BNZ Weekly Overview

10 June 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.

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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

This week we are running our monthly confidence survey once again. We love the results we get from this, not just because they give three weeks leading insight into what another good monthly survey will reveal, but because of the coal face comments people make about their sectors. So if you have not already done so in the email used for sending out the WO please click on the URL below, let us know whether you think the economy will get better or worse over the coming year, and pen a sentence on how things are in your industry at the moment. Only those who say what their industry is have a chance of seeing their comments in print however.

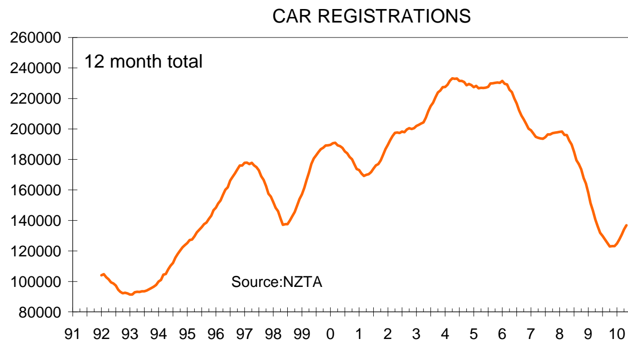
http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur

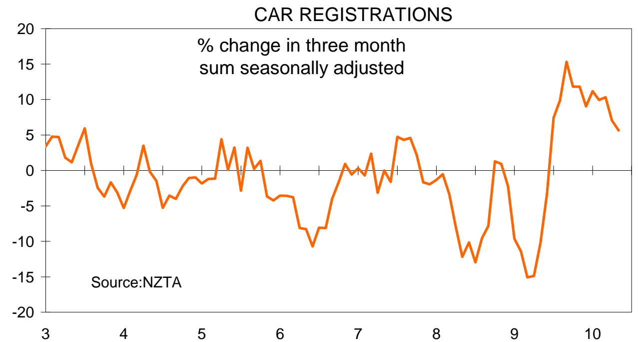
The big piece of domestic news this week was the Reserve Bank's first interest rate rise in three years taking the official cash rate this morning from 2.5% to 2.75%. They have signalled further rate rises taking the rate to 5.75% - 6% by early 2012 which is in line with our own view – a view we have held since about a year ago. The comment we have been making since about this time last year is that borrowers should budget for a roughly 3% increase in their floating rate borrowing costs between mid-2010 and late-2011. There is a risk rates rise a tad slower than that because of the wobbly situation offshore and because of the risk that although some sectors of the NZ economy are doing well the large household sector may react strongly to rising interest rates by keeping spending as weak going forward as has been the case recently. If they do that would be bad for retailing but great for NZ's fundamental problem of excessive household borrowing.

We do in fact expect reduced debt demand from here on than in the past at any given level of interest rate but nonetheless do anticipate firming of retail spending toward the end of the year as the labour market puts in a potentially better performance than many are currently expecting.

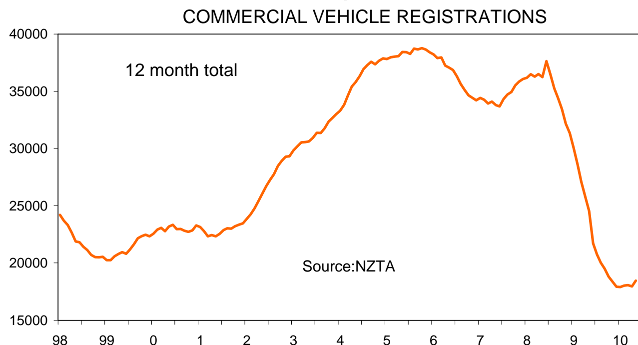
All up the announcement this morning from the RB was of zero surprise – though the markets had only priced in around an 85% probability of a rise. So wholesale interest rates have increased a tad. We give a 75% probability to the cash rate rising again at the next six weekly review due on July 29.

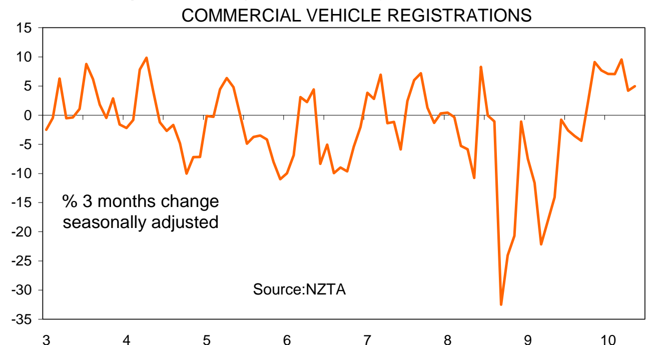
With regard to economic data releases over the past week we have seen some numbers which show growth occurring but nothing overly fantastic. For example, the number of cars registered around the country in May was ahead 31% from a year ago, up 34% in the May quarter from a year ago, and up 6% seasonally adjusted in the quarter from the three months to February. People are spending more on cars and there will be an upward bias to the underlying strength in this area's growth rate because of catch-up spending especially by businesses who earlier lengthened vehicle lease terms.



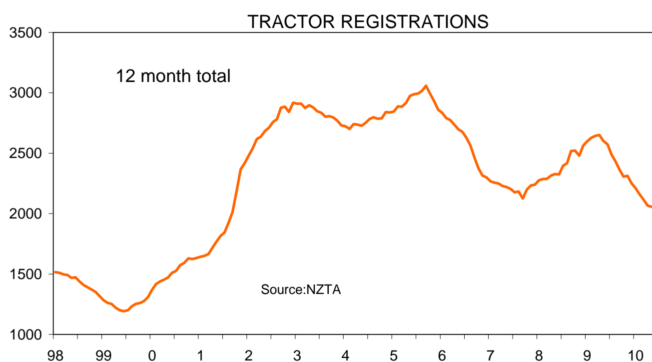


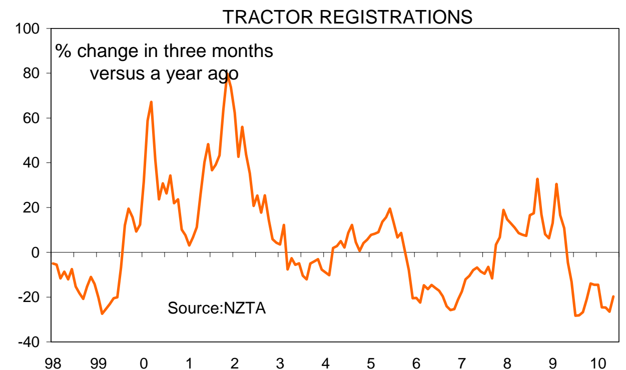
With regard to the registrations of commercial vehicles we saw growth of 34% in May from a year ago, 9% in the May quarter from a year earlier, and 5% growth seasonally adjusted for the quarter. There is an upturn in this early measure of business investment (thank goodness) which leaves us hopeful that other areas of business capital spending like plant and machinery will join in not too long from now. For non-residential construction however we expect weak numbers for a few more quarters. (See below)



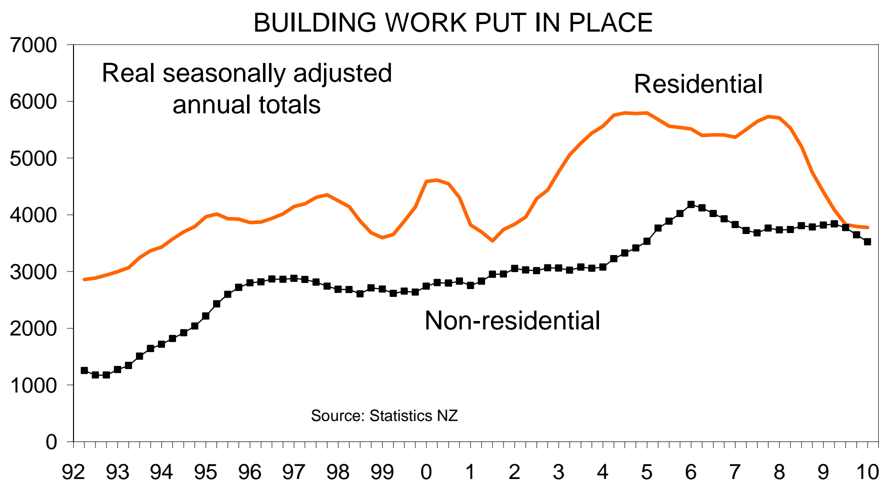


And finally with regard to tractors, the number registered in May was down 7% from a year ago, for the May quarter down 20% from a year ago, and for the three months to May down 14% seasonally adjusted. Farmers are cutting back spending in this area and while the higher dairy payout is likely to stem the rot very soon an upturn is probably still further out given the focus in the farming sector on getting debt down. That focus on getting debt down helps explains why buyers in NZ are so few and far between for some large dairy blocks on the market. Next week I shall be standing up for hours on end from Wednesday to Friday speaking with farmers at the National Farm Fieldays so should get a better feel for how they are feeling at the moment.





We learnt also that during the March quarter the volume of residential construction improved by 2% in seasonally adjusted terms with 14% shrinkage recorded for the entire year to March. Activity fell 23% the previous year and as we have long highlighted this sharp reduction in house construction has left the housing market in a position of shortage – as we notice a couple of other forecasters have reported this week. With regard to non-residential construction there was a fall in activity of 0.8% in the quarter, 7.7% for the past year and a rise of 2.2% the year before. This sector tends to lag the economic cycle and we don't expect a strengthening of activity until some point potentially late in 2011 – especially as there has been a structural reduction in the availability of finance for large projects.



The key point to note with regard to the official cash rate going up is that the intention of the Reserve bank is not to cause you and I to rein in our excessive borrowing and spending. We are not doing that. The RB's intention is simply to take the cash rate back up from a record low level put in place in case the world economy was slipping into a depression state early last not. It did not, is not, and although there are plenty of wobbles out there the recoveries in the US and strong growth through Asia are expected o ensure average to probably slightly above average growth in our trading partners next year.

What the RB is aiming to do is start getting monetary policy into a position to fight inflation expected to be a threat 2-3 years from now. But significantly their interest will be in providing a cash rate buffer against future economic shocks. That is, at some stage the world economy if not our own will be ht by something one might speculate on at the moment but which one simply cannot predict the timing or magnitude of. This is what occupies the minds of central banks overseas. They want to get their cash rates up in case they need to cut them in an emergency scenario.

This is one of the motivations (not the key one) behind European governments and eventually the US government having to get their deficits down. There is currently no scope at all for fiscal policy in major foreign economies to react to a new shock scenario. That is why at the moment from a pure risk assessment point of view the global economy is in a more precarious state than two years ago. With the two key tools for fighting a crisis all used up – low interest rates and high budget deficits – if the crap hits the fan again in the near future before the buffers are rebuilt then the downturn would be significant.

Remember, a major downturn is not what we expect – but as they said in Monty Python, who expects the Spanish Inquisition?

A Few Comments On Hong Kong

On the way back from Europe last week I stopped off for a few days in Hong Kong and while there met a number of businesspeople with interests in New Zealand and gave a (very short) talk at the annual NZ Chamber of Commerce barbeque – many thanks for the invitation. On this visit I was kindly driven around

the New Territories and got to see the amazing infrastructure over wider Hong Kong and in the near distance the southern Chinese city of Shenzhen which apparently essentially did not exist three decades ago. It now looks somewhat like Manhattan.

In no particular order of importance, and primarily because I have received feedback from people saying they liked my previous observations of foreign climes here are some new ones on Hong Kong – a place I love to visit and intend going to again.

Just over 50% of people live in government provided housing where eligibility is assessed at the time one applies – then not assessed again ever after that. That means there are plenty of people who live in their small flat but own three properties elsewhere.

The old buildings are very dirty on the outside because the units are strata owned and no-one is willing to pay the body corporate fees needed to keep up the outside of the building. Maybe that helps explain why the Urban Development Authority has a programme of pulling down as many of the over 150 buildings each year which reach 50 years of age and are considered in need of replacement. The trouble with this policy is it can destroy existing neighbourhoods especially as it is not always the old occupants who can afford to move into the replacement building. The new apartments often are bought by mainland Chinese and not always occupied. They may lease them out but many choose not to as they are simply looking for capital gain. The value of one's property is assessed on market rents if untenanted, but the rent one charges if it is rented out. But because leases are usually for two years and at times rents can rise quite rapidly, if one wants to sell after 18 months the price assessed by valuers may be well below the actual market price.

There are three tunnels under HK Harbour with one privately owned and charging about twice the toll of the other two which are government owned – leading to traffic jams on the two latter ones and under-use of the former.

There are some areas in Hong Kong defined as villages where entitlement to land use goes down the male line and involves use of 700 square feet. Males usually build a three story set of apartments which they don't live in as they shifted elsewhere or to another country long ago. But they rent them out for a tidy profit.

The government develops cities in the New Territories to house the huge population. This involves finding a likely looking place, sorting out the public facilities needed like a fire station, hospital, shops etc., then building these plus a large number of multi-story apartment blocks. Seen from a distance these appearances of rectangular groupings in an otherwise long distance-viewed bush environment are quite fascinating.

The rule of development in Hong Kong and more so China is build it and they will come. Start with a transport infrastructure involving trains and motorways, then sell the land to developers who put up housing and office buildings, then wait for the occupants to show up. While the Western press love to pooh-pooh the Chinese development story by saying too many buildings are going up and a crash looms – they always end up being filled it seems. There is an issue however of local governments getting a bit too loose with their lending to assist developments and this could lead to some large debt restructuring for those authorities in the context of a wider pulling back from the excessively loose lending conditions of last year created as China's contribution (a very successful one) to fighting the global Depression scenario.

The mainland city of Shenzhen just over the boundary with Hong Kong's New Territories looks like a large American city full of skyscrapers seen from a short distance – but which did not exist just 30 years ago.
The motorway out of Shenzhen contains a never-ending string of trucks with containers taking manufactured goods to the HK Port.

New Zealand cannot supply enough sheepmeat to meet the demand coming out of China. And they don't want what we think of as value-added nicely chopped up animals. They want the whole carcase which they will then process.

There is massive demand for New Zealand's expertise in dairying and a desire to link with that expertise partly for customer branding purposes given the denting of China's milk reputation from the milk tainting problems of two years ago.

There are folk who would buy NZ's dairy and coal assets if they were considered openly available for sale.

Some investors like putting money into developments in NZ because they are considered safe. That is, the returns will be less than in China, but a British-based rule of law applies that does not exist in China. When push comes to shove one can find oneself unwillingly dumped from even existing equity participation in an asset should the returns prove attractive enough to excite the other asset investors to think in terms of dividing those returns amongst a smaller number of people.

Stanley Bay on the southern side of Hong Kong Island is worth a visit. But the tourist bazaar is over the top and worth avoiding by turning right down the road as soon as you get off the bus and cross the main road to encounter the long line of taxis waiting to take Americans back to the other side – they seem to prefer them to the buses. The bus ride itself is a wonderful experience given how narrow and twisty the hilly road is. And while one might think a bay on the other side with beaches and nice water would look like something in NZ, there are still many multi-storey apartment blocks. Foreigners tend to like living there however as it is less hectic than the main side of the island and when the markets are closed (meaning when the tourists have done their thing for the day) the place (like Aberdeen) is apparently very pleasant.

One thing which does sound nice is living on one of the over 100 islands and commuting by ferry for maybe 30 minutes. One has 20,000 people, a few of the usual high apartment blocks, but no cars.

Quite a few Kiwis seem to be in the teaching business, but with many also quite high up at executive levels in businesses.

In a small fishing village north of the island there was an undertaker's shop on the main road with the fully open shop front revealing wooden coffins leaning against the walls. The fish tanks outside the restaurants contained an amazing variety of fish and sea things I have never seen before. It was bit like going to an aquarium – except everything on show is there for the explicit purpose of being sold and eaten. Speaking of eating, people there make a very strong distinction between a restaurant serving good food and one that does not make the grade. There were two restaurants right beside each other with one having all tables full and the other as good as empty. Contrast that selection bias with the way we Kiwis tend to choose where to eat when we are either out and about outside our home bases or simply wandering into town for a bite to eat. We'll tend to go where things are generally not too busy so we can easily get a seat to our liking. Food quality for most of us (not all) often doesn't feature too high on the selection criteria.

There are small monkeys in the hills around Hong Kong (saw some) as well as snakes (didn't see any of them), plus lots of very colourful butterflies.

Despite all the money spent on infrastructure Hong Kong still has a long way to go to develop the outdoor areas near the waterfront. Too often one will find a wide walkway along the waterfront only to have it cut off by a holding yard for government equipment or some other obstacle. There is a need to remove such things to create a miles-long walkway along the island foreshore with the harbour.

Out of everything I saw this time this was the most interesting. In Hong Kong there are tens of thousands of maids. They live in tiny quarters behind apartment kitchens and work six days a week. Sunday is their day off. You have to see it to believe it. They spend their entire day down in one part or other of the city in groups of all sizes. They sit on mats playing cards, practising dance routines, doing each other's hair, chatting reading, eating and generally socialising. They fill up the parks and in some areas take over sections of roads (traffic closed off). In the Central area are the Filipino maids – thousands and thousands of them. One can be strolling along and suddenly come across a group of hundreds moving from one area to another – in this particular instance from church I think. Down the other end of the main CBD in Victoria Park the maids are largely Muslim going by the coverings though I am unsure which country they predominantly come from.

This trip I was offshore for just over two weeks. I encountered mention of NZ three times. Once was Kiwifruit advertising here and there. Second was the nomination of Geoffrey Palmer to investigate Israel's actions on the main Turkish ship in the flotilla which tried to break the naval blockade. The third was an item about the Grim Eater – the bloke in Wellington showing up at funerals to eat the grub. And that's all!

INTEREST RATES

The Reserve Bank raised the official cash rate 0.25% to 2.75% this morning and we expect steady rate rises toward 6% come the first part of 2012. That means floating interest rates rising about 3% or so between now and then – which is a forecast we have been replaying here for about a year now. The Reserve Bank cited the economy now entering its second year of growth with that growth expected near 3.5% this year, with good support from economic strength in Asia and Australia, and recovery in the United States. They noted high commodity prices, stronger residential and business investment, and an improving labour market offsetting relatively cautious households.

They see underlying inflation staying within the target band of 1.3% excluding the GST rise and other special tax increases hitting soon. They also expect the extent of rate rises this cycle to be less than in the past given the higher proportion of borrowers now sitting at floating mortgage interest rates.

Underlying it all the RB probably had two key factors in mind when raising the cash rate. The growth factors just cited plus a desire to build an interest rates buffer in case the world turns to custard again and they need to react. That is not something one would expect them to say publicly however as it would naturally raise questions as to whether they seriously expected such an event and what exactly it may be, when and so on.

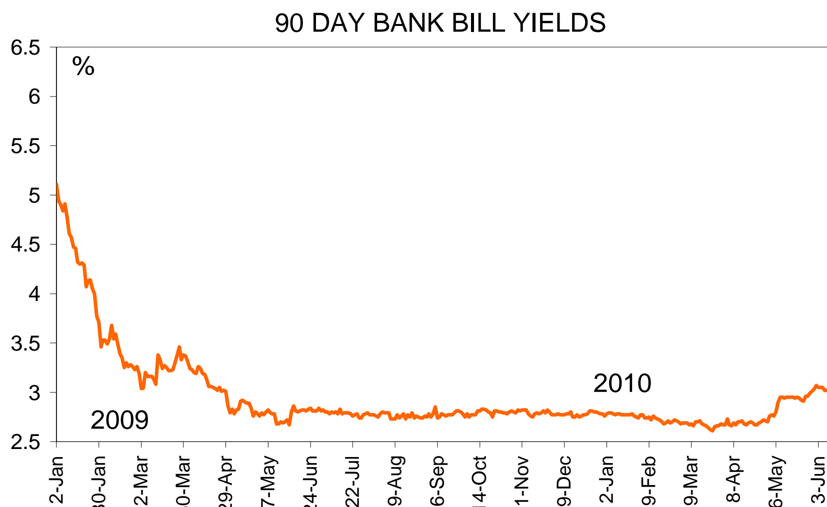
Maybe there is a third factor which encouraged the RB to raise the cash rate but which they have not highlighted – the Reserve Bank of Australia's Governor did however in some comments yesterday. In the context of problems in Europe he noted that it is a good idea to tackle structural problems when times are good because history suggests eventually adjustments will be forced if necessary. His comments referred to high levels of household debt in Australia. We have a worse problem in New Zealand.

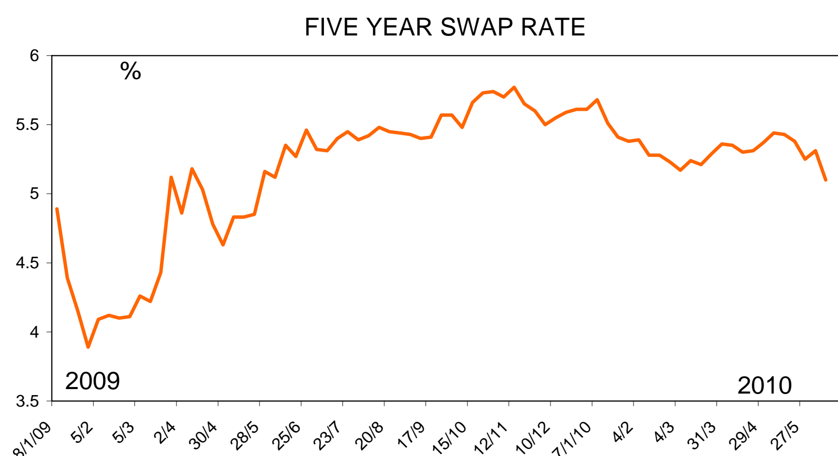
The risk (actually the certainty fairly much) is that one day investors will consider the debt too large and reduce their exposure to it. That will mean reduced ability for NZ banks to raise the funds offshore needed to supply NZ household credit demand. That will mean a structural lift in NZ borrowing costs over and above the cash rate along with reduced ability to raise large lumps of money and reduced ability to get long term funds. That is exactly what happened late in 2008 after the Lehman's collapse and it has been happening recently. But in both cases it was because of events offshore and not our particular circumstances. One day it will most likely be entirely NZ specific. That one day could be this decade, the next one, the one after that. it is IMPOSSIBLE to know when.

The incentive therefore for our RB is to try and make sure households remain as wary of raising debt over the next few years as they have been for the past year even though employment conditions will improve quite firmly. When the adjustment comes exporters will benefit from a structural decline in the NZ dollar (makes you think about which currency you want your retirement savings in doesn't it). But before exporters get all enthusiastic about travelling offshore to meet fund managers and tell them to avoid funding NZ households, they had best keep in mind that reduced credit availability and higher interest rates will slam the export sector as well. The lower currency some decade down the track will generate the long overdue resource shift in NZ toward exports and away from domestic consumption (elements underway a tad currently), but exporters will need to wait a bit before they can raise capital or debt to benefit from it. But as we say, that is an adjustment some decade down the track.

As a result of their rate rise and forecast track of further rises 90-day bank bill yields crept up slightly to 3.06% from 3.05%. But swap rates actually rallied with the three year rate ending near 4.67% from 4.85% last week. These declines will help offset some of the increase in funding costs offshore attributable to the

European debt crisis so immediate pressure for fixed lending rates to rise a lot is less than we were earlier thinking.





Key Forecasts

- Tightening through to mid-2012.

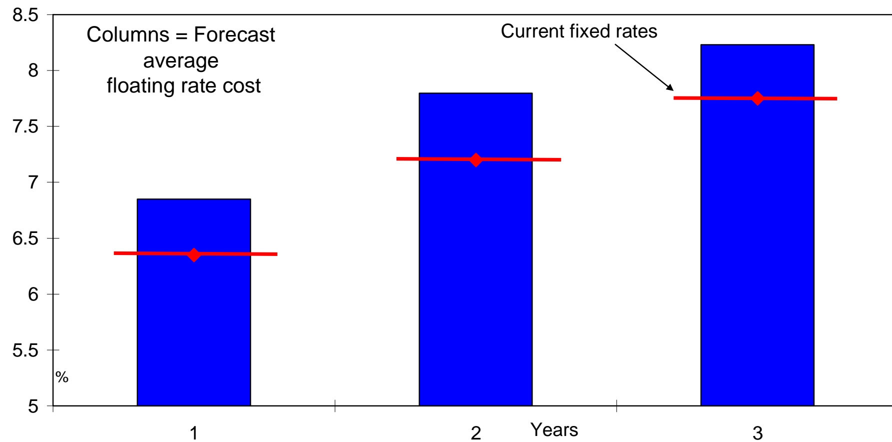
FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.75%	2.50	2.50	2.50	2.50	6.2
90-day bank bill	3.06%	3.05	2.76	2.69	2.69	6.5
1 year swap	3.74%	3.78	3.80	3.48	3.05	6.7
5 year swap	5.10%	5.31	5.43	5.24	5.35	7.0
180-day term depo	4.80%	4.80	4.70	4.88	3.15	6.0
Five year term depo	6.75%	6.75	6.75	6.75	6.00	6.5

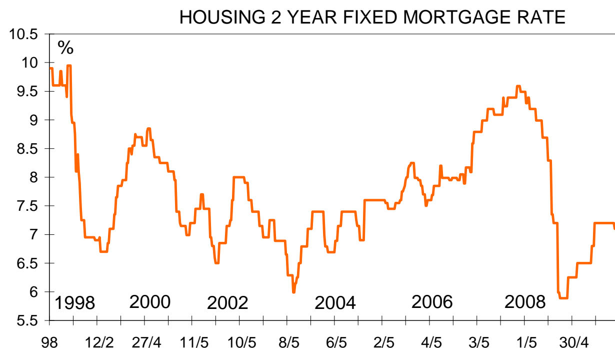
If I Were a Borrower What Would I Do?

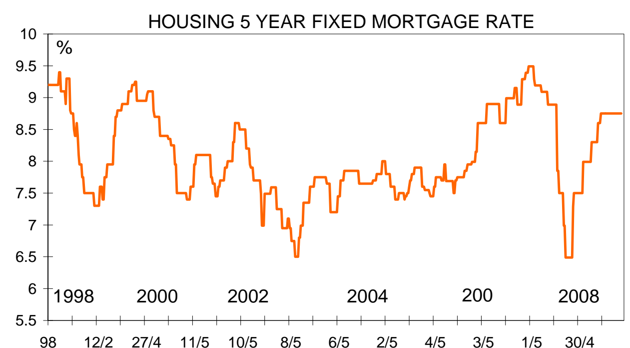
There is no wonderful money-saving opportunity available in the marketplace. You either stay floating or fix 1-3 years and either way you get hit in 2-3 years by high floating rates and higher fixed rates, and if you fix now you pay much more than current floating rates. There is simply nothing canny you can do to save interest expense for the next few years. But for those who have held off fixing simply to enjoy low floating rates as long as they can there is no point in waiting any longer.

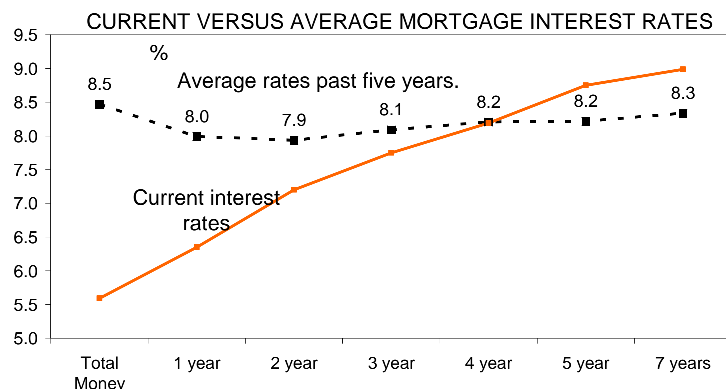
This first graph shows with the blue bars what we expect the Total Money floating rate to average over the coming one, two, and three year periods. The little red lines show current fixed rates for those terms – before any rate rise announcement by ourselves. If our forecasts of official cash rate rises prove correct one will do better fixing than floating for any of those terms. So on the face of it one would say it is best to fix rather than float. But we see the risk in our forecasts being that the RB raises rates a tad slower than we have predicted and that means we are still largely in a situation where one tosses a coin between floating and fixing. Note that once the fixed rates rise – as we fully expect they will any day – the red lines will rise and the on the paper attractiveness of fixing will once again diminish.



Note again that unless one fixed over a year ago for the long terms we were suggesting there is no way one will be able to avoid paying a much higher interest rate at some point within the next three years. The choice is between taking a low rate now and riding up to a high floating rate near 8.5% - 9% in three years, or locking in a rate now well above where one currently floats. Either way you will pay that higher floating rate down the track or avoid it by locking in at a fixed rate higher than now which will cost you when floating rates once again fall. The only way you had available to you to avoid this rate rise cycle was to lock in 5-7 years late-March last year.





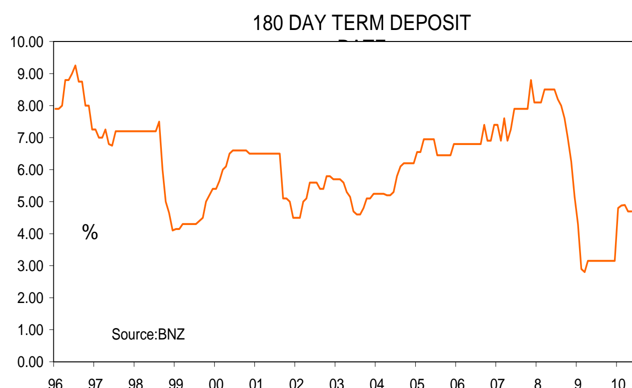


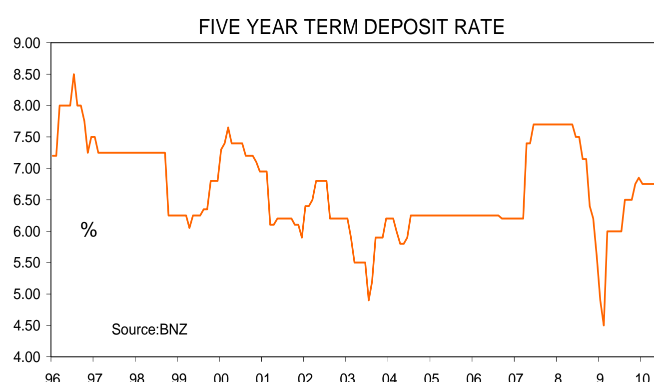
If I Were a Term Deposit Investor What Would I Do?

Sleep darn easy at night. As a term depositor I don't have to worry about sharemarkets rising 2% one day then falling 3% the next. I don't worry about how far equity markets may fall in the short term and I don't worry about being psychologically slammed in coming weeks into cutting losses on equities if the market weakens a lot further and experts currently saying hang in there begin once again reminding us about how good the long term is for equity investors. Eventually it is of course hence the attractiveness of Kiwisaver and such like.

The problem however is that holding equities involves buying risk and sometimes the price is quite high – in the context of market volatility. So for the moment being a term deposit investor feels good. Am I still happy to invest short term? Yes I am because those short term rates will be rising as the RB tightens monetary policy even though the pace of their tightening risks turning out to be less than we are currently modelling due to the worsening turbulence offshore. Plus, what if the Dow Jones goes back to 6,500 again? Wouldn't one then be tempted to switch from safe term deposits into equities? Interesting.

Sitting as one is at the Fuel Espresso café at IFC1 in Hong Kong writing this, (biding time before flying home) the world outside Asia and Australia looks quite concerning. I am happy to have NZD denominated term deposits earning interest rates people offshore can only dream of for their deposits. I remain willing to invest for short terms now and ride the rising rates upward.





HOUSING MARKET UPDATE

Housing Commentary Has Shifted

People are still waiting to see if investors are going to flood the market with properties because of the tax changes, but we haven't come across anecdotes of such thus we are left with the position we have held on the housing market (successfully) since the middle of 2004. The only thing out of whack in the NZ housing market is a lack of supply and while we see construction rising quite well and being a key factor behind 3% - 3.5% economic growth this year and next, the supply rebuild will not erase the under-supply for a long time. If ever. That means underlying price support with rising rents and increasing housing problems for those at the lower end of the socio-economic spectrum.

But just a reminder again because the country is simply replete with people who over-extrapolate comments they disagree with. There will be no price boom – not with net immigration flows heading for well below average levels and rising mortgage interest rates. Watch the jobs market though. That has some capacity to surprise with its strength as companies refrain from capital spending so handle output growth with substitution of labour for capital.

Just for your guide, one thing worth keeping an eye on is the extent to which the popular media start picking up on our point about a housing shortage. We are entering that territory now with two other analysts also talking about shortages and newspapers treating such analysis as factual rather than speculative. Note their commentary about the factors which will restrict a rapid recovery in construction to old levels such as shortages of builders. Also one should note that there appears to be no-one out there now talking about major price declines. Watch next for those forecasting declines to shift their commentary toward prices holding flat for an extended period of time.

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

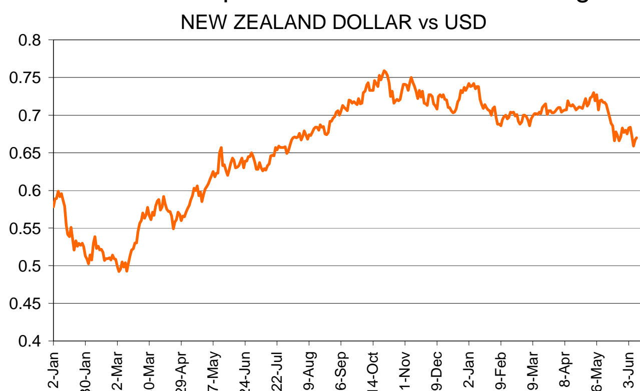
- Dwelling consent numbers to recover now with potentially good activity from late-2010.
- House prices edging higher after tax change effects wend their way through.

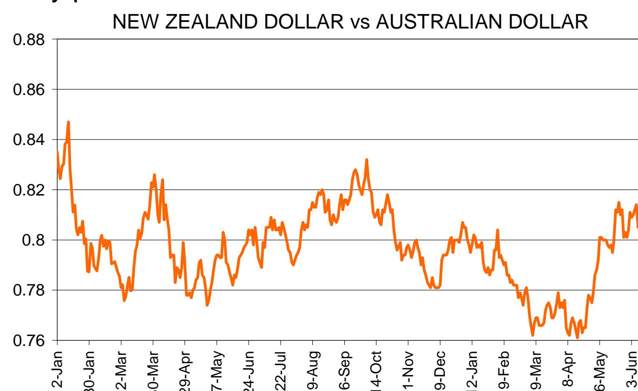
Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.677	0.683	0.719	0.702	0.627	0.566	0.592
NZD/AUD	0.808	0.809	0.800	0.769	0.782	0.773	0.856
NZD/JPY	61.700	63.200	66.500	63.200	61.1	56.8	66.8
NZD/GBP	0.464	0.467	0.484	0.468	0.384	0.371	0.345
NZD/EUR	0.563	0.560	0.558	0.516	0.445	0.427	0.51
USD/JPY	91.137	92.533	92.490	90.028	97.448	100.5	113.9
USD/GBP	1.459	1.463	1.486	1.500	1.633	1.52	1.709
USD/EUR	1.202	1.220	1.289	1.360	1.409	1.327	1.156
AUD/USD	0.838	0.844	0.899	0.913	0.802	0.732	0.69

Kiwi Weakens Again

The Kiwi dollar has fallen slightly again this week on the back of another bout of worries about the European debt crisis coupled with worse than expected data on the US labour market taking away the key factor preventing a substantial correction in sharemarkets – confidence that the US economy is well into a self-sustaining recovery. The NZD this afternoon is trading near US 67.7 cents from 68.3 last week, but we are largely unchanged against the AUD near 81 cents. The increase in the official cash rate this morning and a strong March quarter terms of trade number caused about a 1.4 cent rise in the NZD as not everyone in the markets had anticipated a rate rise or the strong commodity price data.





The increase in worries about European governments' ability to finance their deficits this week came about after senior people in Hungary suggested they may restructure their debt. Whether likely or not the comments serve to remind that the end game in the debt crisis has not been reached – in fact it could be a long way off. That is because the method for assuaging concerns regarding debt is fiscal austerity. But those necessary austerity policies are bringing worries about European growth coming in far weaker than currently expected over the next couple of years. I would agree. My over-whelming impression from time spent in Brussels was that the economists there – in their parroting of growth coming in near 1% this year and 1.5% next – seem to be not sufficiently taking into account where this crisis is heading.

Where it is going is an increasingly certain restructuring of Greek government debt – though this may not be announced until accurate calculations are made as to which European banks will lose the most capital, which of these are systemically important, and how to minimise the growing tightening up of credit markets.

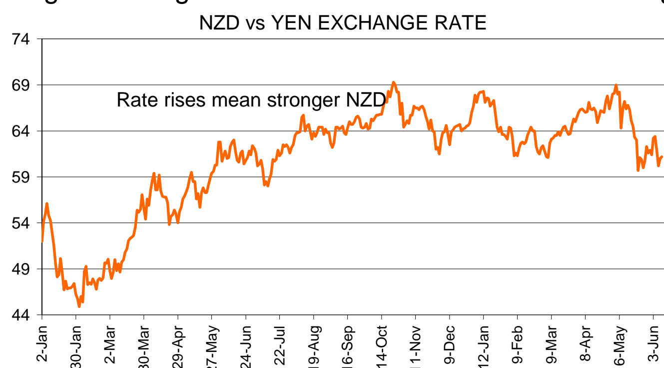
The relevance for New Zealand of all this is that the crisis-driven downside risks for the NZD may continue to outweigh the upside pressure coming from record commodity prices and rising interest rates. In addition, to the extent bank borrowing becomes more difficult and expensive in foreign markets – and it is – there will be a flow-through impact here in terms of further tightening of bank lending criteria and extra upward pressure on lending rates over and above any OCR and swap rate moves. In other words, we continue to feel justified

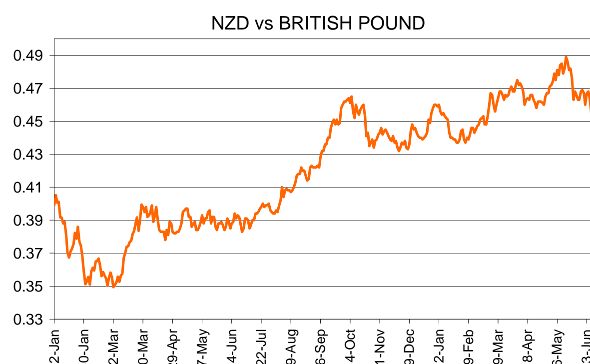
in forecasting only 3.5% growth in the economy next year in spite of recovering residential construction, infrastructure spending and especially a record dairy payout because there are some strong sources of restraint that will remain in play.

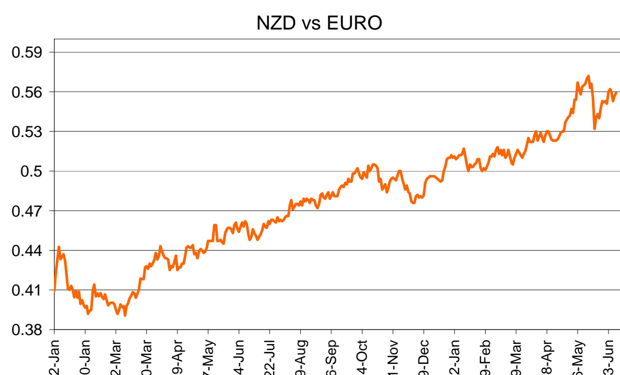
In this section every now and then we like to highlight the fact that exchange rates are unforecastable and it is necessary to repeat that comment here because the uncertainty regarding the extent of the credit crisis this time around is immense – though there are very few analysts who expect anything remotely approaching what happened late in 2008. The benefit to NZ exporters is downward pressure on the NZ dollar and good opportunities to lock in hedging (remember to consider options) at levels not considered likely in recent months against the greenback.

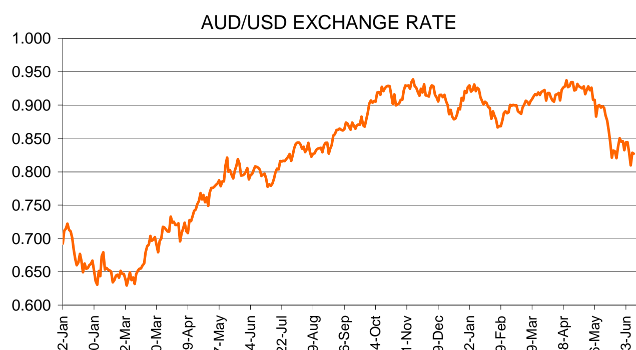
But scope for NZD weakness on the cross rates is much more limited. Remember also that at some completely unpredictable stage while worries about the European crisis will still be great the markets will be of the opinion that they finally have come to grips with the size of the problem. At that point we are likely to see some strong recoveries in risky currencies like the NZD and AUD plus strong share price bounces. We could be many many months away from that point however given the seeming inability of the Europeans to move quickly to get the markets to that point – bad as being there may be when initially considering it.

Against the Japanese Yen this week the NZD has ended near 62 from 63 with the Yen easily shaking off worries about policy uncertainty following the appointment of yet another Prime Minister. Against the British Pound we have ended slightly lower near 46.4 pence from 46.7, though as the graph below shows this is still a high level. Against the Euro we have ended unchanged near 56 centimes.

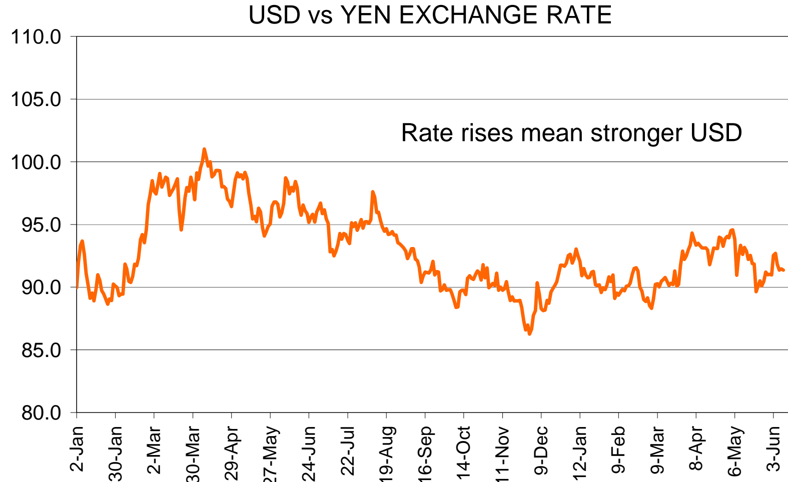


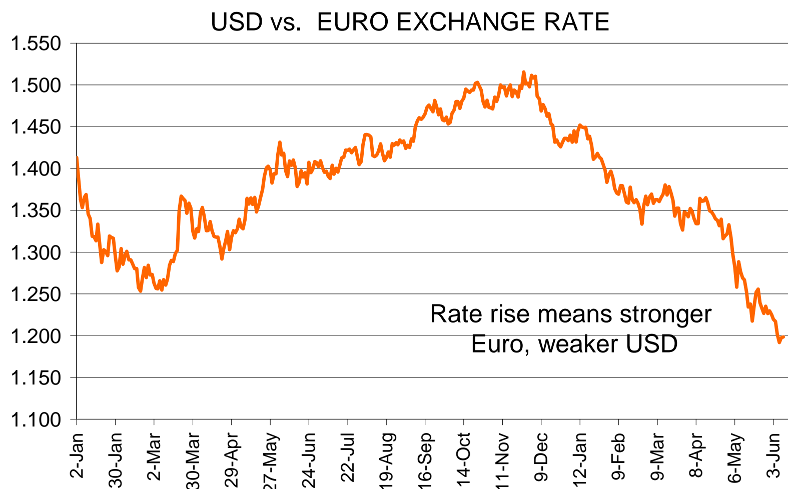


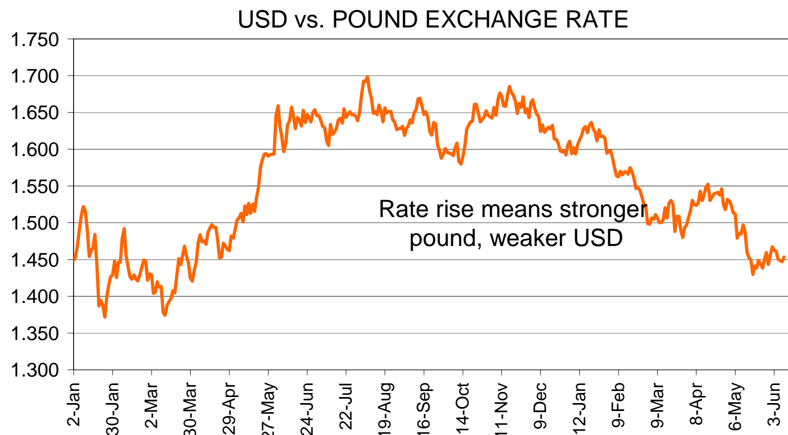




With regard to the major currencies the story remains the same. There are deepening problems in the UK and Europe causing flows of funds into the Yen and greenback. The risk in the near future is these funds continue especially as some senior people in Europe (French) have said it is good that the Euro is falling, while similarly in Japan comments have been made regarding the desirability of a weaker Yen. One should note also the commentary and speculation surrounding how unhappy some central banks and investment authorities may be now about their diversion of investments to Euros and out of US dollars. Maybe they reverse those flows.







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/

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ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.4%	-0.2	2.0	3.0	3.4
GDP growth	Average past 10 years = 3.0%	+0.8	0.3	-1.6	-0.1	2.8
Unemployment rate	Average past 10 years = 5.3%	6.0	7.1	......	5.1	3.9
Jobs growth	Average past 10 years = 1.9%	1.0	0.0	-0.1	0.7	-0.3
Current a/c deficit	Average past 10 years = 5.5% of GDP	2.9	3.2	......	8.7	8.0
Terms of Trade		5.8	-1.6	-8.2	1.8	8.8
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.8%.	1.3	0.7	1.3	-0.6	2.8
House Prices	REINZ Stratified Index	-1.3	2.8	6.4	-7.4	2.9
Net migration gain	Av. gain past 10 years = 11,700	+20,973	21,253yr	......	7,482	4,675
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	4.2	-0.0	4.2	-3.9	2.1
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	46	36	57	3	-34
Business activity exps	10 year average = 26%. NBNZ	43	39	31	-4	-4
Household debt	10 year average growth = 11.3%. RBNZ	2.8	2.7	2.7	2.8	10.9
Dwelling sales	10 year average growth = 3.5%. REINZ	-3.8	-1.1	39.3	-17.7	-32.1
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.59	5.99	6.25	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.75	7.95	7.75	6.75	9.49

ECONOMIC FORECASTS

Forecasts at May 20 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	0.5	2.8	1.9	3.9	-0.3	-0.6	2.8	2
Government Consumption	4.9	4.2	0.8	2.2	2	4.4	4.8	1.4	1.8	2.1
Investment	5.5	-7.2	-9.9	5.8	8.9	5.5	-3.6	-12.3	2.6	9.5
GNE	4.6	-1.6	-3.3	5.4	3.2	4.6	0.4	-5.1	4.9	3.4
Exports	3.1	-3.4	2.5	1.6	5	3.8	-1.4	0	1.5	4.8
Imports	10	-4.7	-9.9	7.9	4.7	8.9	1.9	-14.9	7.9	4.6
GDP	2.9	-1.4	-0.3	3.6	3.2	2.8	-0.2	-1.6	3.1	3.5
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	1.8	3.6	4	5	3.1	0.8	3.2
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.7	0.72	0.66	0.77	0.56	0.72	0.73	0.68
USD/JPY	101	98	91	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	0.46	0.4	0.38	0.37	0.44	0.49	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	70.7	66.1	71.6	55.1	64.7	71.3	67.2
Official Cash Rate	8.25	3	2.32	4.25	6	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.67	4.57	6.15	8.9	5.23	2.78	4.07	6.07
10 year Govt. Bond	6.36	4.77	5.86	6.3	7	6.4	4.88	6.02	6.1	6.8

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

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

*extrapolated back in time as Total Money started in 2007