Bank of New Zealand

BNZ Weekly Overview

8 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….

- **Employment numbers released this morning were far worse than anyone expected – showing economic weakness is leading firms to shed labour. This reinforces short term retailing and housing risks but also means the first interest rate cut is now likely in September. Page 12**
- **Our monthly confidence survey improved for the second month in a row – but sentiment still remains very poor. The same can be said for the Auckland housing market with indicators for April not as bad as expected – but still very poor. Page 14**
- **We consider the case of someone thinking about opening a book store on Auckland's North Shore. A good move or not? Page 3**
- **Still on retailing, we examine the relationship between furniture sales and offshore travel. Page 2**
- **Are people really worse off now than they were four years ago? Page 7**

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".

An Interesting Week

This past week we have seen some interesting developments here and overseas. Internationally the theme is one of the global banking system starting to function a bit better with investors looking for bargains in sharemarkets and bank securities. There was even some slightly better than expected data released in the United States. But in the UK and Europe data have been poor this week, the US housing market looks shot, so downside risks for the world economy still exist.

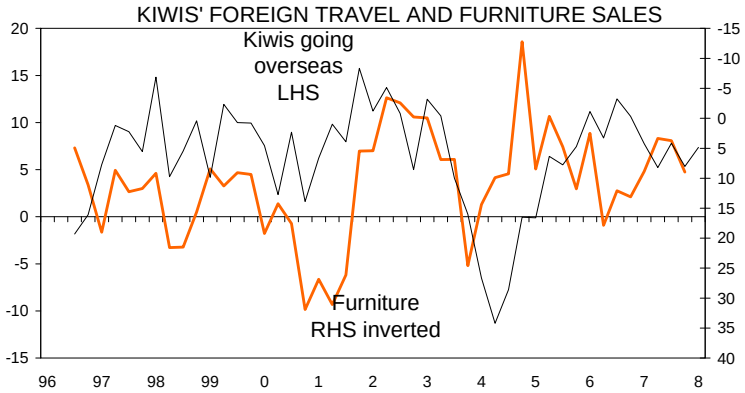
Locally we have seen fixed wholesale interest rates fall to their lowest levels in over a year and bank bill yields hit a six month low in response to two things. First, the Reserve Bank made some very down-beat comments about the economy yesterday and took moves to ease liquidity strains in the interbank market – should such strains reappear. But the big news was extremely weak jobs data released this morning which shows rising unemployment and job numbers down on a year ago for the first time since 1999. We now expect the first monetary policy easing on September 11 with a 0.25% cut – but possibly a 0.5% fall.

Furniture Retailing

We don't take our furniture with us when travelling overseas. But if we stop travelling do we love our furniture more?

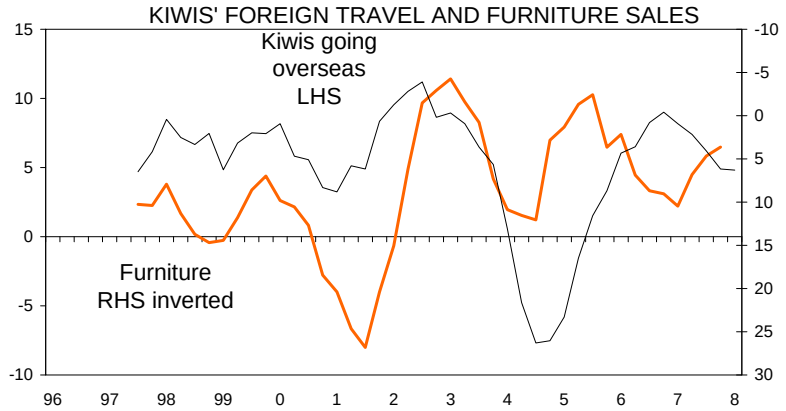
Given the level of interest which articles on the retail scene have generated over the past fortnight we shall keep the theme going by looking at some specifics. One person noted that in the furniture business there is an observed tendency for sales to improve when Kiwis cut back on travelling overseas. One's first thought on this was that it surely cannot happen. If people get concerned enough about their finances to ease off foreign travel they will surely also be cutting back on areas of durables expenditure like furniture.

Fortunately we have data in hand which allow us to examine whether the correlation exists or not. We have aggregated the monthly number of Kiwis travelling overseas to a quarterly basis and taken quarterly furniture store sales data from the Retail Trade Survey. Both sets of data come from Statistics NZ.



If we compare the change from a year ago in real seasonally adjusted furniture sales and seasonally adjusted Kiwi trips offshore we get a hint of some correlation in the first graph shown here. But regression analysis yields an R-squared of just 6% so one could not say a short term relationship exists. Note that the annual change in furniture store sales is measured on the right hand side axis in inverse form. So when the orange line rises that means furniture store sales are weakening.

But what if we stand back a bit further and compare annual totals? Doing this we get the second graph which shows a clear tendency for a decline in offshore travel to be associated with a rise in furniture spending. But note the collapse in this correlation from late-2005. As the rate of growth in Kiwis travelling fell away so too did furniture store sales. Then over 2007 as foreign travel recovered, furniture store sales improved.



What this says to us is that if you run a furniture store you shouldn't necessarily get all that excited about a recent slowing in the rate of growth in Kiwis offshore travel to a seasonally adjusted 0.3% in the March quarter from the December quarter. Further slowing is likely as the exchange rate edges down, household budgets get even further crimped, and airfares go up. But the relationship you may have observed from 1997-2005 did not happen over 2006-07. So watch out for over-optimism.

Note that we ran the same graph just above replacing furniture with other store types and did not find anything approaching the same degree of correlation.

The North Shore Book Market

With prospects for retailing looking poor in the short-term, how much of a fall in sales should a book store owner allow for? And would locating one in North Shore City be a wise move?

During the week a budding businessperson asked us if we had anything to say about the likely growth prospects facing a book store located on Auckland's North Shore. Normally one would not give this more than a few seconds thought – but being in the mood to do some deeper than normal research I put together the following. Hopefully it will be of interest not just to retailers wondering what factors they might consider when thinking about a location, but other businesses as well perhaps contemplating shifts in local labour force availability and such like. The scope for analysis of these things is actually tremendous. Enjoy.

Demographic Analysis

Lets take as a starting point the projections of population change on the North Shore. Statistics New Zealand project that between the census date of March 2006 and 2011 North Shore City population will grow by 14,500 people or 7%. They then project growth to 2016 of 15,000 people or another 6%. In comparison NZ-wide growth forecasts for these two time periods are 5% and 4%. North Shore is an area of potentially greater than normal customer base growth.

Second, thought must be given to the type of people who read books. Assuming we are mainly talking older people here, lets say the age bracket of 40 years and above. In 2006 nationwide this proportion was 44%. On the North Shore it was 43%. Come 2011 nationwide the proportion is expected to be 46% then 47% come 2016. On the North Shore the 2011 proportion is forecast to be 45% then 47% in 2016.

There is no extra boost to potential growth in your market from a change in the age structure of North Shore which is different from the age structure change projected for the country as a whole.

Third, lets run on the theory that people on higher incomes will be more inclined to buy books than those on lower incomes. At census time in 2006 37.3% of people nationwide earned over $30,000 p.a.. On the North Shore this proportion was 45.3%. Only Wellington and Queenstown were higher. The assumed higher propensity to buy books of higher income people implies higher book buying per capita on the North Shore than almost anywhere else in the country on average.

Fourth, if we run on a theory that more intelligent and enquiring people tend to speak more languages and that such enquiring people tend to read more books then North Shore looks like a good bookshop location. For NZ as a whole 2.7% of people speak three or more languages. In North Shore City the percentage is 4%. This level is only bettered by Auckland City at 5.8% - Asian students - Manukau City at 4.6% - Pacific Islanders one imagines - and Wellington City at 4.4%. Looks of books sold there one suspects.

Fifth, we can attempt to reach our conclusion about intelligence and book reading also by looking at qualifications. The 2006 census showed that nationwide only 22.6% of people had a Level 5 Diploma or above. In North Shore City this proportion was 31.4% - the third highest in the country. That sounds good for book buying.

Sixth, if we equate employment with a higher probability of buying books then we get the following. Nationwide at census time in 2006 the census unemployment rate calculation was 3.4%. The North Shore City rate was 3%. This is not unusually low and the reason is that unemployment rates tend traditionally to be very low in the South Island. It gets cold so people leave, plus the ethnic make-up of the South Island naturally produces a lower unemployment rate with fewer Maori and Pacific Islanders for whom unemployment tracks higher than European people.

In summary, demographic information and projections suggests that starting from zero book store presence one would expect higher sales levels on average over time in North Shore City than most of the rest of the country.

Competition

So how many book stores are already there and is the number rising or falling?

The only data we have in hand to gauge whether there has been an unusual decrease or increase in the number of bookshops on the North Shore comes from the annual Business Demographics Survey conducted by Statistics New Zealand. The data are only available up to 2006 for the disaggregated classification of newspaper, book and stationery retailing.

For New Zealand as a whole in 2006 there were 1,025 book outlets. This was a decrease of 13% from the year 2000. Over the same period of time the number of people employed in this industry fell by only 3%. This is suggestive of an increase in the average size of bookshops over the past six years. In North Shore city between 2000 and 2006 the number of these outlets increased from 62 to 63 and the number of people employed in them rose by 18% from 390 to 460.

Nationwide the number of employees per store has risen from 5.3 to 6 people, whereas on the North Shore the increase has been from 6.3 to 7.3.

Using census data the number of people per newspaper, book and stationery outlet per capita nationwide was 3,440 in 2001 and 4,083 in 2006. The North Shore ratios were 3,132 and 3,442 respectively.

Nationwide the stores have become 19% more sparse whereas they have become only 10% more sparse on the North Shore.

There is no evidence to suggest that North Shore city has become relatively underserviced by newspaper, book and stationery stores in recent years. If anything the number of stores compared with the population and the minimal consolidation in store numbers compared with the country as a whole suggests good prospects for book purchases on the North Shore may already be factored into the marketplace.

Spending on Books

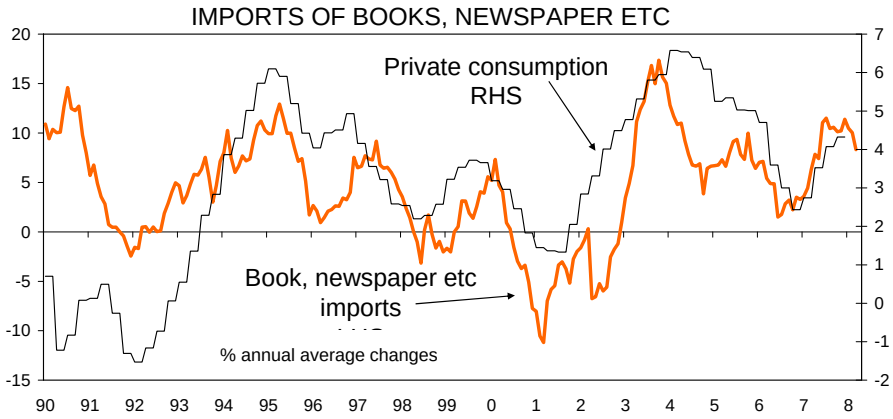
The Household Expenditure survey conducted every three years by Statistics New Zealand shows that in the year ending June 2007 private households spent $269m on books and $259m on newspapers and magazines.

Drivers of Changes in Book Sales

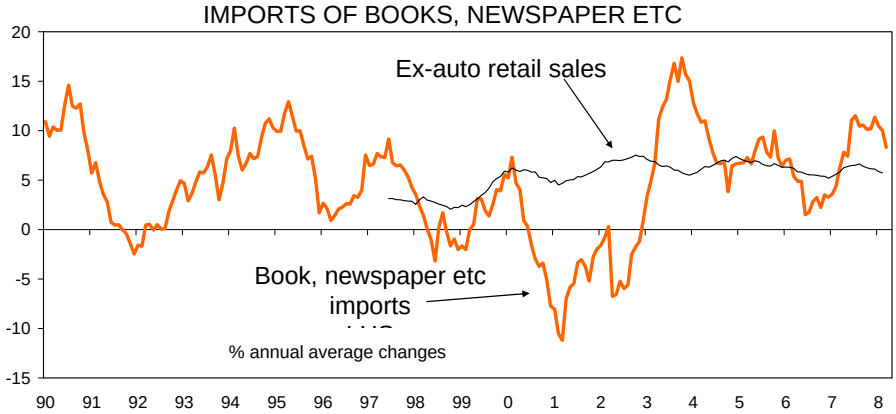
There is no data series available in New Zealand showing us the level of book sales on a regular basis. But on the assumption that most books sold in New Zealand are imported we can examine changes in the value of book imports. In fact the category we have chosen from the Statistics NZ detailed trade data include brochures, leaflets, newspapers, as well as books – given that most book shops sell newspapers and magazines as well as books.

In the year to March 2008 these imports totalled $432m. (In the year to June 2007 the total was $437m.)

We have calculated the annual average rate of growth in the value of imports adjusted for annual average changes in the exchange rate as measured by the trade weighted index. We have then compared the result with annual average changes in private consumption. The results are shown in the following graph.



There is a very good relationship between changes in imports and changes in household spending. Changes in our proxy for book store sales are far more volatile than changes in retail spending excluding the volatile automotives category, as shown in this next graph. This retail data series in annual average change form is only available from 1997.

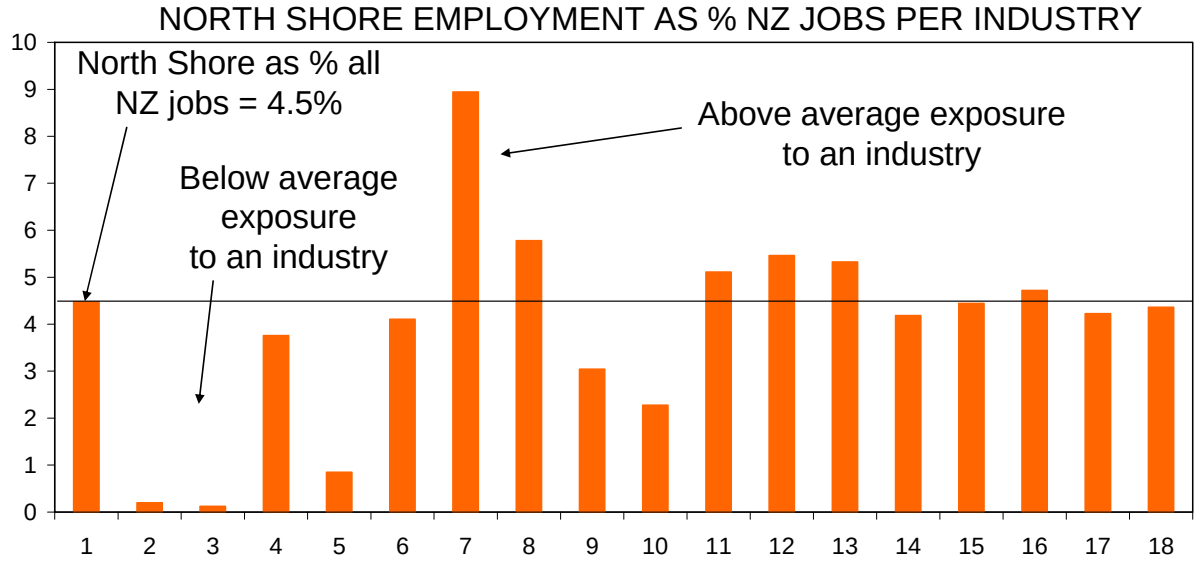


Our expectation is that growth in private consumption will slow from 4.3% over calendar 2007 to just 1% this year and next. On that basis it seems reasonable to expect a decline in book sales of between 5% and 10% this year and next.

North Shore Economy

We have not had time to get into this in the depth we would like to but offer the following. In 2007 4.5% of all jobs in New Zealand were located on the North Shore. The graph below shows this 4.5% as the first vertical bar on the left hand side. The other bars show North Shore contributions to employment by individual sector. For instance North Shore accounted for only 0.2% of jobs in agricultural (hardly surprising), but 8.9% of employment in the wholesale trade and 5.8% of employment in the retail trade. Basically lots of shops, no primary sector and minimal energy, low on tourism, and few freight yards and warehouses.

On this basis the North Shore economy will be hit worse than average by the downturn in retailing this year and next and have no insulation from the strength in farming. Were it not for above average population growth things could look a bit sick but allowing for that population growth economic performance in the area is unlikely to differ much from the NZ average over the next couple of years. But remembering that the book and newsagent business appears already set up to reflect that population growth, we feel happy sticking with the recommendation above to budget for 5% - 10% book sales declines this year and next.



1	Total Industry	10	Transport and Storage
2	Agriculture, Forestry and Fishing	11	Communication Services
3	Mining	12	Finance and Insurance
4	Manufacturing	13	Property and Business Services
5	Electricity, Gas and Water Supply	14	Government Administration and Defence
6	Construction	15	Education
7	Wholesale Trade	16	Health and Community Services
8	Retail Trade	17	Cultural and Recreational Services
9	Accommodation, Cafes and Restaurants	18	Personal and Other Services

Conclusions

If one were to consider purchasing an existing book and newspaper business on the North Shore then it would seem reasonable to take revenue growth numbers from the past couple of years and take 7% off this calendar year and perhaps another 5% off next calendar year when working out what to pay.

One would be entering a market of perhaps higher than average scrutiny of what one has to offer and how than the country on average. So one might have to allow for an above average fit out cost.

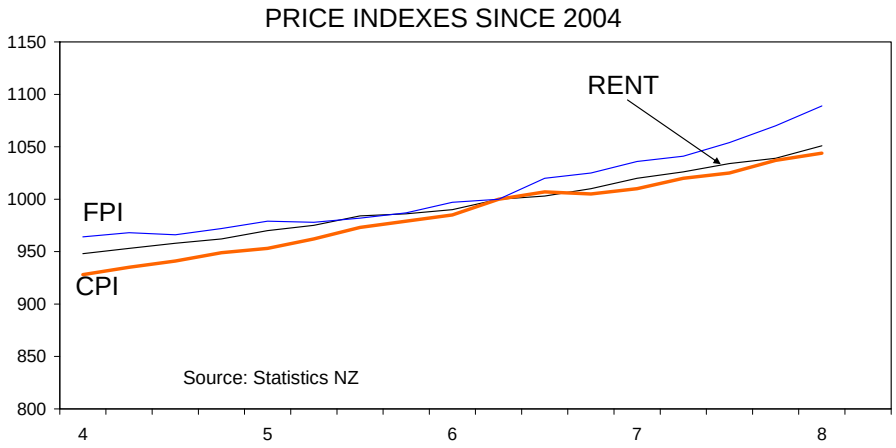
Beyond that one gets more into the business management side of things than economics, plus consideration of things on the ground like location near public transport and so on, as well as deep specifics of the book market. Good fortunes.

Stressed Budgets

Are Kiwis really poorer now than they were four years ago? The highly indebted probably are, but most won't be.

Over the past few weeks newspapers have led with headline stories of sharp increases in the cost of basic household items and estimates that people are substantially worse off than they were a few years ago. But to quote my favourite line from the Alien 3" movie "Rumour-control, here are the facts."

Compared with four years ago food prices on average in New Zealand, measured using the Statistics New Zealand Food Price Index, increased 13%. Over the same period of time the overall measure of the change in our cost of living, the Consumers Price Index, has increased 12.5%. However over the past year the food price index has risen by 6% and it has increased 2% over the past three months. The consumers price index rents measure has increased by 11% over the past four years.



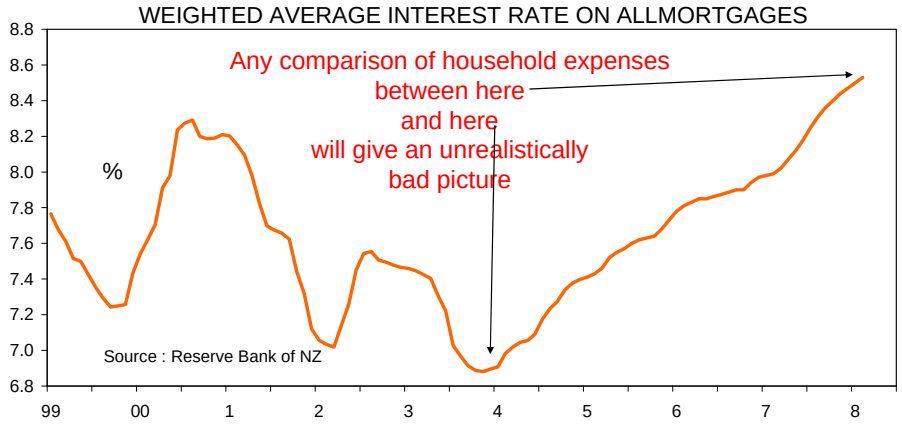
The most up to date data on New Zealand household income appears in the annual New Zealand Income Survey which runs in conjunction with the June quarter Household Labour Force Survey. In the June quarter of 2007 average weekly household income of all households across New Zealand was $667. This was an increase of almost 24% from four years earlier. The increase in income from just wages and salaries was 32%. That easily exceeds inflation.

Average wage rates have risen 22% over the past four years according to the Statistics New Zealand analytical Labour Cost Index. In addition, compared with four years ago the unemployment rate has fallen from 4.1% to 3.6% with 154,000 extra people in work. On that basis it is hard to say people are worse off now than four years ago.

So why so much pain for household budgets if income gains comfortably outstrip cost rises? Partly it is because the things we spend money on most frequently are rising strongly in price - food and petrol. But it is mainly because of the increase in debt servicing costs for those 30% of households which have mortgages.

Back in early 2004 the average mortgage rate applying to all mortgage debt in New Zealand was 7%. This now stands at proximately 8.5%. The benchmark two year fixed housing rate back then was around 6.7% compared with approximately 9.5% now.

One third of New Zealand households have mortgages. The other two thirds are either renting their properties, therefore are little affected by the increase in interest rates, or they own their own properties in which case rising interest rates may benefit them as they probably have some savings.



This means that the pressure on households with mortgages is only going to get worse over the next few months because on average in the coming year people with a maturing fixed housing interest rate are rolling off 8.1% and will be rolling onto something over 9%.

If you are a retailer and you have noticed customers cutting back on their discretionary spending and that those customers tend to be of the younger age group (probably have a mortgage) with children then you are probably going to experience even poorer demand over the next few months as their budgets get further crimped. Then when interest rates fall - well actually you wouldn't want to get too optimistic early in the piece. That is because it is going to take quite some time for a fall in fixed interest rates to lead to reduced debt servicing costs for people with mortgages. This is especially so as the vast majority of people rolling off a fixed rate at the moment are opting for a two-year term. For these people debt servicing costs are not going to ease until 2010 but when they do their rate may drop back about 2%.

Feedback & Queries

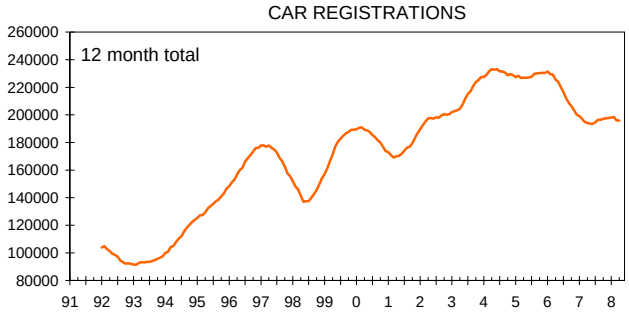
If there are any issues in the Weekly Overview you wish to comment on or you have a query about the economy, send me an email at tony.alexander@bnz.co.nz Useful issues will be discussed in the WO.

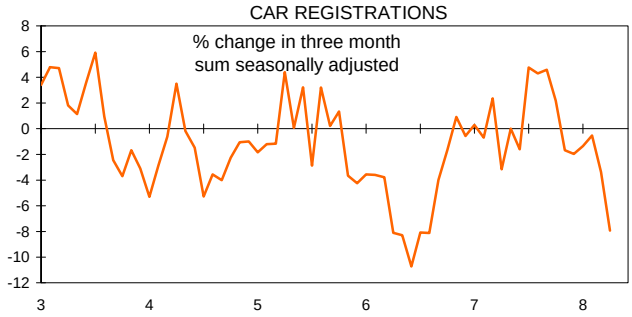
NZ ECONOMIC DEVELOPMENTS

Monday 5

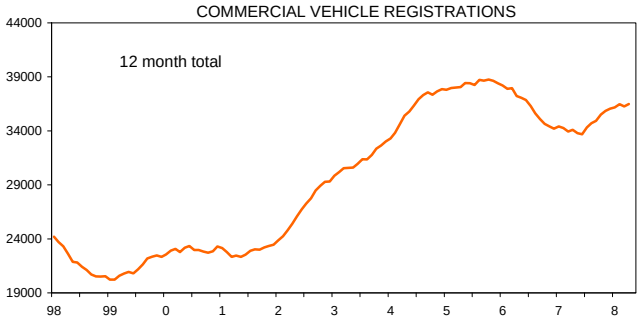
Rego data show tractors racing, cars and trucks in reverse

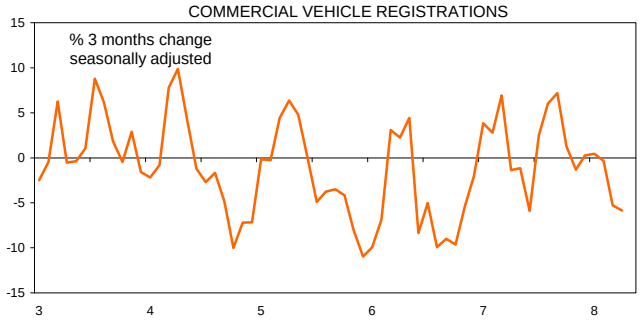
In April there were 14,043 cars registered around New Zealand. Considering the horrible anecdotal feedback we are receiving about the state of the car market it is surprising that this total is down by only 1% from April 2007. For the three months to April car regos were down 4.5% from a year ago and in rough seasonally adjusted terms were down over 7% from the three months to January. That last number probably best shows what is happening with spending on cars around the country as it would be very weird to have car registrations holding up at a time of high pessimism and high debt servicing costs – not to mention falling house prices eating into people's perceptions of how well off they are.





With regard to commercial vehicles there is also a seasonally adjusted decline occurring with regos down almost 6% seasonally adjusted in the three months to April. This again probably gives a better picture of what is happening out there as it is more consistent with the anecdotal feedback we are receiving than the fact commercial vehicle registrations of 2,712 in April were 9% ahead of a year earlier.





And finally, one of the most interesting indicators of all available in New Zealand, tractor registrations, shows that farmers continue to spend up large. In April 171 tractors were registered around the country. This was a strong 19% rise from a year earlier and 8.6% gain for the three months to April on a year ago. In rough seasonally adjusted terms tractor registrations in the three months to April were ahead almost 7% from the three months to January – and that pretty much sums up the divergent experiences of the household sector – stuffed for now by and large, business sector – pulling the horns in with tight cash flows and worried brows, and farmers – looking forward to feeding all those hungry mouths overseas, as they have done since 1882.

At which point it seems useful to quote the words of our Minister for Agriculture Jim Anderton contained in an interview he gave to The Business Herald printed on April 25. After being asked about the idea of the weightless economy and attempts to stimulate development in areas like information communications technology, design, film, biotechnology and telecommunications he said

"We gave those things a real run and we put up a lot of money… we have had for our whole history one competitive advantage in world trade terms and that is our agriculture resource base…" " there is a change here – there's a change in attitude at government level. These industries are being put right at the top of our transformation agenda." http://www.nzherald.co.nz/section/3/story.cfm?c_id=3&objectid=10506660

Hence the NZ Fast Forward fund whereby the government will allocate $700 million to research in the pastoral and food sectors over the next 10 years. http://www.scoop.co.nz/stories/HL0803/S00184.htm

The interesting thing will be to see if any additional funding boost is delivered to the three

Crown Accounts Okay = Green Light For Tax Cuts

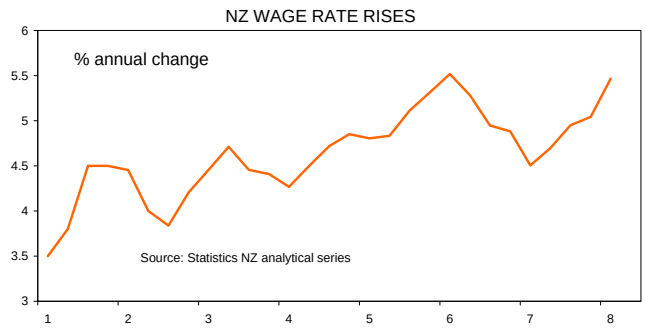
The government ran an operating surplus over the first nine months of this financial year of $4.6 billion excluding gains and losses from investments. This is the measure which one needs to look at to get a feel for what is really happening in the accounts rather than the headline number which can get moved around tremendously by changes in returns from the New Zealand Superannuation Fund, ACC etc. The $4.6 billion surplus was only $0.2 billion less than forecast so things are essentially tracking as Treasury predicted back in December. The main cause of the variance was slightly lower than expected tax revenue across a number of categories. Nothing particularly sticks out as indicating weakness in tax receipts as such. Government expenditure was on track.

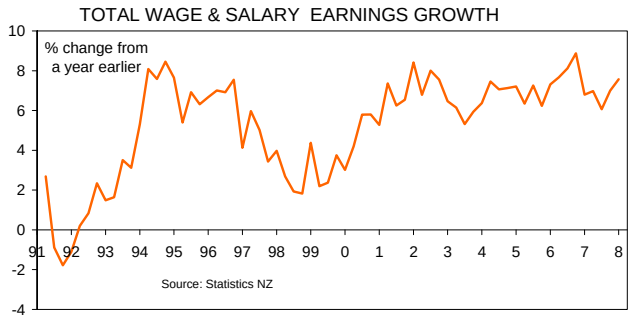
Of importance from a tax cut point of view the cash surplus was $2.1 billion compared with Treasury's expectation of $1.7 billion. It is from this cash surplus that Dr Cullen plans to deliver tax cuts. In that regard, paying away over $660m for the railways sold to the private sector 15 years ago reduces funds immediately available for tax cuts given the Finance Minister's desire to avoid borrowing to fund the cuts. Note though, that he could easily get around this by borrowing for student loans or the capital expenditure the government undertakes – like the rest of us normally do.

Wages Growth Remains Strong = good insulation against depressed sentiment

There are a number of measures around by which one can gauge wages growth. The one which we have chosen to use is the Analytical Labour Cost Index compiled by Statistics New Zealand which has just been upgraded from an experimental series. This particular series focuses on specific positions to try and figure out how much wage rates themselves are actually moving. Other measures suffer from being distorted by changes in where people are working on an industry basis, or they are adjusted to remove the effects of changes in the quality of work done. This latter effect is a problem with the Labour Cost Index which adjusts for changes in the quality of work. This means if you are given two machines to operate each day whereas previously you only had one and you receive a pay rise to reflect the extra work the recorded pay rise will be reduced because of the improved work quality.

This means the Labour Cost Index is best thought as a measure of changes in the unit cost of labour facing businesses. If businesses strongly boost productivity then this measure will show a low increase but wages growth could be accelerating. This measure was up 3.5% in the March quarter from a year ago. But the Analytical Labour Cost Index was ahead by 5.5% from a year ago and that probably better catches changes in hourly incomes for employees. This 5.5% rise was a lift from 5% over calendar 2007 and above the average increase for the past five years of 4.8%.



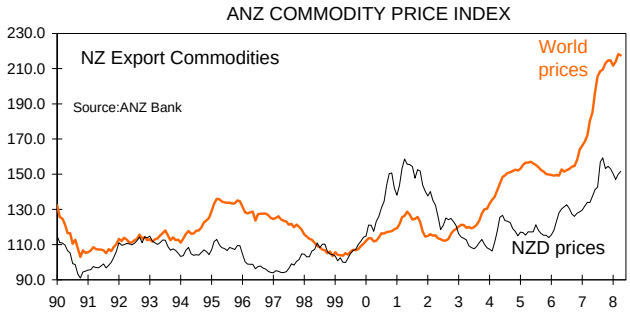


So wages growth remains relatively firm and this will help offset other factors depressing household spending such as rising food and energy costs and higher interest rates. In fact there is extra offset than implied above because of people shifting into higher paying jobs and so on. We can capture that by looking at the Quarterly Employment Survey. The gross earnings of wage and salary earners increased by 1.3% in the March quarter to be 7.6% ahead of a year earlier. The strong growth is shown in the second graph above.

Tuesday 6

Commodity Prices Holding Up = a very important support for the NZ economy this year & next

The ANZ Commodity Price Index in world price terms fell by 0.3% in April to lie 20.6% ahead of a year earlier and 59% above its average level over the past decade. This sharp improvement in our export prices is significant because ahead of the past two recessions prices on average fell 22%. This time they have risen over 40% in the past 18 months. This will heavily insulate the economy against the effects of high interest rates, the housing market correction, and high food and energy prices depressing household sentiment.



In NZD terms the index improved 1.1% in April courtesy of a weaker NZD to sit 13.3% ahead of a year ago and 21% ahead of the ten year average. With the NZD cyclically edging slowly lower while commodity prices probably broadly remain firm for our food exports we expect this index to improve over the coming year – with the area to watch being sheepmeat and beef prices where some upward correction in prices is long overdue in a world searching for protein – actually the big search is for carbohydrates at the moment given shortages of rice and grains.

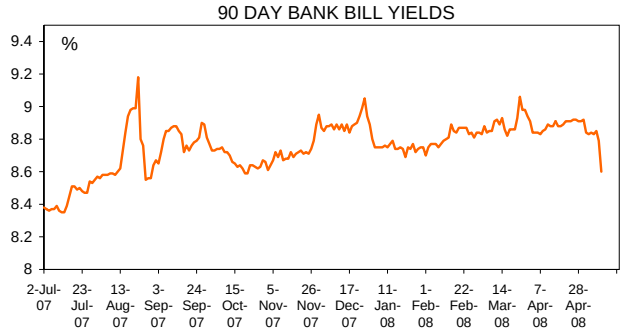
Thursday 8

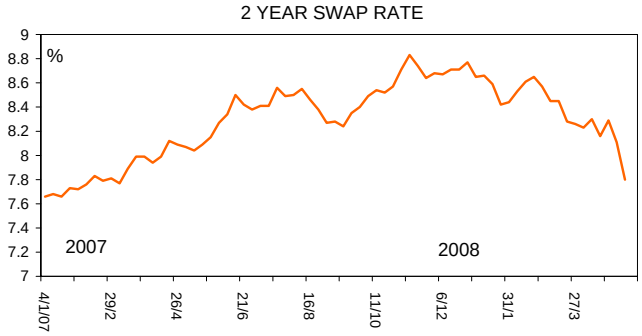
Labour Market Softens Substantially

New Zealand's unemployment rate rose to 3.6% in the March quarter from 3.4% in the December quarter courtesy of a 1.3% fall in job numbers. This is the biggest quarterly employment decline since 1989 and has taken the annual rate of change in job numbers to -0.2% which is the first annual decline since 1998. While it is possible the decline has been made to look worse by a sharp fall in female employment of 1.9%, with this series strangely being characterised by some often very large movements, the numbers are still decidedly weak. The implications are mainly discussed in the Interest Rates section just below.

INTEREST RATES

Wholesale interest rates have declined this week with the two year swap rate falling to just below 7.8% from 8.11% last week and a recent peak of almost 8.7% in February. The yield on 90-day bank bills has ended near 8.60% from 8.84% last week.

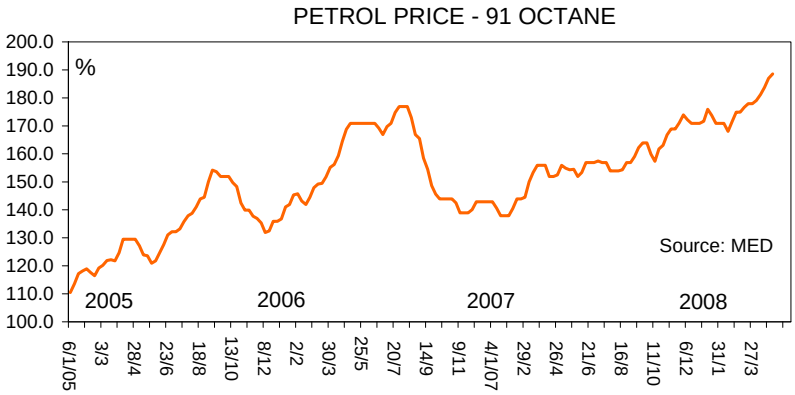




The declines were initially driven by the Reserve Bank's decision to provide more liquidity to the banking system – should it be needed. The details are at the link below and are not in themselves important. The extra liquidity is more in the form of insurance in case credit conditions deteriorate anew overseas. But perhaps because the change comes at a time when things are improving offshore they have had an extra impact. http://www.rbnz.govt.nz/news/2008/3310327.html

Interest rate declines then got a boost this morning when Statistics NZ announced a 1.3% fall in job numbers during the March quarter and rise in the unemployment rate to 3.6% from 3.4%. The result was much weaker than expected and because it implies less inflationary pressure than previously thought we now forecast the RB will start cutting the official cash rate on September 11. Ahead of the election in other words. We expect the cuts to progress in 0.25% moves taking the cash rate to 6% come late 2009. But there is a chance they kick things off with a 0.5% cut.

Will the government's decision to delay the inclusion of liquid fuels in the carbon emissions trading scheme until 2011 improve the inflation outlook enough to allow the Reserve Bank to ease monetary policy even faster? The problem here is that although the delay takes an estimated 0.3% off inflation over 2009 (RB estimate), since the RB made that estimate and their last set of forecasts was delivered in March, petrol prices have risen about another 13 cents or 8%. With petrol having a 5.4% weighting in the consumers price index this means an extra 0.4% to inflation in the short term.



But the RB are aiming their monetary policy at inflation 18 months from now by which time the latest petrol price rise will have gone out of the inflation rate. So at the margin the government's pragmatic pre-election decision does improve the inflation outlook and increase the chances of the first rate cut being 0.5% rather than our pick of 0.25%.

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	8.60%	8.84	8.85	8.75	8.08	6.4
10 year govt. bond	6.30%	6.50	6.43	6.38	6.08	6.5
1 year swap	8.15%	8.55	8.71	8.78	8.21	6.6
5 year swap	7.45%	7.68	7.89	8.09	7.70	7.0

If I Were a Borrower What Would I Do?

First I would think twice before borrowing. The lesson for so many people now is that it pays to think carefully before committing yourself to an historically high level of debt your parents would not have touched with a bargepole. But having said that, these days one has to take on a higher level of debt compared with one's salary to buy a house as house prices have structurally lifted in recent years to reflect a number of things including the following.

- Faster average population growth due to higher average annual net migration inflows.
- Higher construction costs due to tougher building standards, an increase in the average size of a newly built house, and reduced availability of land in some parts of the country.
- Greater availability of credit than before 1984 allowing more people to raise debt therefore more people to buy houses in the first place.
- Reduced average interest rates compared with before 1992 with inflation sitting at a lower level on average. Halve the interest rates and people will try to borrow double the amount they borrow because we tend to base spending decisions more on weekly affordability than long term wealth considerations.
- More households have two breadwinners these days than three decades ago. House prices have naturally adjusted to higher household purchasing ability. This means single income households are decidedly worse off.
- Better long term prospects for the economy and job continuity than most people were thinking before the upturn in 1993.

These factors mean that while analysis of historical variables may produce measures suggesting house prices are x% above some concept of average – what we know is that sustainable averages change over time. An example would be most analysts believing the NZD will sustain a higher average going forward than since the float in 1985.

But back to what I would do if borrowing. I'd fix one year at most and back my view that interest rates could start falling reasonably quickly from September at the latest given growing signs of weakness in the economy over the short term. And to repeat the comment from recent weeks – while one can understand most people are still fixing two years for the certainty the rate offers, this seems like a high price when set against the declining interest rate forecast.

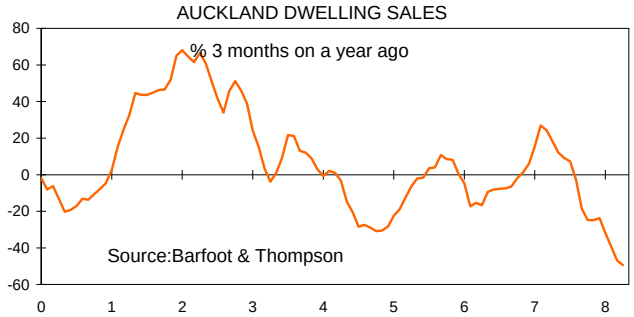
HOUSING MARKET UPDATE

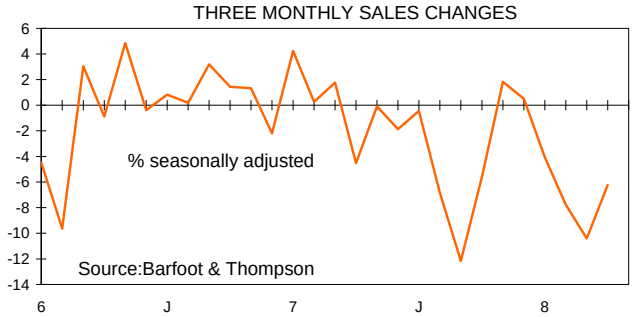
The monthly Barfoot & Thompson real estate data show a weak market – but something interesting on the price side.

This week we received the first official gauge for what happened in the real estate market in April in the monthly Barfoot and Thompson numbers for Auckland. In summary the data tell us this.

- There is not a fresh wave of vendors placing their properties on the market but because buyers are holding back turnover is down 50% from a year ago and the total number of properties for sale is ahead over 70% from a year ago.
- The proportion of turnover at prices below $500,000 has increased but the average sale price hardly budged in April. This suggests perhaps less discounting of below average priced properties than the anecdotes have been suggesting. Interesting.
- A traditional very good correlation between the ratio of sales to listings and prices suggests further declines in prices are likely – but perhaps only 5% - 10% at the very worst.

In April the number of dwellings sold was down by 50% from a year earlier at 453. This was the lowest monthly April total since 1998 and in that regard is exactly the same as the March result for Barfoot and Thompson which was also the lowest since 1998.

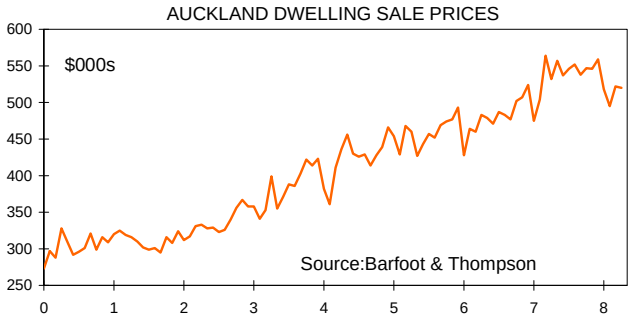


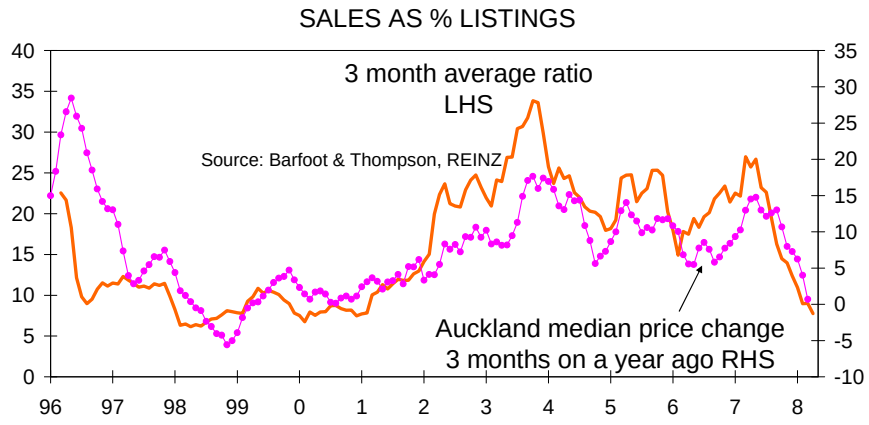


What is interesting is that whereas in rough seasonally adjusted terms their sales in March were down around 30% from February there was a small seasonally adjusted improvement in April of 4%. But just as the March result was undoubtedly biased downward by the earliest occurrence of Easter since 1913 so too is the April result likely to be biased upward marginally through a simple month on month comparison.

Because of that we are not willing to interpret this small reduction in the annual rate of decline and small seasonally adjusted improvement as a sign that the worst is over. The housing market remains fundamentally very weak with turnover running about 50% down from last year's levels which is a shocking rate of revenue decline in anyone's terms.

The average sale price came in 2.2% down from a year earlier at $520,000 but this was only down marginally from $522,000 in March. This result however is quite interesting because whereas in March only 42% of dwelling sales were for prices below $500,000 in April the proportion was 48%. One would have expected a relative improvement in activity at the lower end of the market to drag down the average price. That this did not happen could suggest one or two buyers have come out of the woodwork to take advantage of a great number of sellers and that the extent of price discounting by sellers might not be quite as large as some of the anecdotes would suggest.

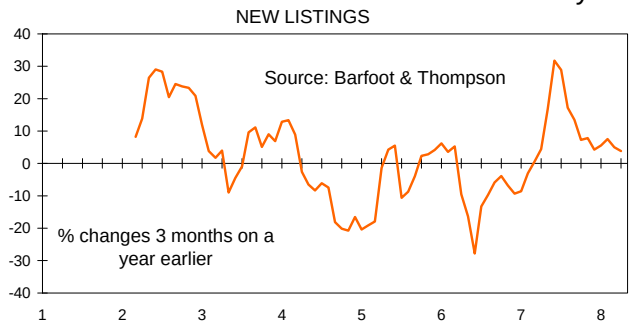


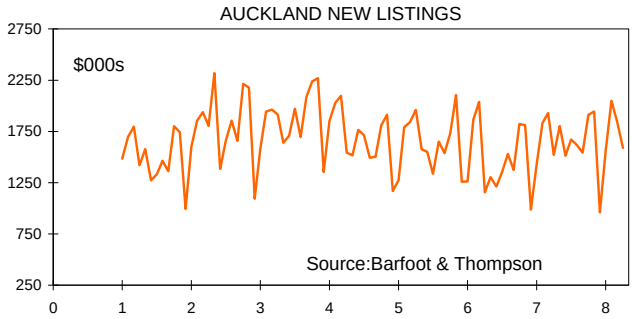


The graph just above is one of our favourites. It shows a very strong correlation over the past decade between movements in the ratio of sales to listings and the annual rate of change in Auckland dwelling sale prices as measured in the monthly REINZ series. With the ratio of sales to listings now about as low as it is likely to get, scope for falls in average house prices more than between 5% and 10% from their current levels appears minor.

But the market remains in fundamental oversupply at current prices as indicated by the total number of listings at the end of April sitting 76% ahead of a year earlier at 7,483 properties. The ratio of sales to listings was just 6% which was the lowest for any month since April 1998.

The number of properties newly listed in the month was 1,590. This was only a 4.5% increase from a year earlier which followed a 4.5% decrease from a year earlier in March.





What this tells us is that there is not a new wave of properties being placed on the market but instead those being listed are not being sold at the other end. Think of it as a tank of water with a tap at the top and an outlet down the bottom. The tap at the top represents new listings while the outlet at the bottom represents sales. The tap at the top is turned on at fairly much the same degree as it always has been. But the outlet at the bottom is clogged up hence the volume of water in the tank as rising. That is seen in the number of listings being ahead 76% from a year ago.

Overall, the numbers show us a market bereft of buyers, with average prices still quite likely to fall over 5% in coming months following a decline of approximately that proportion in the first four months of this year. Of course if a fresh wave of vendors were to enter the market as some commentators feel could happen in coming months then downward pressure on prices would be intensified. And if in this year's Budget on May 22 the government takes actions which improve the inflation outlook, then an alteration in the timing of monetary policy easing expectations could equally cause some buyers to decide it's not worth hanging on any longer. That would seem an overly optimistic expectation.

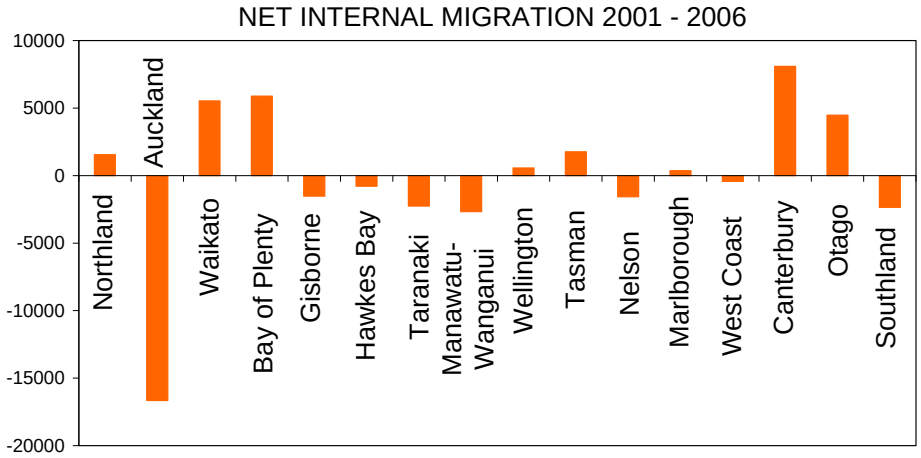
INTERNAL MIGRATION

Auckland is where immigrants go, but us Kiwis shoot through

During the week a real estate agent referred us to their web site suggesting it had useful information on the real estate market which perhaps we might think about including a link to in this section. Good try. A big problem however, which we pointed out to them, was that they stated on their site one of the reasons the outlook for Auckland real estate was so good is because of internal migration boosting the population.

Now if they had just stuck with forecasting strong population growth everything would have been okay because Statistics New Zealand predict that between the census in 2006 and the next one in 2011 the Auckland region population will grow by 8% compared with 4% for NZ overall. Over the following five years the forecasts are 7% and 4% respectively.

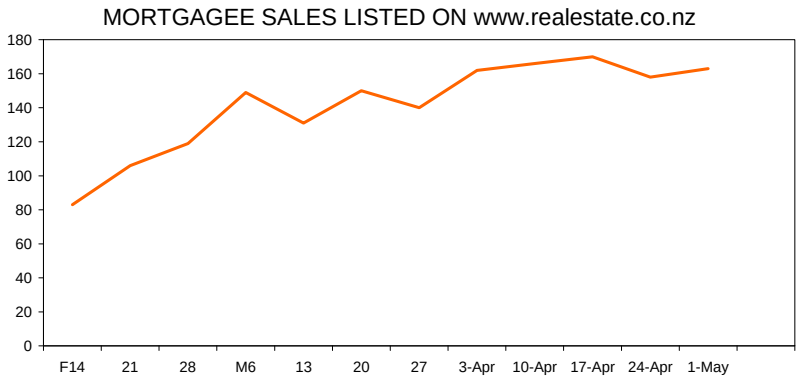
But internal migration is taking Kiwis out of Auckland. Between 2001 and 2006 internal migration took a net 16,662 people away to other regions as a gross inflow of 59,301 people was offset by a gross outflow of 75,963. The following graph shows which regions gained from internal migration and which lost people.



http://www.stats.govt.nz/census/2006-census-data/quickstats-about-population-mobility/quickstats-about-population-mobility.htm?page=para009Master

Mortgagee Sales

Our friendly correspondent in Vienna has sent through his monthly collection of mortgagee sales listed on www.realestate.co.nz. Listings are still rising but at a slow pace. He raised a good point that the site seems to be getting maintained more frequently with old listings more quickly removed than in the past. If so then the data here give a downward bias to what is happening compared with past observations. Then again, if people are tending to search for mortgagee sales, maybe agents are including this term in their site advertisements simply to get more hits. Surely none would try such trickery?



The Cold Hard Reality

This sums up the situation facing many vendors.

"I put my Whangarei encumbered rental property on the market October last year at $337k. Offer of $335k within 2 weeks, conditional on the sale of another property. The buyer "pulled the plug" January as hadn't sold there property and I escalated into a "down market" I now have 2 offers on the table of $230k and feel this is a "joke" given the registered valuation early November 2007 was $339k. I really wanted to sell as need funds however, don't want to loose $100k as expected. Thinking of renting over winter and re-putting it on market in spring, but will the market be worse?"

This comment received during the week sums up some general themes in the current housing market.

1. If your property has been on the market for a while the buyers will know you could be desperate so they may only put in "silly" offers. The longer you leave the listing up the worse this may get.
2. Vendors are increasingly thinking about taking their property off the market and renting it, with vague plans of putting it back on the market sometime down the track.

For vendors the appropriate course of action is obvious. If you don't have to sell then take your property off the market. If you do have to sell then you'll need to take a haircut as one agent put it recently. For buyers the message is that the market is in your favour, but don't over-estimate how desperate venders are to sell.

In The News

In this new section each week we will include links to articles in the NZ media which we feel add something to the picture about what is happening in the country's residential real estate market. The list will be very selective rather than a bulk dump of everything out there. Sometimes it will be empty.

Sorry journalists, but nothing reached up and grabbed our attention this week. However we have some extra commentary relevant to the housing market in our Interest Rates section above under "If I were a borrower what would I do?"

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/

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%.	0.0	0.1	5.2	4.1	6.1
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	+4,675	5,494yr	.....	12,090	9,746
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	2.1	1.8	2.1	2.8	-0.4
		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 Apr 10 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	3.6	0.7	1.4	5	2.5	4.3	1	1
Government Consumption	5.1	4.3	4.4	4.2	4.2	4.2	4.7	4.4	4.2	4.2
Investment	5.2	-2.3	5.1	1	3.3	3.9	-1.6	4.9	1.7	1.9
GNE	4.2	1	4.9	1.4	2.3	4.3	1	5	1.8	1.8
Exports	-0.1	3.1	2.9	0.6	2.1	-0.4	1.7	3.6	1.3	1.3
Imports	4.1	-1.7	9.4	3.1	2.8	5.4	-2.8	8.9	4.1	2.7
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	3.3	2.5	3.2	2.6	3.2	3.2	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	101	112	119	119	117	112	107	118
EUR/USD	1.2	1.32	1.55	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	0.52	0.49	0.49	0.59	0.52	0.53	0.5	0.5
NZD/YEN	74.6	81.9	81.1	77.3	77.4	82.7	81	86.3	77	77.9
TWI	65.6	68.6	71.6	65.4	64.1	71.9	68	71.6	66.7	64.8
Official Cash Rate	7.25	7.47	8.15	7.5	5.75	6.99	7.44	8.19	8	6
90 Day Bank Bill Rate	7.55	7.78	8.83	7.54	5.81	7.49	7.64	8.77	8.19	6.06
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.