BNZ Weekly Overview

21 September 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	7.59%	7.57	7.49	7.49	7.10	6.6
10 year govt. bond	5.74%	5.90	5.87	5.88	5.74	6.5
1 year swap	7.68%	7.64	7.61	7.46	7.10	6.7
5 year swap	6.94%	7.07	7.00	6.89	6.49	7.1
NZD/USD	0.659	0.654	0.64	0.62	0.70	.57
NZD/AUD	0.872	0.87	0.842	0.84	0.908	.86
NZD/JPY	77.1	76.8	74.2	71.2	78.0	66.0
NZD/GBP	0.348	0.348	0.338	0.336	0.387	.35
NZD/EURO	0.518	0.515	0.497	0.492	0.574	.509

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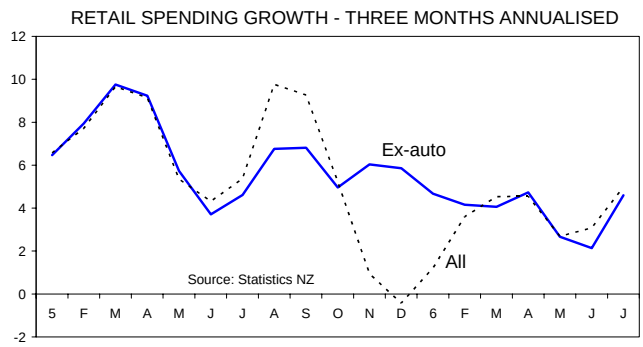
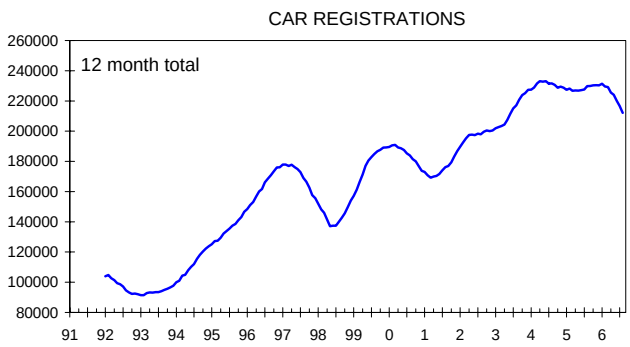
Update On The Domestic Economy

What do the latest data releases show about household and business spending in the New Zealand economy?

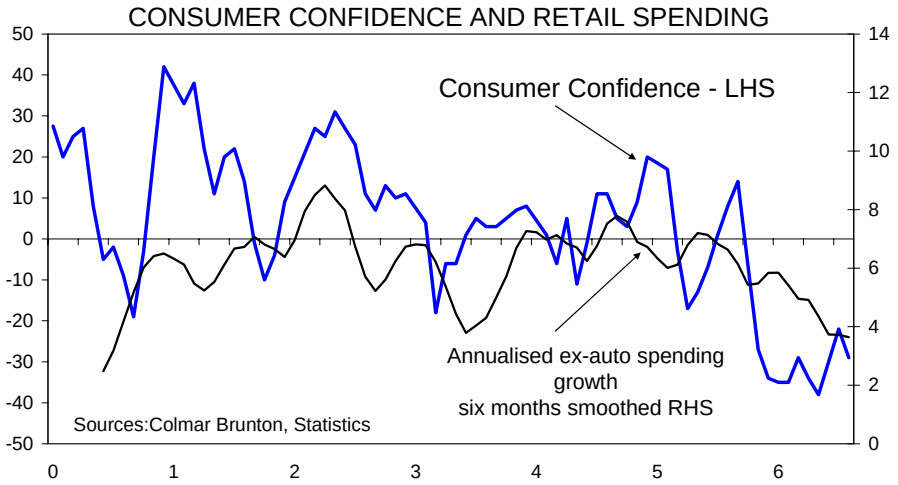
Retail spending growth has fallen away. Nominal seasonally adjusted retail spending excluding the motor vehicle sectors grew at an annualised rate of 4.6% in the three months to July. Allowing for increasing retail goods prices due to rising costs and the easing exchange rate this suggests minimal volume growth. Retailers know things are weak with their 12 month activity expectations in the monthly NBNZ Business Outlook survey the worst for all sectors at -11% in August from +15% in July and a ten year August average of +19%.



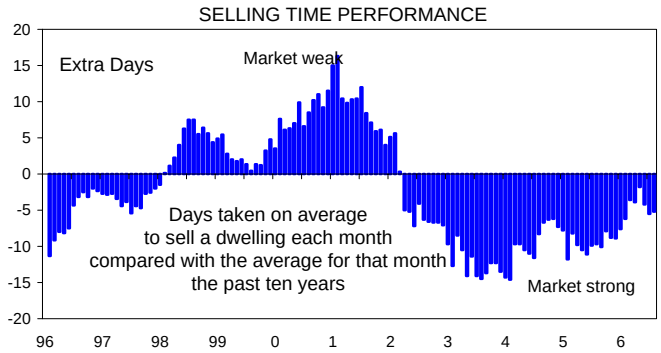


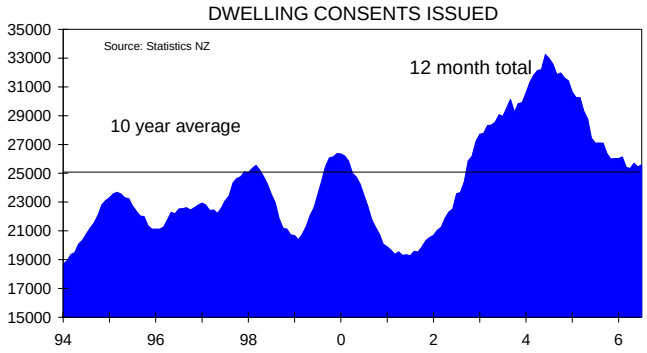
Spending on cars is falling sharply with car registrations in August down 22% from a year ago, and off 19.5% in the August quarter from a year ago, 9.9% below the average August quarter total number of regos for the past six years, and down 7.7% for the entire year.

What lies ahead? There is a correlation between consumer confidence and retail spending which does not hold on a month-to-month basis but does show through over longer time periods. This is shown in the graph below and is quite clear with the downward trend in consumer confidence from the start of 2005 associated with declining growth in ex-auto retail spending measured on the right-hand side axis. Given the low confidence, slowing jobs growth as the corporate sector attacks declining margins, and eventually some flattening out of house prices, we expect relatively poor retail trading conditions lasting upwards of two years.



Spending on housing is nowhere near as weak as retailing. Dwelling sales in August were unchanged from a year earlier and essentially unchanged in the three months to August from a year earlier. On average in August it took 33 days to sell a dwelling which was four days longer than a year earlier but 5.2 days quicker than the average taken in August over the past 10 years. Anecdotal evidence suggests a shortage of listings in many areas continues. This suggests that while the median dwelling sale price fell in August to $310,000 from $313,000 in July this is almost certainly not the start of a downward trend and may not even be a flattening out of prices.





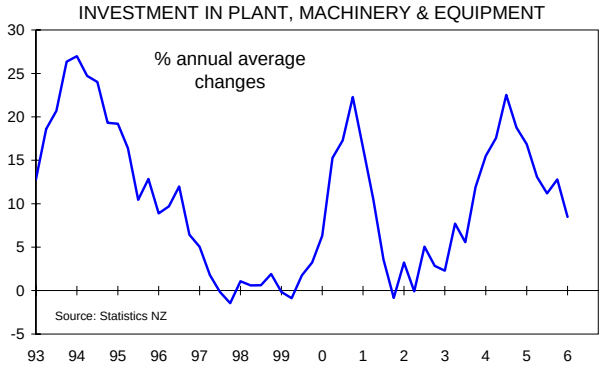
With regard to residential construction during the June quarter the volume of such construction in seasonally adjusted terms fell by a reasonably strong 10% to be a 8.9% lower than the June quarter of 2005. However the number of dwelling consents issued in the three months to July was up from a year earlier by 4% and while in seasonally adjusted terms the total number was down 1.5% from the three months to May, when one excludes the hugely volatile apartments sector house consents were actually up 1.8% compared with the three months to May. While the June quarter decline in residential construction will reflect the pullback in annual consent numbers from 33,000 in the year to June 2004 to just over the 10 year average of 25,000 at the moment, the recent stabilising of consent numbers suggest residential construction will ease off slightly further but no major decline is in prospect.

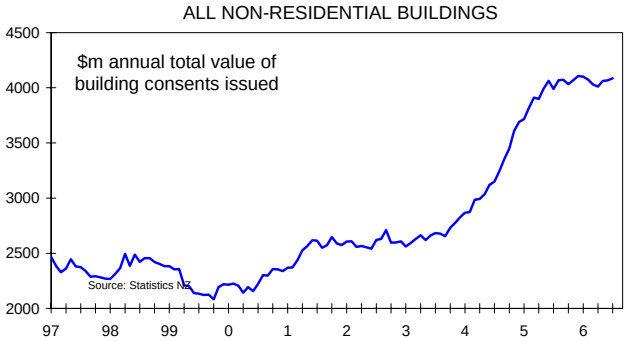
And what about the house prices? The first thing to note here is that forecasting in this area has proved problematic in recent years with far greater strength in prices, turnover and even construction than we forecasters were expecting. This means one should take forecasts with a grain of salt. Nevertheless, our

expectation is that with average interest rates slowly rising while rental growth is minimal and capital gain expectations diminishing investors will soon be forced to back off fresh purchases. But this does not necessarily translate to a second step in the downward leg of the housing cycle of investors being forced into property sales. There are some sales occurring but they do not seem widespread. Given that we expect to see a still tight labour market, migration inflows running at slightly above average levels, and the ability of borrowers to minimise the jump in their interest-rate the next few months by changing to a longer term we see no rout in prospect for the housing market. The big niggle here however is that the Reserve Bank desperately needs house prices to stop rising and in their inflation forecasts have assumed they fall next year and over 2008.

So retail spending is faltering while the housing market is likely to flatten out. What about business spending? With regard to spending on labour growth has been particularly strong in recent quarters perhaps assisted by businesses hoarding employees in expectation (correct in our opinion) that the structural tightness in New Zealand's labour market will continue. But we expect jobs growth to slow reasonably sharply from here on out although the unemployment rate is not likely to rise all that much. A key factor causing jobs growth to slow down will be the simple unavailability of extra people to enter the workforce along with the probable low productivity of those remaining people officially classified as unemployed in the Household Labour Force Survey.

With regard to business capital expenditure things are likely to be weakish. The national accounts show that spending on plant machinery and equipment declined in the December quarter last year by 2.4% and this was followed by a 5.4% decline in the March quarter. Business investment intentions measured in the NBNZ Business Outlook survey for August were a positive net 6.8%. This was below the average reading for August over the past 10 years of 11.4%, down from 10% a year ago, but well up from -0.2% back in February when the business sector were incorrectly convinced that the New Zealand economy was heading into recession.





Perhaps the notable feature of investment intentions at the moment is that they are holding up relatively well considering that a net 34% of businesses expect the economy to deteriorate over the coming year while activity expectations in August were a small net 6.1% positive versus a 10 year average of +22.1%. We think businesses recognise the need to invest in both labour saving and energy efficient equipment.

Perhaps this need to boost productivity helps explain why the other key area of business capital expenditure remains robust. While the volume of non-residential building work put in place declined by 4.8% during the June quarter to be 5.8% down from a year earlier, the value of consents issued in recent months for future construction have shown some strength. These consents values were up by just over 2.4% in the year to July compared with a year earlier and in the three months to July were 7.4% ahead of a year earlier. It looks like non-residential construction is merely flattening out so far this cycle rather than weakening sharply as has so often happened in the past.

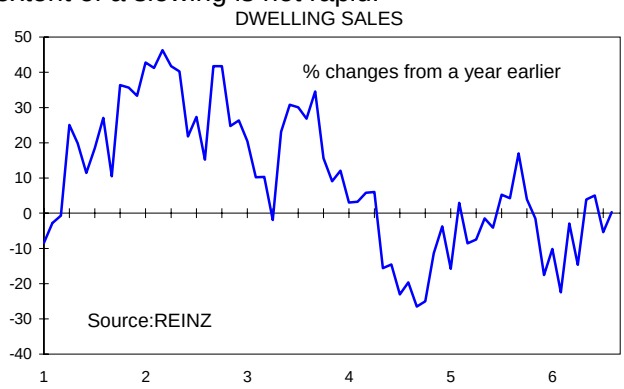
Given the lagged feed-through of export sector pain, slowly rising average interest rates, ending of a housing boom, high household debt, and slowing jobs growth we think activity in New Zealand's domestic economy will be constrained but not recessionary over the next couple of years. The risks however appear to lie on the downside in light of the Reserve Bank's inflation problem so caution is suggested.

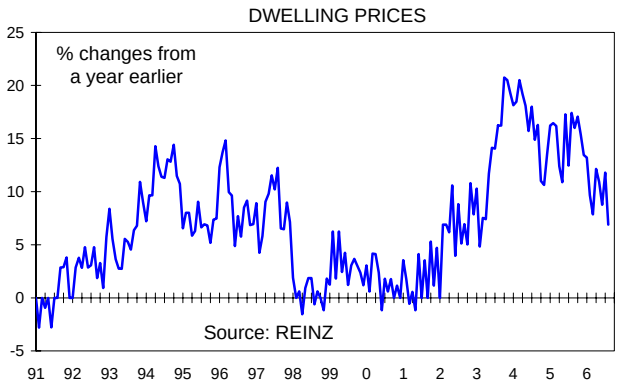
THE WEEK'S ECONOMIC DEVELOPMENTS

Friday 15

Housing Market Stable

The REINZ reported that in August there were 8,562 dwellings sold around New Zealand. This was a small 0.3% increase from sales in August last year and in the three months to August sales were essentially unchanged from the same period a year ago while in the year to August they were down by 4.1%. The data in no way indicate any great weakness in the market but simply that activity is not quite as frenetic as it was two or three years ago. The median dwelling sale price eased slightly to $310,000 from $313,000 in July and was up by just 6.9% from a year earlier. This is the lowest annual rate of increase in this particular house price inflation measure since February 2003 and compares with an increase in August 2005 of 17.4% from a year earlier. On average in August it took 33 days to sell a dwelling which was four days longer than a year earlier. In July it also took four days longer than a year earlier but in June the difference was seven days and in May the difference was nine days. The data suggest the housing market is slowing but the extent of a slowing is not rapid.

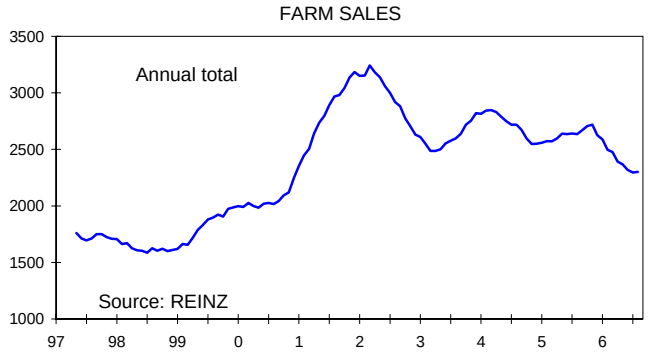


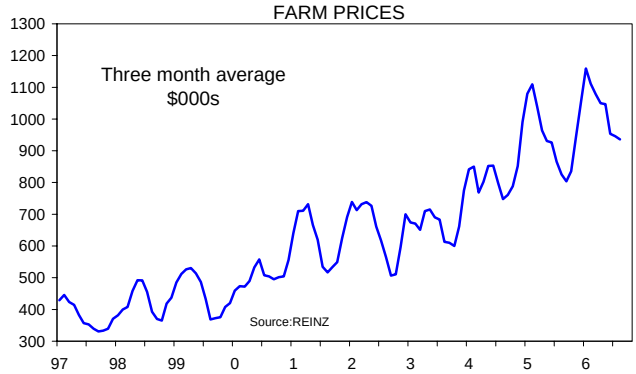


Monday 18

Rural Real Estate At below Average Levels

In August there were 175 farms sold around New Zealand which represented a 2.9% increase from a year earlier. This small annual rise follows decreases in each of the previous eight months and means that in the three months to August the number of farm sales was down from a year earlier by 12.2% while in the year to August the decline in sales was 12.7%. Compared with the average number of farms sold in the three months to August over the past six years activity this year was 17% below average. So things are unequivocally on the weakish side in the rural real estate market. But as we have been noting for a number of years now when looking at rural real estate it is no good just looking at turnover figures and interpreting what is happening in the market because in recent times farms have been in relatively short supply. To get a feel for what is really happening one needs to speak with people on the ground and look at what is happening with prices. Anecdotal feedback suggests there is some caution in the market but a number of buyers still looking for good properties. With regard to prices the monthly REINZ data are unfortunately of no help to us because they are too easily distorted by changes in the type and size of farm sold not just from month-to-month but quarter to quarter. Still, for what it is worth on average in the three months to August the median farm sale price of $936,000 was down by 10.6% from the three months to May but up by 13.4% from a year earlier. For the entire year to August the average farm sale price was up by 8.7%. Farm prices may have plateaued.

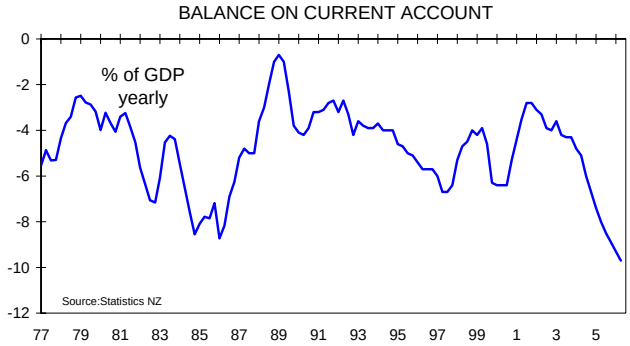


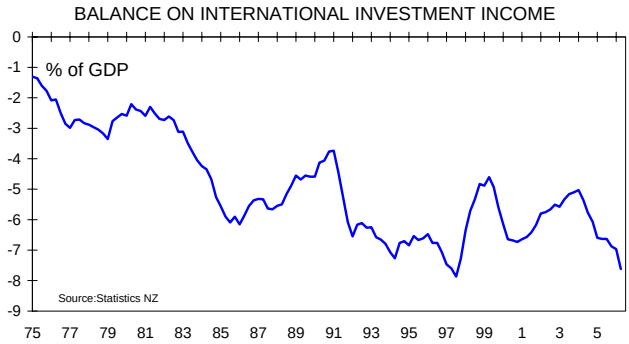


Thursday 21

External Accounts Worse Than Thought

The current account deficit came in at $3.1b in the June quarter to take the annual deficit to $15.2b from $14.9b in the year to March and $12.1b a year earlier. Relative to the size of our economy the annual deficit now stands at an estimated 9.7% from 8% a year ago. This is the worst reading since 1975. The annual deficit reflects a $3.8b deficit on trade in goods and services and $11.9b deficit on international investment income flows – debt servicing and net dividend flows. The deficit on goods and services was a small improvement from $4.2b in the year to March with exports 12.1% ahead of a year ago while imports were up 8.9%. This latter number simply backs up others showing the domestic economy slowing down but is out of date and unlikely to attract much attention from the Reserve Bank.

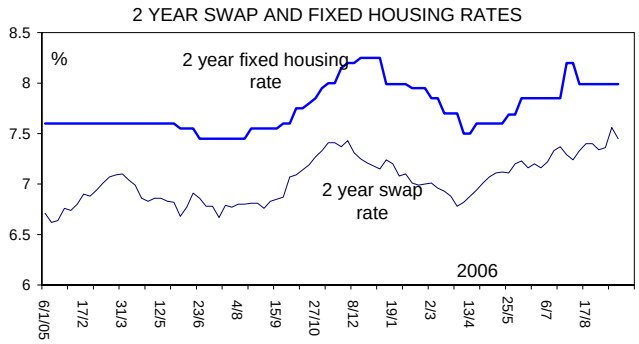


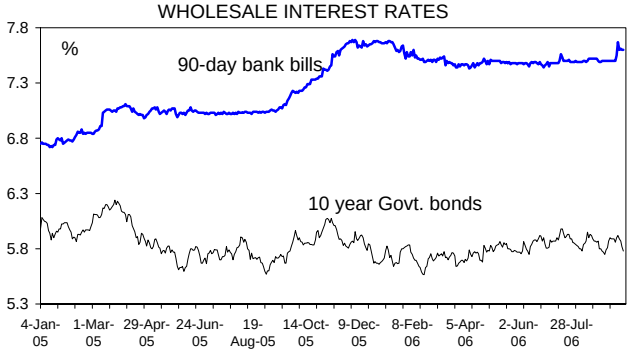


We think the annual deficit has peaked this cycle but improvement from here will be a slow grind. Eventually the high deficit will cause weakness in the NZD but history shows it is impossible to pick when the markets will decide the deficit matters more than attractive interest rates.

INTEREST RATES

As we expected last week following the strong sell off on the interest-rate markets after the Reserve Bank's surprisingly hawkish Monetary Policy Statement we have seen wholesale interest rates edge lower this week. The yield on 90-day bank bills has finished this afternoon just below 7.6% compared with a peak of 7.67% last Friday. But more importantly we have seen the likes of the two year swap rate at which we banks borrow to lend money at a fixed interest rate for two years ease to end this afternoon near 7.42% compared with just below 7.6% last Thursday.





Downward pressure on wholesale interest rates has come from a number of sources. First, we have seen a strong rise in the exchange rate following the Reserve Bank's comments last week as investors anticipate relatively firm interest rates in New Zealand continuing for a long time yet and possibly through all of 2007 when interest rates are likely to be declining in the United States. Speaking of which, this week we saw the release of relatively weak housing numbers yet again in the US along with a producer price index number for August which was much lower than expected. This morning the Federal Open Market Committee did as the markets expected and left the funds rate unchanged at 5.25% and while they noted that growth in the US economy appears to be slowing and that this will lead to reduced inflationary pressures some inflation risks to remain. This is the second month in a row when the funds rate has been left unchanged.

There was also some minor downward pressure on fixed interest rates around the world on flight to safety buying following the military coup in Thailand.

Over 2007 it is our expectation that swap rates will edge slowly downward but between now and the end of the year scope for any substantial rally appears limited. More specifically, while we may get the likes of the three year and longer swap rates edging down in response to the markets anticipating easier monetary policy eventually in the United States, short-term borrowing costs out to three years are likely to be underpinned as the Reserve Bank continue their long-running fight against inflation. The markets are pricing in at least a 50% chance that the official cash rate will be increased and one has to say that although we feel at a pinch a rate rise will be avoided if you had to take a punt on what will happen at the next cash rate review October 26 you'd probably opt for a rate rise.

Arguing against a rate rise is the depressing impact on the export sector of the latest rise in the Kiwi dollar along with potential for a downside surprise to the September quarter consumer price index number due out in the middle of October as a result of the recent very sharp decline in petrol prices. But arguing in favour of a tightening is the very strong competition in the home mortgage market brought on by

-banks acting to protect billions of dollars worth of two year fixed interest rates coming up for renewal in the next few weeks and months,
-worries about affordability issues leading some banks to offer 100% financing and perhaps very long dated mortgages such as 50 years, and
-government-sponsored mortgage rate discounting.

In addition we don't feel the Reserve Bank got much bang for their buck in terms of scaring homebuyers with their comments last week. Headlines about potential for interest rates to go up were pushed onto the back pages as the media focused on messy political issues and events overseas. If anything, rather than consumer sentiment taking a dent over the past week as a result of the Reserve Bank's statement we have instead probably seen consumer confidence improve as a result of the continuing sharp decline in petrol prices.

Given that the Reserve Bank are looking for an immediate weakening in the housing market but that the main depressing impact of their comments last week will be felt in the export sector over coming months the chances are that come October 26 they will remain extremely concerned about inflation. The things we will

be paying very close attention to are next week's consumer confidence release from Westpac, the mid October CPI release, the National Bank's monthly Business Outlook survey, and indicators for the housing market.

If I Were a Borrower What Would I Do?

Nothing new here. In an uncertain world I would protect my residential property investment to some extent by locking in a five or seven year fixed interest rate. For my own house I'd be inclined to take a two year rate but wouldn't have any major expectation that in two years rates will be astoundingly lower.

BNZ Fixed Lending Interest Rates

	Housing	Average Past 5 yrs	Low Past	High 5 years
Float	9.55%	8.13%	6.70%	9.55%
1 yr	8.40	7.27	5.95	8.45
2	7.99	7.32	5.99	8.25
3	7.89	7.50	6.30	8.30
4	7.79	7.61	6.40	8.40
5	7.69	7.63	6.50	8.60
7	7.69	7.80	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

RB Needs A Housing Slowdown

The Reserve Bank indicated last week that they may need to increase the official cash rate again. But what has happened to exert extra dampening pressure on inflation and the New Zealand economy? Have interest rates gone up? They certainly have in the wholesale market with the likes of the two year swap rate at which we banks borrow to lend fixed for a two-year period rising from around 7.36% to 7.42% at the moment. But have we actually seen mortgage interest rates go up? No. What about consumer confidence? Could it be that the warning from the Reserve Bank has scared property investors and homeowners and they will now not only cut back spending on housing but on retail goods and services in general? It will be a while before we get a consumer sentiment reading taken after the Reserve Bank's comments but there is a good chance that rather than going down consumer confidence will in fact go up. This is because we have seen such a sharp decline in petrol prices in recent weeks that this is likely to occupy the minds of people rather than the Reserve Bank's vague warning.

But what about the exchange rate transmission mechanism for monetary policy? Has it operated since the Reserve Bank's comments? Yes it has in spades. The trade weighted index which measures the New Zealand dollar's average value against a basket of currencies has risen to sit at the moment near 66.5 compared with 64.6 the day before the Reserve Bank made their comments. To the extent that monetary policy is implemented through comments the tightening so far has come via the exporting sector. We have already seen exporters expressing concern about the impact of the recent rise in the New Zealand dollar on their earnings and it is likely that what have been emerging upturns in the likes of fishing, forestry, manufacturing, and even tourism will now cease. This is an extremely undesirable situation.

When the Reserve Bank move their official cash rate the hope is that the pain of the tightening of monetary policy will be spread between the exporting sector and the domestic part of the economy. Unfortunately, as we have been pointing out over the past two and a half years, the bulk of the burden has come in the export sector this cycle with the 2.25% increase in the official cash rate having its impact on fixed housing rates offset by continued low borrowing costs overseas. We suggested late last year that if New Zealand is to experience better growth in its export sector over the long-term we need a change in the way monetary

policy is operated so that the main restraint on the economy no longer comes via the export sector. It is probable that the knowledge of exporters that every now and then they are going to be hit extremely hard by a sustained high exchange rate leads to reduced investment in the export sector and this probably helps explain why exports generally have underperformed in our economy over the past couple of decades.

Our suggestion late last year which we repeated earlier this year when the Reserve Bank and Treasury were undertaking a study of the issue was that some sort of fixed rate levy be introduced. The way it would work is that when a person takes out a fixed interest rate with the bank they would pay the bank's charge, say 8%, plus the fixed rate levy which the Reserve Bank can vary the same as it alters the official cash rate which directly influences floating interest rates. If a fixed rate levy was set at 0.5% the cost to the borrower would be a total of 8.5% with the bank passing on the extra 0.5% to the Reserve Bank.

The existence of such a fixed rate levy would mean that when the Reserve Bank needs to tighten monetary policy it would hit all borrowers rather than the approximately 18% who currently sit on floating interest rates. This would mean they would not have to increase the official cash rate quite as far in order to get restraint on the economy and this means the exchange rate would be pushed up to a lesser extent than happens at the moment.

This option was rejected when the Reserve Bank and Treasury handed their report to the Minister of Finance earlier this year and they indicated that no further work would be undertaken on the issue. But clearly something does need to be done otherwise New Zealand's export sector is going to continue to under-perform.

In practice introducing such a fixed rate level would be rather difficult because on the face of it this would involve the Reserve Bank being a taxing authority and that is the role of the government not a State institution. Is there some way around this constitutional-like issue? One option could be the following. Leave taxation authority where it lies with the Government by introducing for all fixed-rate mortgages something like a 1.5% fixed rate tax payable to the government by lenders on behalf of their clients and added to the lending interest rate. This would mean that when you take out a mortgage at a bank rate of say 8% you would also pay an extra 1.5% fixed rate tax.

However the amount of this tax would be reduced by the Reserve Bank's fixed rate rebate. At times when the Reserve Bank felt no need to restrict growth in the economy to control inflation the fixed rate rebate would be set at 1.5% so the borrower would have no extra impost on their loan. The outflow from the unchanging 1.5% fixed rate tax would be matched by the variable Reserve Bank rebate. If the Reserve Bank felt the economy needed to be slowed down they could raise the official cash rate by 0.25% to hit floating mortgage rates and to some extent the exchange rate and they could reduce their fixed rate rebate by 0.25%. This would mean a fixed rate tax of 1.5% would no longer be exactly offset by the Reserve Bank's fixed rate rebate and the borrowing cost to all fixed-rate borrowers would go up by 0.25%.

We should be in zero doubt that this would be extremely negative for borrowers because it would effectively remove the fixed rate offering from New Zealand's mortgage market. It would also hardly be positive for us banks because it would imply reduced lending business over time and extra effort having to be spent explaining to the customer why their fixed rate was not in fact fixed. It would also clearly be a negative for the housing market because it is likely that on average interest rates would be higher than would otherwise be the case and this would hurt both property investors and owner occupiers. But hopefully improved export sector prospects would lead to greater investment and credit demand from businesses which would propel growth higher in the long term and improve everyone's profitability.

The way in which the effectiveness of the Reserve Bank's single policy instrument - the official cash rate – has been undermined by low rates overseas and a switch by NZ borrowers to fixed rates needs to be addressed. The alternative is that we retain the current system and experience continued underinvestment in the export sector all of us need to see growing in order to propel the New Zealand economy forward.

At this stage we have nothing to indicate that anything resembling a fixed rate levy or a fixed rate tax/fixed rate rebate system is likely to be put in place. But the debate about such a concept needs to be held and preferably within the context of a set of policies designed to propel New Zealand export sector forward rather than just a myopic attack on the housing market.

Big Rental Increases Just Ahead?

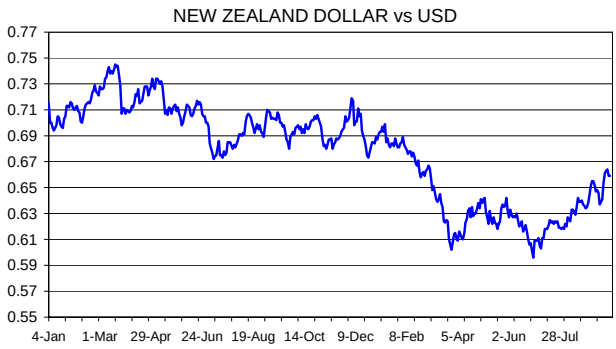
There was an article in the media this week quoting an expert from Australia suggesting that as a result of interest rates going up we would soon see sharp increases in residential property rents in New Zealand as investors sold their properties and the supply of rental accommodation went down. Reading this many investors would probably feel quite pleased and may start building an anticipation of greater rental growth in their cash flow projections for the next two or three years. But we would advise some caution.

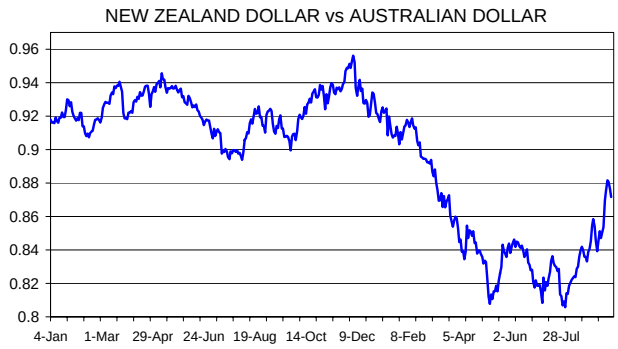
On the face of it a reduction in the supply of something will lead to the price going up. But the question is who will be buying the property that is put on the market by property investors? Given that housing affordability is becoming a huge issue in New Zealand as investors have greedily priced property out of the reach of common families the chances are if we do see anything vaguely resembling a flood of investment properties onto the markets they will be willingly purchased by people who at the moment are renting and don't want to be. The transfer of unwilling tenants to motivated home owners means that at the same time as the supply of rental accommodation goes down demand goes down as well. This will limit any increase in rents if we do in fact see slightly higher interest rates causing any wave of investor selling. Are we seeing investor selling?

We know of some property investors who have rolled from interest rates year 6.5% on to something around about 7.75% and in order to maintain acceptable cash flows have rationalised their investment portfolio with the sale of one or two properties. We are likely to see more of this over coming months but given that the labour market remains very tight, net migration inflows are slightly above average, and the impact of a rise in one's fixed interest rate can be mitigated by shifting to a longer term, we don't think the small rise in average interest rates is going to cause any major housing market weakness.

EXCHANGE RATES

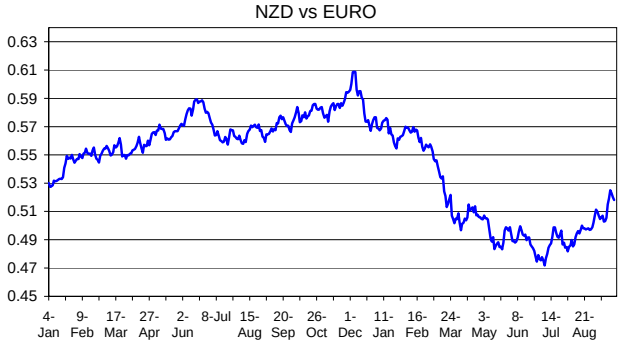
The Kiwi dollar started the week against the greenback buying 65.4 US cents and has ended stronger at 65.9 US cents. During the week however it traded as high as 66.8 US cents while against the Australian dollar we rose above 88 cents but ended this afternoon near 87.2 cents from 87 cents last week. The rise in the Kiwi dollar to its high of a couple of days ago came as investors continued to respond to the signal from the Reserve Bank last week that they may need to raise the official cash rate again. Their signal was quite important because it came when the New Zealand dollar had upward momentum anyway with investors around the world focusing back on high yielding currencies amidst expectations that the next change in monetary policy in the United States will be an easing probably sometime in the second half of next year.

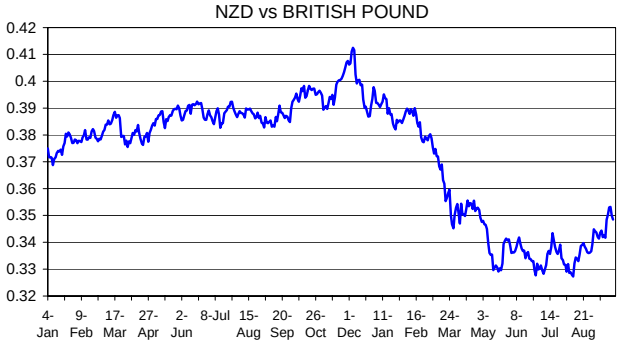


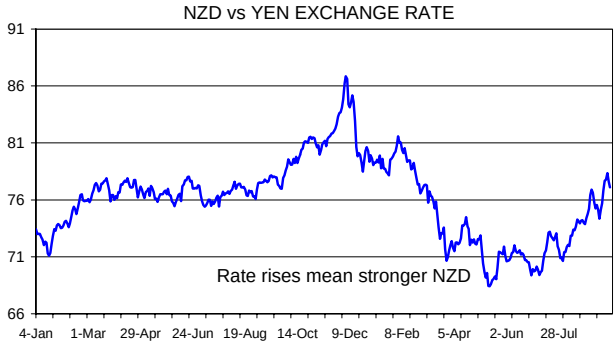


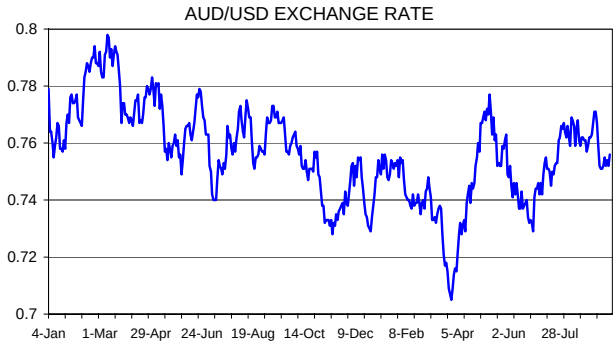
Some nervousness ahead of this morning's June quarter current account deficit data saw the Kiwi dollar ease yesterday and the numbers came out worse than expected with the annual deficit now at a 31 year

high of 9.7% of GDP compared with about 8% a year earlier. Eventually we expect concerns about the imbalance in the New Zealand external accounts to contribute to weakness in the New Zealand dollar. But in the short term that seems very unlikely with the markets focused quite strongly on interest-rate differentials.









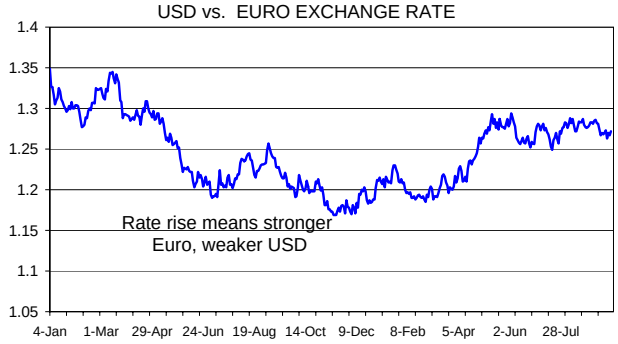
For your guide, since floating in March 1985 the NZD has averaged the rates shown in the first column below. Current exchange rates are shown in the second.

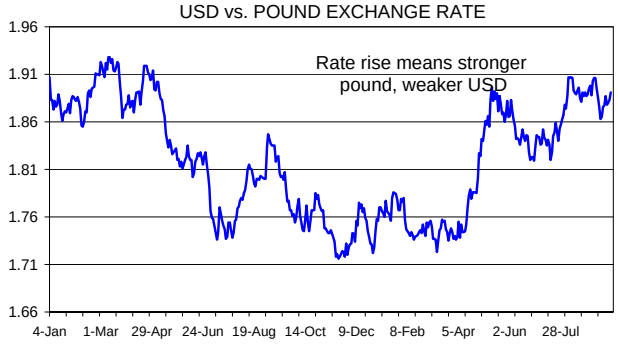
NZD vs.		Latest	Diff.
USD	57.8	65.9	14%
AUD	82.5	87.2	6%
GBP	35.5	34.8	-2%
JPY	72.7	77.1	6%
TWI	60.1	66.1	10%

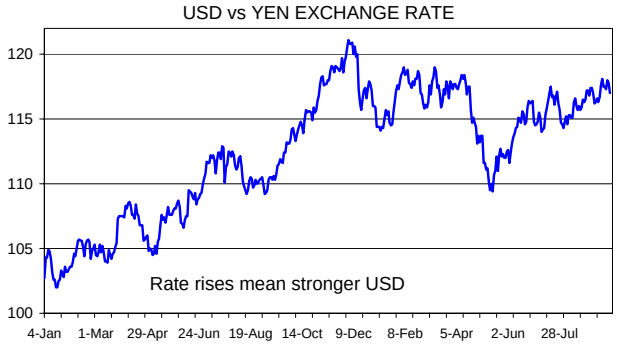
The Australian dollar has ended this afternoon against the greenback near 75.6 US cents from 75.2 US cents a week ago. The AUD received some small support early in the week from expectations of slightly higher commodity prices after the IMF increased its forecast for world growth while expressing concern about inflation.

The greenback has ended this afternoon weaker against the British pound near $1.891 from $1.877 last week. This move mainly reflects the pound gaining on the back of minutes from the September 6 Bank of England monetary policy meeting where policymakers indicated they expect inflation to rise further. The Bank of England raised their benchmark cash rate by 0.25% on August 3 which was the first increase in two years and took the rate to 4.75%. There is a good chance the rate will increase again and this expectation at a time when no further rate rises are generally expected in the United States led investors to buy pounds.

Against the euro the greenback has ended largely unchanged at $1.27. Early in the week the euro was pushed upward after the European Central Bank president reiterated the need for strong vigilance against inflation leading to expectations that after raising the ECB cash rate by 1% to the current 3% further rises are likely to occur in the near future. But yesterday the euro was depressed by a sharp fall in a reading of business sentiment in Germany.







The communiqué from the Group of Seven meeting over the weekend was weaker than expected with regard to the Chinese currency with an earlier call for the Chinese to let their currency rise dropped. However a call for flexibility was maintained. Ahead of the meeting the expectation of a repeat of April's strong message had caused some weakness in the US dollar and buying of the Japanese yen and other Asian currencies. But the statement led to these trades being unwound with the US dollar regaining some strength and the yen weakening off to 118 against the greenback at one point during the week. The yen has finished this afternoon at 117 against the US dollar compared with 117.5 last week. The yen was only temporarily weakened by the coup in Thailand.

The United States dollar received some support early in the week after retail sales data for August came in stronger than expected showing a 0.2% increase against expectations of a 0.2% decline. But housing market data came in weaker than expected and the core producers price index fell 0.4% in August rather than rising slightly as had been expected. The United States June quarter current account deficit also came in slightly worse than expected at a level equivalent to 6.5% of GDP.

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%	3.6	3.9	.....	3.6	4.0
Jobs growth	Average past 10 years = 2.1%	1.0	1.1	3.0	3.0	3.1
Current a/c deficit	Average past 10 years = 4.9% of GDP	9.7	9.5	.....	8.0	5.1
Terms of Trade		0.7	0.8	-1.3	1.0	7.2
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%.	0.7	0.8	4.8	7.0	6.3
House Prices	Long term average rise 5% p.a.	2.5	3.9	12.3	13.4	23.3
Net migration gain	Av. gain past 10 years = 13,000	+12,150	10,079yr	.....	6,890	20,572
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 8%. Colmar survey	-29	-22	-35	8	11
Business activity exps	10 year average = 27%. NBNZ	6	15	-4	14	28
Household debt	10 year average growth = 11.4%. RBNZ	13.8	14.1	15.2	15.0	16.4
Dwelling sales	10 year average growth = 4.6%. REINZ	0.0	-5.4	-22.5	4.2	-19.6
Tourist numbers	10 year average growth = 6.1%. Stats NZ	-0.9	9.7	0.2	-2.8	19.1
Floating Mort. Rate	10 year average = 8.5%	9.55	9.55	9.55	9.00	8.00
3 yr fixed hsg rate	10 year average = 8.2%	7.89	7.75	7.99	7.45	7.65

ECONOMIC FORECASTS

Forecasts at Aug. 24 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	1.2	0.3	0.9	6.5	4.7	1.8	0.3	0.6
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	0.4	0.9	2.4	8.1	4.5	0.9	0.8	1.9
Exports	3.9	0.0	4.7	4.0	5.0	5.6	-0.2	2.5	4.7	4.8
Imports	13.7	4.6	-0.3	2.3	3.0	16.6	6.5	-1.0	2.4	2.7
GDP	3.7	2.2	1.7	1.5	3.0	4.3	1.9	2.0	1.5	2.5
Inflation – Consumers Price Index	2.8	3.3	3.9	3.0	2.6	2.7	3.2	3.9	3.1	2.7
Employment	3.4	2.6	1.3	0.8	2.1	4.4	1.5	2.3	0.6	1.8
Unemployment Rate %	3.8	3.9	3.9	4.0	3.2	3.7	3.6	3.7	4.0	3.4
Wages	2.9	4.6	5.1	3.5	2.6	1.9	5.1	5.0	3.7	2.8
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.73	0.64	0.56	0.55	0.59	0.71	0.70	0.58	0.55	0.58
USD/JPY	105	117	107	103	104	104	119	110	103	105
EUR/USD	1.32	1.20	1.29	1.29	1.23	1.34	1.19	1.28	1.30	1.24
NZD/AUD	0.93	0.87	0.78	0.77	0.80	0.93	0.94	0.78	0.77	0.79
NZD/GBP	0.38	0.36	0.30	0.30	0.33	0.37	0.40	0.31	0.29	0.33
NZD/EUR	0.55	0.53	0.43	0.43	0.47	0.53	0.59	0.45	0.42	0.47
NZD/YEN	76.8	74.6	59.9	56.7	60.7	74.2	82.7	63.8	56.1	60.9
TWI	70.7	65.6	55.7	54.5	58.7	69	71.9	57.7	54.0	58.2
Official Cash Rate	6.5	7.25	7.25	6.25	5.75	6.5	7.0	7.25	6.50	5.75
90 Day Bank Bill Rate	6.86	7.55	7.39	6.31	5.83	6.73	7.49	7.42	6.56	5.81
2 Year swap	6.82	7.0	6.42	5.95	6.14	6.61	7.24	6.62	5.99	6.07
10 Year Govt Bond	6.04	5.71	6.15	5.85	5.70	6.03	5.89	6.10	5.95	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.