Bank of New Zealand

BNZ Weekly Overview

29 June 2006

FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	7.25%	7.25	7.25	7.25	6.75	6.3
90-day bank bill	7.45%	7.50	7.51	7.45	7.02	6.6
10 year govt. bond	5.90%	5.87	5.78	5.65	5.72	6.5
1 year swap	7.44%	7.46	7.46	7.18	7.00	6.7
5 year swap	6.89%	6.89	6.90	6.47	6.49	7.1
NZD/USD	0.606	0.616	0.635	0.602	0.70	.57
NZD/AUD	0.818	0.835	0.838	0.854	0.92	.86
NZD/JPY	69.4	70.6	71.3	71.0	77.3	66.0
NZD/GBP	0.328	0.334	0.34	0.345	0.388	.35
NZD/EURO	0.474	0.487	0.498	0.50	0.579	.509

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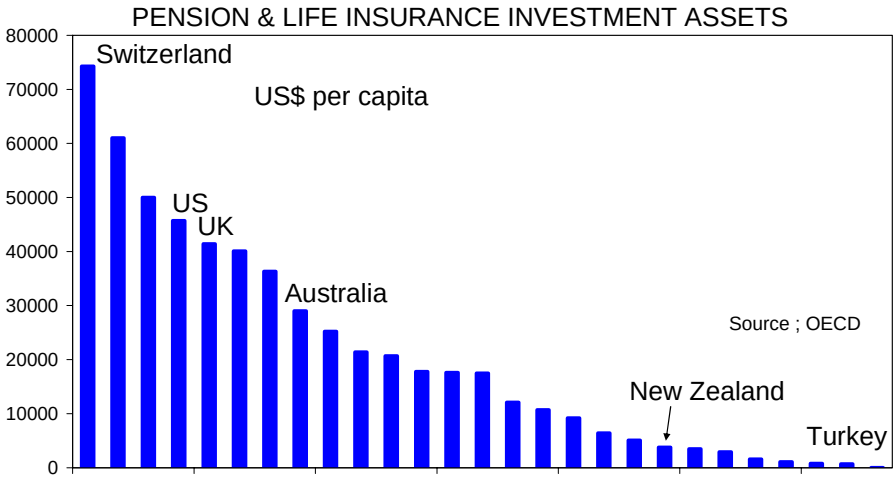
NZ Households Deficient In Financial Assets

A few years ago the former Governor of the Reserve Bank Dr Brash delivered a speech in which he pointed out quite strongly the deficiency of financial assets for New Zealand households. He presented a table using showing financial assets as a proportion of household disposable income for a small range of countries. The table showed that whereas the average ratio for a group of six large economies overseas was about 360% for New Zealand the ratio was 70%. Since then the New Zealand ratio of financial assets to income has fallen even further.

About a month ago financial journalist Brian Gaynor ran an article in the New Zealand Herald looking at OECD data on household investments in pension schemes and life insurance assets. These particular assets don't cover all potential financial assets for households and don't capture for instance term deposits or individually held shares. But the data are comparable between countries and from our point of view give a very simple insight into one of the major deficiencies of the New Zealand household sector - the lack of financial assets.

The data presented by Mr Gaynor showed that in US dollars per capita terms financial assets for Switzerland households totalled $74,300. The United States number was $45,700 while the United Kingdom number was $41,400. Australia sat at $29,000. Of the 27 countries covered New Zealand came in 20th at $3, 800. The graph below pretty much sums it up.



The past week has been spent on the road giving talks to bank customers in Queenstown, Dunedin, and Invercargill. There is certainly a lot of snow on the southern part of the Canterbury plains and one feels for the people still without electricity and the farmers who have used up their stores of winter feed and the crops which have been lost. In Queenstown although the Winter Festival is on one has to say things seemed slightly on the quiet side. But given the fall in the New Zealand dollar, news overseas about the heavy dumping of snow, and good growth in the Australian economy it is likely that many Australians will be crossing the ditch this winter for skiing holidays and things are likely to get extremely busy very shortly. One person noted that section prices are being discounted in Wanaka and getting a builder has become a heck of a lot easier.

Driving through Alexandra and the land towards the east the hoar frost was amazing to see. Many people had stopped their cars and had cameras out to get a picture of what to us outsiders is an amazing event but for those living through it must be something approaching a nightmare with all that fog hanging around for days on end and freezing on the clothes line, fences, trees and everything else outside.

In Dunedin things looked normal and while the housing market and retailing are likely to be restrained in the next year or so, as will be the case in the rest of the country, things are likely to chug along slightly better than in many other regions in response to the lower Kiwi dollar improving the manufacturing and tourism sectors in particular. We don't think farmers will be responding in the short term to the falling currency by boosting their spending and that is more likely to be a story for the 2007/08 season.

Similar comments can be made about prospects for the Southland economy and Invercargill over the next year or so as for Dunedin and the Otago region. But it will be interesting to see what impact there is on confidence of the planned exploration of the waters south of New Zealand for oil and gas. Could this be a new Taranaki?

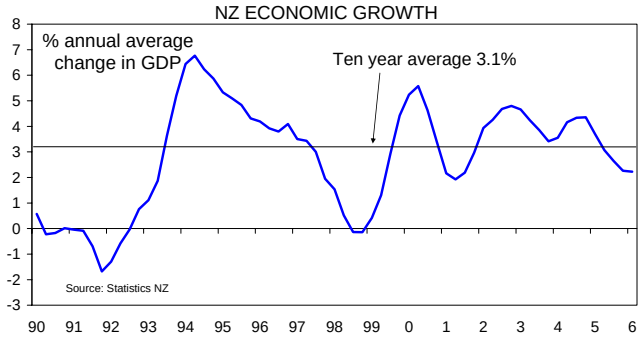
THE WEEK'S ECONOMIC DEVELOPMENTS

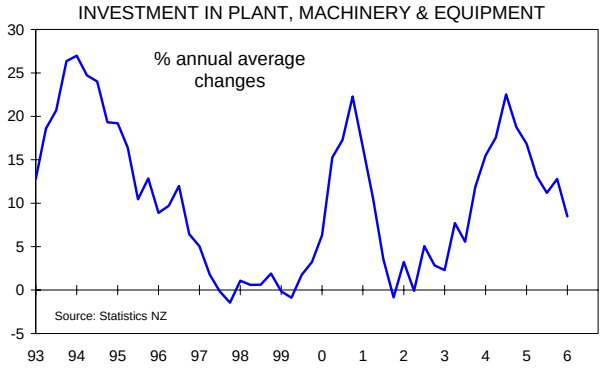
Friday 23

Absence of Recession Confirmed

The New Zealand economy grew by 0.7% during the March quarter after shrinking 0.1% during the December quarter of 2005. The bounce back in growth means that in the year to March gross domestic product increased by 2.2% following 2.3% growth in calendar 2005 and 3.7% growth a year earlier. Private consumption grew by an acceptable 0.8% in the quarter after rising 0.6% during each of the previous two

quarters, and was up by 4.1% in the year to March after rising 5.8% a year earlier and 6.4% a year before that. So growth in household spending has slowed down but was still reasonably healthy in the quarter and not consistent with the spending collapse which the Reserve Bank might secretly be hoping for. One of the main points we have been making recently has been that in response to tight cash flows businesses are looking to get their expenses under control not by laying off a great number of people as has tended to be the case in previous economic slowdowns but by cutting back on capital expenditure. This can be seen in expenditure on plant, machinery and equipment declining by 5.4% during the March quarter after falling 2.4% during the December quarter. This is of course quite concerning because going forward the economy is going to need accelerating growth in productivity in order to achieve reasonable economic growth rates in an environment where growth will be heavily constrained by inadequate resources and infrastructure. Hopefully the easing off of business investment will be temporary, though it is especially concerning when one considers that across the Tasman business investment growth is accelerating. It is only through such productivity enhancing investment that businesses will comfortably gain extra profit per unit of output which will allow them to pay higher wages and salaries.





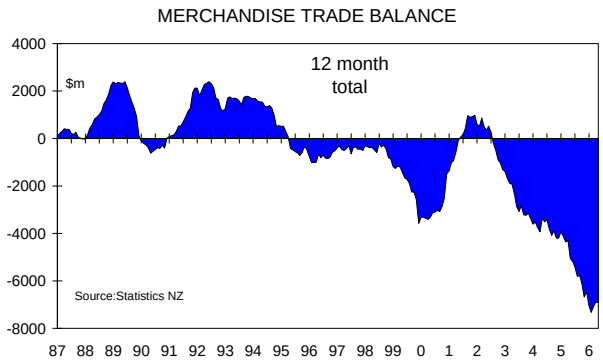
Reflecting the easing off of growth in the domestic economy expenditure on imports declined 0.8% in seasonally adjusted volume terms during the March quarter after falling 3.8% during the December quarter. Exports however put in a poor performance falling by 2.6% during the quarter perhaps with some timing changes for agricultural products.

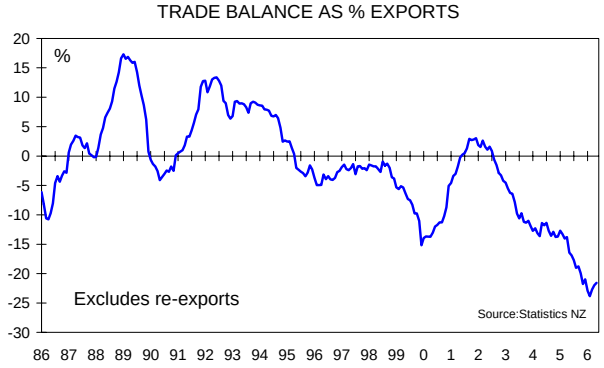
All up the result was bang on market expectations and had little impact on interest rates or the exchange rate on the day. Our expectation is that growth in the economy will come in just above 1% this year and around 1.5% over 2007 before improving to a truly mediocre rate near 2.5% over calendar 2008. Growth will be constrained by resource and infrastructure inadequacies.

Wednesday 28

Foreign Trade Account Deteriorates

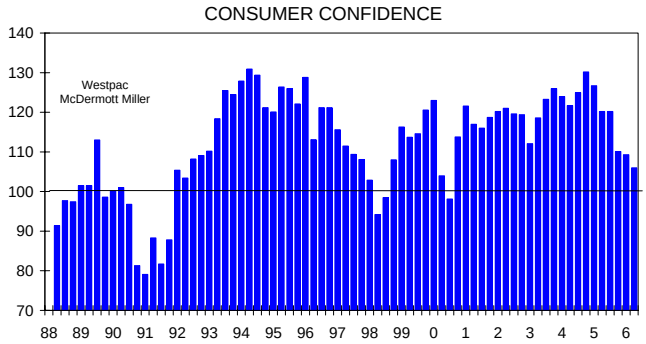
The merchandise trade account recorded a deficit in May of $104 million. This was an unexpectedly poor result with the markets expecting a surplus near $50 million and the deficit in the month compared with a negative balance of $74 million a year ago and a surplus of $677m in May 2004. We believe there are a lot of special one-off factors disturbing movements in exports at the moment but even roughly allowing for these the result does suggest that for the moment the current account deficit will get worse before it eventually gets better as a result of the Kiwi dollar falling away. The currency actually weakened almost half a cent on the back of this worse than expected news. Exports were up an amazingly strong 24% from a year ago but imports were ahead by 24.3%. The value of imports of consumer goods was up 14% from a year ago and ahead 11% in the three months to May from a year ago. Imports of machinery and plant in contrast were up just 8% in May from a year ago and ahead just 6% in the three months to May compared with a year earlier.

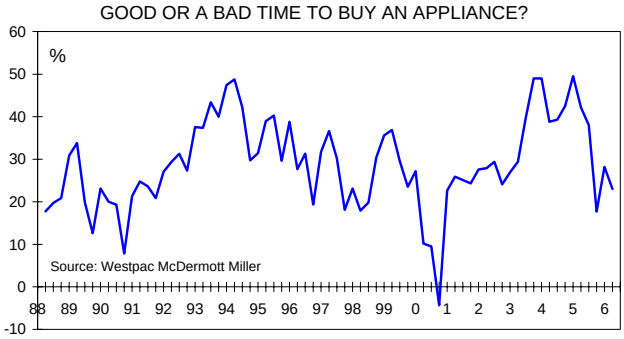




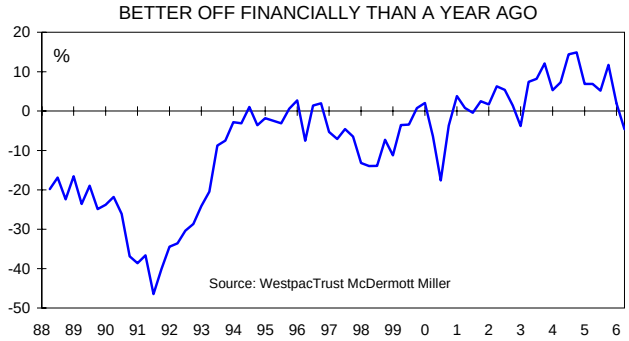
Consumer Confidence Declines

The Westpac McDermott Miller Consumer Confidence survey revealed a fall in consumer confidence during the June quarter to a reading of 106 from 109.3 during the March quarter. On average over the past 10 years this measure has been 118 therefore confidence is running at below average levels. But the reporting of this piece of news does highlight something we have pointed out about the media in the past and that is that they are very willing to seize upon negative information and blow it out of all proportion. In one national newspaper the headline read "Consumer Confidence Plummets". Frankly we would be hard-pressed to describe a three point movement in this particular quarterly indicator as a plummet. Instead it has simply edge lower by what we consider to be a relatively small amount when one considers the warnings from the Reserve Bank about inflation and the absence of any interest rate cuts in their future, rising petrol prices, some harsh weather conditions, and expectations of the falling exchange rate boosting the prices of many consumer goods. Frankly the 3 point fall is minimal but consistent with weakness in retail spending.





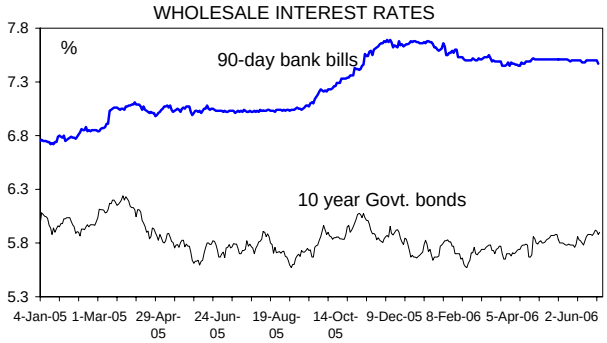
One interesting thing about this particular survey of consumer confidence is that the overall confidence measure is constructed using five separate questions regarding how people feel their finances have changed over the past year, how they see them changing in the next year, their outlook for the economy over the next one and five-year periods and whether or not they think it is a good time to buy a major appliance. The second graph above plots the results for this last question and shows that during the June quarter a net 23% of people felt it was a good time to buy a major appliance. This was down from 28% during the March quarter and 42% a year earlier. But the reading is about average for the past decade and while down from the extreme levels over 2004 is well above the recessionary levels of 2000.



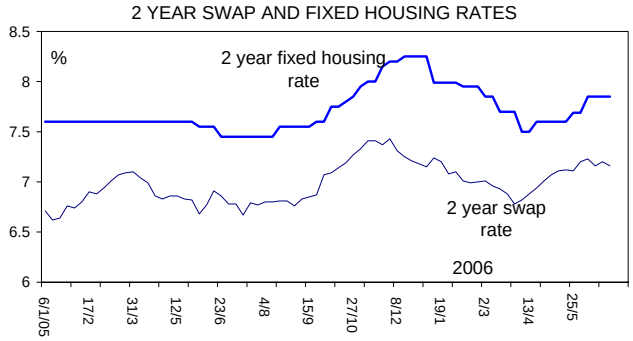
A net 5% of people feel that they are worse off financially than a year ago. This is the worst reading also since 2000 and perhaps helps explain why there is such a clamour for tax cuts from New Zealand households. People are no longer satisfied simply having a job and while the Working for Families package has boosted the incomes of many people - and in the process created an extra 350,000 beneficiaries who now have reduced incentive to gain extra education and skills - people no longer feel they are moving ahead.

INTEREST RATES

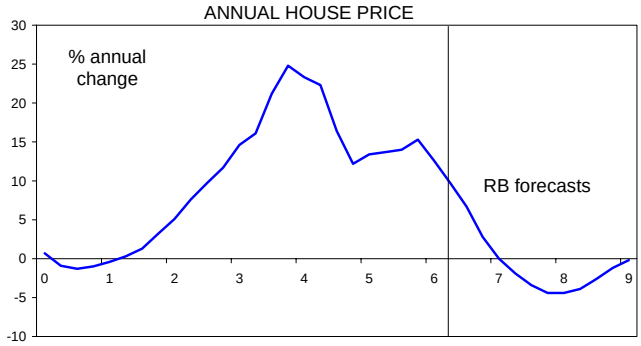
Short term wholesale interest rates have edged down slightly this week in response to imminent moves by the Reserve Bank to increase liquidity in the interbank settlement cash market. This change is intended to address a problem whereby short term interest rates have in the past been at unusually high levels as banks have found it difficult to find the securities sometimes needed to be sold back to the Reserve Bank to prevent overnight accounts going into deficit. The Reserve Bank will be boosting overnight liquidity in the system and this is expected to cause the likes of 90 day bank bill yields to decline from recent levels near 7.5% to something close to 7.4%. The important thing to recognise is that this does not represent an easing of monetary policy. It is merely a technical change.



This afternoon 90-day bank bill yields have ended near 7.45% compared with 7.5% a week ago. The 10 year government bond yield has ended near 5.90% from 5.87% last week while the two year swap rate at which we banks borrow money to lend fixed for a two-year period has ended at 7.16% from 7.2%.



During the week the Reserve Bank Governor forecast that before the end of this year house prices are likely to fall slightly. That scenario is certainly possible given declining consumer confidence and decreasing optimism about interest rates falling, and in their Monetary Policy Statement released on June 8 the Reserve Bank included a forecast that house prices would fall about 5% over 2007. So the forecast of falling prices is not new but the reaction of the REINZ in releasing a statement criticising the Reserve Bank is.



A long time ago we noted that one of the indicators of the housing market easing off is increasing sensitivity from those whose livelihood depends upon the market remaining strong. That sensitivity is now here and it says to us that the risks for the housing market have shifted to the downside and most commentary for the next 18 months or so is likely to be on the negative side. We've been waiting for this and it has by and large been factored into our expectation that house prices will go nowhere for about four years.

One important thing to note is that if house prices do not fall as the Reserve Bank have assumed then they may need to increase the official cash rate again or at a minimum will not be cutting it as early as most of us are currently forecasting. Frankly given the way inflationary pressures are building it is looking increasingly like the Reserve Bank needs house prices to fall and it is simply a question of what level and duration of high interest rates they require in order to achieve that outcome.

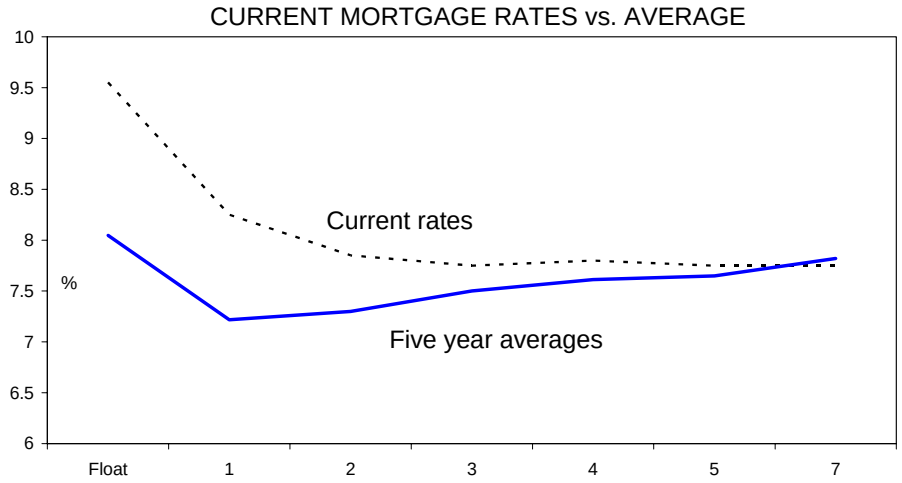
Importantly also from a monetary policy point of view is the recent fall in the New Zealand dollar. The Reserve Bank have assumed that in the second half of this year the trade weighted index averages 60.5. It is at that level right now and given the strong downward pressure on the Kiwi dollar it is likely to average less than the assumed level going forward. This means more inflationary pressure on top of the worrying rise in inflation expectations already spreading through the economy and poses a further problem for the Reserve Bank. The fall in the currency not only directly increases imported goods prices but also improves the outlook for the export sector as we have been noting in recent weeks.

What it adds up to is very little scope for monetary policy to be eased in coming quarters.

If I Were a Borrower What Would I Do?

We expect to see fixed interest rates easing slowly over 2007 and perhaps 2008 but do not have in our minds a view that rates will be falling by a large amount. This means we don't see a huge amount of value in either floating or fixing just one year in anticipation of rates being at unusually low levels next year. Our position remains that fixing in the two to three year area appears optimal but that in an uncertain world environment with rising global inflation having some of one's debt fixed for perhaps a five year period may not be all that bad an idea.

During the week someone asked us for information on where fixed interest rates have averaged over the past few years and so here are the numbers. On average over the past five years the one-year fixed housing rate has been 7.2%, the two-year rate 7.3%, the three-year rate 7.5%, the four-year rate 7.6%, the five-year rate 7.65%, and the seven year rate 7.8%.



BNZ Fixed Lending Interest Rates

	Housing	Average Past 5 yrs	Low Past	High 5 years
Float	9.55%	8.00%	6.70%	9.55%
1 yr	8.25	7.16	5.95	8.45
2	7.85	7.28	5.99	8.25
3	7.75	7.49	6.30	8.30
4	7.80	7.62	6.40	8.40
5	7.75	7.65	6.50	8.60
7	7.75	7.83	6.75	8.80

Note: Conditions may apply to these rates.

BNZ Term Deposit Rates

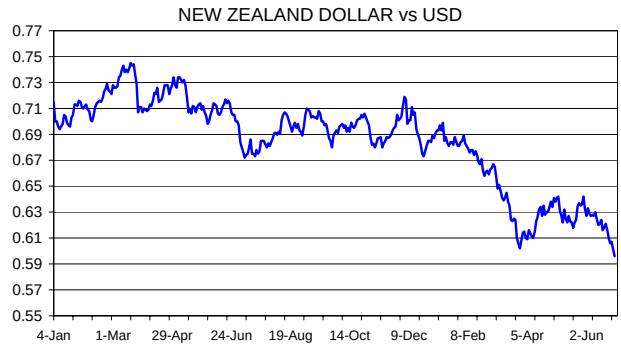
Days	$10-50K	$50-100K	$100-250k
30	3.00	3.00	5.25
90	6.20	6.25	6.30
180	6.80	6.85	6.90
1 yr	6.60	6.65	6.70
5 yr	6.10	6.15	6.20

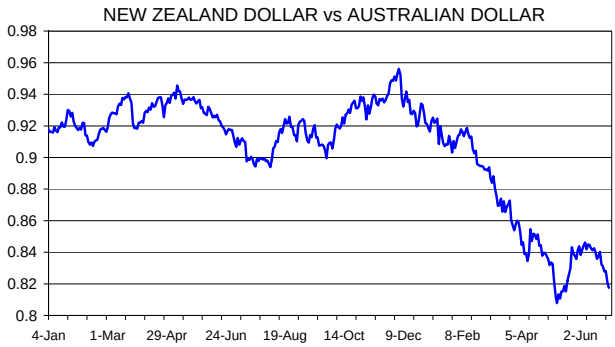
HOUSING MARKET UPDATE

No fresh data on the New Zealand housing market have appeared over the past week. A few people got a bit excited about the consumer confidence number released yesterday but we view the decline in confidence as relatively small considering some of the negative things to hit consumers in recent times. We certainly don't feel that consumer confidence is plummeting and retain our view that the housing market is going to have a soft landing with the absence of any price gains being the most probable scenario for the next three to four years.

EXCHANGE RATES

Courtesy of concern about slowing growth in New Zealand and in particular the recent bad data on the current account deficit and merchandise trade balance we have seen the Kiwi dollar weaken over the week to close this afternoon near 59.6 cents from 61.6 cents a week ago. This is the lowest closing level since October 2003.



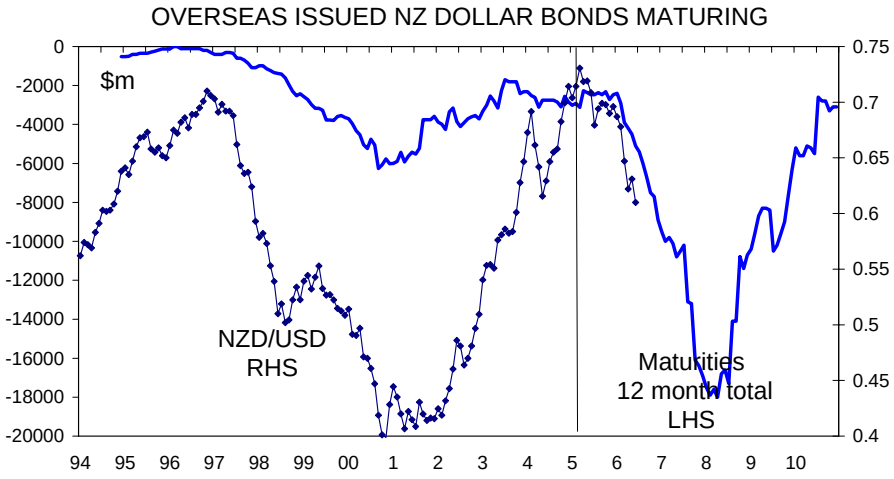


Our expectation remains that the Kiwi dollar will drift lower over the coming 12 to 18 months in response to a variety of factors. One which is occupying the minds of traders at the moment is the recently announced large current account deficit at 9.3% of GDP. With expectations that the deficit will get worse before it gets better, and because a deficit of this magnitude says quite clearly that one's currency is grossly overvalued, it is giving a definite weak tone to the New Zealand dollar. Further weakness is likely to come in response to overseas interest rates creeping higher in the next 12 months while New Zealand interest rates are unlikely to be pushed up again by the Reserve Bank. Given that the high interest-rate differential in favour of the Kiwi dollar was a key reason why we rose to a post float high earlier this year the eroding of that differential will naturally cause Kiwi dollar weakness. Caution may be required here however as a lot of this narrowing of the differential may already be factored into the markets.

But perhaps what is most likely to eat away at the Kiwi dollar over the coming year or so is slow growth in our economy while growth overseas chugs along at an above average rate. There is high awareness overseas of the way in which the New Zealand economy can sometimes experience a hard downturn while the rest of the world is doing okay and in particular awareness of the way our growth rate sometimes diverges from that in Australia. Expect to see some fairly negative foreign commentaries on about our economy over the coming couple of years and some especially bad comparisons with the still strongly growing Australian economy.

At the moment Australia's economy remains well underpinned by good commodity prices and a lot of business investment. Our expectation is that Australia's growth rate will be 1% to 2% better than New Zealand's over the next couple of years.

Further downward pressure will come from the large volume of maturing euro Kiwi and Uridashi bond issues over the coming two years. The graph below uses data published in the Reserve Bank's Monetary Policy Statement and shows that in the 12 months to June next year a gross $11 billion worth of these bonds will mature while between now and the end of 2007 $22 billion worth will mature. Note the broad correlation between maturing bonds and the Kiwi dollar.

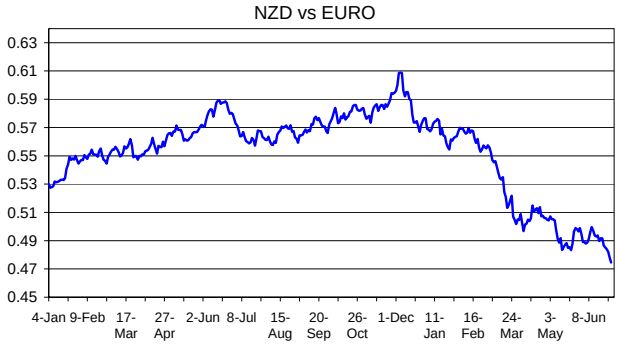


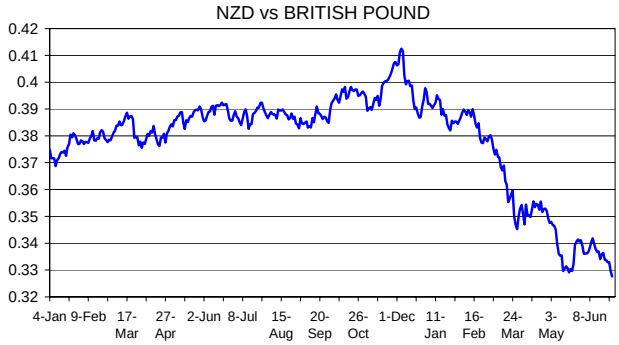
On the face of it this is a recipe for a large decline in the New Zealand dollar. However there are some supporting factors which will tend to insulate the Kiwi dollar from these negatives listed above in the near future. One of these is the fact that the Reserve Bank of New Zealand is not expected to cut interest rates until maybe a year's time from now while the extent of their cuts is likely to be closer to 1.5% come 2008 rather than the traditional 2% to 3% which we have seen in the past during monetary policy easing cycles.

Another factor supporting the Kiwi dollar is the fact that investors overseas, while wary of the situation here, know that we have no history of major debt problems. Their perception of the security of their investment in New Zealand is likely to remain strong in coming years especially in light of continuing large budget surpluses, a low unemployment rate which will tend to insulate household finances, and the absence of a large cyclical decline in commodity prices this time around.

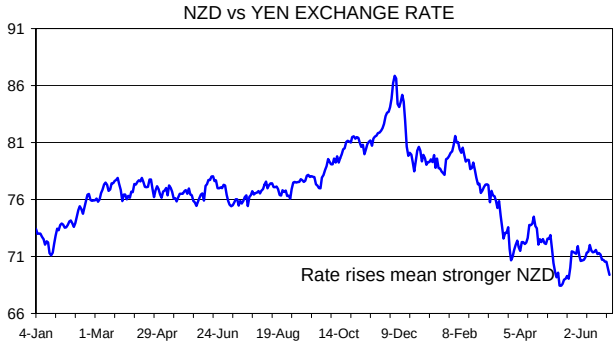
Nonetheless, adding it all together we get an expectation that the Kiwi dollar will drift lower but we do not expect to see the Kiwi dollar falling below 50 US cents this time around. Having said that the currency risks do appear to be on the downside especially as none of us can really say with any great certainty how overseas investors will truly react to such poor fundamentals in New Zealand as the worst household savings rate in the OECD, a shocking current account deficit level, slow growth at a time of above average growth overseas, negative growth implications from resource inadequacies, a government policy orientation more toward income distribution than wealth generation, and poor business capital spending.

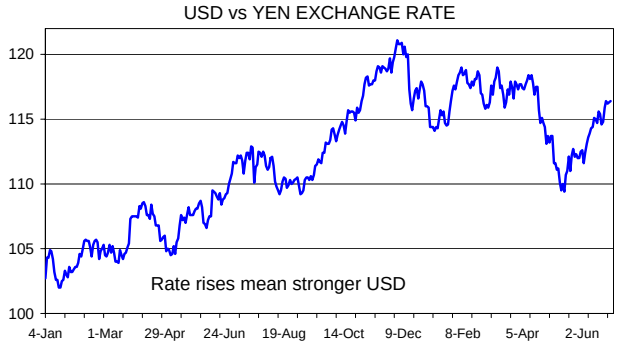
The Kiwi dollar has fallen about 1.5 cents against the Australian currency over the past week to close this afternoon near 81.8 cents, while against the British pound the currency is near 32.8 pence from 33.3 a week ago. Against the Japanese yen the rate is 69.4 from 70.7 while against the euro the Kiwi dollar is at its lowest level since October 2002 near 47.5 cents from 48.7 cents a week ago.



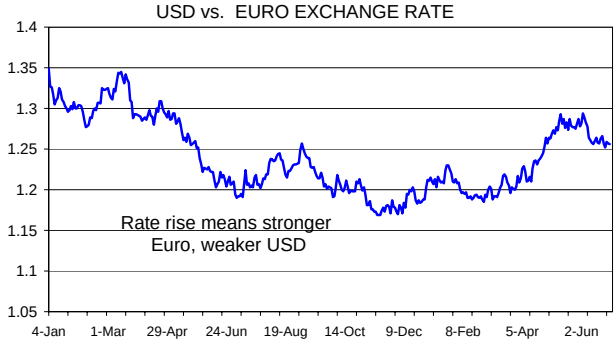


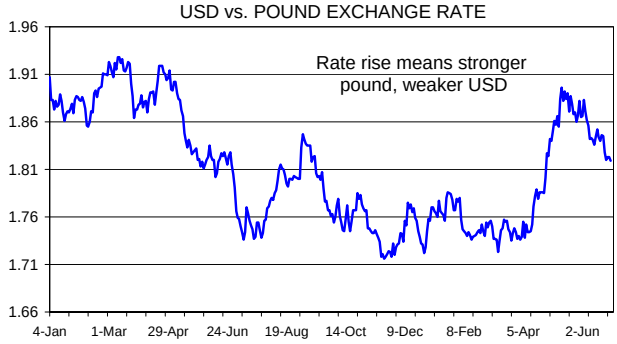
The United States dollar has strengthened over the past week with the markets anticipating a tightening in monetary policy tonight and some hawkish comments from the Federal Reserve. In addition data on home sales and consumer confidence came in stronger than expected which has reinforced expectations of higher interest rates. Interestingly though if the data remain on the strong side and interest rates do get increased more than one more time the US dollar may start facing downward pressure as concern shifts towards the risk of the Federal Reserve having to tighten monetary policy enough to throw the United States economy into a hard lending to control inflation.



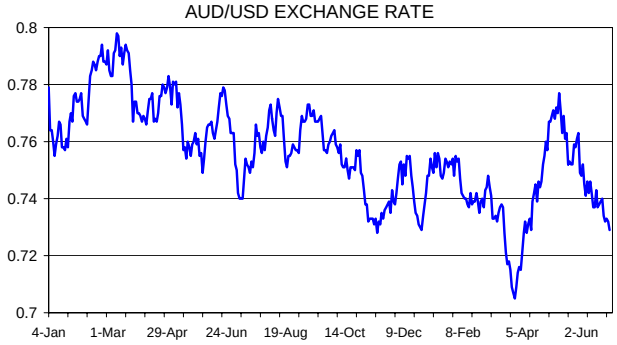


Against the Japanese yen the greenback has finished near 116.4 from 114.8 last week with the Japanese yen facing extra downward pressure in response to rumours about the possible resignation of the Bank of Japan governor and uncertainty over when the Bank of Japan may change their zero interest rate policy. Against the euro the greenback has finished at $1.256 from $1.266 last week.





The Australian dollar has ended just below 73 cents from 74 cents last week.



World Growth Prospects

Following are some extracts from the NAB publication " Global Overview". They look at rising world inflation, expectations of mildly slowing world growth, with some specific comments on the United States, Europe, and Japan.

Global financial markets have been hit by a re-assessment of risk, resulting in increased volatility in trading and big falls in equity prices, commodities, rising risk premiums and a flow of funds back into the traditional safe haven assets like US Government bonds and Swiss Francs. While there were concerns prior to this period of market turbulence that the pricing for risk in some markets was inadequate, the extent of the volatility and the falls in price are well in excess of what might have been expected on the basis of trends in the global economy. Measures of global economic activity are still showing solid growth and while inflation has picked up, it is not particularly high given the magnitude of the jump in oil prices and the sustained global economic upturn. All this highlights the role of market fears about future inflation and growth – if central banks lift interest rates too aggressively – in driving the recent market instability and price declines.

There is no doubt that global price pressures have increased in the last couple of years. The headline rate of global CPI inflation has risen by around 1 percentage point since the start of the oil price shock from around 2½% through much of 2003 and early 2004 to average 3½% yoy since mid-2004. The increase in global producer prices is even greater, from around 1½% yoy through the latter half of 2003 and early 2004 to around 4% yoy since mid-2004 – a rise of 2½ percentage points. While there is a lot of concern among central banks to avoid repeating the policy errors made after the oil shocks in the early 1970's, the pick-up that we have seen in inflation during the latest energy price shock is far smaller than was seen then.

Our measures of idle capacity and unemployment in the big industrial economies have fallen considerably in the last few years to what are fairly low rates by historical standards, pointing to an increasingly favourable environment for passing through higher costs. The strength of profits by historical standards offers another avenue whereby margin compression can be tolerated for a while as this strong earnings cushion can be eroded. Again, however, the question is why suppliers should accept this narrowing of margins for any lengthy period if demand for their products is sufficiently strong to enable them to pass on cost increases.

Our assessment is that price pressures have clearly picked up around the globe and it is not just a question of rising US inflation. Such an outcome was only to be expected in the wake of a supply shock like the surge in world energy prices. The extent of this addition to inflation must, however, be kept in context – there is no evidence of wage price spirals developing in the big economies, the magnitude of the lift in even headline inflation falls far short of that seen after previous shocks and inflationary expectations remain quite low by historical standards. Reflecting this, market inflation forecasts have stayed low with global CPI inflation expected to stay around 2¾% in 2006 and fall to 2½% next year.

Indicators of global economic activity suggest that growth is still quite solid but it looks increasingly likely that growth rates have peaked and we can now expect the long-awaited slowdown to commence. Global industrial output growth has been accelerating from the cyclical low of around 3% yoy in mid-2005 and reached over 5% yoy in April 2006 with no evidence yet of any deceleration in the pace of expansion.

We have been reviewing our forecasts for global growth but the changes are not enough to alter the aggregate growth numbers which still stand at 4¾% for 2006 and 4½% for 2007. The pace of expansion in each of the big 3 industrial regions looks set to slow. We expect a significant slowing in US growth from 3½% in 2006 to 2¾% next year, Eurozone growth eases from 2% in 2006 to 1¾% in 2007 and Japanese growth slips from 3½% to 2¾% yoy. While these are a sizeable slowing in growth in those three regions, the pace of global growth is maintained by continued rapid expansion in India and China (which have very high weightings in global output). The direction of risk in these global growth forecasts has probably shifted to the downside now with no shortage of contractionary influences operating on the big industrial economies whose demand has fuelled expansion in the emerging economies. Apart from the effects of monetary tightening across the US and Eurozone, there are also the effects of higher oil prices eroding spending power, much lower house price inflation in the US cutting into consumer spending growth and the lack of much additional fiscal stimulus. As it is hard to produce a similar list of potentially positive influences, the risks on our forecast of global growth are skewed downwards.

Fed faces a trickier situation as inflation rises and growth slows

Although US economic growth was very strong in the early months of 2006 it was boosted by special factors and the economy has probably already begun to slow. Conditions are mixed across the economy - business investment still looks strong but the housing sector has cooled substantially and behind the volatility of the monthly data it is probably the case that consumer spending is slowing too. A slowdown in the pace of US growth would come as no surprise – the Fed has been lifting short-term interest rates and the lagged effects of the 400 bps rise in the funds rate are still coming through the economy. On top of that we have seen a sharp slowing in house price inflation, which will slow consumer spending via wealth effects, as well as an end to the gains to disposable income from refinancing mortgages at lower rates. Then there are the effects of higher oil prices which will take about 1½ percentage points out of the economy, mainly by depleting households' real spending power and the absence of much extra fiscal stimulus this year. Taken overall, it is easy to identify a number of potentially significant contractionary influences on US economic activity and much harder to see positive ones. These forces underpin our view that US economic growth is going to slow quite substantially through the next couple of years with year average growth dropping from 3½% in 2006 to 2¾% in 2007, which is under the US long-run potential rate.

Given that capacity utilisation in industry is now above its long-term trend, the output gap is shrinking, unemployment is fairly low and there are growing signs of inflation the Fed would probably be uncomfortable with the inflation outlook unless growth did slow soon. So far the rise in inflation has been modest – the core CPI is up by around 1 percentage point since early 2004 to 2½% while the core consumer deflator (the Fed's preferred measure) has risen from 1½% yoy to 2¼% yoy over the same period. These are hardly big movements or high rates of inflation but many in the Fed see 2% as an inflation ceiling and the Fed is worried that the tight economy gives a favourable environment for the passing through of higher input costs into output prices and wages. So far there is no sign of higher wage inflation and firms have absorbed much of the increase in raw material prices into lower margins but the Fed wants to keep things that way and is signalling that it will not accept any marked increase in inflation expectations. We think that the Fed will lift interest rates by another 25 bps and the risk is still upside.

ECB lifting rates as concerns that economy will slow next year mount

Economic activity in the Eurozone is increasing with GDP rising by 0.6% in the first quarter and the ECB predicting that growth will accelerate from last year's 1.4% to just over 2% in 2006 before slowing back under 2% next year. We think growth will drop to 1¾% in 2007 after reaching around 2% this year. The business surveys have been pointing to a faster pace of growth than that but sluggish expansion in consumer spending has held back the rate of demand expansion. As in the US, the direction of risks on growth looks skewed to the downside with no shortage of contractionary influences on the growth outlook for next year. Apart from the lagged effects of higher ECB interest rates feeding through the economy, there is also the effect of higher oil prices on consumer disposable incomes and the impact of the planned lift in German indirect taxes in early 2007 that will also dampen growth. In view of this outlook it might seem surprising that the ECB is lifting rates and we expect them to continue to do so until the end of 2006 when the refi rate should reach 3¼%. Inflation is above the ECB's target level and it is likely to stay above 2% for the rest of 2006 and into 2007. Moreover the ECB sees the inflation risks as skewed to the upside with rapid rates of growth in both money and credit, although it accepts that there is no evidence of second round effects from higher oil prices.

Japan – economy looking stronger and return of positive rates by end-year

The Japanese economy is still recording solid growth and with the Bank of Japan concluding that excess capacity has just about been used up and that inflation has returned, an end to zero interest rates should occur in the next few months. The Bank is already well on the way to draining excess liquidity from the financial system, preparatory to the ending of zero rates and we expect 50 bps by end 2006 and around 1% by end 2007. Growth should slow through 2007 but stay solid by the standards of what has been seen for the last decade.

BNZ WEEKLY OVERVIEW

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%	0.7	3.3	2.8	1.5
GDP growth	Average past 10 years = 3.3%	0.7	-0.1	2.2	3.7	3.6
Unemployment rate	Average past 10 years = 5.7%	3.9	3.6	.....	3.8	4.2
Jobs growth	Average past 10 years = 2.1%	1.1	0.0	2.6	3.4	3.2
Current a/c deficit	Average past 10 years = 4.9% of GDP	9.3	8.9	.....	7.4	4.8
Terms of Trade		1.1	-2.5	-3.0	4.5	6.1
Wages Growth	Stats NZ experimental series	1.3	1.7	5.3	5.1	4.9
Retail Sales ex-auto	Average past 9 years = 4.2%.	0.9	1.2	5.6	7.1	5.9
House Prices	Long term average rise 4.2% p.a.	3.9	2.6	15.3	12.2	24.8
Net migration gain	Av. gain past 10 years = 13,000	+10,200	8,277yr	.....	8,799	23,983
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 8%. Colmar survey	-38	-29	-27	-13	-11
Business activity exps	10 year average = 27%. NBNZ	10	15	0	9	25
Household debt	10 year average growth = 11.4%. RBNZ	14.2	14.7	15.3	15.2	16.5
Dwelling sales	10 year average growth = 4.6%. REINZ	3.9	-14.6	-1.5	-1.4	-15.6
Tourist numbers	10 year average growth = 6.1%. Stats NZ	-0.3	9.7	-2.7	2.3	29.2
Floating Mort. Rate	10 year average = 8.5%	9.55	9.55	9.55	9.00	7.75
3 yr fixed hsg rate	10 year average = 8.2%	7.75	7.60	8.15	7.80	7.20

ECONOMIC FORECASTS

Forecasts at May 18 2006	**March Years**					**December Years**				
	2005	2006	2007	2008	2009	2004	2005	2006	2007	2008
GDP - annual average % change										
Private Consumption	5.8	3.9	1.4	0.4	1.1	6.5	4.6	1.7	0.5	0.8
Government Consumption	5.2	5.2	3.8	3.1	3.6	5.7	5.3	4.0	3.4	3.1
Investment	7.8	5.4	-1.2	1.4	3.6	13.2	4.3	-0.3	0.7	3.1
GNE	6.5	4.1	1.0	1.2	2.3	8.2	4.5	1.2	1.2	1.9
Exports	3.9	0.6	1.6	3.8	4.9	5.6	-0.3	1.2	3.4	4.6
Imports	13.7	4.9	0.1	2.2	3.3	16.6	6.4	-0.2	2.2	3.0
GDP	3.7	2.1	1.1	1.7	2.7	4.3	2.2	1.2	1.5	2.4
Inflation – Consumers Price Index	2.8	3.3	3.4	3.3	2.1	2.7	3.2	3.3	3.5	2.2
Employment	3.4	2.6	0.5	0.7	1.1	4.4	1.5	1.5	0.6	1.0
Unemployment Rate %	3.8	3.9	4.3	4.5	4.4	3.7	3.6	4.1	4.4	4.4
Wages	2.9	4.6	4.6	3.5	2.6	1.9	5.1	4.4	3.7	2.8
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.73	0.64	0.59	0.57	0.59	0.71	0.70	0.60	0.56	0.59
USD/JPY	105	117	103	105	104	104	119	105	105	105
EUR/USD	1.32	1.20	1.23	1.23	1.21	1.34	1.19	1.24	1.22	1.23
NZD/AUD	0.93	0.87	0.80	0.81	0.84	0.93	0.94	0.80	0.80	0.83
NZD/GBP	0.38	0.36	0.33	0.32	0.34	0.37	0.40	0.33	0.32	0.34
NZD/EUR	0.55	0.53	0.48	0.46	0.49	0.53	0.59	0.48	0.46	0.48
NZD/YEN	76.8	74.6	60.8	59.9	61.6	74.2	82.7	63.0	58.8	61.8
TWI	70.7	65.6	58.9	57.7	62.1	69	71.9	59.7	56.9	62.1
Official Cash Rate	6.5	7.25	6.75	5.75	5.75	6.5	7.0	7.00	6.0	5.75
90 Day Bank Bill Rate	6.86	7.55	6.98	5.88	6.10	6.73	7.49	7.22	6.12	5.93
2 Year swap	6.82	7.0	6.18	6.04	6.18	6.61	7.24	6.33	6.02	6.15
10 Year Govt Bond	6.04	5.71	5.90	5.6	5.7	6.03	5.89	6.05	5.65	5.65

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

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