Bank of New Zealand

BNZ Weekly Overview

20 July 2006

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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	7.50%	7.48	7.49	7.48	7.04	6.6
10 year govt. bond	5.94%	5.90	5.88	5.77	5.73	6.5
1 year swap	7.58%	7.52	7.46	7.29	7.00	6.7
5 year swap	7.05%	7.04	6.89	6.62	6.53	7.1
NZD/USD	0.624	0.618	0.618	0.634	0.675	.57
NZD/AUD	0.832	0.82	0.837	0.851	0.90	.86
NZD/JPY	72.8	71.3	71.3	74.5	76.2	66.0
NZD/GBP	0.338	0.337	0.336	0.354	0.389	.35
NZD/EURO	0.495	0.487	0.49	0.51	0.56	.509

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Inflation Getting Entrenched

This week we learnt that inflation has hit an 11 year high of 4%, the housing market remains firm, net migration inflows continue to improve, and consumer pessimism has reduced. These are not developments which will please the Reserve Bank and while we feel it would be wrong to panic about inflation and the RB having to respond with further tightening, we should all be concerned about the apparent failure to keep inflation low.

Regular readers of the Weekly Overview will know that we have been critical of the Reserve Bank's implementation of monetary policy over 2004 and 2005. We repeatedly stressed that the RB needed to take greater account of the likely soft landing for the economy in an environment of structural resource shortages and that they should be more aggressive in their tightening and in the words accompanying official cash rate increases in particular. Instead a softly, softly approach was taken involving a gamble that tightening only mildly would do the job. That gamble has not paid off as the data this week clearly show.

So where to from here? Inflation risks abound. For instance, we see little reason why employees operating in a still tight labour market should pay much attention to the calls from the Minister of Finance for wage restraint in the interests of getting inflation down. All of us every day see the prices of plenty of things determined by basic supply and demand and there is little reason why wages should not be determined in the same manner. Given our expectation that the labour market will remain relatively tight through this coming two to three years of slowish growth in the New Zealand economy we think that wages growth will remain near current levels but perhaps ease a tad as the unemployment rate moves from the current 3.9% toward 4.5%.

We see little chance that the current review of business compliance costs will lead to much alleviation of the pain in this area for the business sector. Local authority rates are likely to keep rising at a high pace. The world economy is growing above average and this suggests slowly rising world inflation with good support for many commodity prices. There is further depreciation to occur in the New Zealand dollar and this will lead to higher import prices along with better incomes for the exporting sector. Corporate margins are tight and there is a risk of price rises being undertaken at every opportunity to try and restore profits.

There are simply too many factors around to reasonably expect that inflation will comfortably ease off over the next couple of years. We retain our view that the inflation rate is not going to go back below 3% until 2008 and that the average inflation rate for the next few years is going to be just below 3% rather than the 2.1% average for the past decade.

Next week at their review of the official cash rate we expect the Reserve Bank to acknowledge the inflation risks and while leaving the cash rate unchanged at 7.25% will warn strongly that there is no scope for the rate to be cut for a long time. Borrowers sitting on floating rates should not expect any alleviation of their expense for a number of quarters.

At the moment fixed housing rates are going up as the markets have lost any remaining optimism about monetary policy being eased soon with pessimism about rate cuts being accentuated by the recent strong retail spending numbers, high price and cost setting expectations in the NZIER’s Quarterly Survey of Business Opinion, and of course this week's high inflation number.

We don't think fixed housing rates are on a new trend upward and instead what is happening is margins being restored closer to normal levels and a simple backing away from overoptimistic monetary policy easing expectations. But the trap we all have to beware of falling into is thinking that if interest rates are not rising they are going to be falling very soon. In this context we have little expectation that fixed interest rates are going to be falling to any major degree over 2007. There will be some mild downward pressure but given the continuing inflation problem in New Zealand and the lift in world inflation we think the potential for any strong rally in borrowing costs is relatively low.

This means from a borrowers point of view there is little reason for myopic fixing at two years on the basis that in a couple of years time interest rates are likely to be astonishingly lower. They won't be. We have recently suggested that borrowers may want to move further out along the curve and fix maybe in the three or four-year area because these rates haven't been all that high compared with their average levels over the past five years. We retain that suggestion.

With regard to the exchange rate we have seen a rise over the past week as the markets have adjusted toward higher short-term interest rate expectations in the immediate future. This is in line with our own comments in recent months that while there will eventually be further depreciation of the New Zealand dollar the extent of the decline and its timing will be limited by the low scope for wholesale interest rates to fall much in the near future. And we still struggle to see the Kiwi dollar falling below 50 US cents this economic cycle given support from interest rates and the resilience in commodity prices.

Aside from inflation and moves up in wholesale interest rates and the exchange rate over the past week we have seen some relatively firm data on the housing market. Our warning to those getting excited about the housing market defying the slowing economy is to acknowledge that home ownership is now out of reach of many average Kiwis. House prices are overvalued and eventually we expect a correction. However whereas a few years ago the expectation of many of us was that this correction would take the form of a decent fall in prices it looks more likely that the correction will take the form of prices eventually flattening out and going nowhere for 3-4 years while inflation and incomes rise underneath.

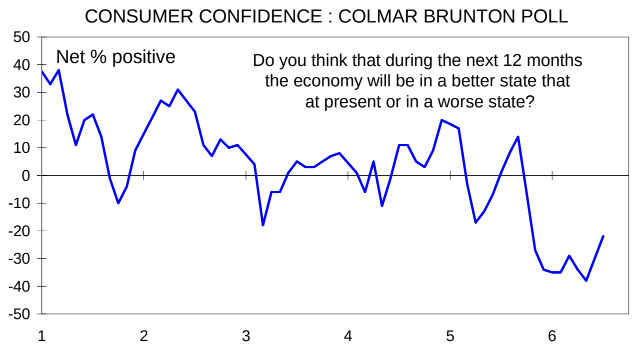
And finally it is worth stating again that although there are many worries regarding inflation, interest rates, petrol prices and so on we still believe the economy is having a soft landing. But we also strongly believe that there is very little scope for a return of firm growth in New Zealand for a great number of years, not just because of the inflation problem but because it will take a long time for resource and infrastructure inadequacies to be corrected - if ever.

THE WEEK'S ECONOMIC DEVELOPMENTS

Sunday 16

Consumer Pessimism Eases

The One News Colmar Brunton poll revealed an improvement in confidence amongst consumers about the economy over the next 12 months to a net 22% pessimistic from 38% pessimistic in the previous poll taken in May. Obviously attitudes are still weak and this is in line with our expectation that over the next couple of years consumer spending growth will be relatively muted. People have built up a lot of debt over the past few years and with petrol prices rising, house prices eventually at best flat, the labour market weakening slightly, and what we expect to be a lot of generally negative discussion in the media about New Zealand's long-term prospects, we think households will exercise spending restraint for quite some time. This will suppress growth in revenue of retailers and perhaps call into question some of the more aggressive retail expansion plans out there.

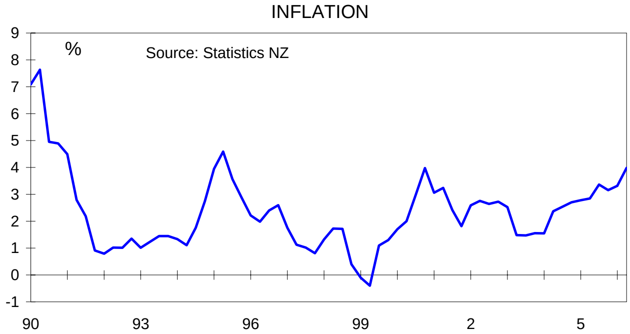


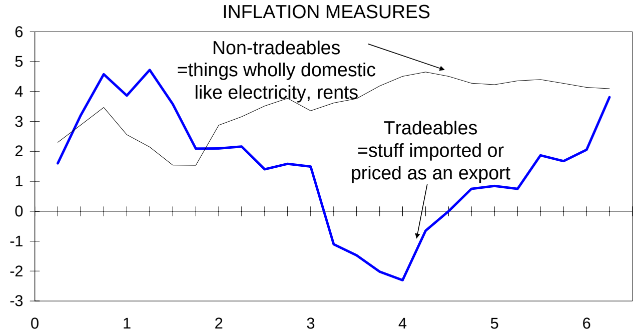
Monday 17

Inflation at Eleven-Year High

The official measure of inflation, the consumers price index, showed an increase of 1.5% during the June quarter and 4.0% compared with a year earlier. This is the highest rate of inflation since 1995. If petrol prices had not risen by 32% over the past year the inflation rate would be 2.9%. But this is still uncomfortably high. There are a variety of ways in which one can try to strip out special factors to get some measure of core inflation. One is to take out the top 5% of price rises and the top 5% of price falls. Doing so gives inflation at 3.6% which is still high. Another way is to focus on the measure the Reserve Bank is most interested in and that is non-tradables inflation. This is inflation of goods and services not directly affected by exchange rate changes or which are only bought and sold domestically. Unfortunately non-tradables inflation was 1% during the June quarter which was unchanged from the March quarter. In addition the annual rate of non-tradables inflation is 4.1%. This is down from 4.3% six months ago but still uncomfortably high.

BNZ WEEKLY OVERVIEW





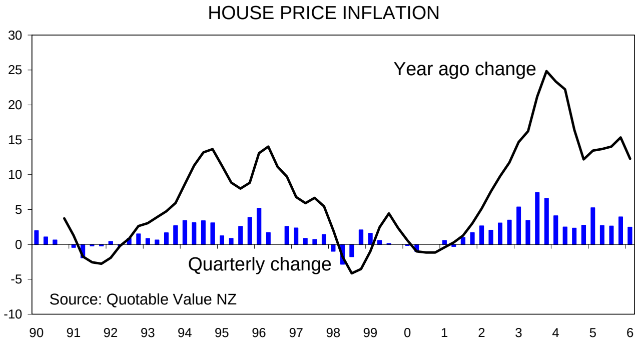
Housing Market Still Firm

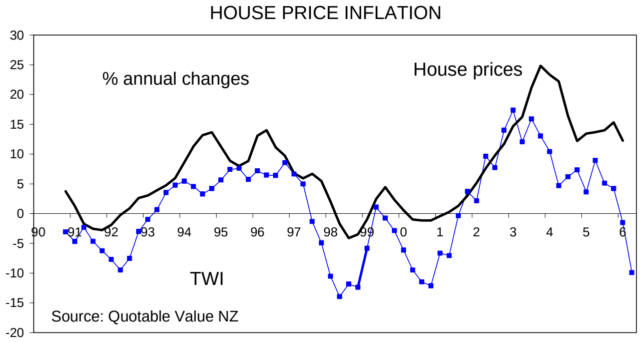
The REINZ reported that in June there were 8,428 dwellings sold around New Zealand. This was a 5% increase from a year earlier which means that in the year to June the total number of dwelling sales was down 3% from a year earlier. On average in June it took 37 days to sell a dwelling which was seven days slower than a year earlier. However in May the difference from a year earlier was nine days so things are actually slightly better last month although there is still a slowing trend in dwelling sales. The median dwelling sale price in the month hit a record $310,000 which was up by 8.8% from a year earlier. The housing market continues to retain good strength and along with many other indicators such as strong retail spending in May, high inflation, capacity shortages, and a small improvement in consumer sentiment, represents a substantial problem for the Reserve Bank as it tries to convince us that inflation will soon settle back below 3%. Yeah right.

Wednesday 19

March Quarter House Price Rises Confirm

Quotable Value New Zealand released data showing that on average New Zealand house prices rose by 2.5% during the March quarter after rising 3.9% during the December quarter. Compared with a year ago prices were up by 12.3% following a rise of 15.3% over calendar 2005, 13.4% in March quarter 2005 compared with a year earlier, and average growth per annum over the past five years of 12.9%. The peak rate of house price inflation was 24.8% over calendar 2003 so things have ease off since then, but as we have seen in more up-to-date REINZ numbers the market still remains reasonably robust.



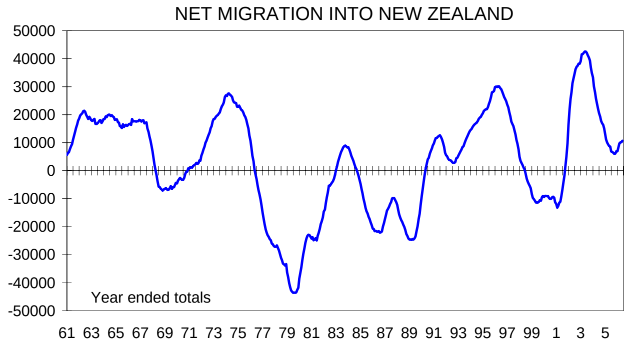


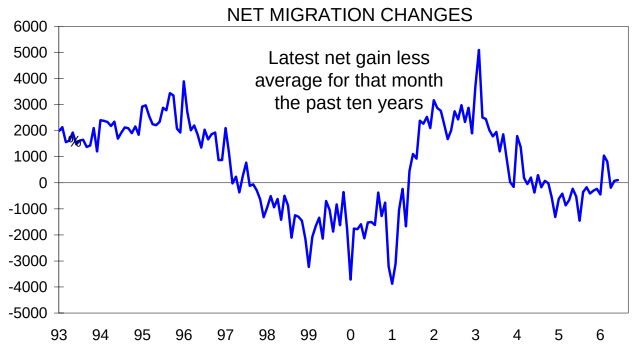
The second graph above shows that there is a broad correlation between annual changes in house prices in New Zealand and annual changes in the exchange rate. The relationship is clearly not one to one and things can vary a bit every now and then. But one can see that it would not be wise to ignore what the past correlation implies will happen to house prices in response to the recent fall in the exchange rate.

Migration Flows Remain Firm

There was a net gain to New Zealand's population from permanent and long-term migration flows in June of 220 people. This was better than a net loss of 270 people in June 2005 and means that over the year to June 2006 the net population gain from migration flows has been 10,690 people. This is up from a low of

5,987 in the year to October, up also from 8,599 a year earlier, and only just below the average annual net inflow over the past 10 years of 11,000 people. Looking at just the past three months we see that the number of immigrants was down by 0.3% from a year earlier but the number of emigrants was down by 5.4%. The migration numbers in recent months have been stronger than we were expecting and in the short term will deliver some extra support for the housing market and retail spending. However given the growth differential between the New Zealand and Australian economies in particular over the next couple of years we expect to see these net migration flows edge marginally lower again over the next two years.

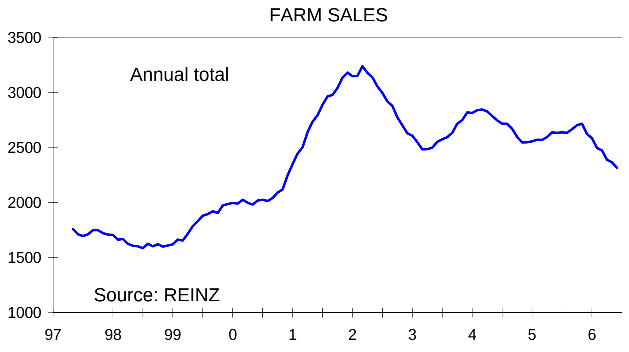


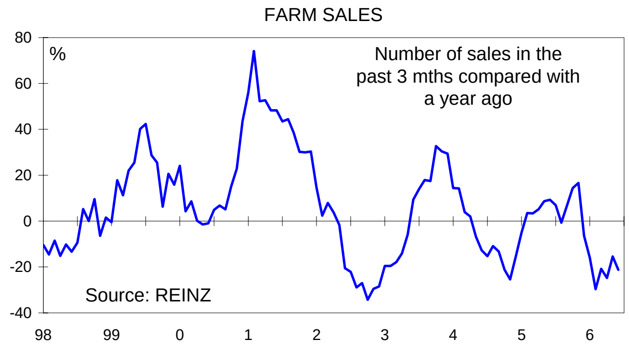


The number of people visiting New Zealand in June was down by 11.2% from a year earlier. This sounds weak however in June 2005 numbers were boosted aggressively by the Lions Tour which saw a 16.9% increase in June 2005 visitor numbers over June 2004. Our interpretation of tourism flows at the moment is that the market is flat but that over summer we will see a mild improvement in response to the recent fall in the exchange rate occurring in an environment of good growth overseas.

Rural Real Estate Declines

In June there were 158 farms sold around New Zealand. This was a rather large 24% decline from the same month a year earlier and means that during the June quarter farm sale numbers were down by 21.2% from a year ago while in the year to June the decline was 12%. There is clearly a downward trend occurring in the number of farm sales and this reflects the consolidation phase going through the farming sector as farmers take into account some recent minor weakness in commodity prices and focus on cash flows rather than continuing the recent six year period of expansion and strong growth in capital expenditure.





INTEREST RATES

Our central theme for the past two half years has been that the New Zealand economy would have only a soft landing this cycle and that the soft landing in conjunction with a shortage of resources and capacity would create strong inflationary pressures. While others had been criticising the Reserve Bank for tightening too much and forecasting that policy would be eased very shortly we have consistently warned about upside risks for short term interest rates - and so far with justification. This week we learnt that inflation is running even higher than we were thinking. Over the June quarter the consumers price index rose by 1.5% to take the annual rate of inflation to 4% from 3.3% in the March quarter. This is the highest rate of inflation in 11 years and sits above market and our own expectations of a 3.7% inflation rate.

The data are of course historical but they are of major importance because with inflation at 4% there is an extremely high risk that you and I will naturally ask for higher wage increases while businesses use the 4% figure as the baseline for setting selling price increases. This helps explain why just a few weeks ago the Minister of Finance asked people to exercise restraint in their wage demands. The trouble with this is that in an economy short of resources the best way to improve the efficient allocation of these resources is if prices reflect scarcity. When that happens the resources (hopefully) go to the most efficient use and low wage businesses get weeded out – which after all is what we want in the economy.

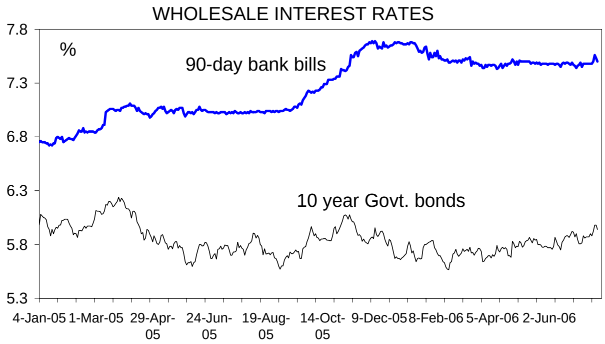
The upshot is that with New Zealand still running the second lowest unemployment rate in the OECD we think wages pressure will remain relatively strong following this week's revelation of 4% annual inflation. This poses a large problem for the Reserve Bank. Two a half years ago we warned that the RB needed to consider its implementation of monetary policy from a “best error” perspective. What we mean here is which error is it worse to make? Is it worse for one to tighten monetary policy too aggressively over 2004 and 2005 and cause a hard landing for the economy in 2006, or to take things too easy (which is what has been done) and run the risk of inflation becoming entrenched at a high level for a sustained period of time? The RB took the gamble that their mild tightening over 2004 and 2005 would be enough and as we have previously concluded that gamble has not paid of.

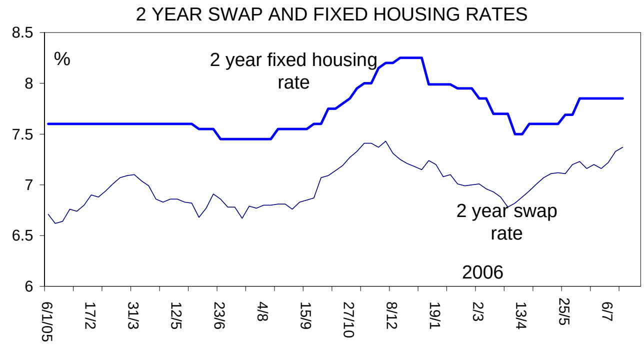
So what happens now? Will the RB raise the official cash rate again? The probability that they will has certainly increased in light of this week's inflation number but we still don't believe they will raise it again. Instead we have become more certain that the easing of monetary policy remains a long way away. We also warn that when interest rates eventually reach their low for this coming easing cycle the level for the official cash rate is likely to be closer to 5.75% than the 4.5% low we have tended to see in the past.

Next Thursday morning at 9.00am the RB will review the cash rate. We expect no change but anticipate some harsh words.

This week, in response to the higher than expected inflation rate we have seen wholesale borrowing costs jump up sharply as the markets assigned a 50% probability to the OCR going up again and anticipate no policy easing until the September quarter of next year. 90-day bank bill yields have therefore ended this afternoon near 7.50% compared with 7.48% last week. But yesterday the rate was 7.56% as pessimism about inflation engulfed everybody and before we saw some dovish comments from the United States Federal Reserve Chairman overnight. The ten year government bond yield has ended at 5.92% from 5.9% but was almost above 6% at one point. The two year swap rate at which we banks borrow to lend fixed two years has jumped to 7.37% from 7.33% last week and 7.22% a fortnight ago. Yesterday the rate peaked near 7.47% before Mr Bernanke’s comments suggesting that the Federal Reserve may pause at their next rate next review in August.

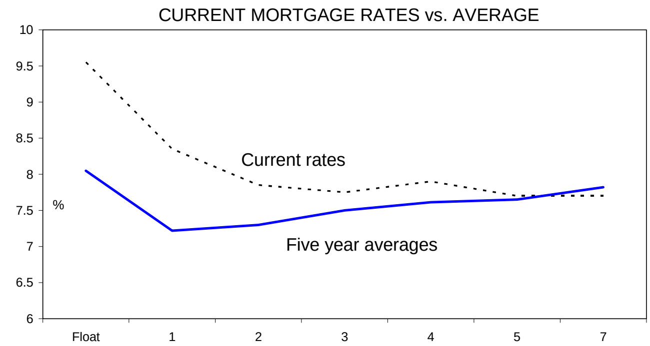
BNZ WEEKLY OVERVIEW





If I Were a Borrower What Would I Do?

There is quite clearly another round of increases in fixed housing rates in the wind as a result of rises in wholesale borrowing costs over the past couple of weeks. If I was borrowing at the moment I'd get things done sooner rather than later and have a look at the two or three year area. But as we have been highlighting in recent weeks, given rising world inflation and a lot of uncertainties domestically and internationally one could also do worse than fixing, say, five years and getting a rate only just above its average level over past five years.



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	8.35	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	7.90	7.62	6.40	8.40
5	7.70	7.65	6.50	8.60
7	7.70	7.83	6.75	8.80

Note: Conditions may apply to these rates.

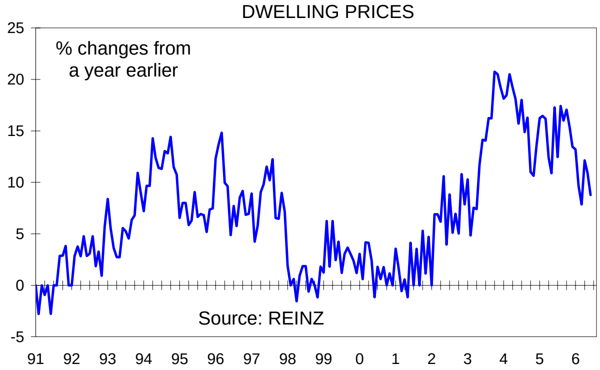
BNZ Term Deposit Rates

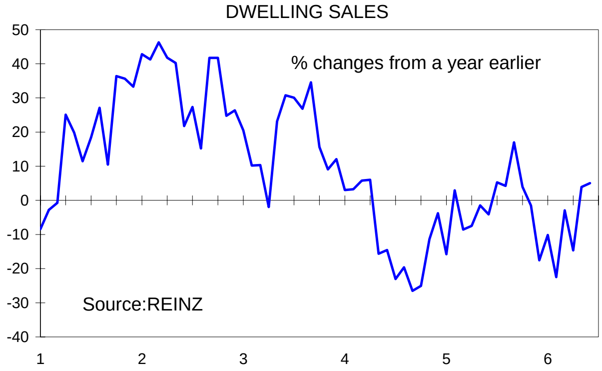
Days	$10-50K	$50-100K	$100-250k
30	3.00	3.00	5.25
90	6.20	6.25	6.30
180	6.80	6.85	6.90
1 yr	6.60	6.65	6.70
5 yr	6.10	6.15	6.20

HOUSING MARKET UPDATE

If there has been one consistent theme over the past two years it has been that the housing market in New Zealand has surprised on the strong side. Most of us thought the market would have peaked at some point in the second half of 2004 but instead, while turnover has declined at a very, very mild pace, prices have continued to edge out and there is no sign of a rout. We have long been putting this down to high job security and the availability of low fixed interest rates, and more recently a surprise improvement in net migration numbers from a gain of 5,900 in the year to October 2005 to just under 10,700 at the moment.

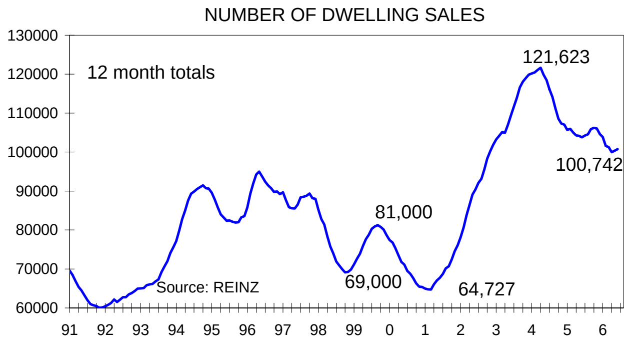
Our view has for the past year or so been that the housing market would have a soft landing this cycle and as yet we do not see anything coming along to challenge that view. This week the REINZ released their monthly housing market data and they showed the following. The median dwelling sale price rose to a record in June of $310,000. This was up from $305,000 in May and 8.8% ahead of a year earlier.

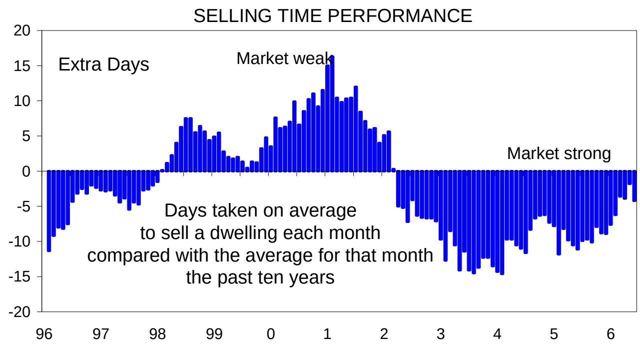




If we annualise price changes over the past three months we see prices continuing to rise at about a 10% rate. Our earlier view that the underlying rate is probably closer to 5% is being challenged - and why not. We've also learnt this week that inflation is at an eleven year high in New Zealand of 4% and as anyone knows if you believe inflation is going to be running at high levels for a long time then you want to buy inflation proof assets - like housing.

For the moment the housing market remains relatively firm. This is evidenced not only by a record median price being struck in June but also the number of sales at 8,428 being a reasonable 5% up from a year earlier. Over the year to June the total number of dwelling sales was down just 3% from a year earlier at 100,742. One thing about this which will concern the Reserve Bank greatly is that this total is up from 99,977 two months ago.





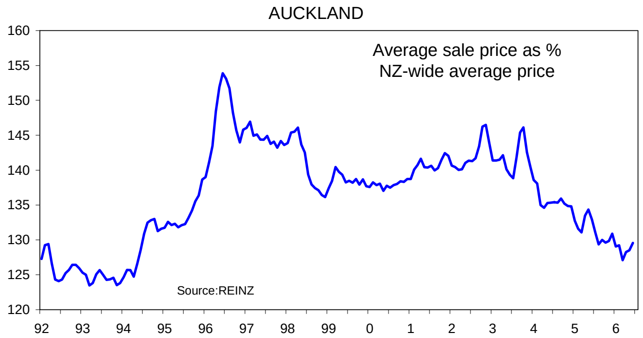
But in spite of sales being higher than a year ago we don't believe the housing market is trending back up again. This is because on average in June it took 37 days to sell a dwelling and this was seven days longer than a year earlier. This increase in selling time is consistent with changes over the previous two months where in May it took nine days longer to sell than a year earlier and in April it took six days longer than a year earlier. So the market is slowing down, but the fact that on average over the past 10 years during the month of June it has taken 41 days to sell a dwelling shows that things are still running at an above average pace. This is definitely not what the Reserve Bank would have been expecting to see - and frankly continues to surprise us to some degree as well.

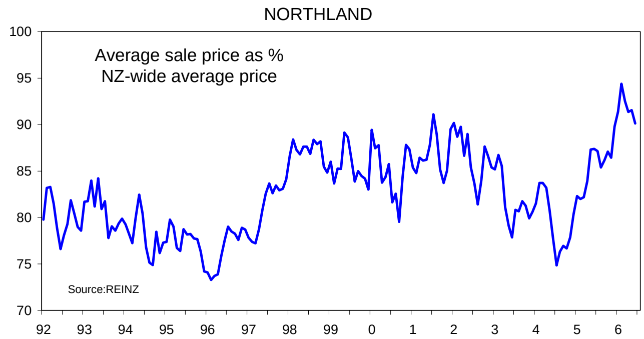
This however is where things get dangerous. We believe the Reserve Bank realise they have failed to implement monetary policy efficiently over the past two and half years and we believe they are well aware that the genie of sustained high inflation expectations is almost out of the bottle. Getting inflation expectations back down has proved very difficult in the past and is likely to prove so again this time around - especially given the tight labour market and widespread nature of price increases. The relevance of this to the housing market is that the greater the strength in the markets at the moment the greater the risk of a 5% to 10% downward correction somewhere down the track if the Reserve Bank is forced to tighten monetary policy again or deliver some very strong warnings while delaying any 2007 easing. And if prices don't fall on average then this produces a greater risk that the market remains flat for not just three years but perhaps four years or beyond.

So by all means continue to seek out the property you desire. But just be aware that there is an inflation problem in New Zealand and with house prices already well above trend and many buyers priced out of the market, scope for further capital gains diminishes every time we receive news of another average price rise – and the chances of capital losses grow.

Regional House Prices

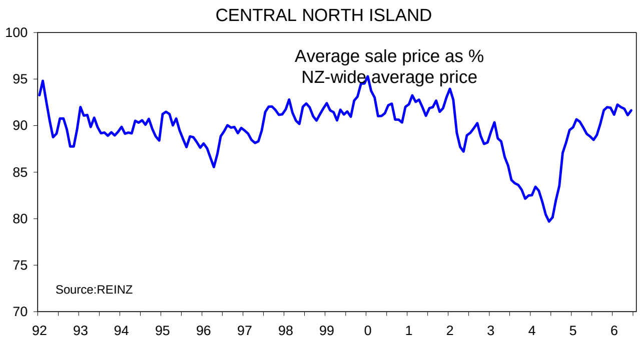
Here's a bit of analysis you've probably never seen before. You can do it at the suburb level if you get the data but we only gather the national numbers and those at the high regional level put out in the REINZ's very useful monthly release and the QVNZ quarterly release. Each graph shows how the median dwelling sale price for the region compares with the national average as a percentage each three months. So for instance in the first graph for Auckland we can see that back in 1992 the median Auckland dwelling sale price was around 125% of the national average. It soared to 155% in 1996 when all the talk was about Auckland sucking up the rest of the country's population. Then things eased off and we see that the proportion is back near 130% with Auckland not being a big player in price movement terms this house price cycle.

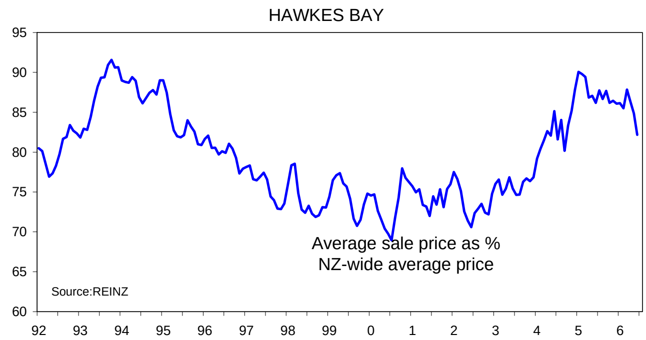


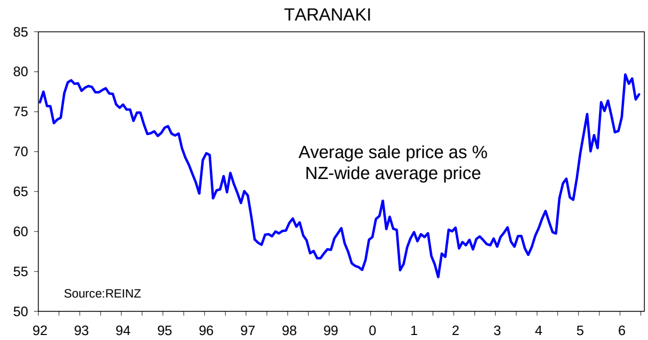


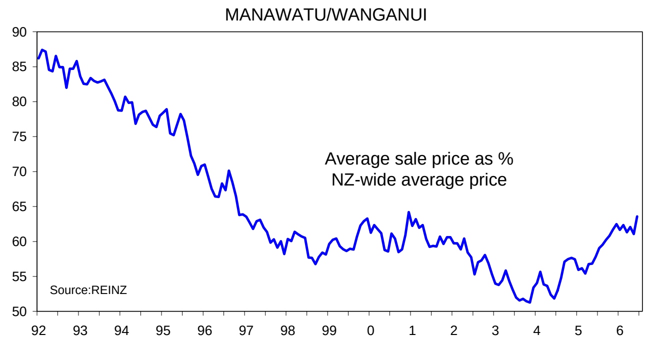
Unfortunately we haven't got the back-data on Otago and Southland following the lower SI split introduced by the REINZ a while ago – so if you're reading this at the REINZ can we have the pre-2000 data on price, sales and days to sell please.

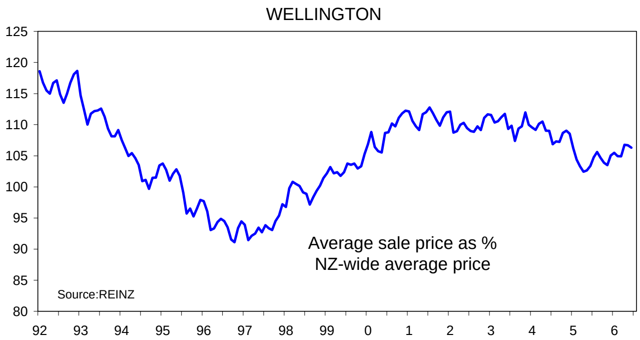
You may be able to use the data to get a feel for whether a region is due for a catch-up with the rest of the country or whether it has had its run and will now revert to some concept of trend. For instance, have a look at the Nelson graph. It shows that the proportion was near 100% early in the 1990s then sank away as the region did not keep up with what was happening elsewhere from 1996 to 2002. Then things went ballistic but the ratio is now back near 95%. Is Manawatu/Wanganui due for a catch-up next cycle? Is Taranaki looking over-priced? Is the Central Otago Lakes upward trend sustainable?

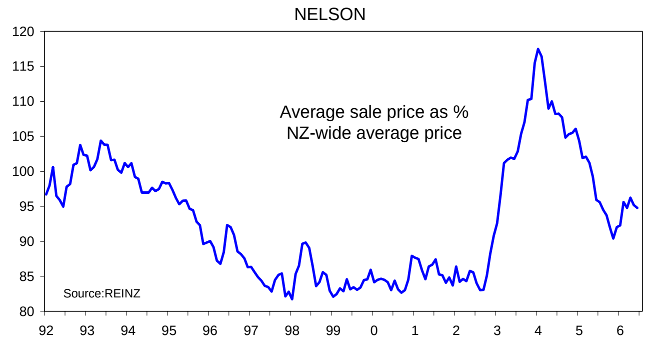


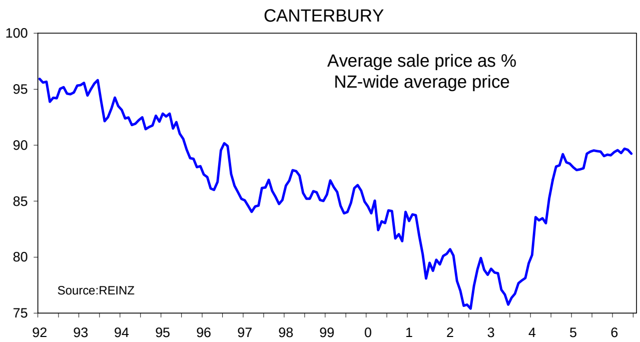


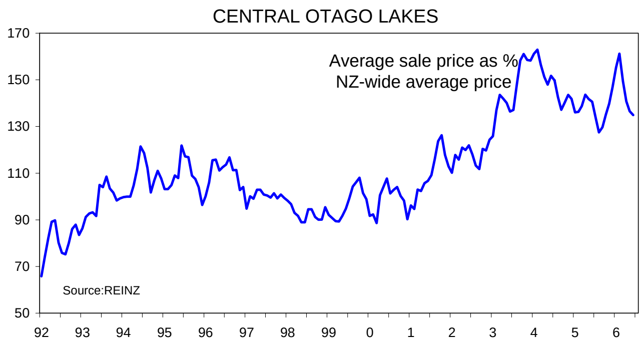




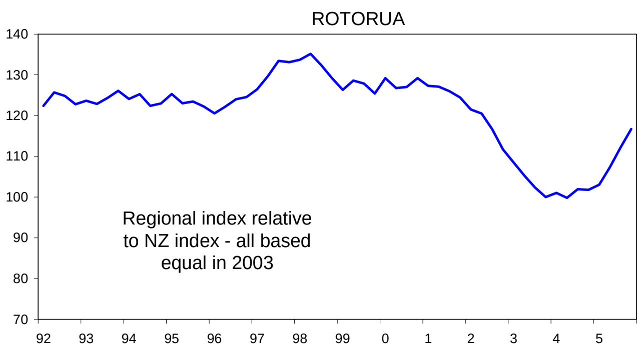


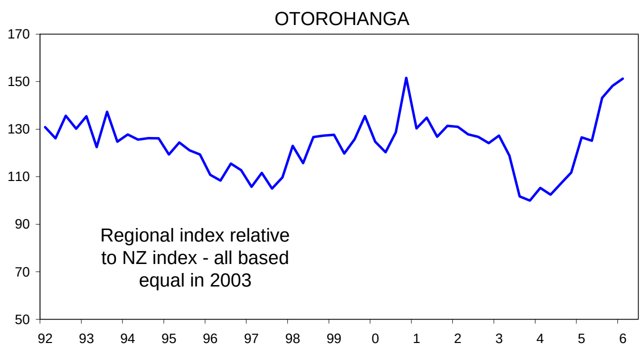


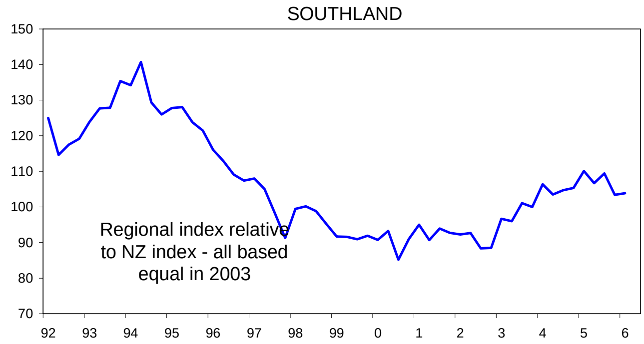


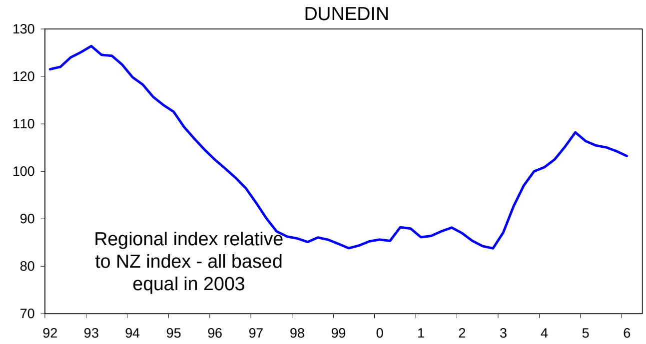


One can in fact do a similar thing using slightly less up to date quarterly data from Quotable Value NZ. We record price index numbers rather than average prices but the focus on price relativities is the same as above – just don't interpret the vertical axis as measuring relative prices. Only the movements in the line matter in these following graphs. QVNZ have 73 regional indexes so we just present a few that have piqued our interest at one point or another in recent years. Rotorua is an area we have mentioned in talks many times in the past three years as a place not taking part in the price boom and therefore with potential scope for a catch-up. This seems to be happening. Otorahanga has been the big mover recently with prices up 53% over 2005 - and looks over-priced now.

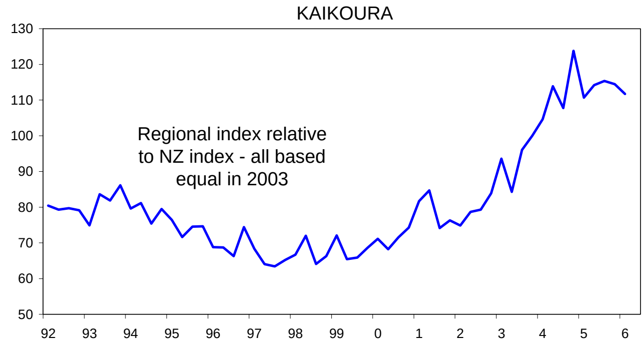


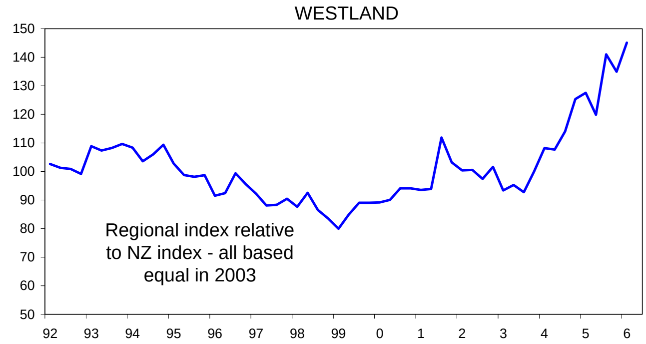


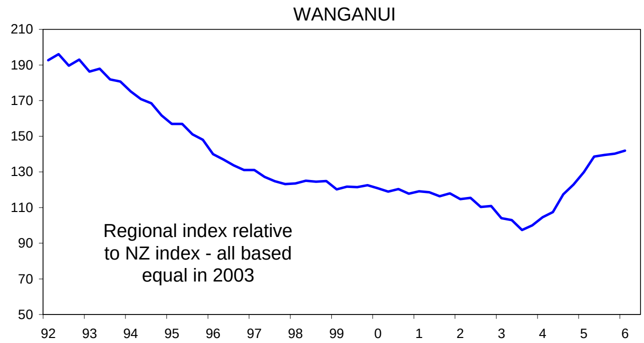


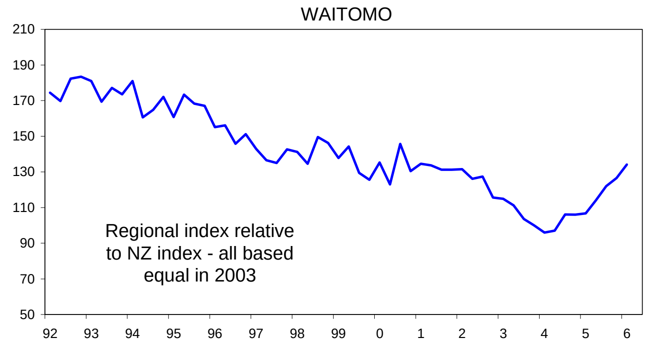


Kaikoura better hope the whales keep swimming by.









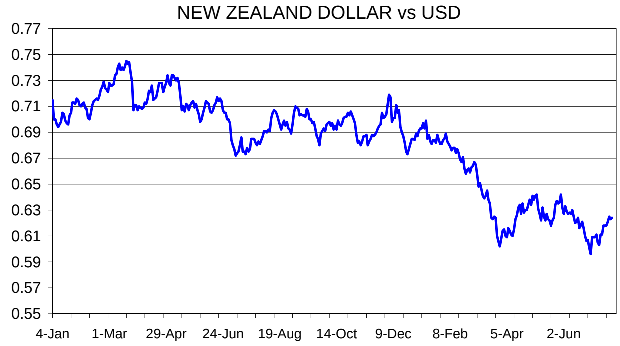
Please contact Quotable Value NZ if you want to do your own analysis in this area.

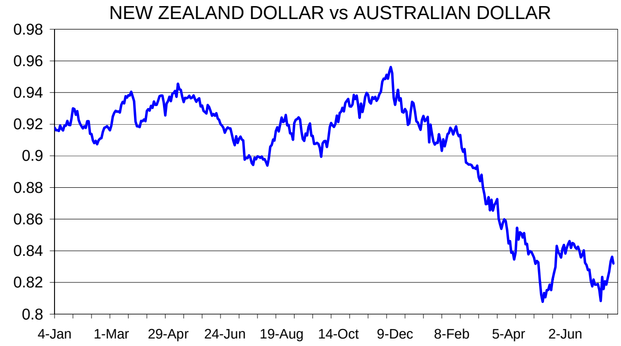
EXCHANGE RATES

The central view we have been running on the New Zealand dollar in recent months has been that the sharp decline in the exchange rate between January and May was greater than expected, that further depreciation would occur over the next 18 or so months, but that a fall below 50 US cents would be unlikely because of good support from relatively high New Zealand interest rates. Over the past week we have seen the Kiwi dollar firm against all other currencies and this has come on the back of the interest rates factor. The June quarter consumer price index rose by 1.5% whereas an increase of about 1.2% had been expected. The markets now don't expect the Reserve Bank will be easing monetary policy until the September quarter of next year and is assigning a 50% chance to one more rate rise this cycle.

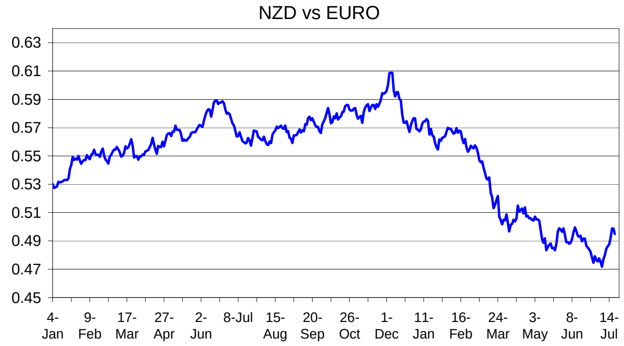
We don't believe the official cash rate will be increased again although it should be noted that from three years ago our expectation was that the peak for the OCR this cycle would be between 7% and 7.5%. We think the Reserve Bank will be extremely wary of tightening interest rates too far when the economy is clearly slowing down and although they will be scared by recent strong data on retail spending, the housing market, and of course higher inflation, they will also be well aware of weakness in other indicators including vehicle registrations.

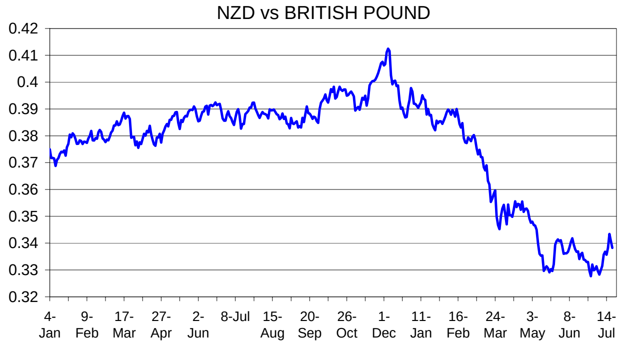
Nevertheless, with the market backing further away from expectations of an easing in monetary policy the Kiwi dollar has found extra interest rates derived support and hence the rise over the past week. We expect the Kiwi dollar will eventually weaken away again but still struggle to see a scenario with realistic probability in which the Kiwi dollar falls below 50 US cents. We have ended this afternoon against the greenback near 62.4 US cents compared with 61.8 US cents a week ago and 60.5 US cents two weeks ago.

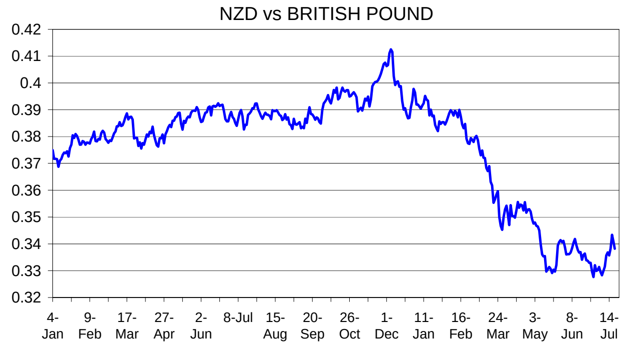


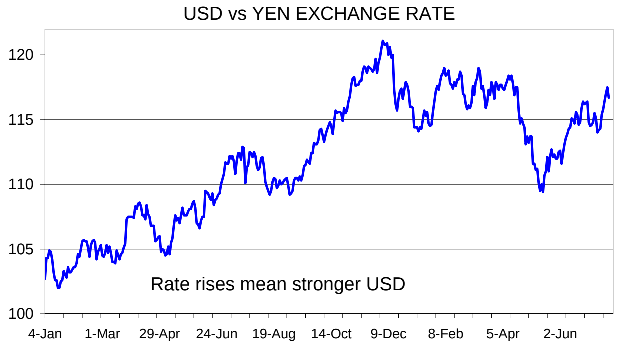


Because the Kiwi dollar has risen against a greenback which has been lifted against some other major currencies on the back of flight to safety buying in response to the developing crisis in the Middle East, the New Zealand dollar has risen quite strongly on some of the cross rates. Against the Australian dollar we have ended at 83.2 cents compared with 81.8 cents last week. Against the Japanese yen we have ended at 72.8 from 71.3, against the British pound at 33.8 pence from 33.7 pence (little change) and against the euro at 49.5 cents from 48.6 cents.

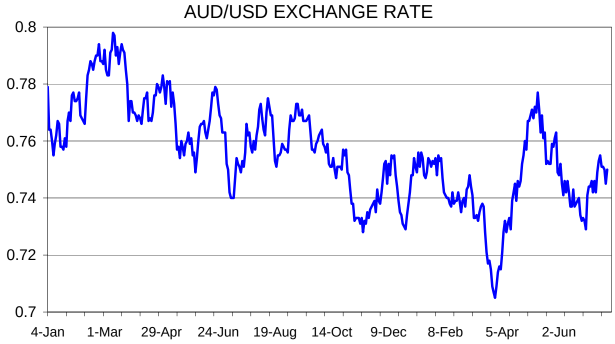


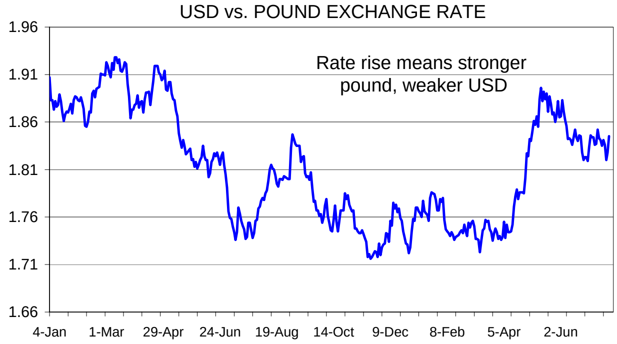






The Australian dollar was pushed down early in the week following the release of a worse than expected trade deficit number for the month of June. The deficit came in at A$2.23b rather than the anticipated A$1.3b. But the currency recovered some of its losses following an increase in market expectations that in the first week of August the Reserve Bank of Australia will once again raise the cash rate by 0.25%. Assuming they do, as we expect they will, the cash rate will move to 6%. The rise will be driven by strong jobs growth, good consumer sentiment in spite of the previous interest rate increase in May, an acceleration in lending growth, and a firm world economy. The AUD has ended this afternoon against the USD near 75 cents from 75.5 cents last week.





As was generally expected in the markets the Bank of Japan increased their cash rate by 0.25% to 0.25%. This was the first increase in six years and it is expected that there will be further increases in this interest rate over the coming quarters. The increase has come in response to data showing improvements in consumer spending, exports, and most importantly business investment. Bank lending growth has also moved into positive territory.

We also expect the European Central bank to raise their cash rate - by 0.75% before the end of the year. This expectation comes on the back of an improvement in growth in the European economy as evidenced this week by industrial production in the euro zone growing by a strong 1.6% in May to be 4.9% stronger than a year earlier. This is the highest annual rate of growth for this measure since January 2001. Production of durable goods was up by 4.2% from a year earlier and this is considered to be quite an important development in Europe because consumer spending has been especially weak for a number of years. The rise in production supports the positive growth implication of recent improvements in various consumer confidence measures across the euro zone in recent months.

The US dollar has managed to firm against most other major currencies over the week on the back of some inflation worries early in the week and flight to safety buying in response to the fresh crisis in the Middle East. But last night we saw the US dollar give up some of its gains following comments from the Federal Reserve Chairman which were interpreted as suggesting interest rates might not be increased again this cycle in the United States. Against the British pound the greenback has ended slightly weaker at $1.845 from $1.835 a week ago, but against the Japanese yen it has improved to 116.7 from 115.4 and against the euro it has improved to $1.261 from $1.271.

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	1.5%	0.6	4.0	2.8	2.4
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	1.1	1.3	5.5	4.8	4.3
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.	2.5	3.9	12.3	13.4	23.3
Net migration gain	Av. gain past 10 years = 13,000	+10,690	10,200yr	......	8,599	22,008
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 8%. Colmar survey	-22	-38	-35	1	-1
Business activity exps	10 year average = 27%. NBNZ	17	10	-2	7	24
Household debt	10 year average growth = 11.4%. RBNZ	14.1	14.2	15.2	15.1	16.3
Dwelling sales	10 year average growth = 4.6%. REINZ	5.0	3.9	-17.6	-4.1	-14.5
Tourist numbers	10 year average growth = 6.1%. Stats NZ	-11.2	-0.3	-1.9	16.9	20.4
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 June 29 2006	**March Years**					**December Years**				
	2005	2006	2007	2008	2009	2004	2005	2006	2007	2008
GDP - annual average % change										
Private Consumption	5.8	4.1	1.6	0.6	1.1	6.5	4.7	2.1	0.7	0.8
Government Consumption	5.2	5.6	4.6	2.7	3.9	5.6	5.7	4.5	3.5	3.1
Investment	8.0	5.9	-3.1	0.8	3.7	13.5	4.5	-1.4	0.4	3.1
GNE	6.4	4.2	0.7	1.1	2.5	8.1	4.5	1.1	1.0	2.0
Exports	3.9	0.0	3.6	4.3	5.0	5.6	-0.2	1.7	4.8	4.8
Imports	13.7	4.6	-0.4	2.3	3.0	16.6	6.5	-1.1	2.4	2.7
GDP	3.7	2.2	1.6	1.6	3.1	4.3	1.9	1.9	1.8	2.7
Inflation – Consumers Price Index	2.8	3.3	3.3	3.0	2.6	2.7	3.2	3.3	3.1	2.7
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	0.57	0.55	0.58	0.71	0.70	0.58	0.55	0.58
USD/JPY	105	117	103	105	103	104	119	105	105	104
EUR/USD	1.32	1.20	1.23	1.23	1.24	1.34	1.19	1.24	1.22	1.24
NZD/AUD	0.93	0.87	078	0.79	0.81	0.93	0.94	0.79	0.79	0.80
NZD/GBP	0.38	0.36	0.32	0.31	0.33	0.37	0.40	0.33	0.31	0.33
NZD/EUR	0.55	0.53	0.46	0.45	0.47	0.53	0.59	0.47	0.45	0.46
NZD/YEN	76.8	74.6	58.7	57.8	59.5	74.2	82.7	60.9	57.8	59.7
TWI	70.7	65.6	57.2	55.8	58.3	69	71.9	58.1	55.9	57.8
Official Cash Rate	6.5	7.25	7.00	6.00	5.75	6.5	7.0	7.25	6.25	5.75
90 Day Bank Bill Rate	6.86	7.55	7.23	6.13	6.12	6.73	7.49	7.49	6.39	5.95
2 Year swap	6.82	7.0	6.35	6.08	6.20	6.61	7.24	6.52	6.10	6.17
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.

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