BNZ Weekly Overview

24 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.

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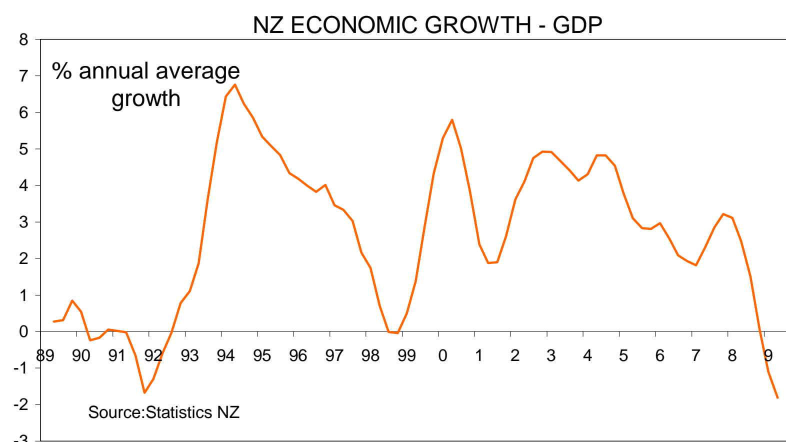
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe" in the Subject line.

Growth In Our Time

One of the things we learnt this week is that during the June quarter the New Zealand economy – as measured by the change in gross domestic product real and seasonally adjusted – grew by a small 0.1% during the June quarter. This is only a mild recovery following falls of 0.8% in the March quarter and 1% in the December quarter. And while technically one can now say the recession is officially over, these numbers get revised frequently and history may eventually show the recession lasted six quarters as had been the common expectation before the release, rather than the currently official length of five quarters.

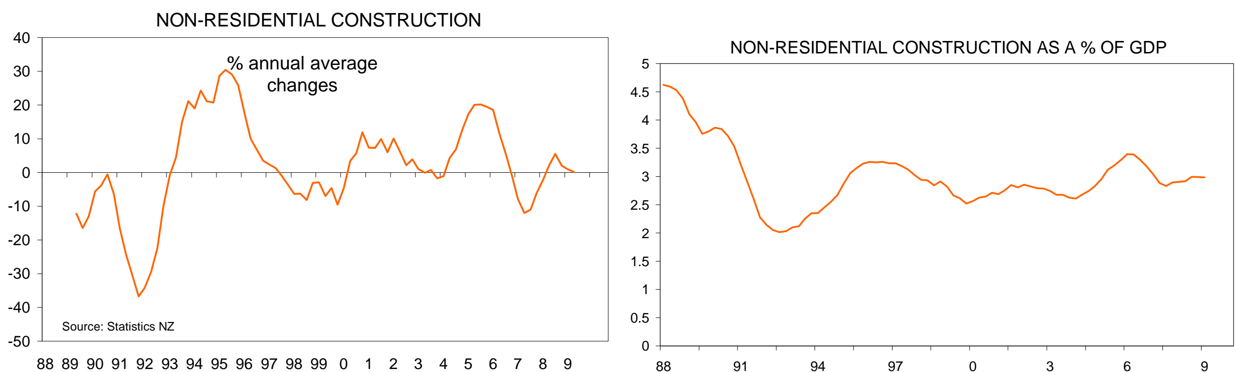
In the year to June the economy shrank by 1.8% and this is the biggest annual average rate of decline since the mid-1970s. The decline came about as our own recession from the start of 2008 was added to by the biggest global economic downturn since 1946.



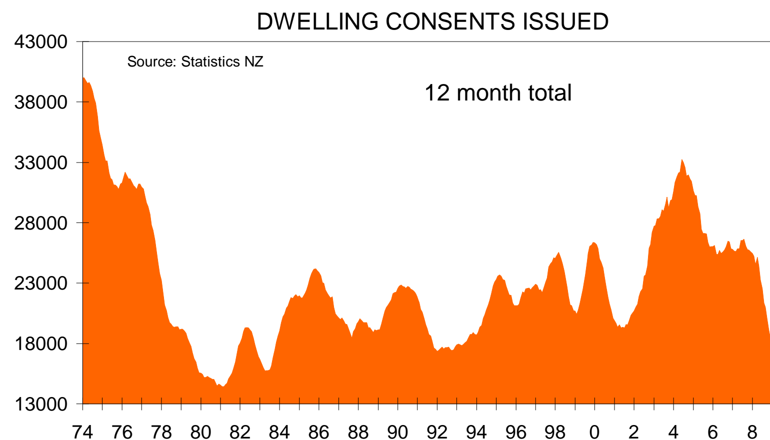
On average the data contained in the GDP release are four and a half months out of date and they don't really add much to our current understanding of the economy except maybe with regard to inventories which can be hard to get a feel for. The GDP release shows that there was a rather large run-down of inventories during the quarter which detracted over 2% from GDP during the quarter. This might suggest good upside scope for a recovery in manufacturing activity in the near future as stocks are rebuilt. But a lot of the run-down would have been a dairy stocks so potential for a large stock rebuilding cycle is not above normal.

But if we think solely in terms of potential for sectoral recoveries in terms like the stock rebuilding cycle can we draw some implications for areas which may have a decent recovery to come? In other words, lets find the graphs which have plunged the most and therefore appear to have greatest upside potential in the coming year or so.

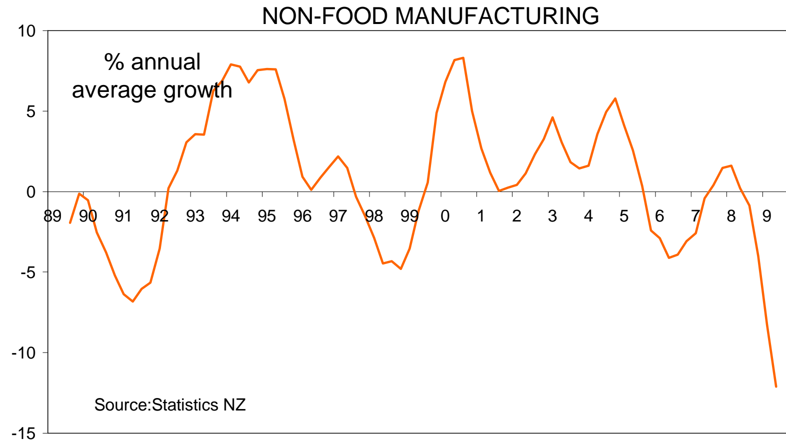
First, not non-residential construction. This is basically everything except houses. There was a good lift in activity from 2004-06 then things settled down whereas the boom going into 1987 was followed by a major collapse then strong recovery from 1993-95. This time there was no boom, no collapse, so no big recovery in the offing. There is support for activity from infrastructure and stadiums etc for the Rugby World Cup. But with credit conditions structurally tighter, a level of second tier financing practically stripped out due to the collapse of the basic finance company model, and property still being freed up for the coming year, no big lift appears in the offing.



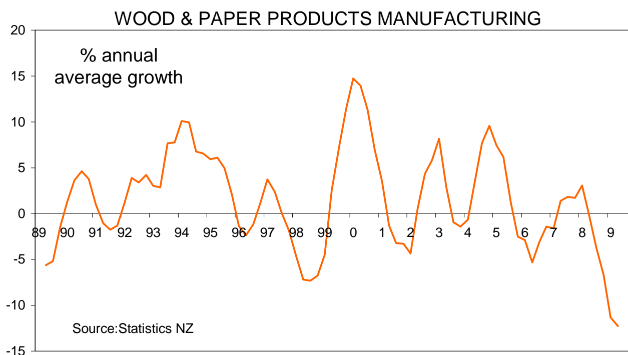
But when it comes to residential property we think the situation is different. Using the GDP data we can see that house and apartment construction fell in seasonally adjusted volume terms by 2.6% in the June quarter and 25.4% in the year to June. Or, measured another way, annual consent numbers fell from almost 26,000 over calendar 2007 to just under 14,000 in the year to July 2009. we need about 23,000 new houses a year and with population growth accelerating and financing costs low, there is scope for a good recovery in house building which will lift associated businesses such as timber and home furnishings.

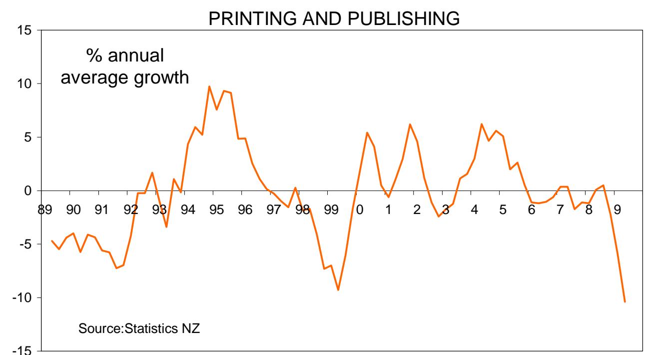


What about the manufacturing sector? We can look at the GDP data and see that when one strips out the processing of food items the level of manufacturing in NZ has fallen back to where it was in 1993! Over the June quarter non-food manufacturing output fell by 1.4% while for the whole year to June we saw manufacturing decline by about 17.4%. Presumably, just as we are seeing the global centre of manufacturing – Asia – report a firmly recovering manufacturing sector assisted by stock rebuilding, so too will we see some decent recovery here as well. The question however will be its longevity given the high level of the NZD. One should keep in mind however that about half of NZ's manufactured exports go to Australia and the NZD/AUD exchange rate is right on its post-float average near 83 cents.

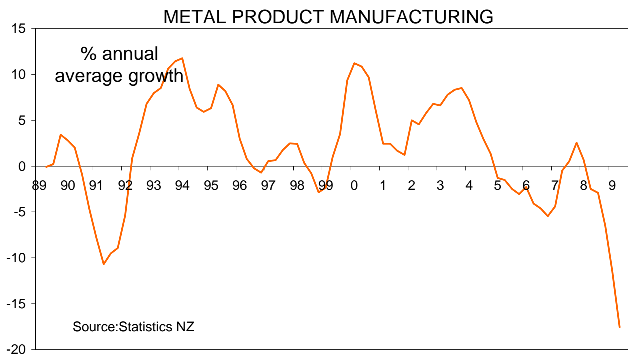


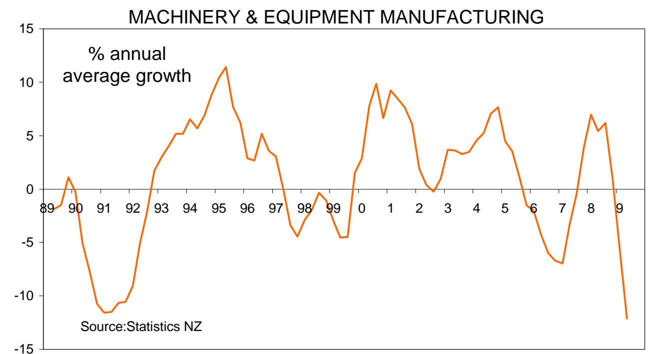
Included in the non-food manufacturing total is wood and paper products where activity declined 12.2% over the year to June but was unchanged in the June quarter. One suspects a good restocking cycle may lie ahead in this sector. The same goes for printing and publishing.



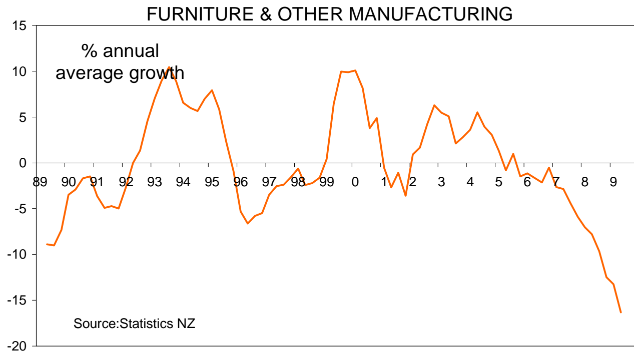


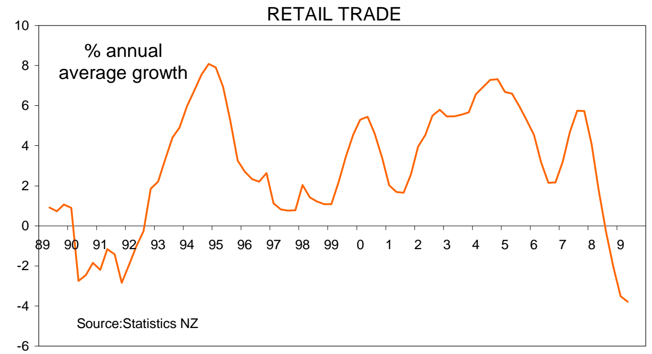
Similarly large declines have occurred in areas of metal product plus machinery & equipment manufacturing.

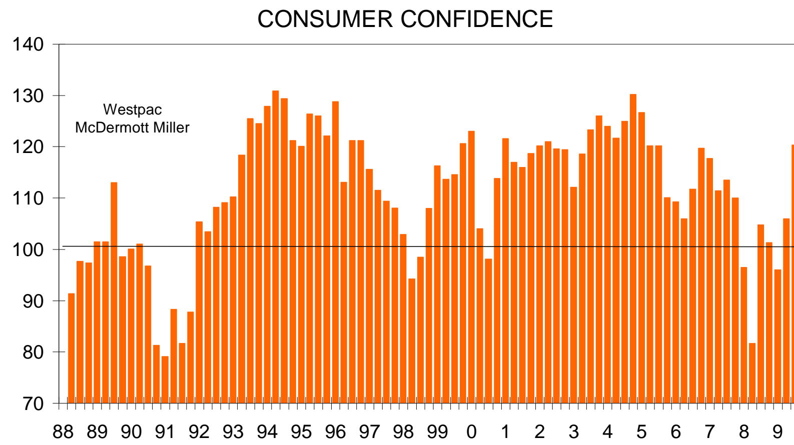




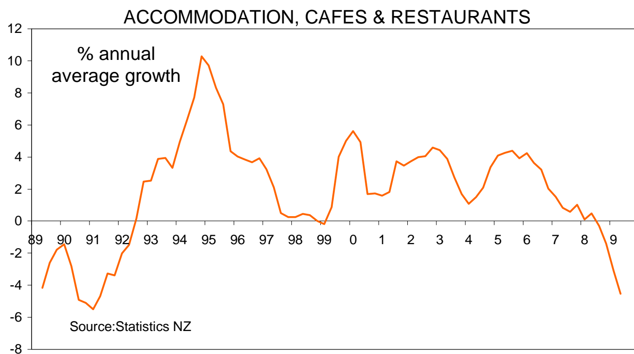
There is scope for a decent recovery in furniture manufacturing along with retail spending. Help for the retailing recovery will clearly come from rising consumer confidence. We learnt today for example that the Westpac McDermott Miller quarterly sentiment survey rose to a five year high with a reading of 120.3 from 106 in the June quarter and a low of 96 in the March quarter. A reading above 100 means optimists outnumber pessimists. The result shows why one needs to treat with caution expectations that rising unemployment will slam retailing. Rising unemployment has not stopped the housing market recovering.

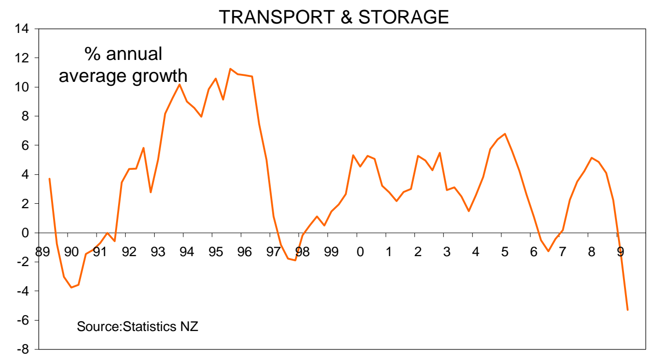


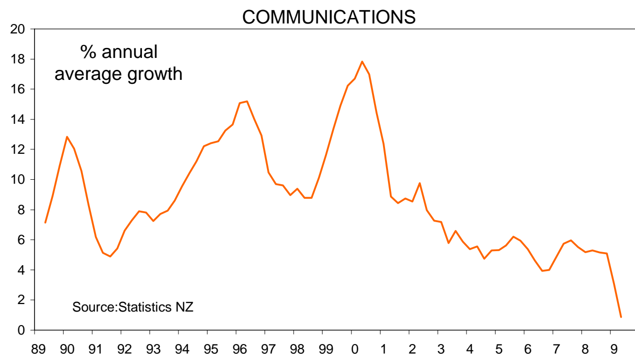




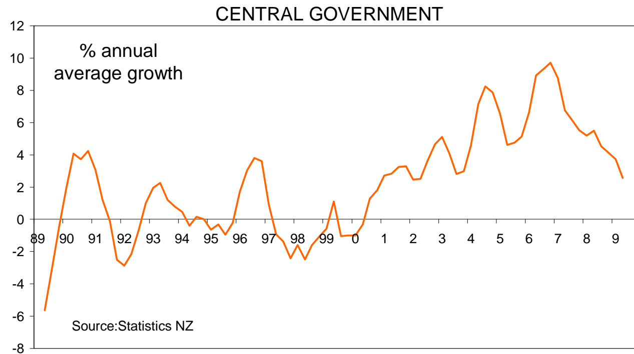
The time will come when the accommodation, café and restaurant sector undergoes a good recovery also – though on the face of it we think with tourism prospects still weak for the coming year – with the exchange rate hardly helping – a recovery in this area looks some way off.

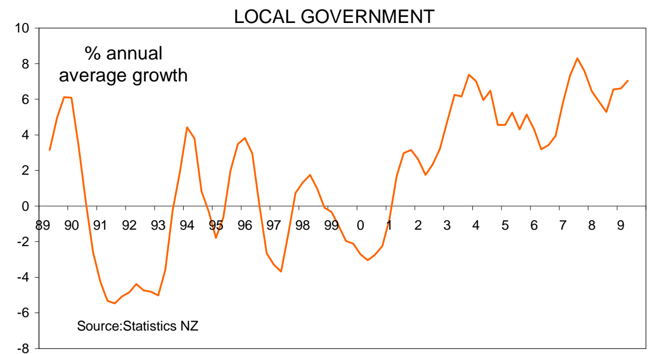






Central government is a sector which was nice and restrained up until 1999 then grew strongly under the Labour government, and which one suspects now is going to go through some very long overdue restraint. Government activity actually shrank 1.8% during the June quarter (the NZ fiscal stimulus has largely come from tax cuts). But look how much work the Minister for Local Government has to do to get the ever expanding ratepayer-slapping local government sector under control. Their activity grew 3.3% during Just the June quarter and 7% in the past year! Divorced from reality seems a mild description of this errant sector in bad need of spending caps and reversals.





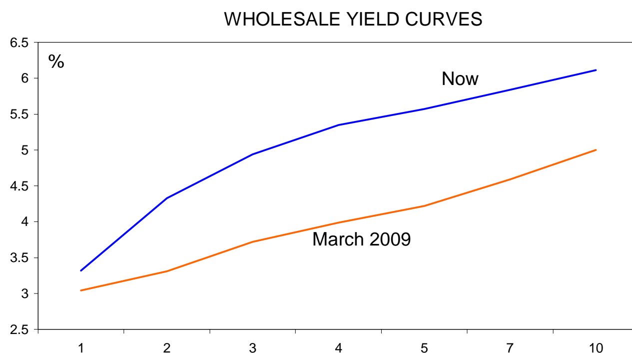
The above analysis is a very simplistic way of thinking about which sectors might have scope for a decent recovery without actually delving into specific factors – apart from tourism.

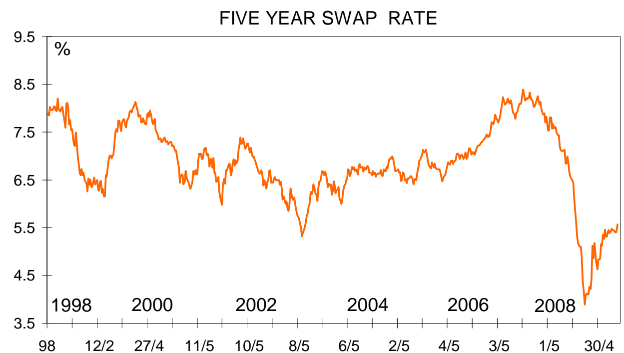
As we discussed last week, growth over the coming year is going to be supported by the likes of low floating interest rates, recovering house construction, rising house prices, above average net migration inflows, inventory replacement and catch-up spending by consumers, infrastructure spending including Rugby World Cup preparations, higher commodity prices, and recovering trading partner growth.

But growth will be restrained by the strong NZ dollar, consumer caution in the face of a still weak labour market, perhaps some restraint from high household debt, tighter credit conditions, lagged weakness in dairying, tourism and commercial property, and sheer uncertainty about what really lies ahead for the world economy.

INTEREST RATES

Assisted by the good news from Fonterra and confirmation of the recession ending wholesale interest rates have climbed over the past week. The three year swap rate has risen to its highest level since December last year near 4.94% from 4.74% last week and 3.7% back in the first half of March. The one year rate has risen to 3.32% from 3.17% last week and 3% in March with this rate far more heavily influenced by what the official cash rate is expected to do than longer term fixed rates.





Given the obvious restraining effect which the soaring NZ dollar will have on NZ's economic recovery it is hard to get too bearish about interest rates over the coming year. We certainly don't think things will become so strong that the RBNZ will need to raise the cash rate before the end of this year as the RBA is highly

likely to do. But the drift in rates – as we have been warning since March – is still likely to broadly be upward. And unless we start to see signs of global growth really taking off or inflationary pressures appearing, the very long end of the wholesale yield curve is going to move far less than the middle and short end over the coming year.

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	2.79%	2.78	2.79	2.84	7.95	6.5
10 year govt. bond	5.67%	5.58	5.77	5.97	5.83	6.2
1 year swap	3.17%	3.17	3.19	3.10	7.29	6.7
5 year swap	5.41%	5.41	5.44	5.46	6.99	7.0

If I Were a Borrower What Would I Do?

It has once again become difficult to say anything truly exciting about what to do regarding interest rate risk management. Back on March 19 when we wrote "Fix Now" the situation was obvious. Housing rates were at record lows but wholesale rates were rising along with sharemarkets as green shoots sprouted and recovery talk became more common. Fixing as long as one could handle was optimal and those who acted locked in the likes of a seven year rate at 6.79% (now 8.8%), five years at 6.49% (now 8.3%), or even three years at 5.99% (now 7.45%).

Obvious also was what to say here exactly a year ago "I would either fix six months or one year though would soon give thought to floating and riding fixed rates lower before refixing."

Now though things are less clear. Here is why. First, there is no strong basis for saying that come the end of 2011 when we expect floating rates to be about 3% above where they are now that fixed rates for medium to long terms will also be aggressively higher. One can only have that view if one believes the cash rate is going to keep rising toward 7%+ come 2012 or 2013. That might happen but there is too much uncertainty to lock in such a view this far out.

If our floating rate forecasts prove correct then over the next three years the Total Money floating rate will average about 7.1%. That is cheaper than fixing currently at 7.45%. Personally speaking, for myself that is good enough to fix three years because one should be prepared to pay a premium for certainty, and because fixing now is also a hedge against panicking a couple of years from now as floating rates jump up and then locking in a fixed rate higher than one can get now. In addition, the risk is that after rising 3% between mid-2010 and the end of 2011 the official cash rate and floating rates edge higher over 2012.

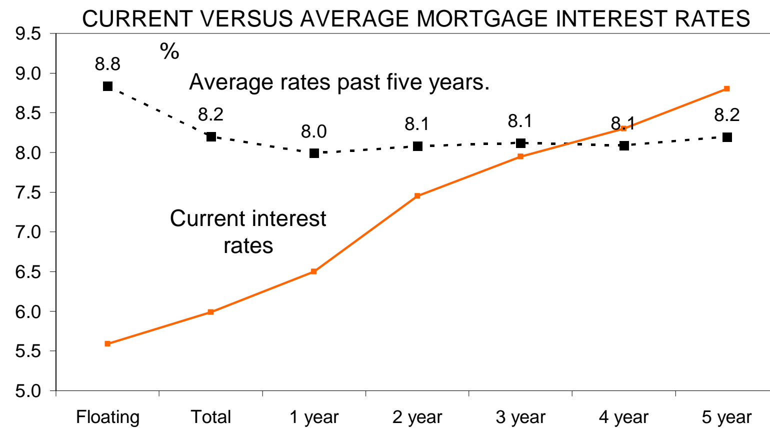
The five year rate at 8.3% currently is above average for the past few years and while it will suit highly risk averse borrowers perhaps matching outflows with rental inflows, I would not go to that end of the yield curve now.

The two year rate at 6.5% compares with an expected average floating rate for the next two years of just below that. So if one's time period to cover is two years only it is the toss of a coin and personally in that situation I would fix. But if one is going to have the mortgage longer than that then there is no difference between fixing two years then floating a year and floating three years.

Fixing one year at 5.99% is obviously more expensive than floating at 5.59% and given we think the floating rate may not kick up until very close to the middle of next year (the risk is earlier) given a choice between the two I would float.

What it comes down to then is this. With a three year time horison only I personally would fix as I like rate certainty. But most people will not and are not and more and more are taking the Total Money floating rate at 5.59% and cutting that rate maybe another 0.1% by using the offset/account sweeping provisions. This is fine. But be sure you budget for that floating rate going toward 8.5% come the end of 2011 and perhaps higher again over 2012. Try your best to keep repayments high to get principal down.

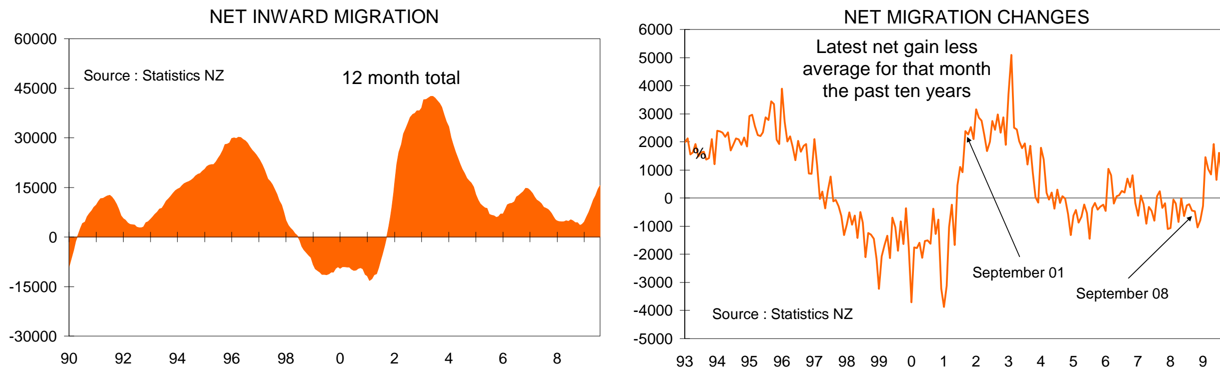
What you really need to do perhaps is ask yourself what you did last year. If in spite of the deteriorating state of the NZ and global economies and against our suggestion you fixed long term, then you either have a monthly cash outflow limit which forced you to fix rather than float, or you panicked about how high floating rates may go and fixed then for rate security you forsook when fixed rates were much lower. If you did then what you will do in 2-3 years time is again fix when fixed rates are near their peaks because you will "save" money compared with floating. Get ready for that behaviour by reducing your principal over the next couple of years.



HOUSING MARKET UPDATE

Migration Flows Keep On Rising

Support for the housing market from net migration inflows continues to improve. In August there was a net addition to the country's population from migration flows of 1,619 people. This was much better than just 465 people in August 2008 and means the annual net gain now stands at 15,642 from a low of 3,569 in November.

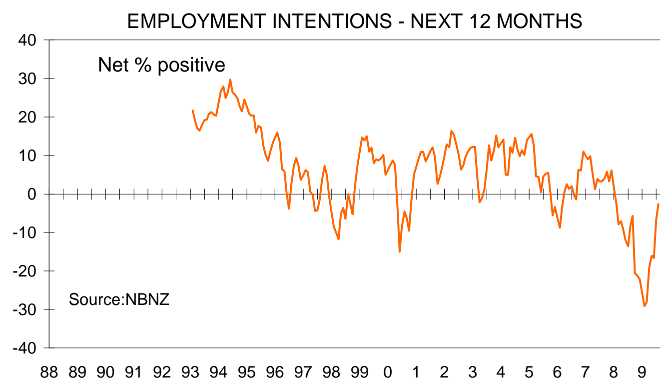


Over the year to August the number of people leaving NZ permanently fell by 12% while the number arriving rose 0.9%. But in the three months to August while departures were down a whopping 28% immigrant numbers were down 6%. This latter number is not what we expected while the former is far more than we expected. But the net result of a rising net inflow is exactly what we expected. Two wrongs do make a right in this instance!

Where to from here? Annualising (multiplying by four) the past three months' seasonally adjusted numbers produces a net gain of 23,000. That seems a reasonable pick for what the annual gain will be a few months down the track. Broadly – given that forecasting migration flows is actually quite difficult – we expect above average net migration gains for the next couple of years. After that the risk is things ease off again with the rest of the world once again offering good income prospects for hard-working Kiwis.

Watch The Labour Market

It has been popular since September last year to forecast a major blowout in New Zealand's unemployment rate. One high profile commentator on sharemarket issues predicted a rate above 14%. Most others opted for something between 8% and 10%. You may have noticed that over the past few weeks, in light of improving economic data and sentiment, forecasts for the peak in the unemployment rate have been getting revised down. This process is likely to continue with yet more obvious implications for the housing market.



The most up to date read on the labour market comes in the monthly NBNZ Business Outlook survey – of which an update will appear about a week from now. A month ago a net 3% of business respondents said they expected to lay off staff. That reading was an improvement from a net 7% in July, 17% in June, and 18% in March. The ten year average reading is +3% so hiring intentions remain below average. But not by much and two things need to be considered.

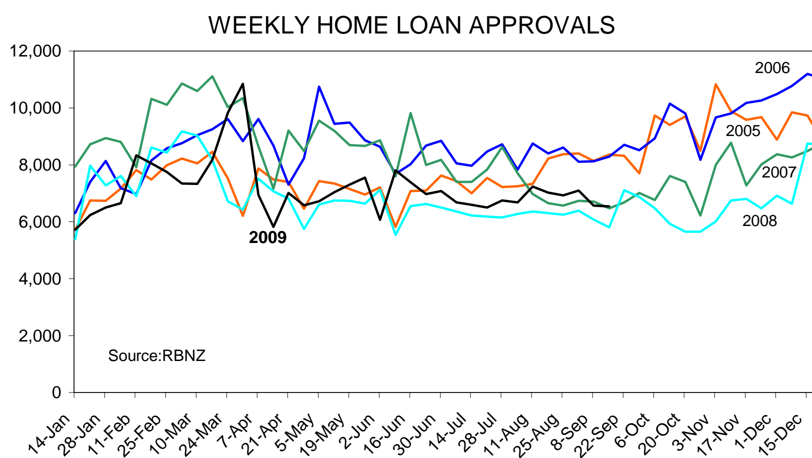
First, the survey results are about six weeks old and since early August lots of good news has appeared. Second, there are some more up to date lower level readings which suggest our suspicion of downside risk to the unemployment rate could be justified –

with the implication being better housing prospects and a heightened need for astute employers to get good people on board very soon before things get tight.

Trademe have noted an upturn in job ads over the past two months. Comments regarding labour market strength have also come from the NZ Herald, Seek, and Hays Recruitment. Worth watching though hardly definitive.
http://www.stuff.co.nz/business/industries/2883908/Get-ready-to-fight-again-for-staff-employers-told

No Mini-Boom

Just to show that the recovery in the housing market is not some sort of mini-boom, here is our graph showing weekly mortgage approval numbers. The data for 2009 are shown in the black line which is not undergoing some strong upward surge at the moment but largely tracking as one would expect at this time of year.



Here are some good comments we received during the week regarding housing. They note the impact which reducing returns to investors through a CGT would have on housing supply as we discussed, high local authority levies left right and centre, and an interesting tightening up of property supply in Nelson.

"I just read your BNZ weekly publication and agree with your comments re CGT. I am an Australian investor in NZ firstly in residential property and then in industrial. I did this because of CGT in Australia. The point I want to make is that whether you look at Australia or NZ to invest in residential property, its a fairly poor investment especially if you like good property with high land values. The only way you get a return is when after a fairly long period of investment you sell and then bring that into the equation. Look at Australia, we brought in CGT and what happened, investors soon realised a 3% return on their money if they were lucky is not so good if you then pay a quarter of gains after 2 years is also taken. So our housing minister is still scratching her head as to how to fix the problem. The simple fact is there is no money in rental houses when you take into account outgoings, tenant problems and poor return albeit stable returns. Would the Govt be prepared to spend more in public housing? because that's what will happen if they slaughter the private investor, its not rocket science."

This next comment illustrates the way in which local authorities are extracting funds from developers and helping to ensure house prices don't stay down.

"There has been recent discussion surrounding property price inflation, central government interaction to 'manipulate' pricing, supply of stock, CGT, etc however there is little said about the effect local government is having on pricing. Mention is often made about zoning and release of land available for development however of significant impact is the scale of fees being charged by local government and the rate these have increased over the last 5 years.

For instance, we are planning an 11 unit development in one of our residential subdivisions. The council development contribution levies are approx $24,000 per lot (incl Reserves). Further to these standard levies

are land use consents to create a non-complying lot ($2,000-$5000 depending on consultancy fees), resource consents for not being fully compliant (another $2-5k), subdivision consents ($650/lot x 11). In summary;
DC's $24k x 11
LUC $3.5k say
RC $3.5k say
SC $650 x 11
Total $278,150

That's $25k/lot. The land value being created is in the order of $70-90k with 30% of the land cost being council fees (these are small lots) with a total sales price of $310,000 or 8% (110m2, 2 bedroom, two level terrace house). 3-5 years ago these fees would have been about $10k/lot at most.

At a different development, still in the planning phase, we are about to have a water take consent heard by the regional council. The application fee was $1000, now its $10k as a deposit. Prior to our hearing we are required to pay the estimated cost of the hearing (80%), with that estimate being in the order of $17k. If you don't pay prior the hearing is cancelled. Not a lot in the scheme of a 240lot subdivision, but each drop in the bucket adds up, and is added to the end cost of development and subsequently the cost of sections.

What I am getting at is central government can consider new taxes, looking at monetary policy and considering premiums over the floating rate to stop a 'bubble' and any other discouragement they choose however local government is already doing this through its consistent increase in fees, levies, requirements for notified consents. Affordable housing cannot exist while these sort of costs. Food for thought!"

Some thoughts on developments in the Nelson market.

I operate an independent property management business in Nelson with 220 residentials to look after. We have been letting around 20 properties per month for the last 6 months. Something is happening in Nelson. We have gone through winter with a hard market. About a month ago the number of properties advertised on Trademe suddenly dropped from 150 average to 100. At the same time the newspaper adverts dropped from 6 columns to 4. Last week the Trademe adverts dropped to 84. However the rest of the country appears to be the same going on Trademe adverts.

Our list of vacancies has dropped from an average of 15 at any time to just over 10. Some of these are difficult low grade bedsitters. The normal 3 and 2 bedroom properties are being snapped up as soon as we list them.

The last time I saw this trend was back in 2002. Nelson shot away with a sever shortage driving up rent levels. About six months after the rents went up the investors came out to purchase with a vengeance. The rest of the country followed us 6 months later.
I think we are about to see a repeat.

Re our concern about builder shortages returning 18-24 months from now is the following.

'Availability of builders maybe come scarcer as the Dept of Building & Housing (P:0800 606050) has confirmed that builders that are qualified and apply to be Licensed will in the very near future be able to have that NZ Licence recognized by the appropriate Australian authority, under the Trans-Tasman Act. This may have serious repercussions as NZ builders take the opportunity to cross the ditch."

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

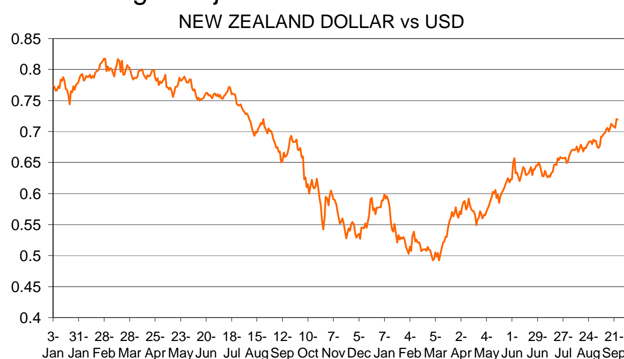
- Dwelling consent numbers to recover now with potentially good activity from late-2010..
- Real estate sales continuing to increase but the rise limited by listings shortages.
- House prices edging higher.

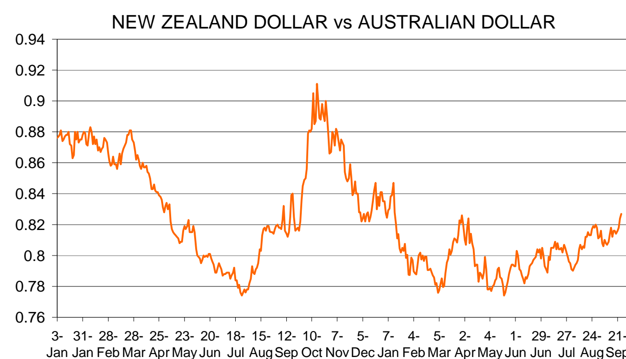
Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago	10 yr average
NZD/USD	0.719	0.713	0.682	0.639	0.683	0.77	0.592
NZD/AUD	0.827	0.816	0.817	0.804	0.817	112	0.856
NZD/JPY	65.6	65	64.4	60.8	72.2	1.46	66.8
NZD/GBP	0.44	0.432	0.413	0.388	0.368	0.88	0.345
NZD/EUR	0.488	0.484	0.477	0.454	0.465	0.38	0.51
USD/JPY	91.238	91.164	94.428	95.149	105.710	0.53	113.9
USD/GBP	1.634	1.650	1.651	1.647	1.856	86.3	1.709
USD/EUR	1.473	1.473	1.430	1.407	1.469	71.6	1.156
AUD/USD	0.869	0.874	0.835	0.795	0.836	8.25	0.69

Same Old – Kiwi Dollar Rises

Assisted by Fonterra's surprise upgrading of its payout forecast to $5.10 from $4.55, a better than expected current account balance (see below), the official ending of the NZ recession, and further willingness of investors to tolerate risk as seen in rising sharemarkets, the NZD has traded over US 73 cents this week and this evening was just under 72 cents from 71.3 cents last week.





Since about May our warning has been that unless the depression scenario gets placed back on the table again it would not be reasonable to expect the NZD to fall away and the risk is that it would drift up. Against the greenback the NZD has not exactly drifted up but instead has undergone a record six month rise as investors have quickly sought out growth and risky assets in an improving global environment.

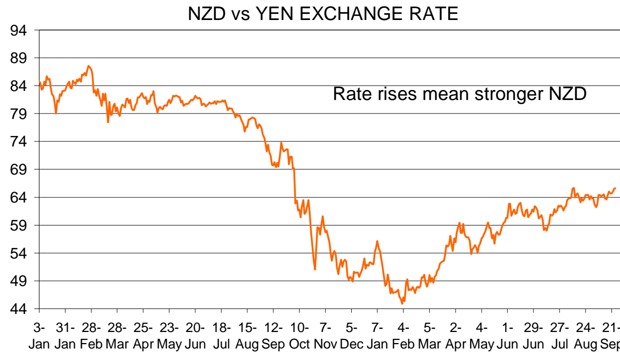
Looking ahead the same warning about the NZD still seems appropriate. In an environment where

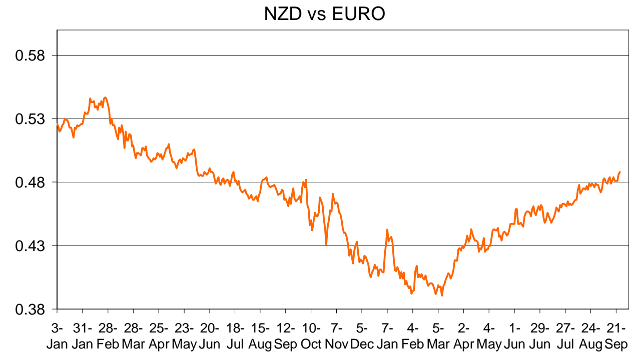
- our export commodity prices are trending back up,
- investors are restarting carry trades (out of USD into NZD etc with the JPY leg yet to get cracking),
- risk tolerance associated with rising sharemarkets is continuing to improve,
- the USD continues to drift lower (now at a one year low on average), and
- NZ economic data show improving activity.

There will be bumps along the way but unless the world cracks up again it seems reasonable to expect the NZD goes back to US 80 cents. Once we get there it would be easy to say we have just about peaked so why bother hedging. But there is little that is normal about the current exchange rate cycle or the world economy so simply looking at what has happened in past rising NZD cycles could prove misleading. After all, if such cycles still held the NZD would not be rising until late-2010.

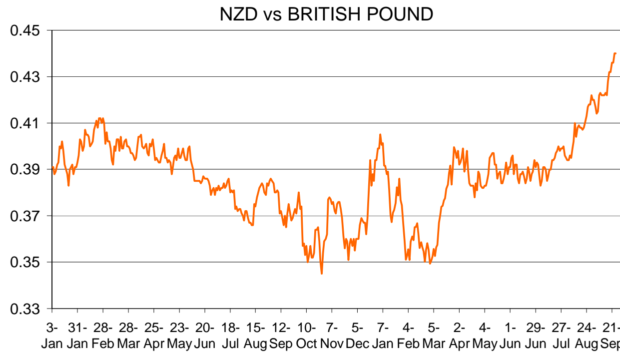
Once we get to 80 cents it would pay to keep an eye on flows out of Japan into the NZD and other high yielding currencies to see if that traditional part of the carry trade is kicking back into strong life. If so then further NZD upside will ensue.

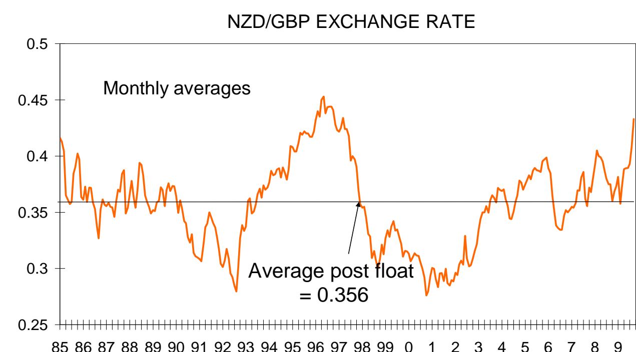
Against the Australian dollar the NZD has risen to a nine month high near 82.7 cents from 81.6 cents last week. Against the Japanese Yen we have rise to an 11 month high near 65.6 from 65, while against the Euro we are now near a 14 month high of 48.8 centimes from 44.4 last week.





Against the British Pound the NZD is now near a **12 year high** of about 44 pence from 43.2 last week. The British pound is suffering badly from major worries about what will happen to the City of London if financial regulations are tightened up, banks which are apparently determined to lend as little as possible (credit crunch still underway), and the need for tighter fiscal policy (less spending and higher taxes) in the coming generation to get the government accounts back into order.

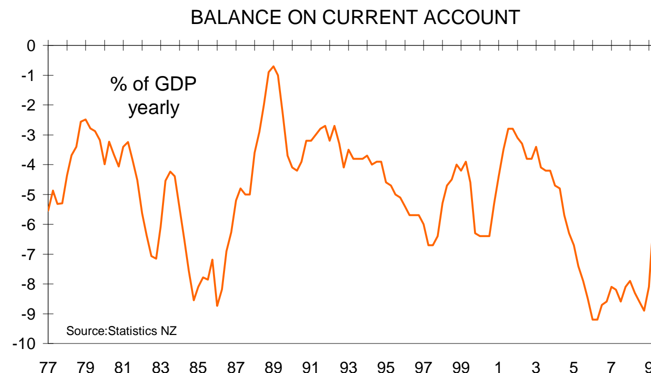




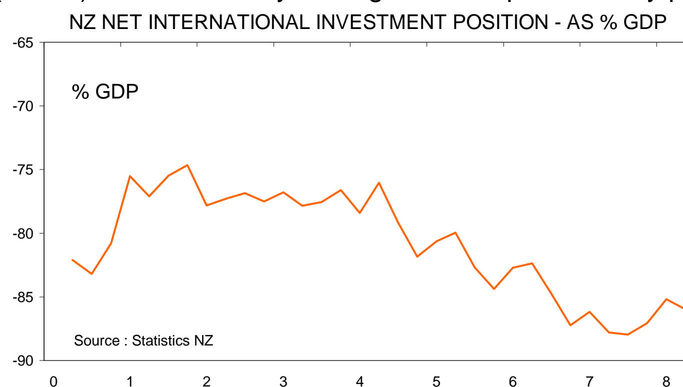
This does not mean the UK economy is still getting worse however. House prices have started rising again, business confidence levels are recovering, and the Confederation of British Industry is picking growth in the economy of 0.3% in the September quarter and 0.4% in the December quarter. But the Bank of England – who have set their cash rate at 0.5% since March - are still concerned about false starts and for the moment continue to inject liquidity (print money) to try and get things moving again.

NZ's Current Account Deficit

Over the very very long term one would expect sustained movements in New Zealand's current account balance to influence the average level of the NZD. Well, the NZD has been floating for almost 25 years now and there are many people still waiting for the NZD to settle at structurally much lower levels as a result of the deficit averaging 5.2% of gross domestic product (GDP) since 1985, 6.2% over the past ten years, and 7.9% over the past five years.



Even the blow-out in the country's net external indebted position (offshore assets versus liabilities) to 95.4% of GDP in the latest year ($172b) from 76% five years ago has not permanently pushed down the NZD.



We note this because there may be a few exporters very scared of a fresh surge in the NZD in the near future on the back of news that our current account deficit as a proportion of GDP fell to a lower than expected 5.9% in the year to June from 8.1% in the year to March and 8.3% a year ago. This is the lowest reading for this deficit measure (the actual deficit is $10.6b) since the September quarter of 2004.

The NZD did rise to US71.3 cents after the release on Tuesday from 70.6 cents before, but the current account balance is not a strong driver of the NZD in the short term (out to one year), medium term (out to 3-4 years), and yet even the long term of 25 years. What drives the NZD is the ability to finance whatever the deficit happens to be – the capital account as opposed to the current account – and over the past two and a half decades generally NZ has had few financing problems apart from late last year following the Lehman's collapse.

Why the big improvement in the deficit? The deficit has improved in the past year by $4.3b. $1.5b of this is due to an improved balance on goods and services with exports up $2.8b and imports ahead $1.3b with these rises due to the pricing effect of a lower NZD rather than volume growth which has been negative. But the rest of the $4.3b improvement – some $2.8b – is due to foreigners owning assets here earning $4b less on them in the year to June because of our recession – including a bank making a one-off provision of over $600mn for a tax case. Our returns from offshore investments fell just $1.2b.

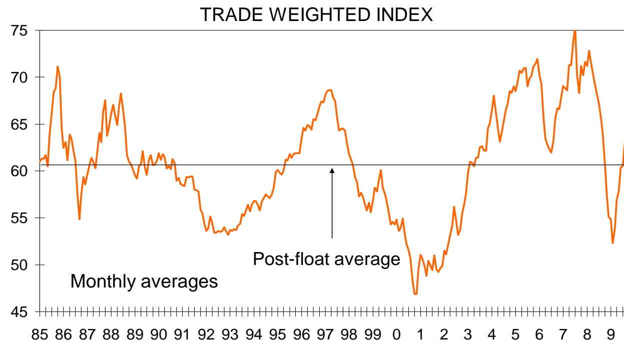
The % return on our investments offshore fell from 2.4% to 2.0% while the return on investments here declined from 5.7% to 4.6%. These investments include loans so some of the nominal difference in our returns offshore and foreigner returns here reflects different interest rate levels. If you are interested in this sort of thing then you can get the full Statistics NZ release at http://www.stats.govt.nz/browse_for_stats/economic_indicators/balance_of_payments/BalanceOfPayments_HOTPJun09qtr.aspx

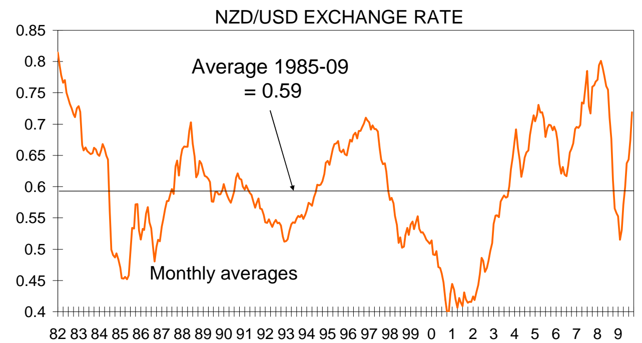
In other words, the bulk of the improvement has occurred because our domestic economy has been munted so we have imported less from overseas while foreigners have earned less from investments here. And this is the sort of current account correcting adjustment which is one day going to be forced on the economy by foreign investors some year down the track when they grow weary of continuing to finance our over-spending.

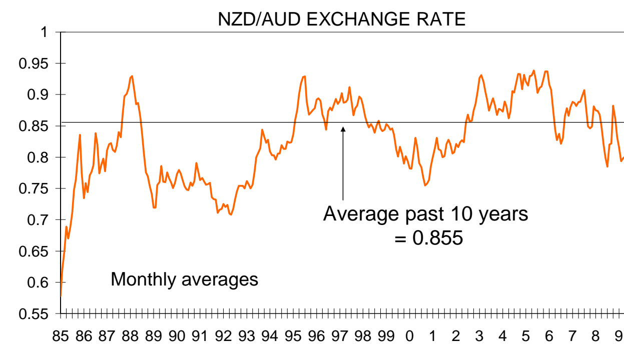
That adjustment in deficit-financing willingness is clearly not underway at the moment given the NZD's record six month rise against the greenback since March and it is impossible to forecast when this adjustment will come. Some have been waiting for it for near 25 years now. Maybe another 25 will pass before it happens.

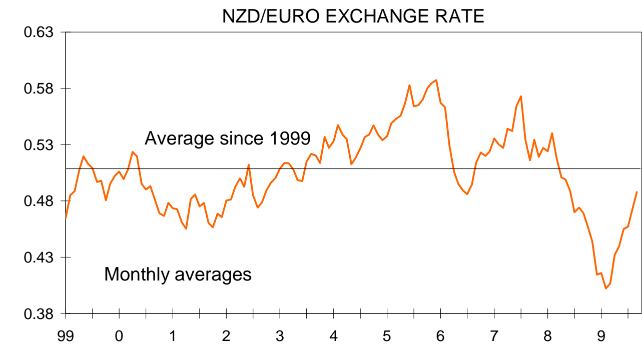
If I Were An FX Receiver What Would I Do?

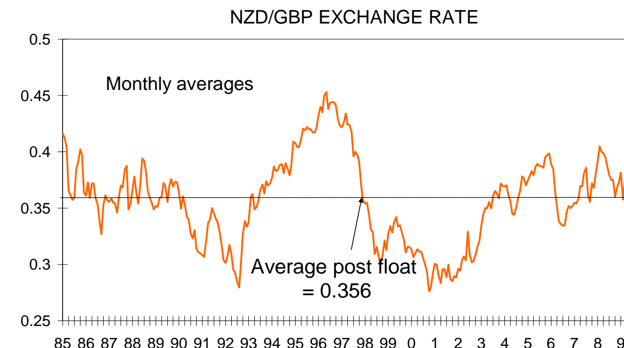
I would still be doing traditional hedging using forward exchange contracts. But I would also start discussing the use of options somewhere down the track as the NZD gets higher in order to allow some benefit from a decent pullback which could come at some stage.

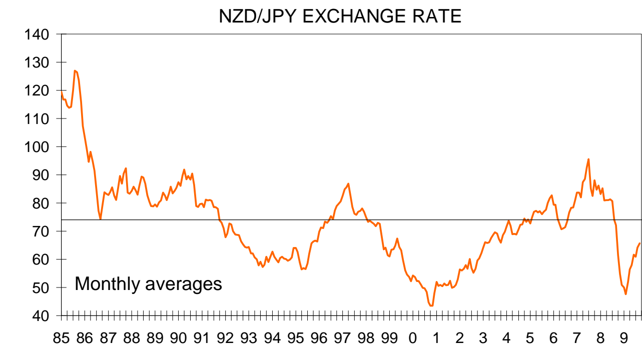












*Sourced from Consensus Economics. http://www.consensuseconomics.com/

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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%	+0.1	-0.8	-1.8	2.5	2.3
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	5.9	8.1	......	8.3	8.2
Terms of Trade		-8.9	-2.7	-13.1	10.7	2.3
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%.	0.2	-1.0	-1.0	1.6	5.5
House Prices	REINZ Stratefied Index	1.6	1.8	0.7	-7.0	13.1
Net migration gain	Av. gain past 10 years = 11,700	+15,642	11,202yr	......	4,938	8,738
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-2.8	-2.6	-2.8	0.3	3.9
		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	39.0	33.4	-17.7	-34.0	-25.3
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.85	6.49	10.49	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.45	7.45	6.59	8.69	8.75

ECONOMIC FORECASTS

Forecasts at Sept. 17 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	-16.4	6	8.9	5	-5.1	-17.8	1.1	9.7
GNE	4.2	-2	-3.9	3.3	3.4	4.5	0	-5.4	2.5	3.6
Exports	2.9	-3.4	-0.4	0.5	4.9	3.8	-1.6	-1.8	-0.4	4.7
Imports	9.6	-4.4	-14	2.3	5.9	8.6	2	-17.1	0.4	5.6
GDP	3.1	-1	-1	3	3.1	3.2	0.2	-1.9	2.3	3.3
Inflation – Consumers Price Index	3.4	3	2	0.7	1.8	3.2	3.4	2.1	0.7	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	0.73	0.75	0.71	0.77	0.56	0.72	0.75	0.72
USD/JPY	101	98	102	108	110	112	91	100	108	110
EUR/USD	1.55	1.31	1.5	1.46	1.36	1.46	1.34	1.49	1.47	1.4
NZD/AUD	0.87	0.8	0.82	0.84	0.85	0.88	0.83	0.82	0.84	0.84
NZD/GBP	0.4	0.37	0.42	0.43	0.41	0.38	0.37	0.42	0.43	0.42
NZD/EUR	0.52	0.41	0.49	0.51	0.52	0.53	0.41	0.48	0.51	0.51
NZD/YEN	81.1	51.8	74.5	81	77.9	86.3	50.9	72	81	79.1
TWI	71.6	53.8	67.3	70.3	68.8	71.6	55.1	66.3	70.1	69
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