BNZ Weekly Overview

8 July 2010

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

In this week's issue….

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line.

Monthly Survey Time

We are running our monthly survey again, so if you have not already done so in the email used for sending the WO out please cut and paste the link below into your browser, click on it and let us know whether you think the economy will get better or worse over the coming year. Also let us know if possible how things are in your particular industry at the moment – specifying what it is. Many thanks to past respondents.

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

Is the economy really recovering? The answer is yes, but the recovery from recession is not what many had hoped for – which we think means their expectations became out of line with reality and a key reason some (not all) sentiment readings are easing now is that more realism is appearing. But first…

Looking through the data this is what we find.

- The NZ economy is now almost 2% bigger than its smallest size reached during the recession – in the March quarter of 2009.
- The number of people in work increased by 22,000 during the March quarter of this year and the unemployment rate has fallen from a peak of 7.1% to 6%.
- Retail spending in volume terms was 1.7% higher in the March quarter than a year earlier.
- The terms of trade has increased by 11.5% over the past two quarters and some commodity prices have recently been at record highs.
- In the past three months the number of consents issued for the construction of dwellings was 28% ahead of a year ago and 10% ahead for the entire year.
- The number of dwellings sold in the past year was 14% ahead of a year earlier.
- The value of exports in the three months to May was ahead 5% from a year ago or by 23% if we factor in an 18% rise in the trade weighted index.
- Again adjusting for exchange rate changes the value of imports of consumption goods in the three months to May was ahead 13% from a year earlier.
- As we discuss below, car registrations in the June quarter were 35% ahead of a year ago and up 4% from the March quarter seasonally adjusted which itself was ahead 10%.
- Commercial vehicle registrations were ahead 16% in the June quarter form a year earlier and up 11% seasonally adjusted from the March quarter.

- Foreign student numbers were ahead 7% last year (NZ's fifth biggest export earner bringing in around $2.5bn in total.)
- The number of foreign visitors to New Zealand has increased by 3% in the past year and was 1.5% higher in the three months to May compared with a year ago.

So growth is definitely occurring. And so is weakness in some quarters.

- Core retail spending in real seasonally adjusted terms fell 0.5% during the March quarter and monthly numbers to April reveal an underlying negative annualised rate of growth of about 2%.
- The number of dwellings sold in the past three months was down 14% from a year ago and average days taken to sell a dwelling were 4.9 days above average in May from 1.7 days faster than average six months earlier.
- The value of consents issued for the construction of non-residential buildings was down by 28% in the three months to May from a year ago.

The list of stuff going right is easily bigger than stuff going wrong. So why the angst in many quarters? Putting aside the issue that ultimately business survival reflects business skills and not the state of the economy, we can compare where we are in the recovery with the same stage in the past two upturns. The following table has three data columns showing key economic variable growth rates exactly four quarters after the low point for each recession – The June quarter of 1991, and March quarters of 1998 and 2009.

	1991	1998	2009
Low qtr	91Q2	98Q1	09Q1
One year on	92Q2	99Q1	10Q1
GDP	1.4	2.6	1.9
Employment	0.3	0.4	-0.1
Unemployment rate	10.4	7.5	6
Business debt	n/a	6%	-8.4
Household debt	10	8.4	2.8
Retail Sales	1.8*	2.3	1.7
Dwelling Consents	2.2	8.9	32
Non-residential consent $s**	-25.5	-0.3	-5
Exports	10.2	1.6	-1
Commodity Prices in NZDs	12.7	-0.6	15.5
Floating mortgage rate	10.4	6.5	6
Dwelling sales	7.8	23.1	-4.9
Dwelling sales prices	2.2	1	6.4
Car registrations	-1	38	26
Commercial vehicle regos	-8.4	0.8	2.8
Tractor regos	-15	-25	-25

*Estimated **Full year

Key things to note are the following. The 1.9% GDP recovery looks normal, the employment growth rate is slightly less than normal but the unemployment rate at 6% is unusually low. Retail spending growth is about normal, weakness in non-residential construction consents is not too bad, export growth is slightly weaker than normal while commodity price growth is on the high side.

Dwelling sales are weak, price growth better than usual, car registration growth about par, the same for commercial vehicles, and tractor registration weakness is completely normal.

What sticks out the most apart from low unemployment? Interest rates are unusually low and debt growth is very weak. In other words, given that interest rates reflect the interaction of credit supply and demand, and given that rates are so low while credit growth is almost non-existent overall one can say that willingness to borrow is a big difference this time around. You and I are very debt averse. This is a good thing. For sure, the less you and I borrow the less we spend therefore the weaker the retailing and housing upturns. But that is great because the thing our economy needs most of all is less domestically driven growth and more export growth. The data show the export growth is occurring, households won't borrow = an important period of economic balancing may be occurring.

So if we had to answer in very simple terms why this upturn feels so weak it would be that we have reined in our debt demand, and realisation that we can't borrow and spend as we did naturally hits our psyche and dents the long term hopes of certain sectors like retailing. This debt aversion perhaps explains why when compared with the two previous upturns retail spending growth on a quarterly basis has not continued on its merry way but has in fact stalled. Retailing is definitely weak.

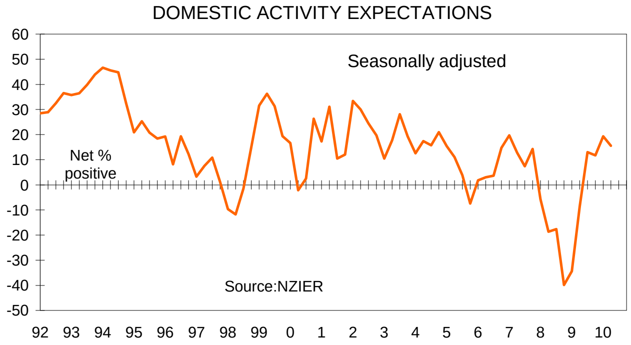
But there are also a few more things in play. Recently we have all been reminded that just because a new Depression has been avoided internationally does not mean the world outlook is safe. China may be growing too fast, the US housing sector still looks shot, and governments in the northern hemisphere have huge debt problems which have to be addressed in a shorter time period than they thought they could get away with.

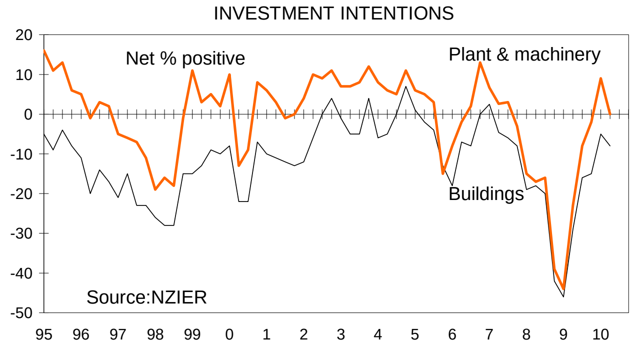
Here are some other thoughts to keep in mind as you peruse the various economic commentaries.

1. There are those who forecast seemingly gleefully that the biggest global economic downturn since 1946 and biggest financial crisis since the 1930s (overseas) would push the NZ unemployment rate to 14%, collapse house prices by 40%, and cause many other very bad things. These forecasters tended to be either left-wing, Muldoonist interventionists, or people who liked or needed publicity in order to get either clicks on their websites or punters buying their various products. They may or may not now feel embarrassed about how bad their forecasts were but the point is they see an opportunity to restore some credibility by claiming they were merely mistaken in terms of timing and their forecast bad outcomes may still happen – though in smaller versions.
2. There is so much uncertainty still swirling around the global economy and financial markets that just about anything remains possible. No wise person would stick a stake in the ground at the moment and say such and such a thing is definitely going to happen.
3. One should treat simple percentage based sentiment surveys with a sack of salt. If they were accurate then the massively high readings of last year would have seen our economy growing faster than 5%, soaring employment, and so on. That is not happening. That means just as we largely ignored the mathematically based positive implications of sentiment soaring over the second half of last year so too are we not blindly interpreting easing sentiment now as a sign that businesses and consumers are about to slash their spending. All that could be happening currently is that sentiment readings are getting back toward levels more commensurate with what the economy is doing.
4. Some sectors in New Zealand have struggled for a long time and apart from the rather rare good year will always produce cash flow problems for participants. Their demands (they are usually exporters) are always for a weaker exchange rate, abandonment of low inflation targeting, often advocacy of exchange rate control, and usually an element of general attack on folk not living in the countryside. Face it. For some sectors the world does not want your stuff like it used to, or they can get it cheaper elsewhere. Change land use.

Speaking of surveys, the excited debate among some of the commentator fraternity this week was stirred by the NZIER's Quarterly Survey of Business Opinion coming out less strong than expected. In particular much was made of the confidence reading falling to a net 18% positive from 22% in the March quarter and 31% in the December quarter, net 1% positive employment intentions, and net 0% investment intentions which were down from 9%. Bad? Think again.

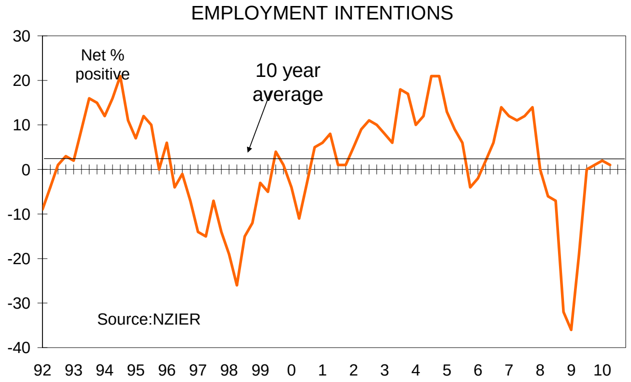
A net 16% of respondents expect their own levels of activity to pick up over the next three months. This reading is above the 11% ten year average and consistent with at least average growth therefore in the domestic economy. This is the reading which really matters and not the headline confidence about the economy number.

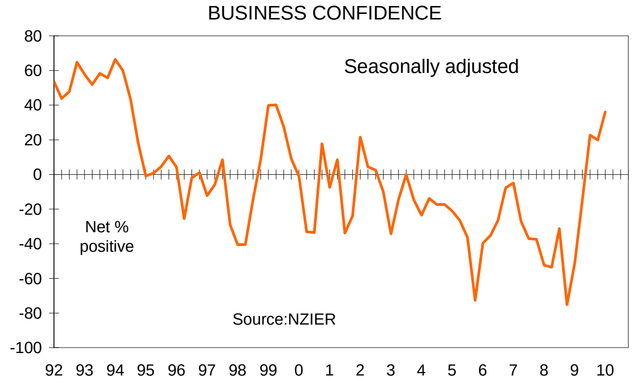




A net 0% said they plan higher spending on plant and machinery. The ten year average is -1% therefore this reading is consistent with average capital spending growth. Even the buildings reading in the second graph above is about average at -8%.

A net 1% said they plan hiring people versus a ten year average of 3.3%. This is slightly below average and suggestive of mild jobs growth.





A net 16% said they expect their profitability to decline versus an average reading of 17%. Average profits ahead then.

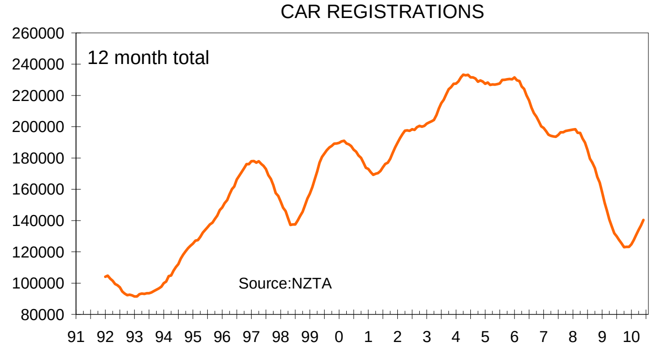
The capacity utilisation rate rose to 90.8% (not a % really but we shall ignore that) from 90.5% in the March quarter and an average of 91.2%. This reading was 88.5% five quarters out from the 1991 recession and 87.1% after the 1991 recession. Spare capacity is less than usual therefore inflation risks are perhaps a tad above normal.

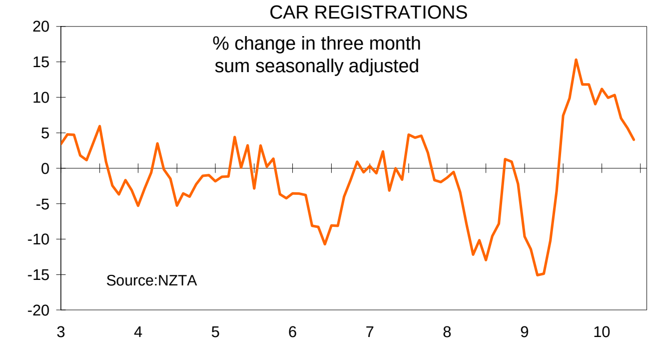
The results are consistent with reasonable economic growth. And one more thing, even though the headline confidence number needs to be treated with caution, over the past ten years a net 23% of respondents in the QSBO have said they have a bad outlook for the economy. If this place really was shot one would not expect the June quarter reading to have been a net 18% expecting improvement. See the second graph of the two just above.

This upturn is wobbly, more businesses will fail (just like some do even when the economy booms), and though the chances of the Reserve Bank pausing in their tightening cycle have definitely grown, the cycle remains upward for the next two or so years.

Vehicle Activity Improving

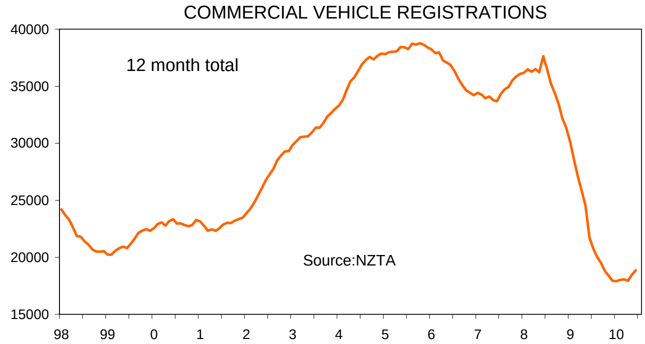
This week we learnt that in June there were 13,188 cars registered around the country. This was a 36% rise from June last year and for the June quarter the gain was 35% on a year ago and 4% seasonally adjusted from the March quarter. This latter result is the one which matters in terms of gauging whether consumers are starting to spend a bit more – and it seems they are. But the improvement is very mild from such a low level of activity and the 4% June quarter growth is in fact a slowdown from 10% seasonally adjusted growth during the March quarter.

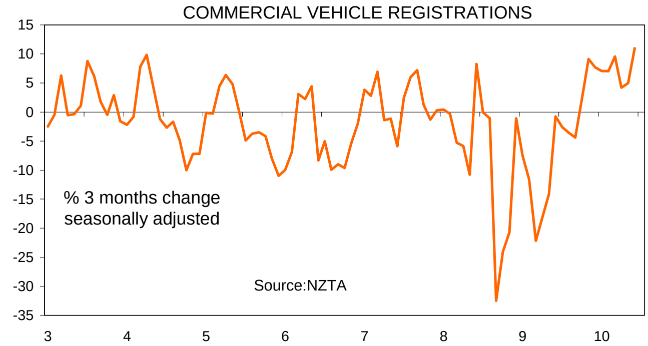




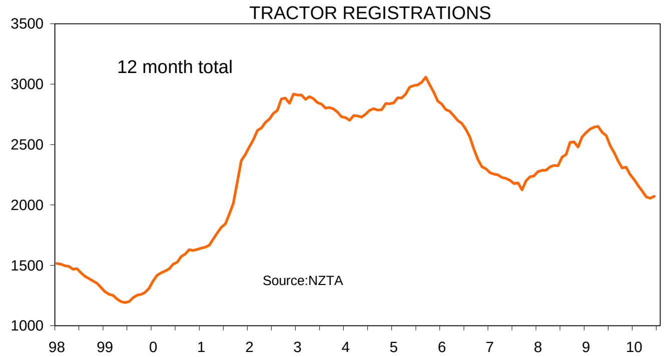
What this means then is that to the extent household spending is growing – and the retail spending numbers suggest in fact no growth is underway – then the upturn is very mild.

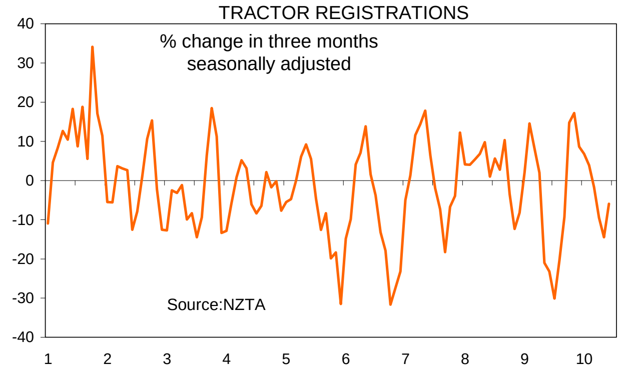
With regard to commercial vehicle registrations there is also an upward movement in activity which suggests some businesses are increasing their levels of investment. There were 2,401 commercial vehicles registered in June which was a 20% rise from a year ago. In rough seasonally adjusted terms June quarter regos were 11% up from the March quarter which follows 10% growth in that earlier quarter. This is positive but one of the very few indicators suggesting businesses have enough confidence in the economy to expand capital spending.





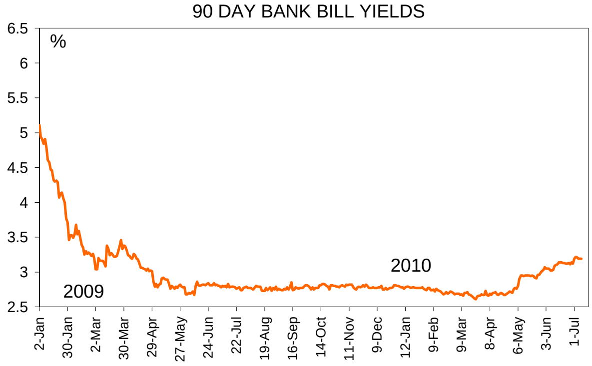
Down on the farm spending on tractors remains weak but is becoming less weak. In June there were 139 tractors registered which was a 13% gain from a year ago. But in seasonally adjusted terms June quarter regos were 6% down from the March quarter. And before anyone writes in yet again with comments suggesting we look at tractor sales, no-one is able or willing to supply a series on nationwide tractor sales on an up to date basis so we shall stick with regos.

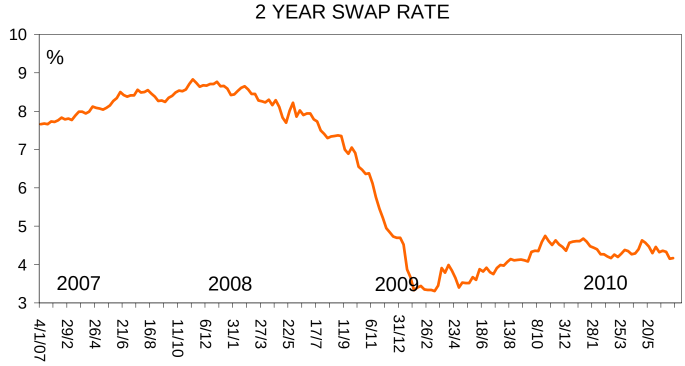




INTEREST RATES

Wholesale interest rates this week are about where they were last week. In other words there is nothing much of interest to write about. Although the NZIER's QSBO was weaker than expected the associated sentiment regarding the RB perhaps pausing in the tightening cycle late this year or early next year had already got itself factored into market sentiment two to three weeks ago and produced falls in swap rates which have caused the falls in bank fixed mortgage rates.





The next review of the official cash rate by the RB occurs on July 29 and we expect there will be another rate rise and this will lead to another round of increases in floating interest rates with bank bill yields also moving higher in anticipation of the next tightening expected on September 16.

Key Forecasts

- Tightening through to mid-2012.

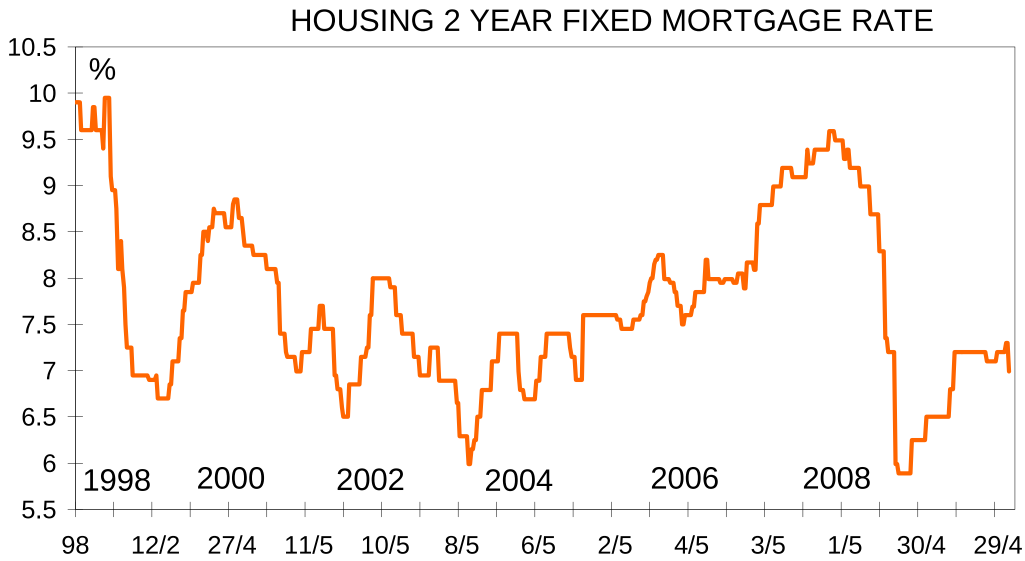
FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.75%	2.75	2.50	2.50	2.50	5.9
90-day bank bill	3.19%	3.19	3.02	2.69	2.80	6.2
1 year swap	3.75%	3.75	3.74	3.54	3.04	6.3
5 year swap	4.90%	4.85	5.10	5.35	5.31	6.6
180-day term depo	4.90%	4.90	4.80	4.90	3.15	6.0
Five year term depo	6.75%	6.75	6.75	6.75	6.00	6.5

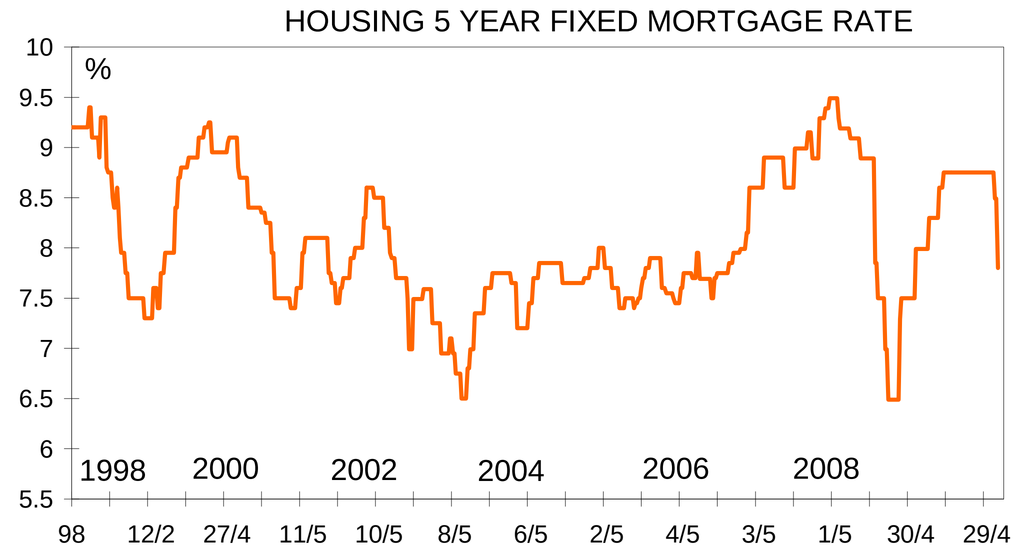
If I Were a Borrower What Would I Do?

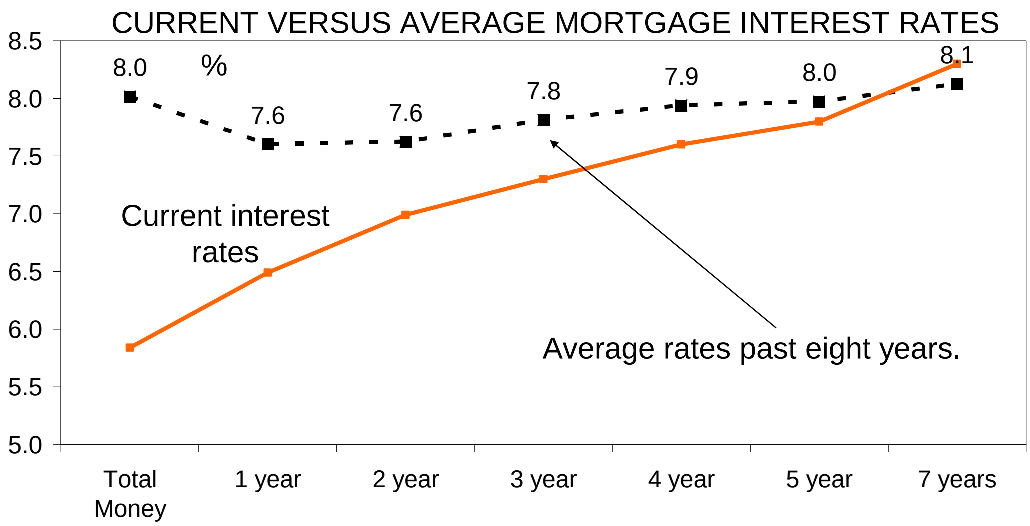
Falling funding costs have led to a round of cuts in fixed rates. If I were a new borrower or had been sitting floating would I now favour fixing? Yes, but there are many caveats which mean for many people floating will remain the preferred option.

Last week we noted retreating expectations about the speed with which monetary policies would be tightened around the world which on the face of it argues for staying at a floating rate as long as possible and taking a punt on the RB pausing in their tightening cycle. But at the same time these changing offshore tightening expectations have reduced medium to long term funding costs and produced lower fixed housing rates here in NZ. So now we need to examine things again to see if we are still slightly in favour of floating or whether one might want to jump into one of the newly discounted 1-3 year fixed rates purely in an opportunistic manner as discussed since the middle of last year.

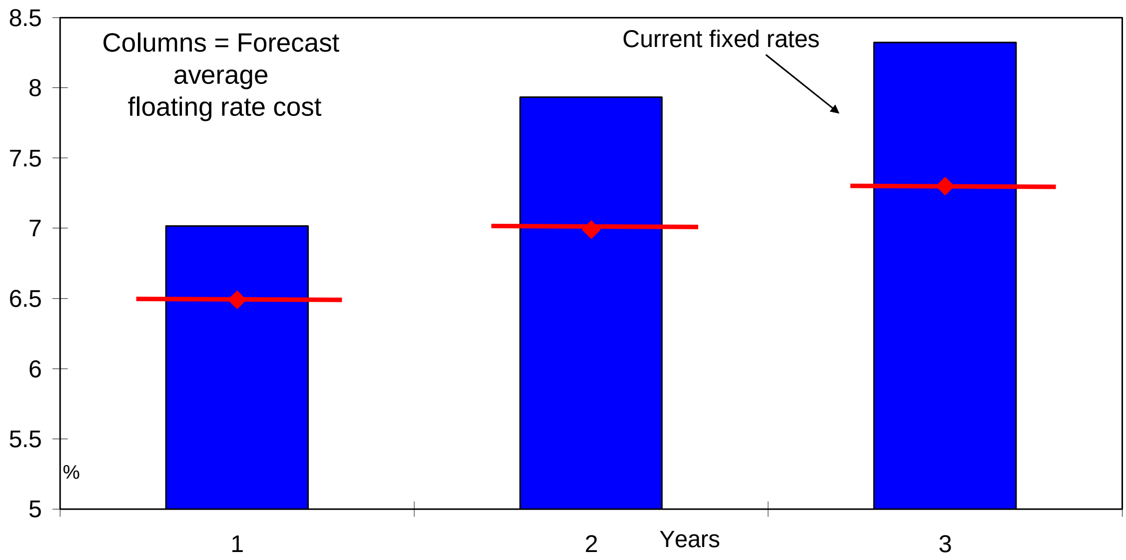
Our two year fixed housing rate has been cut from 7.3% to 6.99%, the three year from 7.75% to 7.3%, the four year rate from 8.19% to 7.6%, and the five year rate from 8.49% to 7.8%. The seven year rate has also fallen from 8.75% to 8.3%. Rates have retreated back to levels of about the September quarter last year.





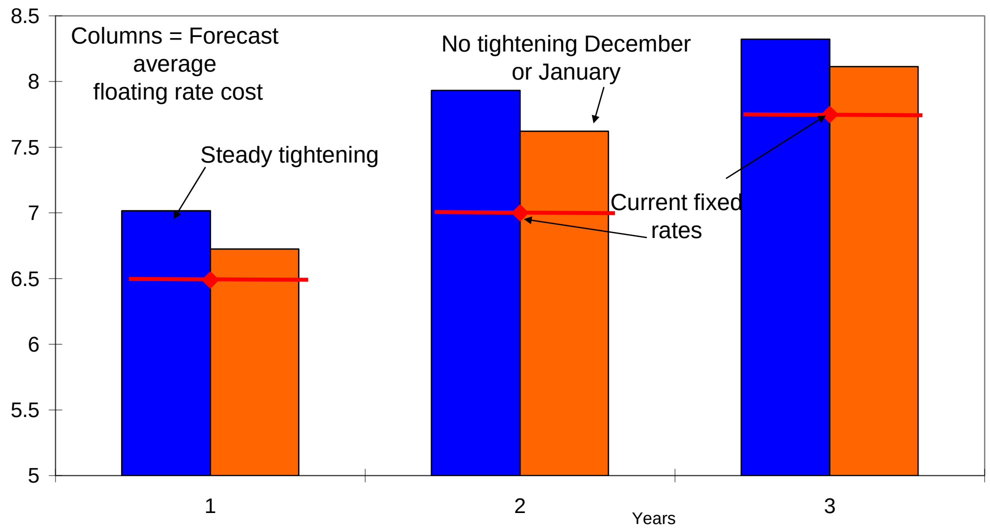


A simple starting point for deciding between staying floating or fixing is to calculate where we think floating rates will average over the relevant time period. The graph below shows as the blue columns what we think the average cost will be if one floats for the coming 1-3 year periods. The red lines show current fixed rates for those periods. A two year fixed rate at 6.99% compares well with floating for two years with an expected average cost of 7.9% using our Total Money rate which sits about 0.2% below the usual floating rates of other banks. That means for other institutions the comparison falls even more in favour of fixing.



Over the next three years we currently forecast that the floating rate will average 8.3% which also compares well with the current three year fixed rate at 7.3%.

But what if the Reserve Bank barrels ahead with official cash rate rises at the end of this month, in September, and again in October, but then pauses over December and January before resuming the tightening in March? How do things change? That is the second scenario which we show as orange bars in the second graph.

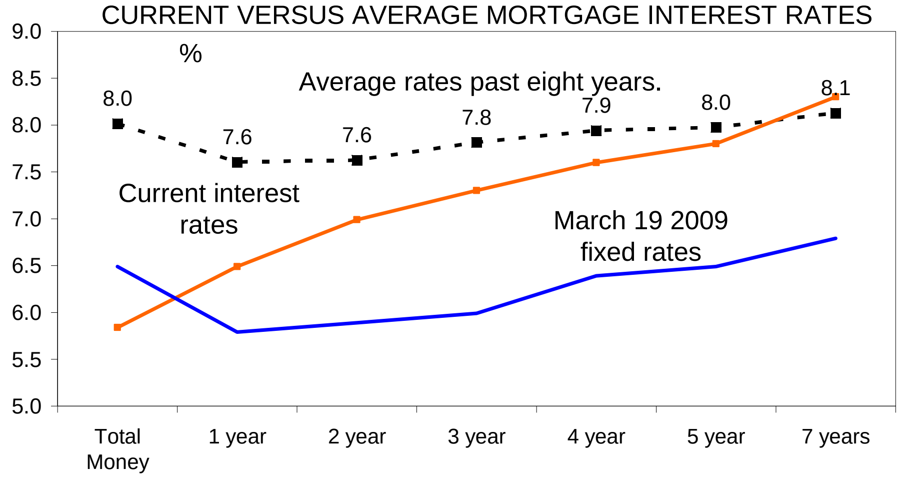


Under this scenario the forecast average floating rate for the next two years drops from 7.9% with steady tightening to 7.6%. The three year average drops from 8.3% to 8.1%. These rates are still reasonably well above the relevant fixed rates by 0.6% and 0.8%. Last week our analysis generated just under a 0.5% benefit in fixing two years versus floating for the steady climb scenario, and just under a 0.2% benefit in fixing if tightening was paused. I opted at a pinch to stay floating. Now I find myself deciding to fix and choosing between two years and three years partly because the RB would need to pause tightening for a full year to make me worse off fixing than floating two or three years. We don't think that scenario is probable.

The thing is of course that there is more to the fixing versus floating decision than just a simple comparison of fixed rates with forecast floating rates. Here are some points to consider.

1. This is not a repeat of the March 2009 situation when we advocated fixing in the March 19 Weekly Overview. Back then people were moving from floating between 6.5% and 7.0% into fixing 6.49% or 6.79%. The majority made savings straight away. This time around jumping into fixed brings an immediate extra cost versus the 5.84% to 6.24% floating rates. In the current still very tight economic environment choosing to boost one's mortgage rate between 1.15% and 1.46% is a big ask.

2. Back then we strongly advocated fixing five or seven years in order to get great long term rate protection at a very low price. This time the five and seven year rates are not complete gimmees.



3. With a fixed rate one cannot get the benefit of offsetting positive balances in transactional accounts against the mortgage principal in order to reduce debt servicing costs – a la the Total Money approach.

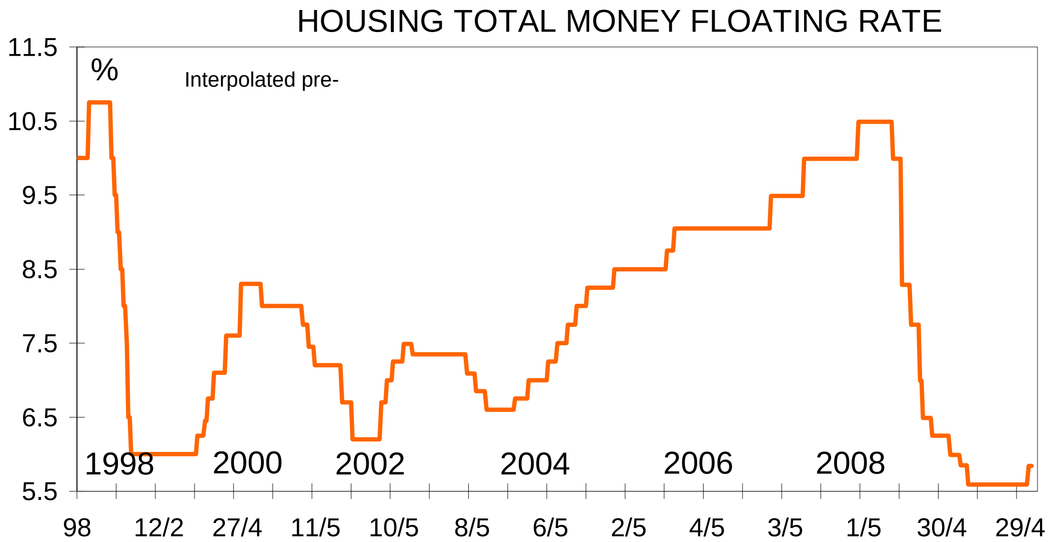
4. The economy is improving (coughing a bit for sure but getting healthier), and that means many people will experience positive income surprises over the next couple of years. Such surprises can be used to reduce floating principal cost-free but break costs may apply for paying off fixed rate debt early (check the documentation).

5. If the global situation gets worse then we could see even further falls in fixed rates. One might want to hold out for such rates. We don't have a view that fixed rates will fall further but in an environment where credit demand from households is so very low one cannot rule out rate discounting.

6. If globally things do get worse then maybe the RB pauses more than two times over the next two years.

7. Apart from just pausing, what if there really is a structural change in household debt demand occurring in New Zealand? In that case the official cash rate is unlikely to have to be pushed by the RB to the 6% level we have used so floating mortgage rates may not peak at just over 9%.

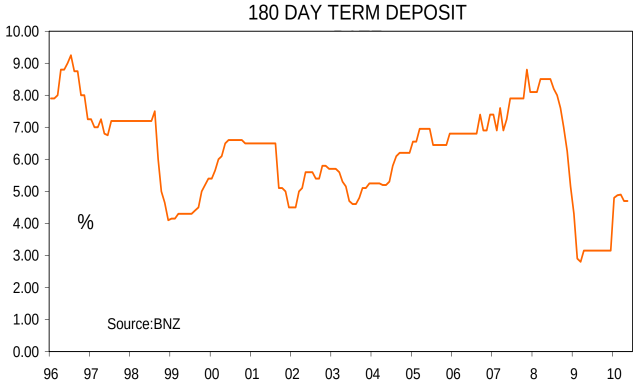
So the decision to fix this time around is not as clear cut as back on March 19 last year. And we must remember of course that although those who did fix five or seven years in March are massively better off compared with taking those terms now, they have paid more than if they opted to stay floating. Since the start of April last year the Total Money floating rate has averaged 5.8% which is 0.7% less than the five year rate back in March 2009 and 1% less than the seven year rate. But then again, our call to fix was not based upon a view of what the floating rate was going to do but on when we figured fixed rates were at their cyclical lows. This time around my decision this week to fix is not based upon a view of where fixed rates go but where floating rates go over the next 2-3 year periods taking into account the massive uncertainties which exist in economies and financial markets.

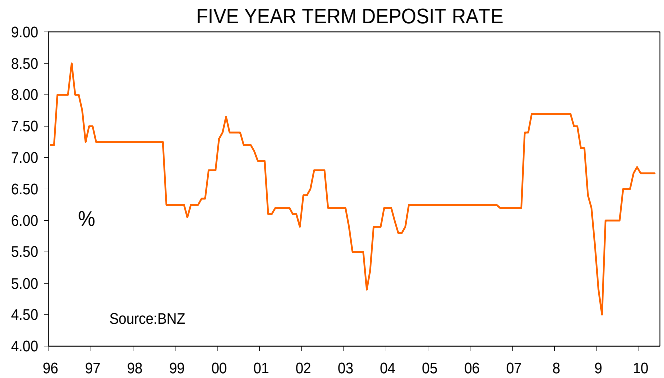


Would I choose two years at 6.99% or three years at 7.3%? If our forecasts are right the Total Money rate will exceed 7% at the end of January next year and 7.3% by the end of March. I'd actually take the short term cash flow pain and fix three years, but I'd expect most people who do switch will opt for the two year rate as the jump from floating is less painful to immediate cash flows.

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

Given the increased risk that the Reserve Bank pause in their tightening cycle I would be inclined to place some of my money into a longer term in order to improve my return. But the bulk I would still keep short looking to ride the rate cycle upward.

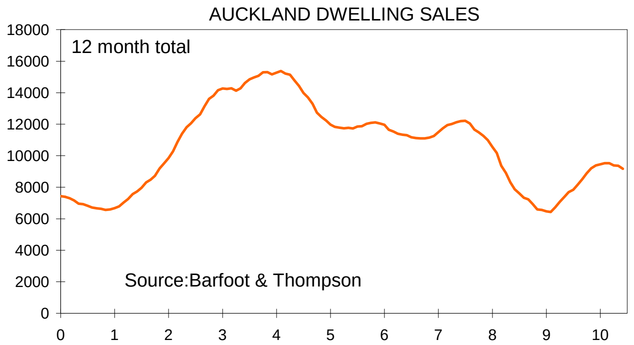


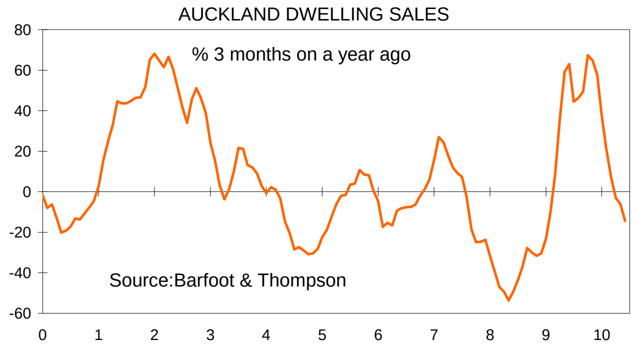


HOUSING MARKET UPDATE

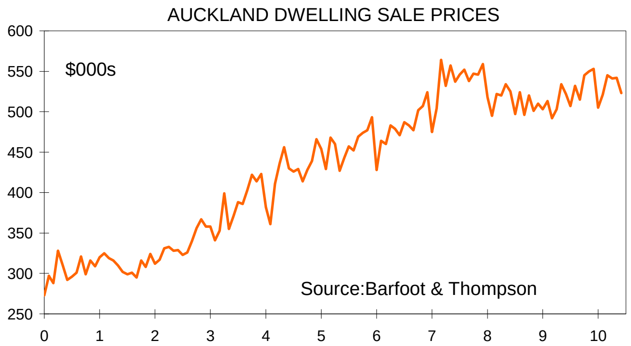
Housing Market Sluggish

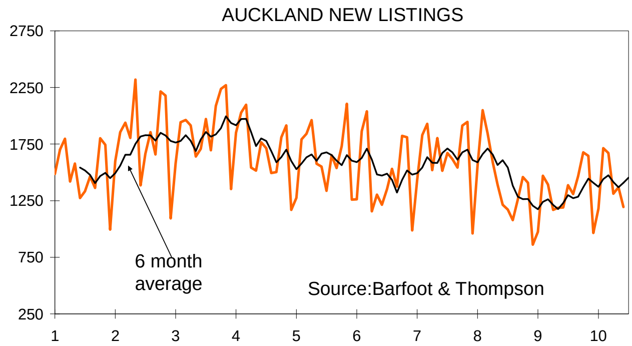
The monthly Auckland housing market data from Barfoot and Thompson came in as much of a muchness telling us nothing too astounding. In June they sold 665 dwellings which was a 23% fall from a year ago when things were bouncing back from very low levels. In seasonally adjusted terms sales fell about 10% in the month and were off about 2% for the entire June quarter. So activity levels are quite muted and weakened further in June possibly because of the Budget news putting some buyers off.





The median dwelling sale price fell to $523,000 from $542,000 but this measure moves around quite violently and usually falls in June so we read little into the monthly change. But for the June quarter the average sale price was up 2.2% from the March quarter and 3% from a year ago. We'd call that as largely showing prices being flat.





Perhaps the interesting indicator for June was a rather large fall in the number of new listings to 1,194 from 1,369 in May. This is the lowest number of new listings since this series started in 2001 and it says to us that the Budget depreciation changes have not produced a flood of properties onto the market from disgruntled investors. Realistically though the level of new listings is not out of line with recent months – as shown in the graph above.

All up the data show a market still largely in a holding pattern – no urgent sellers, no urgent buyers.

Are You Seeing Something We Are Not?

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

Key Forecasts

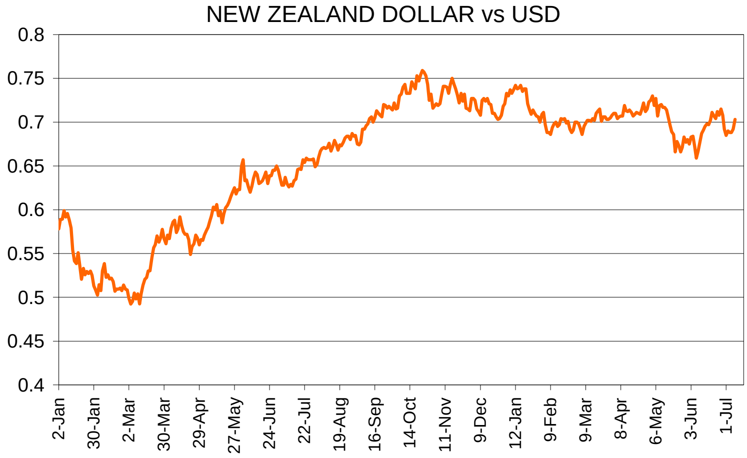
- Dwelling consent numbers to recover now with potentially good activity from late-2010.
- House prices edging higher after tax change effects wend their way through.

Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.703	0.685	0.659	0.707	0.63	0.610	0.592
NZD/AUD	0.806	0.815	0.814	0.763	0.797	0.770	0.856
NZD/JPY	62.10	60.60	60.20	66.00	59.9	61.366	66.8
NZD/GBP	0.463	0.459	0.455	0.464	0.391	0.380	0.345
NZD/EUR	0.556	0.560	0.553	0.530	0.453	0.445	0.51
USD/JPY	88.34	88.46	91.35	93.35	95.079	100.600	113.9
USD/GBP	1.518	1.492	1.448	1.524	1.611	1.607	1.709
USD/EUR	1.264	1.223	1.192	1.334	1.391	1.372	1.156
AUD/USD	0.872	0.840	0.810	0.927	0.790	0.792	0.69

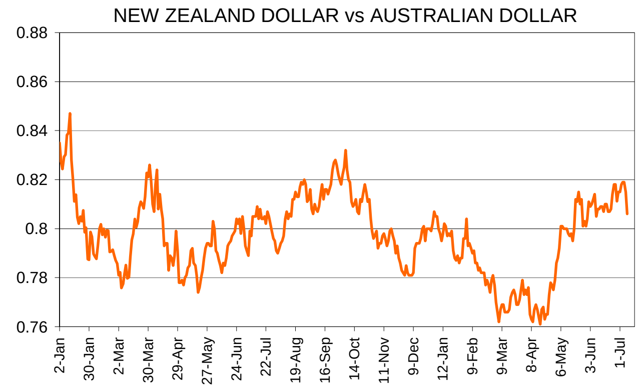
NZD Up A bit

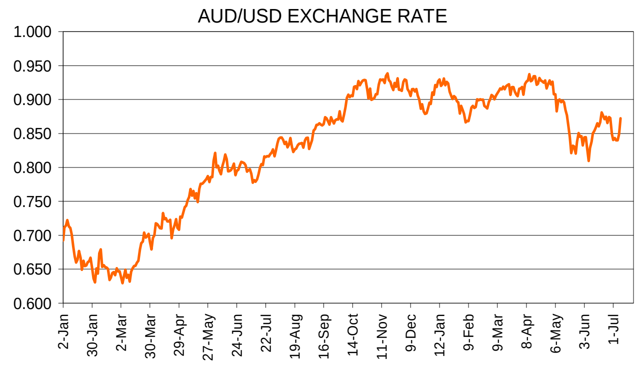
The Kiwi dollar this afternoon is buying just over US 70 cents compared with 68.5 cents last week. Is this move upward a really significant thing? No. The graph here shows the currency well within its USD trading range in place since September last year. The high point was reached when euphoria about avoidance of Depression seemed to be greatest, and the low point was reached when worries about Europe were the greatest. So we sit in the middle of the ten month trading range with news this week coming in weaker than expected for Fonterra's dairy prices and the NZIER survey failing to offset a lift in risk tolerance globally.



Is there anything quite large sitting in front of us which we think will cause a breakout of the NZD from this 66-76 cent range? No. Upside pressure comes from relative interest rate gains, good commodity prices, and being in a good part of the planet at the moment given worries about northern hemisphere economies. Downside pressure comes from worries about those economies spurring sometimes shattering bursts of global heebie jeebies.

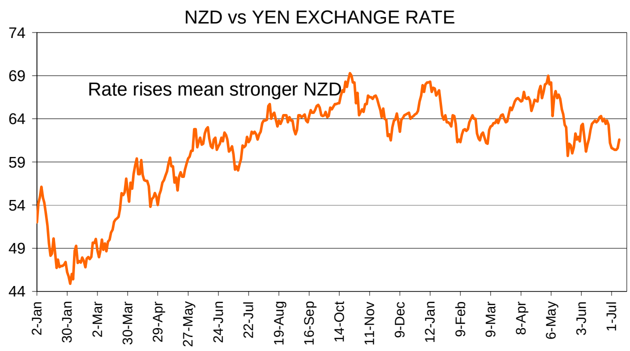
Against the Australian dollar the NZD today is down from last week near 80.6 cents. That means our rise against the USD of almost two cents had nothing specific to do with our economy, it was about the greenback weakening. As noted above the NZD as moved in a ten cent range against the USD since September last year. We have moved in a seven cent range against the AUD from 76 cents to 83 with the most recent change being a sharp lift in April caused not by the NZD rising but the AUD falling from US 93 cents to 81 cents on the back of worries about commodity prices falling because of Europe's troubles and China perhaps making a hash of slowing growth to combat inflationary pressures. In addition there were concerns about the new mining tax which have now largely been taken care of with the dumping of the Aussie Prime Minister. Wrong hair colour, the red of the new one is more akin to what the mining country looks like. Having a hairdresser for a partner seems more valuable than speaking Mandarin.

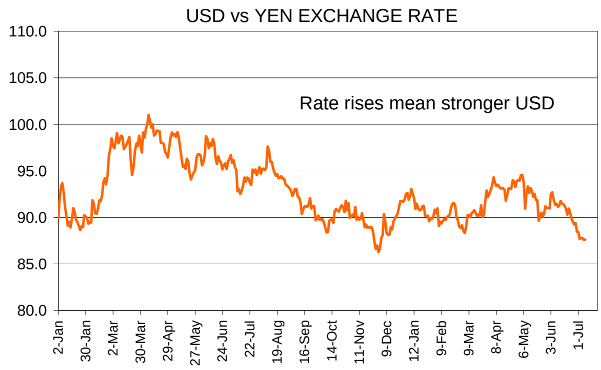




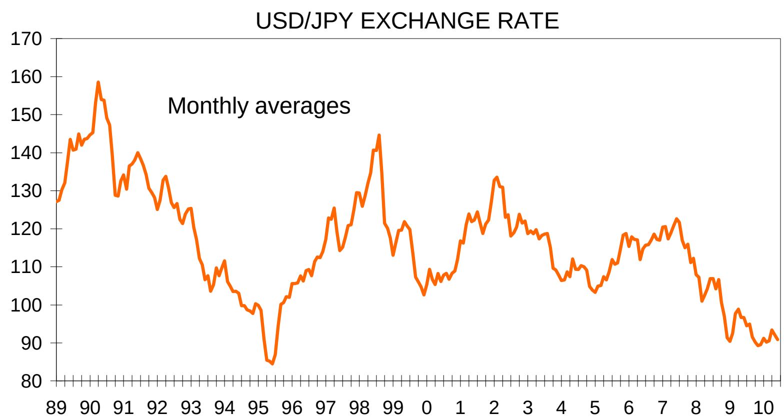
In Australia this week most attention was initially on the monthly review of monetary policy by the RBA – with the cash rate left unchanged as expected at the 4.5% level it was taken to last month. But this afternoon yet again monthly jobs data turned out to be hugely stronger than expected so expectations of further monetary policy tightening in the short term have increased and the Aussie dollar has jumped to US87.2 cents from 84.9 cents yesterday and 84 cents a week ago.

Against the Japanese Yen the NZD has been moving in a range from 60 – 69 for almost a year and was at 62.1 Yen this afternoon. I recall speaking at the annual Japan NZ Business Council meeting in Tokyo last year and forecasting a rate of 80 within a year with that optimism driven by the NZD at that time sitting near 76 cents. Thankfully I don't believe exchange rates can be even remotely accurately predicted so have no problem with being wrong – so far.

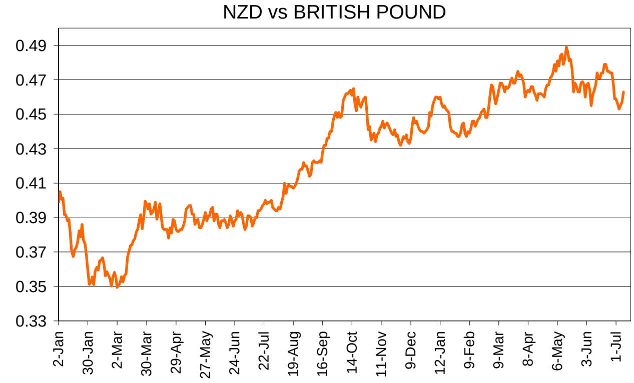


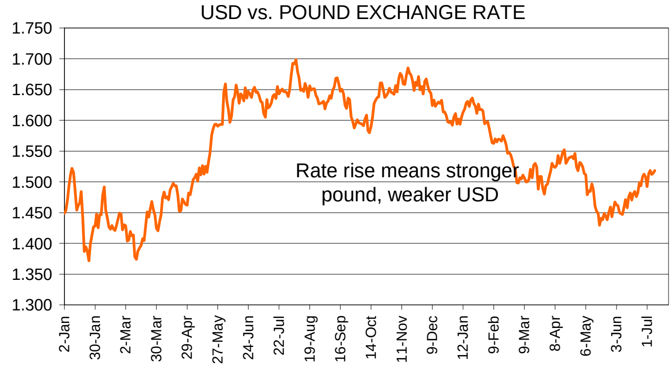


The Yen against the greenback however is sitting below 88 and as the long term graph just below shows this level is exceptionally strong for the Yen. There has been growing discussion about the Japanese authorities perhaps doing something to stem the Yen's strength, but the absence of anything yesterday has added to the Yen's continuing gains. The whip back if and when they do express concern about the Yen's gains could be severe, especially if accompanied by a reduction in worries about Europe leading to reduced demand for what is a currently favoured "safe-haven" currency.

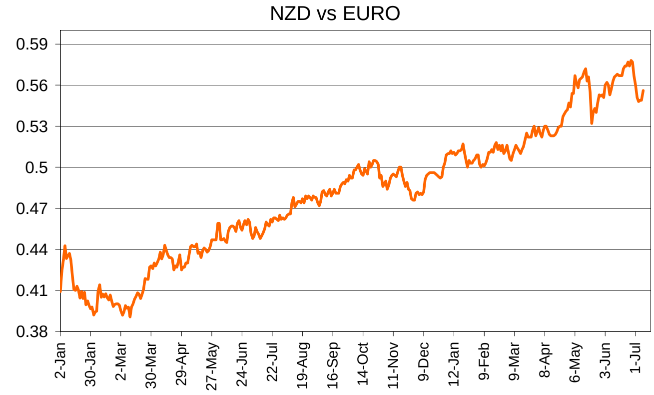


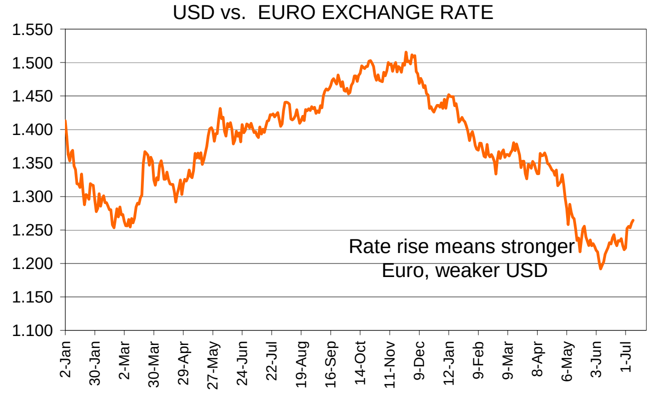
Against the British pound the NZD has ended the afternoon near 46.3 pence from 45.9 last week – so nothing interesting in other words. The NZD has been broadly drifting up against the pound since March last year when the rate was 35 pence, with the moves upward since February caused by worries about the fiscal situation in Europe and the UK. Those worries remain but unless they worsen substantially we might have seen the peak for the NZD/GBP exchange rate.





Against the Euro the NZD is now near 55.6 centimes from 56 last week and it is not at all clear yet that we have peaked against a currency which some analysts still feel could shed members in the near future.





For the record, the monthly non-farm payrolls report in the United States released on Friday night was a bit of a mixed bag. Although job numbers fell 125,000 in June there was actually a rise of over 83,000 in private sector jobs after stripping out 225,000 job losses related to the ending of temporary census hiring. This was the fifth month in a row of private sector jobs growth but the improvement still remains quite mediocre and insufficient to wipe away increasing discussion about the US economy having a double-dip recession. Our view is that they will not but prospects for growth in the near future certainly do not yet seem all that great with a small fall in average hourly earnings reported for June – the first time this series measuring basic income growth has ever fallen.

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

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

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.4%	-0.2	2.0	3.0	3.4
GDP growth	Average past 10 years = 2.6%	+0.6	0.9	-0.4	-1.4	2.8
Unemployment rate	Average past 10 years = 4.7%	6.0	7.1	......	5.1	3.9
Jobs growth	Average past 10 years = 2.0%	1.0	0.0	-0.1	0.7	-0.3
Current a/c deficit	Average past 10 years = 5.9% of GDP	2.4	2.9	......	7.9	7.8
Terms of Trade		5.8	-1.6	-8.2	1.8	8.8
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.9%.	1.3	0.7	1.3	-0.6	2.8
House Prices	REINZ Stratified Index	0.7	-1.2	5.1	-5.0	-1.9
Net migration gain	Av. gain past 10 years = 13,900	+17,967	21,618yr	......	11,202	4,938
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	3.1	2.4	3.1	-2.6	1.3
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 3%. Colmar survey	46	36	57	3	-34
Business activity exps	10 year average = 19%. NBNZ	39	45	37	8	-4
Household debt	10 year average growth = 10.3%. RBNZ	2.5	2.7	2.7	2.6	9.4
Dwelling sales	10 year average growth = 2.5%. REINZ	-17.2	-16.2	41.5	43.9	-45.5
Floating Mort. Rate	(Total Money) 10 year average = 7.9%*	5.84	5.59	5.99	5.99	10.49
3 yr fixed hsg rate	10 year average = 7.8%	7.30	7.75	7.95	6.99	9.09

ECONOMIC FORECASTS

Forecasts at July 1 2010	**March Years**					**December Years**				
	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.2	-1.1	0.6	3	2.1	3.9	-0.3	-0.5	2.9	2.3
Government Consumption	4.9	4.2	1.4	2.8	1.7	4.4	4.8	1.6	3.1	1.7
Investment	5.5	-7.2	-9.5	6.1	8.6	5.5	-3.6	-12	3.1	9.3
GNE	4.7	-1.5	-3.2	5.7	3.2	4.7	0.4	-5	5.3	3.6
Exports	3.1	-3.4	2.9	1	5.7	3.8	-1.4	0	1.9	4.8
Imports	10	-4.7	-9.6	8.7	5.2	8.9	1.9	-14.9	9	5.1
GDP	2.9	-1.5	-0.4	3.3	3.3	2.8	-0.2	-1.6	2.9	3.4
Inflation – Consumers Price Index	3.4	3	2	4.6	2.8	3.2	3.4	2	4.3	2.7
Employment	-0.2	0.7	-0.1	2.6	2.8	2.3	1	-2.4	2.7	3.2
Unemployment Rate %	3.9	5.1	6	6.1	5.4	3.5	4.6	7.1	6.3	5.5
Wages	4.3	5.1	1.6	2	3.6	4	5	3.1	1	3.2
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.7	0.72	0.66	0.77	0.56	0.72	0.73	0.68
USD/JPY	101	98	91	99	105	112	91	90	97	103
EUR/USD	1.55	1.31	1.36	1.21	1.25	1.46	1.34	1.46	1.21	1.24
NZD/AUD	0.87	0.8	0.77	0.83	0.84	0.88	0.83	0.79	0.82	0.83
NZD/GBP	0.4	0.37	0.47	0.47	0.4	0.38	0.37	0.44	0.48	0.42
NZD/EUR	0.52	0.41	0.52	0.6	0.53	0.53	0.41	0.49	0.6	0.54
NZD/YEN	81.1	51.8	63.7	71.3	69.3	86.3	50.9	64.2	70.8	69.5
TWI	71.6	53.8	65.1	70.9	66.3	71.6	55.1	64.7	71.4	67.4
Official Cash Rate	8.25	3	2.5	4.25	6	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.67	4.57	6.15	8.9	5.23	2.78	4.12	6.07
10 year Govt. Bond	6.36	4.77	5.86	6.3	7	6.4	4.88	6.02	6	6.8

All actual data excluding interest & exchange rates sourced from Statistics NZ.

The BNZ Weekly Overview is prepared by Tony Alexander, Chief Economist at the Bank of New Zealand. Ph 04 474-6744.

*extrapolated back in time as Total Money started in 2007