BNZ Weekly Overview

26 November 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.

A Few Thoughts On The Economic Cycle

One of the questions people frequently ask is where are we in the economic cycle? They seek the answer because of the insight which can be offered into where interest rates, the exchange rate, share prices, commercial property prices, labour demand and so on are likely to go. By and large one can say where we are – recovering at the moment – but blindly extrapolating one's point in the cycle into a set of probable developments is dangerous at the best of times for a small economy like ours. In the current environment where the world is emerging in extremely unsteady and uncertain fashion from the worst downturn in the financial markets since the 1930s, simple rules should be treated with caution.

But lets run through this exercise anyway. Our economy shrank by almost 3% between the December quarter of 2007 and the March quarter of this year. Factors driving the recession included recessions in our trading partners, falling export commodity prices, a high exchange rate, above average interest rates, high food and energy prices, drought, loss of wealth due to collapsing finance companies, falling share prices, and fears of falling house prices.

As a result of that shrinkage resource availability has improved – some empty buildings, higher unemployment, spare machinery etc. This has resulted in downward pressure on property rentals, wages, raw material prices etc. The improved inflation outlook has been one of the factors causing an easing of monetary policy and fall in the exchange rate. Another has been sharply reduced credit demand from the business and household sectors.

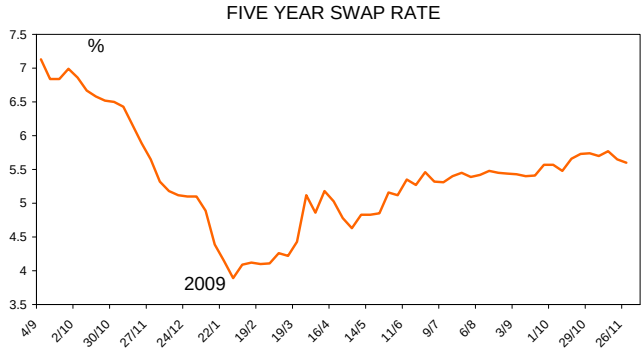
Shrinkage in the economy and worries about the future have encouraged people to put off previously planned expenditure such as on consumer goods, housing and travel, while businesses have shelved or delayed planned capital expenditure on buildings, plant and machinery, land development and so on.

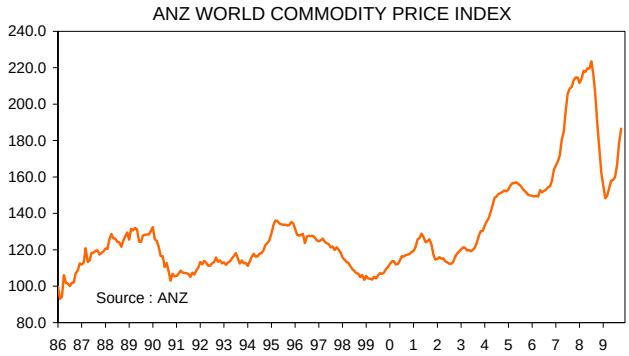
Now there is a recovery underway which is being driven by a multitude of things. Low interest rates are encouraging some people to borrow and businesses to invest, rising export commodity prices and the low exchange rate have improved export incomes (we'll obviously come back to this point), cheaper resources are encouraging some hiring and capital spending plans, and the simple passage of time is encouraging catch-up spending on household goods, housing, business inventories, and capital items. In theory.

Eventually, with help from faster trading partner growth, all worries about a weak economy will disappear, the focus will go firmly back on good long term growth prospects (growth in food demand from China etc.), and businesses will scramble to acquire resources and boost capacity partly out of fear of diminishing resource availability and future cost increases. Fast growth will eventually use up spare resources, inflation will rise, monetary policy will be tightened, the exchange rate will rise, and conditions will eventually combine to produce a new downturn if not recession.

The general rules for those following the cycle are sell shares, properties and the NZD when one thinks the cycle is near its peak and invest in fixed interest securities. When the economy is near its trough take profits on the fixed interest assets and buy shares, property and switch funds back into the NZ dollar. For maximum short term share price gains one might favour consumer and construction stocks – but only after first buying export stocks as the export sector usually experiences improving returns ahead of the domestic sector. One funds asset purchases with long-dated fixed interest borrowing, and if one is daring enough, in foreign currencies as well.

So where are we in the cycle at the moment? We are in the recovery phase. This can be seen in the data we discussed three weeks ago showing sharp household and business confidence gains, improving retail spending, and recovering housing market activity, growing anecdotes of an improving labour market, and improving forecasts for trading partner growth. Share prices have risen strongly in anticipation of better company returns, long term borrowing costs have risen in anticipation of tighter monetary policies, commodity prices have risen in response to and anticipation of better demand around the world, and the NZD has risen in response to these higher commodity prices and investors positioning for stronger world growth by purchasing traditionally risky assets.



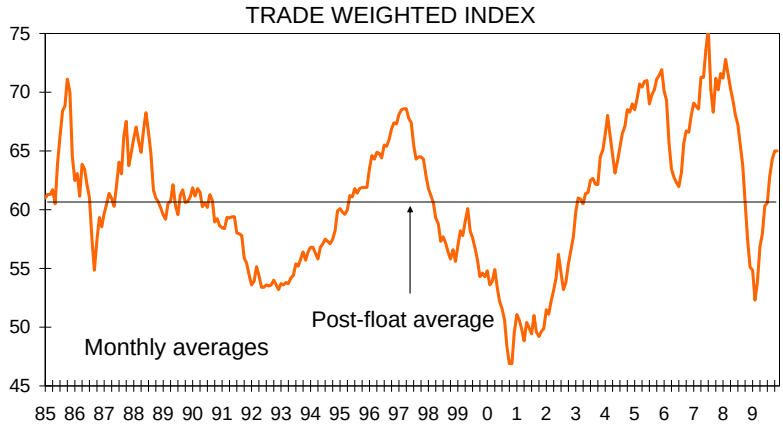


In other words – the financial markets have already adjusted to factor in economic recovery and movements in asset prices now are likely to be far more muted and based upon the actual data flow rather than a mechanical bounce-back from depressed times.

While to date one can say that a lot of what has happened is what one would expect, a lot also is not what one would expect and there is little to suggest one can blindly keep following a cyclical forecasting model from here on.

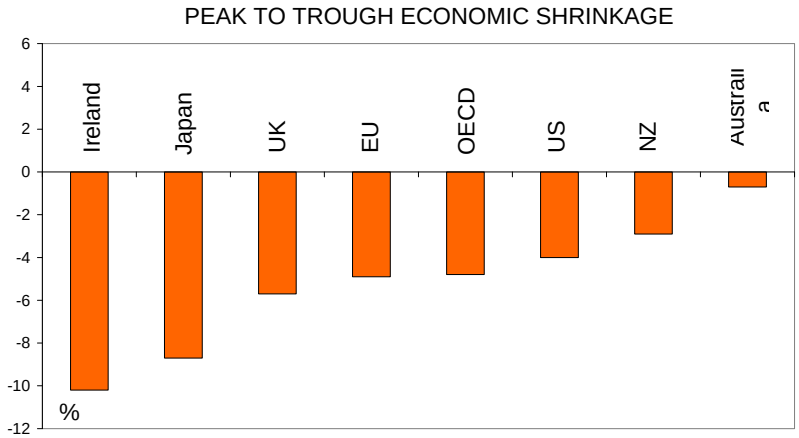
First, one struggles to find any evidence that lower interest rates are encouraging more borrowing, or that the lower exchange rate is driving the export sector ahead. The latter point is easy to answer because the

NZD is no longer low. The trade weighted index is sitting near 8% above its long term average. In fact the TWI only sat below average for a ten month period from October 2008 to July this year. This is not a traditional export-led upturn and therefore cyclical investment rules associated with a rural/regional recovery do not blindly apply. Land prices will struggle to rise, rural servicing companies will see recently falling sales plateau, but improvement will be mild and more necessity based than anything else.



This is relevant even for the dairy sector. Although the forecast Fonterra payout this season is the second highest on record at $6.05, farmers will be focussing on reducing debt rather than either spending their higher incomes on more consumer goods or aggressively expanding their operations. Funding for such expansion will not be generously available anyway.

And why hasn't the NZD stayed below average for an extended period as it did from 1990-95 and 1998-2003? Because although we shrank almost 3%, house prices fell 11%, the unemployment rate jumped 3%, sentiment readings hit record lows, and residential building hit four decade lows, compared with the collapses in other economies we look very good – especially from a banking sector perspective.



However there are some parts of the export sector which may experience some good improvements. These include export education where interest in NZ from overseas appears high, and manufactured exports to Australia. The Australian economy is strong and the NZD near 79 cents is below its long term 83 cent average against the Australian dollar.

The absence of a stimulatory impact from low interest rates can easily be seen in the aggregate credit growth numbers. Business debt has fallen 1% in the past 12 months, household debt is rising at only a 2.5% annual rate, and while farm debt has grown 12.2% in the past year, one suspects this is overdraft financing as there is no evidence of rising farm spending.

Willingness to raise debt has taken a structural step downward and this will restrain the strength of the recovery and therefore the speed of additional upward movements in interest rates, the exchange rate, and

asset prices. Willingness to lend has also definitely taken a step down and this will have the same effect – but mainly from 2010 once a few more borrowers choose to try and raise their debt levels.

And it is this debt dynamic which makes picking where the economy and financial variables go from here quite difficult. Because debt is less available upward pressure on growth, inflation, house prices, interest rates and the exchange rate will be constrained as there will be less debt-funded purchasing. But at the same time there will be less debt-funded expansion of the economy's capital base. This will restrain productivity growth and bring business capacity pressures earlier in the cycle than would otherwise be the case. And as we discussed last week – and in fact for the past year and a half – there are dynamics pushing house prices up which have nothing to do with credit availability.

If things were to pan out from here in terms of a normal economic cycle we would expect additional rises in interest rates – especially once monetary policy starts tightening from mid-2010. This means improving returns for conservative investors and rising costs for borrowers. We would also expect further NZ dollar appreciation as commodity prices rise further, our interest rates relative to those overseas become more attractive, we ride the coat-tails of an appreciating Australian dollar, and the greenback continues a long term relative decline.

We would expect continuing rises in house prices over the next two years, and accelerating wages growth from 2011 as the labour market tightens up potentially a lot more than currently being predicted. In the short term as buildings started 1-3 years ago are completed we would expect downward pressure on commercial rents and prices. But the underlying lack of finance and highly cyclical nature at times of this sector means potentially strong rent and property price rises starting perhaps 2-3 years from now.

What we would like to be able to say we expect is when the economic cycle starts turning back the other way and investors should be thinking about cashing up for a while until bargains reappear. But that is impossible not only because the growth recovery phase has only just started, but because of the huge uncertainty regarding the global growth track over the next few years, how central banks retighten monetary policies, how governments get their finances back in order, when US and UK banks start lending again, whether China can sustain recent debt-driven growth and so on.

So in a nutshell, while the best cyclical purchasing opportunities for commercial properties may not be at hand yet, they are probably there right now for farmland, and came and went early this year in residential property. The best cyclical exchange rate gains have almost certainly been recorded already, and the opportunity to cheaply fund acquisitions with low long term fixed interest rates ended many months ago.

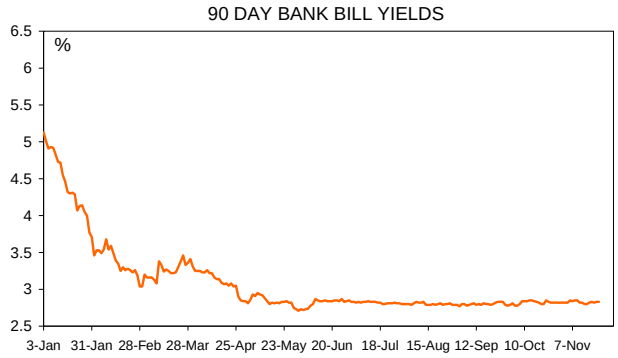
INTEREST RATES

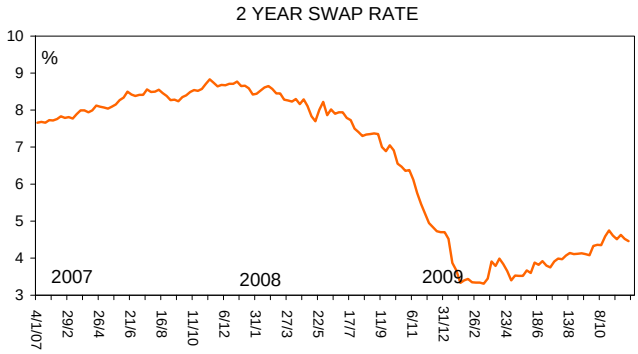
Wholesale interest rates fell very late last week after the markets reassessed the chances of further quick tightening of monetary policy in Australia and New Zealand in light of some more dovish than expected comments from the RBA. But the small moves down are best seen in the context of an overall mild drift up in rates from current levels but with nothing major happening in the near future given a lot of the good news regarding recovery from recession has been captured in rate movements earlier this year. And interestingly, yesterday new comments from the RBA Deputy Governor were more hawkish than expected so some of the earlier downward pressure on wholesale interest rates reversed a tad.

The next large thing likely to happen is the commencement of the monetary policy tightening cycle in New Zealand which we pick for about the middle of next year. At this point there is little reason for the Reserve Bank to express much concern about inflation risks given both the excess supplies of resources such as people, machinery, and commercial buildings, plus the absence of evidence that the upturn so far involves significantly more than the housing sector.

But they know they need to ensure borrowers allow for rising floating interest rates further out. So it would not be surprising if at their next official cash rate review on December 10 they emphasise a few more of the positives in the economic outlook rather than continuing to focus on the negative risks.

The yield on 90-day bank bills has ended the week near where it has been since April at about 2.8%. The five year swap rate has ended near 5.6% from 5.65% last week and 5.77% two weeks ago. The one year swap rate – whish is heavily affected by changes in NZ monetary policy expectations – has ended near 3.5% from 3.49% last week and 3.56% two weeks ago.





Key Forecasts

- Tightening by mid-2010.
- Medium to long term housing rates to keep on rising.

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	6.50	6.2
90-day bank bill	2.82%	2.80	2.80	2.81	5.83	6.5
10 year govt. bond	5.68%	5.68	5.76	5.71	5.36	6.2
1 year swap	3.50%	3.50	3.55	3.19	5.10	6.7
5 year swap	5.60%	5.65	5.74	5.44	5.65	7.0

If I Were a Borrower What Would I Do?

Nothing new. I'd float and go wherever the road takes me for the next five years. It is too late this cycle for anyone other than the highly conservative to fix.

HOUSING MARKET UPDATE

Housing Affordability

The housing affordability debate has started as we predicted well over year ago. The following URL will take you to a report just released by the Tauranga City Council looking at the worsening home affordability situation – go to page 5 of the stuff that pops up.
http://content.tauranga.govt.nz/meetings/2009/November/Agenda%20StratPol%2016.11.09%20-%20DC351.pdf

And here is what one emailer noted about the situation in Marlborough.

"I have also been looking at low cost quality housing options, but whilst with innovation you can save some costs, this is generally overtaken by increases in development costs. Certainly in Marlborough the council appear to have concluded that it is easier to tax developers than the general ratepayer. For example the proposed change to levies and reserve contributions will add about $10,000 to the cost of a section with the biggest impact being on the low cost sections. So whilst central government may want to encourage low cost housing, anything they do could easily to be negated by local authority tax policy."

Exchange Rate Targeting

In the FX section this week we comment on the Opposition Leaders promise to examine abandoning low inflation. What readers of this section need to think about is this. In the ten years to 2005 inflation in New Zealand averaged 2%. In the four years since it has averaged 3%. Any policy change toward focussing on the exchange rate would imply even higher inflation. Under that scenario do you expect higher house price inflation or less? Higher of course. Therefore do you buy more houses before other people or do you buy fewer? You buy more.

Any movement of monetary policy away from inflation targeting boosts the attractiveness of housing investment and the effectiveness of any hoing into the use of LAQCs would be reduced because higher capital gain expectations would increase tolerance of no longer tax deductible negative short term cash flows.

Plus, as anyone who had close contact with real estate agents and others in the industry over an extended period of time will know, there are plenty of operators who for years have been advising people to buy on the basis of higher inflation one day coming back. They will now feel emboldened if not ahead of the 2011 general election (going by the polls), then maybe ahead of the 2014 one.

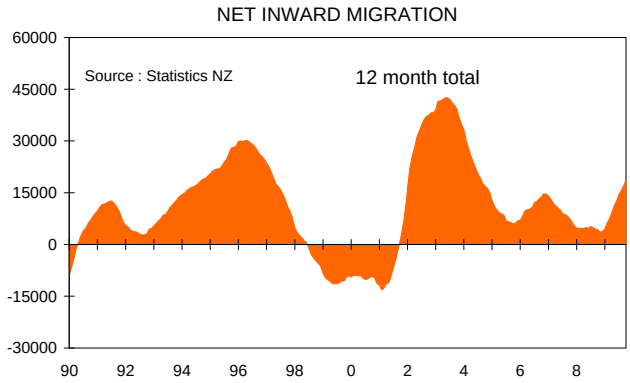
The Opposition leader's comments therefore imply that if one believes a government change is coming in the near future there is an extra incentive to buy houses before others do – thus making housing even less affordable and worsening the situation we already think is underway.

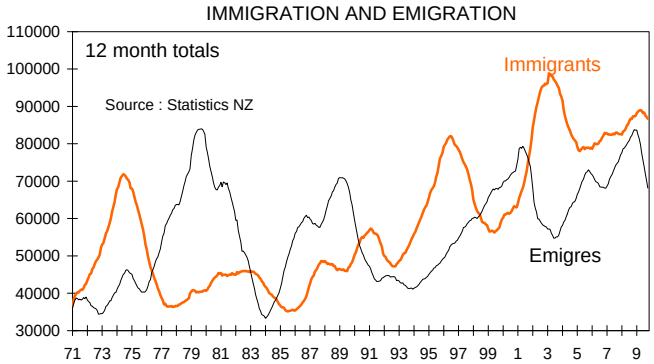
Migration Growth Continues

Speaking of worsening the situation with regard to housing access, the net migration flows continue to rise and one of the most basic dynamics in economics is that accelerating population growth in the absence of accelerating growth in supplies of resources, goods and services, or productivity will push up prices. In October there was a net gain to the population from permanent and long term migration flows of 3,004 people. A year ago the gain was just 1,487 and this is the highest October gain since 2002. The net annual migration gain now stands at 18,560 from 4,329 a year ago and a ten year average of 12,136.

Over the past year as a whole immigrant numbers have fallen 0.7% while émigré numbers have slumped 17.9%. So it is fewer people leaving that has driven the migration turnaround. There is also no sign of this pattern changing as the number of people arriving in the October month was down 6.9% from a year ago and the three months to October was off 7.5% from a year earlier. The number of departures for the month

was down 34.7% from a year ago and for the three months to October the decline was 31%. This then is where one needs to be cautious about extrapolating what we expect will be continued firm average house price rises for 2010 and 2011 into the initial years after that. NZ migration flows move in cycles, the cycle was due for an up period and so we are experiencing it. We will be broadly due for a down period in a couple of years and it could be sudden as the people who are currently delaying leaving NZ put their original plans back in place. This process could even easily start over 2011 given what we expect will be firm growth in labour demand in Australia – the traditional initial port of call for Kiwis looking offshore.





Those interested in how the NZ/Australia dynamic may play out could be interested in the relatively bullish comments about the Australian economy, labour demand, and housing construction made by the Reserve bank of Australia Deputy Governor this week. The speech title is "Housing and the Economy" http://www.rba.gov.au/Speeches/2009/sp-dg-251109.pdf

He notes

- **the rate of growth in the population, which has already picked up in recent years, is likely to remain strong, as demand for labour will encourage continued high immigration;** (this will drag Kiwis back over there by the thousands again soon – my note)
- **household incomes are likely to rise solidly, which will help underpin the demand for housing; and**
- **the construction industry is likely to face substantial competition for workers from the mining sector.**

He then discusses why although the data show strong investment in the housing sector in recent years, house supply remains constrained. The points almost certainly apply here in NZ and we reproduce them in full.

First, Australians are on average spending a lot more on each new dwelling. Real expenditure on each new dwelling built is now 60 per cent higher than it was around 15 years ago. This is due to improvements in quality and increases in size.

Second, a high proportion of dwelling investment is in the form of alterations and additions – i.e. upgrading existing houses rather than building new ones. Almost half of all dwelling investment has been accounted for by alterations and additions in recent years. (Actually in NZ since 2004 this proportion has been a far smaller 18%)

Third, a higher proportion of the new houses built are simply replacing existing houses that have been demolished. We estimate that between 2001 and 2006, around 15 per cent of new houses built replaced houses that had been demolished; 10–15 years earlier, that figure was less than 10 per cent.

Fourth, a significant proportion of dwelling investment appears to have gone into holiday homes or second homes. Census data show that the number of dwellings built has exceeded the increase in the number of households by a large margin. As a result, the ratio of the number of dwellings to the number of households has been rising over time; as at 2006, there were 8 per cent more dwellings in Australia than there were households. Presumably, most of this surplus reflects holiday houses and second houses.

The Deputy Governor also discusses how international comparisons of home affordability measures may be invalid but you can read that for yourself if you want.

Given that strong population growth is expected to continue in Australia, that housing is in short supply, that residential construction activity is likely to lift firmly, and that wages available to tradespeople will become even more attractive to Kiwis, it seems reasonable to expect our tradespeople will be flocking westward in increasing numbers from some point next year. Plus – if they don't go over there to build houses they will be going to work in the minerals sector.

For NZ this implies that the shortage of tradespeople which was pushing up labour costs, slowing construction growth, and generating longer and longer waiting lists for Kiwis wanting to get a house built or an extension done – will all return. Build now.

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	0.732	0.738	0.757	0.684	0.54		0.573	0.592
NZD/AUD	0.786	0.797	0.815	0.818	0.841		0.848	0.856
NZD/JPY	63.900	65.600	69.000	64.400	51.5		59.0	66.8
NZD/GBP	0.438	0.441	0.459	0.418	0.351		0.358	0.345
NZD/EUR	0.483	0.494	0.505	0.478	0.416		0.448	0.51
USD/JPY	87.295	88.889	91.149	94.152	95.370		103.0	113.9
USD/GBP	1.671	1.673	1.649	1.636	1.538		1.601	1.709
USD/EUR	1.516	1.494	1.499	1.431	1.298		1.278	1.156
AUD/USD	0.931	0.926	0.929	0.836	0.642		0.676	0.69

NZD Edges Marginally Lower

A few exporters would have felt a little tingle of excitement last week when the leader of the Labour Opposition said he is prepared to threaten years of benefits from low inflation in New Zealand and look at forcing the Reserve Bank to target the exchange rate rather than price stability. This is not going to happen, or if it does, the weakening of the inflation resolve is likely to be minor and the exchange rate targeting element largely meaningless in practice.

First, based on current polls it would be unreasonable to expect a change in government in the near future therefore the policy proposal may not be relevant for the entirety of this exchange rate cycle.

Second, the world is filled with examples of countries which have tried policies of exchange rate stabilisation and failed. The UK could not keep their currency within the European Monetary System back in 1992 for instance. It is very unlikely such a change would be made once the IMF, OECD, foreign funders of New Zealand, and modern NZ businesses let their opinions be known.

Third, price stability is a key foundation for economic growth – just ask Brazil. The world's central banks in recent years have been moving toward more rigid and explicit targeting of inflation as opposed to a mish mash of targets often proposed by those in NZ who have failed to recognise the NZD's inherent volatility in their hedging policies.

Fourth, the RBNZ's policy target has been substantially watered down in recent years. It started as keeping inflation between 0% and 2% all the time, and is now "For the purpose of this agreement, the policy target shall be to keep future CPI inflation outcomes between 1 per cent and 3 per cent on average over the medium term….. In pursuing its price stability objective, the Bank shall implement monetary policy in a sustainable, consistent and transparent manner and shall seek to avoid unnecessary instability in output, interest rates and the exchange rate."

The Reserve Bank have reacted to the watering down of the inflation target by no longer keeping inflation as low as before. Over the ten years from 1995 – 2005 inflation averaged 2%. Over the past four years it has averaged just over 3% with no reduction in exchange rate volatility. If the Opposition leader is contemplating further easing then presumably inflation will be set to average between 3% and 5%. That means export cost bases increasing at a faster pace, which means in the absence of a steadily declining exchange rate their profitability will deteriorate.

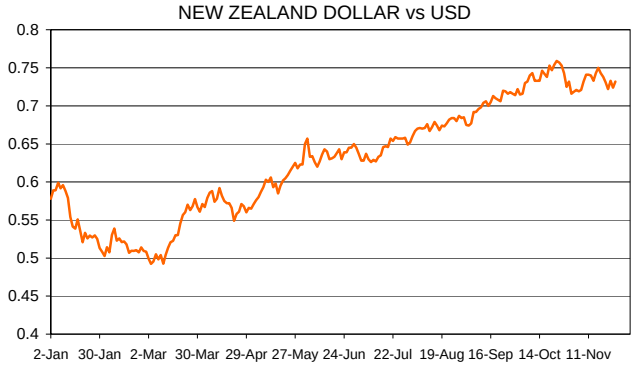
History shows that in spite of a continuing high current account deficit and high interest rates relative to other countries, the NZD is not trending down. Therefore exporters would risk greater underlying profit erosion if higher inflation is targeted.

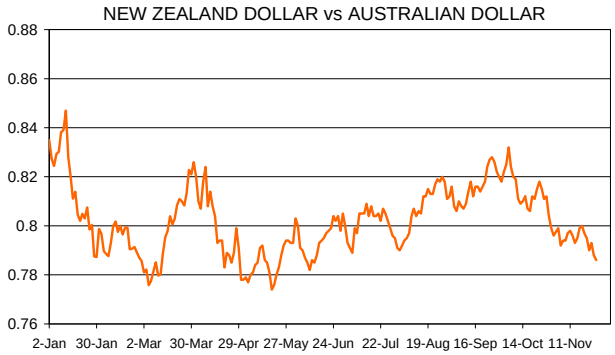
Fifth, targeting higher inflation will have an uncertain impact on the currency, but a very certain impact on the incentive to borrow and invest in inflation protecting assets like housing. A policy shift toward higher inflation will boost house prices and in a deregulated labour market environment with low unionisation it is unlikely low income earners will gain sufficient recompense for either higher inflation or higher house prices through wage increases. Therefore income disparities in New Zealand will increase.

It is laudable that the Opposition leader is aware of the negative impact the high and volatile currency has on the export sector. We have written about this problem extensively in the past and consider it to be one of the reasons our export to GDP ratio is not trending upward. However there are better ways to achieve a structural adjustment downward in the NZD than sacrificing low inflation.

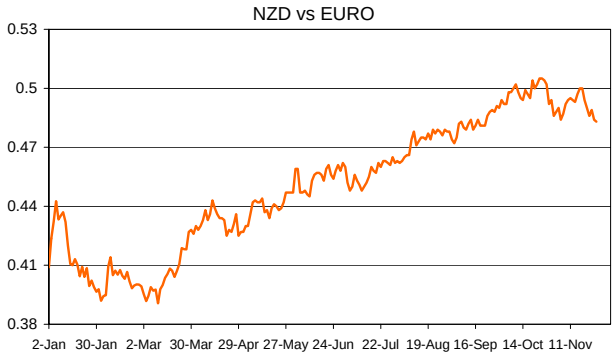
Possibilities include a structurally much tighter fiscal policy as highlighted by Treasury in some material released this week, and extra tools to assist the Reserve Bank. But before exporters get too excited dreaming up extra tools to supplement the official cash rate it pays to think about this. The NZD has just staged a record six month rise against the greenback during a period when the OCR was reduced from 3.5% to 2.5% and the economy was not growing. Interest rates are not the only factor which move our currency around.

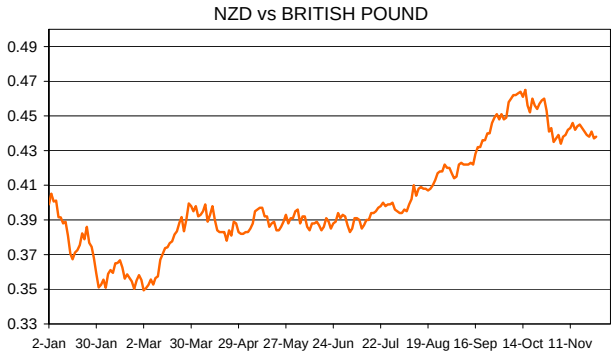
This week the NZD has edged slightly lower but remains in the trading range against the greenback in place broadly since September. Around midday the NZD was near 73.2 cents from 73.8 cents last week and 71.9 cents three weeks ago. However, with the Aussie dollar boosted by some bullish comments from the Deputy Governor yesterday we have declined to a six month low against the AUD near 78.6 cents from 79.7 cents last week.

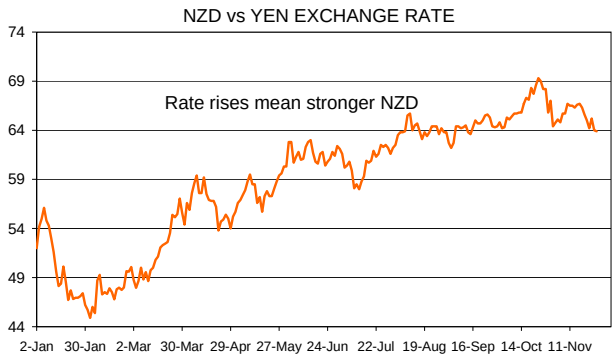




Against the Japanese Yen the NZD has retreated to a two month low near 64 from 65.6 last week, while also falling to a two month low against the Euro near 48.3 centimes from 49.4 last week. Against the British pound there has been only a mild decline to near 43.8 pence from 44.1 last week.







The large movements in the NZD have already been recorded for this year and from here we expect a general drift up in the usual volatile manner. At this stage we have difficulty trying to pick when it would be reasonable to forecast a peak in the NZD and the start of a general move down. Actually that is just being polite. Given the inherent unforecastability of exchange rates and the huge uncertainties facing the world economy over the coming few years making such a pick and inviting people to start positioning their hedging on the basis of it would be downright dishonest.

The greenback this week has shed some ground against the Euro and Yen reaching a 19 year low against the Yen near 87.3 from 88.9 last week. The USD has been pressured lower by the Russian central bank announcing it is diversifying FX reserves away from the USD, some good US data encouraging purchases of riskier currencies (NZD etc.), rising commodity prices also encouraging other currency purchases, and continued indications from Fed. officials that US interest rates will be kept low for a long time.

If I Were An FX Receiver What Would I Do?

Take advantage of the current period of mild retracement in the NZD to get some extra hedging on board. I would be extremely wary of forecasts for when the NZD is going to peak this cycle. The second to last time the NZD was low it stayed low for two years longer than people thought. It reached at its peak a level far higher than expected last year. It jumped up from just below US 50 cents this year far sooner than had been expected.

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

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	1.3%	0.6	1.7	5.1	1.8
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%	6.5	6.0	.....	4.3	3.6
Jobs growth	Average past 10 years = 1.9%	-0.7	-0.4	-1.8	1.1	1.6
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%.	0.5	0.3	-0.9	0.4	5.5
House Prices	REINZ Stratified Index	3.3	2.2	5.0	-6.8	9.4
Net migration gain	Av. gain past 10 years = 11,700	+18,560	14,488yr	.....	4,329	7,520
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-1.0	-2.8	-1.0	-0.2	3.1
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	57	38	-9	23	-8
Business activity exps	10 year average = 26%. NBNZ	31.0	32	-4	-11	20
Household debt	10 year average growth = 11.3%. RBNZ	2.3	2.3	2.7	6.7	13.3
Dwelling sales	10 year average growth = 3.5%. REINZ	36.3	43.7	39.1	-34.8	-22.6
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.59	6.49	10.49	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.95	7.45	6.59	8.69	8.75

ECONOMIC FORECASTS

Forecasts at Oct. 29 2009	**March Years**					**December Years**				
	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.2	-0.8	-0.2	1.8	2	4.1	-0.1	-1	1.6	2
Government Consumption	4.2	3.3	0.8	2.7	1.9	3.8	3.8	1.3	2.3	2.2
Investment	4.2	-8.8	-11.5	5	8.8	4.9	-5.2	-13.7	1.3	9.6
GNE	4.2	-2	-3.3	4	3.4	4.4	-0.1	-4.9	3.3	3.7
Exports	3.1	-3.3	-1.3	0	4.9	3.9	-1.3	-2.4	-1.3	4.7
Imports	10	-4.7	-13.9	3	5.9	8.9	2	-17.3	1.2	5.6
GDP	3.1	-1.1	-0.7	3	3.1	3.2	0	-1.6	2.3	3.3
Inflation – Consumers Price Index	3.4	3	2.5	1.1	2.6	3.2	3.4	2.6	1.4	2.1
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	7.4	7.2	6.2	3.5	4.7	7	7.4	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	0.78	0.78	0.7	0.77	0.56	0.76	0.79	0.72
USD/JPY	101	98	92	105	109	112	91	91	104	108
EUR/USD	1.55	1.31	1.48	1.44	1.4	1.46	1.34	1.49	1.45	1.41
NZD/AUD	0.87	0.8	0.82	0.84	0.82	0.88	0.83	0.82	0.83	0.83
NZD/GBP	0.4	0.37	0.45	0.44	0.41	0.38	0.37	0.45	0.44	0.42
NZD/EUR	0.52	0.41	0.53	0.54	0.5	0.53	0.41	0.51	0.54	0.51
NZD/YEN	81.1	51.8	71.8	81.9	76.3	86.3	50.9	69.2	82.2	77.8
TWI	71.6	53.8	69.6	72.3	67.1	71.6	55.1	67.9	72.6	68.4
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	2.76	4.12	6.12
10 year Govt. Bond	6.36	4.77	5.75	6.3	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