Bank of New Zealand

BNZ Weekly Overview

3 April 2008

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	8.84%	8.98	8.84	8.80	7.92	6.4
10 year govt. bond	6.40%	6.41	6.31	6.37	5.94	6.5
1 year swap	8.70%	8.73	8.78	8.83	7.94	6.6
5 year swap	7.88%	7.92	8.08	8.19	7.40	7.0

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". We maintain only ONE emailing list so recipients receive both the Weekly Overview and Offshore Overview.

Monthly Survey Time

Many thanks to all those people who have been either regular contributors or one off respondents to our monthly survey of Weekly Overview readers. What we have developed over the past three years is an extremely early indicator of changes in sentiment in the New Zealand economy. We noted this last month when producing our graph showing the extremely strong correlation between our survey results and those released about three weeks later from the more detailed NBNZ Business Outlook survey. We know that in these very uncertain times policy makers are paying close attention to these surveys to try and get a feel for where the economy is at currently. This is because the data releases coming out from the likes of Statistics New Zealand, while eventually very useful and also of course reasonably accurate, tend to show where we have been rather than what is happening right this minute.

So to assist all of those trying to get a firm grip on where things are at the moment, if time permits please cut and paste the URL below into your browser and let us know whether you think the economy will get better or worse over the coming year - if you haven't already done this in the email used for sending out the Weekly Overview. More importantly in some regards, if you have a couple of minutes let us know what your industry is and how you are seeing things in it at the moment. These comments provide valuable insight into what is happening out there.

http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur

Creative Destructionalism

Capitalism is not about guaranteed good times for all. Its about running a system which lets the cream rise to the top with full knowledge that at times speculative and myopically over-optimistic forces will become so strong economic fundamentals like return on capital, good cash flows etc. get thrown out the window in a drastic debt funded chase for dollars. The run up in markets while the race is on is a wonderful sight to see with plenty of money being made (on paper) but stresses building up all the time underneath as people use debt to drag more and more of the expected continued good times into the present.

Sometimes these stresses manifest themselves as rising inflation which eventually gets attacked with high interest rates and a high exchange rate causing economic weakness. Sometimes offshore investors will baulk at a blowout in one's current account deficit and a currency collapse will produce inflation and again rising interest rates then a downturn.

A common element in most "corrections" from periods of strong growth and speculative asset bubbles is high interest rates. Because sustained strong growth draws inexperienced undercapitalised people into all sorts of assets and industries the high debt servicing costs burn into cash flows. For a while negative cash flows will be set aside as not of concern because either capital gains will continue to accrue or the pain may be just temporary.

But quite often the pain turns out not to be temporary because the longer the debt servicing cost impact on cash flows and profitability is ignored the longer the period of sustained high inflation. Interest rates therefore stay higher than thought for longer. Eventually cut-backs start happening and then the name of the game becomes pick the strength of the downturn. The rule here is the bigger and longer the rise the greater and deeper the potential whip back the other way. That is what is happening right now in the New Zealand housing market. It rose three years longer than we economists were expecting from late-2003 when we started talking about rising interest rates. So the current whip back is greater than one would normally expect.

Housing Weeding Out/Opportunity Environment

That extra three years of upward movement as people ignored the warnings from the Reserve Bank of their determination to combat growing inflationary pressures meant a lot of inexperienced under-capitalised people bought residential investment properties thinking it was an easy way to make money. Maybe they were driven by fear of missing out on such an easy road to riches. This extra load of "investors" is what is causing the extra weakness now. These people now fear losses. They are not normal investors who may comfort themselves with the knowledge that markets will eventually turn up so they should hold on and avoid being a weak seller in a buyers market.

All these people want to do is sleep easy at night. For that they are prepared to pay a big price. For them it is better to crystallise their loss now and write it off as a horrible experience than to keep wondering how bad it might get. Some unfortunately have got themselves into highly debt funded situations where they will not only lose the capital they invested but their family home as well because they borrowed against it to gain exposure to what they thought was easy money in a housing market which kept confounding expectations and surprising on the strong side.

It is going to take many months for these sellers to exit the market and come Spring many are still likely to be trying to exit. This will depress house prices from current levels – especially as buyers know they can sit on their hands and watch the carnage and that their actions of not buying now will produce lower prices further down the track. Doing nothing is helping to address the housing affordability issue – to some degree.

Doing nothing is probably what the long term yield focussed investors are doing at the moment as well. But they are likely to be looking around at how prices are moving and what is coming on the market with a view to picking up some bargains as we get into Winter and the negative sentiment keeps feeding upon itself – especially once the NZD starts falling and petrol prices head to $2 a litre.

Retailing Weeding Out/Opportunity Environment

And so we turn to retailing. On average since the upturn in 1999 retail spending volumes have grown 4.4% per annum. Sales of durable goods excluding cars have grown on average 8.9%. Sales of cars have risen 4.7% p.a. on average. With the housing market booming people have felt wealthy and used that wealth to purchase nice home furnishings etc. Lots of inexperienced under-capitalised operators have entered the retailing business. If they have entered over the past three years their debt levels are likely to be high and they will have paid top dollar for good premises and again top dollar to scarce contractors for a decent fit out.

Now they face an environment where consumers are keeping their hands in their pockets. Spending growth has slowed and reversed for some storetypes. Some retailers will fail. Going back to the capitalism angle mentioned above, this process of expansion then retraction can be called “creative destructionalism”. Things built up are being destroyed. And just as falling house prices are opening up opportunities for buyers previously priced out of the market, so too will the current retail weeding out period produce opportunities for skilled, well capitalised operators to acquire things they want. Staff will become available along with good premises. Landlords in some areas may pay for fit outs to get tenants.

The downturn in retailing is going to produce some strong winners. The challenge for all will be to try and avoid falling into the trap of simply discounting product to try and generate cash flow and losing what might have been their previous core focus on quality. Or at least that may simply be what they told themselves they were offering when any man and his dog could set up a shop in a booming economy and flog stuff off to a rampant consumer market.

And So On

And so we turn to other sectors. Transport. The boom will have brought a lot of independent operators into the sector with expensive trucks and big debts. High interest rates will be eating into their cash flows at a time when unless they are servicing the dairy industry their order book will be easing. But they are facing staff shortages, rising wage costs, and staff skill problems. Those with good capital bases will be watching for those inexperienced under-capitalised operators who will now get weeded out – and they may secure their relatively new trucks and perhaps their staff if not some better located depots.

We can keep running our commentary using words like weeding out, under-capitalised and inexperienced for most sectors of the economy. But you should get the picture by now. It has been wonderful since 2001 for operators in the domestic part of the New Zealand economy. Now the party has ended and the headaches are appearing. There will be failures. There will also be good opportunities for well capitalised experienced operators to both acquire valuable resources as well as customers, and to work on promoting their brand following a period when customers just bought stuff willy-nilly.

The Big Winners?

But what about the export sector? There is pain for most sectors apart from dairying (unless you are hit by the drought), minerals and oil. The NZD has been over-valued for just over four and a half years having been under-valued for four and a half years. At some stage this year we are going to see a firm downward correction in the NZD which we expect to “stick”. By this we mean there were falls in 2004, 2006, and 2007 that were quickly reversed. That is unlikely to happen this time around.

The coming currency decline will start to boost fortunes in the export sector, especially as we tend to be niche sellers or commodity price takers. For the latter group the currency decline tends to feed right through to the NZD revenue stream. For the former group the closeness of relationships with customers is likely to be more important than the general strength of the economy they are exporting to, so although growth risks for our trading partners lie on the downside, there should be some insulation. It would be silly however to

note anything other than downside risks for the coming few months however and exporters will be wanting to keep in close contact with their offshore buyers to gauge how the downturns offshore may be affecting them.

In a way as a modern exporter you want to do what we banks advise our clients to do. As soon as things start to get a bit worrying with regard to cash flows and debt levels get in contact with your bank and at least let them know the situation. Actions can perhaps be taken to assist your situation. For exporters it is more a matter of doing that the other way around. Contacting your customer to see if they may be experiencing problems you could perhaps assist them with temporarily in the near future. By doing so some reputational kudos may be earned.

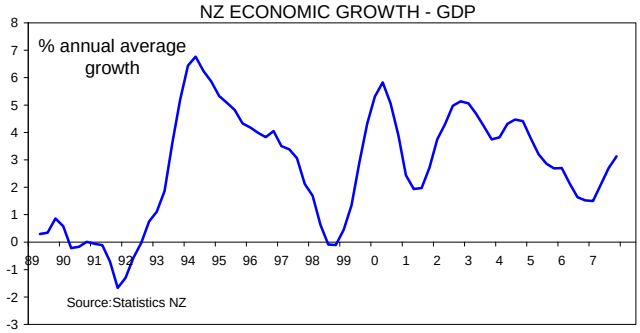
Then, once economies overseas start to improve slightly next year (we hope) leverage the extra revenue from a lower NZD into extra marketing, product development, distribution channel development etc. rather than sitting back and enjoying a cash bonus. In particular, while we are not going to claim any great ability when it comes to forecasting big exchange rate movements, the chances that we see the NZD heading as low in the next three or so years as it did between 1998 and 2001 seem fairly slim at the moment given the dairy price boom and some other factors like higher oil exports.

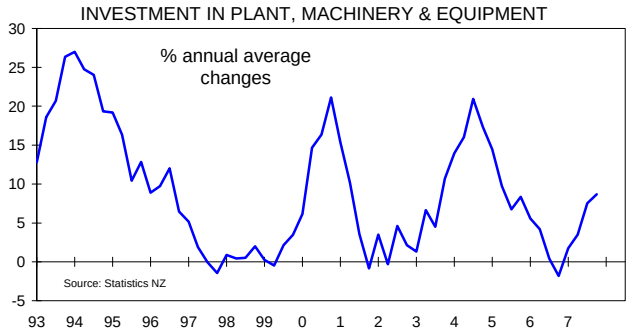
NZ ECONOMIC DEVELOPMENTS

Friday 28

NZ Economy Grew Firmly – Back Then

New Zealand's economy recorded relatively strong growth of 1% over the December quarter after growing 0.5% in the September quarter. The result means growth for the year was 3.1% from 1.5% over 2006 and average growth since the upturn in 1999 of 3.4% per annum. The result was stronger than market expectations for a 0.6% - 0.8% rise reflecting the inherent difficulty in forecasting movements in this aggregate for periods that ended on average four and a half months ago, let alone periods yet to come. Looked at from an expenditure basis there was good 4% growth in spending on plant, machinery & equipment (hopefully going to boost NZ productivity), plus transport equipment up 3%. Spending on non-residential buildings surged 16.4% but residential was down 1.6%. Private consumption grew just 0.5% (retailing etc.) and has been doing little since the June quarter.



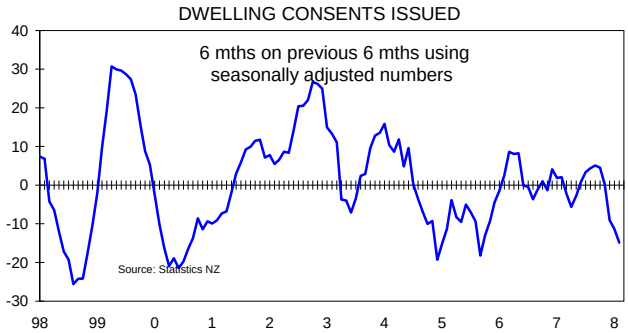


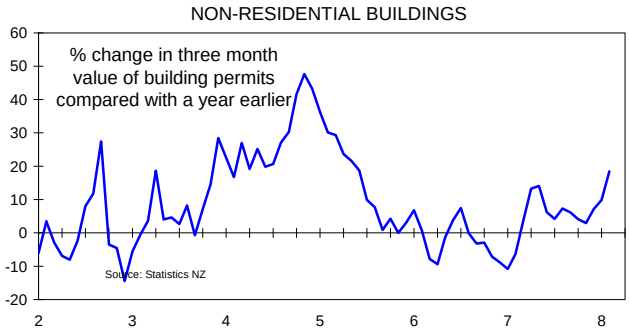
Because the result was stronger than expected it implies a higher starting point when calculating resource usage and shortages and underlying inflationary pressures. In fact the implication is even greater than one may think because stocks fell $24m whereas they have grown on average $250m for the past five years. This implies businesses have not produced goods in the quarter which are now clogging up their shelves – in theory. In our funny little country these conclusions which would be market-moving in an economy like the United States receive little attention here because changes in agricultural and forestry stocks can mess these numbers and conclusions around.

Monday 31

Residential Building Heading Down

In seasonally adjusted terms the number of consents issued for the construction of new dwellings around New Zealand declined by 6.5% in February after rising 3.2% in January. For the three months to February consent numbers were down 5.2% from the previous three-month period. There is a clear downward trend in this measure which is hardly surprising considering the weak level of consumer confidence, well above average interest rates, plus falling house prices and a sharp decline in house sales. There is a lagged relationship between changes in the rate of growth in dwelling sales and changes in the rate of growth in consent numbers which suggests that at least for the next few months we are going to see a further decline in consent issuance.



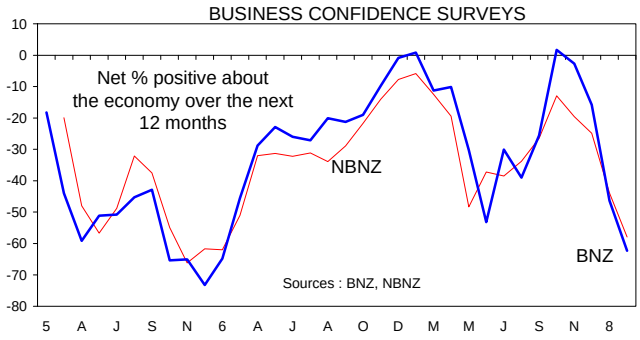


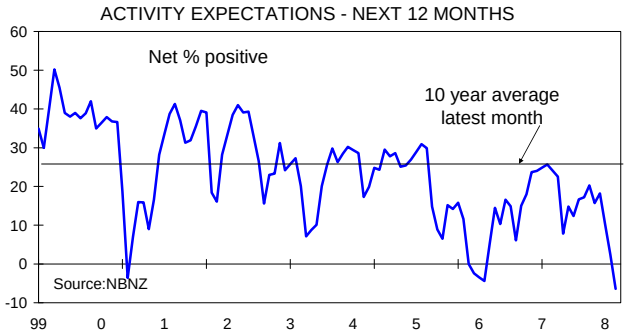
Commercial Construction Still Very Strong

But just as the residential construction sector is falling away non-residential construction continues to boom. The value of consents issued for the construction of non-residential buildings in February was ahead $78 million from a year earlier or 32%. For the three months to February the gain from a year ago was a healthy 18%. Comparing the past six months with a year ago we see strong growth in the value of consents being issued for hospitals and nursing homes up 85%, warehouses up 26%, farm buildings up 62%, educational buildings up 24%, and hostels and boarding houses up 42%. In comparison consent issuance for retail shops and restaurants was down 21%, offices down 2%, and factories down 1%. These continuing strong results at a time of collapsing construction sector sentiment mean either they were decisions made ages ago now being acted on, or the sentiment readings discussed below are gut-related and perhaps media driven rather than a true reflection of what businesses are feeling and planning.

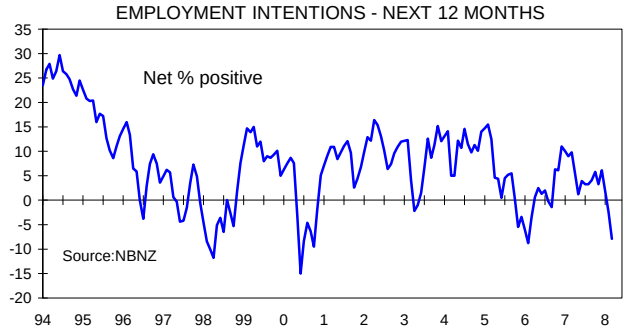
Business Confidence Collapses

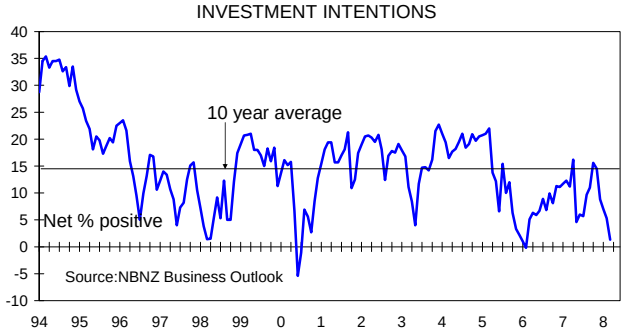
In our previous survey of Weekly Overview readers conducted four weeks ago we found a net 62% of respondents feeling bad about the economy over the coming year. We also noted that our survey tends to give three weeks advance notice of what the more detailed NBNZ Business Outlook survey eventually reveals and that proved to be the case this month. The NBNZ survey revealed a net 58% of respondents expecting the economy to deteriorate over the coming year. This result is bad but it is not really the important one. The major one of significance in the survey is the net 6.4% of businesses expecting their own levels of activity to deteriorate over the coming year. This is the worst result since early 1991 and clearly a signal that the immediate outlook for the New Zealand economy is not very good at all.





Backing up their weak activity expectations a net 8% of businesses said they intend laying people off. Apart from a -8.8% result early in 2006 this is the weakest reading since the "winter of discontent" in 2000 and before that the recession of 1998. Only a net 1.3% of businesses plan boosting investment over the coming year which is well below the 15% 10 year average reading and the worst since February 2006. All other measures also deteriorated over the month apart from the two you would really want to see going down given the collapse in sentiment. The net proportion of businesses planning to increase their selling prices over the coming year rose to 31.5% in March from 27.6% in February. And expectations of inflation in a year's time rose to 3.29% from 3.26%.





Nevertheless, even though these inflation measures deteriorated the implications for monetary policy are reasonably clear. When the Reserve Bank start easing the official cash rate from December this year they are likely to be cutting it relatively quickly in a series of 0.25% moves. The way things are going one could not rule out some cuts of 0.5% but the major area of uncertainty here is what happens with underlying inflationary pressures.

The challenge for all however is to sit and think to what extent will businesses actually act on their recessionary feelings? We have two examples this century of sentiment collapses not leading to sustained economic weakness. If we look at the employment indicator for instance now at -7.9%. It fell to -15% in June 2000 when worries were high about interest rates rising 2% and the government was attempting some unpopular policy changes following the late-1999 general election. Following the -15% result job numbers soared 1.3% in the September quarter of 2000 and 0.9% in the December quarter. The unemployment rate fell from 6.1% to 5.3%.

Then in February 2006 the employment expectations measure sat at -8.8%. Job numbers rose 0.8% over the June quarter though did fall 0.3% in the September quarter

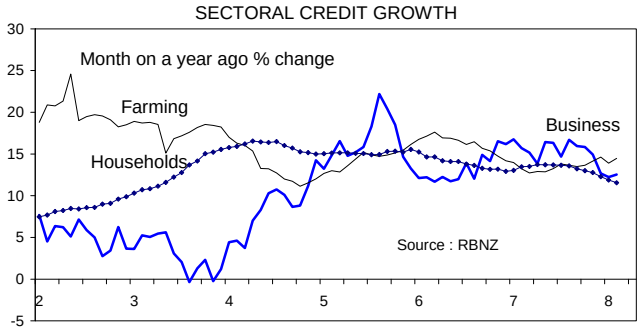
The lesson from 2000 and again early 2006 is that while one must definitely give credence to what bad survey results imply, there is a risk businesses can get caught up in the general negative hype and spit the dummy. Its like saying you've had enough of home life and you're taking the kids to Australia. Opps – actually we do that don't we! Instead lets say its like saying you've had enough of penalties in rugby games and you're never going to watch again. But you do. We'll even watch the Warriors this weekend just to prove how appalling masochistic we are.

Lending Growth Slowing

The annual rate of growth in lending to the non-rural business sector improved to 12.5% in February from 12.2% in January with lending in the month up $763m compared with $501m growth in February 2007. Does this mean lots of investing? Not necessarily for two reasons. First, you need to smooth the numbers over three months to get rid of inherent monthly volatility. Doing that we see that in the three months to February business borrowing grew $626m. But it grew $1.8b over the same period a year ago!. This looks weak. But a second consideration is that these particular numbers get moved all over the place by corporate financing deals. So we take them with a grain of salt and suggest the underlying weak trend is reflective of a cautious business sector. Though how to reconcile that with the value of imports of capital goods in the three months to February being 11% ahead of a year ago is hard.

In the farming sector debt growth accelerated to an annual rate of 14.5% in February from 13.9% in January. In the three months to February farm debt grew $827m compared with $632m growth a year earlier. This aggregate tends to be accurate and the result appears in line with strong indicators of farm spending such as farm sales, farm building consent issuance, and tractor registrations – my personal favourite. Nationwide tractor registrations in the three months to February were up 13% from a year earlier. But in Auckland they were down 33%. Now if they let tractors on the northern bus way that number could change.

In the household sector the annual rate of growth in debt slowed to a five year low of 11.5% from 11.9% in January and average growth over the past five years of 14.1% p.a. In the three months to February household debt rose $3.7b versus $4.9b a year ago. This 25% fall seems roughly right given the decline in dwelling sales though if anything could be better than one would expect.



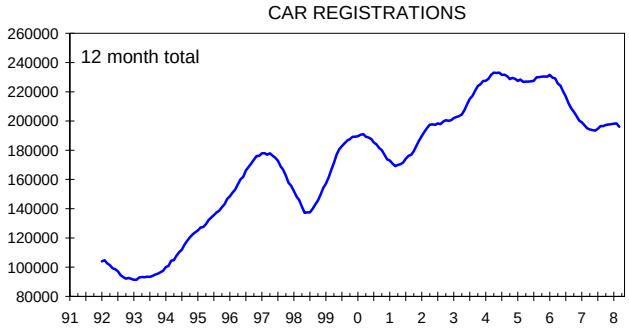
In seasonally adjusted terms lending to the household sector picked up to 0.8% in February from 0.7% in January and 0.6% in December. Why this pick-up should occur is hard to see so we'll ignore it!

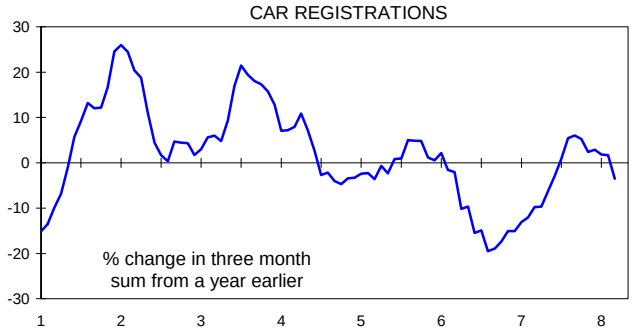
Thursday 3

Weakening Vehicle Registrations

Cars

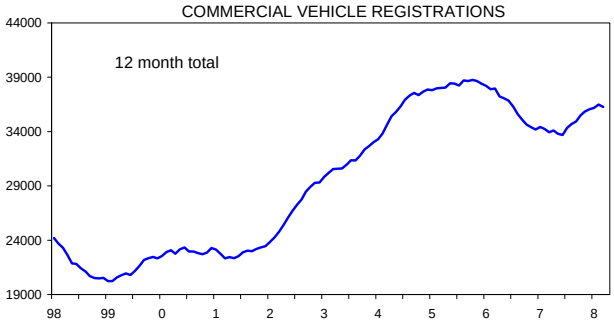
In March the number of cars registered around New Zealand was down 13% from a year earlier at 14,932 units. For the March quarter the change was a fall of 3.5% from a year ago and in seasonally adjusted terms the change from the December quarter was about -3%. This series appears to finally be showing some more sustained weakness after holding up surprisingly well in the face of a weak housing market and high interest rates – things which traditionally strongly eat into the willingness of people to buy large consumer goods. Retailers of durables like whiteware and furnishings are likely to be experiencing weak sales at the moment in line with the weakness in car registrations. For the year to March car regos were up 0.6% after falling 15% the previous year. Worse numbers are expected as this year progresses.

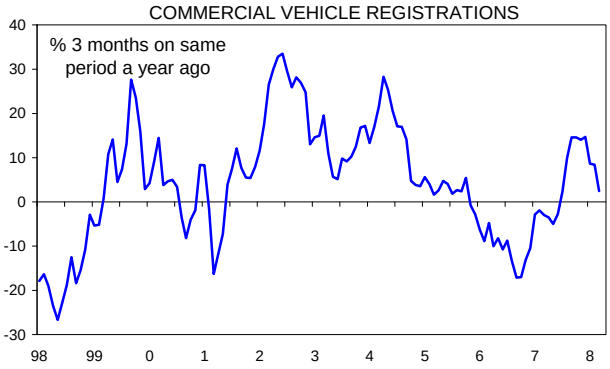




Commercial

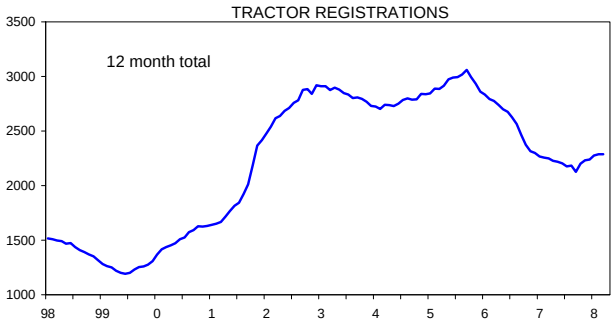
In the business arena we see that in March the number of commercial vehicles registered around the country was down 6.1% from a year ago. But this followed an 11% rise in February and means that for the March quarter regos were still 2.5% ahead of a year ago. But they were down a rough 5% seasonally adjusted from the December quarter. So we are seeing the sort of restraint one would expect to see given weak business sentiment but not as much as you would suspect given the level of that pessimism. That is possibly because the high exchange rate makes this a good time to buy a vehicle. In addition however for some businesses buying a new vehicle may be the best way to boost productivity in an environment of cost pressures and labour shortages. Our expectation is that sales in the commercial vehicle sector will be declining for probably the remainder of this year. Tourist numbers are barely growing so demand for buses can hardly be flash. Construction is flattening out so the need for nice new utes etc. is easing.

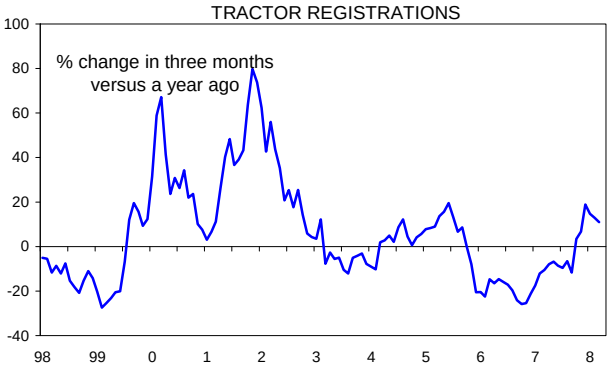




Tractors

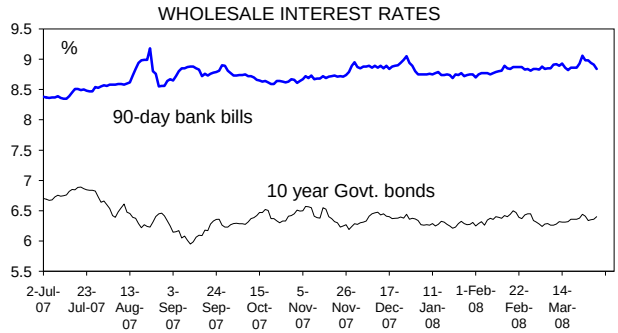
In March there were 173 tractors registered around New Zealand. This was a gain of just under 1% from a year ago taking March quarter annual growth to a healthy 11%. In seasonally adjusted terms tractor regos were up about 5% in the March quarter so there remains underlying growth here commensurate with what one would expect from the dairy boom – but with some mild easing sign also commensurate with a drought kicking in and hitting some cash flows.

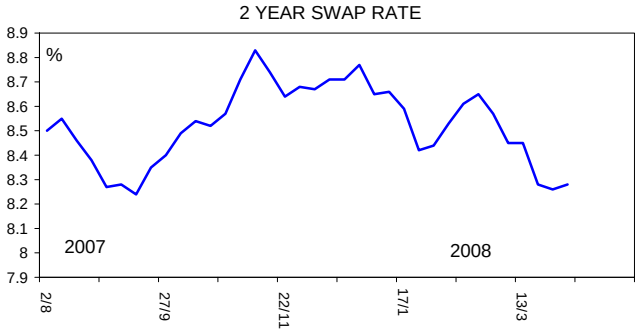




INTEREST RATES

Wholesale interest rates have fallen slightly this week encouraged lower by a lessening of worries offshore about the state of the US banking system. All this means is if these worries return our wholesale funding costs will almost certainly creep back up again. But the underlying drift here is going to increasingly be downward as the year advances. Economic data appearing in NZ are overwhelmingly on the weak side and this week's bad business sentiment report generated some extra pulling back from forecasts of further rate rises. Notice the downward trend in the two year swap rate below. At some stage when tensions ease firmly offshore and investors become more willing to fund banks, the underlying decline in swap rates will work with falling offshore wholesale funding costs to produce some sizeable falls in fixed mortgage rates.



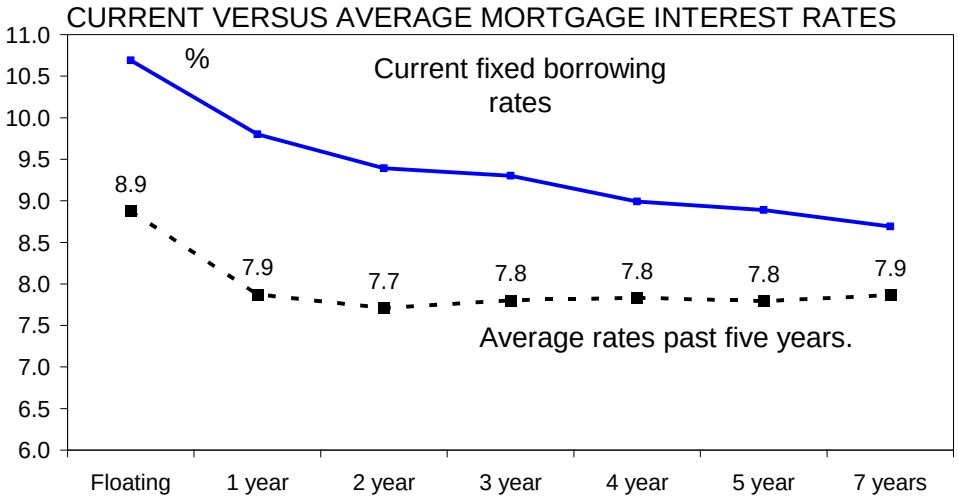


We expect to see the Reserve Bank easing monetary policy in a series of quick cuts starting in December. They would move earlier were it not for inflation risks amply discussed every day in the newspapers.

This week the yield on 90-day bank bills relevant to where floating mortgage rates go has ended near 8.84% from 8.98%. Note that this change is essentially meaningless and leaves this particular cost of funds close to where it has been since October last year. The two year swap rate has ended near 8.23% from 8.26%.

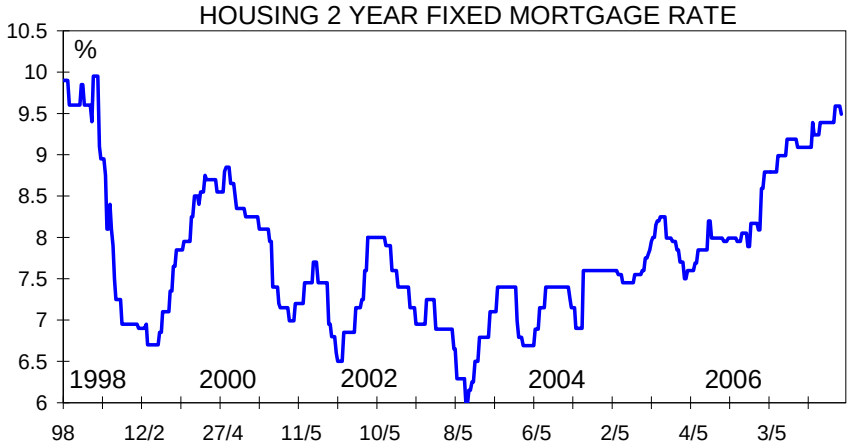
If I Were a Borrower What Would I Do?

Before attempting an answer here it's a good idea to know where interest rates are compared with where they have been. They are high and clearly unless you massively favour certainty this is not an environment in which to lock in a high proportion of one's debt for terms of three years and beyond.



Acknowledging a desire to either float or fix out to two years - what is optimal? First, most people traditionally fix for two or three years and at the moment are choosing two years. That is perfectly understandable even though the two year rate is well over 1.5% above average. Its understandable because these are very

uncertain times and with cash flows tight people want to reduce the risk of further nasty interest rate surprises. This is why some people are still fixing three years and beyond.



I would float and take the pain of a rate maybe 1% above fixing 1-2 years if I thought floating rates would fall sharply soon. Over 2009 falls up to 2% are possible, but that is still a long way out. So I personally wouldn't be floating.

Given our expectation of floating and fixed rates falling over 2009 (starting maybe in the December quarter this year) I would look to fix six months or 12 months. But I could easily understanding someone going for 18 months or two years. These are uncertain times.

As a final point, note that just because one locks in a nice low rate sometimes does not mean uncertainty is removed. The people who locked in wonderful five year rates near and below 6.5% in the middle of 2003 are having their rates end this year. They are rolling onto something 3% higher. For those people one's best advise is feel happy at the pain you avoided these past five years, and recognise that currently you're back in the same boat as most other borrowers.

HOUSING MARKET UPDATE

Sell Then Buy The House Back Cheaper?

During the week an emailer asked our opinion about the following situation. They own three houses with low debt, rent out two, and are wondering if they should sell the rentals now and buy back when prices are lower. Our answer ran as follows.

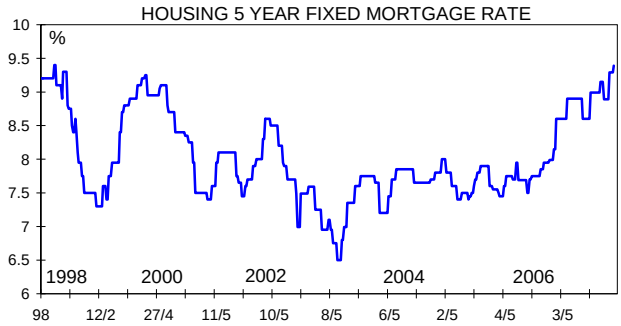
A person would need ..ss of steel to think about trading property in this environment. By that we mean some canny plan of selling now and buying back at the low point appears a very high risk venture. On the face of it you seem to be in a very good space. Low debt yet two rentals and rents are rising strongly. People with existing tenants are getting through rent rises of 5% - 10% while those with tenants changing get through 15% - 25% rises.

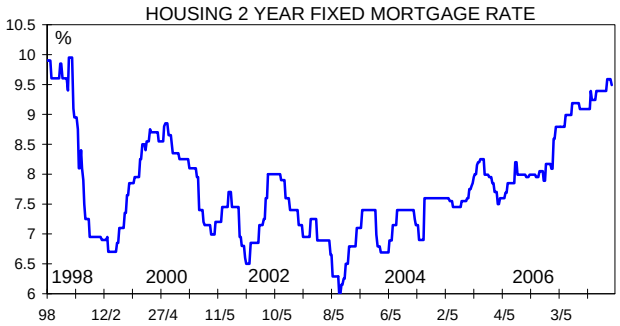
Personally, if I were in your position I would hold the properties, boost the rents, and not think about making a canny purchase until the depths of Winter at the earliest. And then one should only think about expanding from an ongoing yield perspective rather than anticipation of good capital gain. By Winter of course the fundamentals could have changed and we may be talking about prices still falling. In this environment developing a time dependent strategy is quite risky. Witness comments by experts on Sky CNBC (very good financial channel) regarding whether the US sharemarket has bottomed and it is time to scope up bargains. Some say the bottom has been and gone, some say it is 5% away, some maybe 20%. Good luck.

Didn't We Say Prices Wouldn't Fall?

Yep – but that's forecasting for you. Its about the future and none of it has happened yet. Heck, if one doesn't even know what will be consumed for breakfast tomorrow (two eggs on toast or four Weetbix) it's a big call to pick property price movements. So what has turned out different from our expectations?

First, fixed housing rates have risen further than anyone expected. We used to scare the young ones with talk about five year fixed housing rates peaking at 9.3% back in 1998 and then falling sharply and that such high rates were unlikely this cycle. But rates are now around 9.4% compared with 8.9% when the Reserve Bank undertook their last tightening of monetary policy. The two year rate of interest to the majority of borrowers hit almost 10% back then and is around 9.5% - 9.7% now from 9.2% when policy was last tightened.





The extra hike in interest rates has come about because of the deepening global liquidity crisis involving investors becoming less and less willing to buy securities issued by mainly United States banks. This shock to the world's financial system has boosted the cost to us banks of raising money and this has fed through into higher lending rates.

Second, prospects for world growth have worsened considerably because of the sub-prime mortgage crisis in the US first prompting a liquidity crisis and now a credit crunch. The latter involves banks tightening their lending standards aggressively and is most evident in the United States and UK. Worries about global growth have rightly dented sentiment here and therefore eaten into people's willingness to take new risks by gearing themselves into assets for capital gains while encouraging nervous investors to sell.

Third, local and global food and petrol prices have risen more than anyone was expecting and this is crimping household budgets.

Fourth, while dairy prices have surprised on the good side the farming sector has been side-swiped by a drought. This has mainly eaten into the strength of regional housing markets.

Fifth, the exchange rate recovered to higher levels than we expected, hitting a post float high above 82 cents in February. This has applied extra negative pressure to the export sector.

Sixth, and this is a factor notoriously difficult to forecast, net migration inflows have fallen away further than one would have expected given the tightness in the labour market.

Seventh, it is in the very nature of asset markets to defy prediction. One can never know the capital gain expectations of investors when they purchase assets such as shares and houses and at what point they will lose confidence in those expectations and look to exit the market. Related to that one can never be entirely sure of the extent to which people have backed their optimism with debt.

So we now have the price of traded houses on average down 4.1% in the past three months. Will they fall further? Almost certainly. The negative factors are dominant at the moment and are likely to remain that way until we get some strong indication from offshore that the liquidity situation is improving and that translates into easing fixed housing rates back here. That development could start next week or maybe not until the

end of the year. Having said that we expect NZ monetary policy to be eased potentially rapidly only from late this year even without the US banking system being placed in a more secure position.

Will prices fall 30%? They look 30% above measures of fair valuation but people often make the mistake of interpreting a divergence from valuation measure as a forecast. It is not. If something is 30% over-valued it first got there being 15% over-valued. Being 15% over-valued did not lead to a 15% fall.

A 30% average fall seems highly unlikely but another 10% off current prices is possible. Note that in the Weekly Overview of February 21 we ran through a long list of factors we think will eventually cause the housing market to flatten out. But we are well away from those factors coming into play with a rash of debt-laden sellers likely to keep discounting their stock in coming months. As that stock gets bought up some small price recovery then more stable pattern is likely.
http://www.bnz.co.nz/About_Us/1,1184,3-29-319.html?pmarkC=Image&pmarkK=1423HPUL4Economics

In the United States the collapse in the housing market is understandably affecting more than just typical urban properties. Sales of holiday homes during 2007 were down 31% from 2006 according to the National Association of Realtors.
http://www.bloomberg.com/apps/news?pid=20601068&sid=ajnLhO1KBtms&refer=economy
http://www.nahb.org/

Meanwhile in the UK the growing number of layoffs in the financial services sector is hitting the London luxury home market with prices rising at their slowest pace in four months. The average price of homes over £2m rose only 0.1% in February to be just 20% ahead of a year ago. So sad. One is beside oneself.
http://www.bloomberg.com/apps/news?pid=20601068&sid=aOv9dL86PukQ&refer=economy

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

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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