BNZ Weekly Overview

4 March 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….

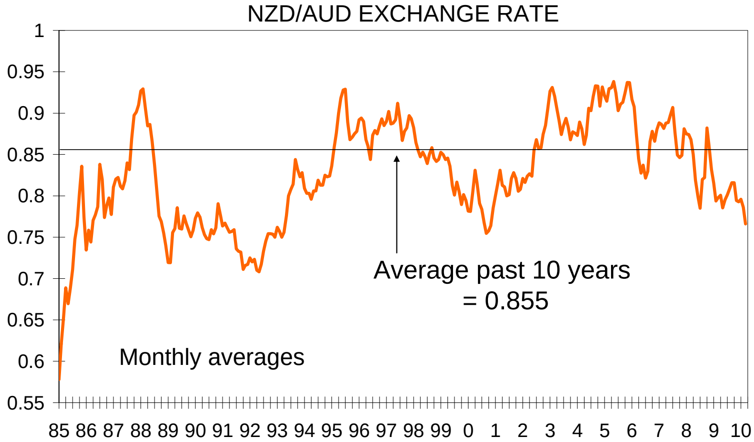
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line.

Survey Time

This is the first issue of the Weekly Overview for the month therefore we are running our regular survey. If you have not already done so from the email link please cut and paste the URL below into your browser, click on it and let us know whether you believe the economy will get better or worse over the coming year. Then, if time permits, pen a sentence or two letting us know how things are in your industry at the moment specifying what that industry is. Legible replies focussed on current conditions will be compiled into our report which will appear early next week.

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

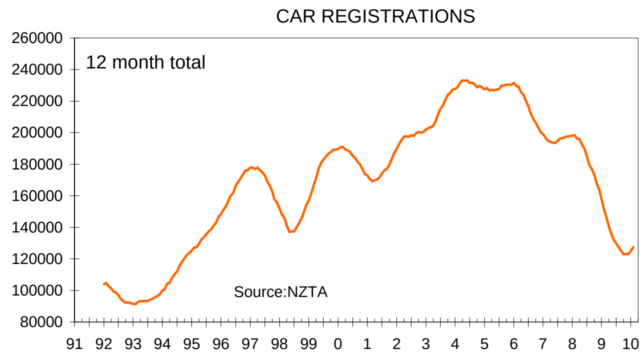
This week we have learnt that the Australian economy is growing at a fast pace compared with the (non-Asian) world and the resulting tightening of monetary policy by the RBA has produced a very attractive exchange rate for NZ exporters of goods and services – including tourism – to Australia. This fast Aussie growth and the lowest cross rate in near a decade will help recovery in our own economy this year as over 40% of our visitors come from Australia and around half our manufactured exports go there.

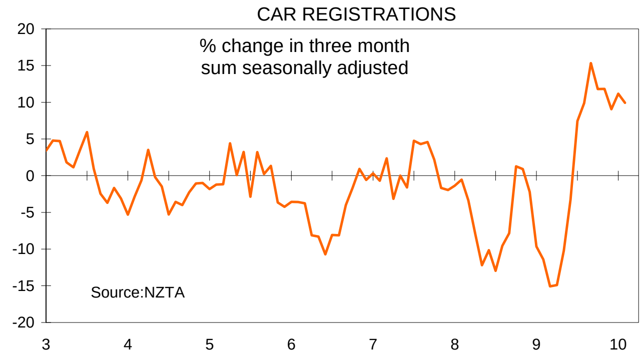


We also learnt that net inward migration flows to New Zealand remain very strong and now stand above 22,500 in the past year compared with 3,500 in the year to November 2008. This also is a supporting factor for our economy through firmer retail spending and good support for the housing market at a time when uncertainty and concern about tax changes is clearly encouraging more listings of property and some downward price pressure here and there.

But bringing together these two factors one can see where ourselves and now increasingly many other forecasters draw their opinion from that we will see the net migration numbers edge lower later this year as Australia proves very attractive – especially to the currently under-employed skilled tradespeople.

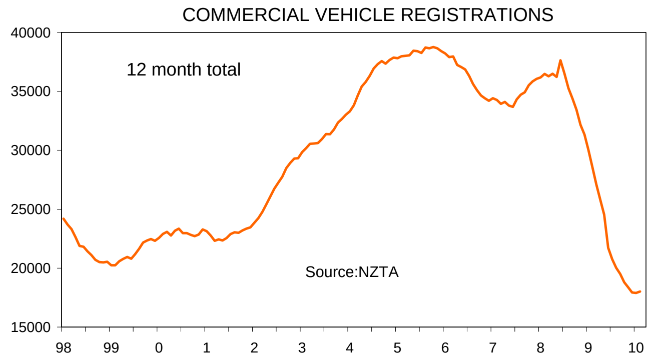
We also learnt this morning that expenditure on cars continues to recover. In February there were 11,063 cars registered around New Zealand. This was a 31% rise from a year ago and for the three months to February regos were 14% ahead of last year and 10% up from the three months to November in seasonally adjusted terms.

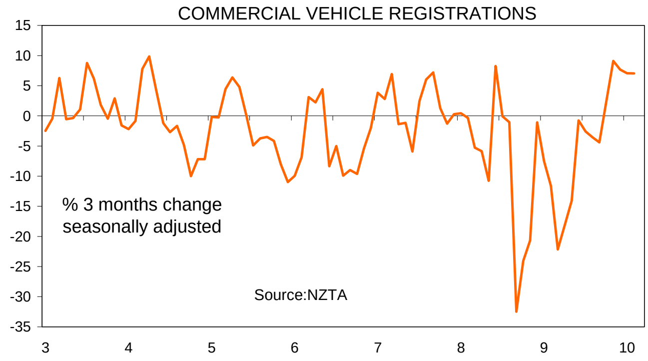




Expenditure on cars has broadly been improving since the middle of last year and we would expect growth to continue as people replace aging vehicles, and later on this year an improving labour market brings increased buying willingness from average consumers.

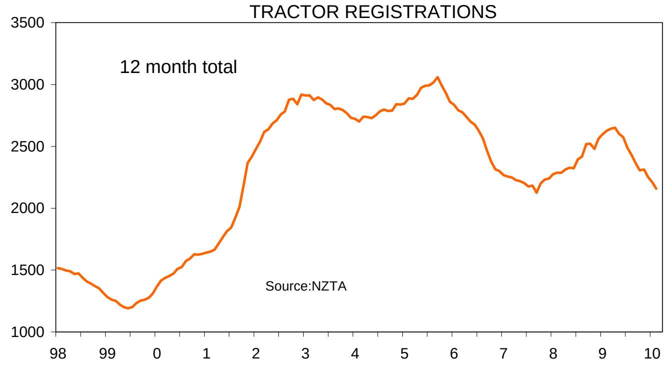
There is also evidence that businesses are spending more on vehicles. In February the number of commercial vehicle registrations was ahead 8.5% from a year ago at 1,529. In the three months to February regos were down 8% from last year but up 7% from the three months to November seasonally adjusted. An upturn in this area of spending has been underway since late last year and is continuing. But activity is recovering from a very low base.

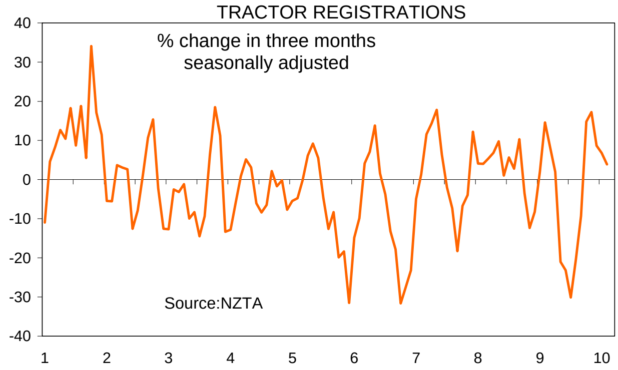




There is even a small recovery in tractor registrations underway but it is weaker than for the other two vehicle types. In February there were only 126 big colourful broom brooms registered around the country which was a decrease of 29% from a year ago. That sounds bad, but an interesting dynamic for the farming sector has been that determination to reduce spending and stop accumulating debt did not really set in until about the middle of last year. The sharp decline in the NZD/USD exchange rate following the Lehman Bank collapse in September 2008 appears to have pleased farmers so much they neglected to look at the accompanying sharp decline in credit availability which now manifests itself as harder conversations with their financiers.

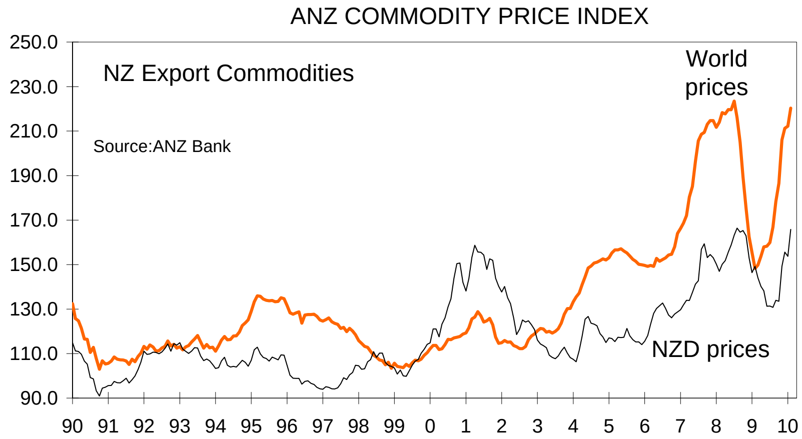
This reduced availability of credit – or more accurately the absence of the unusually generous credit conditions to farmers ahead of the Lehman's collapse – manifests itself most clearly in weak farm real estate where sales in January were just one-quarter the total two years earlier.





Back to tractors – in the three months to February regos were down 24% from a year ago but up a small 4% seasonally adjusted from the three months to November. That is a very small recovery and while one might normally speak in fairly negative terms here considering the indebtedness of farmers and the above average exchange rate, there is also the great support from the dairy payout having been revised up strongly this season, a small gain in prices (0.8%) at Fonterra's auction this week, and a more generalised rise in export commodity prices to the second highest index reading on record.

The ANZ Commodity price Index in world price terms rose another 3.8% in February to sit a massive 48.6% higher than a year earlier and just 1.4% below the July 2008 peak. Even after adjusting for exchange rate moves the index gained 7.9% in February to sit 11.1% up from a year ago and only 0.4% below the August 2008 peak. Nice.



So we have in NZ

- a new commodity price boom only slightly mitigated on average by the early cyclical rise in the NZ dollar against some currencies,
- a near ten year currency low against our biggest trading partner,
- strong growth in that trading partner's economy,
- the lowest floating mortgage rates in four decades,
- a structural lift in infrastructure spending,
- preparations for the 2011 Rugby World Cup,
- catch-up spending on vehicles underway,
- tax changes in May which could represent an easing of fiscal policy overall,
- net migration inflows 10,000 above the ten year average 13,000 net gain per annum,
- well above levels of business and consumer confidence, and

- anecdotal reports of employers starting to pick up good staff again and above average employment intentions.

But why aren't we booming and why do we expect growth of only around 3% this year and next?

- Credit availability has structurally declined and people appear – for now at least – to be determined to reduce their debt levels.
- Each month seems to bring some new worry regarding other parts of the world be it excessive inflationary growth in China, debt in Europe, debt in Dubai – and whatever this month will bring.
- Fixed borrowing costs have increased early in the recovery cycle.
- The NZD is on average above average early in the cycle.

GUEST COMMENTARY - ICEHOUSE

This month, we are going to discuss angel investment and the role it plays in our economy as we are seeing some interesting trends emerging.

Angel investment is a sub-set of private capital markets. It is where individuals make an investment into a company typically for a financial return. Normally, an entrepreneur will start his or her business with their own money and then if that runs out they will look to friends and family and when they have exhausted those avenues they turn to angels to back their company. Many of you will have lent or invested funds into friends or family members companies or know someone who has. This is also called the '3 Fs' investing – you work out what the 3rd F stands for!

Angels either act alone or work in groups and often provide significant mentoring, guidance and networks to the firms to help them reach their business objectives quicker and more effectively. After angel investment is venture capital which is where organizations invest other people's money into companies for financial return. Beyond this there is the private equity, public equity and debt markets, although largely they are the domain of established and large businesses.

Angel investment is very important to economies because it provides fuel for new companies to grow, it normally focuses on high-growth capable companies who are exporters and as a result it creates significant numbers of high value jobs and foreign exchange. Friends and family normally invest because of the personal connection and hence it is a tad emotional, while angel investors should be looking for as much as 10-20x return on each investment. These angel investments will therefore have significant ramp-up in revenue if they are successful and typically will be internationally focused because our markets are typically too small.

To give you some flavour of the importance, think about the guys who backed Skype, eBay or Google or locally the people who backed even Sam Morgan's TradeMe, the returns were fantastic, but just as importantly the jobs created from these great investments have benefited their economies.

In the US last year angel investment and venture capital was about the same in dollar terms – a staggering $25b. However, what was really interesting was that angels backed 50,000 firms while VC backed 3,500. You don't have to be a rocket scientist to see that with so many firms, angels really are creating so many more jobs than VC and are underpinning the growth in most economies.

In New Zealand, we got our 'investment' scene a bit out of order. VC came into its own in the early 2000s while angel investment has only really started to make significant strides in the last two years. There are now angel groups in most cities in NZ, and last year the number of investments made was up 25% while the level of dollars invested was double. There really seems to be some momentum across New Zealand with now a realistic avenue for our Kiwi entrepreneurs who want to build global businesses.

In that context, I was fortunate to attend a conference in Australia recently where many of the top angel investors from the world were present. There were some very interesting trends emerging which I think are relevant for New Zealand. Not only has the world significantly changed over the last 12-18 months with the global recession but it has been even more challenging in the private capital markets with a dearth of funds available to invest.

Here are the trends I observed:

- No country has found an investment funding model that provides sufficient capital to support the growth aspirations of its growing firms, which means fewer companies will be funded with less money, which means lower economic growth:
- The venture capital model continues to be challenged, and will be for some time
- Large venture capital funds seem to be a thing of the past, with smaller micro and specialized venture funds being created, if any at all
- Public markets will not make up the gap and nor should they, as by and large it is not appropriate to have these young firms in a listed environment
- The angel investment market has under-gone significant growth, but is not making up for the gap left by the demise of venture capital
- Sharing of 'angel investment' cross-border could fill the void of VC, as well as provide a very effective method of supporting firms entering international markets, but this is predicated on angel investors building relationships with angel investors in global markets, which takes time.
- While angels continue to look for highly scalable businesses which can reach $20m turnover in 5-7 years they have been forced to react to the changed market conditions. They are pulling the valuations of companies down, requiring the entrepreneurs to get to break even within 18 months and refusing to invest if the capital requirements of the companies are at VC levels. If you have a business which needs $5m investment as opposed to $500k to get to break even, then you should probably give up now.
- International syndication of angel backed investments is a significant opportunity and appears to be occurring between the US and Europe but not in this part of the world. When you get a Silicon Valley or Singapore angel investor joining an investment with a Kiwi angel investor, you not only get money but you get networks, and access to markets in global markets – a huge advantage.
- An R&D dilemma has emerged for Governments. Given the changed market conditions and the lack of venture capital world-wide, this has significant implications on Government's strategies with respect to commercialization of R&D from Universities and Research Institutes. The reason is that Government's strategies (including in NZ) have historically been built on the assumption that venture capital would provide the necessary funding to take these concepts to market. The people packaging this IP now need to re-evaluate completely as we have a bunch of hungry and capital intensive concepts being created which will have no chance of securing funding.
- Angel investment is now a significant asset class world-wide, with many formerly successful entrepreneurs and retired corporate executives entering the angel investment market. It is estimated there are over 1,500 angel networks world-wide with up to 10 now in New Zealand. These angels are investing and also giving their time and should be following best practice angel investment which is to invest up to 10% of your 'at risk' portfolio in angel investing, and work to invest in a minimum of 10 companies in order to get portfolio spread so that you might be able to achieve a long-term return of around 25%.

If you want to discuss, contact Andy at a.hamilton@theicehouse.co.nz

The BNZ is a Foundation Partner of Business Growth Centre The ICEHOUSE. The ICEHOUSE gives owner managers and entrepreneurs the knowledge, tools and contacts to grow internationally capable businesses. Together with a start-up business incubator and New Zealand's largest group of angel investors, The ICEHOUSE delivers award-winning, education programmes for owner-managers with growth aspirations. More than 1,000 BNZ business customers have benefitted from these programmes. In 2010, the BNZ is supporting world-renowned angel investor, Bill Payne to come and live in New Zealand for five months as the BNZ University of Auckland Business School Entrepreneur in Residence
www.theicehouse.co.nz

INTEREST RATES

Next week the Reserve Bank will release their three monthly updated set of economic forecasts in the Monetary Policy Statement and review the official cash rate which has sat at 2.5% since the end of April last year. We expect a reiteration of their expectation that the cash rate will start rising from the middle of the year (June 10 is our pick) and recognition that the economy appears to have lost a wee bit of steam at the turn of the year, most notably with regard to issuance of consents for commercial buildings, housing turnover, housing consents, and retail spending in December.

But they are also likely to note reasonably firmly the strong growth in Australia and the other stimulatory factors we listed above and the need to start removing a cash rate no longer needed to combat a massively weak global economy. They may also note however the way in which current monetary conditions are actually a lot tighter than implied by a 2.5% cash rate. Bank funding costs are structurally much higher now compared with that rate than in the past due to more aggressive bidding for term deposits in NZ producing rates about 2% above the OCR – not very close to it as in the past.

They may also note the tightening of bank lending criteria, their own work on getting banks to boost liquidity levels and capital reserves, and the increased risk premiums demanded by investors for funds raised offshore. The above average trade weighted index is also relevant.

Maybe a 2.5% cash rate now is more akin to something like 4% or 4.5% in the past. That makes forecasting where rates will go from here more difficult than usual – not just along the way as the RB assesses the effects of their rate rises, but also where the peak may be in rates. When is also a best guess situation.

This week swap rates have crept slightly lower on the back of some improvement in global risk sentiment associated with Greece implementing some fairly severe fiscal tightening measures and better than expected manufacturing data in the United Kingdom overnight. While NZ 90-day bank bill yields are where they were a week ago just above 2.7%, the five year swap rate has edged down again to near 5.17% from 5.23%.

Key Forecasts

- Tightening by mid-2010.
- Medium to long term housing rates to keep on rising.

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	3.50	6.2
90-day bank bill	2.72%	2.73	2.80	2.81	3.23	6.5
1 year swap	3.40%	3.44	3.46	3.42	3.01	6.7
5 year swap	5.17%	5.23	5.39	5.50	4.26	7.0

If I Were a Borrower What Would I Do?

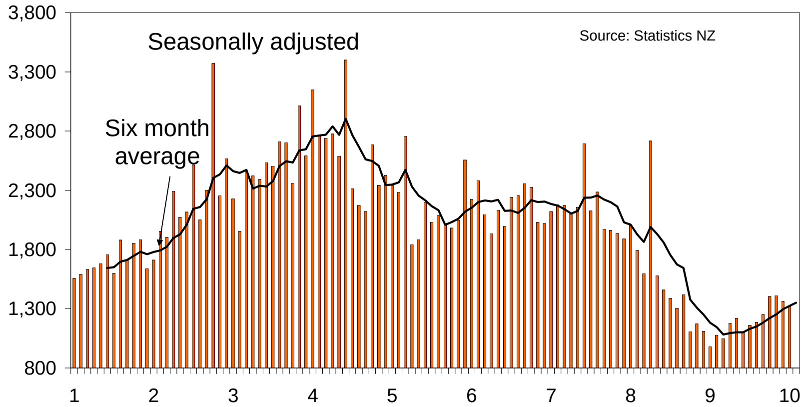
Lots was written here last week. Suffice to say we are getting into a period when one may opportunistically be able to fix one or two years and achieve a lower average cost than sitting floating for those periods. But note that we do not expect another opportunity to lock in five or seven year rates at very low levels until an uncertain number of years from now.

HOUSING MARKET UPDATE

Construction Recovering – Sort Of

One of our themes is that there will be some good growth in housing construction this year as the sector recovers from a four decade low number of consents. But the recovery could be patchy and there is a risk things back off in the short term line with the recent decline in dwelling sales. That appears to be happening. In seasonally adjusted terms the number of consents issued for the construction of new dwellings fell 2.9% in January after declining 3.4% in December and rising only 0.5% in November. Growth has stalled.

MONTHLY NUMBER OF DWELLING CONSENTS



This is why we are not fearful of the tax changes likely to appear in the May Budget causing a sustained period of house price declines. We need (using the lowest estimate we have found) 23,000 dwellings at least to be built each year and construction was just 14,655 in the year to January. We need an average of 1,916 consents a month. Numbers have averaged 1,366 in the past three months.

As each month goes by the under-supply situation will get worse and we get closer in time to a period when some interesting things will happen. First, there is going to be a rents response in the housing sector to the ending of the depreciation allowance. This is of course years overdue as many people have bought properties and farmed them for the capital gain and tax advantage rather than run them like businesses extracting maximum rent from the market.

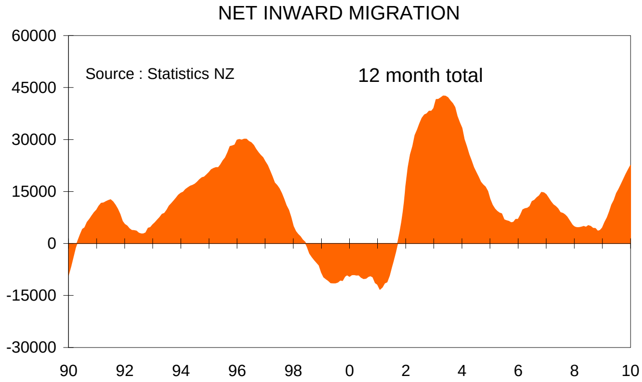
Rising rents will naturally dent downward movement in prices. Second, as each month goes by we get closer to the period when we expect to see a potentially large outflow of skilled tradespeople to Australia to earn a lot more money there than here taking part in their infrastructure and mineral booms – plus their own house construction recovery.

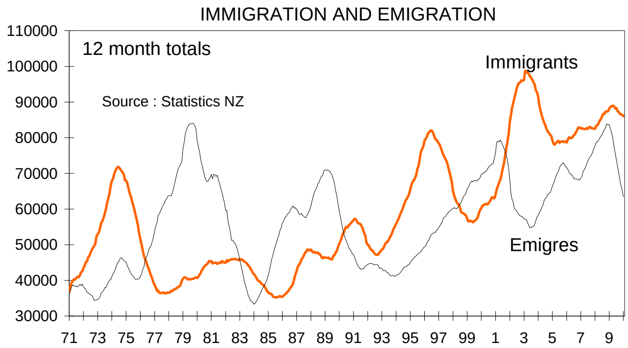
Migration Flows Supportive

Speaking of migration flows, the net migration gain to NZ in January was 1,335 better than January last year at 2,539 people. The annual gain now stands at a six year high of 22,588 from 4,538 a year ago. This sharp turnaround has occurred because although the number of people shifting here has fallen 2.5% in the past year, the number leaving has declined 24.2%. This is where one starts to get a potentially interesting movement of migration pressures in the housing market.

First, and quite obviously, with the migration gain well above the near 13,000 average over the past decade there is pressure on the supply of housing and support for prices. This will help cushion the clear downward pressure dominating at the moment as tax changes loom for investors. And as noted just above, with construction massively short of that required there is likely to be a good price rebound once the tax change impact works its way through.

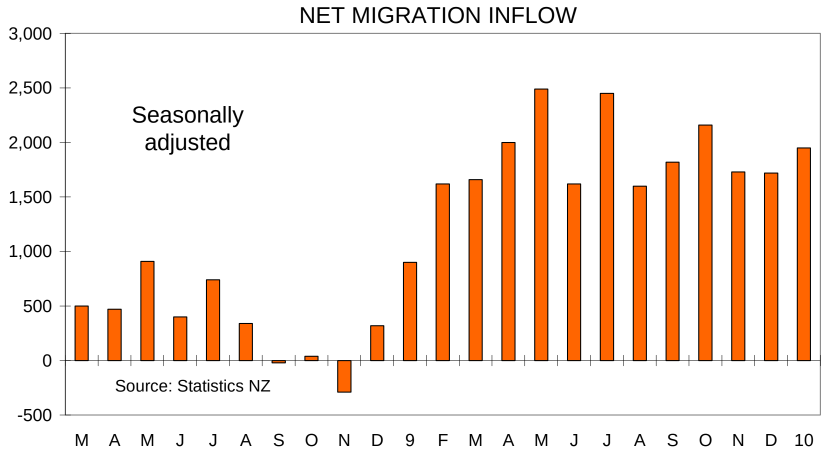
But when this starts happening there will be some buyer offset from monetary policy tightening mid-year, and migration flows becoming less strong as people who have decided not to leave in the past year up sticks.





It is actually very difficult to know when these delayed émigrés will depart because it depends substantially we believe on economic conditions offshore. Many are likely to head across to the strongly growing Australian economy. But there is little evidence yet of anything approaching healthy sustainable growth in many other parts of the world and most notably in the UK and Europe.

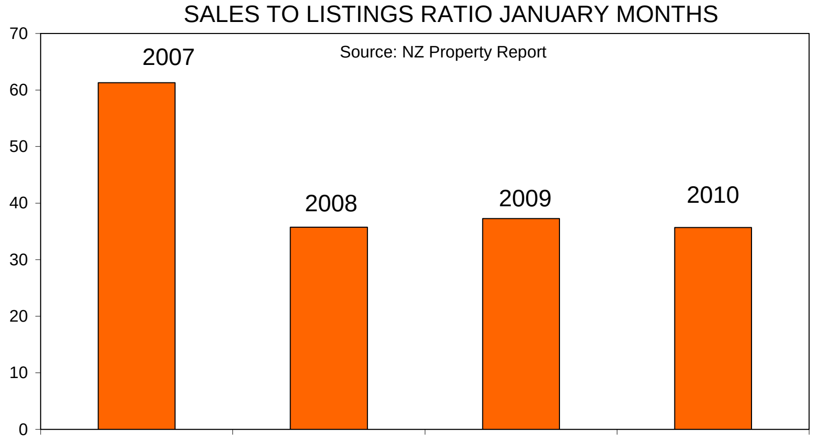
Given the continuing uncertainties afflicting northern hemisphere western countries we generally are thinking in terms of the net migration flow backing off from late this year at the earliest but more especially through 2011. For the moment the trend remains upward in the net flow and this is best seen not in the annual inflow still growing but the monthly seasonally adjusted gain rising to 1,950 in January from 1,720 in December. Note though that looking through these recent monthly numbers we still expect to see the annual gain peaking soon near 25,000.



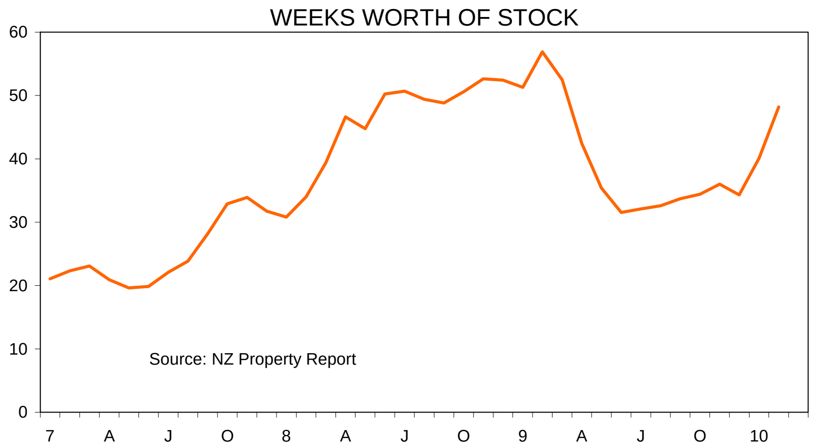
Listings Increase

The total number of property listings on the realestate.co.nz website at the end of February stood at 54,381. This was a 24% rise from a year ago and the highest inventory of unsold properties since March 2008. Listings jumped an unusually large 47% from the end of January – although the month to month movements have tended to be quite volatile and because the data only go back to the start of 2007 it is impossible to accurately assess what the jump in listings amounts to after adjusting for seasonal factors. But it may be useful to note that whereas in January this year listings fell 0.7% from December a year earlier they rose 6% and two years ago 25%. So one reason the jump was so great in February appears to be that the rise in listings in January was less than usual.

We don't know the number of dwelling sales in February yet. However if we use January data we get the graph below showing the ratio of sales to fresh listings. One would expect a strong and active market to produce a high sales to listings ratio. When things are weak one would expect a low ratio. But it is not at all clear that fresh listings were out of whack with sales in January in spite of some excitement about an apparent surge in listings.



In fact the calculation made over three months by realestate.co.nz in their NZ Property Report shows that in February (sales data only to January however) the number of weeks of stock stood at 48.2. This was up from 40.1 weeks in January and the low of 31.6 weeks in July. This measure however has always risen over that period of time so it is difficult yet to conclude listings are aggressively out of whack with sales.



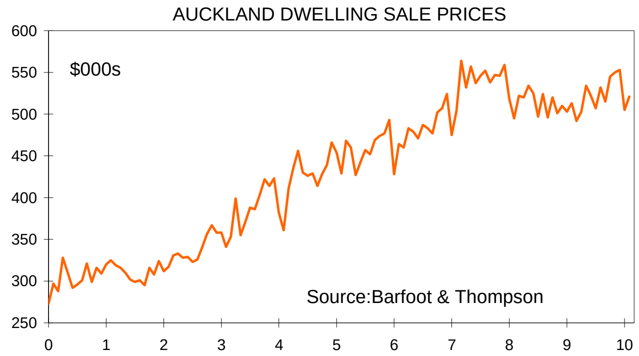
Nevertheless. The jump in this latter measure is greater than normal so we are happy to buy into the argument that listings have been getting a bit more prevalent recently. But a flood? No.

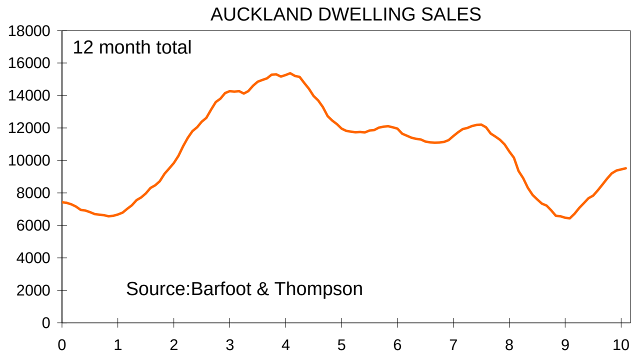
Auckland Listings Rising

We reach the same conclusion of rising listings but no flood from looking at the monthly Barfoot and Thompson data for their February activity. In February they sold 626 dwellings which was a 12% gain from a year earlier and small 3% seasonally adjusted gain following a sharp fall of 26% in January. The average sales price rose to $521,000 in February from $505,000 in January to lie 3.5% up from a year ago if we average over the past three months – which is a wise idea as this measure can move around hugely on a monthly basis.

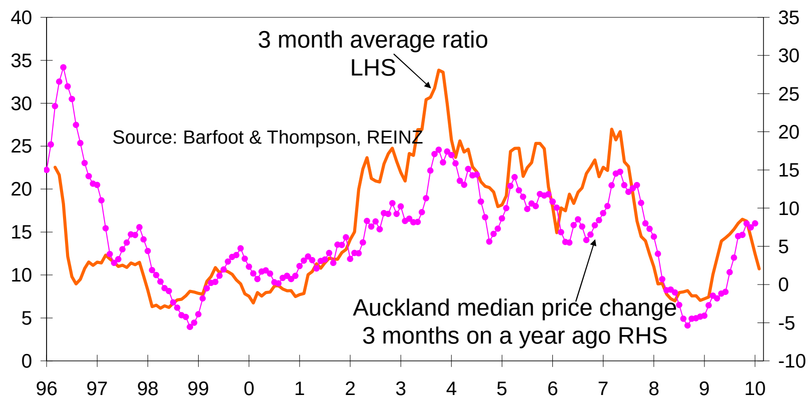
Prices look broadly to be flat which is consistent with what one would expect from the underlying supporting factor of population growth and construction shortage being offset by investor wariness. The number of new listings Barfoot and Thompson received over February was 1,714. This was 17% more than 1,470 a year ago but below the 2,049 of two years ago.

The total number of listings at the end of the month stood at 6,247 which was a decline of 9.5% from a year ago. We like to look at the ratio of sales to listings to get a decent feel for whether properties seem to be sitting around for a while and doing that one sees clearly that activity has eased off.





The ratio of monthly sales to end-month listings averaged over the three months to February was 10.7%. This is the lowest reading since March last year and as the graph shows is quite low in an historical context.



There is a good correlation between where this ratio and goes and where prices head – therefore it is reasonable to expect that we will soon see average sales prices falling back a tad – or at least the annual rate of price rise declining back toward zero. The data suggest a slow Auckland housing market with listings building up.

Emailers this week made the following comments.

"We operate a medium sized residential property management business with a few commercial properties of our own. Some (but not all) of the commercial tenants that were struggling last year are now reporting improving conditions. Our portfolio is growing steadily so our business has never been better. We are certainly not one of the property investors that the Government claim do not pay much tax. There must be some virtue in paying more tax. It would be nice to be thanked and acknowledged for our hard work.

The number of our vacancies is at an all time low. Tenants are keeping their heads down and paying their rent but the disputes about bonds is increasing resulting in more tribunal applications. Related to the low vacancy rates the number of tenants giving notice is very low. In other words there is less movement going on at the moment. A small number of the vacancies that have come in have been caused by tenants buying their own properties. The number of vacancies advertised in the local paper and Trade Me is at an all time low. Like about half the normal number. There is a growing desperation by tenancy enquirers seeking rental properties. Many of these are people with a poor tenancy and credit track records. I am noticing that landlords generally are being more careful in their choice of tenants."

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.
- Sales recovering later this year.

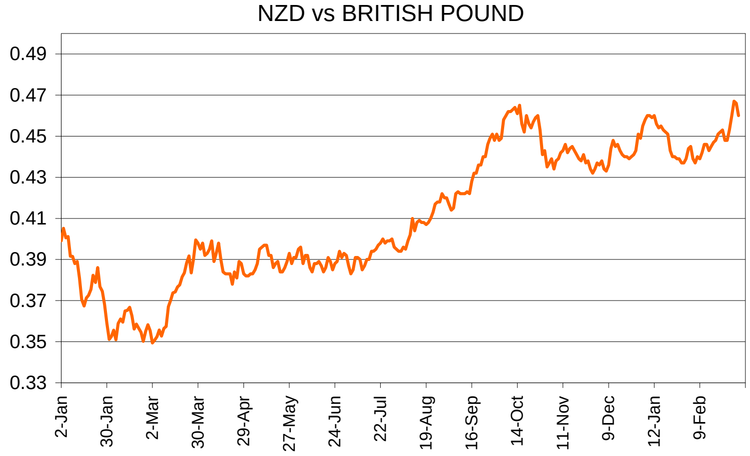
Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.693	0.688	0.697	0.725	0.4954	0.573	0.592
NZD/AUD	0.766	0.774	0.793	0.781	0.7758	0.848	0.856
NZD/JPY	61.20	61.70	63.40	63.90	48.64	59.0	66.8
NZD/GBP	0.460	0.448	0.439	0.438	0.352	0.358	0.345
NZD/EUR	0.506	0.516	0.502	0.480	0.394	0.448	0.51
USD/JPY	88.31	89.68	90.96	88.13	98.18	103.0	113.9
USD/GBP	1.507	1.536	1.588	1.655	1.405	1.601	1.709
USD/EUR	1.370	1.333	1.388	1.510	1.256	1.278	1.156
AUD/USD	0.905	0.889	0.879	0.928	0.639	0.676	0.69

NZD At Ten Year Low and 31 Year High

The Kiwi dollar has ended the week up slightly from last Thursday near 69.3 from 68.8, but the interesting changes have occurred on the crosses. First the British Pound.

Before some good manufacturing sector data came out last night worries about the UK economy and government finances in particular saw the cross rate between the NZD and GBP soar to the highest level since 1979 just below 47 pence from 44.8 pence last week. The rate has since retraced to near 46 pence but this still leaves it very high by historical standards with scope for a strong pullback in the near future severely limited with growth worries likely to persist in the UK and a general election coming up.



There are going to be literally tens of thousands of very disappointed people in New Zealand at the moment who have – in some cases – been waiting many years for the NZD to fall sharply against the GBP.

Many people have shifted to NZ from the UK in the past decade but talking with many it is clear that a lot left their money over there while they waited for a return of the exchange rate to the 29 pence seen in 2002. They took out a mortgage (good business for us banks) and kept waiting. After a year or two they probably decided they would shift the funds here when the rate went back to 31 pence, then 33, then 35 – and so on all the way up to those now planning to shift funds over as soon as they see 43.

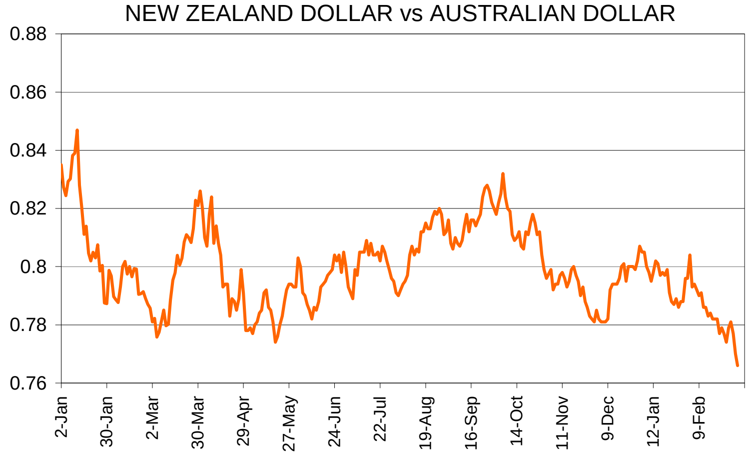
The opportunity to move funds came and went this time last year. The cross rate sat just below 36 pence through February up until March 10. But one did not notice a flood of money at the time – such is the nature of exchange rate transactions. One generally expects a currency will not move strongly from wherever it is, and if the most recent move has been a decline one generally expects the decline to continue.

In this way, when the NZD is low NZ exporters often back off on hedging thinking we have reached the long run and finally the currency has structurally adjusted downward to reflect our continuing large current account deficits.

The point here with regard to exchange rate sentiment is this. How many people will now sell NZDs and buy pounds looking to ride the rate the other way perhaps in the next three years as we pass our currency cycle peak and head down while the UK economy inevitably throws some upside surprises further on from now? And how many will now sell Aussie dollars and buy Kiwi looking to ride the NZD up?

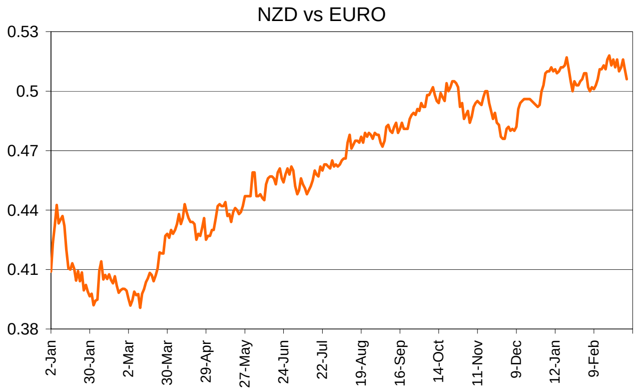
Probably not many. We will be thinking about the pound in terms of it being a bucket of the proverbial and we won't want to touch it with a bargepole – which helps explain its weakness. We will be eyeing the Aussie dollar very positively and wanting to buy it in case we fall another five cents against it. Counter-cyclical investing is hard. Maybe one could sell AUD and buy GBP for a three year position? Good luck.

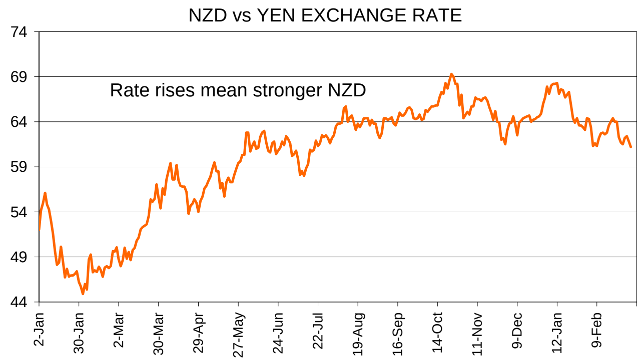
Speaking of the Aussie dollar, that has been the other strong point of interest in not only the past week but since about a month ago when the NZD fell below 80 cents.



The AUD is being well supported by strong economic growth – as seen this week with the release of data showing the economy grew 0.9% in the December quarter and 2.7% over 2009. This firm growth has encouraged the RBA to restart its rate raising cycle following a pause last month following three 0.25% rises. The increased their cash rate another 0.25% on Tuesday and it now sits at 4%.

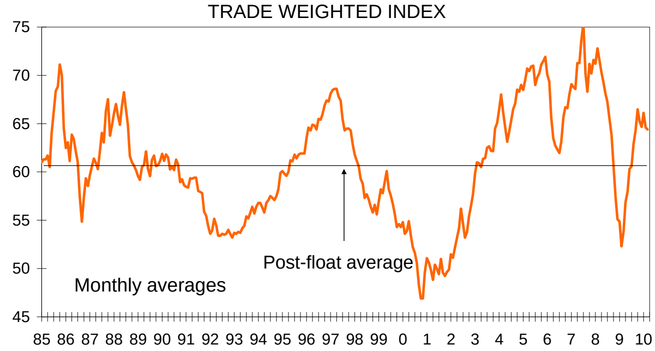
We expect to see further rises which will take the rate to 4.75% by the end of the year. But by that time our own interest rates are likely to be rising so we view the current period of weakness in the NZD against the AUD as temporary. The trouble is it is impossible to know when the decline will end and a recovery start. Suffice to say that for now a preference to have one's Australasian currency exposure in AUDs is one factor keeping the NZD down against the greenback.

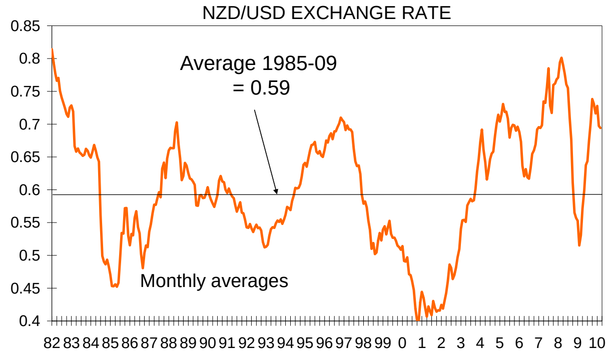


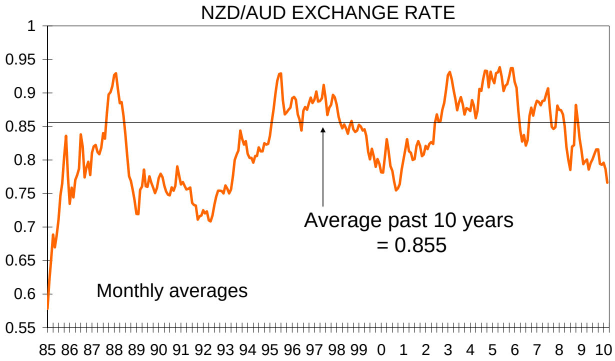


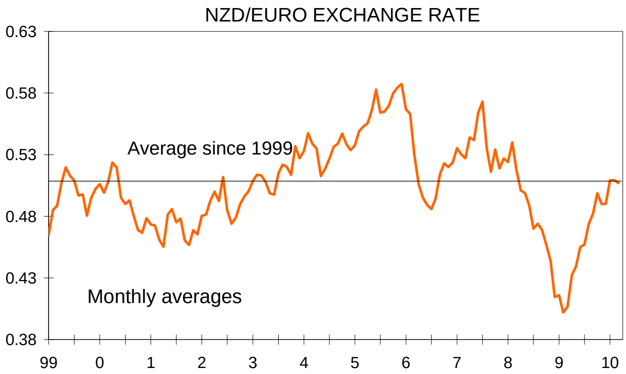
If I Were An FX Receiver What Would I Do?

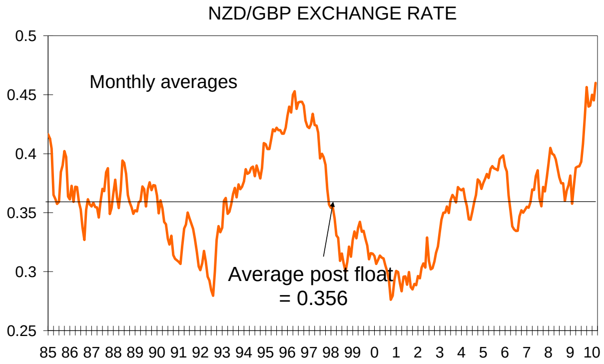
Probably boost my hedging against the AUD – but we have been saying that ever since the rate was above 80. It just goes to reinforce our belief that reliably forecasting exchange rates is not possible. I'd ease back on hedging against the pound but boost it against the Yen and keep taking some hedging at opportunistic times against the greenback.

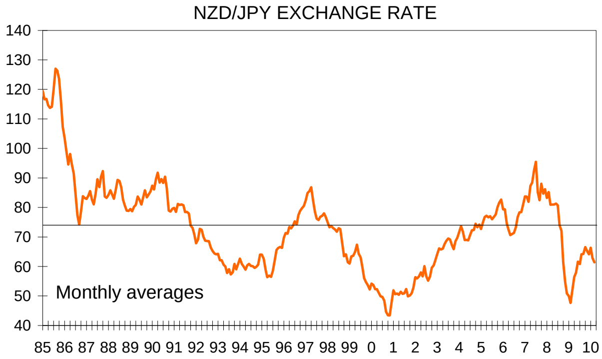












*Sourced from Consensus Economics. http://www.consensuseconomics.com/

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	-0.2%	1.3	2.0	3.4	3.2
GDP growth	Average past 10 years = 3.0%	+0.2	0.2	-2.2	1.5	2.1
Unemployment rate	Average past 10 years = 5.3%	7.3	6.5	......	4.7	3.5
Jobs growth	Average past 10 years = 1.9%	-0.1	-0.8	-2.4	0.9	2.1
Current a/c deficit	Average past 10 years = 5.5% of GDP	5.9	8.1	......	8.3	8.2
Terms of Trade		-1.2	-9.4	-13.8	5.8	8.4
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	2.8	2.5	6.0	-7.9	8.0
Net migration gain	Av. gain past 10 years = 11,700	+22,588	18,560yr	......	4,538	4,804
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	1.0	-1.0	1.0	-0.9	2.3
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	52	57	3	5	2
Business activity exps	10 year average = 26%. NBNZ	41	37	26	-20	2
Household debt	10 year average growth = 11.3%. RBNZ	2.7	2.7	2.4	4.2	12.4
Dwelling sales	10 year average growth = 3.5%. REINZ	15.2	41.5	40.3	-23.1	-32.1
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.59	5.99	7.75	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.95	7.45	6.99	6.99	9.40

ECONOMIC FORECASTS

Forecasts at Feb 28 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	0.4	2.8	2.5	3.9	-0.3	-0.7	2.6	2.7
Government Consumption	4.9	4.2	0.2	2	2	4.4	4.8	1.1	1.4	2.2
Investment	5.5	-7.2	-10.9	4.3	9	5.5	-3.6	-12.7	0.6	9.6
GNE	4.6	-1.7	-3.7	5.1	3.7	4.7	0.2	-5.3	4.2	4.1
Exports	3.1	-3.3	1.5	0.2	5	3.9	-1.3	-0.3	-0.4	4.8
Imports	10	-4.7	-12.5	4.7	6.7	8.9	1.9	-16.4	3.1	6.7
GDP	2.9	-1.4	-0.5	3.5	3.1	2.9	-0.1	-1.6	2.9	3.5
Inflation – Consumers Price Index	3.4	3	2.4	1.6	2.6	3.2	3.4	2	2.2	2.3
Employment	-0.2	0.8	-1.3	2.6	3.2	2.3	0.9	-2.4	1.7	3.4
Unemployment Rate %	3.8	5	7.2	6.9	6.1	3.5	4.7	7.3	7.1	6.3
Wages	4.3	5.1	2.7	1.6	3.6	4	5	3.1	1.7	3.1
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.72	0.72	0.66	0.77	0.56	0.72	0.73	0.68
USD/JPY	101	98	91	104	108	112	91	90	100	106
EUR/USD	1.55	1.31	1.39	1.34	1.28	1.46	1.34	1.46	1.36	1.29
NZD/AUD	0.87	0.8	0.79	0.81	0.81	0.88	0.83	0.79	0.8	0.82
NZD/GBP	0.4	0.37	0.45	0.41	0.37	0.38	0.37	0.44	0.42	0.38
NZD/EUR	0.52	0.41	0.52	0.53	0.52	0.53	0.41	0.49	0.54	0.52
NZD/YEN	81.1	51.8	65.5	74.4	71.3	86.3	50.9	64.2	73	71.6
TWI	71.6	53.8	66.2	68.3	65.2	71.6	55.1	64.7	68.5	66.1
Official Cash Rate	8.25	3	2.5	4.25	6.25	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.8	4.62	6.62	8.9	5.23	2.78	4.17	6.12
10 year Govt. Bond	6.36	4.77	5.85	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