BNZ Weekly Overview

27 May 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.

In Brussels

I'm in Brussels at the moment located some 200 metres away from the European Parliament having just spend two days attending the annual Brussels Economic Forum. The title for this year's forum was "Strategies for a Post-Crisis World". Be certain that there was no shortage of comments from speakers noting that the conference theme had been decided a long time ago when no-one really anticipated the current new crisis underway.

To say that there are some very confused people over here would be an understatement. There are also many very embarrassed ones, and a rapidly growing number (the public) who are getting angry about their deteriorating economic prospects and confused about exactly where Europe is going. There are growing concerns about the rise of extreme left and right wing parties in response to the crisis, the financial sector is concerned about new taxes and regulations which are being applied haphazardly by Germany, and in the more extreme commentaries issues are raised such as whether the Euro can survive and even whether the European experiment has failed.

What is happening is this. The Euro currency was created 11 years ago with the Germans reluctantly agreeing a few years earlier to the abandonment of their much cherished deutschemark in exchange for assistance with German reintegration. The Germans fiercely cherish low inflation, a strong currency, and a central bank independent enough to ensure these things having seen the effects of hyperinflation between the wars and what that led to – WW2.

As part of the Euro package countries signed up to the Growth and Stability Pact. This pact was aimed at addressing what many realised to be the inevitable consequence of a single currency stretching across many economies – namely that there would also need to be rigorous centralisation of fiscal policy and in some quarters a belief of the strong need for eventual political integration. The fiscal objective was to be achieved in a de-facto sense by requiring Euro members to run budget deficits less than 3% of GDP and to keep the ratio of gross government debt to GDP below 60%.

First up some countries used accounting tricks to ensure those ratios were met so they could join the Euro on its starting date on just a few years after. Second, once in everyone turned a blind eye to those countries which ignored the Growth and Stability Pact rules. Deficits were not kept low and debt levels, although generally not too far away from the 60% level, were not kept in check.

Everything seemed fine for a number of years until the global financial crisis highlighted the inadequacies of some Euro member economies bringing the edifice near crashing down. It goes like this.

Quite legitimately, in order to fight the risk of a Great Depression following the collapse of Lehman Brothers investment bank in September 2008, and even before then, governments used their balance sheets to offset the crisis in the financial system brought on by very bad lending to the private sector. Special spending programmes were introduced, assistance given to banks, and so on. From late-February last year the appearance of the "green shoots" showed that these massive fiscal – and also monetary – efforts to beat off a Depression scenario were working. Relief set in and markets rallied in a fashion we have described here repeatedly over the past year.

But emergency fiscal policy of course comes at a cost and that cost is sharp growth in budget deficits and debt levels made worse by weak economic growth slashing tax receipts. Late last year Greece announced that their fiscal numbers were not entirely accurate and the deficit was running at and projected to run at a higher level than previously indicated. They lied basically. Investors took this news on board and thought about what it meant in terms of the relative safety of holding Greek government bonds. They thought about their willingness to keep financing an economy which had lied to them. Naturally they backed away a bit. The premium the Greek government needed to pay over and above the German government in order to issue bonds increased.

Investors then started thinking about two things – and this is the important bit. First, are there other economies in Europe which are in similar fiscal position to Greece? To varying degrees they got the answer yes as they looked at Spain, Portugal and Italy. They also looked at Ireland with its already well know major fiscal problems. But Ireland's problem was more one of the banks rather than the government. More importantly though Ireland had already bitten the bullet and instituted major fiscal restraint in order to get government accounts back in order. They were already well down the track of doing the right thing. Which brings us to the second thought investors had when they realised Greece had lied.

What are the chances the Greeks will take radical fiscal austerity measures needed to get their accounts back in order over a reasonable period of time? When asking such a question one naturally looks at past behaviour – and that is when things really started to go downhill because optimism about potential radical change was minimal. So now spreads between Greek government bonds and German bonds – the nice safe benchmark – blew out further.

Concerns about this situation naturally grew amongst the Euro Zone countries early this year and three packages were introduced to try and buy some time for Greece to implement cuts and bring back the confidence of investors. But as more and more investors started looking at the numbers involved in Greece and other recalcitrant European economies, then looked at the paltry size of the assistance packages, then considered again the fiscal history of Greece and the others they kept selling. Then the most important step in all of this came along.

Who are the investors? They are for sure managed funds the world over. But they are also European banks, predominantly German, French and UK banks. These banks count their holdings of European government debt as collateral for meeting reserve requirements. But with interest rates rising on these bonds their worth was falling thus eroding bank capital bases. If credit rating agencies kept cutting debt ratings and yields rose higher the bonds may eventually no longer be eligible even for counting as capital. This meant then that the banking crisis which became an economic crisis which became a government debt crisis was (and is) on the way right back to being a bank crisis again.

To try and stop this new bank crisis two weeks ago the Euro-Zone members decided on a special €750bn Stabilisation Fund which would be available to the Greek government and others if they needed to fund their deficits and replace maturing debt but were unable to do so in the marketplace. The hope was that the huge size of this fund would impress all and sundry and the markets would calm down. They have not calmed down. We have seen this week further aggressive selling of shares around the world with investors moving funds into what they consider to be "safe" assets in the context of the current new crisis. They are buying gold, Japanese Yen, US government bonds and German government bonds.

But they are not just dumping risky European assets solely because of the Greek-initiated debt crisis. Here are a few other factors in play.

First, there is growing acceptance that the Europeans should have let Greece go to the International Monetary Fund straight away to get emergency financing for their deficit and in exchange undertake deep fiscal restraint and radical structural economic reforms. They did not and this has boosted the long running often unspoken view that there has been and is way too much tolerance of bad behaviour among EU members in the interests of keeping everyone calm, polite and friendly so the long run will one day be reached where they are all one. This politeness meant a desire to keep the problem in-house rather than call in outsiders. Crisis management in Europe has been shown to be inadequate.

Second, to try and stop the aggressive selling of European government debt the Germans unilaterally announced a ban on naked short selling of certain shares and debt instruments with plans now announced to extend the ban. Naked short selling – which the US stopped in 2005 – involves selling something you do not own or have not borrowed for a while from someone else. You are betting on being able to buy it back when the price is lower. Short selling can accentuate market volatility.

This move by the Germans hugely upset the French in particular and generated a whole new wave of selling because it showed policy coordination among EU members at such an important time is severely lacking. France and Germany are the two biggest EU economies.

Third, as part of the recent big bailout package the European Central Bank was allowed to/instructed to buy the bonds of bad governments. This is not a monetisation of debt because they will issue their own debt to keep the money supply unchanged – sterilised. But the important point is that the ECB is no longer as independent as it was. It is tarnished. It is no longer the Bundesbank-like institution the Germans thought they were getting when they reluctantly signed up to the Euro.

Fourth, there are wild and woolly policy proposals now being thrown around either as means to help solve the current crisis or as a way to avoid a future one. These include governments having to get approval for their budgets from a central body before they present them to Parliament. This has gone down very very badly in many quarters because it is way too big a step along the way to US-like federalism.

Fifth, some commentators seemingly under-estimating the extreme desire Euro-Zone members have to make their currency survive and work properly speculate about it either disappearing or losing some members. This is not going to happen but the comments scare more people.

Sixth, there is a strong view that Greece will not be able to rein its deficit in at a fast enough pace to outrun the rise in borrowing costs caused by rising interest rates. They may in other words default and settle in for a debt-restructuring deal as we have seen over the past 20 years in Argentina, Mexico and Russia. This card remains very much in play and the worry naturally is that this will erode massively the capital bases of European banks and one is right back into massive lending restrictions, calls for bailouts and so on. Basically the post-Lehman's type scenario again. Worries about this help explain why banks have once again become less willing to lend to each other and this lies behind the commentary you will almost certainly already have seen regarding bank borrowing costs rising.

Seventh, there are growing concerns that much as national parliaments may be able to pass fiscal austerity measures as has happened in Ireland and Greece and is underway in Spain, Portugal, Italy, and the UK, the pain may be too great for the people. Rioting in the street is one manifestation of this pain, but for those of us in New Zealand unused to rioting for anything other than the Depression in about 1932 (Queen Street), or the Springbok Tour, these things can look quite serious. But such actions as we saw in Greece a few weeks ago are not overly rare in this part of the world.

The issue is not the rioting but the politics. Could the growing angst cause a rise in radical left and right wing political parties who fairly much have only one thing in common and that is their desire to stop the centralisation of European powers. Listening to speakers at the conference and picking up the things which

are dropped into conversations but not stressed it is clear that concern about this issue is very high. One test is going to be in September – October when there are local authority elections in Greece.

There are strong connections between the local body politicians and parties and the national ones and if those Autumn elections bring some radical shifts they could impact on the Parliament and that is where one might start to talk more seriously about a debt default/restructuring by Greece if the politicians decide that is more acceptable to their people than the legislated pain.

Eighth, the Europeans have realised that they mucked up the implementation of the Euro and that their great unification dream has been too much wistful polite thinking and not enough outright strategic-type planning for crisis events. In the words of one of the senior officials I spoke with, no-one took ownership of the fiscal recalcitrance along the way. There is a growing desire to orient policy toward prevention of the next crisis and minimising the contagion effect when it happens. These are good things. But one perceives a risk that a focus on such an effort will cause some diminution in efforts to boost long term productivity growth in Europe. That is one lesser reason why investors are speaking in terms of a structural shift down in the price of the Euro against the Yen and US dollar.

Ninth, the Mediterranean economies are extremely inefficient. Labour markets are massively rigid with about half of Spain's workers for instance in jobs where they cannot be sacked. Retirement schemes and ages of eligibility are very generous. The structural reforms which may accompany fiscal austerity measures (or may not) will aggravate the short term pain as these economies sink to their true bases and that raises political risks noted above.

Tenth, people are speaking in terms of how to equate competitiveness across the European Union. Germany underwent ten years of wage restrictions while many other economies borrowed everything they could at low Euro interest rates, took their wages through the roof and had a really good time. In some quarters at the same time as people speak in terms of improving the competitiveness of southern European economies by cutting wages, they also talk about the need to boost German ones. They talk about getting Germans also to spend more so their current account declines. In other words they are talking about not just using Germany to subsidise much of the rest of Europe but also getting them to bastardise their own strongly help beliefs regarding strong competitiveness, healthy exports, and low inflation. Such thoughts are ridiculous and generally seen as so in more considered quarters. But the fact they get aired is illustrative of a tendency to try and blame people other than the Greeks etc. for their predicament. That then becomes a recipe for watered down reform in those economies with effort instead put into lobbying the Germans to become worse economic managers.

Eleventh, when the 2007-08 crisis came European governments had dry powder which they could use to fight it. Interest rates could be cut (from 4.25%), and fiscal policies could be loosened. Now there is very little dry powder left. The ECB's cash rate sits at 1% and governments are having to tighten fiscal policy not loosen it. The economic risks then in the event of a crisis (as we have now) are much higher.

Twelfth, the situation of the Korean Peninsula has taken a large turn for the worse this week with confirmation that the North Koreans killed 46 South Korean sailors by sinking their ship. Where this situation goes is extremely unclear but military action which could devastate trade in the area not to mention general confidence remains a possibility.

The current government debt crisis in Europe which risks turning into a completely new bank debt crisis (though tied inextricably back to the earlier global crisis) is in play right now. The risk is that this region remains in this crisis situation for a considerable period of time. The risk is also that it gets worse before it gets better.

BUT

Thankfully, at the same time all this bad stuff is happening in Europe there are some other areas of strength which will help insulate our economy this time around and almost certainly prevent anything remotely approaching the double-dip recession scenario talked about in Europe. And briefly on that, forecasters here

are still of the opinion that the EU will record mild (near 1%) growth this year and next with new recession being avoided, assisted by the fall in the Euro and resurrected growth in export markets.

For ourselves one major piece of good news is obviously the announcement by Fonterra of a 50 cent rise in the payout so far projected for this season plus indication that if things stay the way they are with regard to the currency and commodity prices one could be looking at an $8 payout. That will go a long way to at least consolidating the small recovery in the rural real estate market we noted last week and get the dairy industry again thinking and planning expansion – irrigation, conversions etc.

For the moment though one suspects debt repayment will remain the focus of many and it may for the coming year only be those with already very good balance sheets who take advantage of what has been a lack of farm buyers to pick up a few extra properties.

Another piece of insulating news for ourselves is the continuing good news coming out of the United States – sharemarket weakness not withstanding.

What then broadly can we take as implications for New Zealand of what is happening here in Europe. Firstly the outlook for exporters over here is deteriorating as growth prospects dim. Second, it is very unlikely that the NZD will fall substantially against the Euro and Pound in the near future. That also means reduced returns for exporters here. Third, banks are having more difficulty borrowing funds in the European market with the cost of doing so increasing. This is likely to manifest itself in New Zealand as reminders to borrowers that credit availability is not what it was and is never going back there, and that much as swap rates may be falling (see below) liquidity premiums are once again going back up.

Finally, it is very difficult to envisage tourist numbers from this part of the world improving in the near future. But one might see some extra migrants – especially from the Mediterranean countries.

INTEREST RATES

The crisis in Europe has pushed swap rates down on falling inflation worries but the extent to which these declines feed through into rates facing NZ retail customers will be limited if not completely offset by rising liquidity premiums to fund offshore. We remain of the opinion that unless sharemarkets collapse another 20% in the next fortnight the RBNZ will raise the official cash rate 0.25% on June 10 and indicate plans to raise the rate steadily from then on, but with an eye to changing the pace if conditions turn out to be weaker or stronger than they expect.

Key Forecasts

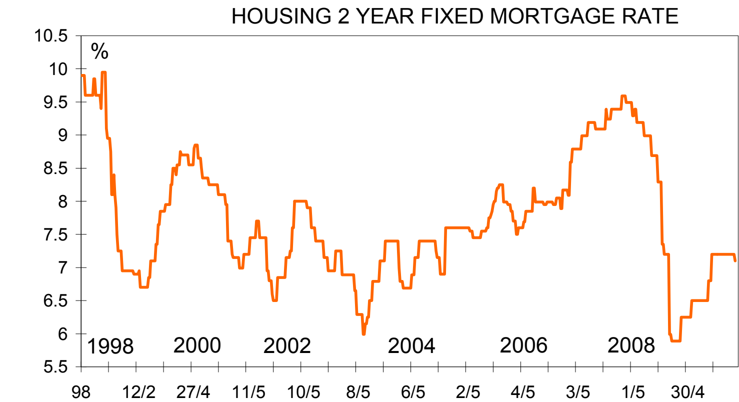
- Tightening mid-2010.
- Medium to long term housing rates to rise again in a few months.

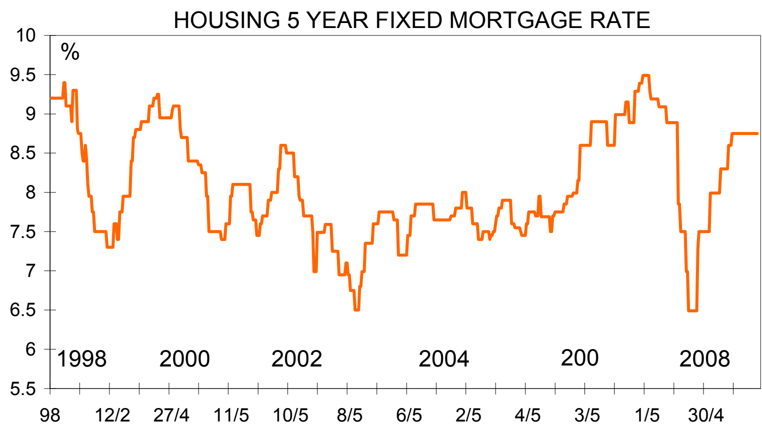
FINANCIAL MARKETS DATA

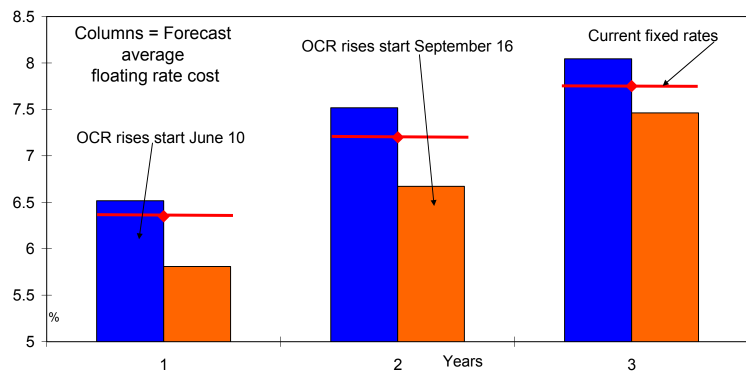
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	6.2
90-day bank bill	2.95%	2.95	2.70	2.71	2.80	6.5
1 year swap	3.64%	3.73	3.60	3.44	3.04	6.7
5 year swap	5.25%	5.38	5.37	5.23	5.16	7.0
180-day term depo	4.80%	4.80	4.70	4.88	3.15	6.0
Five year term depo	6.75%	6.75	6.75	6.75	6.00	6.5

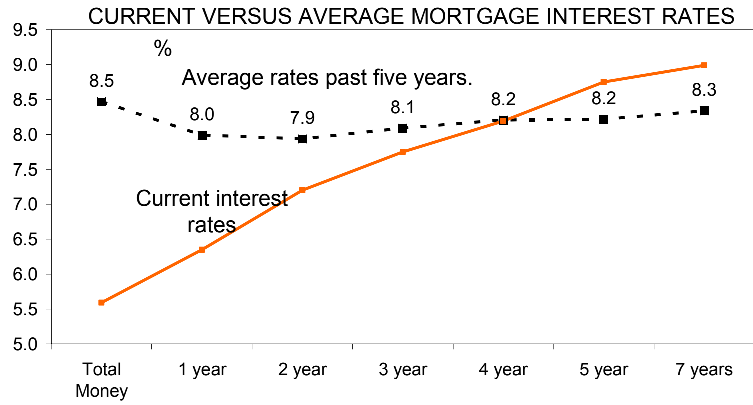
If I Were a Borrower What Would I Do?

Still toss a coin between staying floating and opportunistically hopping into a 1-3 year fixed rate. At the margin the risk remains that the Reserve Bank does not take the official cash rate in a straight line manner to the 6% level we have pencilled in for early 2012 and that suggests those choosing to stay floating won't necessarily be worse off than fixing out to then. Note as ever however that no-one can avoid higher funding costs if they face a fixing decision now because of the risk floating rates are near their peaks in three years time.



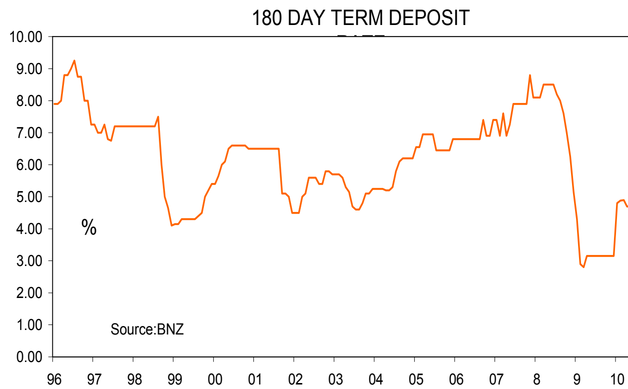


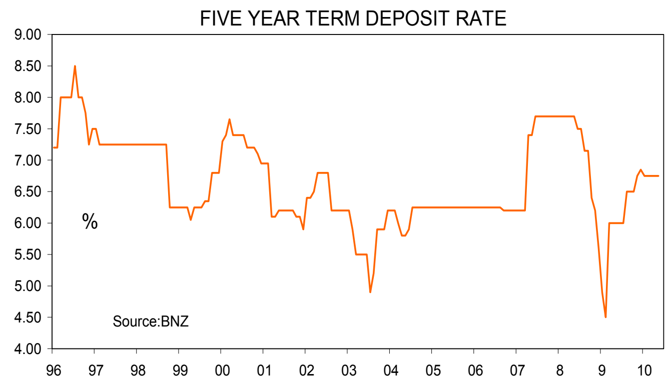




If I Were a Term Deposit Investor What Would I Do?

Nothing new sorry. I stay short looking to ride those short rates up once the RB starts tightening then hoping to be clever enough to pick the peak in the long rates. Sounds good in theory.





HOUSING MARKET UPDATE

So That Was The Budget Shock

I am offshore at the moment and although access to data is exactly the same as if I were in NZ one's mind is naturally on other things – such as how bad the situation is going to get in Europe and whether Greece might be better off simply halting debt repayments and restructuring its obligations like Mexico, Russia and Argentina in years not too long ago. But here are some housing thoughts.

I see that a survey of 2,459 landlords has found just under half say they plan raising rents as a result of the Budget. My first response to that is that the over 50% planning to leave them unchanged illustrates quite well the lack of business nouse amongst average Kiwis. Given what is going to be a worsening imbalance at current prices between the supply of and demand for rental property, failing to raise rents will not only deny them easy income, it will prevent the very market response needed to ensure housing supply responds to the imbalance. In a nutshell one sees why NZ is failing to go back up the OECD ladder.

Second, there has been a noticeable – but in our opinion predictable – lack of much wailing and screaming amongst landlords with regard to the Budget's announcements. In fact the popular response has been one of "It could have been worse." In other words don't be sitting there hanging out for a great wave of property to hit the market so you can pick up a bargain. The time to do that was over a year ago when we told you to. If you didn't maybe it was because you were waiting for a 40% price collapse!

Third, borrowers on floating rates are highly likely to be hit with higher floating rates soon even though things are getting worse and worse where I am at the moment – which is Brussels. Speaking of Brussels, this is a cit of unusual monuments of distorted looking people, lots of Soviet-era looking mid-range storied buildings with tiny shopping spaces at the bottom but usually no shops. There is a lot of litter around the place and missing cobblestones along footpaths.

Walking along the footpaths is not only dangerous because of the surface but because of the bikes. Roads have cycle lanes – which is excellent – and if one is looking left when crossing in order to avoid getting run over by a car there is a good chance one will see a bike if it is coming. But along the really busy and wide roads the bike lanes form part of the footpath. The fact the footpaths are widened to allow the metre-wide bike strip is good. What is not good is that one will be walking along the footpath feeling safe when a bike will go haring along at great pace scaring the bejeebers out of one.

But that is not the real problem. The big problem which I swear will see me bowled over before I leave on Friday is this - again with reference to the big roads. The pedestrian lights take ages to change, so when there is a gap in the traffic one simply crosses the road. But you know that feeling of safety you get when doing that and you reach the footpath – NOT in BRUSSELS! Because if you relax and forget to keep looking left and right as you step from the road to the footpath you risk getting bowled by a cyclist. Only blind luck has so far prevented that from happening to me – as of your Wednesday morning at the time of writing this particular section.

The apartment I am staying in is near the European Parliament which I shall take a look at come Thursday after the conference I am here for finishes and I've ended meetings with a range of people from the European Commission Directorate-general for Economic and Financial Affairs. The area around it is a bit messy because of continuing construction but the set of buildings themselves are quite impressive. Next week maybe I'll write something here about London. I saw a lovely place near Hyde Park three days ago, in Mayfair of course, and at only £11mn for the four stories. They're practically giving it away!

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

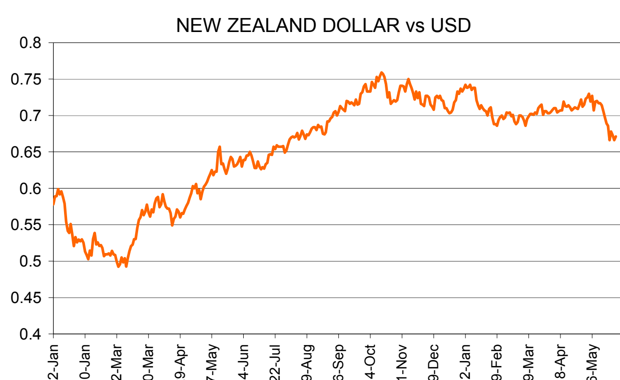
- Dwelling consent numbers to recover now with potentially good activity from late-2010.
- House prices edging higher after tax change effects wend their way through.

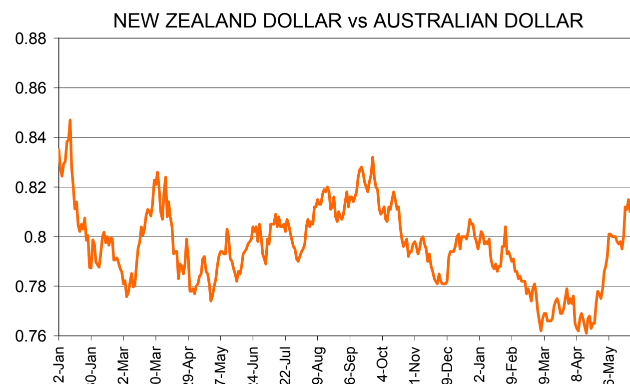
Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.671	0.686	0.722	0.691	0.625	0.566	0.592
NZD/AUD	0.801	0.812	0.778	0.779	0.794	0.773	0.856
NZD/JPY	60.70	63.00	67.80	61.50	59.4	56.8	66.8
NZD/GBP	0.463	0.476	0.467	0.453	0.393	0.371	0.345
NZD/EUR	0.547	0.555	0.539	0.510	0.447	0.427	0.51
USD/JPY	90.46	91.84	93.91	89.00	95.04	100.5	113.9
USD/GBP	1.449	1.441	1.546	1.525	1.590	1.52	1.709
USD/EUR	1.227	1.236	1.340	1.355	1.398	1.327	1.156
AUD/USD	0.838	0.845	0.928	0.887	0.787	0.732	0.69

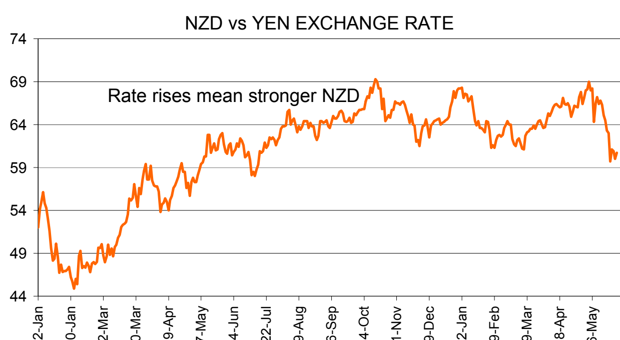
Kiwi Edges Lower

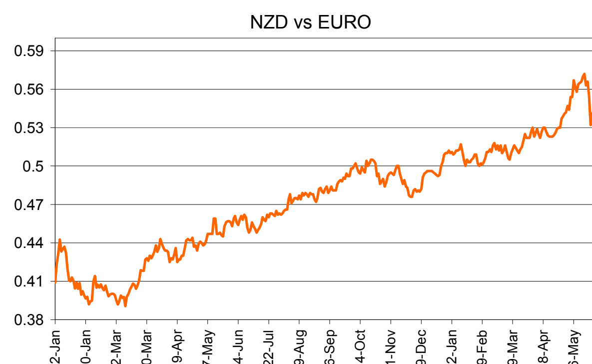
The Kiwi dollar this morning (your time) was trading just over US 67 cents, down from 68.6 cents a week ago and 72 cents two weeks ago. Against the Aussie dollar we have edged lower after the strong run up a week ago as the Aussie dollar was sold heavily, and now we sit near 80 cents from 81.2.

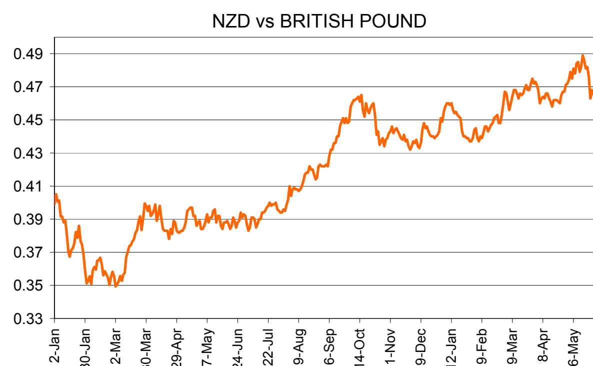




Against a Japanese Yen buoyed by flight to safety buying we are down near 61 from 63, and against the Euro and pound we have also edged lower by small amounts as shown in the table above.







The Kiwi dollar has sunk further over the past week depressed by heightened global risk aversion offsetting the positive news from Fonterra regarding next season's payout forecast to be $6.60 from $6.10 this season. Moe importantly the comment that ceteris parebus the payout would hit $8 is extremely good news – but there is a long way to go before we get to that point and the matter of the moment is of course what is happening in Europe.

Over the week investors have been selling risky assets like shares, volatile currencies, and European government debt amidst worries about a diverse range of things including the following.

- Uncertainty over the ability of governments in Europe to be able to stick to their planned austerity drives if there is a public backlash and social unrest.
- Uncertainty over the exposure of European banks to European governments' debt.
- Discontent with the unilateral decision by the German government to ban naked short selling of some securities and talk that the ban may be extended.
- Worries about a savings bank having to be taken over in Spain and other small banks having to rapidly figure out ways to merger.
- Concerns that if credit ratings are cut on European government bonds there will be substantial extra selling bringing even more risk of bank collapses over and above risk posed by current bond exposures.
- Worries about the deteriorating situation on the Korean Peninsula.
- Worries about Chinese efforts to slow growth – or more accurately to prick a speculative property price bubble – and the risk these efforts cause a collapse in investor sentiment there.

With these uncertainties in play currency predictability is even worse than its usual asymptotically zero approaching line. But for what it is worth, unless things change decidedly for the better over here the risk is the Kiwi gets sold down further before rising over the remainder of the year on the back of tightening monetary policy and investors refocusing on our high commodity prices and an improvement in the monthly merchandise trade accounts revealed yesterday.

When I give talks around the country I invariably remind people about the impossibility of forecasting currencies. Then come the Q&A session get asked to do exactly that. And during the week someone sent in an email noting my comment about rate unpredictability and the uncertainties involved, then asking for updated forecasts. Okay, no problem. All one has to do is go through a four stage process.

First undertake the usual time-honoured analysis involving interest rate differentials now and expected, current account differentials now and expected, growth rate differentials now and expected, and various other economic measures now and expected.

Second, forecast how the expectations for all of these things will change between now and the end point one is interested in.

Third, forecast which of these factors the markets will choose to give greatest importance to come the end point.

Fourth, forecast all of the uncertain elements in our list above, predict how they will evolve, and forecast what new ones will come along and how they will evolve. Here is a hint for that last one. Include the impossibility that Israel will allow nuclear weapon development in Iran and how that scenario will play out with regard to interruption of oil supplies once the military action occurs.

Une morceau de gateau !

Which is why we include the second to last column in the FX table above. it shows the average forecast made by economists around the world a year ago for the various exchange rates shown. Compare those with where rates are at the moment.

if you have an exchange rate exposure, managing it does not involve forecasting where it is going to go. That cannot be reasonably done. Managing one's exposure comes down to choosing how much risk you are willing to buy. If you like risk and are prepared to pay a high price for it you don't hedge. The price is the unhedged exposure which could easily go wrong.

From that point on for those who don't like risk so much then the price they are prepared to pay goes down and that means cutting downside potential. That means choosing an appropriate level of hedging and method of hedging and being prepared to change both of those things if there are either substantial changes in the riskiness of the FX environment (like now), or big exchange rate moves well away from where you set your hedges up which could allow you to do some extra hedging at even more advantageous rates. In that regard, the Kiwi dollar's strong move down against the greenback recently – while possibly not over for now – does present an opportunity for USD receivers to alter the timing of some of their planned receipts hedging to now rather than perhaps next month or in three months time.

One could write more with regard to factors moving the major currencies, but time is short so that's it.

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