at the front of their minds.
http://www.bloomberg.com/news/2011-02-21/ecb-officials-signal-they-may-back-higher-interest-rates-in-coming-months.html

Chinese Inflation

In China high inflation tends to spur non-one party thoughts from the populace à la Tiananmen Square 1989 therefore the leaders will do all they can to get food price rises in particular down. So is inflation easing, what measures will be added to get inflation down? The big global worry is that these measures could produce a sharp slowing in growth which slams sharemarkets, Chinese raw material demand and therefore commodity prices relevant especially for Australia and via them to us, plus our own large dairy and forest product exports to China.

What's new?

Another week and another tightening of monetary policy in China. The reserve requirement for banks was lifted for the second time this year taking it up 0.5% to a record 19.5%. The rise follows six increases last year and acts to influence growth and inflation by raising the cost to banks of lending money as of each yuan they lend.19.5% must be put into low yielding assets.

One wonders if such a system will be reintroduced one day in New Zealand given the increasing recognition in work surrounding poor productivity growth in the economy that the high level of NZ interest rates tends to suppress growth by keeping the NZD high. There is talk of a far broader counter-cyclical reserve policy framework whereby as growth accelerates reserve requirements slowly rise to contain lending of a speculative nature in particular.

With regard to monetary policy tightening in China what we are looking for now are indications that the rate rises and increasing reserve requirements are slowing growth and therefore inflationary pressures in the economy. This week we received some evidence of the former in the form of the Market Economics constructed PMI index falling to a seven month low of 51.5 fin February from 54.5 in February. The monthly decline is relatively large so has attracted a tad more attention than usual from China watchers.

How do you know things are quite bad? When they hide the reality from you. In China the government will no longer publish the monthly property price index for the country as a whole though indexes for cities will continue to appear. The decision follows revisions to the consumers price index which have made it show a lower than expected rate of increase. As we have noted before Chinese statistics need to be taken with a large bag of salt.

China joined the World Trade Organisation in 2001 and when they did a whole range of restrictions on the exports of minerals and goods were removed. But over the years such restrictions have been put back in place for minerals with the Chinese citing environmental concerns and resource nonrenewability as reasons. Such actions have helped push up prices for some minerals. But their main impact – and undoubtedly the intended one – has been to force overseas companies wanting a steady reliable supply of such things to locate their production facilities in China.

Now the WTO has issued a preliminary report concluding that such restrictions are not lawful. Presumably that means that in order to keep being good international citizens the Chinese will need to eventually remove such restrictions. But one would not want to hold one's breath waiting for this to happen. Look how long it has taken the Australians to get around to opening their market to NZ apples. Plus the report from the WTO does not cover rare earths which China is increasingly holding onto.

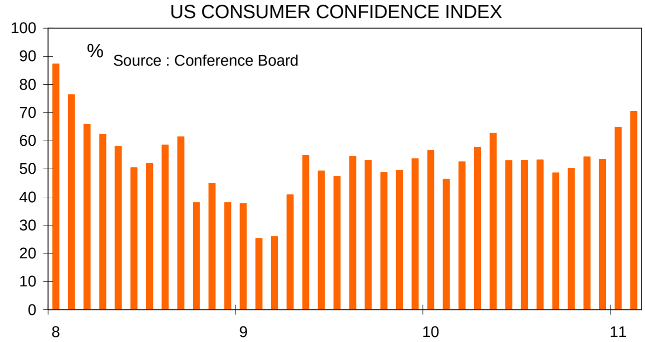
US Growth Momentum

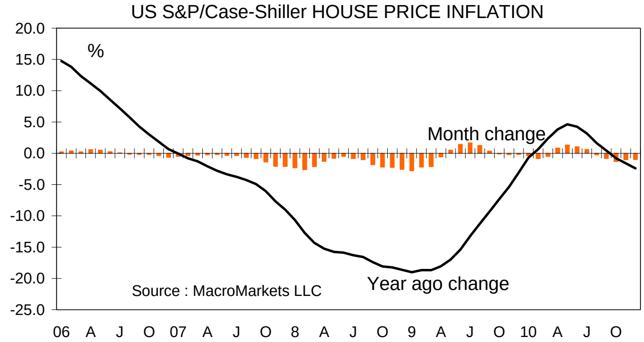
The US economy has grown 2.2% over the past year but the upturn is not yet "self-sustaining" or reducing unemployment stuck above 9% at 14mn - worse than Germany, Japan, Britain and Russia. Manufacturing is firm but retailing, housing and business investment remain weak while few moves have yet been started to rein in an unsustainable Federal Budget deficit above 11% of GDP and concerns are growing about state and local budgets. What we're looking for are signs that the economy is firing on more cylinders than just those caused by a low USD, restocking, and fiscal stimuli. I.E. consumption, housing, and business capital spending.

What's new?

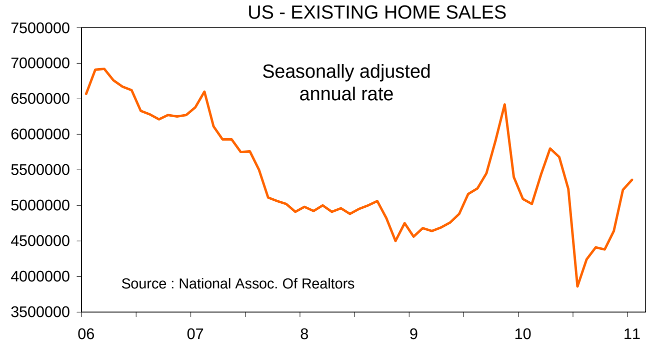
Consumer confidence continues to improve with the Conference Board sentiment measure rising to its highest level since February 2008 at 70.4 in February from 64.8 in January. This in spite of the Case/Schiller

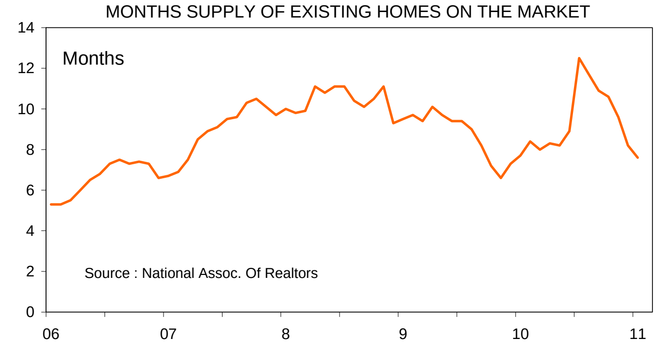
House Price Index falling another 1% unadjusted in December following a 1% fall in November. The index has fallen for the past five months by 4.4% and now sits 2.4% down from a year earlier. It has yet however to get back to the recent series low-point in April 2009 – but it is only 2.2% above that level.





Sales of existing homes rose 2.7% s.a. in January following a firm 12.5% rise in December to suggest that activity in the real estate market is starting to pick up. The stock of unsold dwellings now stands at 7.6 months from 8.2 in December and 7.7 months a year ago. However as with the Case Schiller Index the price index for this measure of housing activity continues to decline with the median dwelling sale price coming in at $158,800 in January from $168,800 in December.





Global Currency Conflict

Asian economies have driven growth for many years by keeping their currencies low against the greenback (thus hurting the purchasing power of their consumers). But their model of growth relying on excess spending by US households is shattered yet they either don't realize it or can't face the adjustment pain. Natural pressures on the greenback are now downward (budget and current account deficits, debt risk, relative interest rates and share of world economic activity and growth) but to stop their currencies appreciating versus the USD Asian economies are keeping their interest rates low and printing more money thus running rising inflation risks. Recent and planned extra US bond buying is adding to rising economic/political/trade tensions. We are watching for either Asian currency capitulation (most closely watched are the Chinese), further capital inflow restrictions, deployment of trade weapons, etc. The big risk is a global currency/trade war.

What's new?

The G20 meeting of Finance Ministers and Central Bank Governors in Paris over the weekend resulted in the production of a communiqué noting creation of a set of measures which the major economies would keep a close eye on to see if imbalances were developing or getting worse. That's about it, nothing solid. In particular the Chinese made sure there was no explicit mention of exchange rates as they continue to bat away pressure to allow their currency to adjust upward. The pressure is strong however – but not from the likes of the Americans. The Chinese keep their currency down by supplying all the yuan the markets demand and that means rapid domestic money supply growth which is spurring inflation which is leading people to get very agitated – as is happening in the Middle East. http://www.g20.org/index.aspx

Those events actually increase the chances that there will be more rapid yuan appreciation this year and there was even a rumour during the week that within a few months the Chinese would announce a fundamental shift in their exchange rate management regime.

Commodity Prices

Prices of commodities are soaring on the back of currently firm Asian growth, expected rising structural demand related to infrastructure and rising incomes, and surging speculative investor buying driven by US money printing, inflation fears, ultra-low interest rates, and wariness of alternative investments. Bubbles are undoubtedly developing but history shows we have zero chance of picking when they peak and where.

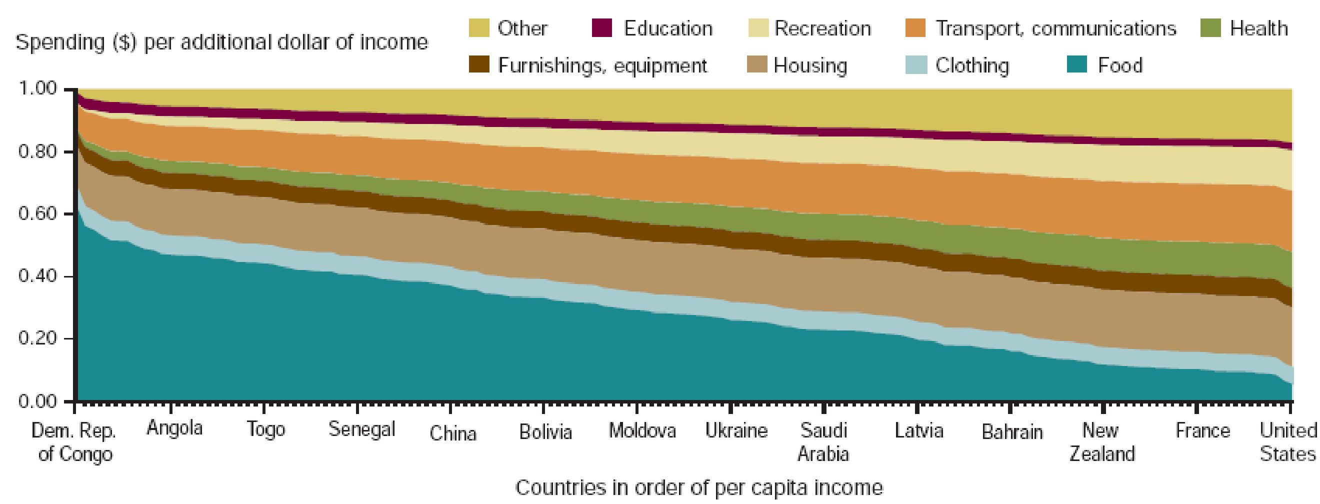
Global stockpiles of food have been run down as countries try to smooth price increases. Corn stocks are currently near 5% of annual use compare with an average 13.6% over the past 15 years.

There are three primary factors behind soaring food prices over the past year. The first is weather events cutting production n many parts of the world. The second is a large movement of managed funds into commodity-tied financial assets. The third is expectations of long term rising demand due to increasing incomes in emerging economies. The link here will take you to a paper just released by the US Department of Agricultural which examines this link between rising incomes and rising demand for certain food types.
http://www.ers.usda.gov/AmberWaves/March11/Features/IncomeGrowth.htm

Expectations that countries with large agricultural sectors (like us) will be beneficiaries of this rising demand explain why outside of France and the developing and emerging economies there is little interest in developing a set of rules to influence and perhaps cap the global prices of basic food commodities.

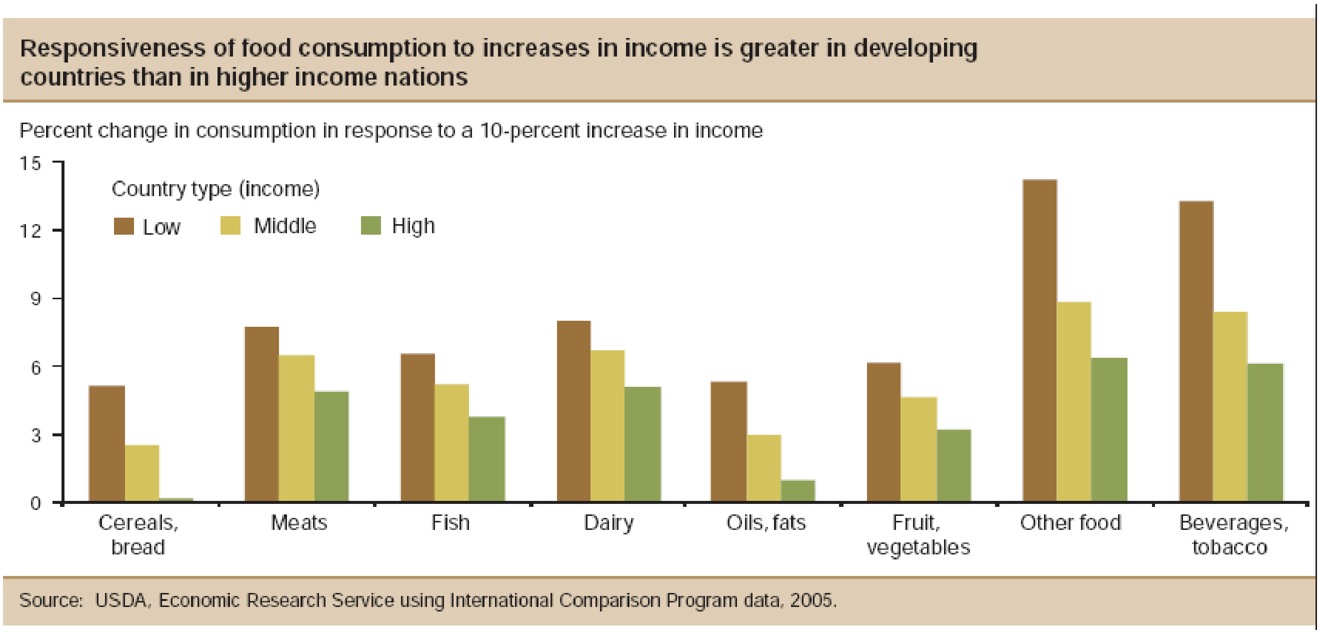
One interesting number in the report is that 40 cents of an extra dollar of income in a developing country will go towards food whereas in a developed economy this marginal propensity to consume food is around 10 cents. In the US the number is 4 cents. The USDA estimate for New Zealand is about 11 cents.

How is an extra one dollar of income allocated across spending categories?



Source: USDA, Economic Research Service using International Comparison Program 2005 data.

This next graphic is very interesting from our point of view. It shows the estimated increase in consumption of different food types as incomes increase. It shows our export base is in the right place as it were with our high receipts from dairy and meat products. Producers of cereals and fruit and vegetables will do less well than these two categories plus the Other Food and beverages & tobacco group. Other Food includes restaurants.



Australian Growth

Australia delivers 24% of our merchandise export receipts, 45% of our tourists, owns almost all our banking sector and 51% of FDI, contains over 600,000 Kiwis and acts as a back-up labour market for most of us. What happens there matters to us so we shall monitor their growth here. The Aussie economy is growing strongly on a mining and infrastructure boom bringing us competitiveness advantages in tourism and manufacturing as the AUD soars but will drain our skilled labour base. There is an opportunity to entice manufacturers here. Jobs growth is averaging over 30,000 a month and at what point does this do four things – spur currently weak retail spending, spur appallingly low house construction, drive wage inflation, and spur higher non-mining business investment to boost productivity. The first three feed-throughs will accelerate monetary policy tightening and lower the NZD/AUD exchange rate further. If job growth accelerates migration outflows from NZ to Australia will soar even more than seems certain over 2011-12.

What's new?

Nothing worth mentioning given the time constraints this week.

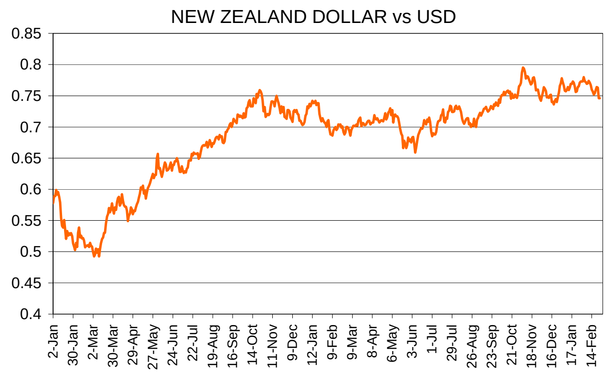
Exchange Rates

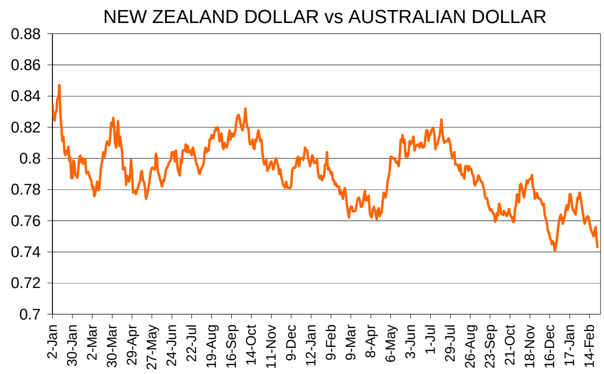
Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.746	0.754	0.757	0.759	0.692	0.690	0.629
NZD/AUD	0.743	0.752	0.765	0.780	0.777	0.772	0.855
NZD/JPY	61.400	63.100	62.600	63.100	62.3	66.999	68.4
NZD/GBP	0.460	0.469	0.473	0.481	0.448	0.426	0.368
NZD/EUR	0.542	0.556	0.557	0.568	0.512	0.495	0.511
NZDCNY	4.906	4.967	4.986	5.040	4.724		4.83
USD/JPY	82.306	83.687	82.695	83.169	90.029	97.100	109.9
USD/GBP	1.622	1.608	1.600	1.577	1.545	1.620	1.705
USD/EUR	1.376	1.356	1.359	1.337	1.352	1.394	1.229
AUD/USD	1.00	1.00	0.99	0.97	0.89	0.894	0.737

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

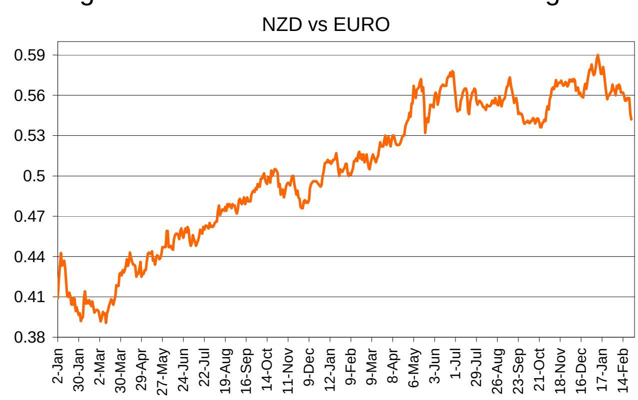
Earthquake Hits Kiwi Dollar

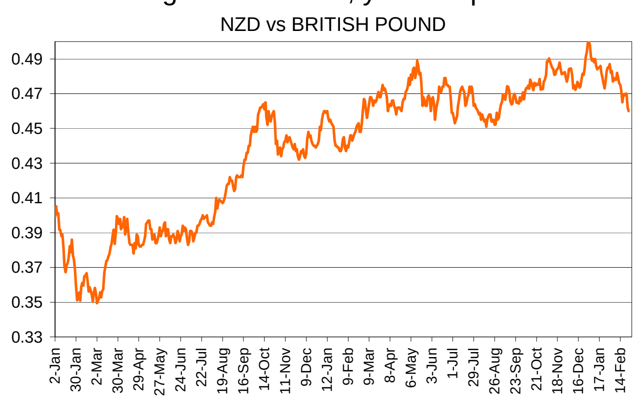
The Kiwi dollar immediately fell about 1.5 US cents after the earthquake but has recovered some of that ground over the past couple of days with mild assistance from Fonterra's large upward revision to its forecast payout for this season. It ends about one cent down from last week at near a two month low against the US dollar. Against the Aussie dollar we have fallen back almost to the 74 cent 19 year low reached back in December.

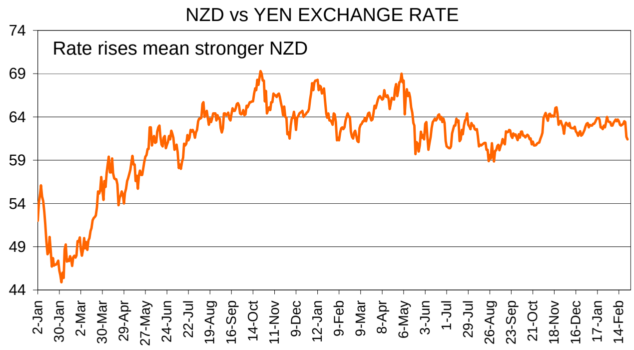




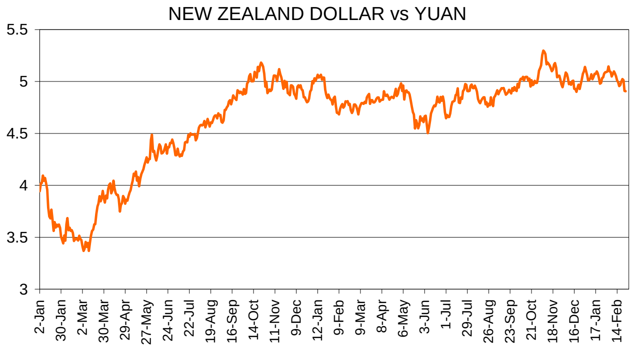
Given the changed outlook for interest rates we now expect the NZD will trade 1.0 – 1.5 cents lower against the greenback than would otherwise have been the case over the next 12-18 months. But it pays to remember that the NZD is a commodity currency and with very strong commodity prices the NZD is likely to remain well supported. It also pays to remember that we are a risky currency and this week's rise in global worries caused by events in Libya has acted to help depress the NZD over the week. The Kiwi dollar has fallen against the other crosses as well easing to a four month low against the euro, yen and pound.

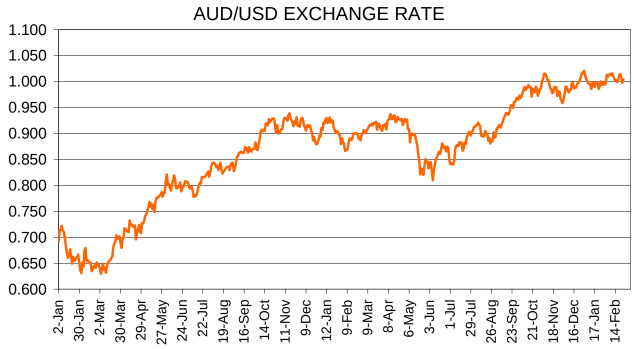






The Euro has generally strengthened over the week against the greenback in response to a steady stream of comments from ECB officials expressing wariness about rising inflation and the need for an eventual monetary policy response. The same goes for the pound where inflation concerns are leading to rising expectations of tightening monetary policy.





ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	2.3%	1.2	4.0	2.0	3.4
GDP growth	Average past 10 years = 2.6%	-0.2	0.1	+1.4	-2.5	1.5
Unemployment rate	Average past 10 years = 4.8%	6.8	6.6	......	7.0	4.6
Jobs growth	Average past 10 years = 1.9%	-0.5	1.1	1.3	-2.4	1.0
Current a/c deficit	Average past 10 years = 5.5% of GDP	3.1	3.0	......	3.2	8.6
Terms of Trade		3.0	2.0	17.9	-14.1	5.8
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.9%.	0.9	0.9	1.9	-0.9	0.4
House Prices	REINZ Stratified Index	0.0	-1.2	-2.3	6.0	-7.9
Net migration gain	Av. gain past 10 years = 13,900	+10,451	13,914yr	......	22,253	3,814
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	2.8	3.9	2.8	-0.0	-0.3
Consumer Conf.	Neutral = 100 Westpac McDermott Miller	108.3	114.1		116.9	101.3
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	22	18	-1.4	36.8	-14.7
Household debt	10 year average growth = 10.3%. RBNZ	1.6	1.8	2.6	2.9	4.3
Dwelling sales	10 year average growth = 2.5%. REINZ	-11.3	-15.2	-24.3	15.2	-23.1
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	6.09	5.84	5.59	5.85	10.49
3 yr fixed hsg rate	10 year average = 7.8%	7.15	7.30	7.95	7.45	9.09

ECONOMIC FORECASTS

Forecasts at Jan. 27 2011	**March Years**					**December Years**				
TO BE UPDATED	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012
GDP - annual average % change										
Private Consumption	-1.1	0.4	1.5	1.5	1.4	-0.3	-0.7	1.9	1.2	1.5
Government Consumption	4.2	0.2	1.9	1.4	0.9	5	0.6	2.1	1.1	1.2
Investment	-7.2	-9.5	4	5.4	6.8	-4.3	-10.1	1.1	4.4	7.5
GNE	-1.4	-3.6	3	3.5	2.5	0.3	-4.9	3	2.9	3.1
Exports	-3.5	4.6	1.8	5.3	2.2	-1.7	1.7	2.8	4.5	2.8
Imports	-4.4	-9.4	6.5	3.6	4.6	2.1	-14.6	7.5	2.9	5
GDP	-1.5	-0.5	1.3	4	1.7	-0.2	-1.7	1.4	3.2	2.3
Inflation – Consumers Price Index	3	2	4.3	2.7	2.6	3.4	2	4	2.6	2.6
Employment	0.7	-0.1	1.5	2.6	0.9	0.9	-2.4	1.3	2.9	0.7
Unemployment Rate %	5.1	6	6.3	5.4	5.6	4.6	7.1	6.8	5.4	5.6
Wages	5.1	1.6	3	3.8	4.6	5	3.1	1.9	3.4	4.6
Currently reasonable exchange rate ASSUMPTIONS										
NZD/USD	0.53	0.7	0.78	0.74	0.64	0.56	0.72	0.75	0.76	0.67
USD/JPY	98	91	85	89	85	91	90	83	88	86
EUR/USD	1.31	1.36	1.35	1.39	1.34	1.34	1.46	1.32	1.38	1.36
NZD/AUD	0.8	0.77	0.76	0.8	0.82	0.83	0.79	0.76	0.8	0.82
NZD/GBP	0.37	0.47	0.49	0.44	0.39	0.37	0.44	0.48	0.46	0.4
NZD/EUR	0.41	0.52	0.57	0.53	0.48	0.41	0.49	0.57	0.55	0.49
NZD/YEN	51.8	63.7	65.9	65.9	54.4	50.9	64.2	62.6	66.9	57.6
TWI	53.8	65.1	69.4	67.3	60.9	55.1	64.7	67.8	68.7	62.8
Official Cash Rate	3	2.5	3	4.75	4.75	5	2.5	3	4.25	5
90 Day Bank Bill Rate	3.24	2.67	3.2	5.12	4.95	5.23	2.78	3.17	4.62	5.2
10 year Govt. Bond	4.77	5.86	5.75	6.5	6.5	4.88	6.02	5.82	6.5	6.5

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 TotalMoney started in 2007