Bank of New Zealand

BNZ Weekly Overview

17 July 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….

- **Retail numbers show spending sharply in reverse in some storetypes. We consider vehicle sales. Page 2**
- **The labour market has loosened by many measures and anecdotes, but remains tight according to at least one number and other anecdotes. Page 4**
- **Activity in the housing market remains depressed and worsening investor risk tolerance overseas suggests relief from falling retail housing rates will appear but not be all that great within the next six months. Page 10**

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".

Another Bad Week

It's been another bad week for the world economy with nothing to suggest anyone's pick of when the NZ economy is going to improve needs to be brought forward in time. We have learned that New Zealand's inflation rate is at a 13 year high of 4% which is higher than expected for the year to June and is therefore exerting extra downward pressure on the real purchasing power of New Zealand household income. This is more bad news for the retailing sector and the housing market though we think at a pinch the Reserve Bank will refrain from cutting interest rates next Thursday and instead hold on until September.

Speaking of retailing, we have also learnt that spending fell 1.2% in the month of May with exceptional weakness in motor vehicle and furniture sales. The rural real estate market however remains strong with rising prices and growth in sales from a year earlier.

Internationally it's been fairly much bad news. The Federal Reserve Chairman in the United States has downgraded his expectations for growth in the US economy while continuing to express concern about inflation. The fifth US bank failure for the year occurred and the Federal government is having to step in to provide liquidity for two government-sponsored organisations who are involved in around 50% of total mortgage lending in the United States. Weak economic numbers have appeared in Europe and the United Kingdom and share markets have continued to weaken – though with a decent rally overnight.

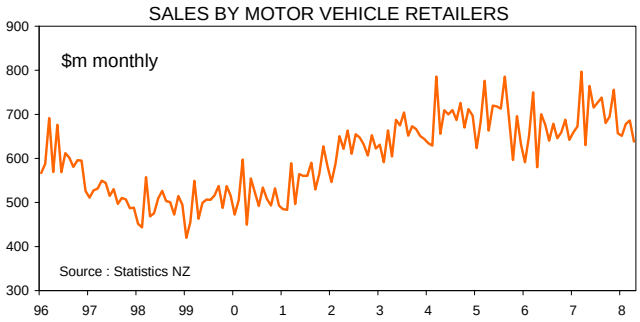
Oil prices have fallen but only because the outlook for world growth is getting worse and worse.

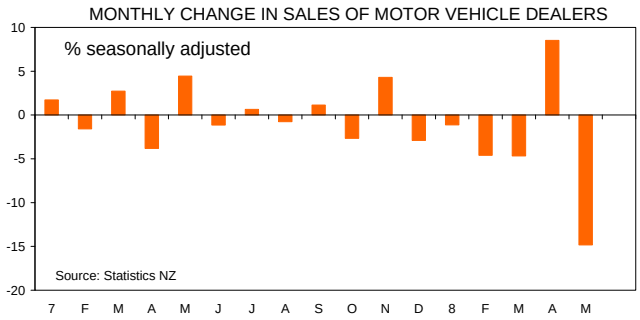
Retailing Sector Hard Pressed

New Zealand's retail sector is very weak and there is no reason for believing improvement lies just around the corner.

Munted Motors Ltd

This week's Statistics New Zealand released their monthly numbers on retail spending around the country and one of the most interesting things was news that seasonally adjusted motor vehicle sales fell by a whopping 14.8% in May. The value of sales was down 19% from a year earlier and at the lowest level for the month of May since 2001.





An earlier one-off business fleet purchase probably accounts for some of the sharp pullback in the month of May because after all the seasonally adjusted rise in April of 8.5% is not what one would expect to see in this environment. Motor vehicle sales are being depressed by a wide range of factors. Above average interest rates are making it more expensive for people to finance vehicle purchases. Secondly, the labour market is weak and eating into people's willingness to take on board debt to purchase a vehicle.

Third, consumer confidence is at a 17 year low and that is bad for all areas of retailing. Fourth, business cash flows are under pressure from rising costs at the same time as consumers are closing their wallets. It's only natural that in this sort of environment businesses would look to delay vehicle purchases.

Fifth, petrol prices have gone through the roof making the cost of running a motor vehicle relatively more expensive compared with other areas of household spending.

Not that these figures tell all of the story. In the motor vehicle industry there is a large over-supply of vehicles partly created by a rush of imports ahead of the January 1 introduction of tough new emissions standards. This over-supply will be depressing the value of stock held by dealers while also boosting debt servicing costs. In addition it is likely that people will be looking to raise extra money in the current tough household budgeting environment by selling off spare motor vehicles. So a 19% decline in motor vehicle spending between May last year and May this year sounds bad enough but the impact on motor vehicle dealer profitability would be immensely more.

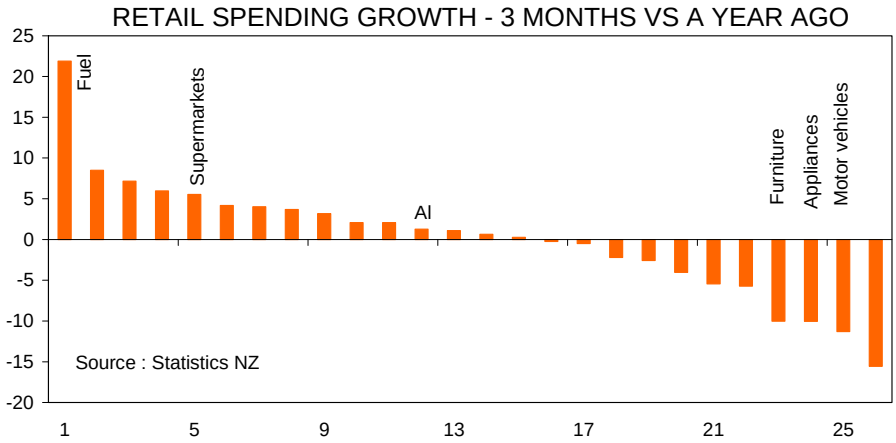
Can we start to take a stab at when the vehicle industry may start picking up again? We only got a couple of vehicle related responses to our monthly survey of Weekly Overview readers. One noted strong motorcycle sales while the other noted that used-car sales are the weakest seen in a long time. Other anecdotal feedback would suggest conditions remain dire in the industry.

With the Kiwi dollar expected to fall and no firm basis for believing oil prices will be declining over the coming year it seems reasonable for people to pencil in petrol around $2.50 a litre in a years time. This will keep suppressing motor vehicle sales through 2009 into 2010. In addition we expect the unemployment rate to rise over perhaps the next couple of years. This will also tend to depress sales. Sales will also be constrained by people changing their lifestyles to reduce dependence on motor vehicles. This may mean living within walking distance of schools, shops, and work, and perhaps even going back to one car per family as was the case up until the 1980s.

The export led upturn is likely to only slowly gather pace over 2009 which will produce better sales in many of the regions but not produce a positive urban car sales environment until perhaps the end of 2010.

In other words, the motor vehicle retailing industry faces a great range of negative factors that are likely to keep activity levels suppressed for perhaps another couple of years. We are likely to see substantial rationalisation in the sector involving business closures and amalgamations perhaps with some of the bigger players altering ownership of international franchises. But note that we are also likely to see outperformance by motor vehicle dealers selling the smaller and more fuel efficient vehicles people are now switching toward. Those heavily dependent upon SUV sales and other gas guzzlers face very bleak times indeed. For collectors of classic motor vehicles bargains galore will abound both here in New Zealand and overseas.

As for the rest of the retailing industry's recent performance – read it and weep.



		3 mths on year ago			3 mths on yr ago
1	Fuel	21.9	14	Chemists	0.6
2	Hshld Equip. Repair	8.5	15	Hardware	0.3
3	Bars	7.2	16	Clothing	-0.2
4	Footwear	6.0	17	Fresh meat fruit & veges	-0.5
5	Supermarkets	5.5	18	Other retailing	-2.2
6	Cafes & Restaurants	4.2	19	Takeaways	-2.6
7	Liquor	4.0	20	Recreation	-4.0
8	Automotive repair	3.7	21	Pers & hshld gds hiring	-5.4
9	Accommodation	3.2	22	Auto-electrical repair	-5.7
10	Other Personal	2.1	23	Furniture	-10.0
11	Dept Stores	2.1	24	Appliances	-10.0
12	TOTAL ALL	1.3	25	Motor Vehicles	-11.3
13	Sub Total excl auto	1.1	26	Other food	-15.6

The New Zealand Herald ran a good article this week putting the current downturn in the retailing sector in perspective when it comes to longer-term plans. You may recall that in the Weekly Overview of May 3 we examined some of the factors which somebody contemplating opening a bookshop on Auckland's North Shore should take into account. The newspaper article noted the current expansion plans of Dymocks, the store refit of Paper Plus, and planned regional expansion Whitcoulls.
http://www.nzherald.co.nz/section/3/story.cfm?c_id=3&objectid=10521367

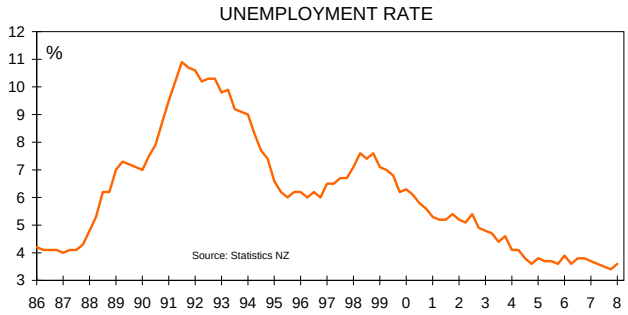
They focus on the fact that just because your sales may be weak at the moment with cash flows under pressure does not mean medium to long-term expansion plans should be shelved. In fact in this sort of environment if you are one of the earliest businesses in your sector to get cash flow leakage under control you can be well positioned to take advantage of the problems affecting others. These problems may manifest themselves as good locations becoming available and perhaps good staff as well.

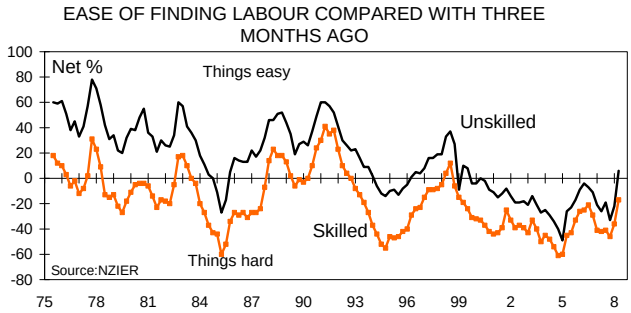
"You do need to continue and develop and invest in your business all the time. You can't just stop because you're having a rough ride in any month."

Some Thoughts On The Loosening Labour Market

The unemployment rate has risen from 3.4% to 3.6% and will probably hit 5% within two years. That will be a low peak for the employment cycle and even though surveys show improving labour availability they also show labour shortages are a continuing problem.

Two recessions ago in 1991 New Zealand's unemployment rate sat at almost 11%. The period of growth between 1993 and 1997 saw the unemployment rate fall to 6%. It then peaked at 7.8% late in 1998 after the end of the last recession before falling away to a recorded low of 3.4% in the December quarter of last year. Since then it has risen slightly to 3.6%.

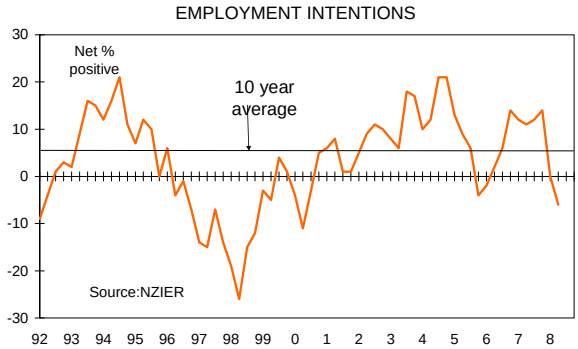


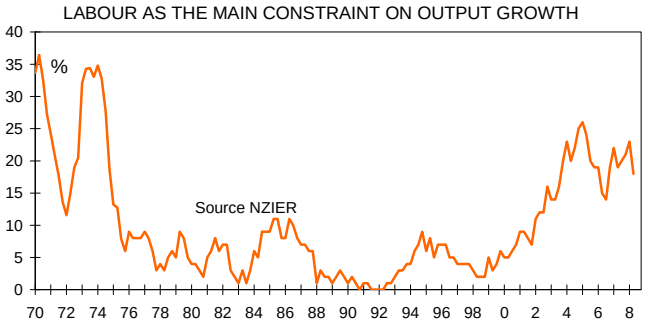


Our expectation is that the unemployment rate during and following this recession will rise to about 5% but the chances that it reach the 6% currently forecast by the Reserve Bank are not particularly high and here's why.

First, it is obvious that our labour market is weakening. Job numbers fell 1.3% in the March quarter to record the first annual jobs decline since 1998. The recently released Quarterly Survey of Business Opinion from the NZIER showed that in the June quarter a net 17% of businesses said that they found it hard to get skilled labour. This was a strong reduction from a net 36% in the March quarter. It was also well below the 34% 10 year average.

A net 6% of businesses said they intend laying off employees which was down from 0% in the March quarter and a net 11% planning to hire more people a year earlier. In addition 18% of business respondents said that a shortage of labour was the main reason they could not increase output. This was down from 23% in the March quarter.





However this latter reading was still well above the 10 year average for the June quarter of 14% and still above 14% recorded in the September quarter of 2006.

What this says to us is that because of cash flow considerations businesses have pulled back on their hiring and are willing to contemplate laying some people off. However businesses appear to remain strongly

aware that outside of the cyclical weakness in the economy we are short of labour. For instance here is some of the feedback in our July survey of Weekly Overview readers.

- In the information & communication technology sector – "Still generally good with staff shortages, but more customer cost focus." And "Experienced staff are becoming harder and harder to recruit and even more difficult to retain."
- Chartered Accountancy. Busy as per usual. Growth opportunities look superb. Trying to find staff to service the growth.
- Farming "With the increase in payout expected to sheep farmers this will also add to our work load however our major handicap is attracting suitable staff to a rural area."
- Early childcare. "Qualified staff are critically short"

There were other comments of course

- From an architect firm. "We were looking for staff at the start of the year (severe shortages of people in our industry) but now I have heard of three architecture firms recently laying staff off. We are not looking to hire anymore."
- An HR firm. "local employers are looking seriously at how they can maintain their current staff levels and in many instances have been forced to retrench staff due to diminished turnover."

From 2011 as baby boomers start retiring the structural labour shortage is going to become even worse. More than that, there could be some interesting regional variations. For instance given the positive outlook for the primary sector on the back of growing world demand for food the outlook for the regional economies with their predominantly primary sector economic bases is more positive than for many cities. For young people there is little incentive these days to go to a big city in order to find work. Plenty of jobs are available in the regions.

Employers may want to consider this outlook when thinking about where to expand their businesses. In particular give thought to evidence of the ageing population moving out of Auckland into other parts of the country including Northland, Bay of Plenty, Canterbury and Otago. The sharp rise in petrol prices also has relevance for where one locates employment facilities. High commuting costs mean employers located close to main public transport routes could find accessing staff easier than those located where staff have no choice other than to drive. And again in the regions the reduced commuting times for people to work, school, and shopping argues in favour of perhaps some better employee availability.

Acknowledging the structural shortage of employees perhaps also means acknowledging that one's work premises need redesigning. With choice of where to work people may prefer more modern premises with good facilities rather than old poorly furnished facilities. Retailers who are used to focusing on how their store appears to customers should also consider how their store in the back areas appeals to potential employees.

For businesses who have got their cash flows under control this cycle the cyclical easing in the labour market presents opportunities to improve average staff quality. And there is also already strong evidence that where large-scale facility redundancies have been announced employers have immediately been on the phone wanting to get themselves in front of employees offering jobs. This has happened with Fisher and Paykel and the Oringi meat works recently closed near Dannevirke.

For some employers the structural shortage of labour may mean the business simply cannot grow or perhaps greater profitability is attained by cutting output and staff dependency and pricing one's product higher. For many others the answer, as we noted earlier in the handout, is to boost productivity through investment in buildings, ICT, plant and machinery, and perhaps management processes.

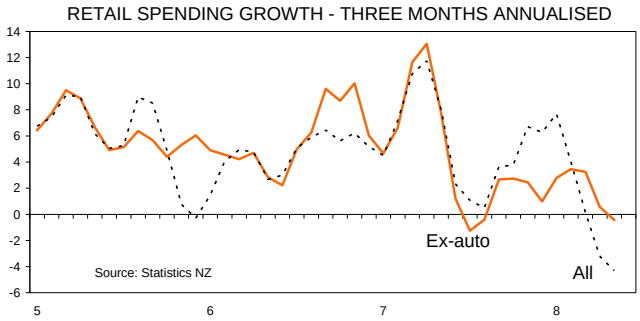
Given that over the longer term greater attention is going to have to be paid to securing and managing staff perhaps it would be a good idea during this period of weak output growth to get systems in place for better employee management when the expected upturn in the economy comes along from 2010.

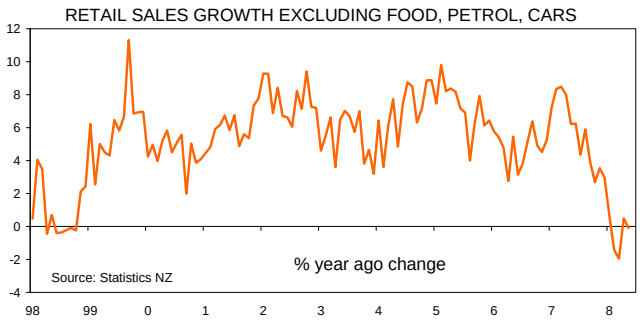
NZ ECONOMIC DEVELOPMENTS

Monday 14

Retailing Weak

After adjusting for seasonal effects retail spending in nominal terms fell by 1.2% in May. However this result was biased downward quite heavily by a collapse in vehicle sales which were down a massive 14.8% in the month. If we take out the large and volatile automotives sector - which includes fuel sales - then retail spending actually improved 0.7% over the month. This followed declines of 0.3% and 0.4% in the previous two months and meant spending was ahead just 1.6% from a year earlier though allowing for inflation that means the volume of spending is going down. In fact on average over the past three months there was an annualised decline in retail spending excluding the automotive sectors of 0.4% or over 4% in volume terms.

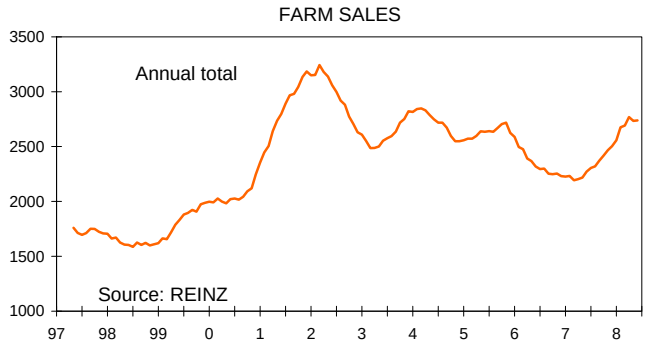


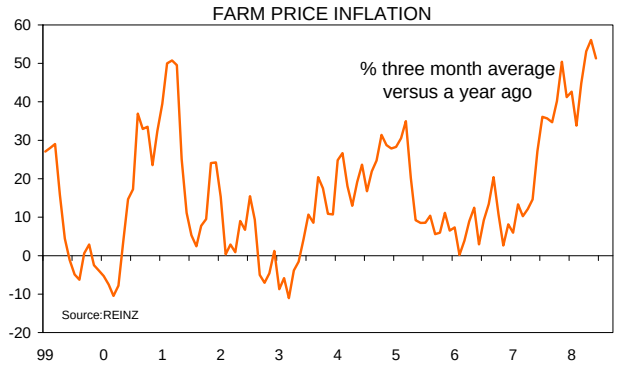


Retail spending is falling and the anecdotes produced from our monthly survey of Weekly Overview readers along with comments in the media from major retailers indicates that the 0.7% improvement in retail spending in May could easily be more than reversed when June figures appear in four weeks time.

Rural Real Estate Market Booming

In June there were 216 farms sold around New Zealand. This was a small 2% increase from a year earlier meaning that over the June quarter farm sales were 6.9% ahead of a year earlier and ahead by 21% for the entire year to June. The rural estate market is very strong with massive underpinning from the boom in the dairy sector and perhaps also a few punters expecting better prices for red meat further down the track. Over the June quarter the average farm sale price of $1.8 million was ahead a whopping 51% from a year earlier.



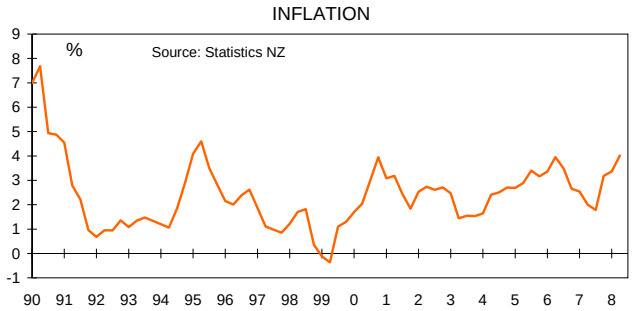


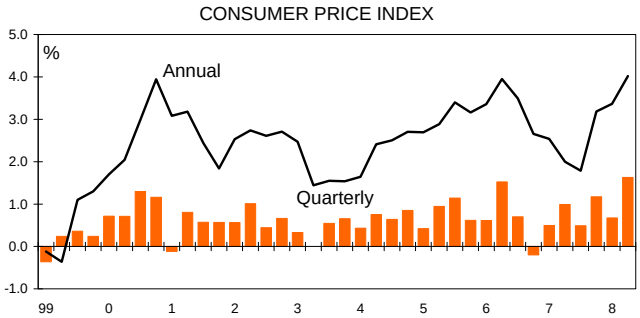
Tuesday 15

Inflation Hits a 13 Year High

New Zealand's rate of inflation hit 4% in the June quarter of 2008 - its highest rate in 13 years. This compared with 3.4% in the March quarter and 2% a year earlier. Over the quarter the consumers price

index rose by 1.6% which was the greatest increase for any quarter since 1990. The main contributors to the strong quarterly rise were a 12.8% increase in petrol prices, a 2.2% rise in food prices, and 3.6% rise in electricity prices. Compared with a year ago petrol prices have risen 26% and if they are excluded from the calculation the annual inflation rate would not be 4% but just 2.7%. Removing food also would give near 2% inflation – a core measure the RB appears to be paying attention to.





However if one is going to do one of these exclusion exercises it pays to be a wee bit more formal and this is what Statistics New Zealand do when they calculate trimmed measures. The most popular one is to take away the top 10% of items rising in price and the top 10% of items falling in price. If you do that the inflation rate for the quarter drops from 1.6% but only to a still worryingly high 1.2%. The annual rate of change in this trimmed measure still rises to 3.8% from 3.5% in the March quarter and 2% a year earlier.

And one can also look at the number of items rising in price over the quarter and compare it with the number falling. In the June quarter 414 items rose in price whereas 349 rose in the March quarter. The number falling in price was 191 compared with 233 in the March quarter.

These little pieces of analysis are important because they show it is more than just food and petrol price rises generating high inflation in New Zealand. We can see more of this if we look at the nontradables measure. This is the one which excludes things imported or which are also exported and is what the Reserve Bank has explicitly been targeting for a slowdown since 2004. This measure increased 0.9% in the June quarter which was only a slight improvement from 1.1% in the March quarter. It was ahead by 3.4% from a year earlier. Note that the tradeables inflation measure which includes petrol was ahead 4.8% from a year ago.

The underlying measures of inflation on New Zealand show it is running worryingly high and this has a number of important applications. One is that because inflation is generally the same thing as the change in the cost of living for an average household unless your household is receiving a wages increase of 4% then the real purchasing power of the money you earn is going backwards. Frankly most people would say that is the case at the moment. Second, given that the 1.6% quarterly inflation rate was higher than the Reserve Bank's expected 1.4% it reinforces why they are likely to be very cautious in their easing of monetary policy over the coming year.

The Reserve Bank explicitly warned in their June monetary policy statement that the lesson from the 1970s is when you receive a commodity price shock a central bank should be very careful not to ease monetary policy to rapidly. The emphasis has to be on allowing the first round impact of the price rises to go through but not allowing the second round impacts to occur. One can look at the data released this week and say maybe some second round increases are under way. That is why we think the best assumption borrowers should be making is that in a years time the official cash rate is likely to be close to 6% from 8.25% at the moment though if second round effects are minimal then the official cash rate will be below 6% come the end of next year.

Arguing strongly for the case that second round price rises well below is the extremely weak state of the economy which will limit quite severely the ability of businesses to raise prices. That means they will probably have to undertake extra cost cutting involving laying off is, inventory reductions, and delaying of capital expenditure.

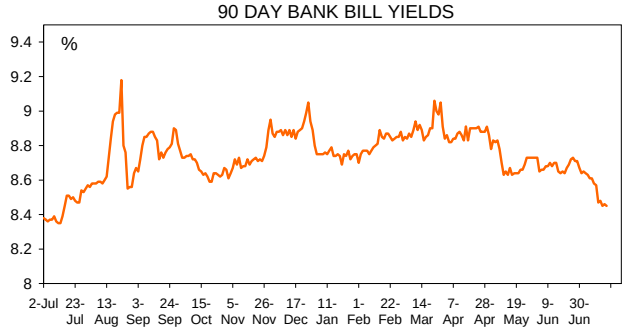
In other words whatever happens the outlook for growth remains weak. If businesses raise prices the Reserve Bank will barely touch interest rates and the household sector will be crunched further along with exporters. If businesses can't raise prices interest rates will fall but the beneficial impact will be offset by reduced business hiring and spending. High inflation is a no win game.

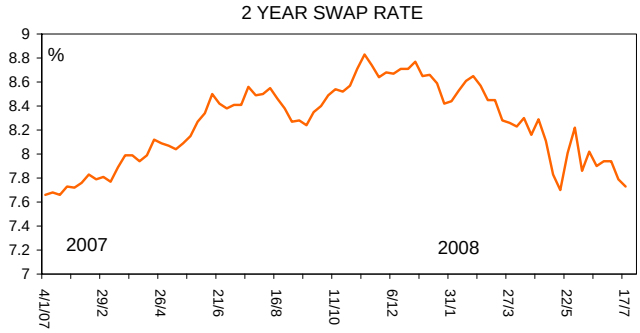
Feedback & Queries

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

Wholesale interest rates have crept lower this week in spite of the higher than expected inflation result. The Consumers Price Index rose 1.6% over the June quarter whereas a gain of 1.4% had been expected. Downward pressure on interest rates has come from deteriorating expectations for growth in the United States economy associated with further problems for financial institutions exposed to the residential mortgage market. 90-day bank bill yields have ended the week near 8.45% from 8.57% last week and 8.64% a month ago. The two year swap rate has ended near 7.73% from 7.8% a week ago and 8% a month ago.





Next Thursday morning the Reserve Bank will undertake their regular review of the official cash rate and it is practically the toss of a coin whether they decide to cut by 0.25% then or more probably at a pinch leave it until September 11 when they will have a new set of economic forecasts in their hands. Not that what they do will necessarily make all that much difference to where interest rates go in the near future. We can expect to see bank lending rates go down when the official cash rate gets cut but not by the same amount.

This is because we banks get about one third of the money we lend within New Zealand from foreigners and the cost to us of borrowing that money offshore has skyrocketed not just over the past year but again over the past week with investors around the planet increasingly nervous about financial institutions - even those in New Zealand with no direct exposure to the subprime crisis in the United States. This nervousness has most obviously manifested itself in sharp declines in share prices for banks around the world.

Key Forecasts

- Monetary policy easing pre-election with the official cash rate close to 6% come late 2009.
- The two year fixed housing rate falling below 8.75% at a stretch late 2008, hitting the five year average of 7.8% late in 2009 optimistically, 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 is 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	8.00	6.2
90-day bank bill	8.45%	8.58	8.64	8.90	8.51	6.4
10 year govt. bond	5.96%	6.21	6.44	6.45	6.85	6.5
1 year swap	8.01%	8.24	8.28	8.73	8.66	6.6
5 year swap	7.44%	7.48	7.58	7.70	8.20	7.0

If I Were a Borrower What Would I Do?

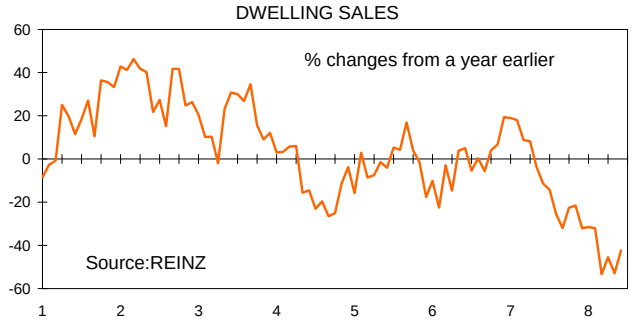
I would fix for one year. It is not time yet to go floating and ride fixed interest rates down until one thinks they are at their cyclical lows. The difference between floating and fixing at the moment is too great and we may not see the bottom of the fixed interest rate cycle until 2010. So why not fix two years? Because averaging things out one will probably do better fixing one year now and one year again in a years time than fixing for two years now.

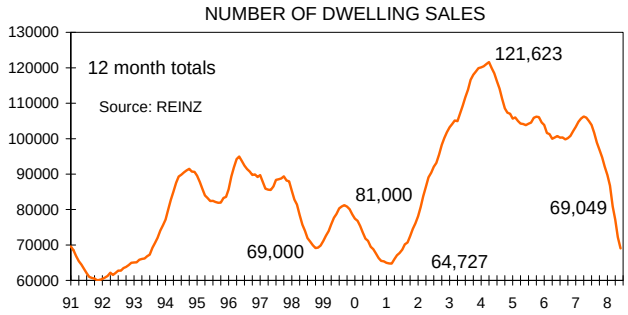
HOUSING MARKET UPDATE

Our outlook remains for continuing weak conditions in the housing market over 2009. Confidence that the worst would be over by the end of the year has diminished in the face of reduced scope for decent declines in fixed interest rates and additional weakness in household real disposable incomes stemming from extra heights for the country's inflation rate. At least cashed up buyers can rejoice.

REINZ Numbers Confirm Continuing Weakness

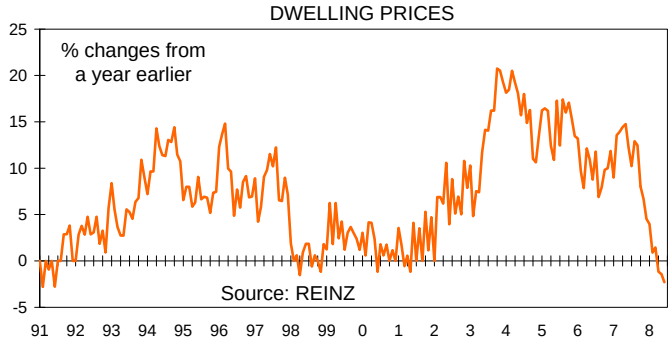
Continuing weakness in New Zealand's residential property market was confirmed in the monthly sales numbers released by REINZ last Friday. Around New Zealand in June there were 4,305 dwellings sold. This was a 42% decrease from a year earlier which was better than the annual decline of 53% in May, 46% in April, and 53% in March. But don't be fooled. It was at this time last year that the increases in interest rates were starting to have a decent impact on the housing market and sales of dwellings in June 2007 where down by 11% from June 2006.

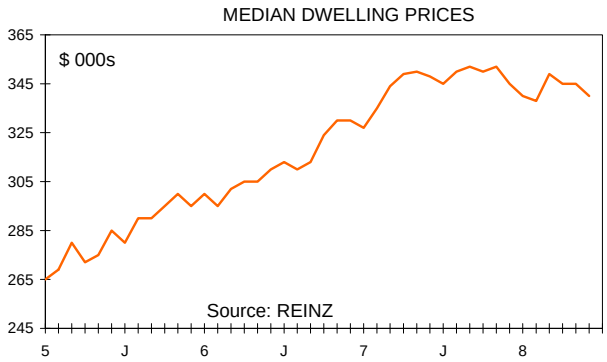




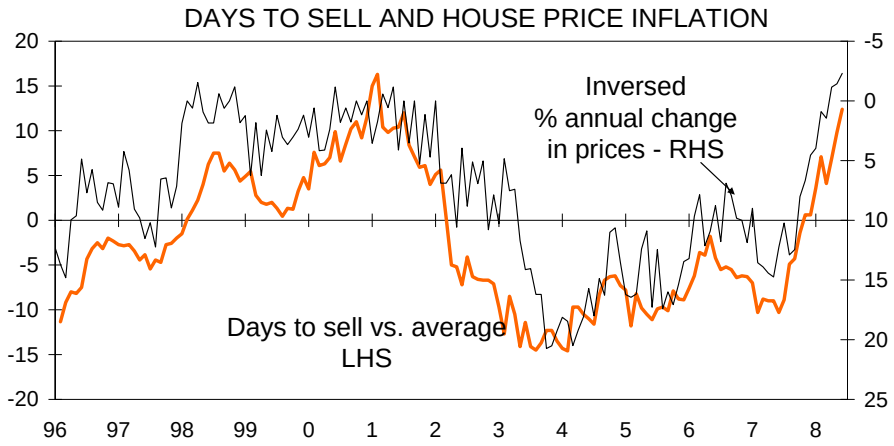
In seasonally adjusted terms sales have fallen by over 15% in the June quarter and although in June there was a seasonally adjusted increase compared with May of close to 8% that sort of movement can easily be put down to normal volatility in the numbers.

The median dwelling sale price fell in June to $340,000 from $345,000 in May. It has now decreased by 3.4% from its peak though looking at the graph below one can't really do anything other than say that so far prices have flattened out. Year right! The can't be a single person in the country that does not have at hand some example of a house recently selling for an amount substantially less than the vendors paid for it a year ago.





One of the key indicators is the number of days taken to sell a dwelling. Many people have been pooh poohing this measure because it is biased downward by people changing from one agent to another. That may be so but that hasn't stopped the thing from blowing out like a volcano. On average in June it took 53 days to sell a dwelling. This was 23 days longer than a year earlier and 12.4 days longer than the average taken to sell a dwelling in the month of June over the past 10 years. In May the divergence from average was 9.8 days and in April 6.9 days. As recently as October last year this measure was running below average by 1.4 days.



Consider the graph above showing the very good correlation between the divergence in the number of days to sell from average - shown as the orange line - in the annual rate of change in house prices measured inversely on the right-hand side. With regard to the annual change in prices things seemed to be about where you would expect them to be given the change in the number of days to sell. In other words looking at this indicator one can't yet build a strong case for average falls in house prices near 10% though you couldn't rule it out if the days to sell measure gets worse in the next two to three months.

Speaking of the next 23 months, we do it we think things will get worse. There are many reasons for this and here is one. Many small businesses have financed their activities using their house as security. Now the value of their house has gone down in business cash flows have tightened up are finding they cannot get extra financing from their bank. That may mean the only way to save their business is to sell a house.

For others who may not have used their house as security their businesses will nonetheless probably be struggling and these operators may look to flick off their holiday homes. In fact one can't help thinking that something very nasty could be just around the corner for prime holiday home locations. Over-indebted people will be looking to off-load these excess properties for a great number of reasons.

With the price of petrol being so high the cost of getting there for a weekend away has skyrocketed. Second, if they are near water then the cost of running there fizz boat up and down the lake or along the coastline has also shot up. Even if they just have a jet ski the cost has also gone up.

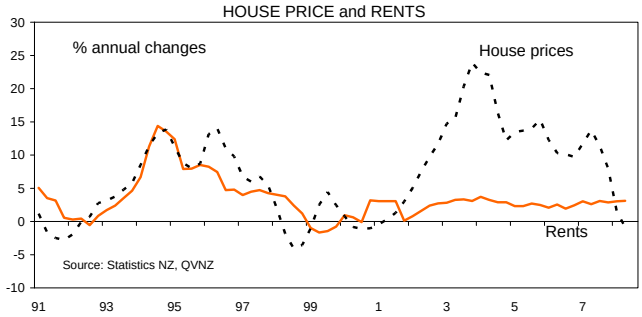
But in addition we have seen a lot of coastal developments in recent years and many of these will only just be coming on-stream. With demand pulling back and developers no longer being able to easily access finance they will be looking to sell these assets - probably at a deep discount.

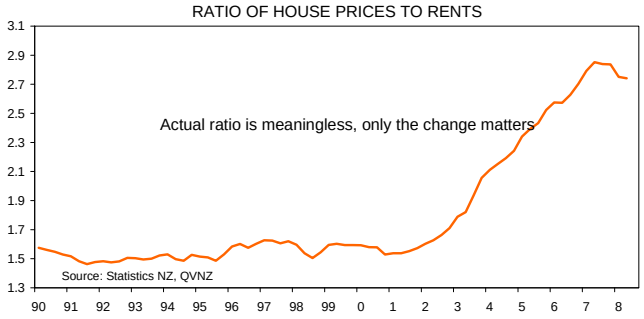
And on top of that there is the general state of the economy which will be dissuading people from borrowing money to buy a property they will probably only see a small number of times each year.

But this opens up opportunities for the baby-boomer generation who may have been looking enviously at their highly indebted neighbours in recent years wondering why they also should not be gearing themselves up to buy extra properties. Now they have the answer. Their neighbours are in many cases well munted. Now they can pick their retirement home up in a nice location for a song - at some stage in the coming 12 months.

Rents Barely Rising

The Consumers Price Index released this week by Statistics New Zealand shows that on average rents around New Zealand rose by just 0.7% during the June quarter. This followed an average rise of 1.1% in the March quarter and shows that although there is evidence of many landlords recently achieving increases of 5% to 25% in rents the flood of property being placed on the market to rent rather than sell is clearly depressing rents levels now.





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	1.6%	0.7	4.0	2.0	4.0
GDP growth	Average past 10 years = 3.0%	-0.3	0.8	2.9	1.6	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	7.8	7.9	.....	8.5	9.6
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	+4,938	4,644yr	.....	10,680	10,200
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	1.3	2.2	1.3	2.4	0.6
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	-25	-33	-10	-10	-30
Business activity exps	10 year average = 26%. NBNZ	-4.0	-4.4	18.2	14.8	16.6
Household debt	10 year average growth = 11.3%. RBNZ	9.3	9.9	12.8	13.7	14.1
Dwelling sales	10 year average growth = 3.5%. REINZ	-42.4	-52.9	-32.1	-1.3	5.0
Floating Mort. Rate	10 year average = 8.1%	10.95	10.95	10.55	10.30	9.55
3 yr fixed hsg rate	10 year average = 7.9%	9.09	9.49	9.19	9.15	7.75

ECONOMIC FORECASTS

Forecasts at June 19 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	-0.9	1.5	5	2.5	4.3	-0.6	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	1.4	3.1	3.9	-1.6	4.9	2.2	1.8
GNE	4.2	1	4.8	0.6	2.4	4.3	1	5	1.1	1.7
Exports	-0.1	3.1	3	1.7	2.4	-0.4	1.7	3.6	2.2	1.9
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	3.1	0.3	2.1	2.7	1.5	3.1	0.9	1.3
Inflation – Consumers Price Index	3.3	2.5	3.4	4.6	2.2	3.2	2.6	3.2	4.6	2.6
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	111	115	119	117	112	110	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	75.5	73.6	82.7	81	86.3	75.9	74.1
TWI	65.6	68.6	71.6	63.5	62.5	71.9	68	71.6	63.6	62.8
Official Cash Rate	7.25	7.50	8.25	7	5.5	7.00	7.50	8.25	7.5	5.5
90 Day Bank Bill Rate	7.55	7.78	8.83	7.02	5.73	7.49	7.64	8.77	7.67	5.73
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.