Bank of New Zealand

BNZ Weekly Overview

10 April 2008

Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy in a language they can understand.

In this week's issue….

- **More surveys show worried businesses and high inflation risks – nothing new really.**
- **We discuss the industry comments from our monthly survey of Weekly Overview readers.**
- **We scare young borrowers with graphs showing where mortgage rates were in the 1980s & early 1990s.**
- **NZIER data are used to show businesses do not believe there is a credit crunch in New Zealand.**
- **And in the Housing section we discuss the bad March data for Auckland, evidence of rising mortgagee sales, discuss the idea of speculating one's home deposit on exchange rate moves (silly), and whether someone near retirement might sell their house and place the money in the bank.**

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the WO plus the Offshore Overview each Thursday night please email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line. To get off the list email 'Unsubscribe".

Survey Results Still Bad – But A Glimmer of Hope Appears

This is a big thank you to the higher than usual number of people who sent in responses to our monthly survey – 385 this time from 236 in March. Almost all responses are made on the Friday following the Thursday night send out so in future we'll do what was done this time and send the compilation document out on a Saturday or Sunday. The results show high pessimism remains but with slightly less negative sentiment than last month. Interesting. The submitted comments on particular industries make for fascinating reading and thanks to those who took the time to get their thoughts into print.

In case you deleted the results file or skipped over it here is our industry summary.

Looking through the large number of comments submitted about conditions in specific industries one can first glean the following comments stretching across most industries.

- Cost pressures in the business sector remain intense with margins under pressure.
- The labour market still remains very tight though with some minor signs of easing off at the edges.
- Few respondents mention the election as likely to have relevance for their business.

Looking at specific sectors one can discern the following broad themes.

Advertising
Budgets being pared back. “We're seeing a decline in volumes across corporate and govt sectors…”

Commercial real estate
Slowing down. “We are still doing deals but they are taking longer”**Construction**
Flat to easing. “Infrastructure spending holding, but residential spending decreasing”

Export Education
Some improvement underway.

Finance
Significant tightening of standards, demand also easing. Mortgage broking going rapidly backwards. “A bit of a disaster area”

ICT
More signs of weakness than in any other survey the past three years, but still well underpinned. “Customers are delaying making investment decisions at present.”

Manufacturing
Mixed, export comments make it clear a lower NZD will be quite stimulatory. “Great year so far, however incoming orders are starting to taper off…”

Primary Sector
Dairying mixed, sheep and beef overwhelmingly bad, horticulture bad, forestry very bad.

Residential property
Two pages of quite detailed comments add great flesh to the numbers released on Friday by Barfoot and Thompson. Buyers are hardly anywhere to seen, prices are falling and only vendors willing to cut asking prices quickly get sales in a reasonable time. Landlords are easily getting rent increases, only a few bargain hunters have appeared as yet, and property developers are pulling back as fast as they can to try and minimise losses. “As in 1999-2001, I think we will loose 30% of the salespeople/offices in the area.”

Retail
Overwhelmingly bad. “People have stopped spending money” “High fuel cost affecting convenience sales.”

Tourism
Mainly negative comments. “Tourism is down and all the costs are up”

Transport
All comments positive apart from real estate affected furniture removal.

TV Commentary

It was good to get some airtime on TVNZ’s ‘Agenda” programme last Sunday morning. While it involved an early morning flight to Auckland (forgot about the Daylight Saving change so arrived an hour early at the airport) I think it was worth it. Too many people are thinking this downturn in the NZ economy is somehow the end of the world and we should all up sticks and shift to Australia.

The Reserve Bank Governor summed it up well in a speech in Blenheim this week when he said
"Banks, businesses and households alike need to recognise the new external environment and adopt a cautious approach - but don't go into hibernation, the underlying economy remains robust,"

This is a period of correction (a bit brutal for some) after years of excessive debt growth built on unrealistic expectations about how far property prices could rise, how many customers would keep coming through the shop, and how friendly the Reserve Bank would be in the face of clearly rising inflationary pressures. And it is those seemingly entrenched inflationary pressures which mean caution is definitely needed. The longer it takes for the RB to feel comfort about inflation prospects the longer it will take for interest rates to go down and therefore the greater the downward pressure on the economy and the greater the rationalisation that will go through the household and business sectors. Be cautious, but don't think it's the end of the world.

Productivity Needs To Rise

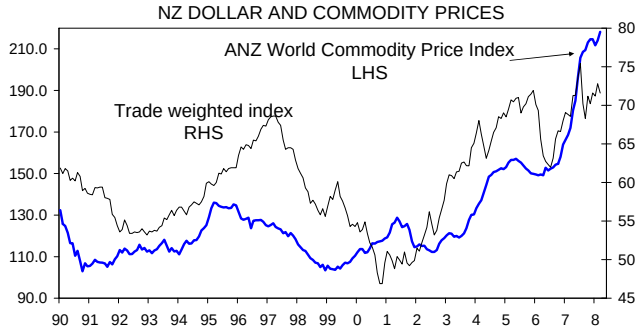
For your guide, Treasury have produced a series of papers looking at the dire need for productivity growth in New Zealand to be lifted. The issue has been around since the 1970s and unfortunately, in spite of hefty regulation then deregulation of the economy we have yet to find a formula which successfully lifts our economy's trend rate of productivity growth. Those interested in this growing need can view material at the following link.
http://www.treasury.govt.nz/releases/2008-04-03m

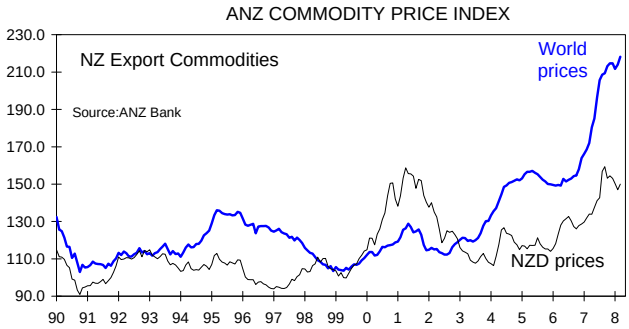
NZ ECONOMIC DEVELOPMENTS

Thursday 3

Commodity Prices Creep Up = A Good Development

In world price terms the ANZ Commodity Price index rose by 2% in March after rising 1.1% in February. The index now stands 26.9% ahead of a year ago and 60% above its ten year average. During the month there were price increases for indexes covering meat, dairy products and seafood. The seafood index is now ahead 23% from a year ago though in NZD terms the gain is just 7%. Once the NZD falls away, perhaps later this year, returns to the fishing industry will look healthier – though the fuel costs are likely to keep margins under pressure and quota changes can really mess the industry around. In NZD terms the overall commodity price index rose 2% in the month to be 12% ahead of a year ago and 20% above the ten year average.





Friday 4

Government Accounts Still Okayish = Tax Cuts in Our Time

The NZ government ran an operating surplus in the first eight months of the 2007/08 financial year of $1.4b. This was well below Treasury's forecast from late last year of $4.8b. But whereas in the bad old days this would be because of too much spending and tax receipts falling, the outcome this time is being driven by paper losses on investments in the likes of the NZ Superannuation Fund, ACC and Earthquake Commission. These factors account for $2.9b of the $3.3b (rounded) shortfall meaning the OBEGAL – or operating balance excluding gains and losses - was just $0.4b short of expectations. This $0.4b shortfall reflects mainly lower than expected GST revenue and Treasury warn some of this shortfall may reverse. In other

words, the underlying state of the government's accounts is still very good, but clearly the risk is the surplus for the full year comes in below Treasury expectations from last December.

Will this stop a programme of tax cuts and increased spending being announced ahead of the election? It's hard to argue against measures which would take pressure off the many families currently under stress from high interest rates, rising food and energy costs, and worries about their house price. Frankly one should only be worrying about house prices if one is planning to sell and not buy. If you plan to sell then buy you are trading in the same market so it is perhaps neither here nor there.
http://www.treasury.govt.nz/releases/2008-04-04f

Monday 7

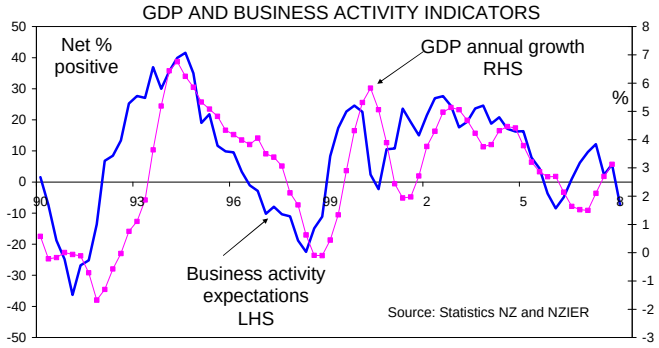
Free Trade Agreement Signed – Very good long term

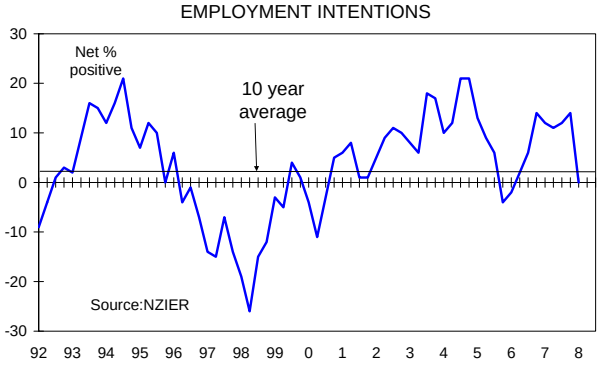
New Zealand and China signed a Free Trade Agreement which will see tariffs on 95% of New Zealand's exports to China eliminated by 2019 and all tariffs on Chinese goods imported into New Zealand eliminated by 2016. The deal is expected to boost New Zealand's export receipts by between $225m and $350m per annum. For NZ exporters and potential exporters the challenge now is to go to the MFAT website and see how tariffs are changing on goods relevant to your firm, and plan how you can take advantage of the improved competitiveness of your goods in the fast growing Chinese market.
http://www.chinafta.govt.nz/1-The-agreement/index.php

Tuesday 8

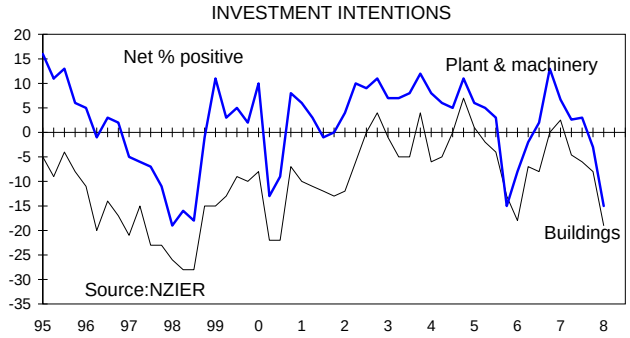
Confidence Confirmed Bad, Inflation Risks Rise = no monetary policy easing imminent

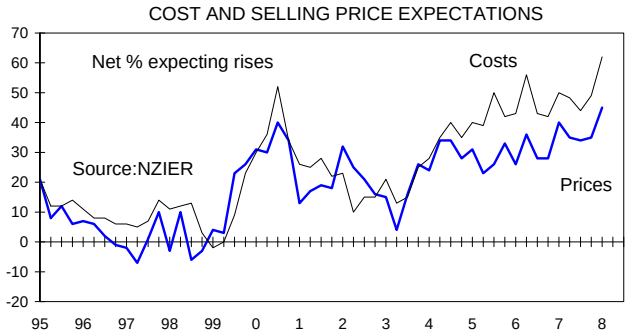
The NZIER's Quarterly Survey of Business Opinion revealed a sharp decline in sentiment to a net seasonally adjusted 56% pessimistic from 39% in the December quarter. This is the worst result since -74% in the December quarter of 2005. Weakness was also evident in expected domestic activity with a net 8% expecting activity levels to fall from a net 12% expecting a rise last quarter. Again, this is the worst result since the end of 2005 and as the first graph below shows is consistent with growth in the economy of about 1% per annum from 3.1% over calendar 2007. Other indicators have also fallen to just over two year lows including employment expectations at 0% from 14% in the December quarter and investment intentions to -15% from -3%. The labour market has eased up but only marginally with 23% of respondents saying shortage of labour is the main reason they can't grow output from 21% in the previous quarter and a ten year average of 16%.



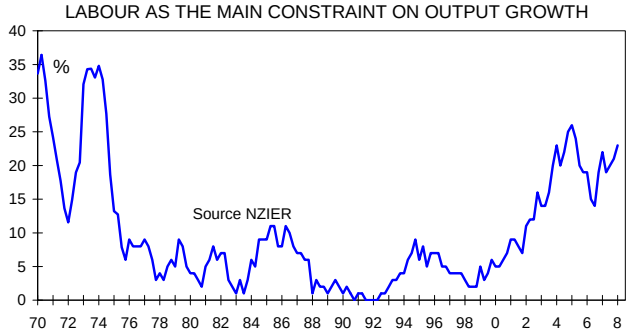


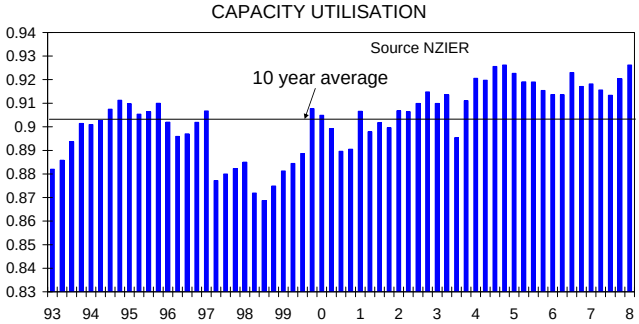
While these results are to be expected and are in line with other surveys, what we look to the QSBO for is an indication of inflationary pressures in the economy. The news there is horrible. A net 59% said their costs went up last quarter which is the highest reading in over 20 years. A net 62% expect further cost rises versus a ten year average of 26%. A net 45% plan raising their selling prices from 35% in the December quarter and an average of 20%. These inflation signals are amplified by the capacity utilisation rate rising for the second quarter in a row to hit 92.6% from 92% last quarter. This is an equal record high reading.





The upshot of the results is that they reflect recent appalling news and discussion about the economy, suggest businesses will pull their spending back, but also suggest continuing inflation worries. Were it not for the inflation worries the Reserve Bank would almost certainly be contemplating easing very shortly. But rate cuts still remain some ways off. At least people are going to keep their jobs except for some companies who may have been hanging in there for a long time hoping for exchange rate relief which is not yet coming.





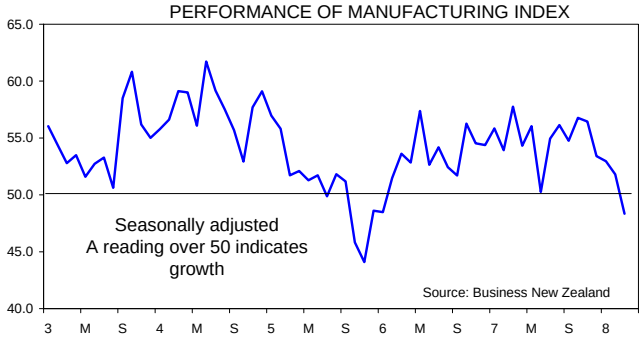
http://www.nzier.org.nz/

Thursday 10

Manufacturing Sentiment Weakens

The BNZ Business NZ PMI declined in March to a seasonally adjusted reading of 48.3 from 51.8 in February and 57.8 a year ago. This is the lowest reading since November 2005 and in that regard is consistent with other measures heading back to levels either last seen during the late-2005 plunge in confidence, the 1998 recession, or the early 1970s. A reading below 50 indicates shrinkage in the manufacturing sector and this would be broadly consistent with the mixed comments submitted by manufacturers in our monthly survey. Examples include “Textile manufacturer - export sales have been under pressure from exchange rates and competition from low labour cost countries” and “Manufacturing (domestic market) - definite slow down. One division sales down 20%+ on last year for Feb/Mar. “

But also “Orders have strengthened again for March and April after a quieter December - February. A high proportion of our work is direct export or to NZ Exporters so we are less affected by domestic slowdown”

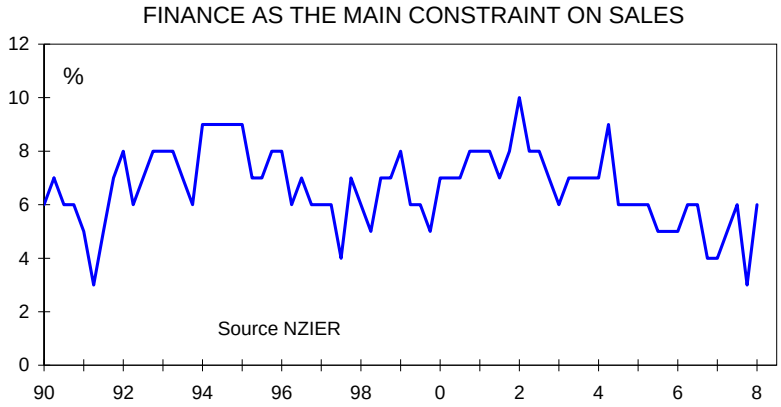


INTEREST RATES

We all know that interest rates are high and credit availability is not what it has been. This latter issue is particularly the case in the United States and UK with elements in Australia as well. Here the lack of credit mainly relates to finance companies having to call in loans and stop fresh lending because investors are bailing out. There are occasionally expressions of concern about a wider retraction of credit availability in New Zealand and yesterday the Reserve Bank Governor warned against businesses and banks going into their shells.
"Banks, businesses and households alike need to recognise the new external environment and adopt a cautious approach - but don't go into hibernation, the underlying economy remains robust,"

In response to his comments a journalist called up asking about whether bank lending standards are being tightened. We noted that this is definitely the case for finance companies but that so far we were unaware of any particular tightening of bank lending policies here. Its more a case of running an extra eye over what might appear to be over-optimistic business revenue growth forecasts given downside risks to growth, and banks who previously were quite willing to undertake high debt to valuation lending pulling their horns in slightly perhaps especially in the area of low doc loans.
http://www.nzherald.co.nz/section/3/story.cfm?c_id=3&objectid=10502905
http://www.nzherald.co.nz/category/62/story.cfm?c_id=62&objectid=10502859

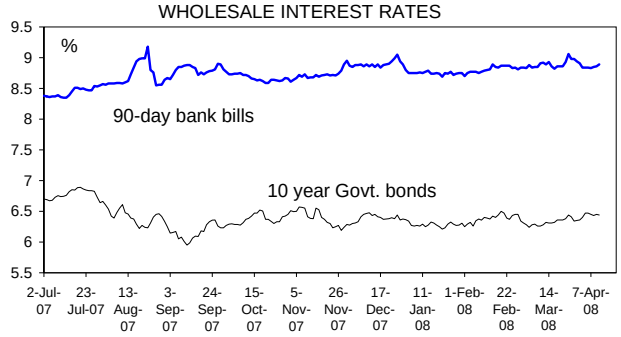
We can actually see proof of the absence of a credit crunch in the NZIER's Quarterly Survey of Business Opinion. Business respondents are asked what they feel is the main constraint on their ability to boost output. On average in the past decade 60% have said lack of customers. That measure stood at a four year low of 49% in the March quarter. The constraint we are interested in however is finance. On average over the past decade 7% have cited lack of finance as their main growth constraint. In the March quarter this reading was 6%.

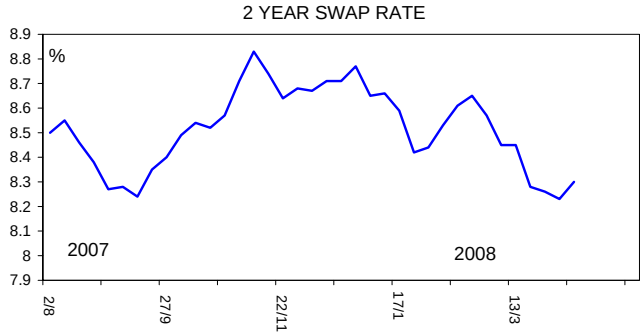


There is no evidence of a credit crunch in New Zealand except for property developers reliant on finance company funding. That sector is undergoing significant retrenchment as are mortgage brokers.

In the wholesale interest rates market this week rates have moved comfortably within some long established trading ranges with some upward movement after a rally earlier in the week caused by the high inflation numbers in the NZIER's quarterly survey. Yields on 90-day bank bills have ended near 8.89% from 8.86% while the two year swap rate has ended near 8.3% from 8.23%.

We continue to see only limited scope for an easing of monetary policy before December this year.





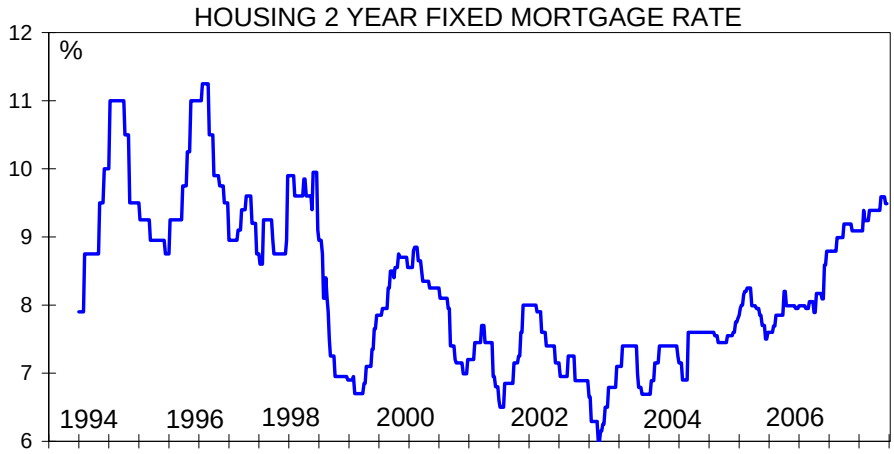
FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	8.25%	8.25	8.25	8.25	7.50	6.2
90-day bank bill	8.89%	8.84	8.85	8.76	7.89	6.4
10 year govt. bond	6.44%	6.40	6.26	6.26	5.93	6.5
1 year swap	8.71%	8.70	8.81	8.84	8.09	6.6
5 year swap	7.89%	7.88	8.13	8.19	7.73	7.0

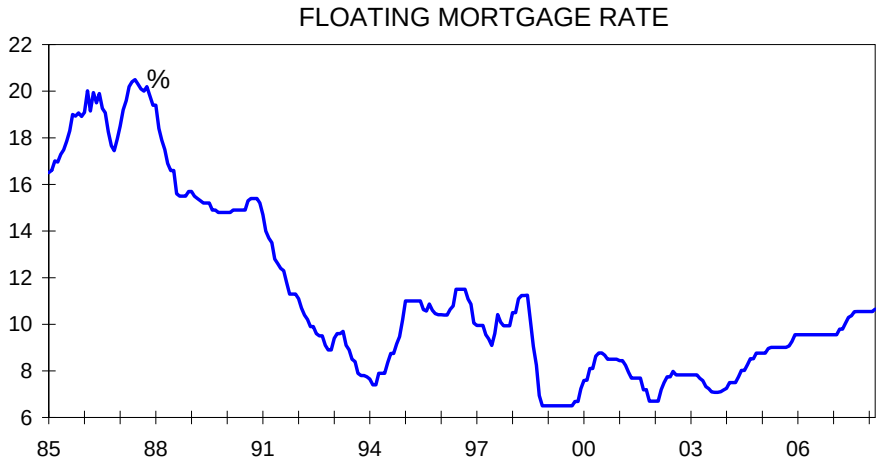
If I Were a Borrower What Would I Do?

A lot was written here last week and no information has appeared out over the past week to warrant any changes. If I were borrowing at the moment I would fix six or 12 months. But it is understandable why one would fix two years to achieve some cash outflow certainty in otherwise very uncertain times.

Last week an emailer said it might be a good idea to frighten the young ones with a graph showing where fixed interest rates have been even before the 1998 start point used in last week's graph. So for your macabre interest here is the graph of the full series which starts in the middle of 1994.



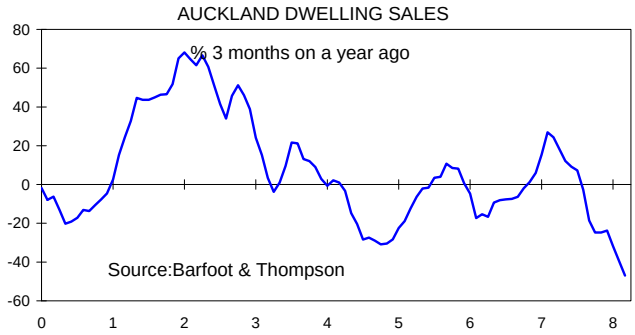
But that's nothing. This next graph shows what floating mortgage interest rates have done since 1985, hitting over 20% in 1987. You try telling that to the kids today and they won't believe you! (Monty Python)

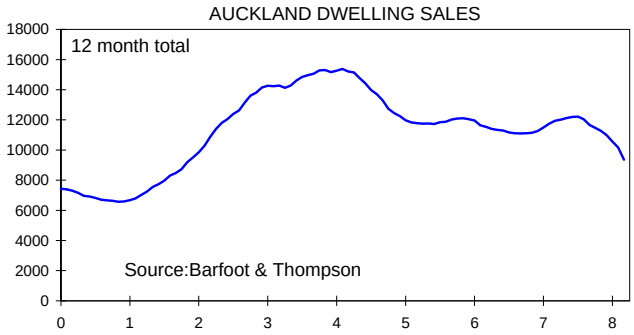


HOUSING MARKET UPDATE

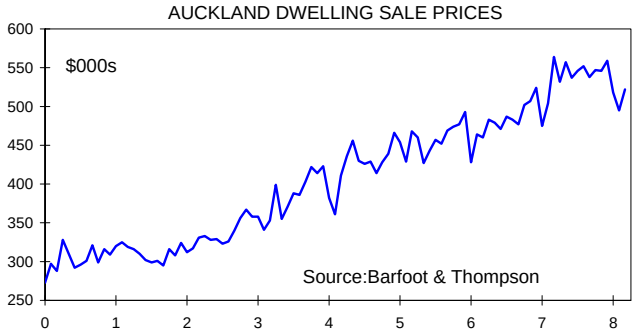
Weak Auckland Data = It's a Buyers Market, And They Aren't Buying

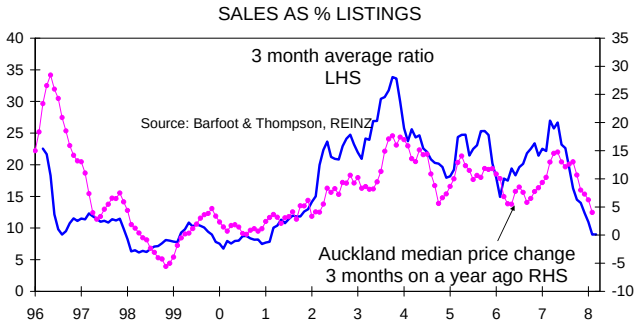
The housing week started off badly with the monthly report on Auckland residential activity by Barfoot & Thompson showing sales at their lowest March level since 1998 and down 56% from 1,444 last year at a miserable 632.





The average dwelling sale price rose to $522,000 from $495,000, but don't be fooled. There is almost always a jump in the average selling price in March and this year's was minor. In fact the average sale price was down by 7.4% from a year earlier – the worst annual rate of decline since May 1999.

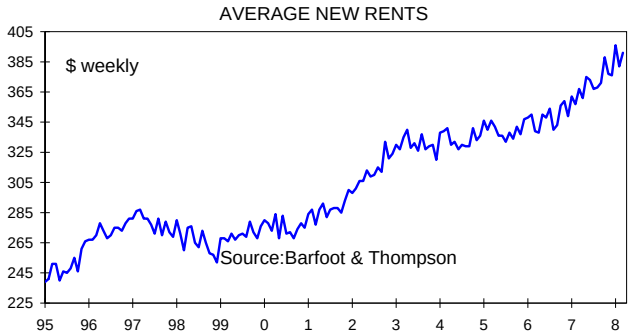


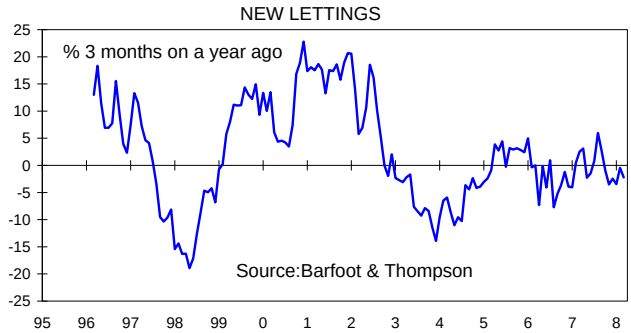


Explaining the decline in prices from a year ago is the 70.4% rise in total listings at the end of March compared with a year ago – the highest number since 2001 but by far the biggest annual surge on record. This flood of properties is meeting a withdrawing tide of buyers who know the market is now in their favour. They are unwilling to buy because financing costs are so high, and even if prepared to pay current interest rates are sitting back believing prices are likely to fall further. Note the correlation in the second graph just

above between the ratio of sales to listings (low is weak), and the annual change in average Auckland house prices using the REINZ series measured on the right hand side.

With buyers holding back and landlords facing cost increases, rents are going up. The average weekly rent for a newly let property rose to $391 in March from $382 in February. The increase was 6.5% on a year ago. Fresh lettings were however down 9.6% from a year ago at 622 but this number can be quite volatile.

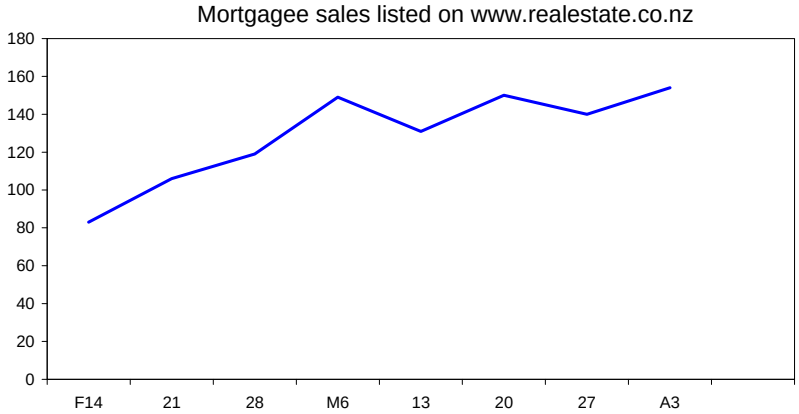




Overall the results are definitely a sign of ill health in the housing market but one should note the early Easter has probably given a slight downward bias to the sales total.

From Vienna

My friendly correspondent in Vienna who has been tracking the number of mortgagee sales on the www.realestate.co.nz website for the past year sent through some data this week. Many thanks Ian. He only started writing the numbers down in February but they show while there still appears to be an upward drift in mortgagee listings that drift has slowed down. It is hard to know what to make of this because we don't have a long enough series to put things into perspective. But it would seem surprising if we were seeing any particular seasonal effect at this time of year. So we're going to assume for now that the trend in mortgagee sales is still up but we'll keep an eye out for a flattening.



Property Trading = Must Remember The Tax

It is very good to get emails from people containing useful information and data. Please keep them coming. It is not as if I'm sitting here with all the information and knowledge doling it out tidbit by tidbit. Much is unknown by one.

One person sent a note last week with regard to our comment that some long term yield focused investors had rationalised their portfolios in early 2006 and early 2007 and would probably be looking for bargains in the depths of Winter. The writer pointed out that there may not be all that many people doing this because they face a high risk of IRD classifying them as a trader and becoming liable for capital gains tax.

The point is a very good one as we know the IRD have allocated extra funds to catching traders who should quite rightly be paying tax. The easy ability to escape capital gains tax has been one factor encouraging people into residential property investment for capital gain rather than – oh no - maybe equities where if they had invested in a spread of NZ stocks covering the top 50 they would have lost 16% of value from mid-October last year or about 13% from a year ago. But at least they almost certainly would not have geared themselves into their position. As soon as debt gets involved you boost your potential return and you magnify your potential downside. Too many people forget that about the riskiness of borrowing.

Maybe people could have put their money into a finance company. 17 down, 33 to go apparently with one participant speaking of a systemic collapse in the sector. It certainly is unlikely to ever again attract the yield-thirsty risk unaware people who are being caught to the tune of $2b at the moment. Then there are the people in the two ING funds where withdrawals have been stopped for now, and the Tower fund working to pay investors out because of increasing problems with properties in the portfolio

Losing Sight Of The Prize

We received this email (abbreviated) during the week.

“I have a $180,000 deposit for a house and I am one of the first time buyers sitting in the wings waiting for the time to buy. I have this money in an 8.5% term deposit which is maturing in April 08 and I can move to a 5 month 9% term deposit on maturity. However I also could place this money into another currency and wait for the NZD to drop maybe XX%? The 9% is safe but the NZD must go down at some point and the housing market is well insulated as you have mentioned numerous times.

In your opinion and this is a kind of beer in the pub recommendation, no blame will be attached. What do you think is the best gamble to take.

- Term deposit 5 months.
- Currency change.
- Get the money into property ASAP.”

Answer = what sane soul would gamble the hard earned cash they have saved up for a house on a currency punt when there is no evidence exchange rates can be reasonably predicted and when the housing market situation screams sit with your cash ready to pounce in a few months? My reply, after noting that we do not give investment advice, was to note that if I were in that position I would get into a breakable term deposit. Actually a simple high interest rate on cal account would comfortably suffice these days.

Lend Against Falling Prices!

Another person asked this question.

“Why is BNZ lending up to 95% of value of a house when you are forecasting a pending 30% fall in values?” First we invited him to find evidence that we are forecasting price falls of 30%. He could not of course because that is not our prediction.

Then he found our forecast that prices may fall another 10% so we then gave a decent reply. To whit.

Anyone borrowing above 80% has to take out mortgage insurance. That’s the first thing. Second, as anyone following forecasts knows pretty much no-one has got the housing market right for the past five years with regard to the timing or magnitude of moves. So it would be unwise to adjust one's lending criteria over the housing cycle on the basis of some economists forecasts.

Third, if one did that would simply accentuate the house price and economic cycle with easing criteria as prices rise leading to excessive growth in borrowing, and restricted lending on the downturn throwing people

out on the streets. The trick to being a sensible bank is to stay a steady course refraining from supplying all the credit the customers are demanding when times are great (and demand massively exceeds what we will prudently supply when times are good), and not collapsing the debt-driven house of cards when conditions tighten up. Its a failing of the basic human psyche to accuse banks of not lending enough when times are good and accuse us of lending too much when times get bad.

Fourth, ability to service debt is paramount and that is why just because for a period of time a customer's assets may not cover their mortgage does not mean we instantly step in to crystalise a loss for both of us. That would be silly. As long as the debt can be serviced then there seems little point in ending the relationship.

Fifth, we lend hardly any money above 95% valuation and only a bit above 90%. The BNZ has not been the bank people have gone to over the past few years to get extra large debt loadings.

Sixth, slashing lending willingness as things tighten up would be exactly the opposite of what the Reserve Bank is seeking.

Sell and Rent For Retirement?

The following email also came in this week.

“My husband and I are in our 50's and would like to retire in 8-10 years time. We own a house which was intended to be our retirement fund. Over the years we had to increase the mortgage due to some family circumstances. Now we still have a big mortgage and quite a low equity. We hoped that the capital gain on the house in the next 8 to 10 years would still be sufficient for us to retire. However, given the current situation and the pessimistic predictions for the future housing market trends, we are worried that if we rely only on the capital gain we can reach the retiring age with nothing. Should we sell the house and invest the loan repayments money into low risk term deposits which are more certain? I know that you cannot see into the future but what in your opinion is more likely to give a us a better return? We know that in the long term the house is the better bet but we have only 8-10 working years left.”

Replying to this question was difficult given the variables involved and the investment focus which I try to avoid like the plaque. But the following was offered.

Your position is by no means unique and there are many people currently thinking about altering their housing arrangements because they are worried about house prices falling and/or failing to rise over the next decade. But while we believe prices are likely to fall another 10% from current levels (best guess average because after all few picked the current sharp sell-off), it is not likely that they will then stay flat for a hugely extended period of say five years.

We humans tend to over-extrapolate the latest trend to forecast never-ending boom or never-ending gloom. For the moment that tendency means gloom about housing. But what we know here in NZ is that there are tens of thousands of unsatisfied buyers who want to own a house. They are not buying now because interest rates are too high, but when they fall at least 1% we are going to see those buyers come back out of the woodwork. That will not cause the house price cycle to turn up but it will stop the fall probably very late this year or at worst the first half of 2009.

After that I think prices will remain flat through to 2010 (again best guess) then cyclically start mildly rising again from late 2010 with support from better interest rates, wages growth, migration numbers improving again, better world growth, the lagged feed-through into the domestic economy of growing exports over 2009, and tax cuts plus more wage rises.

Personally speaking I would not sell and just park the money. If you look to sell now you will be facing a weak market and probably end up discounting your house price in a short term focused market when

pursuing a long term strategy. The two do not go together. In addition, if you sell and rent, you will face extra instability in your housing arrangements heading into retirement, plus rising rents as there is a shortage of rental accommodation and when landlords get new tenants they are typically extracting rent increases of 15% - 25%.

I hope this helps your decision-making process. The important thing at times like these is to avoid getting drawn into negative media hype and making panicked decisions that in calmer times would never be contemplated.

Queenstown

A property developer in Queenstown disagrees with the person in our monthly Confidence survey who wrote "We are seeing a sharp correction in prices over the last 2 weeks, especially the family home market, prices dropping about 15% and more. " He writes "There is no data that we are aware of to support a 15% decline in the Queenstown residential market. And we keep a very close eye on this and other markets throughout NZ." "Maybe one or two properties have been forced to sell at around 10-15% below 'asking price" He opines "When looking at global markets many sectors in New Zealand are comparatively undervalued, particularly Queenstown and parts of Auckland." But then notes "…the New Zealand economy is setup for more than a correction."

Exchange Rates & Foreign Economies

See the Offshore Overview

Data Sources

Interest rates & exchange rates RBNZ at	http://www.rbnz.govt.nz/statistics/
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/
Parliament, select committees, publications etc.	http://www.parliament.nz/en-nz

Want more detailed background information on the NZ economy? Start in these places.
http://www.treasury.govt.nz/economy/overview
http://www.oecd.org/country/0,3377,en_33873108_33873658_1_1_1_1_1,00.html
http://www.rbnz.govt.nz/monpol/statements/
http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029394365&a=KCountryProfile&aid=1019041559387

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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	1.2%	0.5	3.2	2.7	3.2
GDP growth	Average past 10 years = 3.0%	1.0	0.5	3.1	1.5	2.7
Unemployment rate	Average past 10 years = 5.3%	3.4	3.5	.....	3.8	3.6
Jobs growth	Average past 10 years = 1.9%	1.1	-0.3	2.5	1.4	1.6
Current a/c deficit	Average past 10 years = 5.5% of GDP	7.9	8.4	.....	9.0	9.0
Terms of Trade		2.9	3.7	8.8	3.8	-1.9
Wages Growth	Stats NZ experimental series	1.6	1.2	4.9	4.9	5.1
Retail Sales ex-auto	Average past 9 years = 3.8%.	0.0	0.1	5.2	4.1	6.1
House Prices	Long term average rise 5% p.a.	0.3	2.8	11.4	10.1	14.0
Net migration gain	Av. gain past 10 years = 10,400	+4,644	6,590yr	.....	13,160	8,277
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	2.2	2.4	2.2	2.0	0.9
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-25	-16	-8	-2	-29
Business activity exps	10 year average = 26%. NBNZ	-6.4	2.4	17.2	24.1	5.2
Household debt	10 year average growth = 11.3%. RBNZ	11.5	11.9	13.6	13.5	14.6
Dwelling sales	10 year average growth = 3.5%. REINZ	-32.1	-21.6	-11.3	19.4	-17.6
Floating Mort. Rate	10 year average = 8.1%	10.69	10.55	10.55	9.80	9.55
3 yr fixed hsg rate	10 year average = 7.9%	9.49	9.54	8.75	8.80	7.5

ECONOMIC FORECASTS

Forecasts at Mch 27 2008	**March Years**					**December Years**				
	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009
GDP - annual average % change										
Private Consumption	4.6	2.6	3.4	0.6	1.4	4.9	2.4	4.1	0.9	1
Government Consumption	5	4.4	3.7	3.6	4.2	4.1	4.7	3.9	3.4	4.2
Investment	5.2	-2.3	4.6	-0.1	3.3	3.9	-1.6	4.8	0.2	1.9
GNE	4.1	1	4.6	1	2.3	4.2	1	4.8	1.3	1.8
Exports	-0.1	3.1	4.5	2.9	2.2	-0.4	1.7	4.3	4.4	1.5
Imports	4.1	-1.7	9.7	3.6	2.8	5.4	-2.8	9.1	4.7	2.7
GDP	2.7	1.6	3.1	0.9	2.1	2.8	1.6	3.1	1.3	1.4
Inflation – Consumers Price Index	3.3	2.5	3.4	3.2	2.5	3.2	2.6	3.2	3.1	2.7
Employment	2.6	1.7	1.8	0.2	0.4	1.6	1.4	2.5	0.7	0
Unemployment Rate %	3.9	3.7	3.4	3.7	4	3.6	3.8	3.4	3.6	4
Wages	4.6	5.5	4.6	4.2	3.3	5.1	5.5	4	4.6	3.5
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.64	0.7	0.8	0.69	0.65	0.7	0.69	0.77	0.72	0.66
USD/JPY	117	117	99	112	119	119	117	112	107	118
EUR/USD	1.2	1.32	1.58	1.4	1.32	1.19	1.32	1.46	1.45	1.32
NZD/AUD	0.87	0.88	0.87	0.78	0.78	0.94	0.88	0.88	0.8	0.79
NZD/GBP	0.36	0.36	0.4	0.38	0.37	0.4	0.35	0.38	0.38	0.37
NZD/EUR	0.53	0.53	0.51	0.49	0.49	0.59	0.52	0.53	0.5	0.5
NZD/YEN	74.6	81.9	79.2	77.3	77.4	82.7	81	86.3	77	77.9
TWI	65.6	68.6	71.1	65.4	64.1	71.9	68	71.6	66.7	64.8
Official Cash Rate	7.25	7507	8.25	7.75	6.75	7.00	7.50	8.25	8	7
90 Day Bank Bill Rate	7.55	7.78	8.95	7.95	6.98	7.49	7.64	8.77	8.2	7.23
10 year Govt. Bond	5.71	5.91	6.3	6.1	6.3	5.89	5.77	6.38	6.1	6.25
2 Year Swap	6.99	7.76	8.2	7.23	6.65	7.24	7.48	8.58	7.46	6.7

All actual data excluding interest & exchange rates sourced from Statistics NZ.

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