BNZ Weekly Overview

10 September 2009

Mission Statement

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

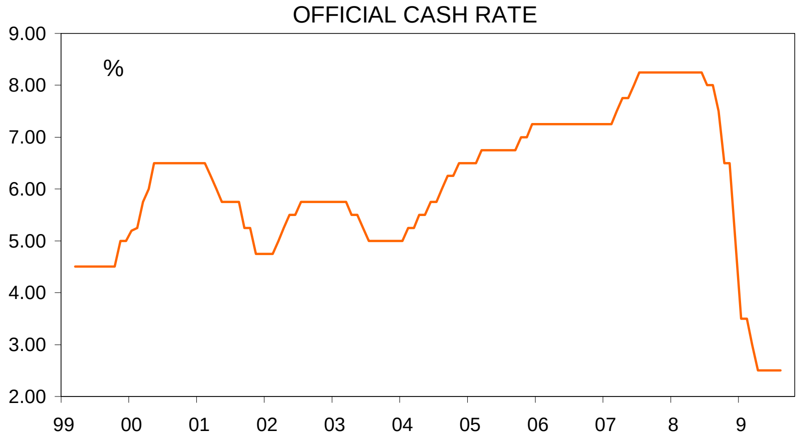
In this week's issue….

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 Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line.

Monetary Policy Unchanged

As expected, this morning the Reserve Bank left their official cash rate unchanged at the record low 2.5% they took it to in April. They also kept in place their statement that they intend keeping the rate low until "…the latter part of 2010." We think they will move sooner than that with the first rise coming in July, though it is difficult to generate too scary an inflation and therefore interest rate outlook for the next three years given the spare resources sloshing around the world and in NZ and the restraining impact on NZ growth from the NZD's early rise from cyclical lows.

The RB forecast that the OCR will reach 5% by early 2012 though we think by then it is more likely the rate will be near a neutral level of 6% and would advise borrowers to factor in a 3% rise in their floating rate borrowing costs between the middle of 2010 and early 2012.



Like most other forecasters the RB is now of the opinion that the NZ economy has stopped shrinking but that growth will be muted for the next few years because of things such as the strong exchange rate, slow global recovery, and high debt. They also have the same growing concern about the sustainability of the current upturn if the housing sector continues to chug ahead and eat into the improvement in household savings while export growth is limited.

All upturns end up being unsustainable of course but what they are referring to is the risk of an investor backlash somewhere down the track as the current account blows out again. This backlash would manifest itself as a rather welcome fall in the currency, but also hikes in interest rates and perhaps some renewed problems for NZ banks funding offshore. Such a backlash will most definitely come one day as the structure of NZ finances is completely unsustainable – but just as people have repeatedly miscalled such an adjustment (largely in the exchange rate) for the past two and a half decades, so too could an expectation of such a structural attitude adjustment offshore be prematurely expected this time around.

Unlike Treasury the RB are of the view that recent house price rises will prove short-lived. But unlike past practice they have not actually forecast house prices beyond the March quarter of next year though they note an expectation that prices will hold steady with assistance from firm net immigration and a construction shortage.

With regard to the labour market, the RB don't see employment growth turning positive until the second half of next year, though expect the unemployment rate will peak at 7% from the current 6%. This is a tad below their earlier forecast and also a tad below where we think the rate could end up. Though in that regard the recent sharp rise in business confidence could translate through into hiring action sooner than thought so employers should at a minimum be taking advantage of the current weak labour market to improve average staff skill levels.

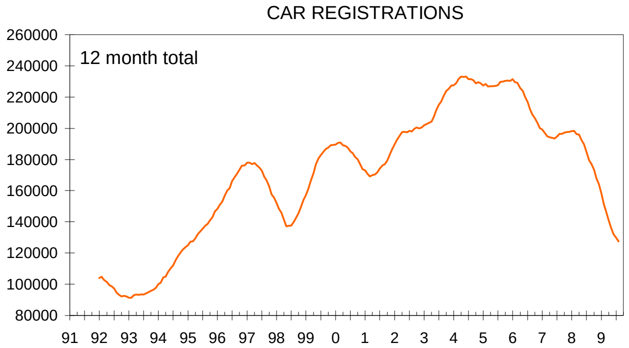
Overall, there were few surprises in the rate decision or the Monetary Policy Statement so it is back to watching the data and what is happening offshore – where largely positive sentiment continues to prevail.

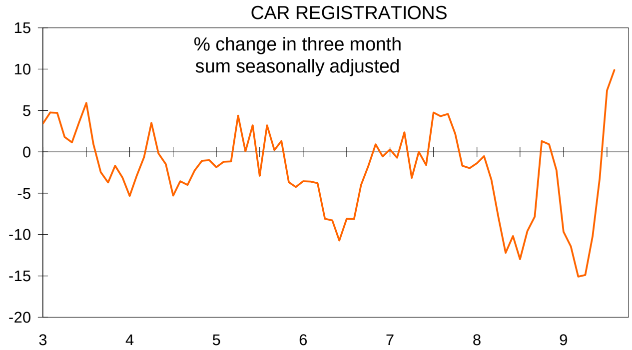
NZ ECONOMIC DEVELOPMENTS

Friday 4

Vehicle Sector Still Weak Overall

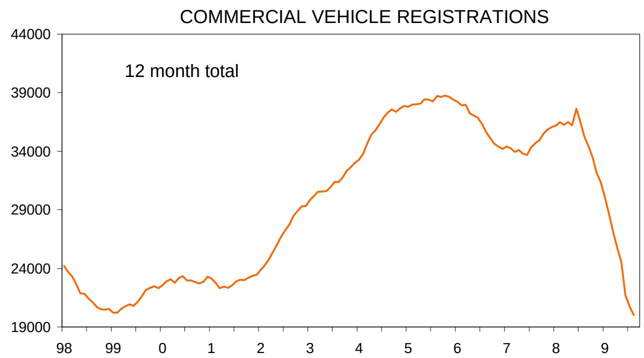
In August there were 10,291 cars registered around New Zealand. This represented an 18% fall from a year ago which followed a 16% annual fall in July and 30% fall in June. In the year to August regos were down 29% from a year earlier and at 127,555 the annual total of car regos was the lowest in 14 years. So things are very weak. But if we adjust for what usually happens at this time of year we estimate a rough 10% rise in car registrations over the past three months.

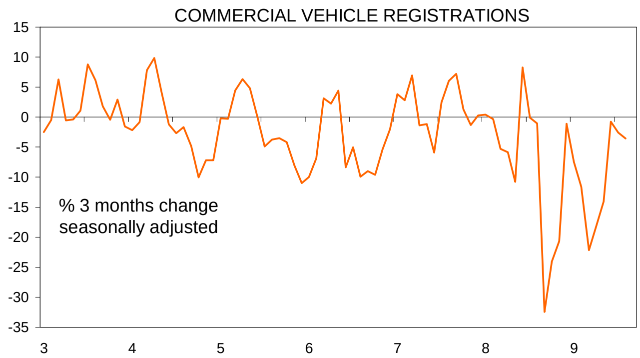




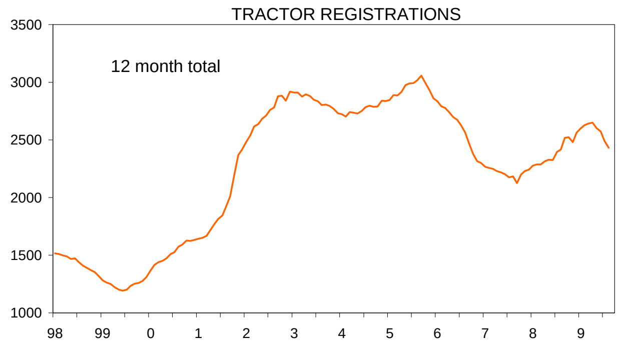
In other words, the worst appears to be over and there is a recovery in car sales underway.

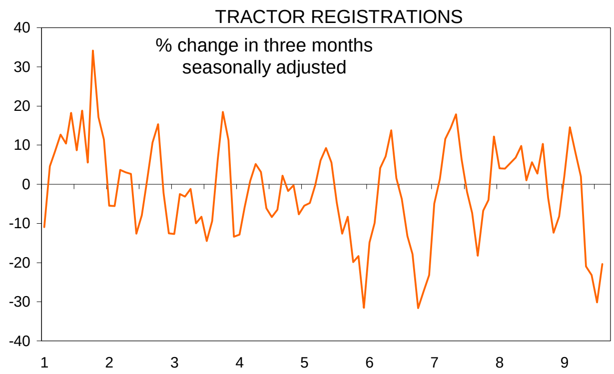
But there is no upturn evident yet in the area of commercial vehicle sales. Registrations of these big lumpy moving things were down 37% in August from a year earlier at 1,257 units. For the year to August regos were off 43% from a year ago and at 20,022 the number was the lowest since at least 1992 when our records start. Businesses have slashed spending or delayed it where possible and given that seasonally adjusted regos in the three months to August were down 4% from the three months to May, an upturn is not evident as it is for cars. For this decline was less than 14% three months earlier so one can say the end of decline could be near. In fact one should expect firming activity in this area of business spending soon given the strong rise in business confidence and a lift in investment intentions.





And now, just as the Hog Report was the highlight of WKRP's news broadcasts so too is the monthly tractor registrations report here a key matter of moment. Its bad. In August there were 180 tractors registered around the country – including 8 in Auckland. Remuera tractors? This is the best monthly number since March but was a 24% fall from a year earlier and an increase from July's 132 not out of line with previous years.

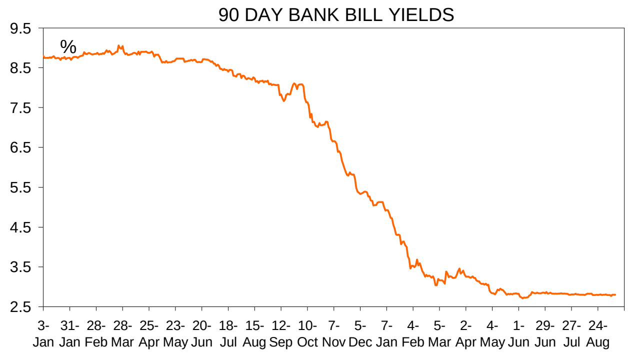


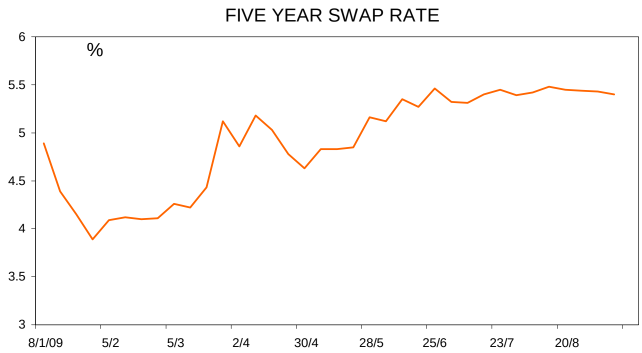


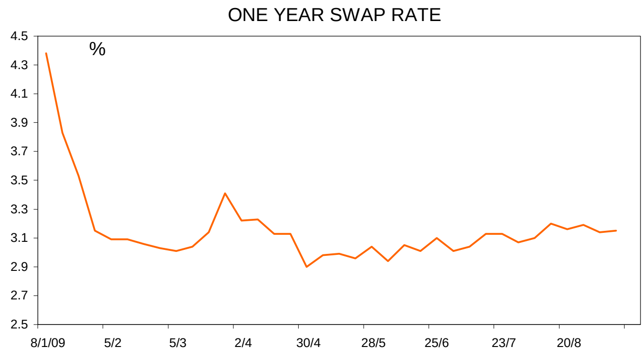
For the year to August tractor regos were actually flat with some unusual buying late last year and early this year we have put down to a few sheep farmers upgrading and dairy farmers receiving big MP3 playing, air conditioned behemoths ordered much earlier and finally hitting our shores. In the past three months tractor regos in rough seasonally adjusted terms have fallen 20% which is the same as three months earlier. So unlike commercial vehicles there is no evidence yet that the fall in spending in this important area of farm equipment is easing.

INTEREST RATES

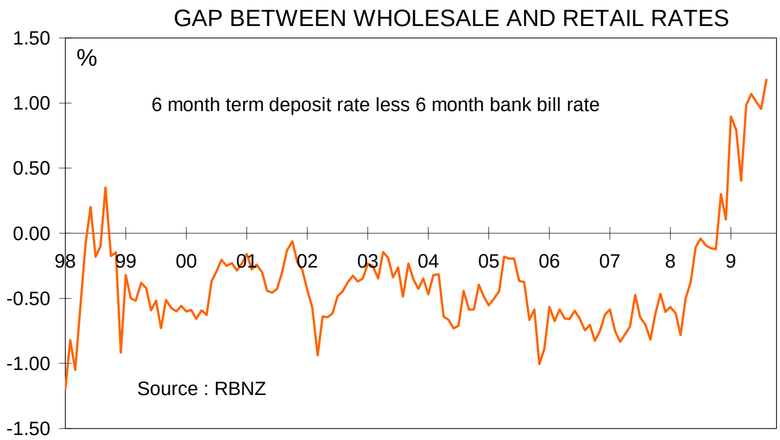
Nothing much to report this week with the OCR left unchanged at 2.5%, the RB's statement of no change until "…the latter part of 2010" remaining in place, and no major data releases. 90-day bank bills remain near 2.8% and swap rates are fairly much where they were last week. We expect the first cash rate rise to come in July 2010 but keep in mind that the current domestic and global economic environment remains very uncertain. So don't discount entirely the possibility that rates move up earlier than that. But also don't expect too much in the way of accurate forecasting with regard to when and where rates peak – be they floating or fixed. Uncertainties abound so canny interest rate strategies based on forecasts of where rates go in the next few years could easily turn out to be not so wise further down the track.







One positive development in the Monetary Policy Statement is that the Reserve Bank refrained from attacking banks for not passing on cuts in the official cash rate – possibly because somebody there seems to have got around to doing the analysis and concluded we don't actually fund our loans at their 2.5%! The only time we fund at the cash rate is when we borrow from the RB for 24 hours to square our account with them. The money gets paid back the next day. Our funding for your loan comes from domestic and offshore sources and the RB helpfully included a graph and data showing the radical change between wholesale and retail interest rates.



Usually the term deposit rates we pay sit below wholesale interest rates. Now they sit well above. This is a relationship that will continue going forward as we banks are under pressure to fund more of our lending domestically and there is one major way that can happen – we will pay more for term deposits. That is good for savers and the higher rates will hopefully encourage more saving. The other mechanism for funding a greater proportion of our lending domestically is to lend less. That means reduced availability of credit across all sectors with lending at higher margins above wholesale interest rates than was previously the case.

Key Forecasts

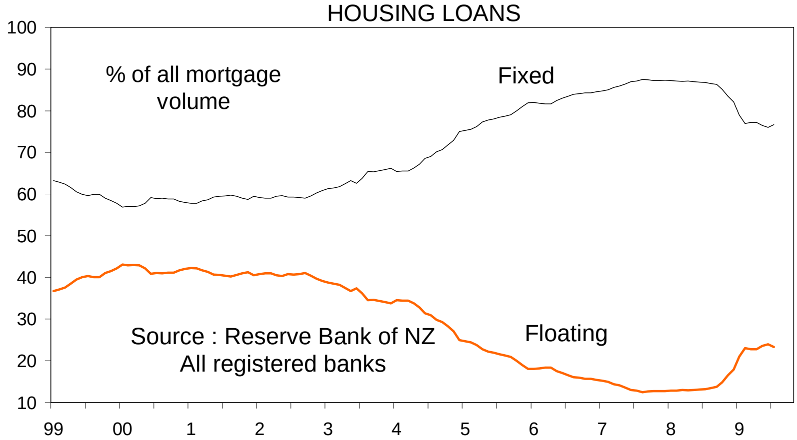
- No more monetary policy easing this cycle.
- Medium to long term housing rates have seen their multi-year lows – stop-start rises now lie ahead. Speed unclear.

FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	8.00	6.2
90-day bank bill	2.78%	2.79	2.79	2.74	8.07	6.5
10 year govt. bond	5.58%	5.60	5.87	5.92	5.87	6.2
1 year swap	3.15%	3.14	3.20	3.05	6.75	6.7
5 year swap	5.40%	5.43	5.48	5.35	6.67	7.0

If I Were a Borrower What Would I Do?

Just in case anyone had forgotten – it is not just the cost of funds which determines interest rates. It is also a matter of competition between market players – especially at this time of the year when banks often run Spring campaigns. So this past week we have seen some cuts in floating rates happen (with no official cash rate change) and at the same time rises in fixed borrowing rates even though the basic swap rates have gone almost nowhere in the past one and a half months. What is happening?

To answer that consider the situation of NZ versus Australia. Traditionally here 60% - 80% of people have their mortgage interest rate fixed. In Australia the proportion is usually around 20%. We think this is probably because when the fixed rates appeared in NZ during the early 1990s this coincided with new entrants to the banking sector who choose to fight for market share with discounted fixed rates. The incumbents responded and so a pattern of behaviour on the part of the banks and the borrowers emerged with banks in particular traditionally getting margins for fixed rate loans about half those for floating. In Australia competition has tended to manifest itself in discounting of floating rates with things like zero interest for the first three months.



Now we have two things happening at once in NZ. First the wholesale and mortgage yield curves have turned positive thus giving borrowers a natural cash flow driven incentive to choose floating over fixed. So capturing market share means offering attractive floating rates.

Second, you may recall that back in the March 19 issue of the Weekly Overview in this section we wrote “Fix now”. So many people responded to that comment that billions of dollars was switched from floating to fixed within a few days. Because we banks borrow fixed when we lend fixed we all needed to enter the wholesale markets to try and get that fixed rate borrowing back then. But the volume was too much for the system to handle and the fixed rates we pay went through the roof. The three year swap rate rose from under 3.9% to 4.5% for instance. But still the market did not clear as it were so for a couple of weeks at least fixed rate lending was not being adequately covered with fixed rate borrowing. Very dangerous and also very scary for those who have to keep an eye on the bottom line of a bank.

There have been fears that with the past five months bringing more and more people rolling off old fixed rates into floating again (they missed the earlier lows in fixed rates) we could see a second sudden wave of switching from floating into fixed. How does one protect against that as a bank? Does one borrow fixed ahead of time? Maybe – but what if the switch never comes? Then one will have opened up a very risky interest rate position.

Now, after five months of worrying about it the appearance of Spring has as it were brought a resolution. The incentive to stay floating has been enhanced while the benefit of switching to fixed has been reduced with rate movements down and up respectively. The net result for the coming year is a reduction in borrower interest rate outflows because fewer people will make the jump from 40 year low floating rates into a higher yet nice and secure fixed rate.

If one had known this round of floating rate reductions was coming would I personally have refrained from fixing at or close to three years in the past few months? No. My desire is interest rate certainty in an uncertain environment in which upside risks to floating rates will appear further out.

So what would I do now? While even more people now will go floating, personally I would at least fix 18 months to get some rate certainty. The toss of the coin discussed last week is now weighted a tad more toward falling on the stay floating side as opposed to fix two and three year options, but not overwhelmingly so.

So by all means take advantage of a nice low floating rate. But don’t do so thinking that you will be able to make a jump into a secure fixed rate when floating rates start rising and you will still get a low fixed rate. You won’t. Fixed rates move ahead of floating rates – they already have. So if your plan is to fix then our comment since March remains the same – there is no incentive to wait given upside risks to fixed rates that are manifesting themselves.

But if your goal is very low cash outflow now then the environment is the best in four decades. Use the cash flow wisely – and in particular if possible get the principal down by continuing to pay at the old rate you ran off of in recent months. And remember to budget for your floating rate rising toward 9% come the end of 2011 as we outlined last week.

And finally, if it is a low floating rate you want then you would do better with our Total Money floating rate than the traditional unpackaged rate because not only is the rate already lower but the ability have positive account balances “swept” up to offset the mortgage principal effectively cuts the rate even further. Worth a look.

HOUSING MARKET UPDATE

Treasury No Longer Forecasting Price Falls

The list of pessimists still expecting house prices to fall just keeps getting smaller and smaller. This week Treasury revised away their previous prediction that average NZ house prices would fall by 10% over the coming year. Now they expect prices will rise slightly though wisely don't predict by how much. There are simply too many factors in play to take a solid stab at how much prices will move in the coming year or three. But unless one believes the world economy is going to slip back into a potential depression scenario there is little reason for believing house prices will fall. But be careful about over-optimism regarding the extent of price rises from here.
http://www.treasury.govt.nz/economy/mei/aug09/03.htm

Monthly Survey Comments

For those who may have missed our monthly survey results in their inbox, here are the comments submitted regarding residential real estate. They overwhelmingly indicate a continuing shortage of listings but with a few cautious attitudes regarding the sustainability of the recent surge in activity.

- Real estate. Central Auckland. The last week of August was the single best week my office has had since 2000. Launched several new listings that week - every one had over 100 people through the open homes and all sold cash unconditional by Sunday night with multiple offers produced. We are finding that prices are in many instances exceeding the peak of November 2007 and we are now thinking that was not a peak, last year was just a lull and now the market is surging forward on the back of low stock levels, nothing much new being built and net migration gain. Looks like we are in for a great summer selling season.
- New Residential Property Investment - Client interest has improved dramatically. Leads from telemarketers are of a higher standard with sales up for the month. Supply is good with some developers feeling stretched.
- Look good, Real Estate Agent, Christchurch
- Real estate - more buyers making decisions, the return of multi offers pushing prices up slightly.
- Still soft due to low levels of new house starts but plenty of people feeling more positive....may be due to the effect of the spring sun rather than improved economic activity.
- Akld Property valuer. Signs are that a shortage of good central Auckland homes for sale is pushing up prices in the central suburbs. Not so for apartments or poorly presented property. Family buyers are out in force and limited listing is causing supply/demand price pressure. Looking better for the usual spring pick up.
- Way better than this time last year. Have had our best month since opening the doors of our boutique real estate company 15 months ago. Sold 4 out of 4 auctions in the last 2 weeks
- Good level of buyer interest in real estate market. Only time will tell if more properties come onto the market, thus affecting supply and demand and therefore prices.
- Picking up with increasing industry confidence. market still fragile however; property industry.
- Real estate. sold a couple properties quite quickly and got a 'fair' market price (selling price around GV)
- Real estate enquiries picking up and sales also increasing.
- Residential Real Estate Howick/Pakuranga - market very short of listings lower price range, a few buyers waiting in the wings, there's a scramble for anything at the right price immediately it's available usually ending in multiple offers; main interest ceases after perhaps twelve days and property then sits if not sold. Prices perhaps edging up. Signs of vendors getting greedy increasing prices more than the market will stand so some properties starting to sit again. Reluctance by many vendors to sell below what they paid in 2007.
- Real Estate Johnsonville: Looking good, still property shortage, when more listings become available sales will increase. Good number of cashed up buyers waiting for a property. More properties available means there will be a lesser number of multiple offers where higher than normal purchase prices are being obtained

- North Shore residential - Very busy. Large numbers at open homes. Many multi offers and pre-auction offers. Never experienced the usual winter slowdown. Torbay very popular with many sales well above expectations.
- Real Estate - Strong and steady - lots of buyers and multi offers starting again
- Property valuer - work load decreasing
- Real estate. There has been a mini boom with the interest rates being lower than normal but this is now slowing as interest rates are creeping up and the purchasers are not being replaced as quickly as they are buying. I feel that any house under the 350k price is being sold for at least 10% higher than six months ago as buyer demand is high in this area but this will stagnate as buyers numbers are diminishing. Listings are hard to source but good houses are selling fast.
- Residential real estate Christchurch, things slowed a little in August, listings still very hard to get with fierce competition between agents. Pressure on fees once again with the cut price operators doing well in the current environment
- Real Estate: A lot of activity in the market however there is still a shortage of good stock and buyers continue to demand value for money. There seems an air of urgency amongst some buyers to buy before fixed interest rates creep any further up.
- Property - a lot more inquiry
- Real estate: More sales, not enough listings
- Residential & Lifestyle Real Estate Sales - I have seen a big change in the market over recent weeks. There are a lot more buyers out looking and are now making swift decisions in order to secure properties. The auction rooms have been very busy with the majority selling under the hammer. Prices are fair - not climbing yet but some properties are exceeding price expectations.
- Property - mainly residential. Lots of activity. We build portfolios for clients aqquire.co.nz. 08 we were the only ones buying, now almost everything is multiple offer - 9 offers on a property that other day - sold for 7.5% more than asking price.
- Real Estate. There is more activity at open homes. More enquiry and demand for property but still a shortage in properties coming to the market
- Real Estate - in most areas in Christchurch there are more buyers than sellers that is seeing buyers competing and prices rising almost back to 2007 levels. However in some areas of the east (lower socio area} buyer numbers are very low, and unless the property is sharply priced buyers will not give the property any attention.
- Residential Property Management Napier. Rental market quite buoyant at the moment and seems to be fuelled by enquiry from people migrating to Hawkes Bay. There is a general shortage of good 3 bedroom houses available for rent, which in turn has created a slight increase in rents in this part of the market.
- Real Estate, Auckland, Sales volume through the winter months was higher than we expected. A lot of Chinese investors are in the market.
- Real Estate - Eastern Beaches - Auckland. A very real fear that the current 'bubble' in sales is not sustainable and that there will be a downward correction in terms of prices and number of sales. Certainly the right time to make hay whilst the sun is shining for us.
- Real Estate. By and large, most agents are saying that the worst is over.
- Property investment. I find that listings are still taking quite a while to sell (the majority anyway in my investment location) I am therefore finding good deals that I can buy below RV.
- Real Estate - Central Auckland. A quiet period has been recently experienced as if there is a lull before the storm as I am picking that by the time more people start putting their homes on the market many of the buyers would have already bought what has been available.
- Residential & Lifestyle Real Estate in Rodney is improving with good number of sales in August. Sale prices are 7 to 10% down from what they sold for 2-3 years ago
- Nelson real estate, short of listings, multiple offers in $340-450 price range, feast or famine at open homes for no apparent reason
- Real Estate Gisborne :A noticeable increase in activity, limited by a shortage of listings, however, this usually picks up with spring. Many of the buyers are people coming to live and work in Gisborne from overseas, as well Gisborne born adults returning on holiday to see family and buying property which is then rented for their return at some later date. Several sales of residential property have been based on swaps, taking property as part payment, leaving money in for a time, and other ingenious ideas. There have been incidents with distressed sales where the mortgage is greater than the selling price and the

second mortgagor has refused to release the mortgage. Generally speaking this has been a tough winter, so we look forward to more positive transactions through the spring and summer, while being aware that all the grief is not over yet. Regarding rents, because there are many houses which haven't sold [due to vendors reluctance to meet the market]expensive properties are added to the rental pool and are rented at nominal rentals. This puts pressure on genuine landlords as it gives tenants much more choice. Thus a 'clean up' of bottom end rentals takes place as these are the ones which become vacant and left empty. Some landlords will decrease their rent to keep their tenant, so the 'power base' changes for a while at least. Other tenants move in with others to share costs while others go home to Mum and Dad! Luckily we have had some good years because owning a real estate company is tough at present!

- Real estate BOP Listings still short. lower prices properties in demand
- Real Estate sales & Management: August the best sales month since July 07, More buyers cashed up ready to buy, "good" listings selling fast for a premium. (overpriced houses don't sell in any market) Rentals bit slower than previous demand but steady. Good market confidence with possible and evident greed creeping into sellers expectations. September going by my stats is usually the strong month of spring so expecting a good monthly result.
- Property - more activity in the market. Rents are holding. All properties tenanted.
- Real Estate Auckland Eastern Suburbs. The best month for sales initiated this year. Industry sales volumes are only returning to average levels of previous years. Don't get carried away with the hype of volumes being up 40 / 50% on last year, as volumes throughout most of 2008 were at a 18 year low. Listings do remain a real problem going into the best trading months of the year. People are not moving like they did before the downturn.
- Real Estate Industry Not enough supply with high demand - prices holding and creeping upwards.

Some Informed Commentary

Here are some very good comments regarding the housing market which people sent in separate from our monthly Confidence Survey.

With regard to the steadily increasing cost of building houses and the low probability these costs will reverse one person noted the following.

"When I built my first house on my farm in 1993 it cost around $50,000. It had a single chamber sceptic tank that cost about $2000 (which continues to work faultlessly). It was wired for about $1000, and the plumbing by a mate cost little more. I saved a lot of money by using second hand aluminium windows and most of my plumbing and kitchen fixtures were second hand. I did a good bit of the building myself.

With the dwelling I am currently building the building regulations are forcing me to install a $15,000 waste-water system (same farm, same soil, same situation, and no problems with the existing system). It is not possible to use second hand windows and if you can find a plumber willing to install second hand fixtures let me know. My new house, which is very similar to my original farm home ($50,000) is going to cost $150,000 this time and it will not be better in any way that is meaningful to me.

For the subdivision, I went to the council planners and explained I did not want to subdivide, which, because of my farm size, was a shoe in. I wanted to build a second dwelling and let it out. The planners explained that going the no-subdivision route would require notification and a whole lot of expense with the risk of a refusal while subdivision was certain and straightforward. So subdivide it was - a $28,000 cost for something that I did not want and which for me added no value.

For another of my projects I am building a studio next to the old home we own there. It has not one item of stainless steel fixing and has already lasted twice the building regulators 50 years. But for the new adjoining studio, every fixing under the house must be stainless. I spent more than $500 on SS fixings that would have cost at most $100 for galvanized equivalents (which I am 100% confident would have done just as well). Similarly for timber. The pile braces needed to be 75 x 100 H5 MSG 8. The MSG means machine stress graded and proved very difficult to source for these dimensions. Difficult means very costly.

What happens with complex (and totally inflexible) specifications like these is that, in New Zealand, competition disappears and prices consequently do exactly what an economist would predict. There are few people with the equipment to machine stress-grade timber, it's a great barrier to entry, the same for specialist stainless steel fixings. The same for all the other endless items of engineers specifications that the NZ Standards mafia churn out (while charging outrageous amounts for the individual to purchase a set of their standards).

Meanwhile gas-fitters refuse to install or even relocate gas appliances demanding that you buy a new one through them."

On the weak rents issue…

"I bought my half dozen rentals to provide a passive income later in life which is exactly what they are doing now. I went for yield and any capital gain or tax write off has been a bonus. I consider myself an active investor / manager driving rents up at every opportunity so I had and continue to have a full passive income asap. People like me help to drive that market forward. Most people I talk to however are passive electing to rent below full market price thinking they will get less hassles and better tenants this way. In my experience once tenants are in they take the lower rents for granted and will not necessarily be easier to manage. If everybody was passive then rents would continue to fall away with respect to inflation and capital values!"

But also……….

I am a landlord in Auckland with 7 houses (3 + bedrooms) and one 2 bedroom unit. In the last 12 months I have noted some trends which appear to be gathering momentum and could explain declining rents despite population growth:

1 Bunking up – three bedroom houses that used to contain say a solo mother and 1 or 2 children now also include a sister/brother and maybe another child. This is a strong trend in the blue collar areas and appears to be economically driven.

2 Go homers. Flats of younger (up to 25 years old) people are breaking up or not forming and the tenants going home to parents or relatives. Again probably economically driven.

3 Lower household formation. Smaller apartment/townhouses rentals are no longer seeing the demand from newly-formed couples – presumably they are staying at home longer and living apart and only socialising together.

Are You Seeing Something We Are Not?

If so, email us at tony.alexander@bnz.co.nz with Housing Comment in the Subject line and let us know.

Key Forecasts

- Dwelling consent numbers to recover now with potentially good activity from late-2010..
- Real estate sales continuing to increase but the rise limited by listings shortages.
- House prices edging higher.

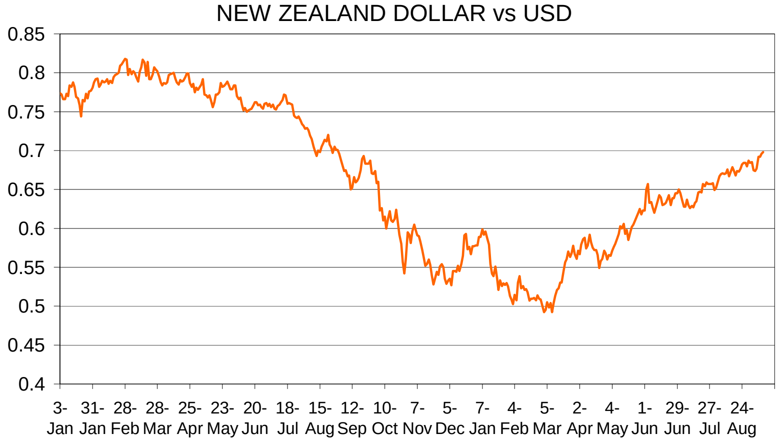
Exchange Rates & Foreign Economies

EXCHANGE RATES

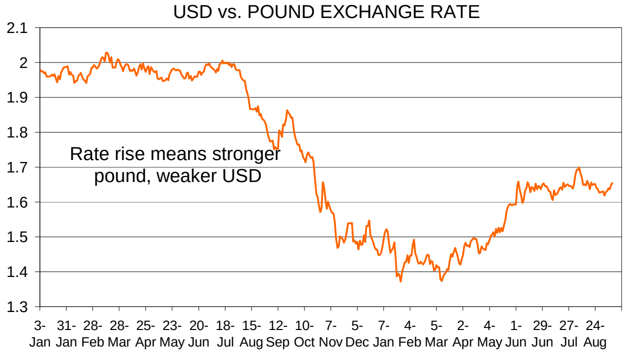
	This week	Week ago	4 wks ago	3 months ago	Yr ago	Consensus* Frcst Yr Ago	10 yr average
NZD/USD	0.696	0.674	0.671	0.627	0.668	0.651	.592
NZD/AUD	0.809	0.808	0.804	0.782	0.832	0.796	.856
NZD/JPY	64.3	62.2	65.5	61.1	71.4	70.9	66.8
NZD/GBP	0.422	0.414	0.402	0.384	0.38	0.373	.345
NZD/EUR	0.479	0.472	0.474	0.445	0.473	0.47	.51
USD/JPY	92.1	92.3	97.6	97.5	106.9	108.9	113.9
USD/GBP	1.654	1.628	1.669	1.63	1.76	1.74	1.709
USD/EUR	1.457	1.428	1.417	1.41	1.41	1.387	1.156
AUD/USD	0.863	0.834	0.834	0.80	0.80	0.818	0.69

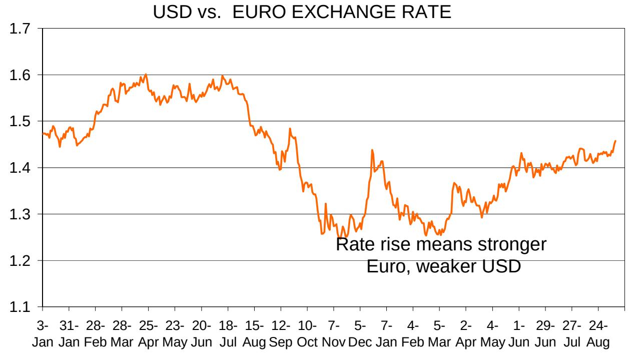
NZD As Firm As Ever

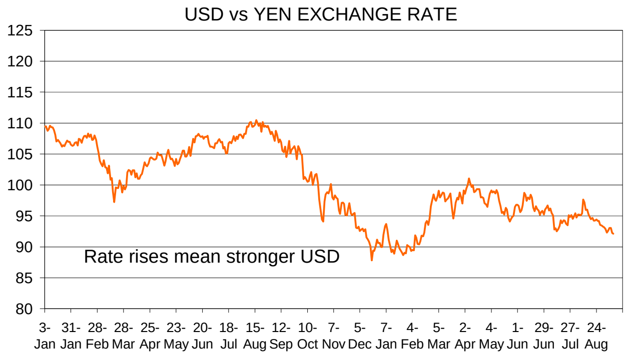
A week ago the NZD was trading against the USD near 67.4 cents and this afternoon it was near 69.8 cents which is essentially the highest level since August last year. There was no impact on the NZD from the RB's cash rate review and comments this morning and the rise in the NZD can largely be put down to some slight weakening in the USD, rising risk appetite, and riding the AUD's coat-tails.



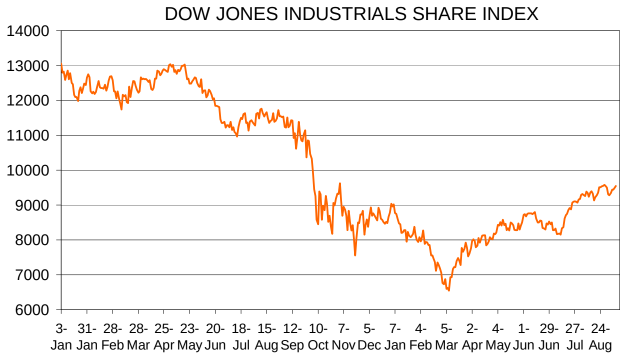
The USD has eased over the week against the British pound to $$1.65 from $1.63 last week and against the Euro to $1.457 from $1.428. There was little change against the Yen (near 92.2).

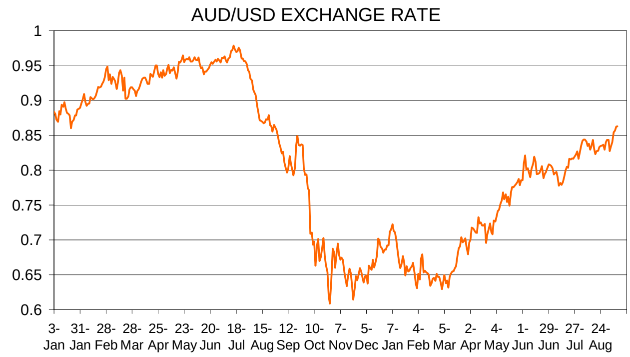






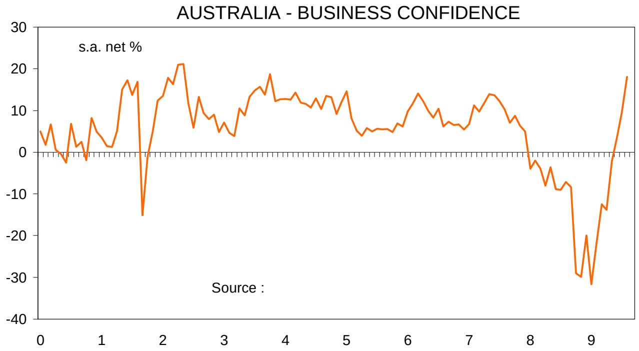
The graphs show that the USD is broadly – in a very slow fashion – continuing its weakening trend against the other major currencies.

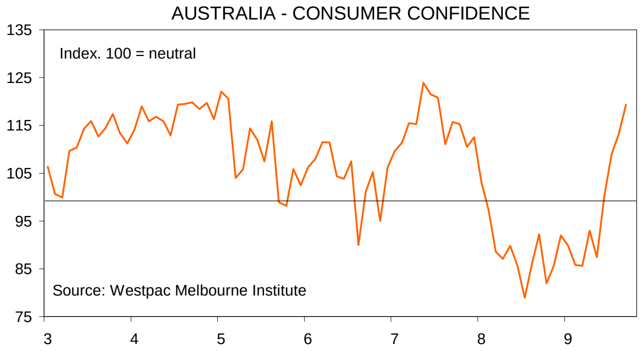




The improvement in risk appetite during the week can be seen in sharemarket gains where the Dow Jones last night closed at its highest level since November last year while most other sharemarkets also posted gains over the week. While there are plenty of doubts still about how smooth the recovery in the world economy will be there remains firm willingness to back the upturn scenario with purchases of growth and risky assets – hence the rises in commodity prices, shares and the NZD.

The AUD has also soared over the week to end near US 86.3 cents from US 83.4 cents last week buoyed by firm business and consumer sentiment releases. The NAB business confidence reading rose to its highest level since October 2003. But employment intentions weakened a tad to -10.5% net in August indicating businesses are not yet prepared to translate their rising confidence into extra hiring.



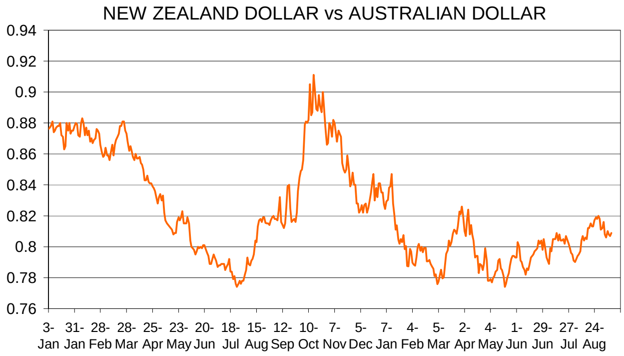


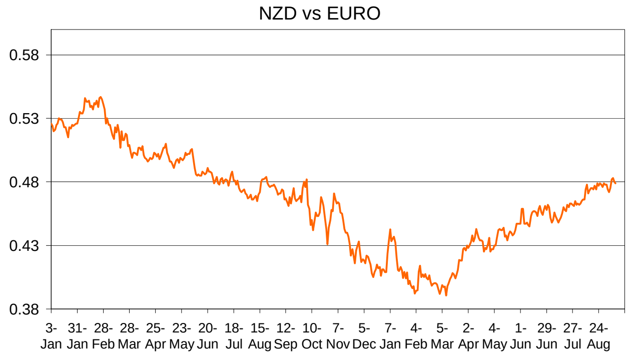
In addition consumer confidence in Australia continues to rise with a 5.2% gain recorded in the monthly Westpac/Melbourne Institute Index. The index reading of 119 – where 100 is neutral – is the highest since July 2007.

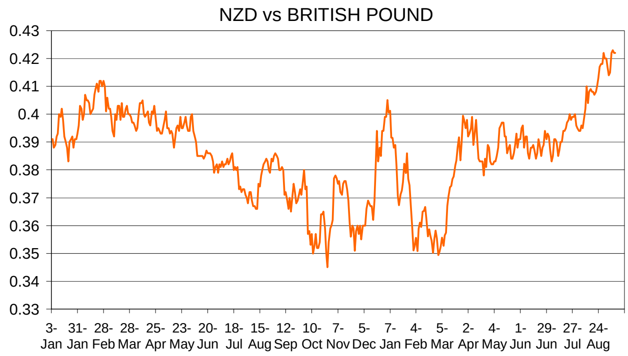
A firm Aussie economy is good for NZ as Aussies usually make up about 40% of our inward visitors (20% of the spending though) and they take about 20% of our merchandise exports including near 50% of manufactured exports.

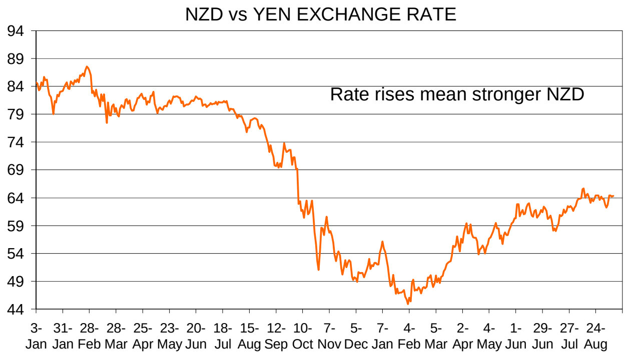
For the record the monthly non-farm payrolls report in the United States came in slightly better than expected with job numbers falling 216,000 in August and not the anticipated near 230,000. This was the smallest monthly decline in over a year but the unemployment rate rose to its highest level since 1983 at 9.7% from 9.4%.

Looking ahead there seems little reason for expecting anything different from what we have been indicating in recent months – rising risk appetite causing firming of the NZD while the USD generally weakens in response to financing worries. But one should expect some potentially very sharp movements along the way with any week bringing the potential for severe questioning of the strength of the global upturn and a bout of profit-taking.



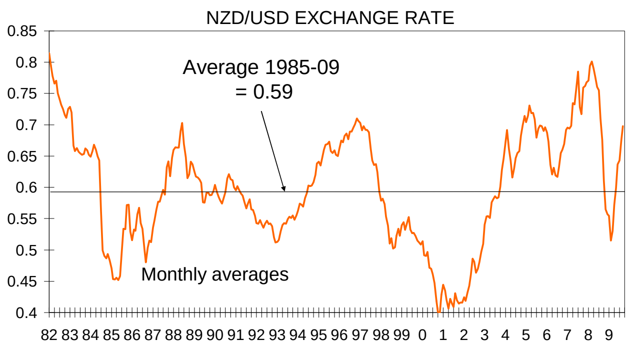


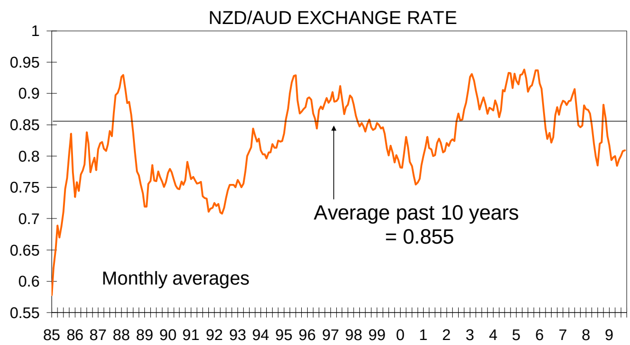


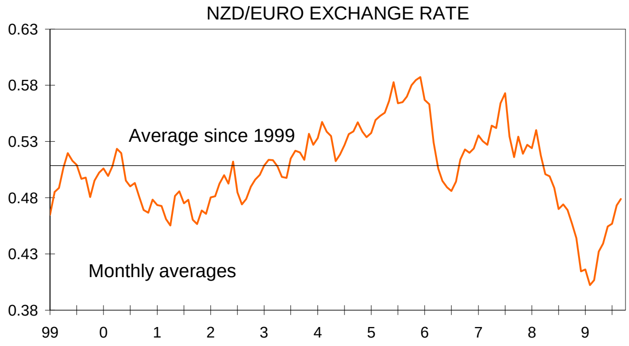


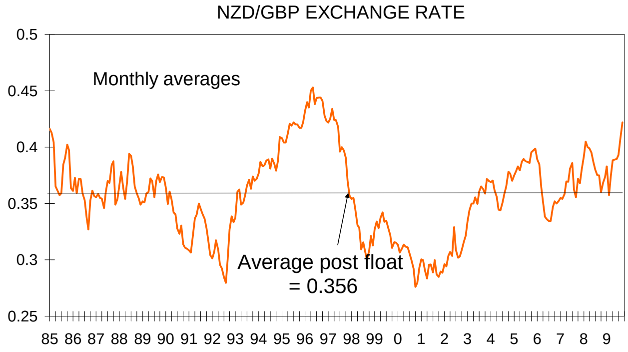
If I Were An FX Receiver What Would I Do?

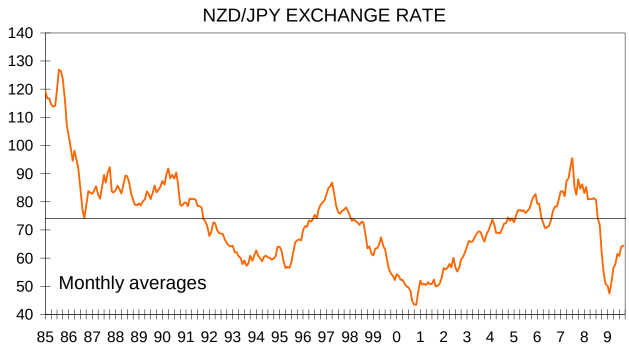
Nothing new to write here sorry. The past two weeks covered largely what needs to be said. Hedge on pullbacks and be careful buying in too much to the strong expressions of angst about the strength in the NZD and the impact on the export sector. If such public displays of discontent were ever going to be successful in reining in the NZD they would have worked during previous periods of strong appreciation – and they didn't.











*Sourced from Consensus Economics. http://www.consensuseconomics.com/

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ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.6%	0.3	1.9	4.0	2.0
GDP growth	Average past 10 years = 3.0%	-1.0	-1.0	-1.0	3.1	1.8
Unemployment rate	Average past 10 years = 5.3%	6.0	5.0	......	4.0	3.7
Jobs growth	Average past 10 years = 1.9%	-0.5	-1.4	-0.9	0.8	1.5
Current a/c deficit	Average past 10 years = 5.5% of GDP	8.5	9.0	......	8.0	8.5
Terms of Trade		-3.0	-1.0	-5.2	11.6	4.5
Wages Growth	Stats NZ analytical series	0.6	0.8	4.6	5.6	4.6
Retail Sales ex-auto	Average past 9 years = 3.8%.	-1.2	-0.0	-0.8	3.2	4.9
House Prices	Rise > inflation since 1992 = 5% p.a. QVNZ	-2.0	-2.1	-8.9	8.0	9.7
Net migration gain	Av. gain past 10 years = 10,400	+12,515	7,482yr	......	4,735	10,080
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-2.8	-3.9	-2.8	0.9	3.4
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	38	3	-9	6	-8
Business activity exps	10 year average = 26%. NBNZ	26.0	12.6	-20.1	4.7	16.7
Household debt	10 year average growth = 11.3%. RBNZ	2.4	2.6	4.2	8.5	13.7
Dwelling sales	10 year average growth = 3.5%. REINZ	34.0	40.3	-28.5	-32.6	-14.3
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.85	5.99	6.99	10.49	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.45	6.99	5.99	9.09	9.10

ECONOMIC FORECASTS

Forecasts at Aug. 20 2009	**March Years**					**December Years**				
	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.3	-0.7	-0.5	1.8	2	4.1	0	-1.3	1.7	2
Government Consumption	4.3	3.4	3	2.8	1.9	3.9	3.9	2.9	2.9	2.2
Investment	4.3	-8.9	-16.2	5.9	8.9	5	-5.1	-17.7	1.1	9.6
GNE	4.2	-2	-4	3.4	3.4	4.5	0	-5.4	2.6	3.6
Exports	2.9	-3.4	-3.5	0.9	4.9	3.8	-1.6	-4.2	-0.7	4.6
Imports	9.6	-4.4	-14	2.3	5.9	8.6	2	-17.1	0.4	5.6
GDP	3.1	-1	-1.2	3	3.1	3.2	0.2	-2.1	2.3	3.3
Inflation – Consumers Price Index	3.4	3	2.5	0.7	1.8	3.2	3.4	2.5	0.8	1.5
Employment	-0.3	0.8	-1.6	2.6	3.2	2.3	1	-2.9	1.7	3.4
Unemployment Rate %	3.8	5	7.3	7.2	6.1	3.5	4.7	6.9	7.3	6.3
Wages	4.4	5.1	2.4	1.5	3.8	4	5.1	3.1	1.3	3.3
EXCHANGE RATE ASSUMPTIONS										
NZD/USD	0.8	0.53	0.7	0.72	0.68	0.77	0.56	0.69	0.71	0.69
USD/JPY	101	98	102	108	110	112	91	100	108	110
EUR/USD	1.55	1.31	1.44	1.41	1.31	1.46	1.34	1.43	1.42	1.35
NZD/AUD	0.87	0.8	0.8	0.82	0.83	0.88	0.83	0.8	0.8	0.82
NZD/GBP	0.4	0.37	0.39	0.41	0.4	0.38	0.37	0.39	0.4	0.4
NZD/EUR	0.52	0.41	0.48	0.51	0.52	0.53	0.41	0.48	0.5	0.51
NZD/YEN	81.1	51.8	70.9	77.8	75.3	86.3	50.9	69	76.7	76.4
TWI	71.6	53.8	64.7	68.2	67.1	71.6	55.1	64.3	67	67.3
Official Cash Rate	8.25	3	2.5	4.25	6.25	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.7	4.62	6.62	8.9	5.23	2.75	4.12	6.12
10 year Govt. Bond	6.36	4.77	5.75	6.4	7	6.4	4.88	5.7	6	6.8

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.

*extrapolated back in time as Total Money started in 2007