Bank of New Zealand

BNZ Weekly Overview

22 May 2008

Mission Statement

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

In this week's issue….

- **The Budget delivers hefty personal income tax cuts. Will this boost the economy? Almost certainly not to a noticeable degree. Page 1**
- **The house building sector is retrenching. How far could annual consent numbers fall in the short term and when might recovery start? Page 3**
- **Some retail store types are running excess inventory levels. Knowing which ones could tell you where to bargain hardest for a good deal. Page 6**
- **Migration flows are below average but not getting any worse. A net loss of over 30,000 to Australia is offset with gains from Asia, Europe, Americas & elsewhere. Page 8**

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 and Offshore Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line. You do not have to be a BNZ customer to receive the WO. To get off the list email 'Unsubscribe".

Budget – Is It An Economic Circuit Breaker? No

The Finance Minister this afternoon read his ninth Budget which contained tax cuts greater than most people had been expecting. A two income household with two children will see their after tax income rise $44 a week from October 1 this year eventually gaining $85 a week when the three year programme of cuts is completed in 2011. (Details are all over the media). The total package amounts to $10.6b over the next four years and means previously predicted continuing large budget surpluses (OBEGAL definition) have been slashed to within the margin of error above zero.

Whereas back in December a surplus equal to 2.2% of GDP had been forecast by Treasury for the year to June 2009, that now stands at 0.7%. The 2010 forecast of 2% has fallen to 0.5%, for 2011 from 1.8% to 0.3%, and the year to June 2012 from 1.7% to just 0.1%.

Given that Treasury's growth forecast for the year to March 2009 of 1.5% looks optimistic there is a chance the government runs a deficit in the next couple of years. The government will need to borrow to make payments into the NZ Superannuation funds and will run cash deficits over $3b in the next few years.

There is virtually nothing left in the kitty for pre-election spending promises – for either major party. At least six weeks ahead of the election Treasury must release an updated set of economic and fiscal forecasts and it is a virtual certainty that they will cut their growth and revenue projections. This is because the cut-off date for data taken into account when generating the Budget forecasts was April 15. Since then we have had reports of job numbers falling 1.3% during the March quarter and retail spending declining 1.2%. Consumer confidence has also deteriorated further while petrol and food prices have moved higher.

Treasury estimate that the fiscal impulse which the government's spending and taxation changes will have on the economy has now grown from 1.1% this coming fiscal year to 2.3%. This is much more than the Reserve Bank will have factored into their forecasts and as a result we have seen wholesale interest rates rise this afternoon and the NZD spike one cent higher.

We still expect there will be an easing of monetary policy in September, but there is now a slightly higher chance it gets delayed until late October or even December.

The big question from a politics viewpoint is how the Opposition can make good their promise to outdo Labour's tax cuts without throwing the government accounts into deficit. It seems inevitable that expenditure cuts will need to be made and having the electorate focus on such a possibility is probably why the tax cut package was enlarged to produce near zero budget surpluses. For the Opposition the challenge will be to get the government to answer why they did not make such large cuts some years ago when the fiscal numbers also provided ample room.

But that is not what we are interested in here. Instead the issue for us is whether the size of the tax cut and spending (bits here and there) package will help the economy rebound and limit the extent of further downside. First, the tax cuts do not start until October so retailers should not anticipate extra revenue gains before then.

Second, because the tax cuts will generate a permanent lift in income they are likely to lead to improved willingness to purchase large durable items. However with debt servicing costs high, the labour market weakening, confidence low, and food and petrol prices highly likely to rise further, we would not recommend durable goods retailers start smiling.

But will the extra money boost discretionary spending? Probably – but again there will be a significant offset from higher food and petrol bills.

Third, because the package is likely to increase the Reserve Bank's caution about inflation the speed of reductions in interest rates is likely to be less than we were earlier thinking. So the speed of easing of debt servicing costs will be less than expected. This probably won't make much difference this year anyway given the small number of people who will benefit in the short term from any easing of monetary policy.

Fourth, the rise in the exchange rate in response to reduced monetary policy optimism will keep exporters cautious about the extent to which their incomes will be boosted over the coming couple of years.

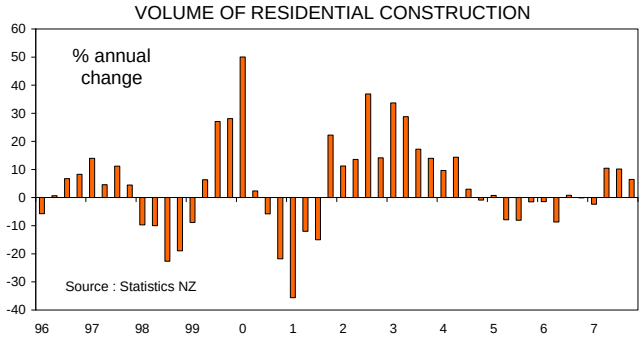
And on top of all that there is the uncertainty about whether pre-election spending promises could force the government's accounts into a deficit position and generate a warning from credit rating agencies. New Zealand runs a high current account deficit and we banks get about one-third of our funding from offshore. Any worries about credit ratings will place upward pressure on interest rates – though there will be extra weakness in the exchange rate.

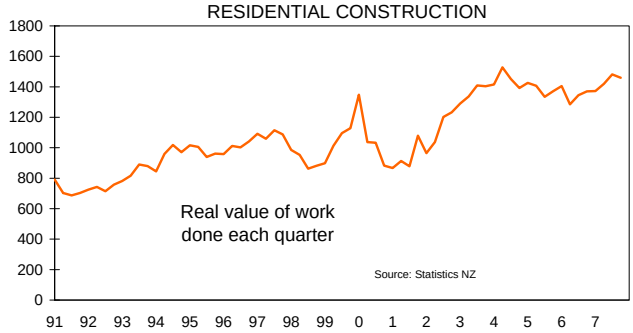
We don't think retailers, house builders etc should back away from trimming their sails for continued tough times over the remainder of this year. But the potential for better growth over 2009 has been increased so once we get through this period of restraint we think it is reasonable that one talk of improving revenue from late in the second half of 2009.

How Bad Could It Get For Builders?

We forecast dwelling consent numbers may fall over 25% to 18,000 in the year to March 2009 from 24,500 last year. Average consent issuance for the coming eight years is forecast near 24,000 with a recovery in construction from late-2009 likely to push activity above average come the year to March 2011.

One would expect that with growth in the economy slowing down and possibly negative at the moment house building would take a hit. After all this is a sector which can go through some large cycles, as shown in the first graph below. In the March quarter of 2000 activity was 50% greater than a year earlier – but then the Winter of discontent associated with election of the Labour government in 1999 and interest rate rises set in and activity plummeted. The second graph shows that activity levels have been trending up over time and on average residential construction has accounted for 5.3% of activity in the New Zealand economy over the past decade. Activity was exactly that over calendar 2007 and 2006, and just above average at 5.6% over 2005. The most recent boom period as such was 2003 at 5.9% of GDP and 2004 at 6%.



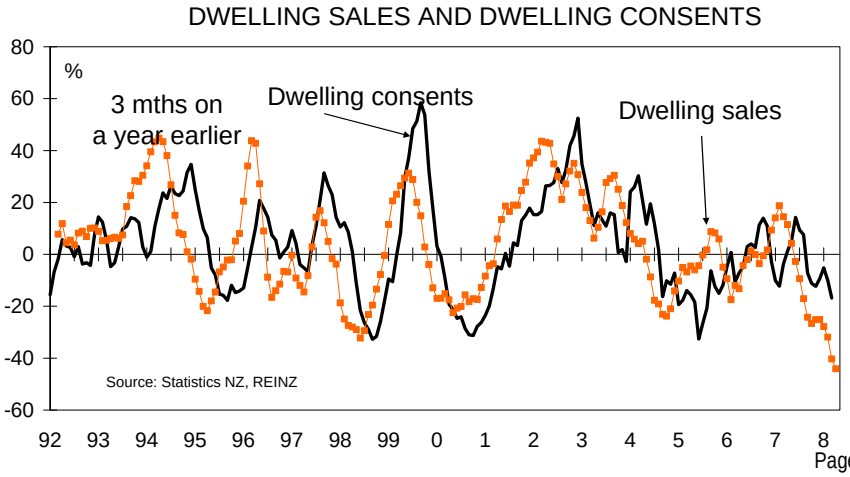


We have previously noted this absence of a construction boom over the past three years as reason for being cautious about the extent to which construction will cyclically decline. But two things have generated a worse outlook for this year into 2009 than we were previously thinking.

First, the collapse of the finance company model for all but the best in New Zealand has removed a ready source of funds for property developers. They are finding sourcing credit from banks is not as relaxed a process as the mates game with finance companies used to be and many are unable to complete projects or are not going to start planned ones – especially as buyers are less willing to purchase off the plans. This does not mean all or even the majority of property developers are badly affected just that the less well capitalised ones with inferior brands and poor cash flow management are going to have problems.

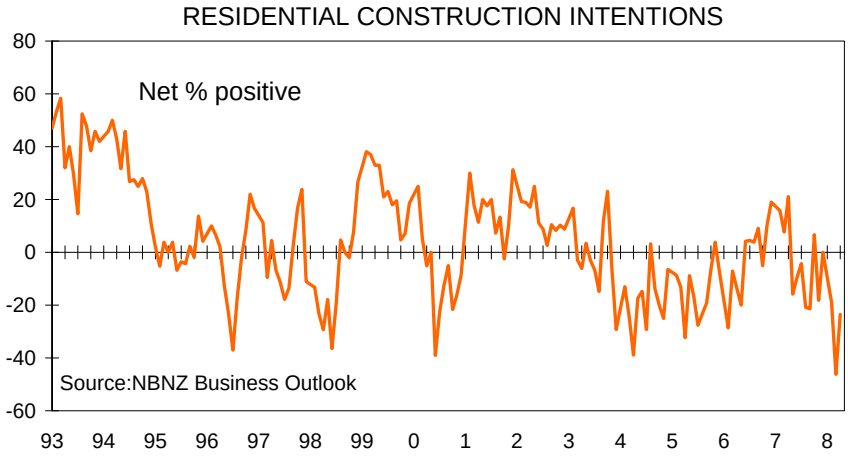
More importantly, there has been an extremely good correlation over time between the annual rate of growth in dwelling sales and the annual rate of growth in the number of consents issued.

Dwelling sales are running around 50% down from a year earlier and consent numbers have declined to lie 17% down

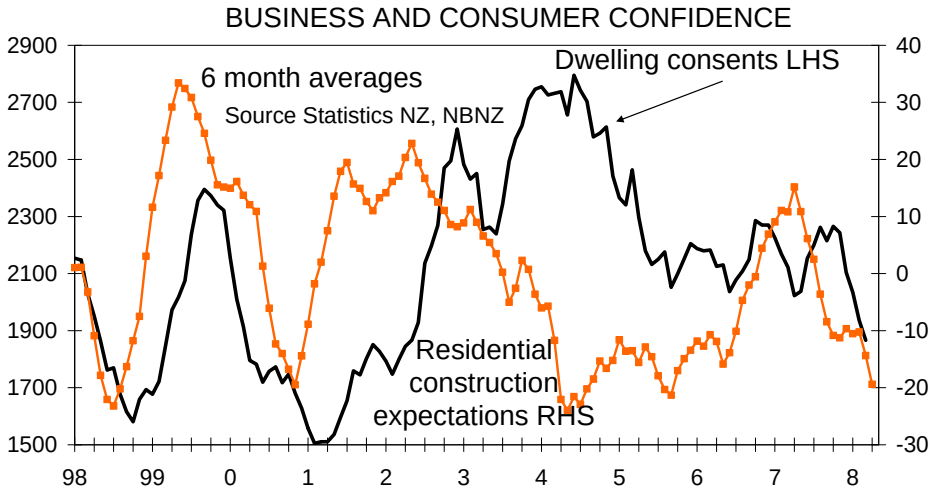


from a year ago in the March quarter.
If there is no further decline in seasonally adjusted dwelling sales from current levels then annual dwelling turnover is headed to near 55,000 come the end of this year from 92,000 over 2007 and 102,000 over 2006. This would represent an annual level of sales 10,000 worse than was reached in 2001.

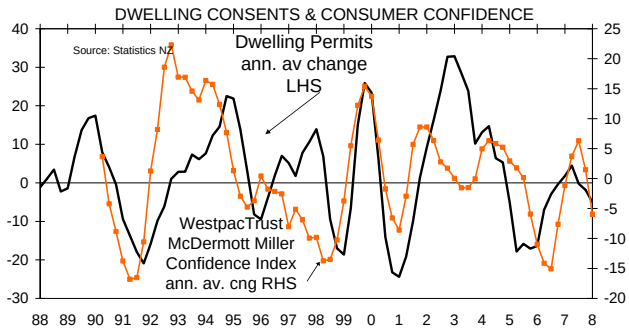
Back in 2001 dwelling consent issuance fell to 19,300 at its worst with dwelling turnover bottoming out just below 65,000. Our assumed low-point for dwelling turnover of 55,000 implies consent numbers getting down toward 16,000 or about 35% below last year's levels. If this happens it would mean around 1.9% coming off this year's gross domestic product (35% times 5.3%). Lets take this as our worst case starting point and move forward.

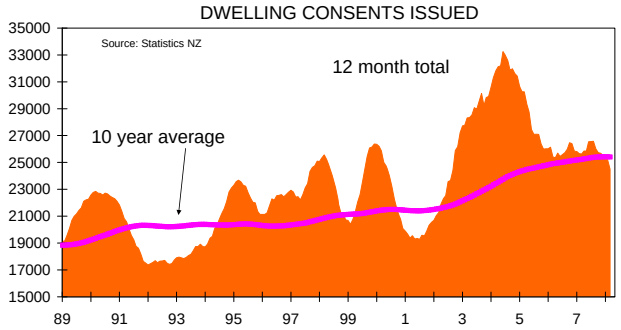


Do sentiment indicators suggest the construction downturn will get this horrible? The monthly NBNZ Business Outlook survey for early April showed a net 24% of house builders expecting lower activity levels over the coming year. This was below the average reading of 0%. But it was up from -46% in March. In addition, in the past sentiment has shown a tendency to improve relatively quickly following sharp declines as in 1996, 1998 and 2000. Plus, the historical correlation between the average number of consents issued over a six month period and the average sentiment reading would suggest average consent numbers drop to around 1,600 a month from just over 2,000 in the past year. That implies annual consent issuance around 19,000 if sustained rather than 16,000. But note the lack of any levels correlation between these measures from 2004 and 2006.



Next we can look at any correlation between confidence levels measured in the Westpac McDermott Miller survey and dwelling consents issuance. The graph on the next page shows that falling confidence measured as a % change on the right hand side correlates with falling consent issuance – apart from 2003 for some reason. If the current low level of sentiment is sustained the reading for this year will average about 15% down from last year. That is about as bad as the orange dotted line gets. It suggests a 20% annual fall in consent issuance which takes our year to March 2008 total of about 24,500 down to just over 19,500.





In the past a large fall in consent issuance has taken the annual number of consents issued to between 3% and 13% below the ten year average. A fall to 13% below that average of 25,400 now would see consent numbers bottoming out near 22,900. Seasonally adjusted monthly numbers are now tracking below that annualised number so this comparison is already invalid.

We have three rough estimates to pick from. The 16,000 based on the correlation of consents with dwelling sales and our assumption sales stabilise at unusually low levels now, (a bit extreme frankly), and just over 19,000 based on sentiment readings.

Before taking a pick it pays to put things in perspective. Between 1996 and 2006 the population grew by 452,600 people and 249,094 dwelling consents were issued. A ratio of 1.8 people per consent. Between 2006 and 2016 Statistics NZ forecast population growth of 404,100 using their “middle” assumptions. However rather than growth averaging just over 40,000 per annum the population has averaged growth near 43,000 in the past two years with annual net migration inflows just below the 10,000 per annum assumed by Statistics New Zealand. If we assume population growth averaging 44,000 over the next few years then the implied number of dwelling consents that will on average be issued each year is close to 24,000.

We think house builders should budget for consent numbers in the year to March 2009 coming in over 25% down from the year to March 2008 near 18,000 units with downside risk. This is just below the latest seasonally adjusted number of consents issued for March at 1,626 extrapolated for a year which is mainly where we get the downside risk warning. The anecdotes suggest a worsening of conditions is still underway and that this will soon manifest itself as even weaker monthly seasonally adjusted consent issuance.

Note that if we are correct then house building activity in the coming year will decline to its lowest since 1993 when consent numbers were last near 18,000 per annum.

For the following year to March 2010 keep a close eye on how low interest rates go and what is happening with net migration flows. We do not enter this recession with a large excess supply of properties and as construction falls away over 30% from its recent peak the long term problem in New Zealand of not enough affordable housing is likely to return to the fore. There could be talk late in 2009 perhaps of how to encourage greater construction and it will be those residential construction companies who maintain a good product, market presence, and staff retention through this period of restraint who could be well positioned to take advantage of a potentially good construction upturn over 2010 and 2011 that will see consent numbers back above 23,000 come early 2011. Before we get there a lot of builders in what is a very fragmented industry will fall by the wayside probably mainly because their business model is not able to handle a quick fall-off in customer demand. That is, they may be structured around paying bills on completed properties with progress payments from new ones being worked on. Going into a downturn with the right business and marketing model is the best way to get through such a period as we are in now.

Retailing Inventory Levels

Over the March quarter retail sales fell in nominal and seasonally adjusted terms for 15 out of 24 store types. Have retailers been able to cut inventory levels or could shoppers anticipate some bargains soon as discounts are offered to clear excess stock?

Last week we noted that if time permitted we would have a look at the quarterly Retail Trade Survey in more detail. Time has permitted so here we go. We have done some research to try and see where there might be excess inventory problems from which one might draw the implication that discounting could be a prevalent activity in the near future.

For each storetype there will be a typical ratio of stocks to sales. Over the past five years this ratio has been 13.3% for supermarkets, 67.9% for department stores, 74.1% for hardware stores, and 53.8% for motor vehicle retailers for instance. We have compared the seasonally adjusted ratio for the March quarter with the five year average for each storetype. After stripping out the service sectors for which this comparison is not all that relevant (accommodation, cafes & restaurants) we get the following rankings.

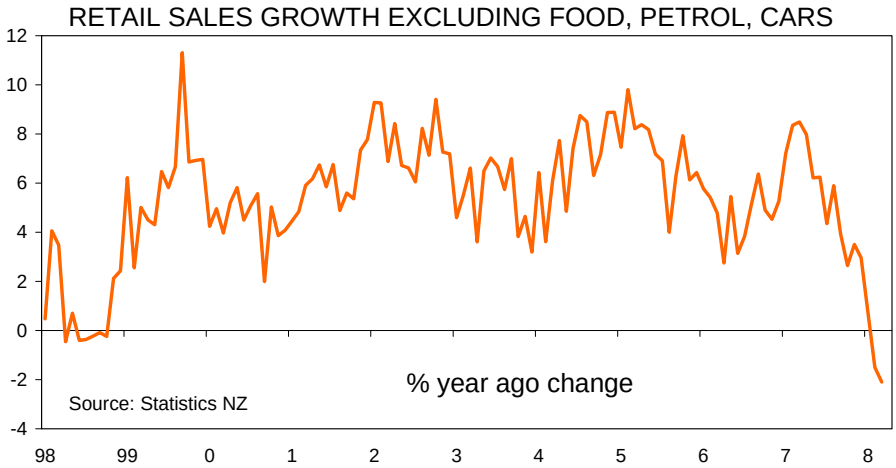
First, the table below shows that across all retail stores there is no inventory problem with the stocks to sales ratio for the March quarter across NZ sitting at 99.1% of the five year average. Second, there are inventory problems for only a handful of storetypes. The first two categories account for less than 1.5% of retail sales so we'll ignore them other than to note they imply lots of spare videos and loaves of bread on the shelves.

Retailers of durable goods have some inventory problems with above average holdings for hardware stores, department stores, furniture retailers, motor vehicle dealers and appliance shops. These results are what one would expect to see given the weakness seen recently in sales in each of these areas.

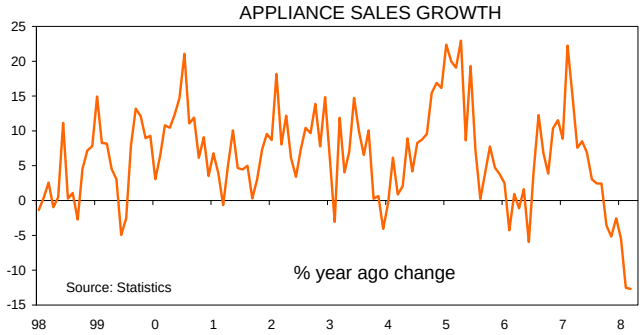
Personal & household	160.1	**TOTAL**	**99.1**
Other food	133.3	Automotive repair	98.6
Hardware	115.7	Recreation	97.9
Department Stores	113.8	Fresh meat, fruit & veges	96.4
Furniture	109.1	Liquor	95.8
Hshld Equipment repair	108.1	Auto-electrical smash repair	95.6
Footwear	107.6	Supermarket	95.2
Motor Vehicles	107.3	Clothing	94.7
Appliances	106.2	Takeaways	94.5
Other	102.7	Other Personal	94.3
Sub Total	101.0	Bars	92.3
Chemists	99.3	Automotive Fuel	83.2

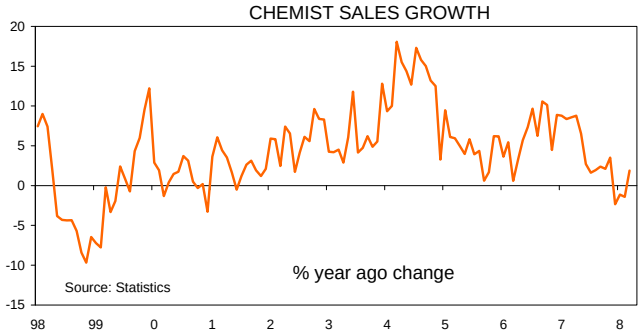
Our analysis suggests retailers of durable goods have not been able to discount stock quickly enough to avoid a blow-out in inventory levels. Over the next few months consumers are likely to be offered some good prices and generous purchasing terms across a wide range of things like cars, fridges, televisions, shoes and hammers.

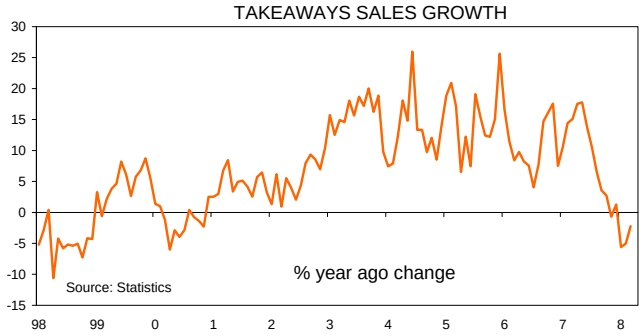
Just to finish off this retailing comment and to flesh out a bit more the special nature of this downturn consider the following. With petrol and food prices rising so much yet people still having to buy these things cutbacks are occurring in other areas. We can look at the annual change in retail spending in nominal terms after stripping out petrol, car sales and food to see what is happening elsewhere. Doing that we get the extremely ugly graph below.

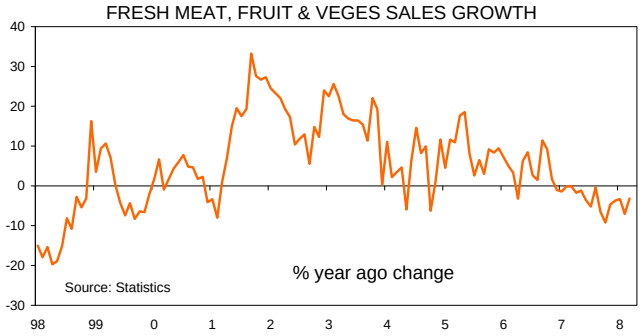


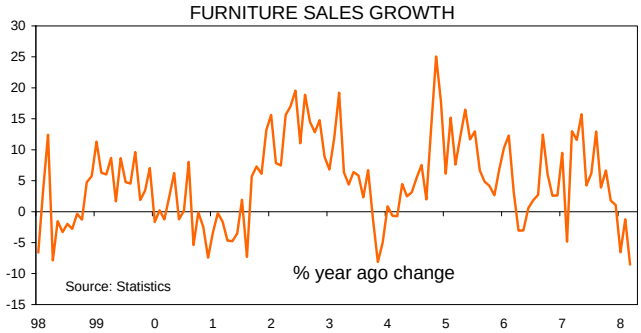
These following graphs show where the money being used to pay for food and petrol appears to be coming from – appliances, furniture, chemists, takeaways, and fresh meat etc. Interestingly weakness for cafes and restaurants is not yet apparent.











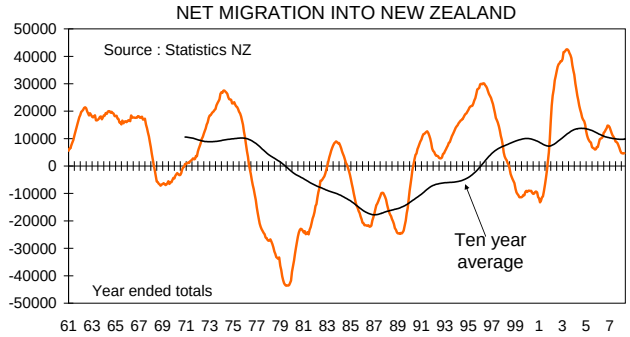
So when will things start improving for retailers? If time permits we will undertake that analysis and report it next week. One's gut feel for now is very late 2009 in response to lower interest rates, house prices not falling and perhaps creeping up a tad, tax cuts, wage rises, and export growth.

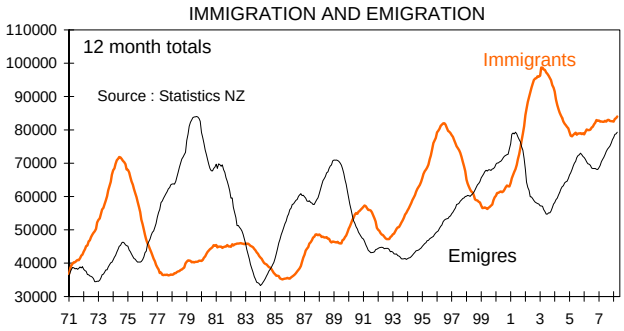
NZ ECONOMIC DEVELOPMENTS

Tuesday 20

Annual Net Migration Flow Steady Near 5,000 People

In April there was a net loss to New Zealand's population from permanent and long term migration flows of 1,268 people. One might think this means we are bleeding people and the economy will suffer horribly. We are certainly losing people to Australia with a net loss of 30,575 over the past year. But we made a net gain of 14,226 people from Asia, 10,588 from Europe, 1,900 from the Americas, and 4,394 from other countries. In other words (for a laugh) were it not for Australia we would have had a net gain in the past year of 35,241 people. (A bit silly).





More seriously, in the year to April we had a net migration gain of 4,667 people. This was basically the same as in March but below the average gain per annum for the past decade of 9,797 people and down from 11,203 a year ago.

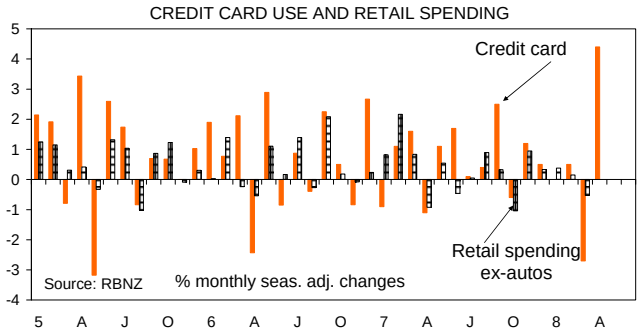
It is interesting to note that our net migration flow has been moving broadly in a range from about 5,000 to 15,000 for over three years now. No trend is apparent. To reinforce that absence of a trend one must note that in seasonally adjusted terms there was a net gain of 440 people in April, 500 in March, and 240 in February. That works out at 4,720 annualised.

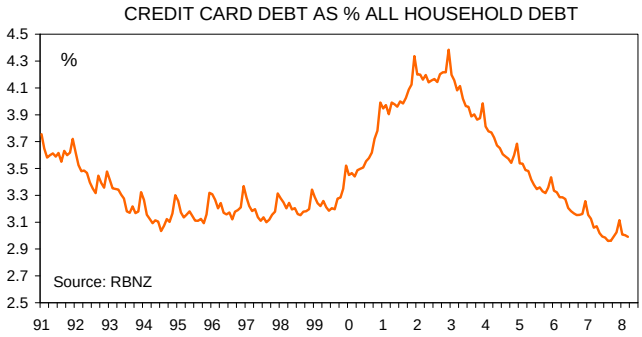
At this stage it does not appear reasonable to expect that the net migration flow will turn negative. But one has to be cautious given the loosening labour market and weakness in the NZ economy.

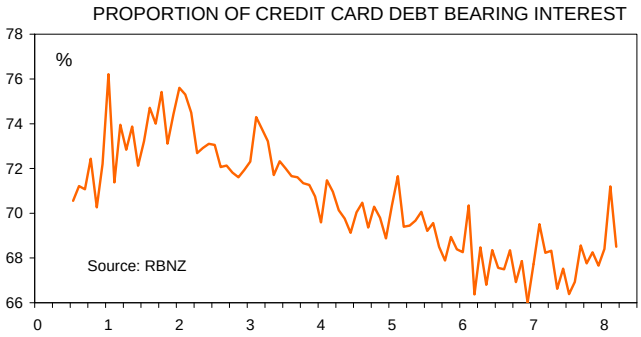
Wednesday 21

Credit Card Spending Soars

The Reserve Bank reported that in April the value of transactions on credit cards issued in New Zealand to personal users and used in New Zealand soared by 4.9% seasonally adjusted after falling 3.3% in March. These numbers are basically heavily messed about by the early timing of Easter so the March result was biased downward, the April result was biased upward, and the May result will be again biased downward. The result is that these data are not giving us useful leading information on the strength of retail spending at the moment. Note that generally the retail spending report which eventually appears tends to show spending rising if credit card spending went up and falling if it went down. But the magnitudes can vary massively. So we treat these numbers with high caution.







Note that at the moment a lot of people are getting excited about Kiwis placing an increasing level of debt on their credit cards with one bloke in particular out there telling some scary stories. The numbers don't support the sensationalism. Credit card debt as a proportion of total household debt fell back to a near record low of 2.99% in April from 3% in March and 4.4% in December 2002.

More than that, the other piece of data shouted about to the media was that more and more people were leaving debt on their card attracting interest. A jump in this proportion to 71.2% in March from 68.4% in February was excitedly talked about. This was above the 70.6% long term average and the highest reading since February 2005. Well in March (latest data for this series) the proportion did what it invariably does in March. It fell back to sit at 68.5% which was practically the same as 68.2% in March last year though above 66.4% in March 2006. There is an upward trend in this measure but it is very minor and not suggesting distressed individuals are experiencing major repayment difficulties. Having said that one can say that default rates on credit cards are rising so talk of card trouble cannot be entirely dismissed – just put into perspective.

Thursday 22

Pre-Election Budget

The Finance Minister read the Budget and delivered much larger than expected tax cuts which have pushed the surplus to levels only just above zero – with what seem over-optimistic growth forecasts from Treasury. A pre-election Budget in other words. Details are widely available and we discuss the implications in other parts of the Weekly Overview.

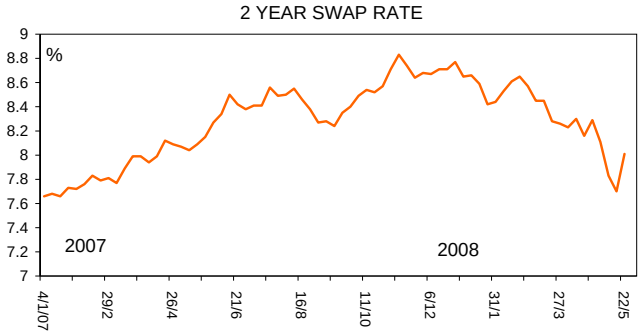
Feedback & Queries

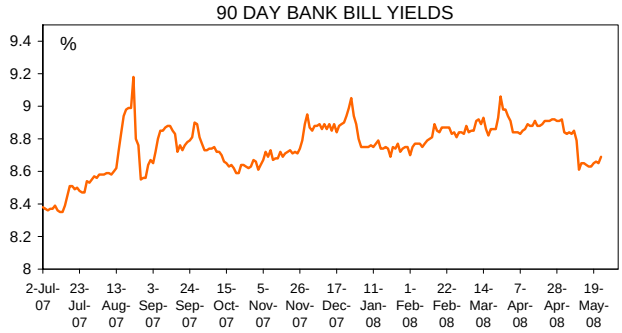
If there are any issues in the Weekly Overview you wish to comment on or you have a query about the economy, send me an email at tony.alexander@bnz.co.nz Useful issues will be discussed in the WO.

INTEREST RATES

The extent of tax cuts and downward revision to fiscal surpluses announced this afternoon was far greater than anticipated and as a result the markets have pulled completely away from thinking there could be an interest rate cut from the Reserve Bank come June or July. Such thoughts seemed way too optimistic anyway. The RB review their official cash rate on June 5 and it will be interesting to see whether they feel the large fiscal loosening in the Budget offsets weakness coming from other sources in the economy. That is doubtful so we still expect interest rate cuts before the end of the year though maybe not as rapid as previously was looking likely.

This afternoon wholesale interest rates have jumped and the two year swap rate for instance has ended near 8.0% from 7.7% last week. That is a sizeable jump which implies little scope in the near future for any further cuts in fixed housing rates – until the next batch of bad economic data releases appears. The yield on 90-day bank bills has ended near 6.69% from 6.63% last week.





Key Forecasts

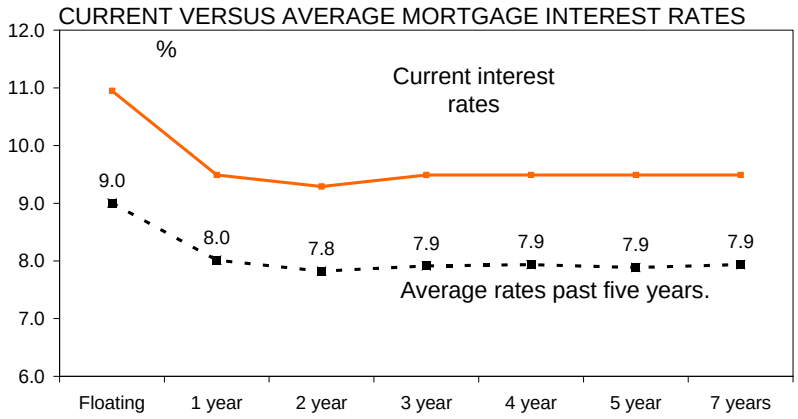
- Monetary policy easing from September with the official cash rate potentially < 6% come late 2009. The risk is the OCR does not fall this far or fast.
- The two year fixed housing rate reaching almost 8% late 2009, hitting the five year average of 7.8% in 2009, but going lower will require weaker data on the NZ economy and decent easing of global credit tensions – possible late in 2009. Falling to the 6.5% low of 1999, 2001 and 2003 very unlikely this cycle.

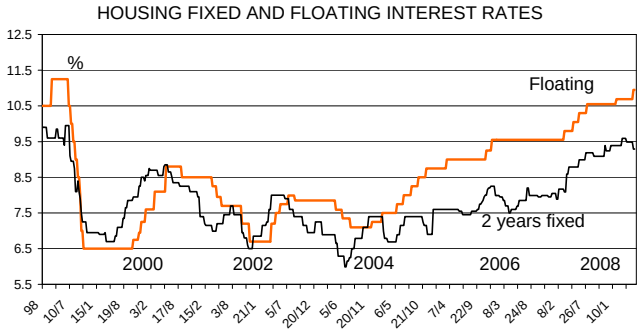
FINANCIAL MARKETS DATA

	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	7.75	6.2
90-day bank bill	8.69%	8.63	8.91	8.87	8.09	6.4
10 year govt. bond	6.40%	6.33	6.43	6.39	6.20	6.5
1 year swap	8.44%	8.20	8.72	8.89	8.27	6.6
5 year swap	7.80%	7.54	7.82	8.25	7.82	7.0

If I Were a Borrower What Would I Do?

Fixed lending rates have been creeping down in the past few weeks and we expect that come the end of the year one could see the likes of the two year fixed rate near though almost certainly above 8% - probably close to 8.25%. While most people continue to have a clear preference for the certainty that the two year rate offers in a time of major uncertainty about so much else, I personally would not fix longer than one year. I am not quite prepared to fix just six months but could opt for that choice a few weeks from now if we get some extra horrible weak data on the economy making more certain a period of speedy interest rate cuts from the Reserve Bank later this year.





HOUSING MARKET UPDATE

Nothing much new this week – downside risks continue for sales, prices and construction. But buyers should be careful about thinking the market will stay in their favour for a couple of years. A dwelling shortage is likely come late-2009.

We haven't really learnt anything new about the state of or outlook for the housing market over the past week. The monthly migration numbers showed net inflows stable just below 5,000 p.a. which is half the ten year average. This is neither here nor there and is certainly not a driving force behind the current state of the real estate sector. That is because these numbers have been moving in a range broadly between 5,000 and 15,000 p.a. for over three years.

We remain confident of interest rates falling possibly rapidly later this year but there is a key thing people need to remember with regard to coming interest rate falls The Reserve Bank will not cut interest rates because they want to stimulate the economy and create new inflationary pressures to prevent annual inflation going below 1%. They will cut them because they no longer need very tight monetary policy to stop inflation consolidating above 3%.

The distinction is very important. We do not envisage a scenario in the next two years akin to that in 1999, 2001, or 2003 when the benchmark two year fixed housing rate fell near or below 6.5%. We see scope for the two year fixed rate to get close to 8% either very late this year or in the March quarter of 2009. After that we can see it getting to the current five year average of 7.8%. But to go lower than that could require monetary policy easing beyond what we are currently projecting.

So our interest rate scenario is supportive of a flattening in the real estate market, but not a fresh upturn about which one might get excited. For investors this means the focus has to remain very strongly on yield and positioning perhaps based on one's belief about developments affecting particular suburbs.

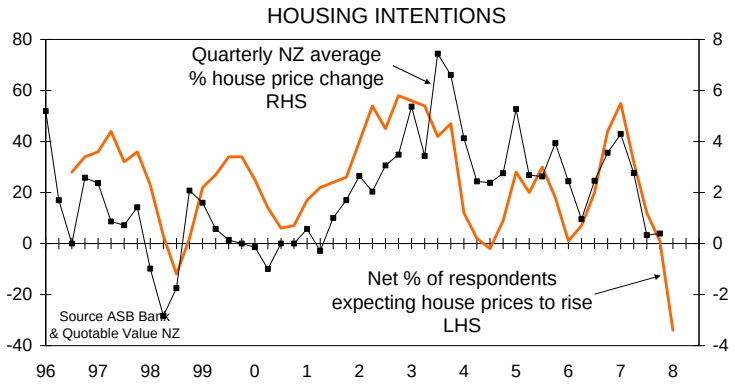
Having said that, come the second half of 2009 we see scope for improvement based on

- heightened worries about the supply of properties in New Zealand as construction falls sharply as we discuss earlier in this week's Overview,
- the strengthening upturn in the export sector,
- the current excess supply of properties on the market getting soaked up,
- plus tax cuts, wage rises, and less weakness in the labour market than some might fear.

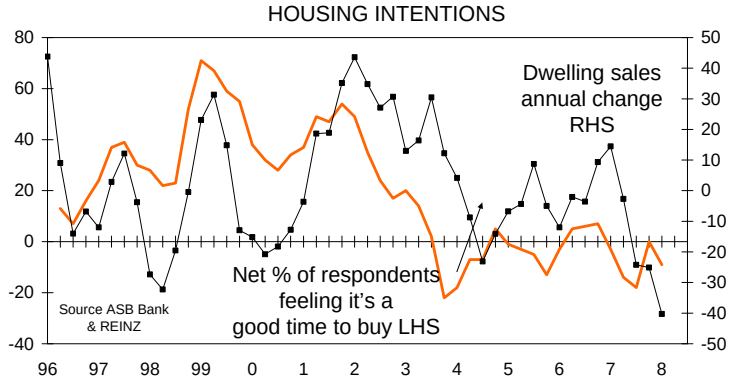
If you want to get your own feel for what is happening on the ground in the area of interest to you at the moment these are the things you should be focussing on.

1. The extent to which vendors are taking their properties off the market. The more that do the less the downward pressure on prices.
2. The extent to which vendors cut prices to sell their properties. The more they do the quicker turnover levels will recover and the range available to buyers will shrink.
3. The extent to which buyers start coming out of the woodwork perhaps encouraged by falling interest rates (watch this one). The quicker they do the less the downward pressure on prices and the sooner activity levels improve.

For the record, this week the quarterly ASB Housing Intentions Survey was released. It merely confirms what we already know rather than adding predictive elements. A net 34% of respondents around the country said they expect house prices to fall over the coming year. This is down from a net 1% expecting falls last quarter. As the first graph below shows there is a close correlation between this result and what prices actually do in the relevant quarter with only a slight hint of predictive insight.



A net 9% of people feel it is a bad time to buy a house. This is worse than 0% three months ago but still better than 18% in the September quarter last year. There is a clear directional correlation between this sentiment indicator and annual changes in dwelling sales – but when it comes to magnitude no insight is provided unfortunately.



Key Forecasts

- Dwelling consent numbers to fall from 24,500 in the year to March 2008 to below 18,000 in the year to March 2009 with a slight recovery to March 2010 then above average activity after that as attention turns to a shortage of dwellings late in 2009.
- Real estate sales falling from 77,130 in the year to April 2008 to between 55,000 and 65,000 come the end of this year then recovering back over 65,000 in calendar 2009 with further growth over 2010.
- House prices down 5%-10% by the end of 2008, flat over 2009, rising slightly over 2010, possibly earlier.

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

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.7%	1.0	3.4	2.5	3.4
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%	3.6	3.4	.....	3.7	3.9
Jobs growth	Average past 10 years = 1.9%	-1.3	0.9	-0.2	1.8	2.6
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 analytical series	1.2	1.3	5.5	4.5	5.5
Retail Sales ex-auto	Average past 9 years = 3.8%.	0.2	0.1	3.1	4.9	5.6
House Prices	Long term average rise 5% p.a.	0.4	0.3	8.0	9.7	15.3
Net migration gain	Av. gain past 10 years = 10,400	+4,667	4,804yr	.....	11,230	10,079
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	1.5	2.3	1.5	2.1	0.7
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-34	-25	2	-4	-34
Business activity exps	10 year average = 26%. NBNZ	-3.8	-6.4	20.3	22.5	14.5
Household debt	10 year average growth = 11.3%. RBNZ	10.8	11.6	13.2	13.5	14.6
Dwelling sales	10 year average growth = 3.5%. REINZ	-53.3	-32.1	-32.0	8.9	-2.9
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%	9.59	9.49	8.99	8.80	7.6

ECONOMIC FORECASTS

Forecasts at May 8 2008	**March Years**					**December Years**				
	2006	2007	2008	2009	2010	2005	2006	2007	2008	2009
GDP - annual average % change										
Private Consumption	4.7	2.7	3.4	-0.3	1.4	5	2.5	4.3	0	0.9
Government Consumption	5.1	4.3	4.4	4.1	4.2	4.2	4.7	4.4	4.1	4.2
Investment	5.2	-2.3	5.2	1.1	3.1	3.9	-1.6	4.9	1.9	1.7
GNE	4.2	1	4.8	0.9	2.3	4.3	1	5	1.3	1.7
Exports	-0.1	3.1	3.3	1.9	2.1	-0.4	1.7	3.6	2.9	1.4
Imports	4.1	-1.7	9.5	3.1	2.8	5.4	-2.8	8.9	4.2	2.6
GDP	2.7	1.5	3.2	0.8	2	2.7	1.5	3.1	1.4	1.3
Inflation – Consumers Price Index	3.3	2.5	3.4	3.7	2.5	3.2	2.6	3.2	3.6	2.7
Employment	2.6	1.8	-0.2	0.3	0.6	1.5	1.4	2.5	-0.9	0.2
Unemployment Rate %	3.9	3.7	3.6	4.4	5	3.6	3.8	3.4	4.2	4.9
Wages	4.6	5.5	4.4	4.2	3.3	5.1	5.5	4	4.4	3.5
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.64	0.7	0.8	0.68	0.64	0.7	0.69	0.77	0.69	0.65
USD/JPY	117	117	101	107	118	119	117	112	105	114
EUR/USD	1.2	1.32	1.55	1.47	1.34	1.19	1.32	1.46	1.5	1.37
NZD/AUD	0.87	0.88	0.87	0.77	0.77	0.94	0.88	0.88	0.77	0.77
NZD/GBP	0.36	0.36	0.4	0.37	0.36	0.4	0.35	0.38	0.37	0.37
NZD/EUR	0.53	0.53	0.52	0.46	0.48	0.59	0.52	0.53	0.46	0.47
NZD/YEN	74.6	81.9	81.1	72.8	75.5	82.7	81	86.3	72.5	74.1
TWI	65.6	68.6	71.6	63.1	62.7	71.9	68	71.6	63.1	62.8
Official Cash Rate	7.25	7.50	8.25	7	5.5	7.00	7.50	8.25	7.5	5.75
90 Day Bank Bill Rate	7.55	7.78	8.83	6.99	5.73	7.49	7.64	8.77	7.64	5.81
10 year Govt. Bond	5.71	5.91	6.35	6.15	6.1	5.89	5.77	6.38	6.2	6.1

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.