BNZ Weekly Overview

17 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.

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.

Farmers Cautious At Mystery Creek

I'm two-thirds of the way through my annual three day stint at National Farm Fieldays at Mystery Creek near Hamilton, and apart from the setting being completely different from that of three weeks ago in London, Brussels, and Hong Kong, here are the things I've generally picked up so far.

Farmers are displaying little intention of buying each other's land, bulking up with new colourful tractors, or implementing new high input feeding regimes for their stock. The focus appears to be firmly on getting finances in good shape but with an underlying confidence that the ag. sector is reasonably well positioned with regard to growth in food demand overseas.

But much as there is an absence of expansion thoughts, there is also an absence of the depressed sentiment of last year. Few farmers have expressed major concerns about interest rates, the weather, commodity prices, or even the exchange rate. There are rumblings about the Emissions Trading Scheme but chatting with those involved those rumblings appear mainly driven by either climate change denial or misunderstanding of the role of animals in the greenhouse gas problem.

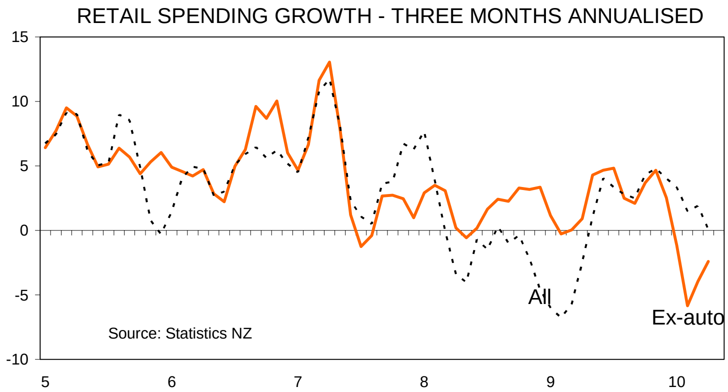
The rural real estate agents I have spoken with note that there is little buyer interest as yet in farmland but a few more vendors appear to be looking to get on with their lives and are accepting the market price is 30% - 40% less than 2-3 years ago and biting the bullet. One person in the business noted interest from Europe in investing in NZ farmland, and one can't help but imagine that the visit by the Chinese Vice-President will stir up even further the existing interest in China in securing NZ milk supply for supplying the Chinese market.

Those farmers with debt are wondering whether to fix or stay floating and a few more are deciding to move out a tad further along the curve now that the RBNZ has started the tightening cycle.

Apart from that frankly nothing else really sticks out.

Retailers Struggling to Find Customers

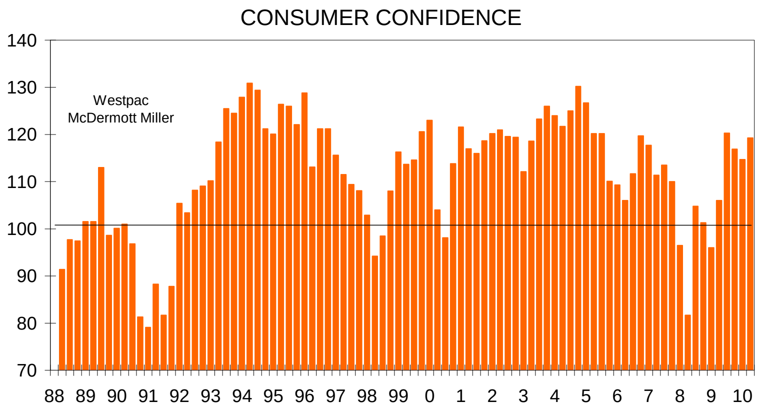
There is as yet still no growth appearing in the area of retail spending. In April total retail spending in seasonally adjusted terms fell by 0.3% and excluding the volatile automotive sectors the change was -0.2%. This 0.2% fall followed a 1% rise in March and 0.7% fall in February meaning over the past three months as a whole this core retail spending measure declined at an annualised rate of 2.4%. That is better than the decline of 5.8% seen two months ago but it is still clearly negative.



Consumers remain reluctant to spend and instead appear as determined as ever to get debt levels down – as seen by household debt growing only 2.7% in the past year with monthly growth rates moving between 0.1% and 0.2% with the occasional 0.3%. When will this change? We think there is some good jobs growth going on which will eventually bring more people into the shops. But it is impossible to know when this factor plus the need to replace worn out things will overcome determination to reduce debt. While retailers would love this point to be reached soon, frankly the best thing that could happen to our economy at the moment would be if households continue to keep spending in check.

If they do that will tend to reduce the extent of the cyclical rise in interest rates thus reduce the extent of the rise in the exchange rate as well. In addition more funds will be available for lending to the business sector as opposed to households, and the security of the banking sector and therefore the economy overall will be enhanced by reduced need to access funds in sometimes very fickle offshore markets. One must remember that we banks have to source about 40% of the money we lend to Kiwis from foreigners because we kiwis are so poor at financing our own way of living.

Last week we briefly noted that a very strong disconnect has opened up between consumer confidence readings and what people are actually doing with their money. In that light we take with a grain of salt the results of the quarterly Westpac McDermott Miller Consumer Confidence Index which showed a rise in the confidence reading to 119.3 in this quarter from 114.7 in the March quarter. This is the second strongest result in three years bettered only by the 120.3 reading for the September quarter of last year when a bout of euphoria swept over all of us as data showed the avoidance of a Depression scenario.



Just to back up the weak retailing statistics and our comments, (plus fill up space because as anyone who attends Fieldays knows you can get really shagged out) here are the responses in the area of retailing received in our monthly survey conducted after last week's Overview.

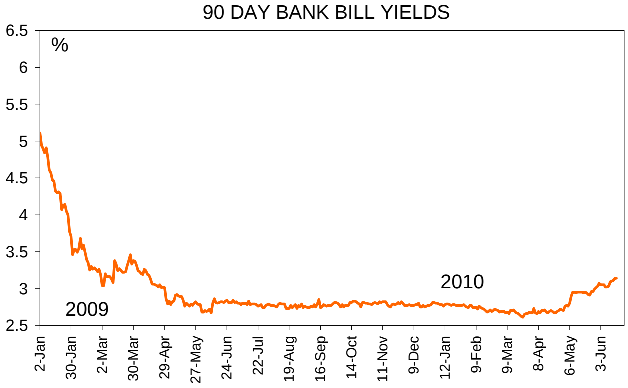
- Retail, looking better in South Island
- Snow/Skate retail. Improving daily. May was well down (35%) but this has been caught up already in the first 7 days of June.
- Kitchen retailing. Very patchy and very price conscious. Lowest price very important.
- Jewellery-Retail and Wholesale Had the best May sales ever. A result of a number of big ticket items sold. Generally business still up and down but tracking on the positive.
- Retail optical. The year started off tracking better than last year, but since just before the budget things have dived again. Suspect the combination of winter arriving, and concern and uncertainty about the effect of the budget announcements on them as individuals. Hopefully both those effects are just temporary!
- Retail Pharmacy OTC portion of business is slowing everywhere in the South Island Some pharmacist are considering putting off staff. Dispensing returns are diminishing due to DHB contracts and Pharmac drug pricing Script numbers are up but compliance costs higher
- Retail art gallery (Christchurch), no pattern, sales up & down with a trend towards more lay by sales than usual.
- Hardware. Government and local Government stimulation into Schools and other institutions (Corrections, Justice, Airports has been helping the building industry in our area. House building has been quiet.
- Consumer Electronics and Services, very slow. People very careful with their spending. Probably worse than this time last year.
- Fuel retailing automotive repair. Down slightly on last year but starting to pick up again
- Supermarkets - no price inflation, and very little unit volume growth = static market
- Retail. May was a fairly good month but June has been shocking, I have spoken to other retailers in our area and they are experiencing the same. Basically a lack of people coming to town. I don't feel confident about trading in the next few months.
- Confectionery manufacturing - the luxury end of the market. Our wholesale sales retail sales are up two digits on last year. The reason I have put the same for the economy getting better or worse is that there will be impact on our turnover with the ETS costs, power increases and GST
- Office Furniture - pressure on margins, but specified work keeps rolling in
- Fair - Hairdresser
- Supermarket - sales down on last year (which was also down on previous years). Seems to be major shift in customer behaviour.
- Retail Services: This time last year our clients were double digit increases; this year complete reverse. Not sure where these people are that say things are on the improve?
- Retail Bakery Remuera Another average month of trading. The highs and lows in turnover seem to have settled down to an average weekly amount making it easier to manage the business. Retail environment still lacking confident customers who are still holding back.
- Hairdressing/retail business. The year started well but has tapered off with larger gaps between clients making appointments and having less services also a big reduction in their retail spend. lots of hairdressers trying to fill in large gaps of time between clients ,many of them on commission basis so no work ,no pay
- Very slow in the cafe and retail food market. Not too many shoppers walking the streets these days, & those who do buy are watching their pennies closely.
- Clothing - Street wear the first six months of the year have been tough with the traditional seasons not influencing sales as much. Consumers who have begged borrowed or stolen for the right look are harder to come by. The economic downturn looks to have finally filtered through to our company, although there are still some positives.
- Cafe..in a shopping mall...we are currently -5.3% ytd and do not really see much improvement in the near future. Foot traffic in our centre is static but customers are not spending! All we can do is really concentrate on the basics watch our costs really carefully and hang in there!

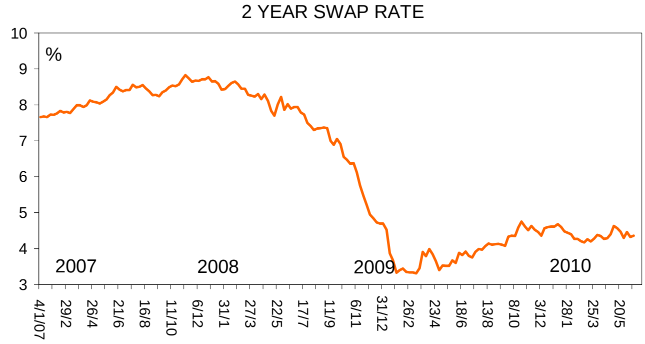
- Northland - Retail Outdoor Apparel. Trading has been steady like last year but we are not seeing the upturn yet. Lack of cold weather has seen slow sales of winter clothing and the days since Queens Birthday weekend have been quieter than previous weeks. Increasing overheads have been hard to contain - 14% for electricity with another increase to come in July for the emissions scheme 'circus'. Rent remains the killer to being in business. We are only working for our bread and to pay the landlord! We are well stocked but cash flow and re-stocking is tight.
- Retail home wares - still looking shabby, however big discounts and sales do encourage the punters!
- Retail, fruit and veg, not looking good
- Import Distribution Giftware. Getting feedback that successful retailers are budgeting for Christmas to be OK and more money sloshing around the system post Tax cuts & Farmer payouts.

INTEREST RATES

The Reserve Bank last week raised the cash rate from 2.5% to 2.75% with the explicit intention that banks raise lending rates – otherwise nothing has changed apart from reduced bank margins. Meaning – if today we had not seen the round of mortgage rate increases get kicked off by one bank the RB would have started thinking in terms of boosting the rate 0.5% on July 29 simply to force the response it wants. They almost certainly won't have to do that however and we expect 0.25% move in five weeks time. In anticipation of rates rising again we have seen bank bill yields creep up slightly during the week – and that is likely to be what happens for a great number of months.

Further out along the yield curve swap rates have also increased very slightly and this also is likely to be the pattern for the next few months.





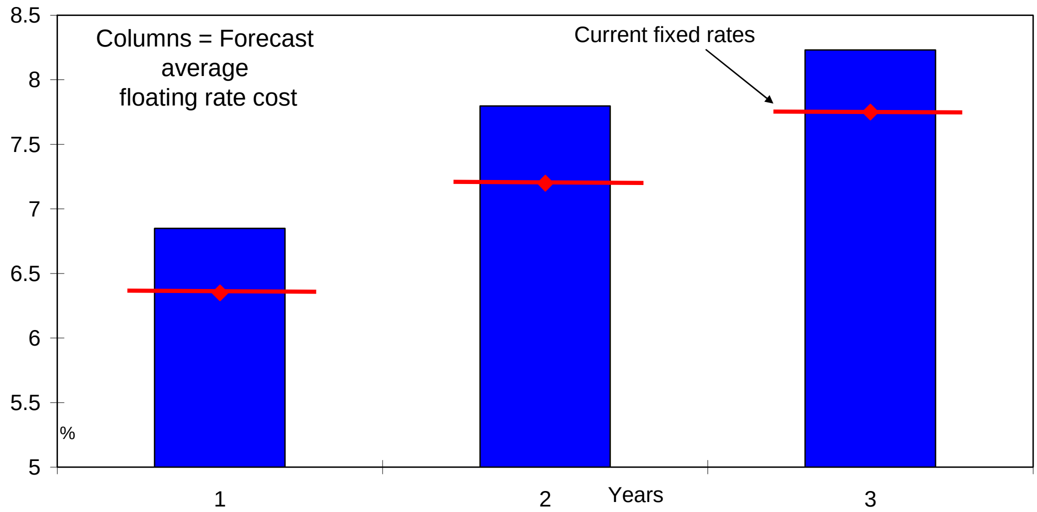
Key Forecasts

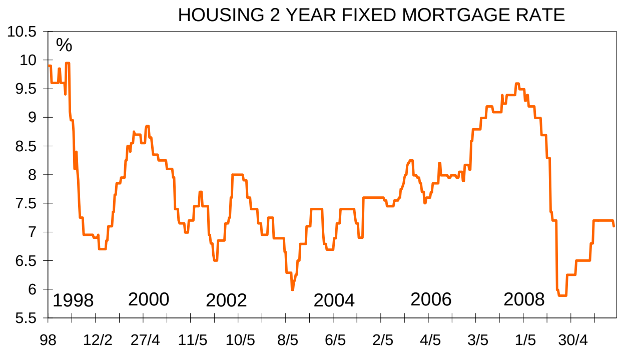
- Tightening through to mid-2012.

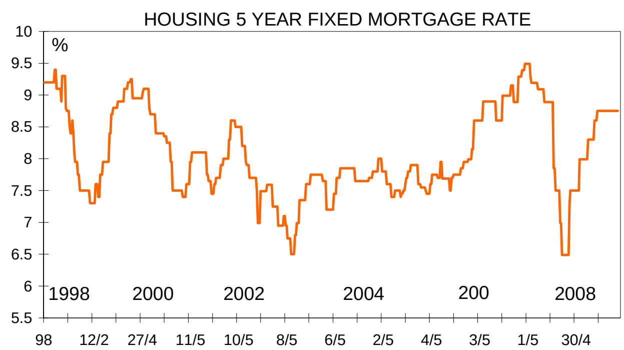
FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.75%	2.50	2.50	2.50	2.50	6.2
90-day bank bill	3.06%	3.05	2.76	2.69	2.69	6.5
1 year swap	3.74%	3.78	3.80	3.48	3.05	6.7
5 year swap	5.10%	5.31	5.43	5.24	5.35	7.0
180-day term depo	4.80%	4.80	4.70	4.88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

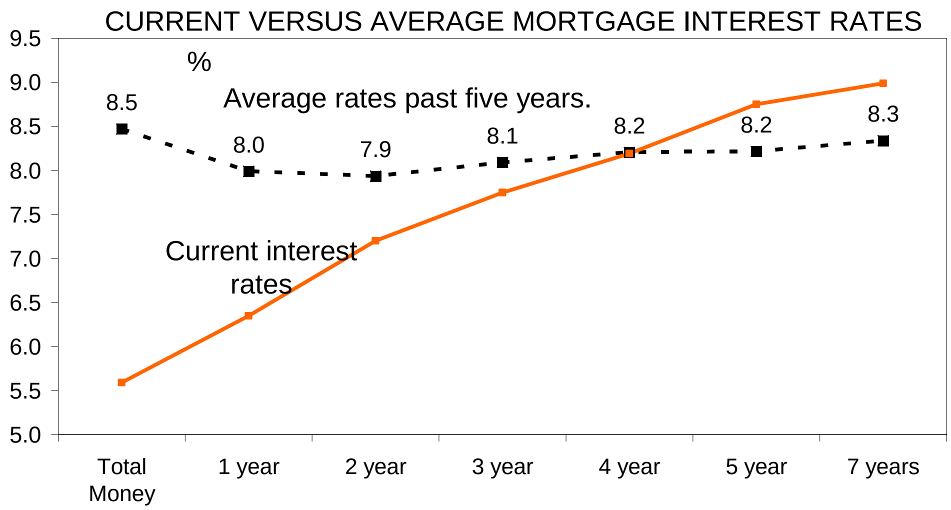
If I Were a Borrower What Would I Do?

Nothing to add from last week. The raw numbers say fix 1-3 years. But it is a big ask to jump into a three or even two year rate from current still low floating rates, and there is a risk that the RB does not raise rates as rapidly as we have pencilled in given risks in Europe and the chance the current unwillingness of households to borrow remains for another year or two. So it is really still the toss of a coin with awareness needed that there is absolutely no canny thing a person can do to avoid higher financing costs over the next three years.







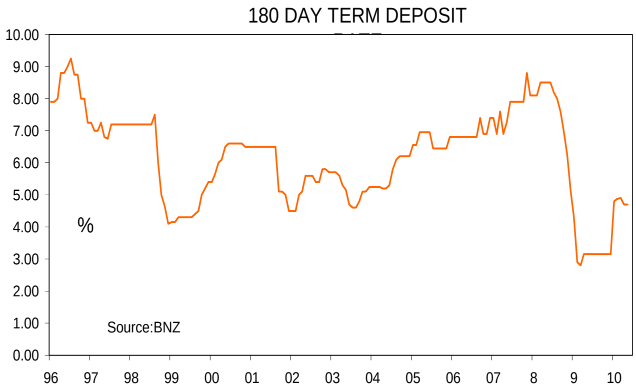


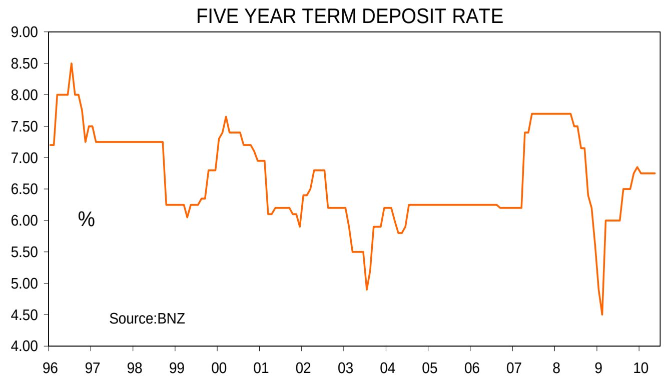
If I Were a Term Deposit Investor What Would I Do?

During the week someone out of America asked how they can go about investing in NZ term deposits. The rule is basically this. If you do not already have an account with us you need to first of all show up in person with appropriate identification to open an account then things can be done over the telephone. Under the "Know Your Customer" policy which I am certain exists in every other developed country a financial institution has to establish that a person is who they claim to be before an account can be opened. Anti-laundering legislation basically.

So if you are offshore and you want to put some money in an NZ dollar denominated term deposit to earn an interest rate undoubtedly well above what you will be offered in your own country you need to show up here first of all. Come skiing this Winter maybe. The weather is cold and snow has been falling recently so the season is likely to be a good one.

Note that as mortgage rates rise we expect short term deposit rates to rise as well and that is why as a depositor I am still happy to stay short. But doing say does entail some income sacrifice as the five year rate is almost 2% above the 180 day rate.

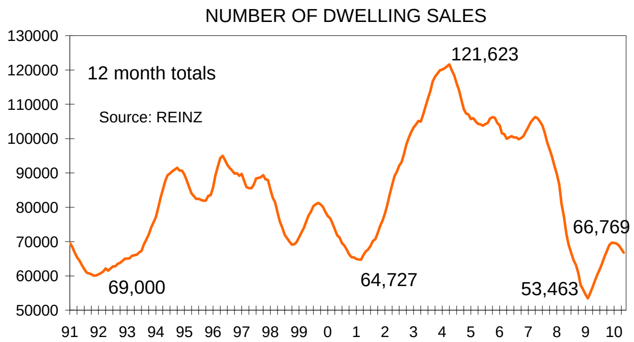


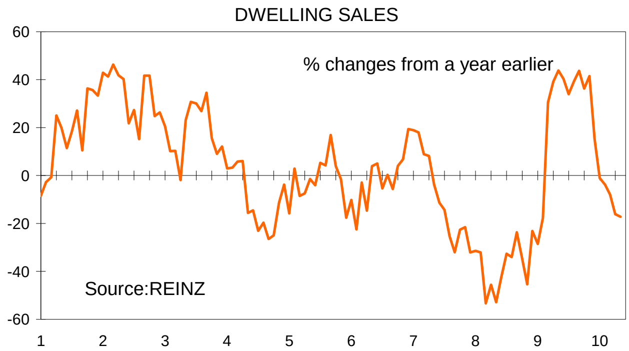


HOUSING MARKET UPDATE

Muted Housing Activity

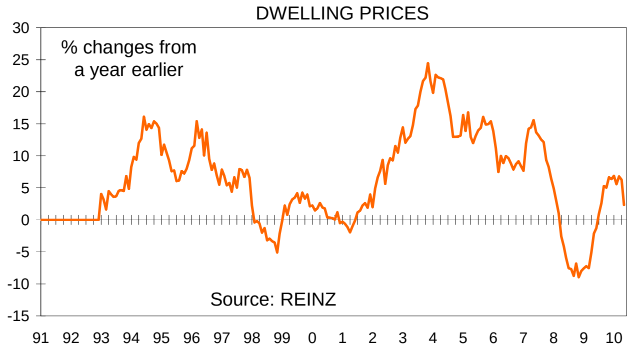
REINZ reported their monthly data this week and they show a housing market generally easing off in May – Budget month. During the month there were 5,206 dwellings sold around the country. This was a decrease of 17% from a year earlier following a 16% fall in April and 8% annual decline in March. In seasonally adjusted terms sales fell about 6% in the month and in the past three months were near flat.

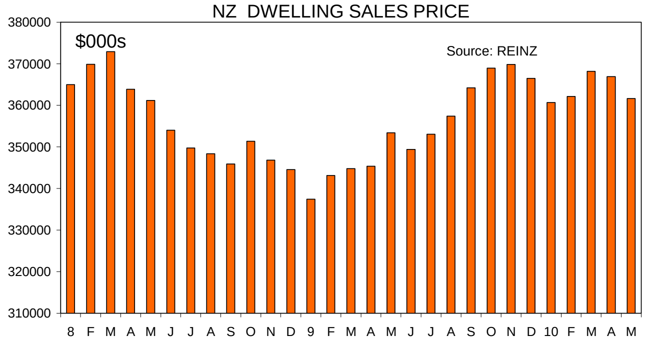




The data suggests therefore continuing low levels of sales activity in the residential real estate market, but not the complete clamming up of things one might have expected if there were great concerns about what the Budget could bring.

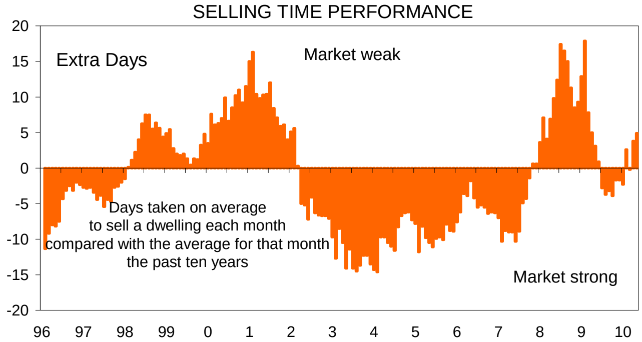
In terms of prices things moved down slightly in the month which is in line with what we have been expecting given the effect of the Budget. The median stratified price fell to $361,610 in May from $366,925 in April and a recent peak of $369,825 in December. Compared with a year earlier this price measure was ahead by 2.3% but still 5.1% below the November 2007 peak. Nothing much happening at the moment with regard to prices in other words but a slight downward bias.

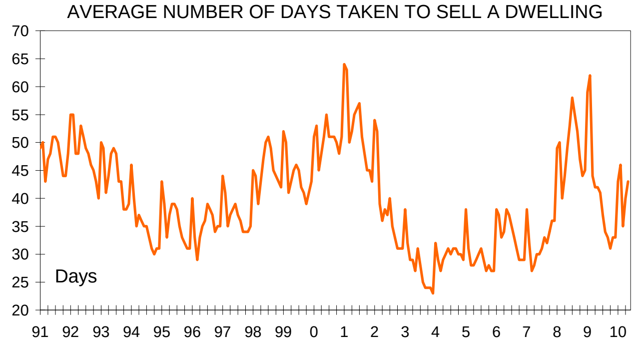


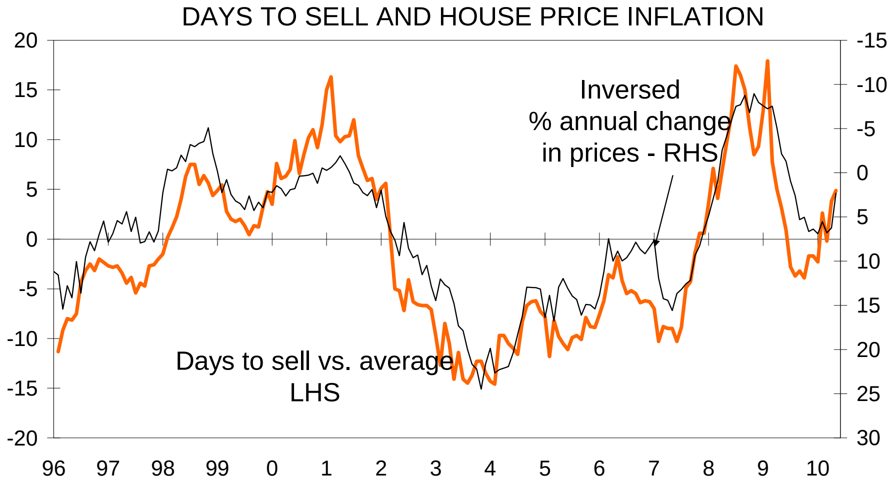


The best indicator perhaps of what is happening in the housing market at the moment comes from the days to sell measure. This moved out to 43 in May from 40 in April. But more importantly the reading was 4.9 days longer than the May average whereas the April difference was 3.8 days and March -0.2 days. In other words turnover has definitely got a bit gummed up for the moment with properties sitting on the market for a longer period of time.

Overall the data show us a housing market in a bit of a holding pattern with a downward bias which is exactly what one would expect to see given the expectation and uncertainty about what the May 20 Budget was going to contain. As things have turned out the Budget announcement was less negative for investors than expected but it nonetheless makes investing in property less attractive for those without the simple business skills to get rents up and be a bit selective about their tenants. We retain our view that a lot of what has been happening in the past 18 months and which will continue to happen over the coming year is that small inexperienced investors unable to price their product properly and in it only for the tax advantage and long term capital gain will continue to be weeded out.







The upshot will be some extra homes available for first home buyers but little downward price pressure because at the same time as we get more willing sellers of existing stock the construction of new dwellings is running well below replacement levels. The market will therefore stay under-supplied for some time and this has worked already to limit the extent of price declines during the global financial crisis, (down just 11%) helped the bounce back last year, (up 10%) explains the muted fall in prices since worries about a Budget announcement emerged, (down 2.3%) and will help explain why prices are likely to creep up next year after some weakness in the next few months.

But as these smaller investors exit the market a greater proportion of the rented stock will be in the hands of professionals and that means extra pricing power which we expect to result in hastened rents growth.

Our Monthly Survey Results

Looking through the responses to our monthly confidence survey released on Monday night there is little evidence of a rush of sellers entering the housing market looking to quit their less attractive (after the tax changes) investments. But equally the market is very much in favour of the buyer and the comments show generally only vendors with well presented properties priced to meet the market get a reasonably quick sale. Enjoy.

- Central Auckland Residential Real Estate sales: listings are short with light seasonal demand exceeding supply for non-monolithic clad houses. Yet buyers are cautious to commit. It seems their greater concern is debt reduction rather than increasing interest rates. Despite the supply/demand equation, prices seem to be easing in all price ranges. Still plenty of vendors well overpriced, particularly those with tired or monolithic clad houses for sale.
- Slow, but that's probably due to the season. Real estate.
- Real estate sales - Inner City Auckland. Very busy since the budget, buyers and sellers pleased that there is no land or capital gains tax. Open home numbers excellent, several homes obtaining multiple

offers within one week of commencing marketing. Seems like a new air of confidence, whereas pre budget there was a sense of gloom. In Westmere Quotable Value say prices in the first quarter are up 16.5% on the same period last year and for Auckland region as a whole up 8.8%. So all good here & no chance of big price drops predicted pre budget.

- Real Estate, patchy and seems like we are bumping along the bottom at moment. Price adjustments are regular and more than in the past. Feels like the handbrake has come on again although confidence that volumes will improve soon seem closer than before.
- Real Estate, Auckland central. A sudden lift in enquiry levels and very busy open homes last weekend - quite unusual as long weekends are usually quiet. No sign of investors listing en masse since the budget.
- Real Estate - Residential - Christchurch. Still steady activity but buyers won't be rushed. Presentation and price very important, need to be sharp to stand out from the crowd. Average Kiwis still moving for personal reasons despite the state of the market.
- Real Estate: Extremely encouraging. Buyers are making decisions now, where before they would they would procrastinate unreasonably. Prices if sharp, are being paid. No evidence of landlords bailing out, in fact most inquiry we have is for investments properties. Media is still the greatest hurdle.
- Real Estate - very uncertain every time there is some good news its followed up with not-so-good news. Don't mind prices being down but its the low number of sales that is worrying
- Residential Property Investment - I'm not listening to the doom and gloomist, so-called property experts quoted in the media who are again predicting substantial double figure reductions in property values over the coming year. A subdued period ahead for property values over the coming year no doubt as investors ponder their forward looking cash flows against the recent budget announcement and what exposure they have on floating and short-term fixed debt in relation to increasing interest rates. Again those who have managed their portfolios professionally and have a long-term view will prosper while those that haven't will fall by the wayside or become dejected as they realise property investment is not a get rich quick scheme.
- I think that for property investors with cash behind them it will be a great time to add to the portfolio as long as the purchases are cash flow positive. For those who are hocked up to the eyeballs and dependent on capital gain and depreciation to offset income... they will in my view be the ones who will need to sell at a discount to get them sold and therefore push prices down. Fantastic for those with a wad of money to invest.
- Real Estate Johnsonville. Quieter market since before the budget. Possibly due to continual days of rain and cold weather. Listings coming in slowly and sales are happening but noticeably quieter.
- Nelson market very slow with poor attendances at open homes. Vendors becoming more realistic though purchasers with all the media/commentator rubbish getting further out of touch with reality. After 38 years in the industry nothing much has changed.
- Real Estate, - slightly more confidence out there, and more enquiry lately, but still hard getting offers at the right level. Many vendors still with unrealistically high expectations, and buyers being prepared to walk on to the next choice if they do not get it at their level.
- Confidence seems to be increasing, but only at a moderate rate. Real Estate Industry
- Residential Real Estate Howick/Pakuranga - still about 15% below normal sale numbers, listings dribbling in, slight downward pressure on prices. Many buyers wanting to buy conditional on sale of their own property selling, sellers generally not interested in that. I have 4 buyers need to sell wanting 1 particular property. Only keenly priced property selling.
- real estate ,confidence very fragile in our area .considerable amount of people we are dealing with that have not been able to sell their properties at a heavily reduced asking price, example beachfront buyer purchased a property for 1.8 million in 2005 then spent 600k on improvements, auctioned 12 months ago no result, recently reauctioned got offered 1.1 million , they are working with their bank, property is on the market now, asking 1.495.000, this is an example, its going to be very interesting this year. We see more pain on the horizon I think this would be a general view outside the main centres, thank you for reading this .
- Real Estate CBD and city fringe, lack of quality stock in the Ponsonby/ Herne Bay area still a gap between vendors and purchasers. City apartments lower end, small apartments returning well prices firming.

- Real Estate: Generally things are looking positive - unless you bought at the peak in 2007 and are wanting to sell now.
- Real Estate - very, very slow at present. There does not seem to be much evidence of anything improving in the short term unless buyers want to get in, buy and fix their mortgage rates before they rise too high. That may make a difference in the volume of sales.
- real estate in Queenstown still challenging, a lot of stock and a lot of unrealistic vendors, properties priced right are continuing to sell well and can still attract multi offers
- Real estate. I work in all areas , have done since 1993. Currently it is as quiet as I have known, general lack of confidence in all markets in our area, Buyers are precious and there are few of them, perception is that banks criteria has tightened to a point that it is not worth approaching them unless you are in a very strong position.
- Real Estate Hamilton: A lot more buyer activity and enquiry over the past couple of weeks, however still tentative opinions on pricing and perceived value of property. Some vendors having to lower their expectations. The houses that are selling fastest are those that are presented to the highest standard (Regardless of age) Those vendors that have put a good effort into their presentation is paying off for them, and buyers will pay the $$. "Scruffy" or untidy is not selling houses. Expectations are high from purchasers if they are going to part with their money. Happy with the level of activity. Not booming, but steady if you are servicing your clients well.
- Residential real estate North Shore - sales volumes down significantly in East Coast Bays
- Pretty Grim Real Estate Kerikeri
- Real Estate: I have been in the industry for 20 years and believe the current market sentiment to be one of the most hesitant I have experienced. House purchasing confidence is generally very weak.
- Property Investor - Some uncertainty of what is and will happen. A total re-think in regards to how best to buy, finance and investments overall.
- Real Estate Central Auckland suburbs - April and May were record months. Serious lack of replacement stock. Clients not listing properties, top end sales strong with smart money buying.
- Real Estate Sales: Low on listings, Buyers not making decisions.
- Real Estate - Has been extremely slow in the past 2 months. Buyers are being extremely careful. I can't see a rise in interest rates improving this. Also husband in retail and have been chatting to other small retailers who are finding the economy extremely difficult.
- The number of residential rentals available in Hamilton is very high leading to less enquiries.
- Residential market in Hamilton. Very low demand, and see virtually no chance of increasing rents to cover increased costs from the Double Dippers' budget, ETS etc
- Residential Property Rentals. Not much change, need to adjust rents to cover effects from budget so that cash flow stays at required level.
- Residential Real Estate Central Otago - vendors have realised that pricing your property the same as everyone else isn't getting the results. We have had some very substantial price drops and even cheekier offers from purchasers.
- Winter slow down in Canterbury (residential real estate) Spring, Summer should bring more buying and selling activity.
- Real Estate residential Christchurch ,we have had a very sharp increase in appraisals as investors look to unload properties and look for other alternative investment options .The only thing is many of these appraisals are not converting to listings as many of the appraisals are showing selling prices much lower than our investors paid for the properties two years or so ago. This is producing a real stalemate, many of our investors want to sell but cannot afford to do so .Its all a matter of who blinks first .
- Residential rentals. High occupancy rates but rents have been static for three years. Expect increases within the year.
- Residential real estate, North Shore. Some Sellers holding on to the hope that prices have increased since 2007 and some RE agents are happy to agree just to get the listing, then argue the price down later. Statistical appraisals lose out to what the seller wants to hear. Realistic sellers are withdrawing, holding off or doing renovations until the market picks up - so quality listings are slowing. Buyers are cautious, either expecting a bargain or unwilling to commit and looking for the next great deal. However well priced, well presented property is selling very very fast.
- I work in Real Estate, and am still finding reluctance from many Vendors to meet the current market. They still have high expectations. Also Buyers are more wary, often saying that the Vendor's

expectations are too high, but also more careful about committing to buying because of insecurity about their job or their business.

- Property Valuer - The property market has slowed right down, there appears to be fewer home-buyers actively looking to buy at this time.
- Real Estate - Eastern Beaches. An air of inevitability seems to have landed in the region with sellers accepting a changing market and buyers knowing they wear the shoes! Price is everything - a well priced property gains a well prepared buyer in a better than expected time frame, but there are still vendors changing agencies to try and gain their price. This stubbornness is only going to stub their toe when they kick their step after accepting an offer that is lower than what they had been offered with the previous agency!! Listings are only coming from those who need to sell - which is good - because it is meaning a steady market as these sellers are more realistic about what they can get, and appreciate what is done to get them the best one can!
- Real Estate, Residential Invercargill: Market has been tough going over April, May with sales & listings hard to get. Market still ticking over though, but at a reduced level.
- Mum and Dad Property Investors - A bit of a wait to get a full house across the board, a bit of a wait (and lost $$$) between last tenant (evicted) and new ones, all tenancies now in place and no dodgy characters either, undesirables get turned away, , no point dropping rents they really need to be rising...and still no point renting to people who do not pay their rent... and a side note, all the farmers I've talked to lately are very happy...
- Residential property investor / operator. Things are looking good - on average have pushed my rents up by 7.5% over the last 6 months in anticipation of tax changes, which will make up for the loss in ability to claim depreciation on buildings from 1 April 2011.
- Real estate, Auckland apartment sales - steady sales numbers, prices stable for 12 months now.
- Wellington Residential Real estate. Better if Europe doesn't melt down. Same old market! Steady, neither boom nor bust. Start of an old tradition for winter...shorter of stock. Investors absent. Virtually no pressured sales, to the annoyance of the bargain hunters.
- Real Estate - 18 years in the business, business owner for 7 and still selling as an owner in top 30 salespeople within xx nationally. Buyers are tentative, there is an over supply of property, investors are especially cautious and the next 3 months will be extremely challenging as the only properties that will sell will be the owners prepared to meet the market at a lower level than what we have seen in the previous 3 months.
- Real Estate on the shore. Things are going well with 6 sales unconditional in the last 4 weeks, people through open homes all is well.

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.

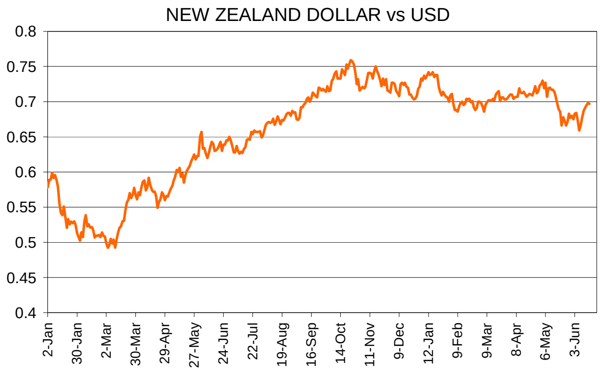
Exchange Rates & Foreign Economies

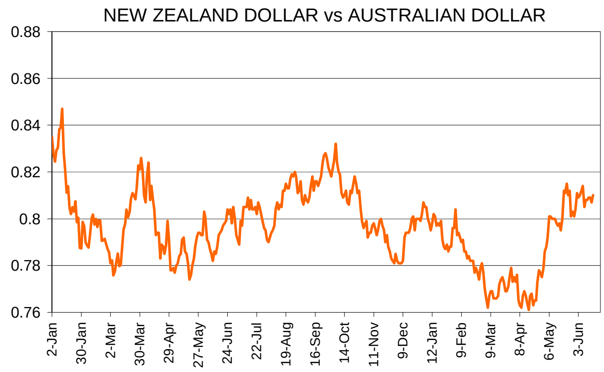
Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.697	0.677	0.706	0.710	0.631	0.566	0.592
NZD/AUD	0.810	0.808	0.798	0.772	0.794	0.773	0.856
NZD/JPY	63.60	61.70	65.10	64.00	60.8	56.8	66.8
NZD/GBP	0.474	0.464	0.486	0.465	0.384	0.371	0.345
NZD/EUR	0.567	0.563	0.572	0.515	0.456	0.427	0.51
USD/JPY	91.24	91.13	92.21	90.14	96.35	100.5	113.9
USD/GBP	1.470	1.459	1.453	1.527	1.643	1.52	1.709
USD/EUR	1.229	1.202	1.234	1.379	1.384	1.327	1.156
AUD/USD	0.860	0.838	0.885	0.920	0.795	0.732	0.69

NZD Near US 70 cents

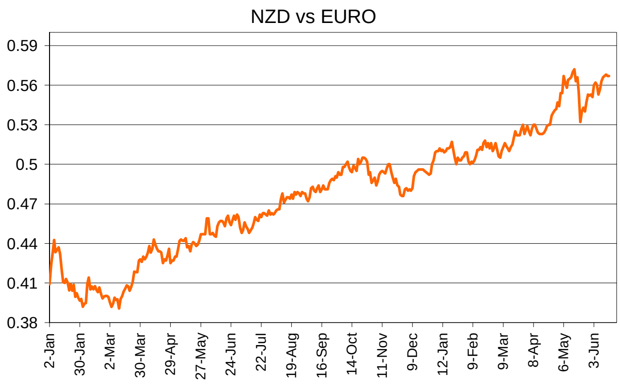
I've been at Farm Fieldays this week so commentary here is horribly limited this week. In a nutshell early in the week the NZD was boosted by a successful auction of Spanish government debt causing a reduction in worries about the European debt situation. In addition monthly trade data in China came in stronger than expected and in Australia there was yet again a better than expected monthly jobs report. The Aussie labour market is proving to be very strong with employers scrambling to get people on board having presumably already taken hours worked per individual employee back up to levels they were at before the global crisis struck. Cutting hours of work was a heavily favoured option by Australian employers for handling the reduction in output as opposed to laying people off. This limited the rise in their unemployment rate to a peak of 5.7% and the rate is now 5.2%. The United States rate is 9.7% and New Zealand is at 6%.

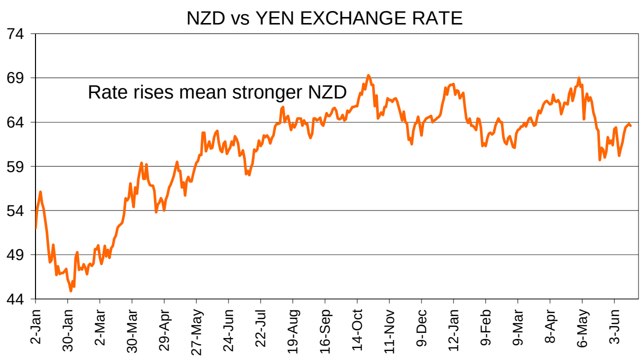
The NZD has gained two cents against the USD this week to end near 69.7 cents this evening with trade briefly as high as 70.2 cents during the week. Against the Aussie dollar we are unchanged near 81 cents and against the Euro unchanged near 56.5 centimes.

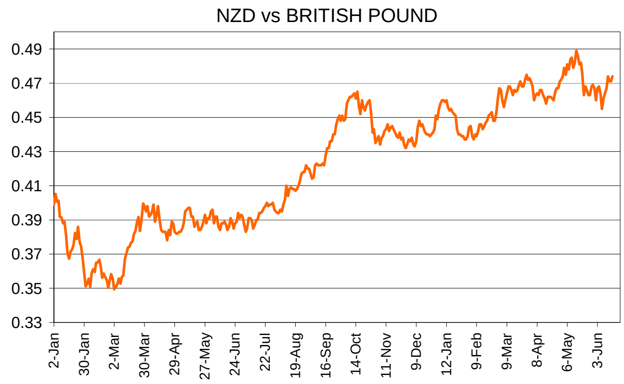




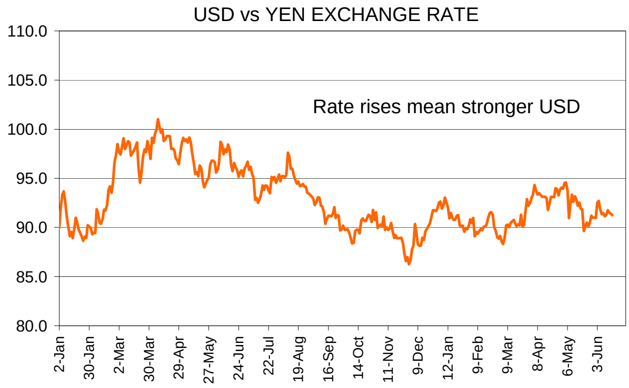
But against the yen we are stronger (but well within the recent trading range) near 63.6 from61.7 while against the British Pound we are up again near 47.4 pence from 46.4.

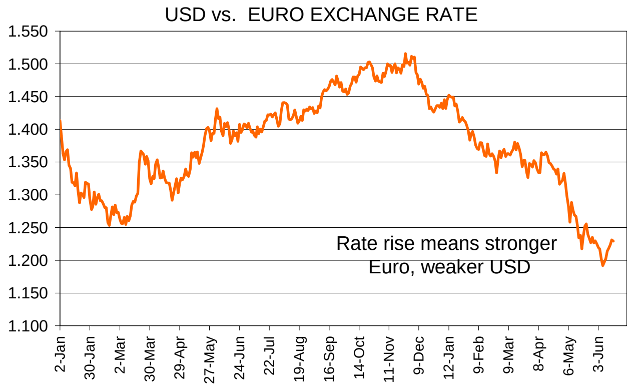


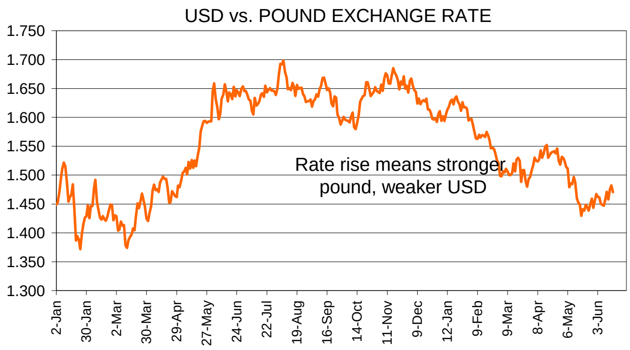


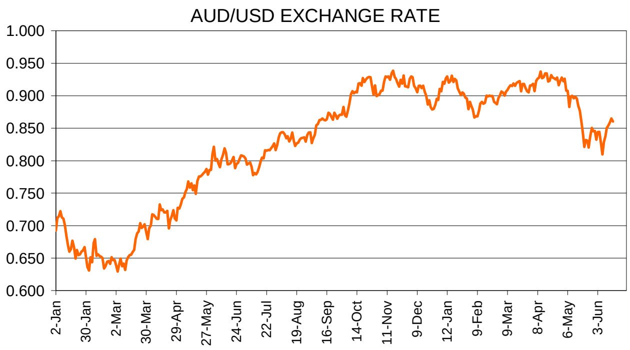


Next week, if worries about Europe continue to back off the NZD is likely to rise further especially with calmer minds likely to take a look at key NZ fundamentals such as record commodity prices and rising interest rates. But if worries about Europe resurface the NZD will go back down again. You pick which way you think those worries will go. Our broad expectation is for a rising NZD but with potentially huge volatility because we remain concerned about the situation in Europe. At the same time data coming out regarding household mortgages in the United States and related issues remain extremely worrying so one cannot discount a bout of worries again about the US which would tend to scare buyers away from the NZD. Then again, where would they go? Back to the Pound and Euro? Into Yen?









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 = 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	+19,954	22,588yr	......	9,176	4,667
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	3.1	1.0	3.1	-2.7	1.5
		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	-17.8	-16.2	41.5	43.9	-45.5
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