Bank of New Zealand

BNZ Weekly Overview

26 July 2007

FINANCIAL MARKETS DATA

	This week	**Week ago**	**4 wks ago**	**3 months ago**	**Yr ago**	**10 yr average**
Official Cash Rate	8.25%	8.00	8.00	7.50	7.25	6.2
90-day bank bill	8.55%	8.49	8.38	8.01	7.51	6.4
10 year govt. bond	6.85%	6.85	6.74	6.18	5.92	6.5
1 year swap	8.64%	8.65	8.49	8.22	7.53	6.6
5 year swap	8.14%	8.20	8.08	7.80	7.02	7.0
NZD/USD	0.797	0.791	0.765	0.745	0.624	.567
NZD/AUD	0.903	0.901	0.903	0.895	0.829	.859
NZD/JPY	96.2	96.5	94.7	88.4	73.1	66.1
NZD/GBP	0.389	0.385	0.383	0.372	0.339	.342
NZD/EURO	0.582	0.573	0.568	0.548	0.496	.51

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Monetary Policy Tightened – But RB Risk Repeating 2004 and 2006 Mistakes

As we and most other economists had been expecting the Reserve Bank tightened monetary policy again today by taking the official cash rate from 8% to 8.25%. The rate has now risen by 3.25% over the past three and half years and you couldn't be certain that this is the last rate rise in the cycle. This is in spite of the RB saying they feel they won't need to raise the OCR again if resource pressures alleviate and debt growth continues to slow.

The problem here is that we have seen such confidence about rate rises ending before. To whit.

October 28 2004
The cash rate was increased to 6.5% and the Reserve Bank said the following.
"However, the recent monetary policy tightenings still have to work their way through the economy, and the high exchange rate will also have its effect. Given this, we believe that the current settings of monetary policy are now doing enough to ensure price stability as defined in the Reserve Bank's Policy Targets Agreement."

They then raised the cash rate 0.75% over 2005 and said…

January 26 2006
The OCR was left unchanged at 7.25% and the Reserve Bank said the following.
"Given this situation, we do not expect to raise the OCR further in this cycle."

March 9 2006
No OCR change from 7.25%.
"As long as these inflation risks remain under control, we do not expect to raise interest rates again in this cycle"

July 27 2006
No OCR change from 7.25%.
"We maintain our view that the current level of the OCR is consistent with returning inflation to the target range. While second-round wage and price effects remain a risk, we do not expect to have to tighten the OCR further in this cycle"

They then raised the cash rate another 1% between March and July this year.
http://www.rbnz.govt.nz/monpol/statements/0090630.html

Had the RB continued raising the cash rate another 0.5% or maybe 0.75% early last year we wouldn't have seen such a strong rebound in the housing market and domestic economy generally over the second half of last year and we would have had time for the resource base to grow at a faster rate than growth in demand therefore alleviating some of the inflationary pressures. They would also have been raising the rate when the NZD was falling - not rising as it is now.

This doesn't mean the exchange rate wouldn't still be relatively high at the moment given what we have seen happen with commodity prices but instead of sitting over 80 cents we would probably have the Kiwi dollar sitting just over 70 cents instead – though that is a complete guess.

The Reserve Bank have increased the cash rate again because in spite of their previous three rate rises this year because data on the domestic economy remain strong. Retail spending rose by 1.2% in May and credit card spending rose 1.9% in June, all numbers seasonally adjusted. In seasonally adjusted terms over the three months to May the number of consents issued for the construction of new dwellings was up by a firm 6.6% from the three months to February. In the same period the value of consents issued for the construction of non-residential buildings was up by 14% from a year earlier.

In the June NBNZ Business Outlook survey business activity expectations rebounded to a net 15% positive from 8% positive in May while inflation expectations for the coming year rose to 3.21% from 3.18%. Employment intentions recovered to a net 4% positive from 1% to be right on the 10 year average for this reading.

Consumer confidence has weakened recently but only to a net 10% pessimistic in the monthly One News Colmar Brunton poll which is below the 10 year average reading of a net 2% positive but much higher than -30% a year ago.

The NZIER's Quarterly Survey of Business Opinion showed a net 35% of businesses expecting to increase their selling prices over the coming quarter which was almost twice the 10 year average, intentions of investment in plant machinery and equipment were a net 3% positive versus 10 year average of 1%, and employment intentions were a net 11% positive versus average 2%. Importantly, the capacity utilisation rate remained above average at 91.6% compared with a 10 year average reading of 90.4%. And formal proof as it were that the domestic economy is not collapsing came with the net proportion of businesses expecting their domestic trading activity to improve in seasonally adjusted terms easing to 13% in the June quarter from 17% in the March quarter. But this was only just below the average reading of a net 14.5% positive.

The consumers price index rose 0.3% more than the Reserve Bank expected in the June quarter gaining 1%. There is little evidence of a slowdown in the rate of growth in borrowing by the household sector. The annual rate of growth in household debt was 13.8% in May from 13.2% six months earlier and 14.1% a year ago. Importantly, in seasonally adjusted terms household borrowing grew by 1.1% in May which was exactly equal to average monthly growth over the previous year and in fact ahead of 1% growth in April.

The question now is whether this latest rise in the cash rate and the recent rise in the exchange rate will contain domestic inflation which is running at about 4%. Given the stimulus to our economy coming from rising dairy prices, easing fiscal policy with more to come in election year, infrastructure spending, a very tight labour market delivering good job security, wages growth and driving businesses to increase capital expenditure, and above average trading partner growth there is substantial offset to the obvious negatives.

One cannot rule out that the Reserve Bank will need to take the cash rate to 8.5% in the next few months and for that reason along with rising commodity prices further upside beckons for the Kiwi dollar it seems after today's weakness following the Reserve Bank's unexpected comment at the end of their statement that this time they feel they have taken the official cash rate high enough. Perhaps the most important point to make is that scope for an easing remains a long long way off.

What Would We Have Done?

Raise interest rates at a faster pace over 2004 and 2005 and made stronger statements warning New Zealand householders that we would create a strong downturn if necessary to get inflation under control and if that means pushing house prices down 5% or 10% then we would do it. Our expectation is that the use of this fear factor - which was not employed effectively by the Reserve Bank - would make people think twice about their spending and borrowing and therefore pressure on New Zealand resource use would have been less, inflationary pressures would at the moment be less, and the exchange rate would perhaps be 10 cents lower than it is at the moment. Note that the exchange rate would still be high because of the boom in our export commodity prices. What we would have done is run the risk of tightening too much rather than run the risk of not tightening enough.

As we have long pointed out, the Reserve Bank's inability to scare people in the past three and half years has been their main failing. And what is the cost of this consistent under-estimation of inflationary pressure and inadequate use of the fear weapon?

- Some extremely worrying debate about moving the Reserve Bank's focus away from low inflation which puts at risk New Zealand's credit rating.
- Air play given to interventionists aching to get their hands on the economy to direct money into their preferred areas.
- The export sector being crushed by an exchange rate perhaps 10 cents higher at the moment than would otherwise be the case.
- Long-term export and therefore economic growth prospects being damaged as companies are scared away from exporting because of knowledge that every now and then they will be slaughtered by a central bank relying on a sustained high exchange rate to fight inflation rather than quick hikes in interest rates.
- First-time buyers being squeezed out of the housing market by investors easily able to finance negatively geared housing purchases at low interest rates.
- A completely unnecessary review of monetary policy by one of parliaments select committees.
- Business margins being squeezed because of inflation settling at higher levels.
- Inflation averaging 2.7% p.a. the past four years – the highest such average since the four year period ending in 1993. The higher the inflation rate the greater the pressure on business costs and erosion of living standards – plus eventually the higher the average level of interest rates.

Raise GST To Lower Inflation – Huh?

A few people have put forward that old idea about slowing down growth in the domestic economy by raising GST. Sorry but that won't work. In an economy with full employment wages growth would accelerate as employees sought compensation for the rise in their cost of living. Immediately we have a problem because not everyone has the same bargaining power so lowly organised or low skilled people miss out. Businesses would face higher wage costs without higher prices so their margins would be squeezed. This would be a big problem for exporters as they have limited ability to raise prices. But domestic-focussed companies may be able to so we have a wage/price spiral starting.

Inflation is all about expectations and with headline inflation boosted from 2% to say 4.5% by a 2.5% GST increase we would see extra upward pressure on rents and fears of inflation getting cemented in causing people to seek inflation hedges such as houses.

Sorry but boosting inflation to reduce it does not work. An increase in income tax rates on the other hand would reduce inflation. But again with full employment wages growth would accelerate. Funny how no-one suggests raising personal income tax rates. It is always GST.

Is There A Silver Bullet?

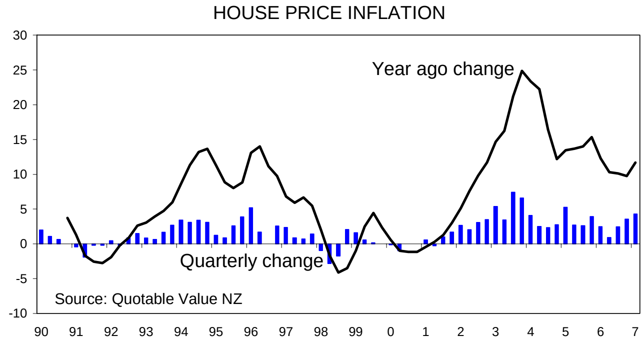
Probably Not. But raising the withholding tax applied to foreign investors lending money to Kiwi entities could be a useful place to start things. Interest rates would rise but the NZD fall due to reduced returns to foreign investors. (eJournal of Tax Research, Volume 4, number 1, August 2006, McCann and Edgar.)

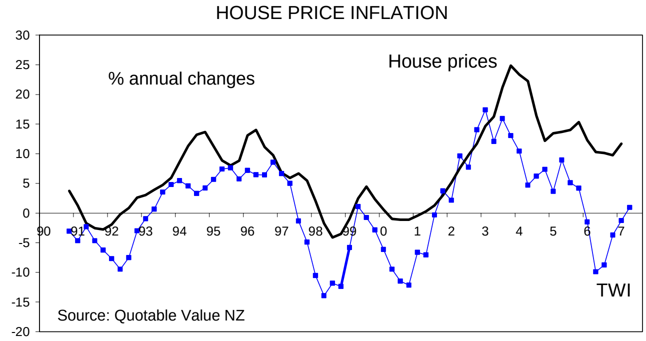
THE WEEK'S ECONOMIC DEVELOPMENTS

Friday 20

House Prices Rising - Therefore So Too Is the Kiwi Dollar

House prices in New Zealand on average during the March quarter rose by 4.3% according to the belatedly released data from Quotable Value New Zealand. These numbers are more comprehensive than the monthly one's released by the REINZ but because they are so extraordinarily out of date they aren't much use for gauging the current state of the economy. Having said that the increase was about 1% more than the Reserve Bank had estimated therefore yet again we have a nasty inflation surprise for the RB and continued upside risks to overall inflation, interest rates, and the exchange rate. House prices in the March quarter were on average 11.7% ahead of the year earlier. We can see this in the first graph below. The second graph compares the annual rate of change in house prices with the annual change in the trade weighted index. Notice the correlation. The clear indication is something we have mentioned many times before. If you expect the exchange rate to be a falling away strongly you must also be expecting house price inflation to approach zero. And if you expect house prices to flatten out or four then you should also be expecting the exchange rate to fall away strongly perhaps by 15%.

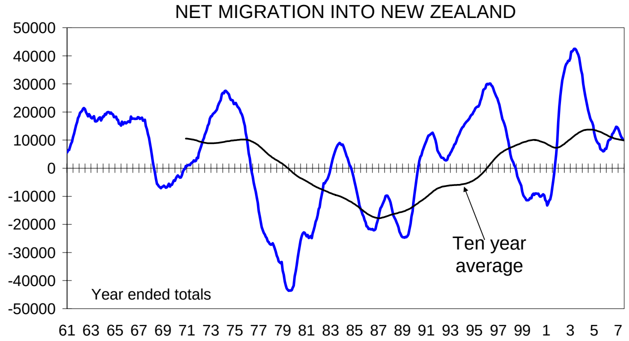


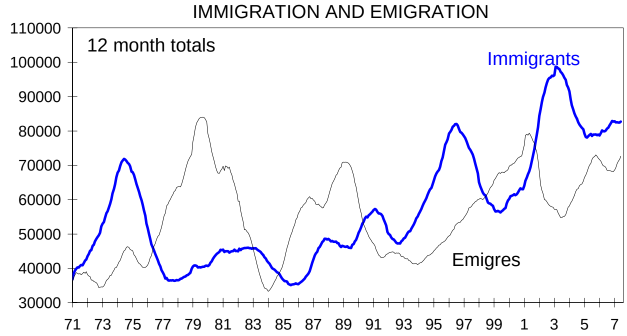


It's a pity that we didn't pay more attention to this graph in the middle of last year when house prices were still tracking along with a 10% annual growth rate but the TWI had fallen about 10%. We should either have concluded that house prices were going to fall away - and we did not expect that - or that the exchange rate was going to rebound. That is the bit we should have picked. What this means now is that if house prices keep rising so too will the exchange rate. https://www.qv.co.nz/

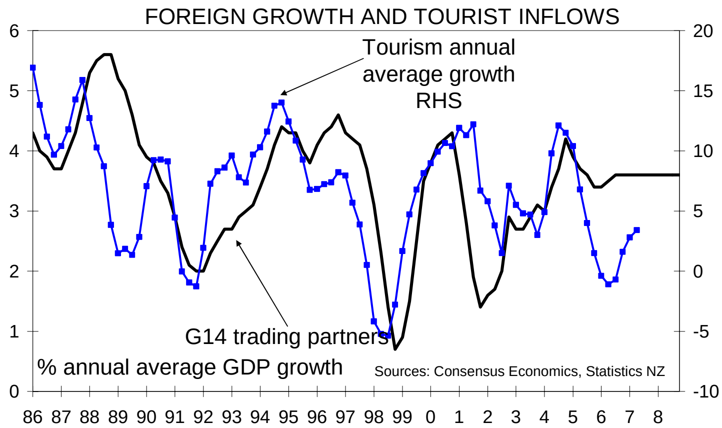
Migration Steady

There was a net loss to the New Zealand population from permanent and long-term migration flows in June of 380 people. This was 600 more than a year ago and means that the annual net migration gain now stands at 10,080 compared with 10,680 in May, 10,690 a year ago, and an average gain over the past 10 years of 9,966 people. In the three months to June the number of people shifting to New Zealand was up by 1% from a year earlier, but the number of people leaving was up by 12.4%. On the face of that things look pretty average. But in seasonally adjusted terms in recent months the annual net migration gain has been running at about 5,000 people. So the truth is that we are in fact in a slightly below average period and this will be taking some strength away from the housing market while also however applying extra upward pressure to wages because of the extra tightness created in the labour market.



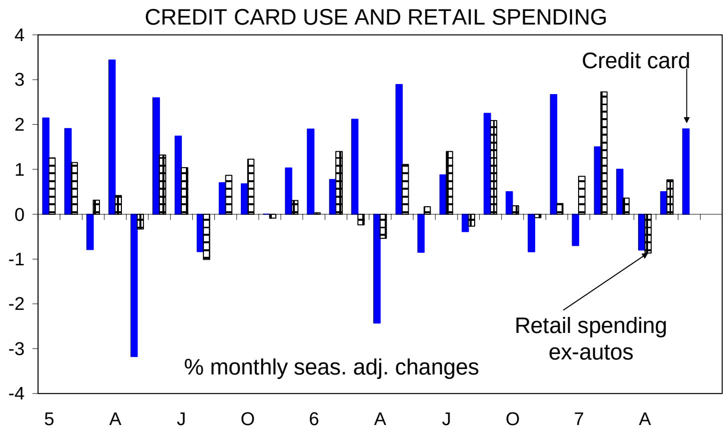


With regard to tourist flows number of visitors to New Zealand in June was up 4% from a year earlier, in the three months to June the increase was 2.7% from a year earlier, and in the year to June the increase was 3.4%. So there is growth in the number of people visiting New Zealand though it is not particularly strong. The evidence from industry participants suggests a decreasing average length of stay and decreasing average spend per day so overall the tourism sector is probably experiencing a small decline in revenues at the moment. While the high level of the Kiwi dollar will be discouraging a number of people from visiting here it pays to remember that the main determinant of changes in the number of people coming to New Zealand is changes in the rate of growth of our trading partners and in that regard things look supportive of reasonable growth in tourist numbers going forward but nothing spectacular. http://www.stats.govt.nz



Credit Card Spending Increases Strongly in June

In a further sign that households are not yet aggressively worried about the increase in interest rates under way figures from the Reserve Bank show that in June in seasonally adjusted terms spending on credit cards rose by a relatively strong 1.9% and was 9.1% ahead of a year earlier.. The graph below shows that retail spending usually changes in the same direction as credit card spending by the magnitude of change can be quite different. http://www.rbnz.govt.nz/statistics/monfin/c13/data.html



Wednesday 25

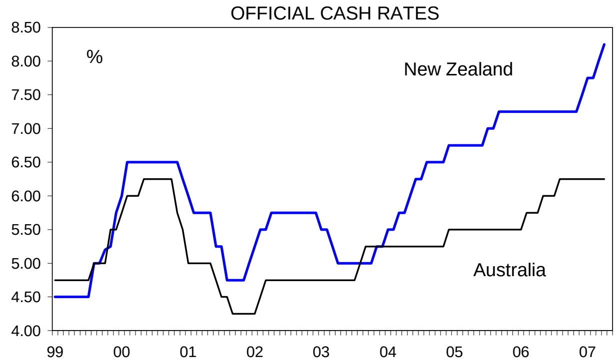
Positive Dairy News Continues

Fonterra announced a further increase in their payout for the dairy season just gone taking it to $4.46 from the previously estimated $4.35. They have retained their prediction for the coming season of $5.53 though will undertake an early review of this number in light of the strong rise in the exchange rate and the very strong jump in international commodity prices.

Thursday 26

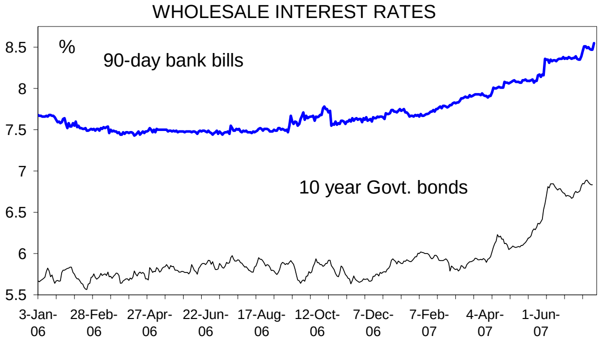
Monetary Policy Tightened Again

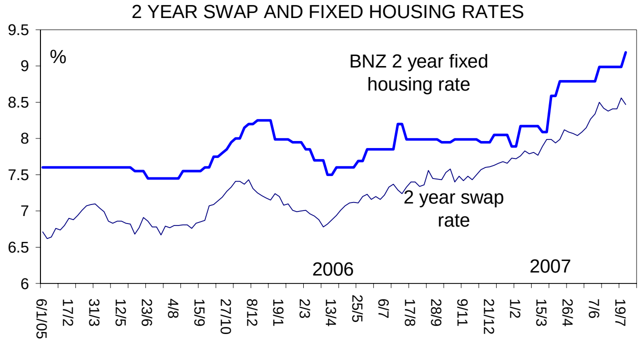
The Reserve Bank increased the official cash rate 0.25% to 8.25%. Rate rises since January 2004 now total 3.25%. While the Reserve Bank noted that they expect sustained inflationary pressures in New Zealand and that the economy is in a good state they feel that as long as resource pressures continue to diminish (we question whether they really are) and debt growth continues to slow down the four rate rises they have done so far this year will be enough. We would advise against excessive optimism that no further rate rise will be required. But more importantly no one should be anticipating the Reserve Bank cutting interest rates for a potentially long period of time and in fact that is exactly what they have signalled by noting "However, the continued tight labour market, high capacity use, and rising oil and food prices all point to **sustained inflationary pressures**." http://www.rbnz.govt.nz/



INTEREST RATES

Fixed wholesale interest rates have rallied slightly this week in spite of the Reserve Bank increasing the official cash rate 0.25% to 8.25%. The Reserve Bank noted that the New Zealand economy is strong and that they expect "…sustained inflationary pressures." However as we have seen them do in the past the Reserve Bank have blinked and taken their foot off the throat of the domestic economy by signaling that they don't believe they will need to raise interest rates again. Specifically they said "…we think the four successive OCR increases we have delivered will be sufficient to contain inflation."





This comment at the end of their statement was not what the markets were expecting but it is consistent with their previously revealed unwillingness to finish the job when their rate rises are getting traction. That failure to implement policy correctly is why the NZD is nearer 80 cents than 70 cents.

We have seen the important two year swap rate at which we banks borrow to lend fixed for two year periods end near 8.49% from 8.56% last week. This is still fairly high and not much of a rally. Because the markets had not completely factored in an OCR increase this morning we have seen 90-day bank bills end slightly higher than last week at 8.55% from 8.49%.

We still believe there is a 20% to 30% chance the Reserve Bank will need to raise the cash rate again. And in case you have suddenly become very confident that there will not be another rate rise go back to page 1 of the WO where we detail the RB's previous statements of confidence at OCR levels of 6.5% and 7.25% that the job was finished.

If I Were a Borrower What Would I Do?

First of all I really wouldn't be paying any attention to a lot of the material being written and spoken about the best move being the Reserve Bank cutting interest rates. Our economy is short of resources. There is a boom happening in the sector which makes the largest contribution to our export income. Productivity growth in the economy is poor. The domestic economy refuses to bow down in the face of rising interest rates. And our central bank has shown that it is not bold enough to raise interest rates quickly in a short space of time in order to get the inflation fighting job over and done with in a hurry so things can settle down including the exchange rate.

This means interest rates could still rise further and it is unlikely we are going to see any substantial declines for a long period of time. For that reason I would not be looking at taking out a floating interest rate or going one-year fixed unless I faced some special circumstances such as anticipating repaying my loan in a short period of time. I would probably fix for a two year period at the moment but would also keep my eye out in case anyone was offering a nice discounted three-year rate. I would generally not be looking at anything beyond two years except in the case of a special rate.

BNZ Fixed Lending Interest Rates

Housing		Average Past 5 yrs	Low Past	High 5 years
Float	10.30%	8.34%	6.70%	10.30%
1 yr	9.30	7.45	6.20	9.30
2	9.19	7.41	5.99	9.19
3	9.00	7.56	6.30	9.15
4	9.00	7.63	6.40	9.05
5	8.90	7.63	6.50	8.90
7	8.90	7.77	6.75	8.90

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

HOUSING MARKET UPDATE

We continue to receive anecdotal evidence that investors are backing away from the housing market in light of rising debt servicing costs. But we also continue to hear about a shortage of stock in the Auckland apartment market (such an interesting phenomena that one) and shortages of listings generally in many parts of the country although buyers are less willing to pay top dollar straight away. We believe there is an easing under way in the housing market which will produce a fall in dwelling sales over the coming year but prices on average will probably still rise a small percentage given our belief that there is a perception of a shortage of dwellings in New Zealand along with support from the strong labour market.

In addition, with the Reserve Bank signaling their belief that they won't need to raise the cash rate again the chances of a solid round of increases in housing fixed interest rates at the moment have diminished. In fact many borrowers are now likely to start thinking that this is as bad as it gets. This is where the Reserve Bank fails. They need to inject uncertainty into the minds of borrowers about what their costs are going to be in the future and because of that uncertainty people will restrict how much debt they take on board. Today's signal from the Reserve Bank is that people can plan their worst case cash flows with confidence and this is going to support the housing market.

EXCHANGE RATES

Here are two thoughts to keep in mind with respect to prospects for the Kiwi dollar in light of its role as a commodity currency. Last week news came out that the Chinese economy grew by 11.9% in the year to June. This was much stronger than people were expecting and given that the growth in the Chinese economy is a prime source of upward pressure on commodity prices this implies continued good support for these prices. In addition we have seen discussion during the week about rising food prices generally. An index followed by the International Monetary Fund has increased by 23% over the past 18 months leading to worries about rising inflation around the world and pressure for central banks to raise their interest rates. The positive out of this of course for New Zealand is that higher food prices will be good for our export receipts and while interest rate rises overseas will offset marginally interest rate rises in New Zealand the overall net stimulus to our economy from rising export prices implies upward pressure on the Kiwi dollar.

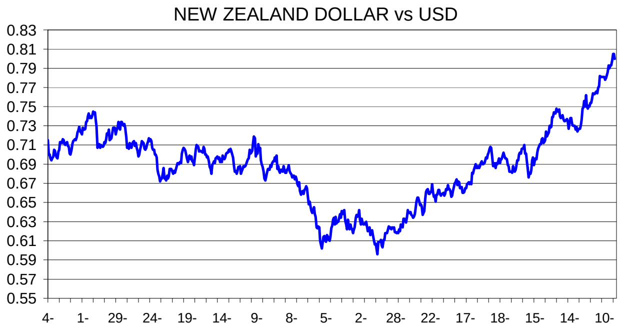
Another factor of relevance to the Kiwi dollar is the state of global share markets. When these are rising risk aversion tends to be low so people are interested in the carry trade whereby they borrow in Japanese yen and invest in high yielding currencies like the Kiwi dollar. The sharemarkets have done well so far this year and although there were some negative surprises the quarterly profit reporting season in the United States was not all that bad. Importantly, as yet there is no contagion effect from the troubles in the sub-prime mortgage market although one should keep a very close eye on developments there.

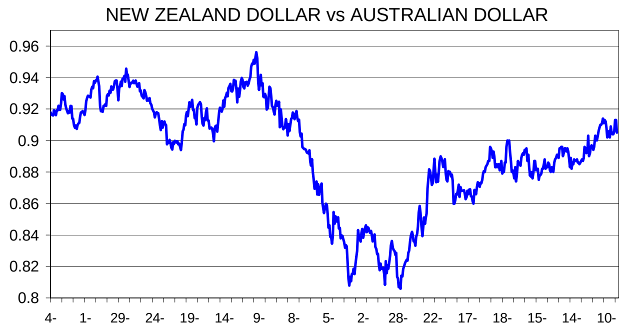
Then of course there is the other factor which we tend not to mention here because of our focus on the Kiwi dollar and what is happening in New Zealand. The other side of the exchange rate equation, the greenback, is weak. It was very pleasing to see the Finance Minister the other day in Parliament noting that there is absolutely nothing he can do about this weakness in the greenback. We read this as him pulling back from giving some sort of hint about stopping the Reserve Bank from targeting low inflation in order to try and get the Kiwi dollar down. Perhaps he realised that his earlier comments may have led to some wild speculative thinking on the part of other Members of Parliament about what the government could to influence the exchange rate and his comments about the US dollar may have been aimed at stopping some ground swell of support for interventionist but ultimately destructive policies.

In that light, the most positive development during the week was the set of comments from the Prime Minister making it clear that the Finance Minister would not be using his powers to intervene and force the Reserve Bank not to raise interest rates. She said that Dr Cullen had given “ no consideration” to intervention and made the logical comment “ From the long-term point of view the challenge for New Zealand is to be able to trade profitably at higher levels of the dollar”. Well done Helen.

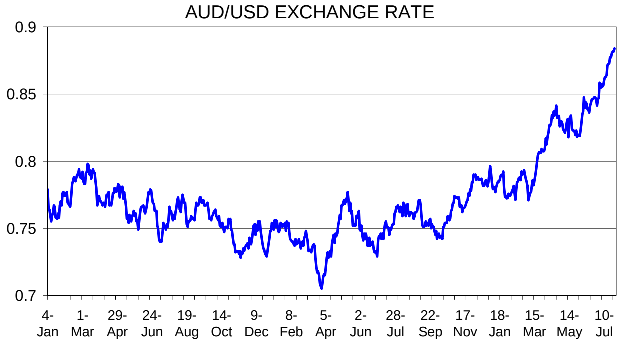
As a matter of interest did you know that over the past 22 years when the Kiwi dollar has been floating the average exchange rate between the New Zealand dollar and the United States dollar has been approximately 58 cents. We are currently about 40% above that average. If we were 40% above the average rate of exchange between the Kiwi and Australian currencies then we would not be trading near the current 91 cents but instead would be approximately $1.16. Against the pound we would be at 50 pence, 102 yen, and 71.6 cents against the euro. So a large part of the high NZD story is the weak USD.

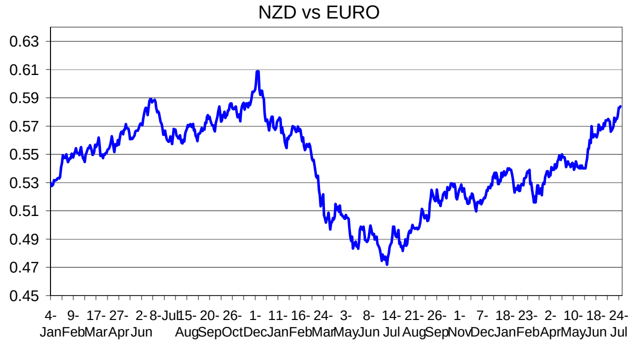
For exporters, apart from those in the dairy sector, it has been another week of disappointment with the Kiwi dollar rising to end this afternoon just below 80 US cents compared with 79.3 cents a week ago. The Kiwi dollar has been lifted by the factors mentioned just above along with stop-loss buying once the 80 cent level was broken on Monday, fresh euro Kiwi bond issuance, and the multibillion-dollar bid for Auckland International airport from offshore. In addition the Kiwi dollar has received support during the week by a continuing stream of positive economic data including a large 1.9% rise in credit card spending in June and data showing house prices rose at a faster rate than the Reserve Bank had estimated in the March quarter. Ahead of this morning's official cash rate review the currency was trading around 80.3 cents and we have finished just over 80 cents this afternoon having traded above 81 cents earlier in the week.

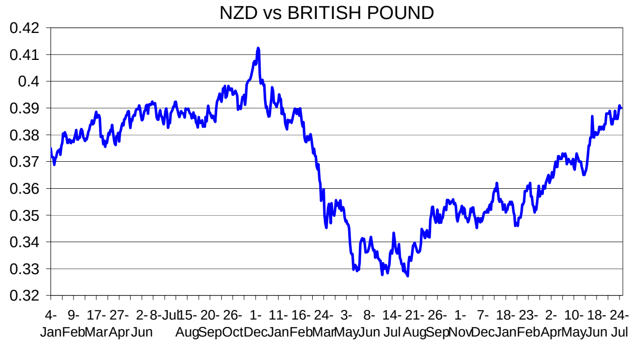


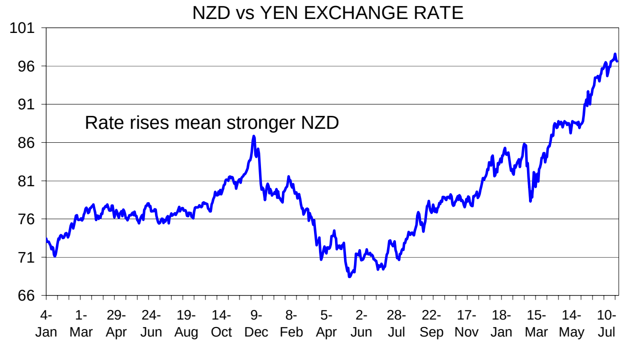


Across the Tasman the AUD received support this week from the June quarter CPI numbers coming in higher than expected. The markets had expected the underlying inflation rate during the quarter to come in between 0.6% and 0.8% but instead it came in at 0.93% and the chances are now strong that in two weeks time the Reserve Bank of Australia will raise their cash rate another 0.25%. This will take it to 6.5% compared with 4.75% late in 2003.



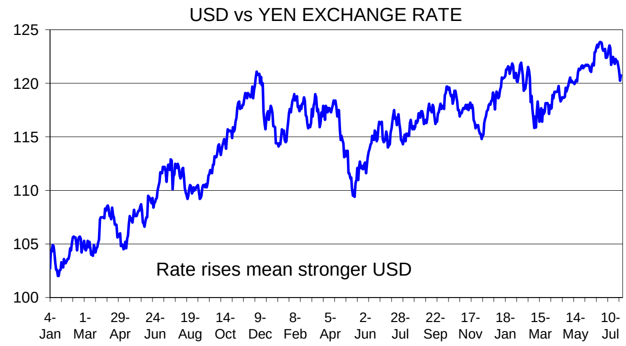


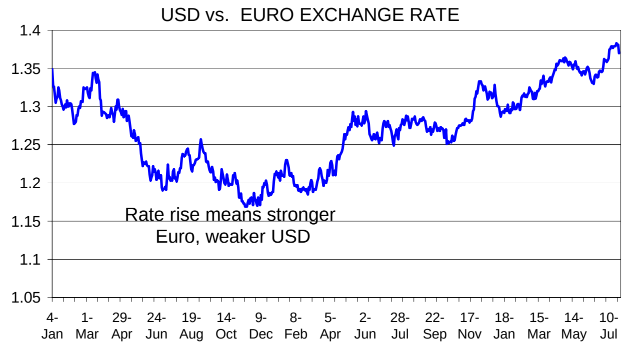


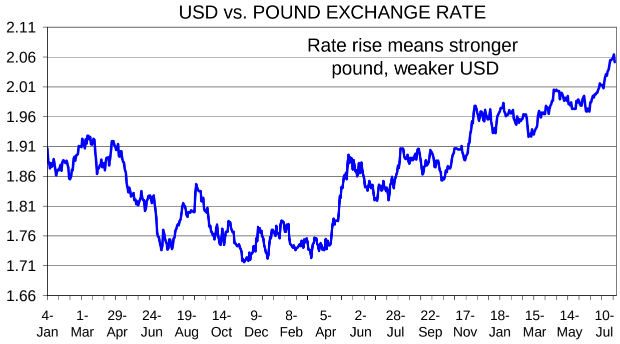


With the markets now increasingly expecting a rate rise in Australia the Aussie dollar has finished the afternoon against the greenback near 88.4 cents from 87.7 cents last week. The rise in the Australian currency means that the Kiwi dollar is virtually unchanged against it from a week ago near 90.5 cents. Against the Japanese yen we have ended at 96.6 from 96.8, the euro 58.4 cents from 57.5 cents, and the pound 39 pence from 38.6 pence.

It has been a mixed week for the greenback initially losing ground on the back of worries about the US sharemarket and the southern prime mortgage market. But some of these concerns have backed off overnight and against the pound the greenback has ended largely unchanged from a week ago near $2.05. Six months ago this rate was $1.97. Against the Japanese yen the greenback has ended weaker near 120.8 from 122.1 last week and 121.3 six months ago. Against the euro the US dollar has ended at $1.37 from $1.38 last week and $1.29 six months ago.







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

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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	1.0%	0.5	2.0	4.0	2.9
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	+10,080	12,090yr	......	10,690	8,599
Tourism - yr ago grth	10 year average growth = 5.0%. Stats NZ	4.0	5.4	3.4	-1.1	6.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-10	-8	-10	-30	-7
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	-3.0 adj	-3.7	19.4	5.0	-4.1
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%	9.00	8.80	7.99	7.75	7.55

ECONOMIC FORECASTS

Forecasts at June 21 2007	**March Years** 2005	2006	2007	2008	2009	**December Years** 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 (Not forecasts)										
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.