Bank of New Zealand

BNZ Weekly Overview

30 August 2007

FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	8.25%	8.25	8.00	7.75	7.25	6.2
90-day bank bill	8.60%	8.80	8.55	8.16	7.50	6.4
10 year govt. bond	6.32%	6.40	6.61	6.37	5.79	6.5
1 year swap	8.50%	8.64	8.66	8.33	7.59	6.6
5 year swap	7.89%	7.94	8.10	7.96	6.94	7.0
NZD/USD	0.703	0.712	0.762	0.727	0.644	.567
NZD/AUD	0.859	0.873	0.896	0.888	0.845	.859
NZD/JPY	81.4	82.5	90.2	88.5	75.2	66.1
NZD/GBP	0.35	0.356	0.376	0.367	0.339	.342
NZD/EURO	0.515	0.525	0.559	0.54	0.501	.51

For addition to our emailing list for Thursday night receipt email "Subscribe WO" to tony.alexander@bnz.co.nz . To get off the list email 'Unsubscribe".

More Volatility

Please note that due to tramping requirements there will be no Weekly Overview next week. The WO and monthly survey will return in a fortnight on September 13.

This week we have seen the return of concerns about the United States housing market, its impact on the overall US economy, and the global liquidity crisis. Particular news items which have generated a fresh surge in concern include a large mortgage lender in the US filing for bankruptcy, announcements by some managed funds of hefty exposure to asset-backed commercial paper (secured over property), rumours about a handful of large financial institutions, data showing falling US house prices, and a sharp fall in consumer confidence in the US this month.

As we noted last week there remains a lot of water to go under the global liquidity crisis bridge in coming weeks if not months and until far greater certainty surrounds who will ultimately bear the losses from the falling US housing market high volatility is likely. This means volatility in sharemarkets and exchange rates in particular.

For instance just this past week we have seen an initial easing of concern cause a lift in investor willingness to reinstate carry trades and generally buy risky assets like shares and peripheral currencies such as the NZD. At one point on Monday the NZD was close to US 72.5 cents from below 67 cents a week and a half ago. But this afternoon the NZD has ended near 70.3 due to a fresh surge in investor concern.

For the immediate future one suspects downside risks dominate. But eventually things will settle down and markets will stabilise. When that happens the NZD may easily settle higher than current levels given very strong support from our high interest rates and very high export commodity prices.

On another front, the new surge in investor caution has produced a fresh flow of money into government securities with growing expectations of easing US monetary policy placing downward pressure on the swap rates facing us NZ banks.

This is perhaps an important thing to note. Most commentators have written in terms of NZ mortgage rates going up because of investor caution. But what they are missing is the downward pressure on interest rates due to a change in monetary policy expectations. For instance here in New Zealand it is now extremely unlikely that the RB will be tightening monetary policy again this cycle. In the US we expect three cuts in the funds rate before the end of the year. And the chances of a rise in the European Central Bank's cash rate next month have diminished.

As a result of these changes in monetary policy expectations outweighing generalised investor credit concerns we have seen our fixed borrowing costs fall. The two year swap rate now sits at 8.27% compared with 8.38% last week, 8.46% a fortnight ago, and 8.55% three weeks ago. The simple margin between the swap rate and our 9.19% two year fixed housing rate has increased from 64 points three weeks ago to over 90 points now. The chances are high that fixed housing interest rates in New Zealand will be cut in coming weeks – not raised.

This then brings a return of the interesting scenario seen late in 2001 and through 2002, then again over 2003. Our central bank cut interest rates in response to nasty events offshore which didn't hit our economy much if at all. Our economy was actually stimulated after the September 2001 terrorist attacks and early 2003 SARS outbreak and Iraq War because of a sharp easing in monetary policy.

We don't expect such an easing this time around. However what happens with fixed housing rates here depends a lot on what happens with swap rates which depends a lot on expectations of changes in United States policy.

The chances are we have seen the worst interest rate environment this cycle facing NZ borrowers including house buyers. This doesn't for a second mean we thing big interest rate falls are coming. The RB is unlikely to ease monetary policy until late next year and will be very careful about how much they eventually cut rates in an environment of continuing NZ resource shortages. And because world growth remains strongly underpinned by economies other than the United States we don't think the extent of the Fed. easing will be huge and the downward pressure on our swap rates all that large.

So a fresh upturn in our housing market does not beckon at all. But the extent of the cyclical decline which now appears more solidly underway than at any time since early-2004 will possibly be mitigated – though not stopped.

Liquidity Crisis and the Major Banks

One of the issues regarding the liquidity crisis overseas and smaller versions of it here in New Zealand and Australia is the impact it will have on the major banks. On the face of it one might think that problems in the financial markets would hit the banking industry. This would certainly be true to the extent that the liquidity crisis turns into a credit crunch which leads to far slower growth in the economy therefore a sharp reduction in demand for funds from all business and household sectors. But those noting that banks may benefit are focusing on something different.

For instance one way banks would benefit is a shift in where investors put their money away from high risk and slightly higher yielding institutions and corporate bonds towards bank term deposits - which interestingly at the moment are at relatively high yields. The rating agencies like Standard and Poors and Moodys are always indicating to banks are they would like to see an expansion in their retail deposit base. So to the extent we see investors place a greater proportion of their funds with banks this will not only contribute to a small reduction in our overseas funding but also be greeted positively by those credit rating agencies perhaps somewhere down the track with positive implications for actual credit ratings.

The other way in which the liquidity crisis may benefit banks is the business sector having to borrow from banks rather than issue their own bonds directly to investors. The process of disintermediation whereby companies fund directly from the market has been going on over the past two or three decades around the world but there are now signs of reintermediation emerging. Companies are finding it difficult to get finance they want at a reasonable price directly from the public overseas so are starting to talk with banks about financing instead.

We have seen a version of this disintermediation in New Zealand over the past few years with regard to the inner-city Auckland apartment market. We banks have been quite unwilling to lend money for these developments so instead the developers have been selling units directly to the public sometimes with things like $1000 deposit schemes and two-year rent guarantees. It is fair to say that the risk assessment process of individual investors is inferior compared with that of us banks so its not surprising that many people have been losing money in this particular property market over the past couple of years while the overall New Zealand housing market has been marching firmly upward.

Perhaps major banks may also benefit from the shares which investors choose to gain their financial industry exposure. We may see some reallocation of managed funds investments away from the more peripheral financial institutions back towards the major four banks in Australia and perhaps overseas as well.

Maybe one could also run an argument that bank margins for fixed-rate lending could increase in this environment. But that could be a big stretch really. You would only expect to see that happen if peripheral lenders in the housing market were to scale back their activity. Yet most of the lending for house purchases in New Zealand is undertaken by the major banks so if there is any easing off in lending by smaller institutions the impact on margins is likely to be minimal and probably completely lost in the wash amidst general competitive pressures between banks - which have been quite strong in recent years.

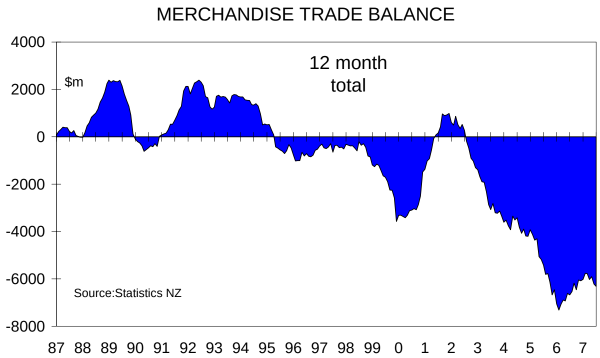
All these things may happen but it's fairly clear that taking an optimistic view of the events overseas and our version of them here would not be particularly wise when there is a lot of water still to go under the bridge with regard to the international liquidity crisis. Some people for instance are talking in terms of only 20% of the problems in the United States sub-prime mortgage market being so far revealed and that there is a great tide of problems yet to appear. So drawing conclusions about who may be the winners and who the ultimate losers from what is happening is very premature.

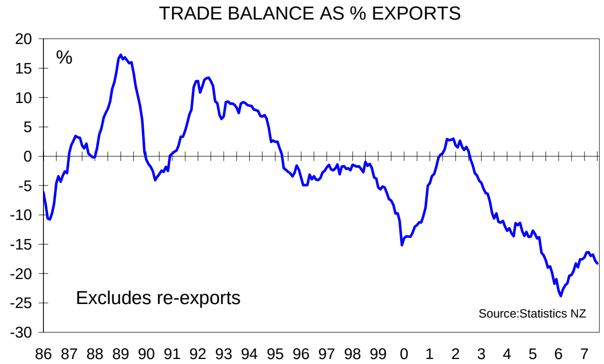
THE WEEK'S ECONOMIC DEVELOPMENTS

Friday 24

Foreign Trade Deficit Remains Large

The merchandise trade account recorded a deficit in July of $791 million compared with $693 million a year earlier. The annual trade deficit now stands at $6.3 billion compared with $6.7 billion a year ago and a peak of $7.3 billion in the year to February 2006. In the three months to July the value of export receipts was down by 9.2% from a year earlier while import payments were down by 5.6%. These numbers sound bad but we have to remember that we are talking about a period when the Kiwi was trading near $.80 against the greenback compared with about $.60 a year earlier. Exchange rate changes have introduced sharp alterations in the rate of growth for both import and export numbers. Having said that the trade deficit is increasing again and this suggests a continued high level for New Zealand's current account deficit in the near future. The latest reading for the deficit was 9% of GDP in the year to March 2007. http://www.stats.govt.nz/default.htm





Dairy Payout Booms

Fonterra announced an increase in the projected payout for this season to $6.40 per kilogram of milksolids from the previously announced $5.53 in late May. Last season's payout was $4.46. This means milksolids payouts will inject about $8 billion into the economy with the increase from last season equal to almost $2.50 billion. With total gross domestic product in the New Zealand economy running at just over $160 billion this represents a positive growth shock equal to almost 1.5% of GDP. International dairy prices are booming as a result of factors such as the removal of subsidies in Europe, drought conditions affecting production in Australia, Europe, and the United States, a growing world economy and population increasing demand for protein, Westernisation of Asian diets, and increasing dairy production costs overseas as grain prices have more than doubled in the past year due to be demands for grain for ethanol production.

The dairy boom is going to benefit our economy in many ways and of course throw up challenges for those not directly exposed to the dairying sector. For a start dairy farmers will benefit and while many will repay debt it would be silly not to expect an increase in purchases of motor vehicles, televisions, domestic and overseas holidays, household appliances generally, plus sending the kids to more expensive boarding schools. We can also expect to see dairy farmers increasing the use of supplements to boost milk production thus improving the fortunes of companies making various powder supplements along with fertiliser companies. Higher wages are likely for employees in the dairying sector and this is going to provide a significant challenge for all other primary sector operators as people wanting to work in the countryside are attracted to the dairying sector which now has high ability to pay wages in a tight labour market in order to get the people they want.

We can expect a general upgrade of labourers quarters and such-like along with a general focus on capital intensification of dairying operations including more efficient milking sheds, paddock layouts, and perhaps greater investment in stock breeding.

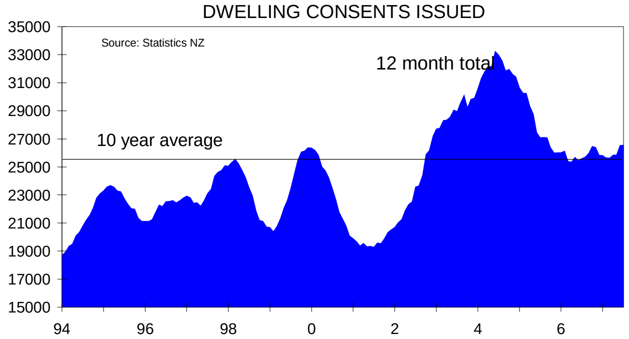
People invest in areas where they feel they can get superior returns and for that reason we likely to see people trying to get exposure to the booming dairying industry. Where possible land use is likely to increasingly move toward dairying and away from forestry, sheep and beef, venison, and perhaps horticulture. This will provide very strong business for companies involved in such conversions including making farm buildings and changing the contours of the land. Investors are likely to aggressively seek vehicles for gaining exposure to the dairy industry so we should expect to see such products appear over the next couple of years.

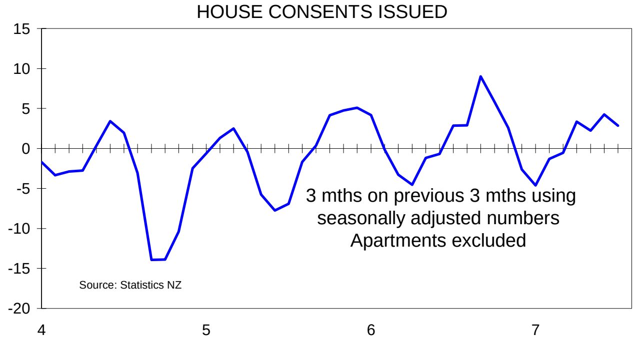
All other things being equal the dairy boom will place upward pressure on the Kiwi dollar plus keep interest rates at higher levels than would otherwise be the case. This will provide a challenge for all other exporters as we have been pointing out for a number of quarters now. The Kiwi dollar is partly a commodity currency and with the biggest commodity price boom now under way in New Zealand in over 30 years if your export industry is not enjoying soaring commodity prices your profitability will be challenged.

Thursday 30

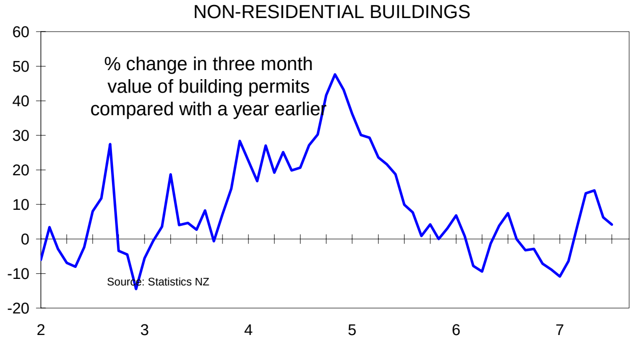
Construction Prospects Near Average

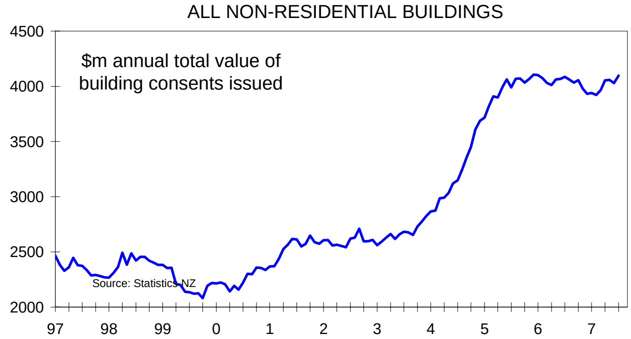
In seasonally adjusted terms the number of consents issued for the construction of new dwellings around New Zealand fell by a relatively strong 15.5% in July. However this followed a 14.1% rise in June which was caused by people getting consents in early to beat increased charges. As such the fall in July is not really unexpected. The volatility is in fact largely confined to apartments where consent numbers in July came in at 185 compared with 561 in June and 110 in May. To get a better picture of what is happening what we should do is confine ourselves just to houses. Doing that we see that in seasonally adjusted terms house consent numbers were down 1.3% in July after rising 0.2% in June and 2.6% in May. For the three months to July growth was 2.9% from the previous quarter which indicates a small upward trend is still in place. It is likely however that these numbers will be weakening slightly in the near future in a traditional lagged response to the decline in dwelling sales now under way. However we expect activity will remain at a relatively high level as is expected to happen for non-residential construction noted below.





The value of consents issued for the construction of non-residential buildings came in at $353 million in July. This was a very strong 24.7% increase from a year earlier and means that for the year to July 2% values were up by 0.3% from a year earlier and for the three months to July the gain from a year ago was 4.2%. Growth in activity continues in this sector which in nominal terms accounts for about $5 billion worth of construction activity per annum compared with about $11 billion for residential construction. Many businesses are finding that in an environment where they need to boost productivity because of a shortage of labour the best thing to do is get a new more efficient building. Having just spent five weeks travelling around New Zealand's countryside it is clear that construction activity is very strong almost everywhere around the country with new industrial estates on the outskirts of towns along with an upgrading of retail areas plus new office accommodation here and there. http://www.stats.govt.nz/default.htm

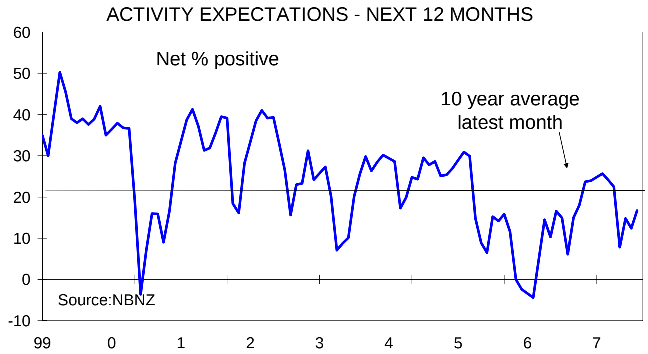


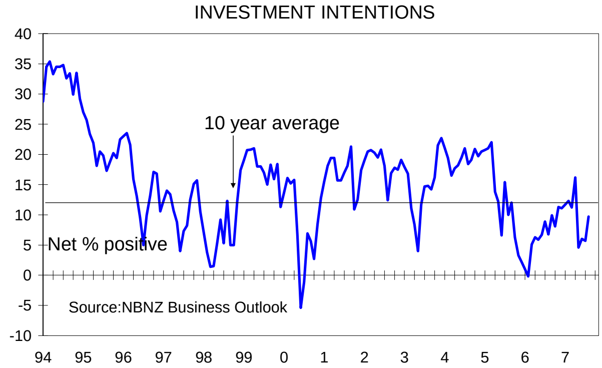


Business Sentiment Improves

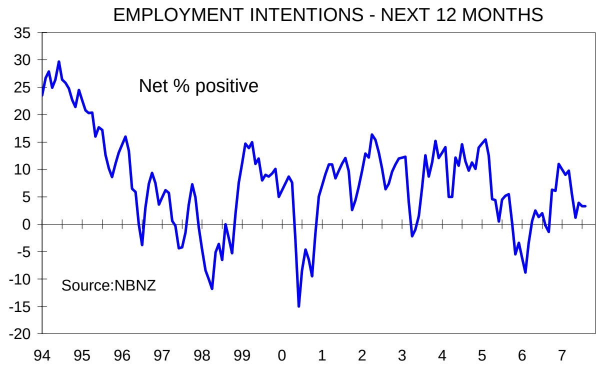
The monthly National Bank Business Outlook survey taken earlier this month reveals that in August a net 17% of respondents said they expect their own activity levels to improve over the next 12 months. This was a lift from a net 12% in July and the best reading in four months. On average over the past 10 years in August a net 22% of businesses have said they expect activity levels to rise therefore things continue to run at below average levels but it is important to note the recent improving trend in this indicator in spite of the

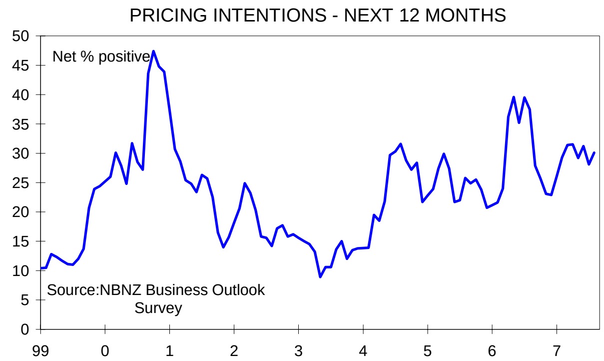
Reserve Bank's tightening of monetary policy and also in spite of the liquidity crisis overseas. What businesses are likely responding to is the expected stimulus to their exports as a result of the very strong fall in the currency over the past month along with very positive news on commodity prices.





The improved outlook for their our activity has led firms to increase their expectations of increasing investment to a net 9.7% positive in August from 5.7% in July and a 10 year average reading of 12%. Capacity utilisation expectations rose to a net 12.5% positive from 10.7% in July while employment expectations were unchanged at 3.3% versus a 10 year average of 3.6%. The Reserve Bank is likely to be slightly concerned by pricing intentions rising to 30.1% from 28.1% in July. Having said that one might have thought the rise would be bigger given the strong fall in the exchange rate. Manufacturers still remain fairly unhappy with only a net 16% expecting exports to improve over the coming year in spite of the fact that the main exchange rate of importance to them, the Kiwi against the Aussie dollar, is only just above long-term average levels while the Australian economy continues to boom.

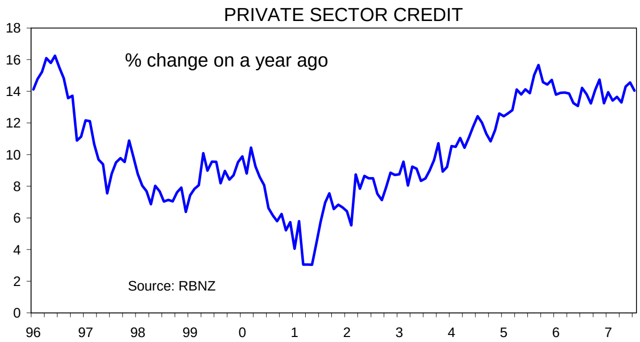


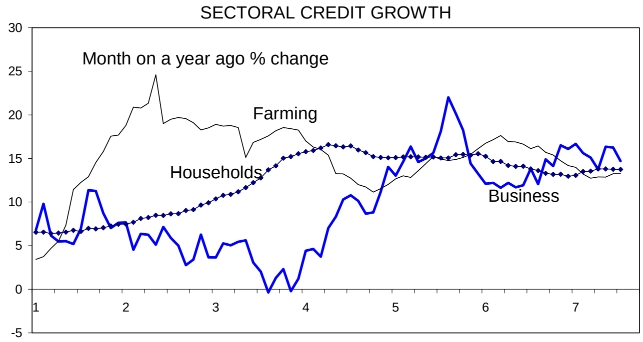


Our overall interpretation of the survey is that it suggests continuing growth in the New Zealand economy in the 2% to 2.5% range we have been speaking about for quite some time. But inflationary pressures remain firm and scope for any easing in monetary policy low.
http://www.nbnz.co.nz/economics/outlook/pdf/bo_2007_08.pdf

Lending Growth Slows down

Finally some evidence of a slowdown in household debt growth has emerged with the seasonally adjusted rate of increase in household debt slowing to 0.9% in July from 1.1% in each of the previous three months and average growth of 1.1% per month over the past year. The annual rate of growth in lending to the household sector was 13.7% in July from 13.8% in June and 13.8% a year earlier. The annual rate of growth in lending to the business sector was 14.7% in July from 16.2% in June and 13.8% a year earlier. In the three months to July lending to the business sector increased almost $1 billion more than over the same period a year earlier.





Annual growth in lending to the farming sector was 13.3% in July from 13.2% in June and 16.1% a year earlier. In the three months to July lending increased by $1.8 billion which was over $300 million stronger than over the same period a year earlier.

The annual rate of growth in lending to the private sector has now slowed to 14% from 14.6% in June and 14.2% a year earlier. http://www.rbnz.govt.nz/statistics/monfin/

INTEREST RATES

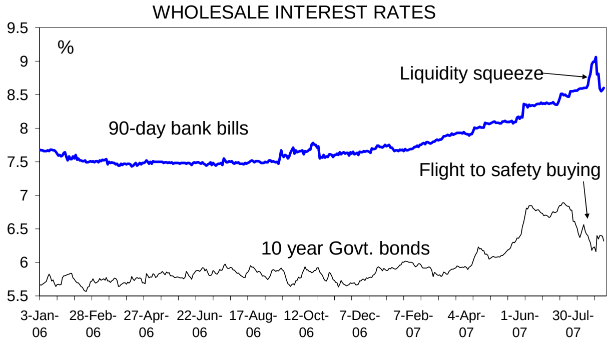
Wholesale interest rates have rallied this week mainly in response to two things. First of all the Reserve Bank's actions last week in allowing banks to discount bank bills with them to gain liquidity have caused the yield on 90 day bank bills to settle back down near 8.6% compared with 9.2% last week and 8.8% immediately after the Reserve Bank's change. In addition, although things remain highly volatile, there has been some easing of concerns about the liquidity crisis overseas - although a lot of water is yet to go under this particular bridge one suspects - and with the markets still expecting to see cuts in the United States Federal Reserve's funds rate before the end of the year rates facing New Zealand banks are now at their lowest levels in three months.

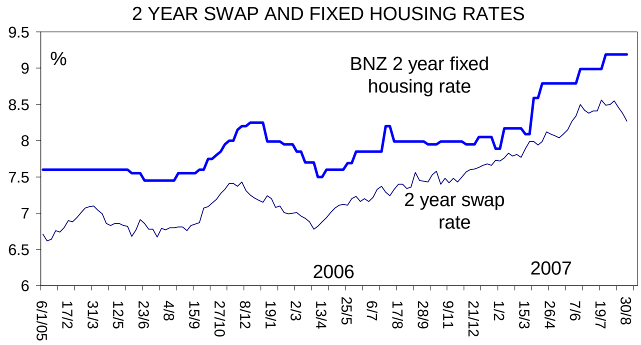
The two year swap rate for instance that we borrow at to lend fixed for two years is now sitting near 8.27% compared with 8.38% last week and 8.55% three weeks ago.

Looking ahead, in an environment where growth forecasts around the world are likely to be getting cut slightly we may see some further very mild downward pressure on fixed rate borrowing costs. But with regard to short term interest rates we feel the Reserve Bank will be quite reluctant to signal that they think any easing of monetary policy New Zealand is likely in the near future. They have made the mistake many times in the past of allowing the market to believe an easing is imminent therefore helping to underpin a fresh surge in growth in our economy. Already there are many people talking in terms of interest rates easing here and giving support for our housing market.

It is not really the housing market which is so important here however but rather the availability of resources. And after three and a half years of monetary policy tightening availability of things like electricity, road capacity, buildings, machinery, and labour still looks bad - especially with regard to labour. Taking into account the fiscal stimulus we know is going to come in election year 2008 along with the boom in the dairy sector we think it doubtful the Reserve Bank will be looking to cut interest rates before the middle of next year. Plus, as we have noted many times in the past, when they do get around to cutting interest rates unless we have entered a scenario of global recession the extent of those cuts is likely to be quite limited.

BNZ WEEKLY OVERVIEW





If I Were a Borrower What Would I Do?

With Spring almost upon us there seems a reasonable probability banks will discount some of their fixed lending rates in the next few weeks. My preference would still be for the two year term but I might hold off locking into that rate for a few days or weeks just to see what happens.

BNZ Fixed Lending Interest Rates

	Housing	**Average Past 5 yrs**	**Low Past 5 years**	**High 5 years**
Float	10.30%	8.34%	6.70%	10.30%
1 yr	9.40	7.45	6.20	9.40
2	9.19	7.41	5.99	9.19
3	9.10	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

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.

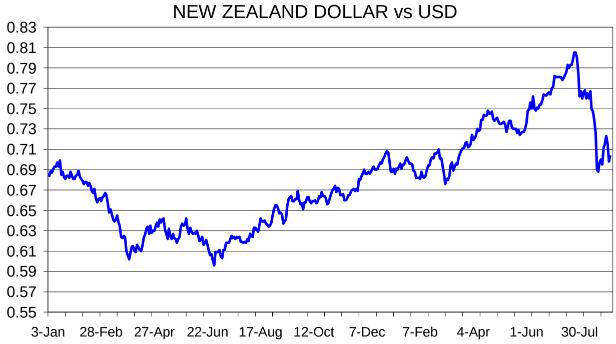
HOUSING MARKET UPDATE

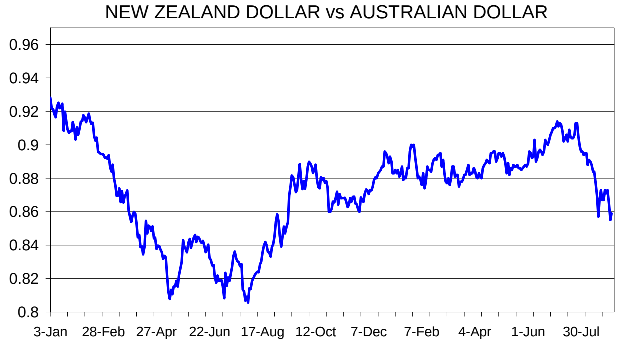
Apart from the monthly dwelling consent numbers we have received no fresh information on the housing market over the past week. We continue to receive anecdotes about things easing off but nothing too frightening.

For your guide the following URL shows changes in United States house prices over the past year. On average they are down 1.5%.
http://money.cnn.com/2007/08/16/real_estate/home_prices_fall_again/index.htm

EXCHANGE RATES

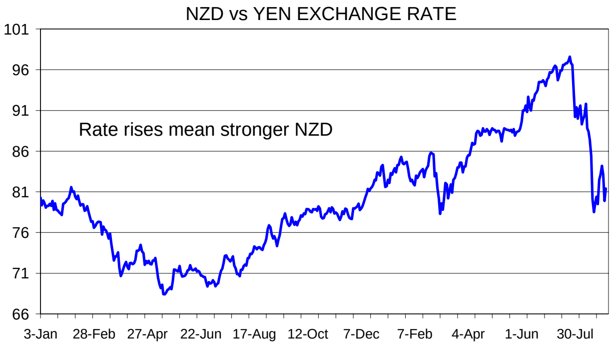
It has been quite a volatile week for the Kiwi dollar (no surprise there) with our rate of exchange against the greenback starting at 71.3 cents last Thursday night, peaking near 72.5 cents early this week on the back of a rally in share markets, then falling to near 69 cents for a while yesterday amidst a fresh wave of concerns about the liquidity crisis, then a recovery overnight to end this afternoon near 70.3 cents.

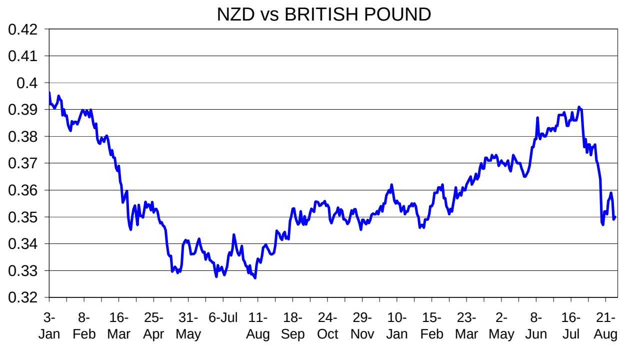


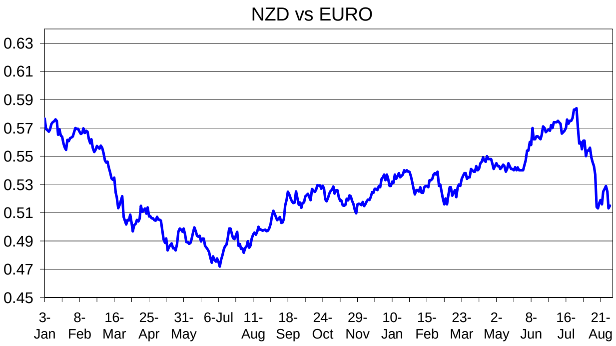


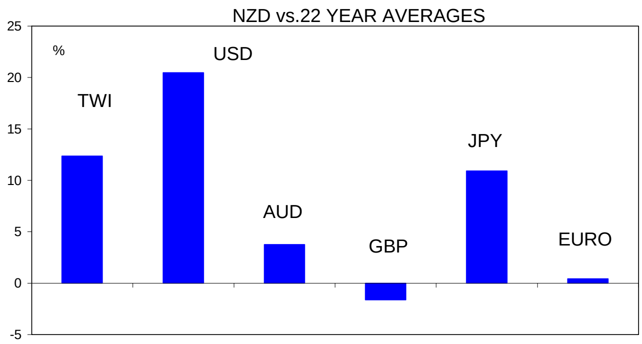
Against the Australian currency we have also finished down from a week earlier near 85.9 cents from 87.3 cents last week. Where we sit now the Kiwi dollar is only just above its 22 year average against the Australian dollar of 83 cents. So if you are an exporters sending goods to Australia and struggling at this exchange rate maybe you'd best find something else to do.

Against the Japanese yen we have ended the week near 81.4 from 82.5 last week (the 22 year average and 73), against the pound near 35 pence from 35.6 pence (with a 35.6 pence 22 year average), and against the euro near 51.5 cents from 52.5 cents last week.



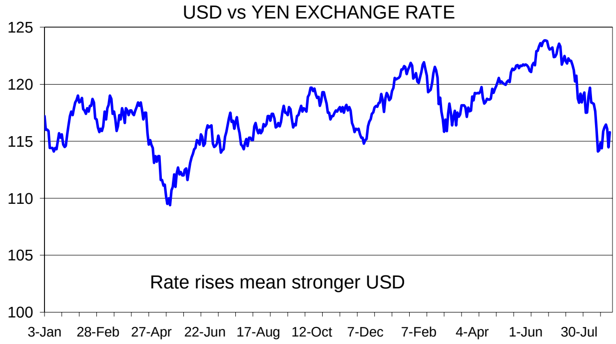


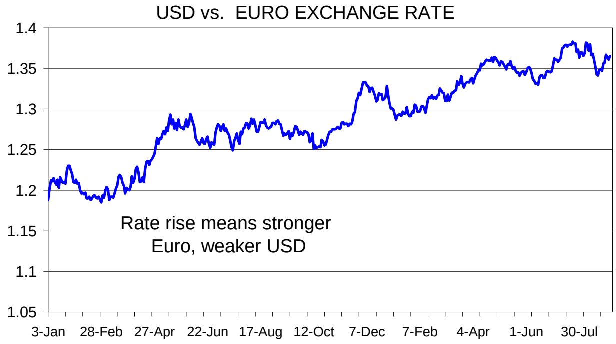


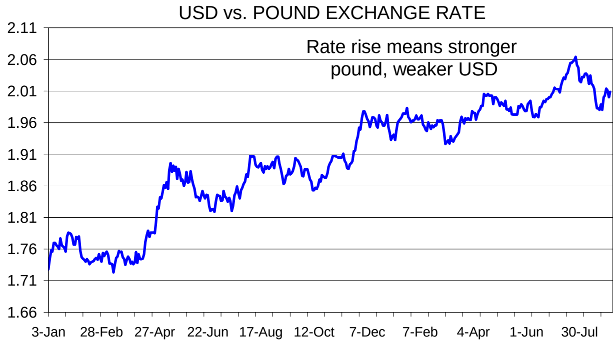


The US dollar has ended the week little changed against other major currencies with just small movements up and down reflecting frequent changes in sentiment regarding the liquidity crisis, its implications for the US economy, and what the Federal Reserve may do in coming months. Early in the week the US dollar gained some support after orders for durable goods in July rose a much stronger than expected 5.9% and data on new home sales for the month was also relatively firm. But then date emerged showing sales of existing homes were relatively weak with a huge stock of unsold properties. Plus consumer confidence as measured by the Conference Board fell sharply to a reading of 105.0 from 111.9 in July.

The US dollar has ended the week practically unchanged against the pound at $2.0, unchanged against the yen at 115.8, and weaker against the euro near $1.365 from $1.356 last week.







During the week an emailer asked us to explain hedging. Here was our brave attempt.

Say you export bags and have sold 10 priced at US$2 each. You will receive US$20. If payment is in three months time then you don't really know what that will mean to you in NZDs. Today at an exchange rate of about 70 cents it would get you NZ$28.57. But if the NZD rises so in three months time it takes 0.75 US$ to buy one NZD then you will only get NZ$26.67. If you prefer cash flow certainty you can enter into a contract with your bank to the effect that in three months time you will give them US$20 and they will give you Kiwi dollars. The rate at which this transaction will take place is calculated as the difference between NZ and US interest rates. NZ rates are above US rates so the rate you will lock in might be around 69.5 cents (just guessing but definitely lower than today's rate).

If in three month's time the NZD/USD exchange rate is above 69.5 cents you are better off. If the rate is below 69.5 cents you'd have done better not entering into the forward contract. Such a contract is one way of hedging yourself against the risk that the NZD rises.

Why is the locked in exchange rate below the current rate? The bank will set itself up for the deal as soon as it is written by selling USDs and buying NZDs. In three months time it gives you the NZDs it has bought and gets your USDs. Over the three month period the bank will earn the three month NZ interest rate while sacrificing the US three month rate. The bank is better off holding NZDs and passes some of that interest rate differential benefit onto you.

Why don't we do this all the time - just borrow in USDs and invest in NZD? Too much risk. If the NZD falls then when time comes to pay back the USDs we have borrowed we may make a large loss. The "carry trade" undertaken by foreign investors in recent years involves explicitly taking such a risk by borrowing in the lowest interest rate currency one can find - Japanese yen - and investing in a high interest rate currency like the NZD. These investors make much moolah while the NZD is rising. But if the NZD falls they lose big time. That is what has happened recently with people five weeks entering such a deal buying NZD at a cost of 97 yen. Now that rate of exchange is near 81 yen so they have lost a huge amount.

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	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%	3.6	3.7	......	3.6	3.7
Jobs growth	Average past 10 years = 1.9%	0.7	1.2	1.5	3.1	3.0
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%.	-0.8	3.6	5.5	4.8	7.0
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	+8,970	11,230yr	......	12,150	6,890
Tourism - yr ago grth	10 year average growth = 5.0%. Stats NZ	3.9	4.3	3.7	-0.9	5.3
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-8	-10	3	-29	8
Business activity exps	10 year average = 26%. NBNZ	16.7	12.4	25.7	6.1	14.2
Household debt	10 year average growth = 11.3%. RBNZ	13.7	13.8	13.1	13.8	15.0
Dwelling sales	10 year average growth = 3.5%. REINZ	-14.3	n/a	19.0	-5.3	5.3
Floating Mort. Rate	10 year average = 8.1%	10.55	10.30	9.55	9.55	9.00
3 yr fixed hsg rate	10 year average = 7.9%	9.10	9.00	8.15	7.99	7.45

ECONOMIC FORECASTS

Forecasts at Aug. 2 2007	**March Years**					**December Years**				
	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009
GDP - annual average % change										
Private Consumption	4.5	2.4	3.4	1.8	0.3	4.7	2.3	3.9	1.9	0.6
Government Consumption	5.1	4.2	2.9	3.5	3	4.3	4.5	3.1	3.4	3.2
Investment	4.2	-3.2	8.3	4	4.7	3.5	-2.7	7.4	4.2	4.5
GNE	4	0.7	4.8	2.8	1.9	4.1	0.7	4.6	3.1	2.1
Exports	-0.3	3.2	1	3.4	3.6	-0.6	1.9	2	2.7	3.7
Imports	4.1	-1.3	7.2	4.2	3.1	5.5	-2.5	7.4	4.3	3.2
GDP	2	1.7	2.9	2.3	1.9	2.2	1.5	3	2.3	2.1
Inflation – Consumers Price Index	3.3	2.5	2.9	3.7	3.2	3.2	2.6	3	3.3	3.4
Employment	2.6	1.7	1.4	0.9	1	1.5	1.4	2.3	1	0.9
Unemployment Rate %	3.9	3.8	3.6	4	4.4	3.6	3.7	3.6	3.9	4.3
Wages	4.6	5.5	5.1	4.5	3.6	5.1	5.5	5.2	4.7	3.8
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.64	0.7	0.71	0.63	0.6	0.7	0.69	0.73	0.65	0.59
USD/JPY	117	117	117	111	107	119	117	120	112	110
EUR/USD	1.2	1.32	1.35	1.28	1.23	1.19	1.32	1.36	1.3	1.24
NZD/AUD	0.87	0.88	0.86	0.81	0.8	0.94	0.88	0.87	0.82	0.8
NZD/GBP	0.36	0.36	0.36	0.33	0.32	0.4	0.35	0.37	0.34	0.32
NZD/EUR	0.53	0.53	0.53	0.49	0.48	0.59	0.52	0.54	0.5	0.48
NZD/YEN	74.6	81.9	83.1	69.9	63.9	82.7	81	87.6	72.8	64.9
TWI	65.6	68.6	68.7	62.2	59.8	71.9	68	70.6	63.8	59.4
Official Cash Rate	7.25	7.47	8.25	7.5	6.5	7.0	7.50	8.25	7.75	6.75
90 Day Bank Bill Rate	7.55	7.78	8.41	7.68	6.72	7.49	7.64	8.49	7.91	6.97
2 Year swap	6.99	7.76	7.91	7.01	6.55	7.24	7.48	8.3	7.21	6.58
10 Year Govt Bond	5.71	5.91	6.6	6.2	5.9	5.89	5.77	6.7	6.3	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.