Bank of New Zealand

BNZ Weekly Overview

28 June 2007

FINANCIAL MARKETS DATA

	This week	**Week ago**	**4 wks ago**	**3 months ago**	**Yr ago**	**10 yr average**
Official Cash Rate	8.00%	8.00	7.75	7.50	7.25	6.2
90-day bank bill	8.38%	8.35	8.11	7.93	7.46	6.4
10 year govt. bond	6.73%	6.78	6.29	5.93	5.87	6.5
1 year swap	8.49%	8.50	8.33	8.09	7.44	6.6
5 year swap	8.08%	8.15	7.96	7.68	6.89	7.0
NZD/USD	0.764	0.763	0.726	0.717	0.601	.567
NZD/AUD	0.908	0.903	0.886	0.888	0.821	.859
NZD/JPY	94.0	94.5	88.3	84.6	69.9	66.1
NZD/GBP	0.382	0.383	0.365	0.365	0.33	.342
NZD/EURO	0.568	0.571	0.54	0.538	0.478	.51

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Mainly Positive Data

We have seen lots of data releases over the past week and none have delivered a king hit with regard to either the outlook for economic growth, inflationary pressures, interest rates or the exchange rate. On the positive growth outlook side we have seen a recovery in business activity expectations and investment intentions though these remain at below average levels. Employment intentions however are back at average levels and strongly suggest a continued firm labour market which will deliver sustained upward pressure on wages and therefore inflation. Consumer confidence has however declined slightly though it remains relatively firm and not suggestive of the weak outlook for private consumption the Reserve Bank have assumed in their forecasts.

Debt growth has accelerated over the month with a strong recovery in lending to the business sector and continued firm growth in lending to the farming and household sectors. In fact in seasonally adjusted terms growth in lending to households was stronger in May than in April. We have also seen a rebound in credit card spending in May along with a firm 5.5% seasonally adjusted increase in dwelling consent numbers and a continued high level of issuance of consents for non-residential buildings.

The only other slightly weak number received during the week came in the merchandise trade account which showed very low growth in the value of imports of consumer goods from a year earlier.

All up one would have to say most of the data were on the firm side. But before one concludes that another interest rate rise is a certainty we are all holding our breath for the March quarter GDP numbers due out at 10.45 a.m. tomorrow morning. If the quarterly increase is appreciably above the 0.8% assumed by the Reserve Bank in their recent forecasts then the case for another rate rise or two will become extremely strong.

Reserve Bank Explains It's FX Intervention

The Reserve Bank made a brave effort this week to explain their intervention in the foreign currency markets but what they have said doesn't entirely stack up. In a lengthy press release the RB Deputy Governor Grant Spencer said among other things " The Bank's policy is to intervene only when the exchange rate is at exceptional levels; when it is unjustified by medium term economic fundamentals; when intervention is seen as consistent with the Policy Targets Agreement; and when market conditions make intervention opportune. "

However we would argue that the current level of the currency is justified by medium term economic fundamentals when one includes amongst those fundamentals the high level of interest rates in New Zealand compared with rates overseas and record levels for some of our commodity prices. We also don't think market conditions do make their intervention opportune at the moment because

- there remains downward pressure on the greenback which will naturally lift the Kiwi dollar,
- the Reserve Bank have just increased interest rates which makes our currency more attractive, and
- their inflation forecasts leave no scope for positive growth shocks to the economy and imply that there is a greater risk of interest rates going up in the next 12 months then a risk of them going down.

The Deputy Governor also notes that "Claims by some observers that the Bank has somehow 'thrown away' taxpayers' money by intervening simply do not stack up." But like all modern organisations the Reserve Bank is going to have to work out the Kiwi dollar value of its currency reserves at the end of this financial year and if the Kiwi dollar has risen above the levels of intervention it will count as a loss - which is the position that they are currently in.

In addition, because as the Reserve Bank note, they take the extra Kiwi dollars out of the market the next day they are effectively borrowing in New Zealand dollars and investing in lower yielding foreign currencies. They are doing the opposite of the carry trade whereby investors borrow in low yielding currencies and invest in high yielding ones like the Kiwi dollar. These investors have been making high profits from this transaction in recent years and are confident they will continue to run profits in the future. With the Reserve Bank doing exactly the opposite of their transactions they are one of the parties supplying these foreign investors with their profits. That is, there is an ongoing relatively large interest-rate cost the Reserve Bank will need to bear. The RB may think they are becoming a source of concern for foreign investors. Actually they are becoming a source of their profits!

Perhaps the most important part of the commentary though comes at the end of the statement where the Deputy Governor says "**As noted in the Bank's June Monetary Policy Statement, the outlook for the OCR will depend on how inflation pressures evolve over the months ahead. Evidence that inflation pressures are abating will be an important step in seeing the exchange rate return to more sustainable levels.**"

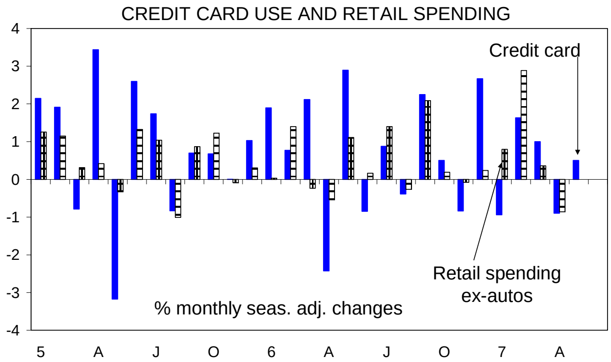
In other words the Reserve Bank doesn't expect the Kiwi dollar will settle lower until it has got inflation under control. Given the stimulus to our economy coming from increasing dairy prices and what will be possibly a large easing of fiscal policy next year, coupled with resource shortages we don't think those inflation pressures are going to abate for quite some time. And one must always remember that the Reserve Bank still only see inflation getting to 2.8% over 2009 and 2.6% over 2010. So there is no scope in their forecasts to handle positive growth shocks. It may be a very long time before the RB can claim that their FX interventions have yielded a profit. Still – that is the beauty of having the government standing behind you as funder of last resort. The poor old taxpayer can always be relied upon to bail you out of your loss-making ventures – just like the bad old days in New Zealand when the authorities thought they knew better than the private sector. RIP Rob.
http://www.rbnz.govt.nz/

THE WEEK'S ECONOMIC DEVELOPMENTS

Friday 22

Credit Card Spending Increases

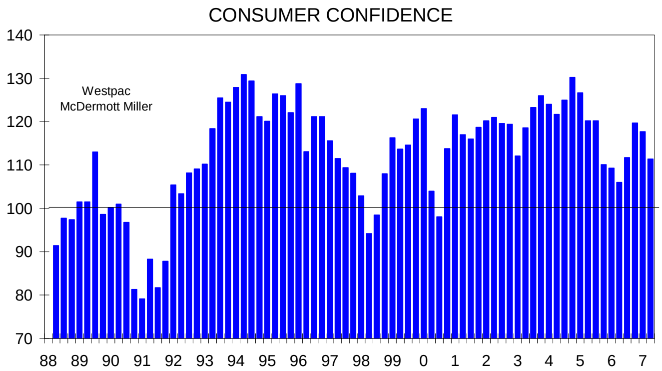
Nominal seasonally adjusted credit card spending increased by 0.5% in May. This rebound from a 0.9% fall in April suggests that retail spending also recovered in May after falling away by 1.2% in April. Note though that there can sometimes be wide variation between the magnitude of change in this early spending measure and the actual retail sales change though the direction of change is usually the same. http://www.rbnz.govt.nz/statistics/monfin/

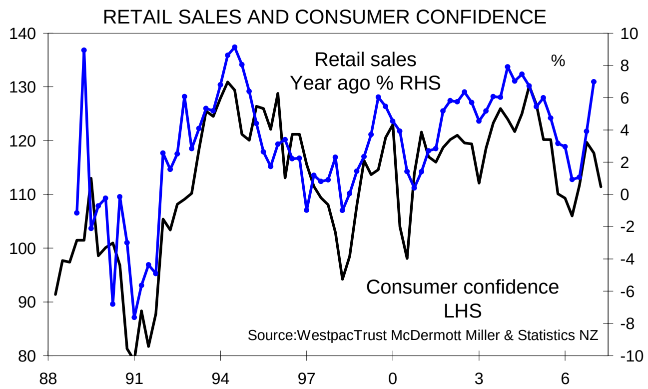


Wednesday 27

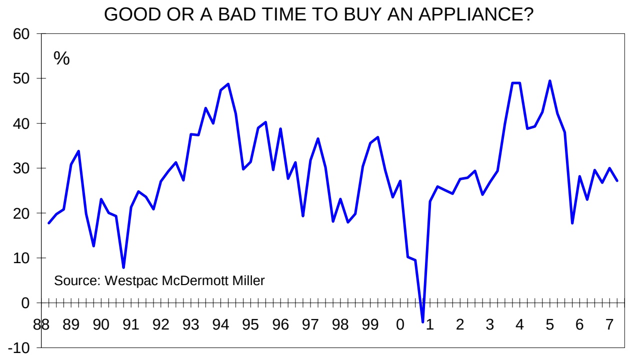
Consumer Confidence Declines Slightly

The Westpac McDermott Miller Consumer Confidence survey recorded a decline in consumer sentiment to a reading of 111.4 in the June quarter from 117.7 in the March quarter but was up from 106 a year earlier. This measure has averaged just over 117 since the upturn started in 1999 therefore the latest reading is below average. But it is still well above the neutral reading of 100 and suggestive of private consumption growing at a rate around 4% whereas the Reserve Bank are looking for growth to fall away to about 2%. In addition in seasonally adjusted terms confidence declined only slightly to 114.5 from 117.1. Therefore this is not as weak a number as the Reserve Bank would be hoping for and does not suggest the monetary policy tightening cycle has ended. Note that on a quarter to quarter basis there is a singularly no correlation between movements in consumer confidence and retail spending but on an annual basis the relationship as clear as shown in the second graph below.



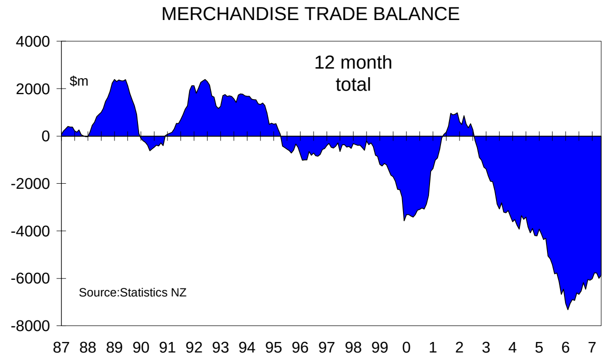


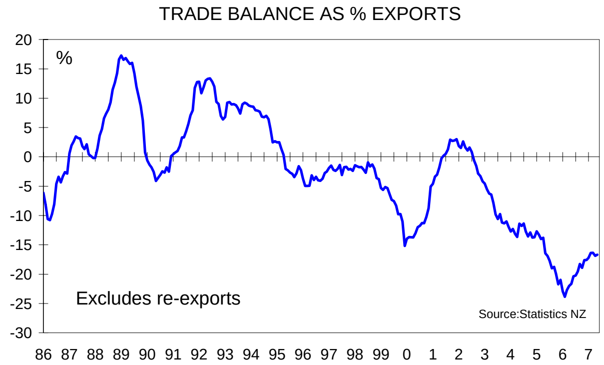
Retailers probably don't have a lot to worry about from the survey as it showed that a net 27.2% of respondents feel it is a good time to buy a major appliance. This was down only slightly from a net 30% in the March quarter and only just below the 10 year average of a net 29% positive.



Merchandise Trade Account in Small Surplus

The merchandise trade account recorded a small surplus in May of $9 million which was an improvement from a deficit of $115 million a year ago but less than market expectations of a surplus near $75 million. The annual deficit now stands at $5.9 billion which is down from the peak of $7.3 billion in the year to February 2006. Over the past year exports have improved by 10% while imports have grown by 5.5% but in the past three months exports were up only 0.3% on a year earlier while imports were ahead by 1.4% by with an upward bias because of a large ship coming in. If we look at the numbers we can see some signs of weakness in the domestic economy with the value of imports of consumer goods in the three months to May up by only 2% from a year earlier. This is the slowest rate of growth in this measure since October 2004. http://www.stats.govt.nz

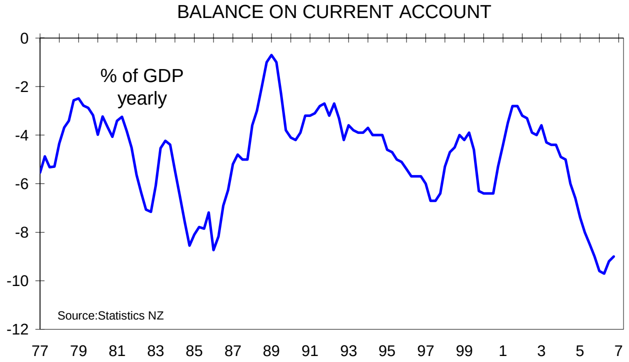


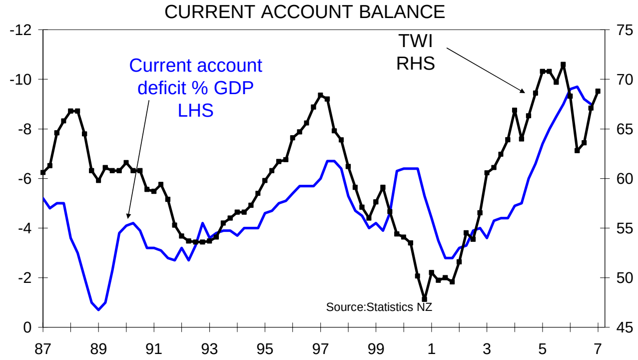


Thursday 28

Current Account Deficit Improves Slightly

New Zealand's annual current account deficit fell slightly in the June quarter to sit at $13.9 billion compared with $14.5 billion in the March quarter and $14.9 billion a year ago. The improvement has come about as a result of the balance on trade in goods and services improving to a deficit of $2.8 billion from $4.2 billion a year ago but the large deficit on the international investment income account has deteriorated marginally to $11.8 billion from $11.2 billion a year ago. As a proportion of GDP the deficit now sits at 8.5% compared with 9% in the March quarter near a 31 year peak of 9.6% of GDP year ago.



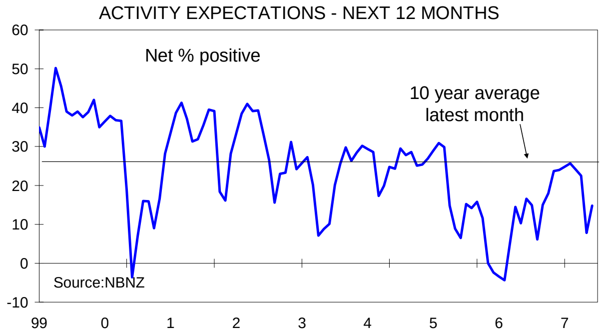


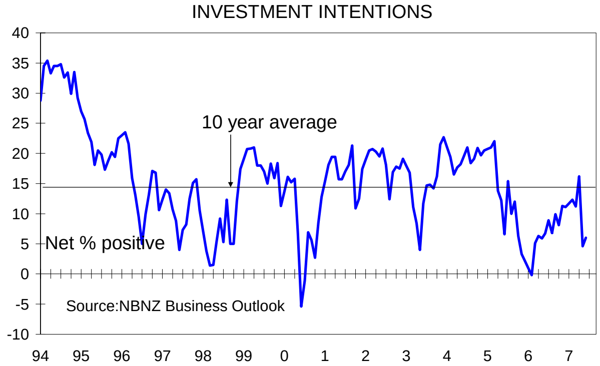
This deficit is still extremely large not only by world standards but even compared with the average deficit New Zealand has run over the past 20 years equivalent to 4.7% of GDP. The existence of the deficit suggests the Kiwi dollar is overvalued if currency valuation is significantly determined by the level of one's annual deficit. But that is not completely the case because if after over 30 years we are still running relatively large deficits quite clearly the currency does not adjust to reflect the level of these deficits. The second graph above in fact suggests the deficit lags rather than leads the exchange rate as measured by the trade weighted index. Our currency adjusts to reflect changes in the willingness of investors to finance this deficit and that willingness still remains very strong. There is no shortage of people overseas willing to lend to New Zealand borrowers because of their faith in private sector management in New Zealand - both financial and non-financial companies - along with the attraction of very high interest rates, no worries about the government accounts which are into their 15th year of surplus, one of the most deregulated labour markets in the world, a reasonable outlook for economic growth assisted by the new terms of trade boom under way, the absence of any record of debt non-repayment of large magnitude in New Zealand, and the absence of any restrictions on foreign currency transactions.

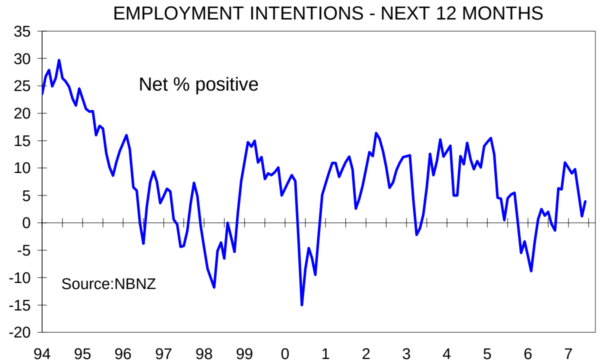
So we can easily repeat the mantra of us economists which is that one day the Kiwi dollar will stage a large fall as the result of the high level of New Zealand's current account deficit. But history shows there is no way of predicting whether that large fall is six months down the track, six years, or 16 years. History instead suggests that our currency adjusts not to what the current account deficit is doing but changes in commodity prices and the state of the domestic economy with its resulting impact on interest rate expectations. For the moment all of these things suggest a continued high Kiwi dollar subject to the inherent volatility one would expect in the currency of a peripheral economy dependent upon the funding of foreigners. http://www.stats.govt.nz

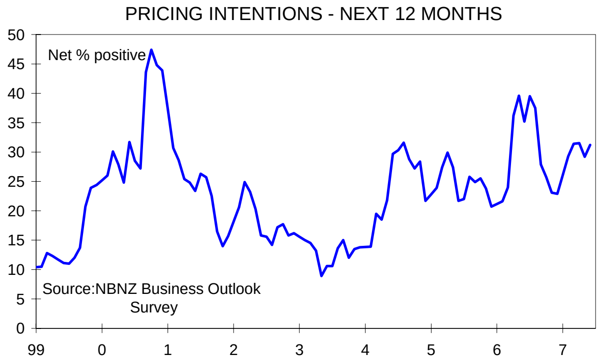
Business Confidence Improves Slightly

The monthly National Bank Business Outlook survey has recorded an improvement in business expectations of their own level of activity over the next 12 months to a net 15% positive in June from 8% positive in May. The improvement was driven by gains in all sectors except retailing and was reflected in practically all of the other indicators in the survey improving. For instance investment intentions improved to a net 6% positive from 5% in May although this was still below the 10 year average of 11%. Similarly employment intentions improved to 4% from 1% which was bang on the 10 year average and suggestive of a continued very tight labour market which will deliver continuing wages growth. Perhaps that is one reason why there was some bad news for the Reserve Bank in this survey. Pricing intentions rose to 31.2% from 29.2% in May and year ahead inflation expectations rose to 3.21% from 3.18%. This latter reading is the strongest since December last year and above the 10 year average reading of 2.6%. Pricing intentions remain well above the 10 year average of a net 18% positive.





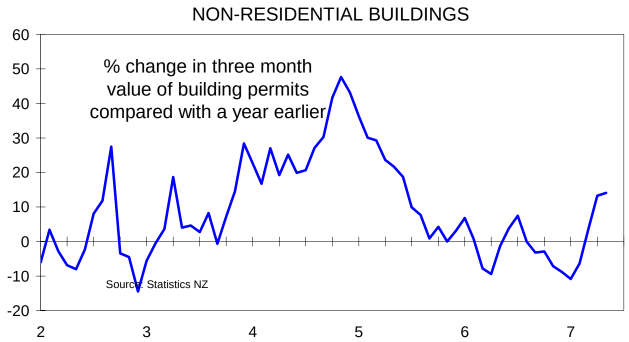


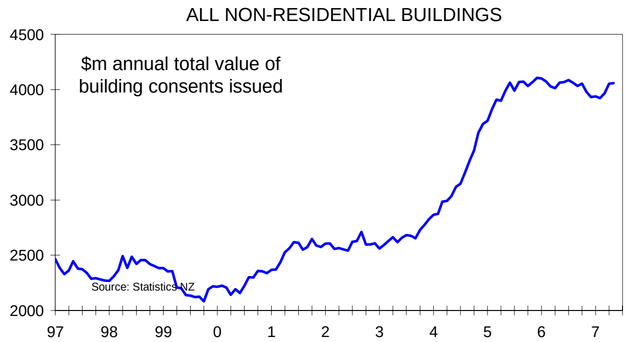


The results suggest a reasonable outlook for growth in the economy with the same old continuing inflationary risks and a tight labour market, plus some caution about investment and manufacturers still not optimistic about export growth prospects with only a net 10% expecting higher export revenue compared with a 10 year average of a net 35%. This was a good rebound however from -4% in May. http://www.nbnz.co.nz/economics/outlook/070628/default.htm

Construction Outlook Remains Robust

The value of consents issued for the construction of non-residential buildings was 1% ahead of a year earlier in May at $392 million. This followed a 42% increase in April and means that in the three months to May the value of these consents was up from a year earlier by a very strong 14% although in the entire year to May consent issuance growth was flat. Over the past three months the main areas of growth from a year ago have been shops restaurants and taverns up 32%, office buildings up 76%, warehouses up by 14%, factories up 20%, and farm buildings at 24%. The recent growth in these numbers is suggestive of businesses having confidence about the future and being prepared to invest. http://www.stats.govt.nz

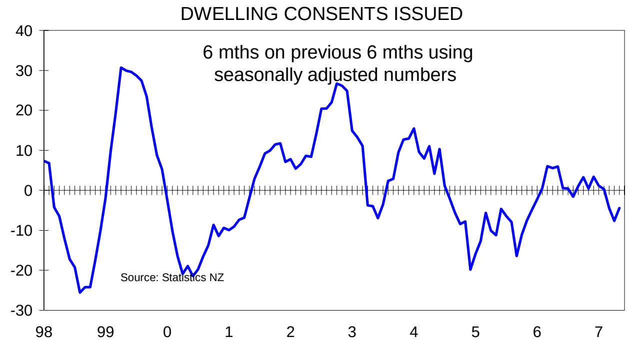


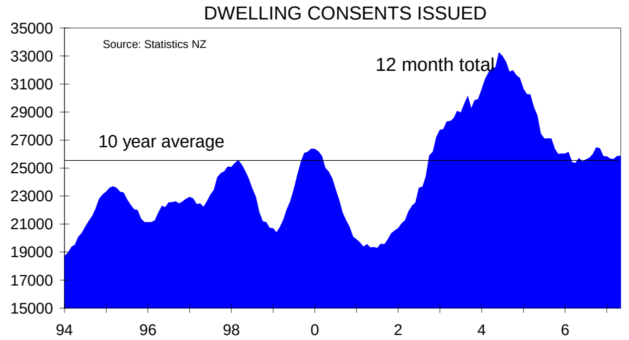


House Construction Prospects Still Okay

In seasonally adjusted terms the number of consents issued for the construction of dwellings rose by 5.5% in May after growing 0.4% in April. In the three months to May seasonally adjusted consents numbers were up

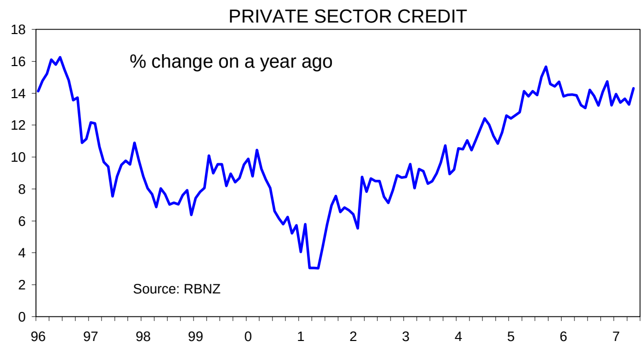
6.6% from the previous three months which is a relatively strong rate of growth although these numbers do tend to fluctuate around quite a bit. If we smooth things a bit further by looking at six-month periods we see a small decline of 4.4% in seasonally adjusted terms. And if we look at the annual number of consents this now stands at 25,847 compared with 25,698 a year ago. The 12 month number of consents has been astonishingly steady since the second half of 2005. For the moment we still expect these consent numbers to improve further in coming months as there is a lagged relationship between these numbers and changes in dwelling sales but given a recent small decline in seasonally adjusted dwelling sales improvement in consent issuance is likely to be minimal. This means construction activity will remain firm but growth as such may not amount to all that much in volume terms. http://www.stats.govt.nz

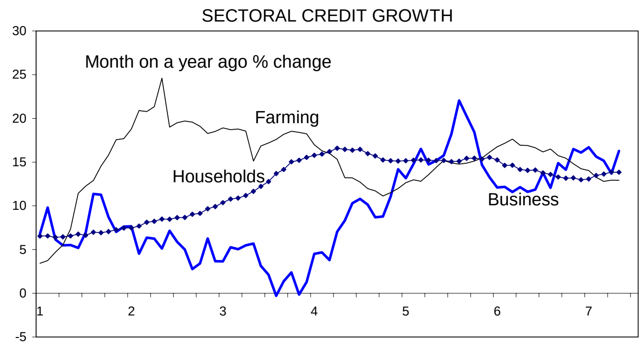




Lending Growth Accelerates

The annual rate of growth in lending to the private sector jumped up in May to 14.3% from 13.3% in April and 13.3% also a year earlier. This new 14.3% rate may not necessarily be all that surprising as it is in line with annual growth over the past two years. But it follows a series of interest-rate increases in suggests the actions of the Reserve Bank have not severely dented the willingness of the private sector to borrow.



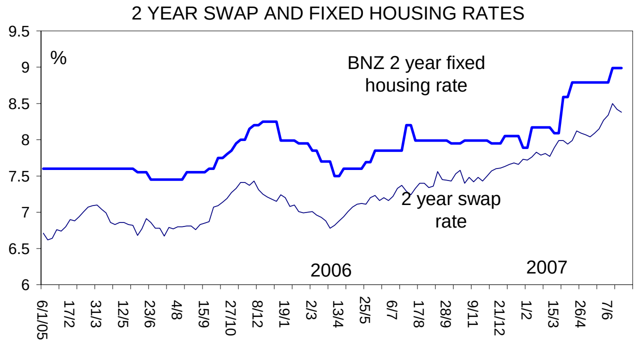


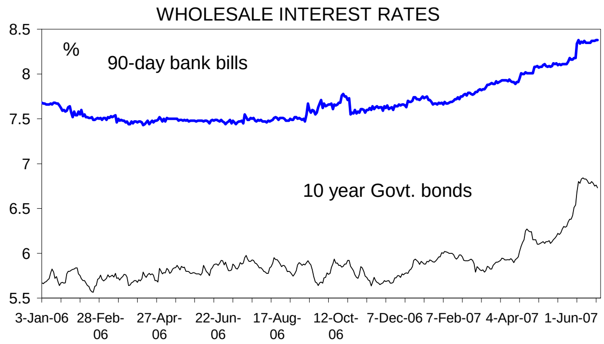
The annual rate of growth in lending to the business sector jumped to 16.3% from 13.7% in April and 12.1% a year earlier. In fact the jump in lending to the business sector has been so strong over the past month it completely erases the conclusion we had previously formed based on data for the three months to April that debt growth to the sector was falling away strongly. In the three months to April lending to the business sector totalling $1.8 billion was $1.2 billion weaker than a year earlier over the same period. But courtesy of a $1.8 billion jump in lending to the business sector in the month of May alone the three monthly increase now stands at $3.2 billion which is $0.7 billion stronger than a year ago. So growth has actually accelerated recently. Looking at the farming sector we see that the annual rate of growth has held steady at 12.9% but this is down from 16.9% a year earlier. Interestingly the month of May was also unusually strong with lending growth of $0.6 billion taking growth in the three-month period ending in May to just under $1 billion which was practically the same as a year ago whereas in the three months to April debt growth was $0.2 billion less than a year ago.

And then there is the household sector which last month we noted was continuing to show strong growth. The annual rate of growth has barely changed to 13.8% from 13.9% but in seasonally adjusted terms lending growth accelerated to 1.1% in the month from 1% in April. Whereas in the three months to April lending was $1.6 billion stronger than over the same period a year earlier lending in the three months to May was just $1.1 billion up from a year earlier. The numbers basically still look strong for all sectors and this is completely the opposite of what the Reserve Bank would have been hoping to see. http://www.rbnz.govt.nz/statistics/monfin/

INTEREST RATES

Medium to long-term wholesale interest rates have declined marginally over the week with the two year swap rate at which we banks borrow to lend fixed for two year periods falling to 8.38% from 8.42% last week. The longer term interest rates fell slightly further with the five year swap rate easing to 8.08% from 8.15%. These declines are neither here nor there and no clear trend is apparent in the wholesale interest rate market at the moment. Tomorrow may change that however if the March quarter GDP number shows an increase appreciably more than the 0.8% assumed by the Reserve Bank in their recent forecasts.





The yield on 90-day bank bills has in fact risen slightly over the week to 8.38% from 8.35% last week but as above no clear trend is apparent for the moment. Economic data releases over the week have had little impact.

If I Were a Borrower What Would I Do?

I'd probably fix two years at the moment.

BNZ Fixed Lending Interest Rates

Housing		Average Past 5 yrs	Low Past 5 years	High Past 5 years
Float	10.30%	8.34%	6.70%	10.30%
1 yr	9.30	7.45	6.20	9.00
2	8.99	7.41	5.99	8.99
3	9.15	7.56	6.30	9.15
4	9.05	7.63	6.40	9.05
5	8.90	7.63	6.50	8.90
7	8.90	7.77	6.75	8.90

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	6.90	6.95	7.00
1 yr	7.40	7.45	7.50
5 yr	7.40	7.45	7.50

Note: Conditions may apply to these rates.

HOUSING MARKET UPDATE

Slowing Signs Apparent

Recent data on New Zealand housing market have tended to be firm. Sales in the three months to May were up by 4.2% from a year earlier and on average in May it took 30 days to sell a dwelling which was nine days faster than the average for that month over the past 10 years. This improvement over the average time taken to sell was the same as in April and similar to the 8.8 days in March and 10.3 days better than average in February. House prices are also continuing to rise with the median dwelling sale price in May of $350,000 up by 14.8% from a year earlier.

But if we look really deeply we can see some signs that this burst of activity is now waning. One sign of weakness is the fact that in May sales were down by 3.7% from a year earlier. More significantly, in rough seasonally adjusted terms sales in the three months to May where down by 3.8% from the three months to February.

But perhaps more significant than this is what we are seeing right now in our own contacts with the housing market. Investors are again stepping back from making purchases as they did in the first half of 2006. There are major concerns about cash flows as a result of the relatively sharp jump recently in fixed interest rates. These rate rises are highlighting the way in which rents have not kept up with house prices. In addition perhaps some investors are getting concerned about what is happening with the net migration numbers. In seasonally adjusted terms the inflow is now running at about 5000 per annum compared with an average over the past 10 years of 10,000. Below average population growth means below average growth in housing demand.

There are also concerns about the policy attacks being made on housing investment with the Reserve Bank recommending a change in the tax regime and the Minister of Finance suggesting ring fencing residential investment property losses.

For the past few months our warning has been that people should not blindly extrapolate the recent strong housing market numbers and expect continued price rises over 10% over the next couple of years. Our interpretation of the market surge late last year has been that it was driven by

- the Reserve Bank failing to back up their warnings of tightening monetary policy with any further rate increases until March this year,
- a rebound in a net migration inflows numbers over calendar 2006, and
- investors jumping back into the market from the middle of last year when they realised owner occupier demand was still very strong and assisted by things like the Working for Families package, strong wages growth, and a continued very tight low market.

In that regard we are not surprised by the easing signs we are starting to pick up. But the question now becomes will the market become quite weak perhaps with falling prices on average? We don't think so. The market is still going to remain very well supported by good wages growth, a tight labour market, what we believe is a backlog of owner occupier buyers, a perceived structural shortage of dwellings in New Zealand, continuing increases in construction costs, and a government focus on improving home affordability by boosting demand from low income buyers rather than improving supply.

In addition, just as there have been many older farmers hoping for better returns so that land prices would fall and they could pick up the some cheap extra assets, we also believe there are many well-heeled investors hoping the market becomes exceptionally weak so that they can make some cheap purchases and build up a strong long-term focused portfolio. And we are not concerned by the bleating noises from lobby groups and some current investors warning that if the government takes away their distortionary tax advantages they will fight back by aggressively raising rents. If the market was able to tolerate higher rents they would already be in place. And a few people seem not to realise that their threat of selling their tenanted properties is not a threat at all. It is in fact the very thing many of us want to see as a result of removing the tax bias in favour of residential property. For every house a disgruntled investor sells an owner occupier will be able to make a purchase and start smiling.

For political reasons however it seems very unlikely that we are going to see the tax advantages of residential property investment removed. This is a huge pity because it would be good in terms of diverging investment toward productive assets, reducing inflation slightly, improving home affordability, and causing interest rates and the exchange rate to sit at slightly lower levels than would otherwise be the case.

Perspective

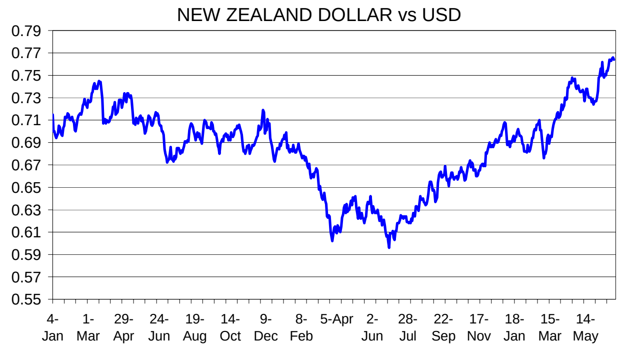
When you read commentary on the housing market it pays to keep in mind the employer and motives of the person making the comments. For instance there are at least two people employed as economists working for managed funds firms and the line they have taken on housing has been unerringly negative over the past couple of years and remains that way even in the face of strong evidence that their forecasts are off the mark. In particular one person produced a piece of very poor "research" last year purporting to show a large excess supply of houses in the market with the implication that prices would flatten off or fall. Instead they shot upward again. Another commentator has apparently suggested fixed interest rates may rise to 12%. That is blatantly ridiculous but a nice story to scare the youngsters with if they won't go to bed early.

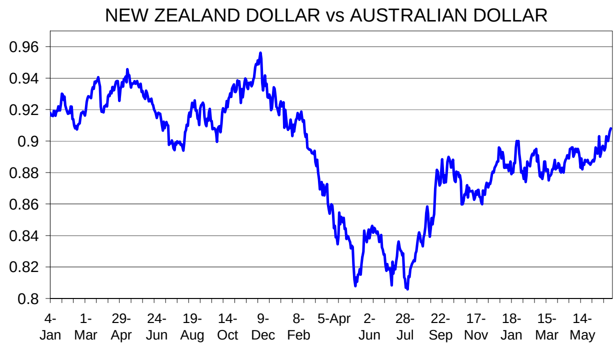
So just keep this in mind if you are an investor in the property market or somebody contemplating making a purchase. There are plenty of people with a vested interest in talking the market lower - not least one or two trying to flog books on the basis that a major slump is coming and if you buy their book you'll make money out of. The world loves a trier.

As a final point, what is our vested interest? On the face of it you would think we would be biased towards talking the housing market up so people would borrow more money. But in case you haven't noticed we bank economists are in the fortunate position where influence on what we say by our bosses while present is not dominant. We have all at times warned that house prices would fall, or that a recession is coming up, or that some important commodity price is going to fall away. At the BNZ we have also stridently warned about the upside risk to interest rates. None of these things would be positive for the lending side of our business but we are free to say them. Interestingly we get most of these dire predictions wrong (apart from the interest rates one)! This really is a dismal science.

EXCHANGE RATES

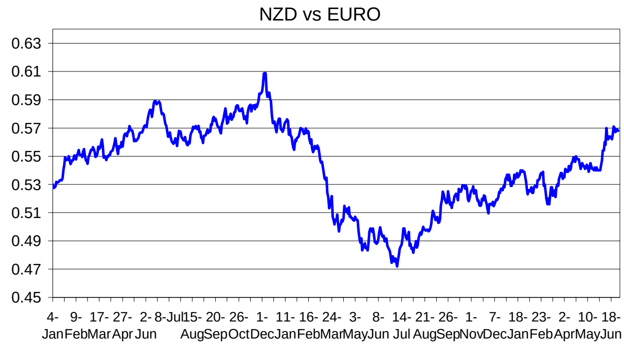
The Kiwi dollar has had an interesting week initially gaining strongly and reaching a fresh post-float high against the greenback near 77 cents then weakening away last night on the back of a resurgence in investor demand for Japanese yen with worries about the carry trade in light of a few warnings by senior people around the world recently. But today we have seen the Kiwi dollar bounce right back up again and at the moment is sitting just above the level at which the Reserve Bank intervened at a couple of weeks ago. In other words on an accrual accounting basis they have made us taxpayers a loss from their actions which will get bigger because of the interest rate differential between what they have borrowed, Kiwi dollars, and what they have invested in, lower yielding foreign currencies.

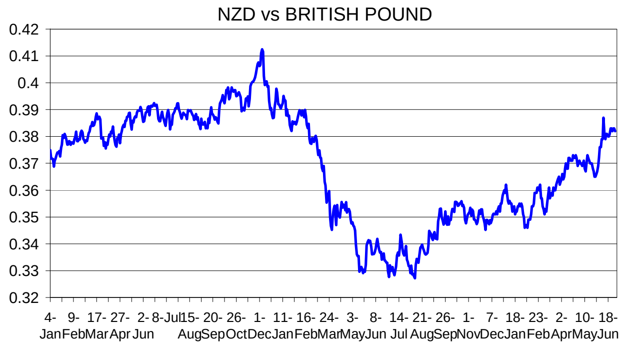




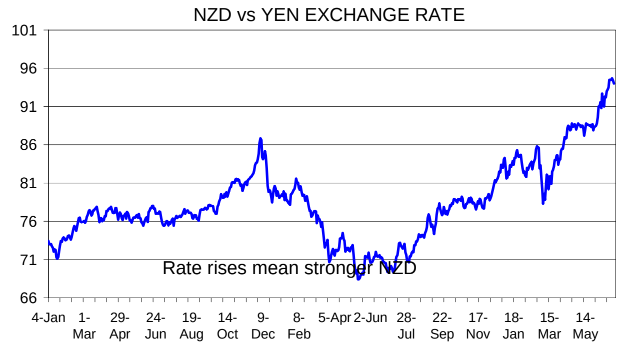
At the time of writing this evening the Kiwi dollar was trading at 76.4 US cents compared with 76.3 last week, 38.2 pence from 38.3, 90.8 cents against the Aussie dollar from 90.3 last week, 94 Yen from 94.5, and 56.8 cents against the euro from 57.1.

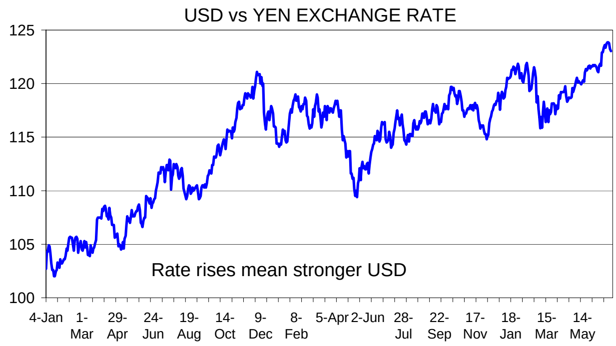
While there have been a great number of data releases in New Zealand today the impact on the Kiwi dollar has been relatively muted as the markets wait to see what the March quarter GDP numbers will be like when released tomorrow. They are historical but provide a base as it were from which forecasts of future growth start and give insight into capacity availability in the economy. The Reserve Bank have estimated 0.8% growth in the March quarter and if we get a number significantly higher than that this implies greater inflationary pressures than they have assumed and therefore an increased risk they will need to raise interest rates again therefore increased interest rate support for the Kiwi dollar going forward.



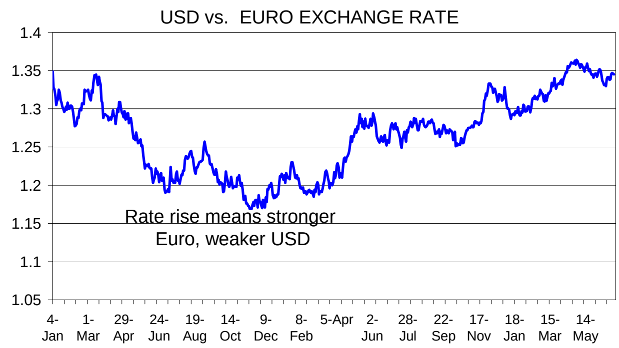


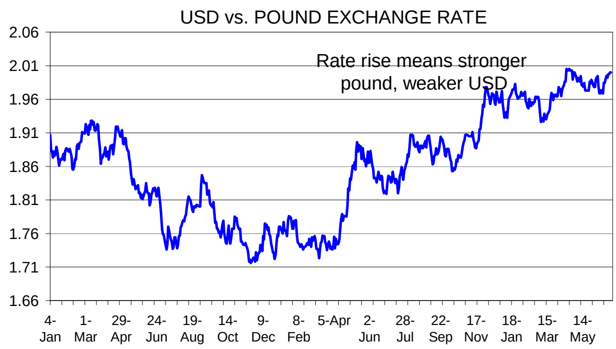
The US dollar itself has weakened over the past week on the back of rumours of hedge funds having problems stemming from the weakness in the US sub-prime mortgage market, along with a flow of funds back into the Japanese yen amidst a bout of concern about the continued safety of the carry trade. The tone of economic data released in the United States this week was also generally on the soft side. The Conference Board consumer confidence measure fell to a reading of 103.9 in June from 108.5 in May. New home sales fell by 1.6% in May although this was slightly better than the 5.8% decline convicted on average. The median sale price was down 0.6% from a year earlier at USD236,000. Durable goods orders also fell by 2.8% in May.



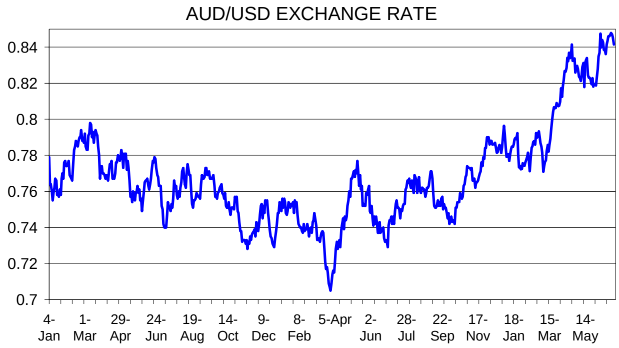


It now costs two US dollars to buy one British pound from $1.994 last week, $1.345 to buy a euro from $1.338 last week, and you'll only get 123 yen for your dollar compared with 123.7 last week.





The Australian currency has had an interesting week initially rising very strongly against the greenback on the back of firm commodity prices then falling away amidst worries about the carry trade and pullback in commodity prices and just general jitters following weakness and wobbliness in global share markets. It has ended against the greenback this evening near 84.1 cents from 84.6 cents last week but traded above 85 cents earlier in the week.



Tomorrow morning we will get the results of the latest meeting in the United States of the Federal Open Market Committee and all attention will be on their comments about the appropriateness of current monetary policy settings and whether the risks still lie to the upside or they see some easing of inflationary pressures.

Data Sources

Interest rates & exchange rates RBNZ at	http://www.rbnz.govt.nz/statistics/
Housing fixed interest rates – our data from 1991 email	tony.alexander@bnz.co.nz
House mortgage data – RBNZ	http://www.rbnz.govt.nz/statistics/monfin/rbssr/rbssrpartE/data.html
House price information - REINZ	http://www.reinz.org.nz/reinz/public/market-information/market-information_home.cfm
NZ economic data, most from Statistics NZ	http://www.stats.govt.nz
Government accounts, NZ Treasury at	http://www.treasury.govt.nz/financialstatements/
Australian data	http://www.abs.gov.au/ and http://www.rba.gov.au/
European data	http://epp.eurostat.ec.europa.eu
United States data	http://www.economagic.com/
Parliament, select committees, publications etc.	http://www.parliament.nz/en-nz

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	0.5%	-0.2	2.5	3.4	2.7
GDP growth	Average past 10 years = 3.0%	0.8	0.3	1.5	2.2	4.5
Unemployment rate	Average past 10 years = 5.3%	3.8	3.7	......	3.9	3.8
Jobs growth	Average past 10 years = 1.9%	1.2	0.1	1.7	0.9	-0.1
Current a/c deficit	Average past 10 years = 5.5% of GDP	8.5	9.0	......	9.6	7.4
Terms of Trade		2.0	2.5	5.0	-3.3	4.5
Wages Growth	Stats NZ experimental series	1.3	1.4	4.9	5.3	4.9
Retail Sales ex-auto	Average past 9 years = 3.8%.	3.7	1.8	4.9	5.6	7.1
House Prices	Long term average rise 5% p.a.	2.5	0.9	10.1	14.0	16.4
Net migration gain	Av. gain past 10 years = 10,400	+10,680	13,160yr	......	10,200	8,799
Tourism - yr ago grth	10 year average growth = 5.0%. Stats NZ	4.1	6.0	2.4	0.6	6.9
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-8	-4	-10	-38	-13
Business activity exps	10 year average = 26%. NBNZ	14.8	7.8	24.0	16.6	6.5
Household debt	10 year average growth = 11.3%. RBNZ	13.8	13.9	13.2	14.1	15.2
Dwelling sales	10 year average growth = 3.5%. REINZ	-3.7	8.2	6.8	3.9	-1.4
Floating Mort. Rate	10 year average = 8.1%	10.30	10.05	9.55	9.55	9.00
3 yr fixed hsg rate	10 year average = 7.9%	9.15	8.80	7.99	7.75	7.55

ECONOMIC FORECASTS

Forecasts at June 21 2007	**March Years**					**December Years**				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
GDP - annual average % change										
Private Consumption	5.2	4.3	1.9	3.2	1.8	4.7	2	3.6	1.9	0.6
Government Consumption	4.6	4.7	4.1	3.1	3.9	4.1	4.2	3.3	3.8	3.2
Investment	6.7	4.1	-4.7	6.5	4	3.3	-3.4	4.4	4.3	4.6
GNE	5.7	3.9	0.5	4.6	2.8	4	0.4	4.6	2.9	2.1
Exports	4.5	-0.3	3.3	1.9	3.3	-0.6	2	2.5	2.9	3.8
Imports	12.4	4.1	-1.6	5.8	5.1	5.5	-2.5	5.5	5.2	3.3
GDP	3.9	2	1.7	2.8	2.2	2.2	1.5	2.9	2.2	2.1
Inflation – Consumers Price Index	2.8	3.3	2.5	2.9	3.2	3.2	2.6	3.2	2.6	3.1
Employment	3.4	2.6	1.7	1.4	0.9	1.5	1.4	2.3	1	0.9
Unemployment Rate %	3.8	3.9	3.8	3.6	4	3.6	3.7	3.6	3.9	4.3
Wages	2.9	4.6	5.5	5.3	4.5	5.1	5.5	5.4	4.7	3.8
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.73	0.64	0.7	0.71	0.63	0.7	0.69	0.73	0.65	0.62
USD/JPY	105	117	117	117	111	119	117	120	112	107
EUR/USD	1.32	1.2	1.32	1.35	1.28	1.19	1.32	1.36	1.3	1.25
NZD/AUD	0.93	0.87	0.88	0.86	0.81	0.94	0.88	0.87	0.82	0.82
NZD/GBP	0.38	0.36	0.36	0.36	0.33	0.4	0.35	0.37	0.34	0.33
NZD/EUR	0.55	0.53	0.53	0.53	0.49	0.59	0.52	0.54	0.5	0.5
NZD/YEN	76.8	74.6	81.9	83.1	69.9	82.7	81	87.6	72.8	66.7
TWI	70.7	65.6	68.6	68.7	62.2	71.9	68	70.5	63.8	61.9
Official Cash Rate	6.56	7.25	7.50	8.00	6.75	7.00	7.50	8.00	7.00	6.00
90 Day Bank Bill Rate	6.86	7.55	7.78	8.13	6.9	7.49	7.64	8.21	7.13	6.19
2 Year swap	6.82	6.99	7.76	7.19	6.54	7.24	7.48	7.84	6.65	6.39
10 Year Govt Bond	6.04	5.71	5.91	6.25	5.6	5.89	5.77	6.5	5.7	5.9

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.