BNZ Weekly Overview

3 September 2009

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….

Survey Time	**1**	**Housing Market Update**	**7**
Economic Developments	**2**	**FX - Foreign Economies**	**12**
Interest Rates	**5**		

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 WO for the month so it is time again to run our monthly survey. If you have not already done so in the email used for sending out this week's WO please cut and paste the URL below into your browser and let us know whether you believe the economy will get better or worse over the coming year. More importantly, telling us what your industry is let us know how conditions are at the moment. Many thanks to past regular contributors. This survey is very useful for giving an immediate feel for where the economy is currently, how businesses are faring at the coalface in numerous sectors, and what other slower responding surveys will show in 3-4 weeks time.

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

This week we have lots of commentary on the housing market including the first proper data on sales activity for August from Barfoot & Thompson (just for Auckland) which shows strong sales and a shortage of listings. We also look at factors which on the face of it suggest measures of house prices compared with incomes may give a false impression of how much houses are "over-valued" because of structural changes. Plus we give a few thoughts on why rents may be falling in some parts of the country.

In the foreign exchange markets frankly there is nothing new going on apart from continuing strong support for the Aussie dollar from an ongoing flow of better than expected economic data. We take a look at some of the factors importers might want to take into account when thinking about their hedging – and conclude that compared with our largely commodity based exporters their task looks more complicated.

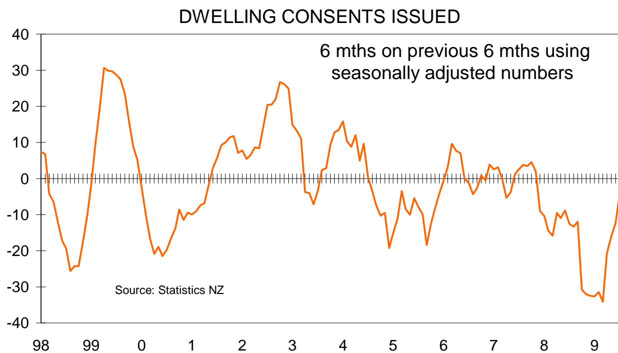
We also run some numbers in the interest rates section to see whether one would be better to float or fix one's mortgage rate over the next two or three years. The conclusion is that if our (current) interest rate forecasts prove correct (one dreams) then it is the toss of a coin what to do though for most borrowers one suspects there is strong attraction to the current 40 year low floating rate – especially if one uses spare cash as an offset in the Total Money package to get an even lower rate than the current 5.85%.

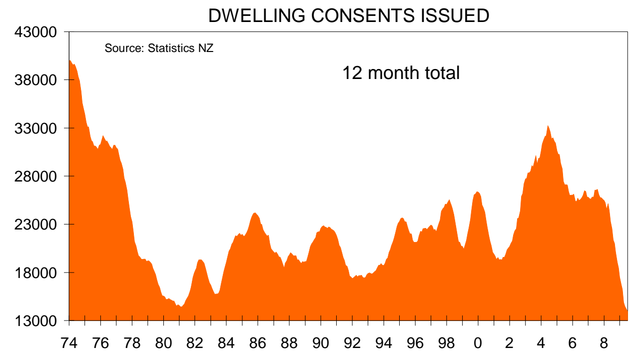
NZ ECONOMIC DEVELOPMENTS

Friday 28

Residential Construction Growing

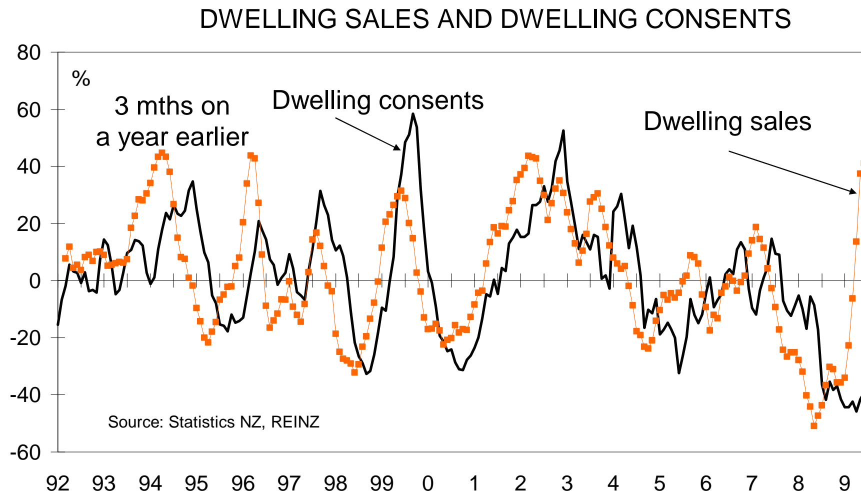
This week we learnt that in July around NZ there were 1,214 consents issued for the construction of houses. In seasonally adjusted terms this number represented a rise from June of 5% and over the three months to July the rise was 4.3%. Three months ago the three month rise was 2.4% and six months ago there was a fall of 16%. One can safely say that consent issuance has started improving and this is exactly what we have been expecting to see.





In NZ the housing supply situation is different from many other countries where too many houses were built for the markets to accommodate at then prices. But here our fundamental issue is one of a small shortage of accommodation which we are finding people have become increasingly aware of in recent months – hence the surge in real estate activity.

In particular the well-known phenomena now occupying people's minds is a shortage of listings. This may be encouraging more people to get a house built in an environment where builders are still in ready supply. Note this graph we have run many times showing the lagged relationship between dwelling sales and consent issuance.

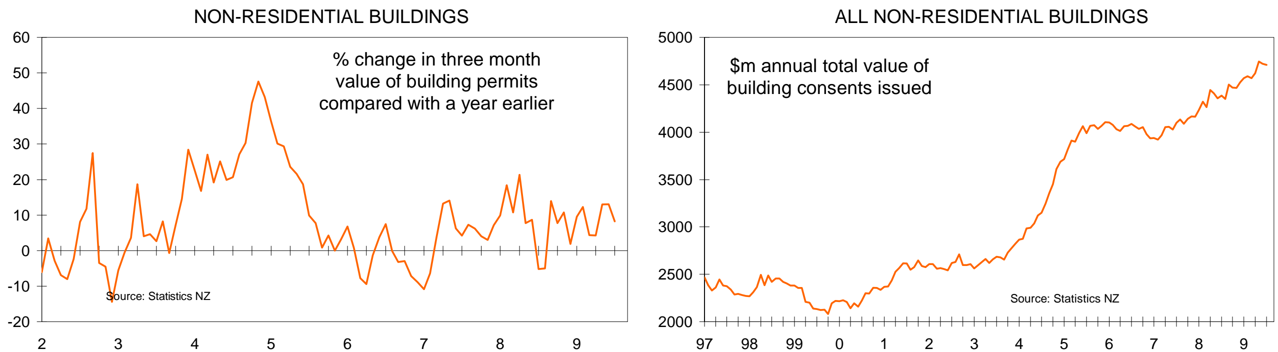


Does this mean that when one takes into account rising house prices, low interest rates, rising net immigration and the existing shortage that we are in for a construction boom? It will be at least a very strong upturn but the boom outcome could end up being prevented by a lack of resources come the 2011. The extent of growth in construction is going to be limited by the reduced availability of finance to subdivision developers with the finance company sector radically reduced/reducing and banks implementing tighter lending criteria. And come 2011 a skilled tradesperson migration flow back to Australia could be underway.

In the year to July the number of dwelling consents stood at 13,954 which is the lowest since the 1960s and 38% down from a year earlier. On average NZ needs about 23,000 new dwellings to be built to accommodate average population growth. We will get back to that level maybe toward the first half of 2011.

Non-Residential Building Holding Up

In July the value of consents issued for the construction of non-residential buildings was $371m. This was a small 3.1% decline from a year ago and for the year to July consents values were up 7.3% from a year earlier. The non-residential construction sector has held up very well so far during the recession with aid from increased infrastructure spending, preparations for the Rugby World Cup, and businesses "catching-up" on spending they have had to wait in line for in recent years in an environment of builder shortages.

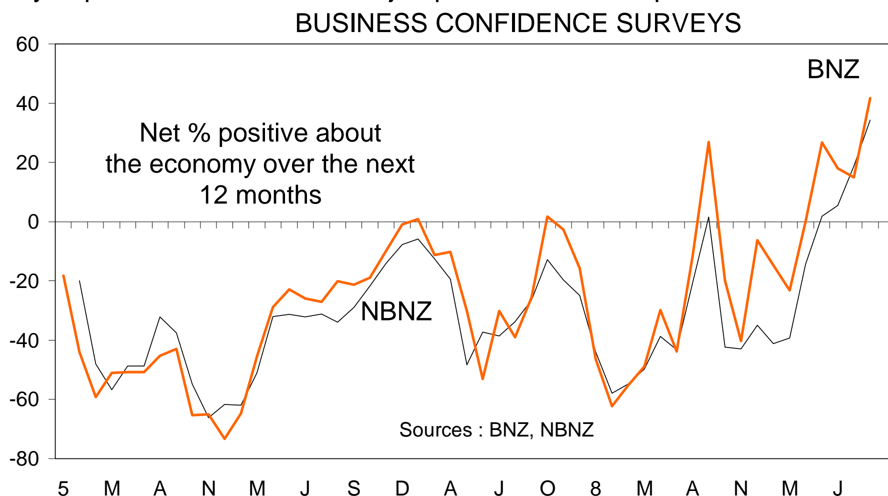


The risk from here however is that we see commercial construction activity easing off for a year or two as businesses find accessing credit harder, they reassess their immediate expansion plans in light of the recent economic shock, and the queue of previously frustrated companies seeking builders empties out.

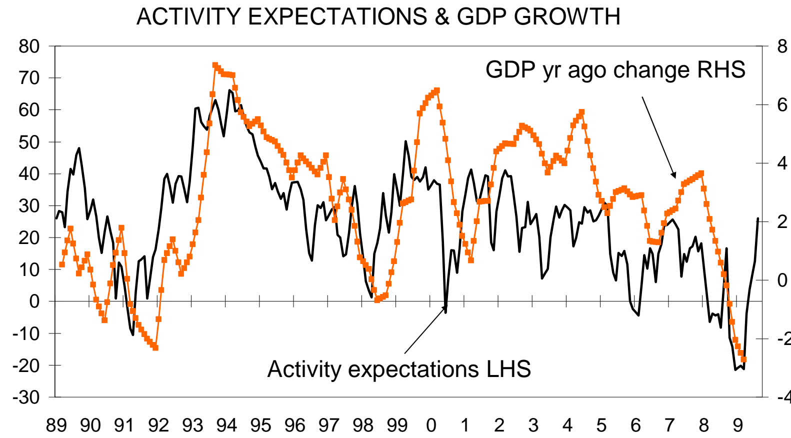
Monday 31

Businesses Upbeat

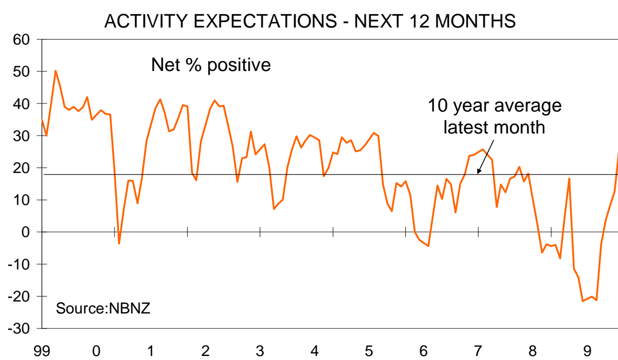
Three weeks ago we reported the results of our August BNZ Confidence Survey which revealed a sharp leap in sentiment about the coming year to a net 42% positive from 15% in July. We have long noted the very strong correlation between our survey and the NBNZ Business Outlook survey which appears three weeks later. So it is no surprise that this Monday the NBNZ survey revealed a net 34% of businesses expecting the economy will improve over the coming year from 19% in their July survey. The average reading for the past ten years has been -16% (downwardly biased we suspect because of business concern about the Labour government) the latest result is the best since 1999. And it is not surprising that the important own activity expectations measure has jumped to a net 26% positive from 13% in July.

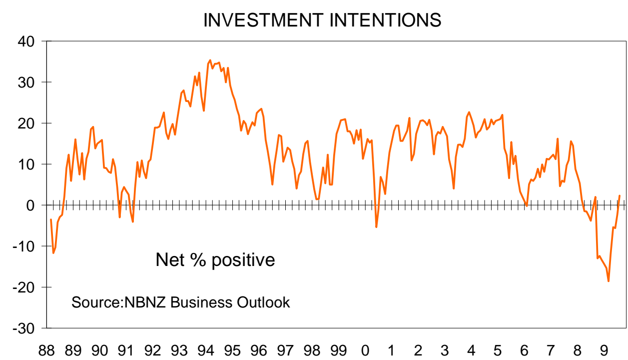


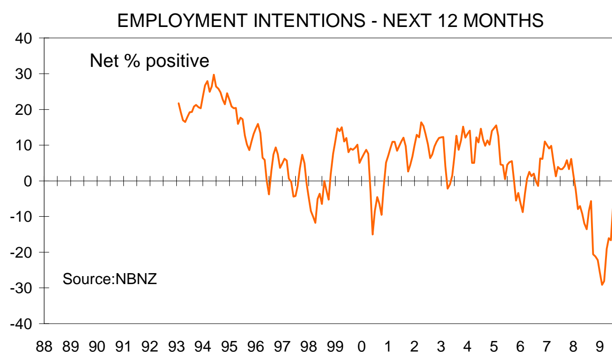
This is the most important indicator in the NBNZ survey and there is a good correlation between where it goes and where economic growth measured by the change in GDP goes. The survey result therefore provides strong support for the economic recovery scenario – which is why three weeks ago we wrote in terms of what well capitalised businesses should be doing at the moment to take advantage of the gloom which still exists amongst some business operators and the financial struggle many are still experiencing. That is because we should not forget confidence surveys look toward the future and don't necessarily show what is happening on the ground right at the moment.



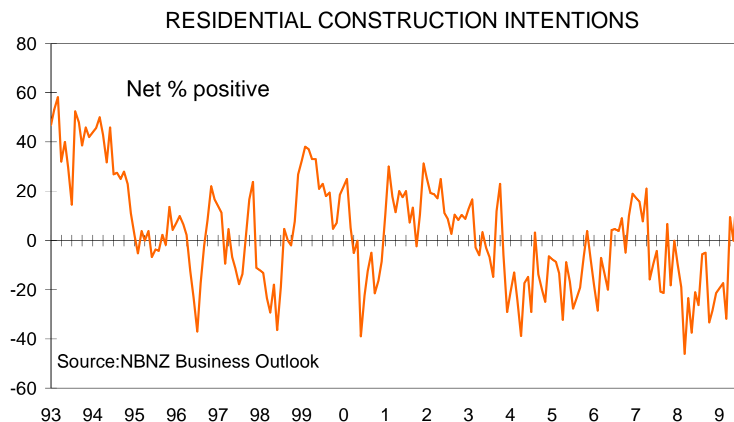
Of importance from the NBNZ survey was a firming of business investment intentions to a positive reading for the first time since September last year. A net 2.3% of respondents plan raising their capital expenditure from 2.3% planning cuts last month and a net 18.6% planning cutbacks in March. The employment intentions measure remains negative but at just -2.6% from -6.8% in July and -2% in February. This is the best reading since February 2008.







Even manufacturers are seeing things improving with a net 21% anticipating higher sales from just 5% in July. This result is only just below the average August reading of 26%. Supporting talk about the upturn in residential construction was the net rise in residential builder's expectations to a net 48% positive from 24% in July and -32% in March. The average reading for this measure is -3% and the latest result is the strongest since 1993.



While one must strongly acknowledge the impediments to smooth economic sailing ahead there is no way one can any longer ignore the evidence of an economic turnaround in NZ – even though we expect that with restraint in dairying, tourism and commercial property, the upturn will not be a boom.

INTEREST RATES

The Reserve Bank review their cash rate next week and one can expect the Governor will again reiterate his determination to keep the rate at the current 2.5% until the "latter part of 2010". But the chances are increasing by the week that just as the RB had to radically backtrack on forecast policy positions in the past five years they will again have to do so this cycle as well. Not that keeping the talk up from the RB is a bad thing.

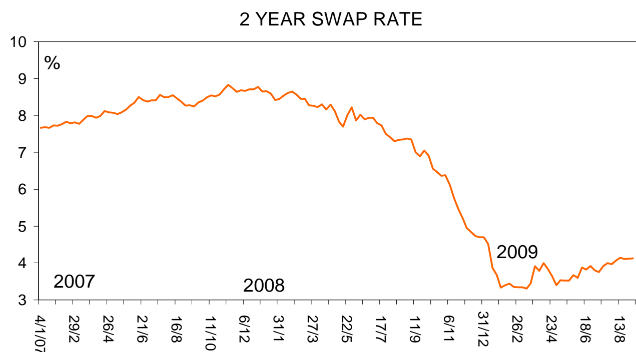
The RB clearly want to make sure the economy has some reasonable momentum coming out of the recession which has now almost certainly ended and the best way they can do that is by improving business cash flow with low cost floating rate funding. In fact the need for the RB's statements has been heightened by the rapid rise in the NZ dollar which is sapping the strength of the export sector while increasing the consumer incentive to buy foreign as opposed to NZ goods. There is virtually nothing the RB can do to influence the NZD so no point in trying.

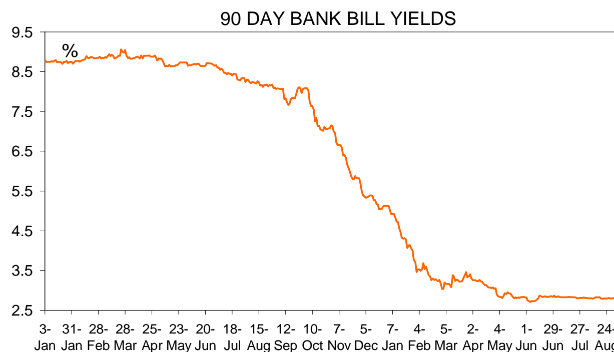
Not that all exporters are feeling despondent. The NBNZ Business Outlook survey this week for instance showed a strong rise in the net percent of manufacturers anticipating higher exports to a net 21% in early August from 5% in July. This is the strongest reading since September last year. However most of NZ's manufactured exports go to Australia – where growth is improving firmly – and the NZD/AUD exchange rate is just below average near 82 cents. Farmers are less well off as their exports are usually denominated primarily in USDs, then Japanese Yen, Euros, and the British pound.

Our expectation for the moment is that the RB will leave their cash rate at the current 2.5% through to July next year when they will start a series of increases taking it close to 6% come the end of 2011. The risk is the tightening cycle starts before then – just as expectations in Australia for instance have shifted radically in recent weeks.

A few weeks ago the common forecast was that the RBA would start raising its cash rate from 3% toward the middle of 2010. Then with strong data emerging the timing shifted to early 2010. Now our NAB economists expect the first tightening to come in November with the rate reaching 5.5% come the end of 2011.

This week 90-day bank bill yields stayed where they have been for four months now near 2.8%. Swap rates – which represent the base cost before risk premiums etc. to us banks of borrowing fixed rate money for lending at fixed rates – initially crept higher.





Key Forecasts

- No more monetary policy easing this cycle.
- Medium to long term housing rates have seen their multi-year lows – stop-start rises now lie ahead. Speed unclear.

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	8.00	6.2
90-day bank bill	2.79%	2.79	2.81	2.73	8.06	6.5
10 year govt. bond	5.60%	5.69	5.73	5.86	5.98	6.2
1 year swap	3.14%	3.19	3.10	2.94	7.68	6.7
5 year swap	5.43%	5.44	5.42	5.12	7.13	7.0

If I Were a Borrower What Would I Do?

I could either float at 5.85% and have that rate sit there for at most a year then end up probably near 9% at the end of 2011 or fix two years at 6.5%. The forecast average floating rate cost would be 6.6% over the two year period though if one used the offset facility in the Total Money package this would reduce to about 6.4% with about $5,000 in one's current and short term savings accounts.

Therefore, if I were contemplating an exposure lasting only two years I could fix two years and take the rate certainty. If I were looking at a mortgage I won't pay off for a decade then either floating or fixing two years would give the same new rate exposure come late-2011 so one could still initially think about fixing two years. But what about fixing three years at 7.45%? If we assume the floating rate reaches 9.5% at the end of 2012 then the average floating rate for the three year period turns out to be 7.5%. The current three year fixed rate is 7.45%.

Given the premium one should be prepared to pay for certainty then also one could fix.

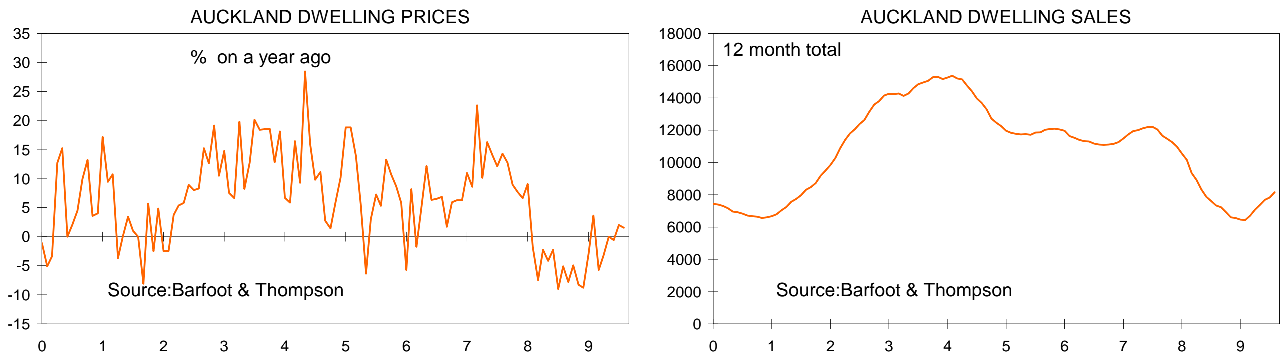
What it comes down to then is this. We are forecasting that the official cash rate will rise from 2.5% now to 5.75% late in 2011, then maybe 6.25% come late-2012. These rises imply the floating mortgage rate rising from 5.85% to about 9% then 9.5%. If you think we are right then you toss a coin between floating and fixing. If you think we are over-estimating the rise in interest rates then you float. Personally speaking, as a generally risk averse person I would fix at least 18 months. But most people are currently floating and that is quite understandable because of another factor.

At the moment cash flow is king. Taking a 40 year low floating mortgage rate gives good cash flow in the current environment of general restraint. One can then choose whether to use that cash flow for other areas of spending or build up some precautionary savings, or optimally to get one's mortgage principal down. Therefore if your horison is three years or more there is nothing wrong with floating at 5.85% - especially if one intends having some spare cash on call along the way which can be used to offset the mortgage and effectively earn 5.85% tax free.

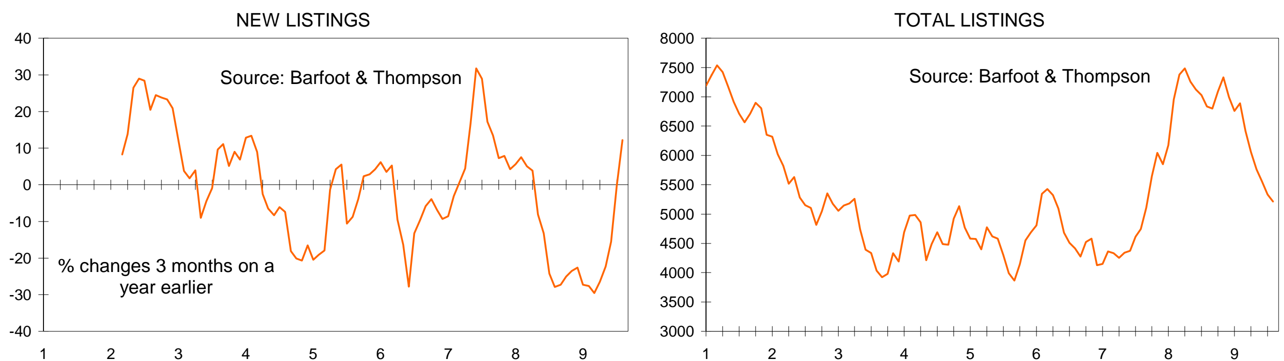
HOUSING MARKET UPDATE

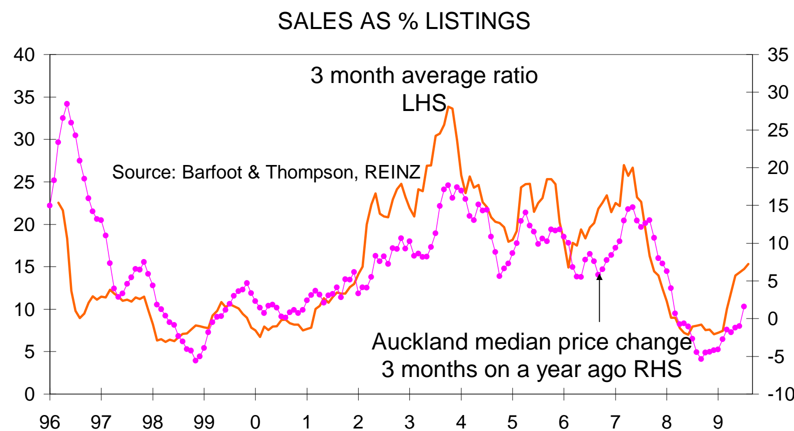
House Sales Firm Anew In August

The monthly data from Barfoot and Thompson (which applies only to Auckland) show that during the month they sold 830 dwellings. This was a very strong 65% rise from a year ago and in rough seasonally adjusted terms was a gain from July of 9%. In other words, activity strengthened between July and August. There was also a rise in the relatively volatile prices measure to an average of $532,000 in the month from $507,000 in July. This measure was $534,000 in May and $524,000 a year ago. But if we smooth over a three month period then sales prices are running about 1% ahead of a year ago and 2% ahead of the three months to May.



With regard to the number of properties being put forward by vendors the situation remains one of restraint though with easing at the edges. There were 1,309 new listings received in August which was a 21% rise above new listings received in August last year. There are more listings appearing but levels are still relatively low. This can be seen in the total number of listings at the end of August sitting at 5,212 which was a 24% decline from a year earlier. The ratio of sales to listings continues to creep higher and as the third graph below shows this tends to be a good predictor of where prices are headed.

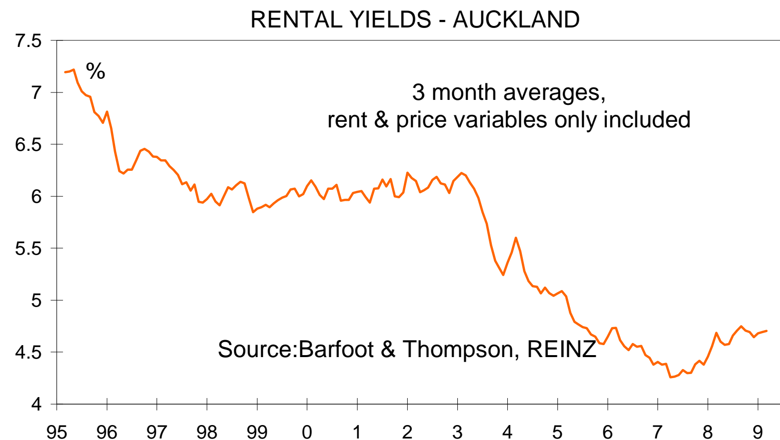




The data generally show prices firming, listings increasing, but sales mopping up the extra listings quite comfortably.

Some Rent Comments

One thing which appears to be confusing many people is the way in which rents on residential property in some areas have fallen in recent times. They take this as a sign that there is no general housing shortage. But that conclusion is based on the assumption that by and large property rents in NZ reflect supply and demand in the rental market. The experience of recent years would suggest that is not the case. If it were one would not have seen property yields fall away so much as rents failed to keep up with prices. The graph here shows one example of this using Auckland data from Barfoot and Thompson and the REINZ prices measure.



The residential property investment scene in NZ is dominated by small investors. These appear by and large to be people who have bought a property or properties for capital gain (long term or short term) and not for good cash flow along the way. This is exactly like NZ farmers who buy land for asset growth rather than income.

In recent years when house prices have soared rents have not moved much. We think that can be put down to the lack of price-setting professionalism on the part of typical Kiwis. We often fail to price what we sell to what the market will bear, preferring to either follow a policy of assuming more profit comes from more volume – the farming model – or more profit comes from holding an asset for a long period of time – again the farming model.

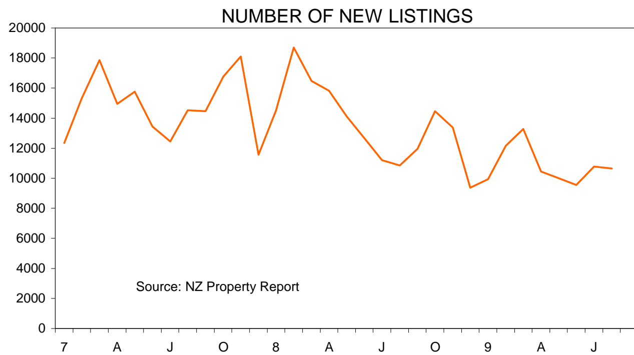
If what we think is true, then one can easily explain why rents have been falling in some parts of the country recently. Small property investors are worried about how they can hold their property until it gets back onto the long term capital gain track should they become unemployed or fall back to a one income family. For these worried people the most important thing is not maximising rental income in the current environment but ensuring they keep a tenant and are not forced to sell the house. To do that they are highly motivated to reduce their rent.

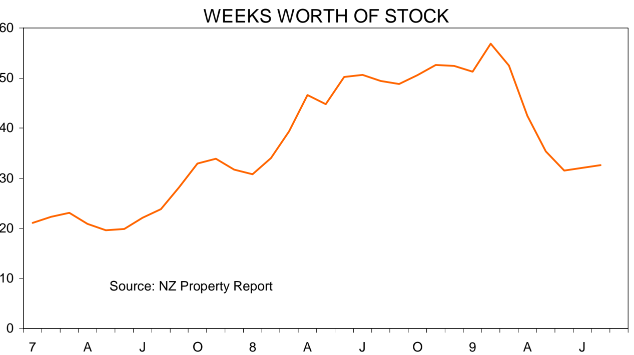
Does this mean rents in such areas will rise firmly again once the general employment worries dissipate next year? Probably.

Property Listings Static

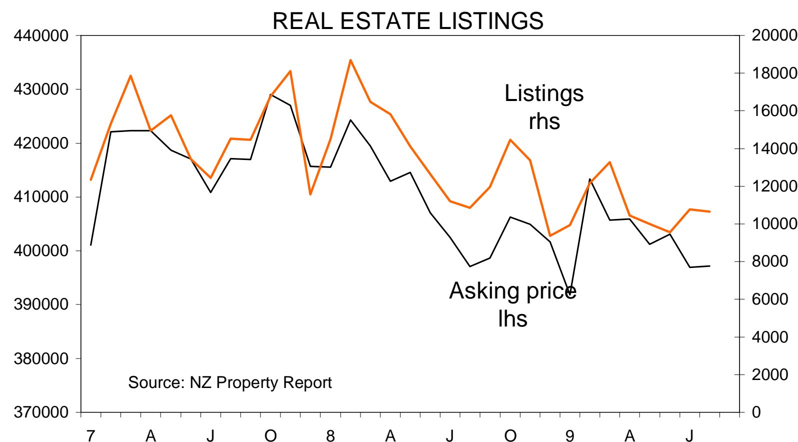
Just to prove that the housing market is not on a straight line improvement toward boom we have in hand the NZ Property Report from www.realestate.co.nz for August. At the end of the month they showed 10,644 new listings which was a 2% decline from new listings in August 2008. This unfortunately does not tell us much however as we only have three years worth of data so making a seasonal adjustment to see if August was unusually weak or strong is not possible. But we can at least look at the total stock of listings and see

that at the end of August it was equivalent to 32.6 weeks worth of sales in the previous three months. This was a small rise from 32.1% the previous month so interrupts for a second month the downward trend in this measure between March and June.





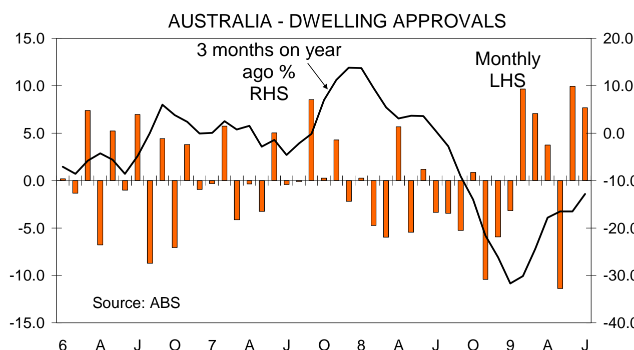
The median asking price was little changed in August from July at $397,187 from $396,949.

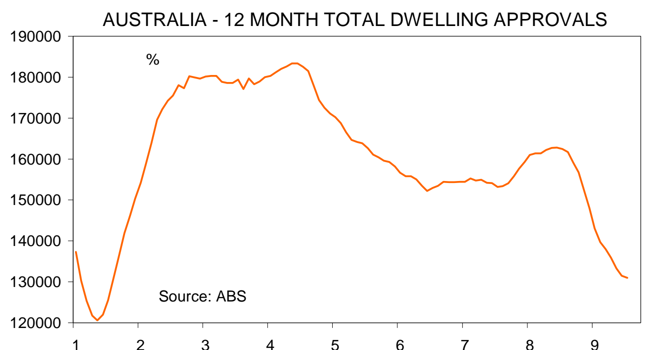


Construction Upturn Across The Ditch

Here is something we have been noting as worth watching in the context of the ability of New Zealand's construction sector to respond to rising demand for new houses. In Australia the shortage of housing is far worse than in New Zealand so there is greater potential for a construction upturn than here in NZ. Skilled tradespeople can earn far more there than here and as their construction picks up we can expect to see some of the currently out of work NZ builders etc. move across the Tasman.

Is Australian house building rising? Yes. In July the number of dwelling approvals issued rose in seasonally adjusted terms 7.7% from June. The June rise was 9.9% from a relatively weak May. Numbers in the past three months were still down from a year ago. But at 3.9% the decline was much less than 34% six months earlier and the trend is strongly improving.





The rise is not a boom, but the direction is clear and it will be interesting to see at some point in 2010 whether we start noticing a flow of tradespeople back to Australia again. It is too early to expect that now.

Price Pressures

Spring is now upon us and we are going to soon find out if the warming weather and improved vendor price expectations lead to a flood of properties hitting the market. The risk of this happening explains why one could see average sale prices dipping a bit in coming months. But even if such a dip occurs (not highly probable) it is likely to be shallow and short-lived when one considers the fundamentals for the housing market which we have been hammering away at for the past year.

- There is an existing shortage of accommodation.
- The construction of new dwellings to meet the shortage is at the lowest level in 40 years – though as a proportion of the population construction is even worse than that.
- The ability of builders to respond to the supply shortage will be limited by reduced availability of finance to developers.
- Floating rate mortgage costs are at their lowest levels in four decades.
- Population growth is accelerating courtesy of improving migration flows.

It's quite simple really to work out what these factors mean for prices.

Yes prices are high using measures of price to income etc. But if fair value/trend price etc. models worked for forecasting house price movements one would never see prices deviating from these trends or "sustainable" levels in the first place. As we have noted, if an asset's price is 20% above trend it was first 10% above yet did not fall. The only reason the price is 20% above trend could be that it is on its way to being 60% above trend.

Of course, once one realises these mean reversion models are not all that useful for predicting short to medium term price changes, then the debate shifts to whether structural changes have occurred so the trend needs to be changed. Is it possible that structural changes have occurred so that house prices in New Zealand now sit permanently higher compared with incomes in the past? Consider……

- Average new house sizes are far larger than before so each "unit" of house involves 1.x units of older houses. With nothing else changing (ceteris parebus) average construction prices will be 1.x times higher.
- There are more double income families now than in earlier years so price/income measures using average individual income measures are less relevant. One can easily adjust for this using household incomes however.
- Average construction costs per meter are now higher than they used to be due to things such as tighter regulation of materials and construction personnel, compliance costs, insulation requirements, inspections, quarry availability and travelling distance for materials…
- What we expect in a house is more than before – inside toilet(s), computer wiring, patios, …
- Section sizes are smaller but land availability is worse than in the past so prices are higher.
- Councils have not only moved to make section developers pay the full cost of services that will run to their area, but extras as well as a form of subsidy for existing ratepayers.
- Availability of credit to individual buyers is far greater than in the old days so the pool of people who can consider making a purchase is greater than before, and if people choose they can access credit at an earlier age than before.
- People's awareness of the need to save for retirement has soared in the past 15 or so years so there is a constant nagging feeling that one needs to invest in something. Housing appears to be the default investment for Kiwis.
- One could be wrong, but it appears harder in some locations to develop new subdivisions and therefore expand city boundaries (Auckland) than in the past.

But…

- University student debt servicing costs mean home buying is delayed. (But this would be a one-off shift which probably happened in the past decade and will not repeat unless university fees and debt levels soar anew.)

- Family sizes are smaller.

There are undoubtedly factors which we have missed. But the most important point to consider is this. Looking forward, are we likely to see the factors which have boosted house costs/prices go back the other way?

- Will councils free up land?
- Will building regulations be eased or tightened (imagine easing them with the leaky buildings saga still dragging on).
- In an environment of growing global demand for basic resources is it more likely basic construction material costs will rise more or less than the general rate of inflation?
- Will our expectations of what a house contains go up or down?
- Will we Kiwis move away from favouring housing as a retirement investment? It would be great if we did but in the absence of a capital gains tax (no chance) such a move will need to be seen to be believed.
- With long term fiscal pressures, is it likely we will see immigration criteria tightened, or will they be loosened as a simple expedient to underpin economic growth and the tax base?

But what about the constant question of Baby Boomers realising their housing investments? This one will be worth watching over the next 20 years, but allow yourself time to watch it for 30 years instead as advances in medicine and lifestyle management extend life longevity.

The long term fundamentals suggest the structural relationship between average house prices and incomes has shifted. But to what it is impossible to say though it would be great if researchers with more time on their hands than we have (RB, Treasury) give the issue some thought. Maybe they already have.

And if you are still reading, here is something to laugh about. When is the most dangerous time to invest in a rising asset market? Not only when the shoeshine boy tells you what stocks to buy, but when the analysts say “this time it is different”, things have “structurally changed”. Good luck. Invest for cash flow, hold long term, work rents up whenever the opportunity presents itself (an area of intense investor failure), watch debt levels, and take capital gains more than 2% above inflation as a bonus.

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..
- Real estate sales continuing to increase but the rise limited by listings shortages.
- House prices edging higher.

Exchange Rates & Foreign Economies

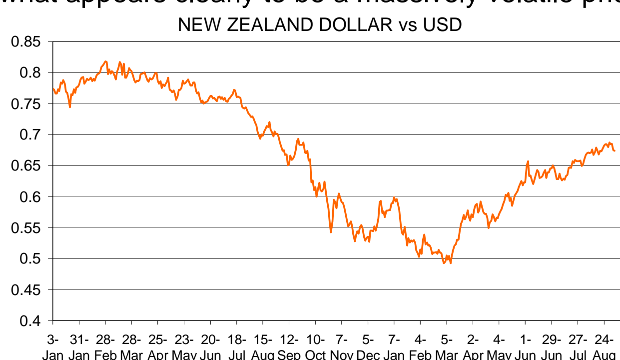
EXCHANGE RATES	This week	Week ago	4 wks ago	3 months ago	Yr ago	Consensus* Frcst Yr Ago	10 yr average
NZD/USD	0.674	0.680	0.66	0.657	0.687	0.651	.592
NZD/AUD	0.808	0.82	0.79	0.80	0.82	0.796	.856
NZD/JPY	62.2	63.6	62.5	62.8	74.6	70.9	66.8
NZD/GBP	0.414	0.418	0.394	0.396	0.385	0.373	.345
NZD/EUR	0.472	0.476	0.462	0.459	0.473	0.47	.51
USD/JPY	92.3	93.5	94.7	95.6	108.6	108.9	113.9
USD/GBP	1.628	1.627	1.675	1.66	1.78	1.74	1.709
USD/EUR	1.428	1.429	1.429	1.43	1.45	1.387	1.156
AUD/USD	0.834	0.829	0.835	0.82	0.839	0.818	0.69

NZD Directionless

The NZD has ended trading this afternoon near US 67.4 cents which is down slightly from 68 cents a week ago and exactly where it was a fortnight ago. Does this mean there were two gigantic forces at work battling to determine which way the Kiwi goes and any minute one could see one of these forces trip over and the other dominate – with the NZD falling to 55 cents or soaring to 75 cents? Heck no.

The story for the NZD now is the same as it has been since March. The global world recovery story has brought investor demand for growth and risky assets and this has taken the NZD up from just below 50 cents back then. Now things have settled down in sharemarkets, interest rate markets and currency markets (not so much in commodities) and we all await news on how strong the global recovery will be. Some weeks the data look good and both growth and risky assets get bought. Other weeks the data may be weak or more usually investors get a collective bout of the heebee geebies and take some profits on their earlier purchases.

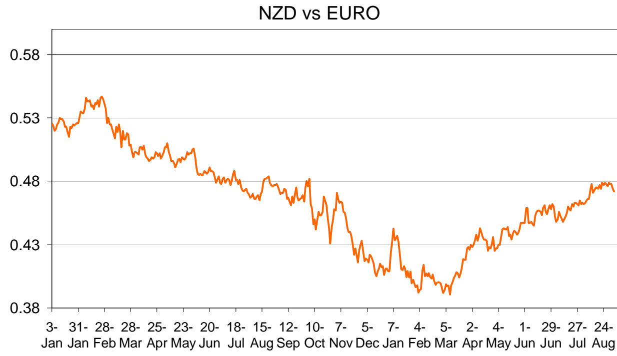
A small version of that has happened this week and it in no way alters any of the underlying pressures on the NZD. Having said that – there was some offsetting support for the NZD this week from another 25% jump in milk powder prices at Fonterra's regular auction. Good luck forecasting such price movements in what appears clearly to be a massively volatile price setting mechanism.

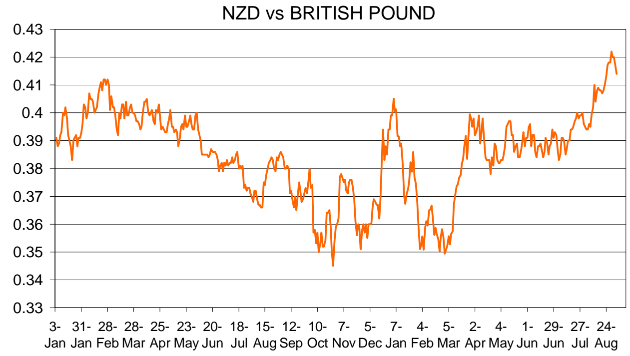


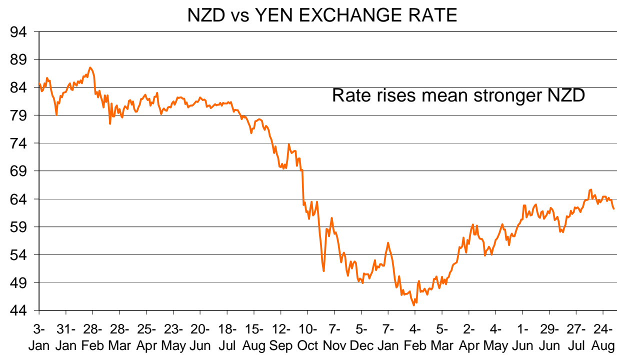
NEW ZEALAND DOLLAR vs AUSTRALIAN DOLLAR

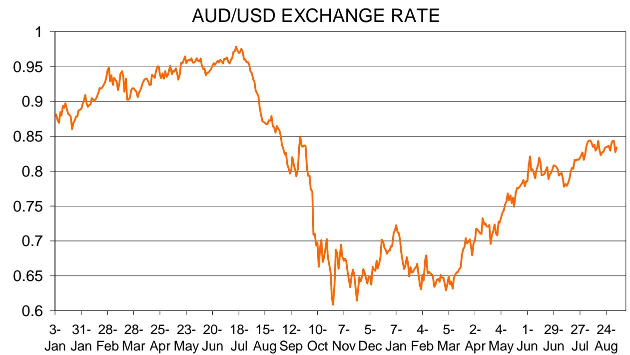
From here we still consider risks for the NZD over the coming 1-2 years lie on the upward side and any pullbacks are likely to be limited. The only scenario likely to see a large NZD decline is a return to world Depression worries and that seems unlikely.

On the cross rates the NZD has pulled back slightly over the week – but nothing really major has happened to excite either importers or exporters. Against a strong Aussie dollar we have fallen to near 80.8 cents from 82 cents last week. Against the Japanese yen we are near 62.2 from 63.6, against the Euro 47.2 centimes from 47.6, and against the British pound 41.4 pence from 41.8.



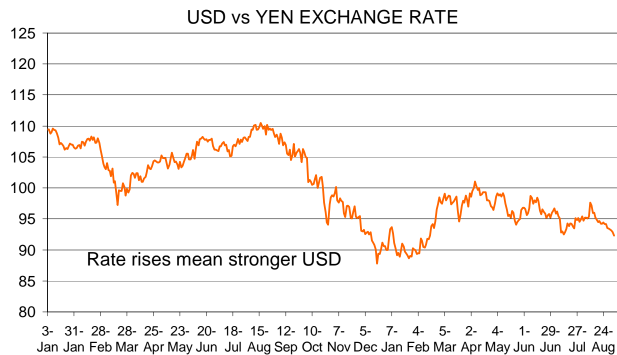


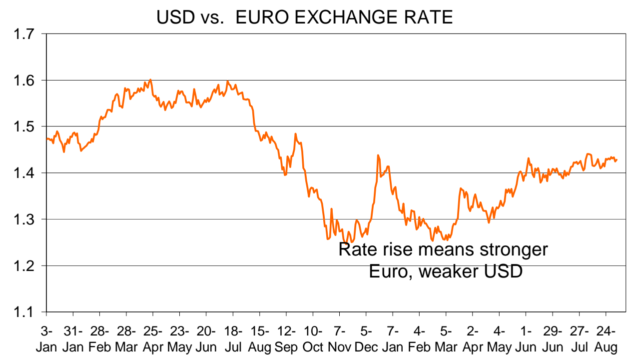


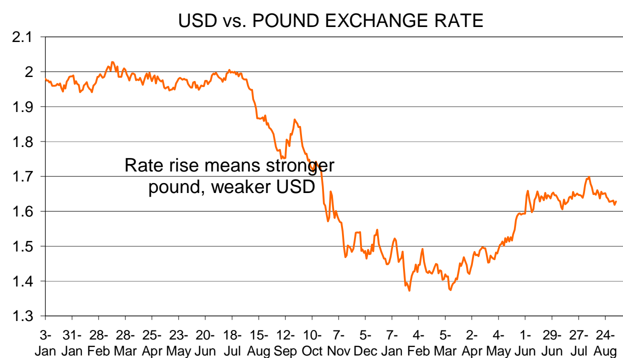


With respect to the major pieces of news offshore we have the AUD being well supported by yet again much stronger than expected economic data. This time it was gross domestic product rising 0.6% in the June quarter rather than the minuscule 0.2% commonly expected. The Aussie economy grew 0.4% during the March quarter and is being well underpinned by recovery in the Chinese economy, lots of infrastructure work, the effects of low interest rates (very noticeable in the housing market) and consumers spending maybe 75% of the handouts given by the Federal government. The AUD has ended against the greenback near 83.4 cents from 82.9 cents last Thursday.

In the US no king-hit pieces of data were released and as noted above the bout of growth concern which led to the sharemarket on Tuesday night having its biggest one day fall in months was merely a few shivers going up some investor spines. The USD continues to trade well within recent trading ranges against the other major currencies.







If I Were An FX Receiver What Would I Do?

Last week someone asked what they should do as an importer. The easy answer is the opposite of what we write here in terms of what to do as an exporter. But one always has to keep in mind that individual circumstances are usually unique and a key factor influencing the type of hedging one does and how much of it is one's ability to undertake "natural" hedging. This comes in the form of being able to change the price one pays for a product or charges for it.

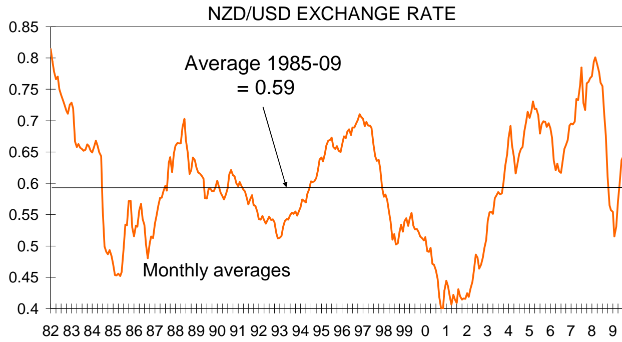
If you are an exporter and you sell a unique product then the easy thing to do is charge offshore customers in NZDs. Then they take all the FX risk. Or one charges in foreign currencies but moves the price to reflect exchange rate changes. If you are an importer you might be able to offset currency movements by making customers aware the price they pay will be determined by exchange rate movements. That works if one sells either a relatively unique import or a basic commodity quoted every day in offshore markets and which buyers know has its price determined offshore.

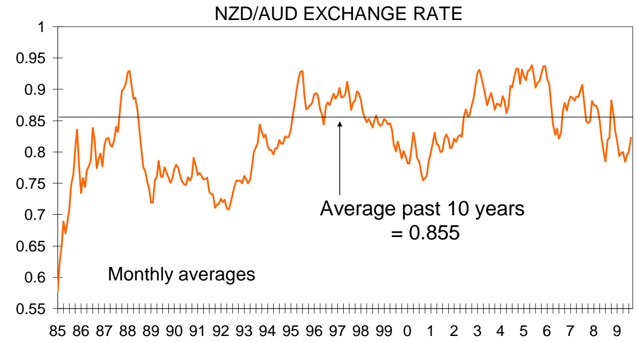
A unique vulnerability for importers is what competitors here in NZ do. If you hedge and they don't and then the NZD falls away you will have a pricing advantage. If the NZD rises the advantage goes to them. The incentive for an importer is to not only consider one's cash flow vulnerability to unpredictable exchange rate movements (in other words 99.9% of rate changes) but also what market practice is regarding hedging. If one's competitors do not hedge then the strong incentive is also not to hedge.

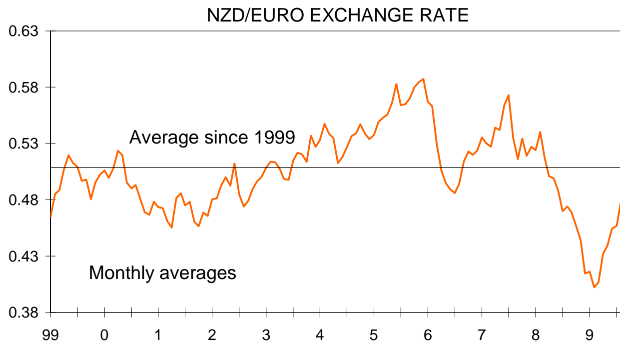
Take inventories into account as well. What if no-one in your industry hedges but you run high inventories here in NZ while they operate a just-in-time system? Exchange rate changes will hit their prices sooner than yours which would be an advantage when the NZD is falling but cost you sales or margins when the NZD rises and you have more expensive stuff laying around.

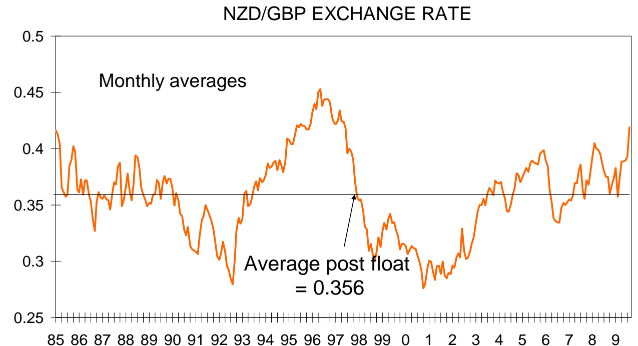
Then there is another unique characteristic to consider for importers. Some have a product which is priced by the exporters offshore to what the market will bear. If one sells the product into a country with low incomes then the product may be on average priced lower than in a high income country. One sees this with some goods costing less in NZ than Australia after adjusting for the NZD/AUD exchange rate.

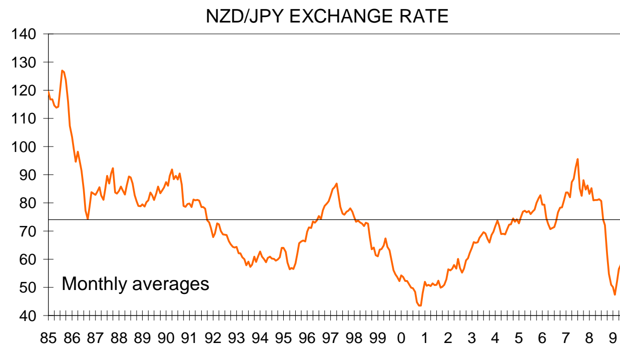
For these goods – and motor vehicles from Japan are the prime example – exchange rate changes as a rule do not flow through either quickly or fully. Japanese exporters want their brand in the market for a long term and know that times of low exchange rates get followed by times of a high exchange rate. They smooth their price over a long period by accepting lower returns in Yen when the NZD is low then getting higher than average returns when the NZD is high.











*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	0.6%	0.3	1.9	4.0	2.0
GDP growth	Average past 10 years = 3.0%	-1.0	-1.0	-1.0	3.1	1.8
Unemployment rate	Average past 10 years = 5.3%	6.0	5.0	......	4.0	3.7
Jobs growth	Average past 10 years = 1.9%	-0.5	-1.4	-0.9	0.8	1.5
Current a/c deficit	Average past 10 years = 5.5% of GDP	8.5	9.0	......	8.0	8.5
Terms of Trade		-3.0	-1.0	-5.2	11.6	4.5
Wages Growth	Stats NZ analytical series	0.6	0.8	4.6	5.6	4.6
Retail Sales ex-auto	Average past 9 years = 3.8%.	-1.2	-0.0	-0.8	3.2	4.9
House Prices	Rise > inflation since 1992 = 5% p.a. QVNZ	-2.0	-2.1	-8.9	8.0	9.7
Net migration gain	Av. gain past 10 years = 10,400	+12,515	7,482yr	......	4,735	10,080
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-2.8	-3.9	-2.8	0.9	3.4
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	38	3	-9	6	-8
Business activity exps	10 year average = 26%. NBNZ	26.0	12.6	-20.1	4.7	16.7
Household debt	10 year average growth = 11.3%. RBNZ	2.4	2.6	4.2	8.5	13.7
Dwelling sales	10 year average growth = 3.5%. REINZ	34.0	40.3	-28.5	-32.6	-14.3
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.85	5.99	6.99	10.49	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.45	6.99	5.99	9.09	9.10

ECONOMIC FORECASTS

Forecasts at Aug. 20 2009	March Years					December Years				
	2008	2009	20010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.3	-0.7	-0.5	1.8	2	4.1	0	-1.3	1.7	2
Government Consumption	4.3	3.4	3	2.8	1.9	3.9	3.9	2.9	2.9	2.2
Investment	4.3	-8.9	-16.2	5.9	8.9	5	-5.1	-17.7	1.1	9.6
GNE	4.2	-2	-4	3.4	3.4	4.5	0	-5.4	2.6	3.6
Exports	2.9	-3.4	-3.5	0.9	4.9	3.8	-1.6	-4.2	-0.7	4.6
Imports	9.6	-4.4	-14	2.3	5.9	8.6	2	-17.1	0.4	5.6
GDP	3.1	-1	-1.2	3	3.1	3.2	0.2	-2.1	2.3	3.3
Inflation – Consumers Price Index	3.4	3	2.5	0.7	1.8	3.2	3.4	2.5	0.8	1.5
Employment	-0.3	0.8	-1.6	2.6	3.2	2.3	1	-2.9	1.7	3.4
Unemployment Rate %	3.8	5	7.3	7.2	6.1	3.5	4.7	6.9	7.3	6.3
Wages	4.4	5.1	2.4	1.5	3.8	4	5.1	3.1	1.3	3.3
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.7	0.72	0.68	0.77	0.56	0.69	0.71	0.69
USD/JPY	101	98	102	108	110	112	91	100	108	110
EUR/USD	1.55	1.31	1.44	1.41	1.31	1.46	1.34	1.43	1.42	1.35
NZD/AUD	0.87	0.8	0.8	0.82	0.83	0.88	0.83	0.8	0.8	0.82
NZD/GBP	0.4	0.37	0.39	0.41	0.4	0.38	0.37	0.39	0.4	0.4
NZD/EUR	0.52	0.41	0.48	0.51	0.52	0.53	0.41	0.48	0.5	0.51
NZD/YEN	81.1	51.8	70.9	77.8	75.3	86.3	50.9	69	76.7	76.4
TWI	71.6	53.8	64.7	68.2	67.1	71.6	55.1	64.3	67	67.3
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	2.7	4.62	6.62	8.9	5.23	2.75	4.12	6.12
10 year Govt. Bond	6.36	4.77	5.75	6.4	7	6.4	4.88	5.7	6	6.8

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

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

*extrapolated back in time as Total Money started in 2007