BNZ Weekly Overview

7 July 2011

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.

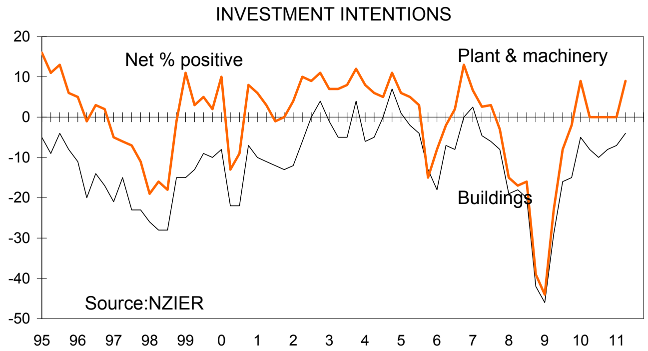
Monthly Survey Time

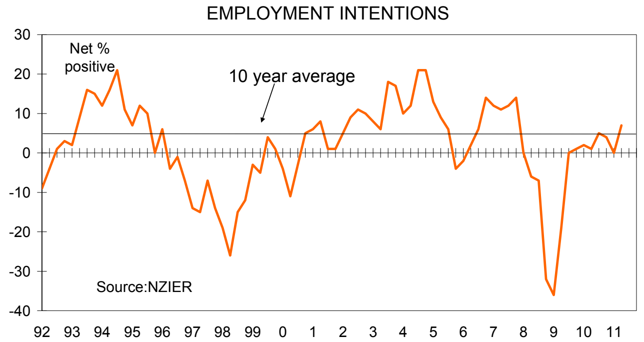
This is once again the first Thursday of the month so as usual we are running the BNZ Confidence Survey. If you have not already done so using the link included in the email sent out on Thursday night please feel free to click on the url here and let us know whether you feel the economy will get better or worse over the coming year. In addition, if you have an extra moment free let us know how things are right now in your industry specifying what that industry is. The results will be released on Monday.

http://survey.usuite.com/survey/7f801dd05f3742619b046cc119c15106.sur

This week the WO is shorter than usual as I've been on the road giving talks in Queenstown, Te Anau, Invercargill, Gore, Oamaru, and Dunedin. So apologies if something obvious is missing from one of the sections. With regard to the major news on the economic front in New Zealand we have the NZIER's Quarterly Survey of Business Opinion which was released on Tuesday. Like our own surveys for the past three months and the handful of others theirs showed a sharp leap in business sentiment about where the economy will be in a year's time along with improvements in business investment and employment intentions. A net 20% of respondents expect higher domestic trading in the coming quarter which is the second best result since 2005 and well above the average reading of a net 10% positive.

A net 7% of businesses plan hiring more people which is up from a net 12% planning layoffs in the September quarter of last year and the best result since 2007. A net 9% plan boosting spending on plant and machinery which is the best result since the start of 2010. But as the two graphs here show the results are good yet not stellar.





In fact what they highlight is that although businesses have high optimism about the future, they are not yet willing to back it with a strong period of catch-up hiring or investment. This is the sentiment we found farmers expressing at Fieldays in Hamilton three weeks ago, and the general view of people encountered down south this week.

What this means is that although it is valid to have a positive view of where the economy is heading, the distinct disconnect between confidence and actions makes forecasting at the moment a particularly difficult exercise.

This week the following material has been added to www.tonyalexander.co.nz

Weekly Newspaper Column **http://tonyalexander.co.nz/newspaper-column/**

This week we look at business sentiment. Apart from that time spent speaking and driving has meant nothing else could be added.

Other Website Material

- **Weekly syndicated newspaper column** http://tonyalexander.co.nz/newspaper-column/
- **State of the NZ Labour Market** Updated mid-month. http://tonyalexander.co.nz/nz-labour-market/
- **BNZ-REINZ Market Survey** Released second week of each month. http://tonyalexander.co.nz/bnz-reinz-survey/
- **Real Estate Overview** Updated mid-late each month. http://tonyalexander.co.nz/bnz-reinz-survey/
- **Archived Weekly Overviews** www.bnz.co.nz/tonyalexander

Is Our Economy Getting Better or Worse?

In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

Because the March quarter national accounts have been delayed until next Thursday all we have to go on this week are the monthly data for vehicle registrations which were generally weak, plus lending data which are not all that indicative of short term economic performance.

Are householders opening their wallets more?

If most cars are purchased by householders then the answer is not really. Car regos in June were down 10% from a year ago, for the June quarter they were down 7.4% from last year and about 1% down seasonally adjusted from the March quarter. The data do not suggest any big spend up underway.

Is business output rising?

Nothing new

Are businesses hiring more people?

To view our latest monthly NZ Labour Market report click here. http://tonyalexander.co.nz/nz-labour-market/

Nothing new. Strong intentions in surveys may be one thing, but finding data showing intentions converting to hiring actions is difficult and even the quarterly Household Labour Force Survey is viewed by ourselves somewhat sceptically given its high volatility.

Are businesses boosting their capital spending?

To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey here. http://tonyalexander.co.nz/bnz-confidence-survey/

Even though there is good correlation between business borrowing and capital expenditure, for the record in May business debt rose by only $68m to lie just 0.9% ahead of a year ago. In the past three months debt growth of $152mn was $812mn more than over the same period a year ago. But back then businesses were radically cutting debt levels so we don't take this annual comparison as a sign that underlying borrowing is rising strongly and investment jumping up. Pity, because lots of expenditure is needed in order to boost productivity. Seriously though, in the absence of new major reforms in the economy and a change in our "she'll be right" culture it is unrealistic to expect a sea change in productivity growth. At least the mountains and sea are easily accessible here and most of us can live in a standalone house, not have our children pass through metal detectors as they enter school, and if it all ever falls down around our ears we can quickly hold a vote, choose yes, and become a state of Australia with hands out for Federal money without the Aussies having a say in the matter. Good on ya cobber.

More seriously, in the June quarter the number of commercial vehicles registered around the country was 9.4% up from a year ago but flat in seasonally adjusted terms from the March quarter. Some earlier investment growth in this area has eased off and we feed this indicator into the generally cautious attitude we are trying to get across regarding the extent to which high business sentiment is feeding through to solid actions. However tractor registrations in the quarter were 17% ahead of a year ago and slightly positive seasonally adjusted compared with the March quarter.

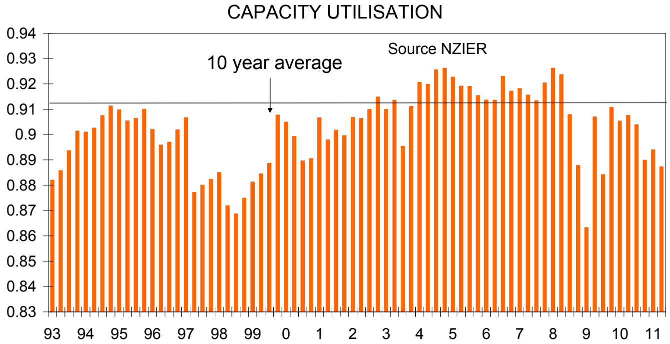
Basically we struggle to find evidence that there is more than a token rise in business capital expenditure underway.

INTEREST RATES

Growth vs. Economic Slack

In a nutshell this is what drives inflation along with institutional arrangements, imported inflation, and exchange rate changes. If you want to forecast monetary policy you need to monitor these things. So we will, adding stuff here when we learn it. The current common view is rate tightening from December. Have we learnt anything this week which alters this outlook?

The NZIER's capacity utilisation rate edged slightly lower during the June quarter to 88.7% from 89.4% in the March quarter which is now appreciably below the ten year average of 91.1% and not suggestive of much inflationary pressure at the moment.



However housing stock availability measured in the monthly NZ Property Report discussed in our housing section has declined quite a bit over the past three months so this acts as a bit of an offset to the capacity change in the manufacturing and construction sectors. Then again, the vehicle registration data for June were generally weak. So all up the week has probably not produced a lessening of the gap between productive capacity and demand.

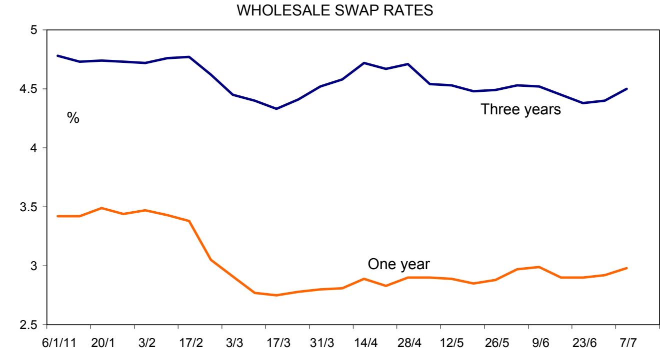
Other Inflation Influencers

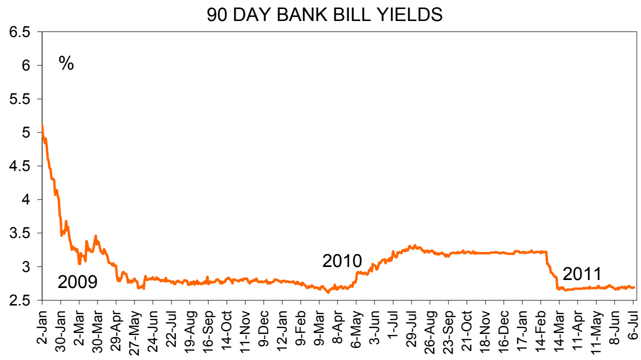
The NZIER's quarterly survey showed that a net 31% of businesses plan raising their selling prices compared with just 14% in the March quarter. But this is only just above the ten year average of 28% so not suggestive of above average pricing pressures as yet – though we expect these will come. However there was some offset this week from the Kiwi dollar hitting a post-float record against the greenback at 83.3 cents and the trade weighted index average measure of the currency generally creeping higher in recent times. The Reserve Bank's inflation forecasts assume a falling exchange rate.

Rate Movements This Week

Wholesale interest rates have generally crept up with pressure from higher yields in the United States last week. But rises have been limited by more weak data in Australia (retail sales and building approvals) calling further into question the chances of another Aussie rate rise this year and thus pushing Australian wholesale interest rates down slightly over the week. In addition the jump in US yields last week which got some people a wee bit excited about advocating Kiwis switch right now from floating into fixed rates has reversed in large part the past couple of nights because of weak data heightening growth worries.

As a result the yield on 90-day bank bills has ended up as ever just below 2.7% while the one year swap rate has crept up to 2.98% from 2.92% while the five tear rate has risen to 4.5% from 4.4% though was about 0.1% higher than that at one point earlier in the week.





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	2.75	5.9
90-day bank bill	2.69%	2.70	2.68	2.67	3.14	6.2
1 year swap	2.98%	2.92	2.99	2.81	3.75	6.3
5 year swap	4.50%	4.40	4.52	4.58	4.90	6.6
180-day term depo	4.30%	4.30	4.50	3.60	4.90	6.0
Five year term depo	6.00%	6.00	6.00	6.00	6.75	6.5

If I Were a Borrower What Would I Do?

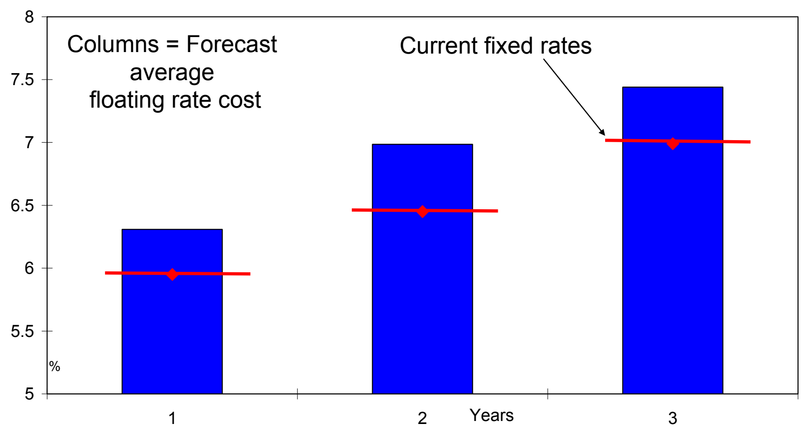
Late in 2008 I set myself the goal of picking when fixed rates would be at their lows in 2009 and calling it in this section. That goal was achieved in the March 19 2009 edition and readers then had Friday 20 to lock a low rate in before they shot up on the following Monday as the massive imbalance between those in the wholesale market wanting to borrow fixed (banks) and those wanting to lend fixed caused borrowing costs to rise sharply.

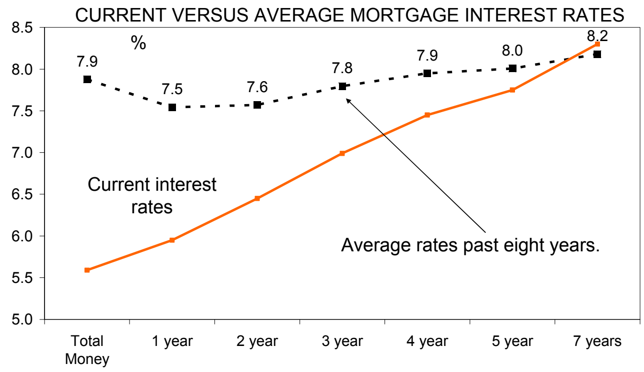
Now and then someone will send us an email noting that over the past two years if one had done something like floating until such and such a month, then fixing, then floating or whatever they would have achieved a lower cost than fixing on March 20. They are probably right. But what they are forgetting is three things.

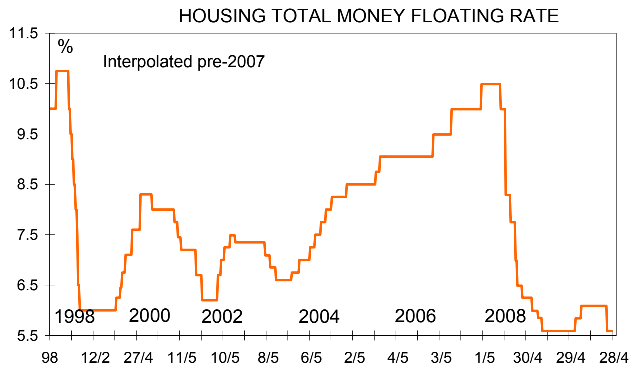
First we set out only to pick the cyclical low in fixed rates and did that. Second, one should always be prepared to pay a premium for the certainty of a fixed rate. In a perfect world where all fixed rates reflect accurate expectations for floating rate movements the yield curve will be positively sloped as investors demand a premium for locking themselves out of other investment opportunities for a period of time.

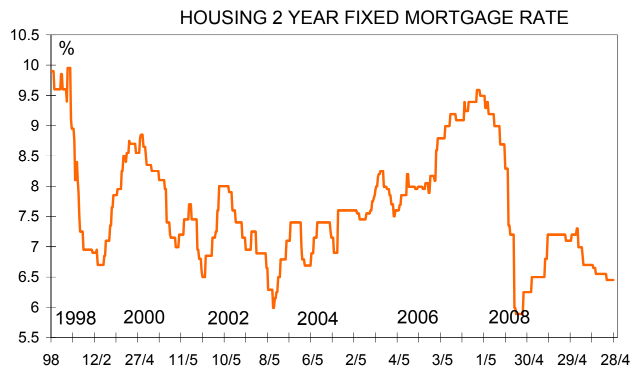
Third, when we called the low point in fixed rates late in March the world was still a massively uncertain place and there would be no way one could reasonably expect oneself or anyone else to accurately pick the path for interest rates over the coming x years. This comment would also apply for every month since then and is a key thing we have sought to point out in the Weekly Overview. These times we live in are very uncertain and the interest rate forecasts we make today will change as we learn new things about the state of the US housing market, debt discussions regarding Greece, Ireland, Portugal, Spain, the UK, US and so on, the extent to which China slows down as a result of inflation fighting efforts, (another interest rate rise this week) the impact on oil prices of Middle East turmoil and IEA inventory management decisions, and you get the picture.

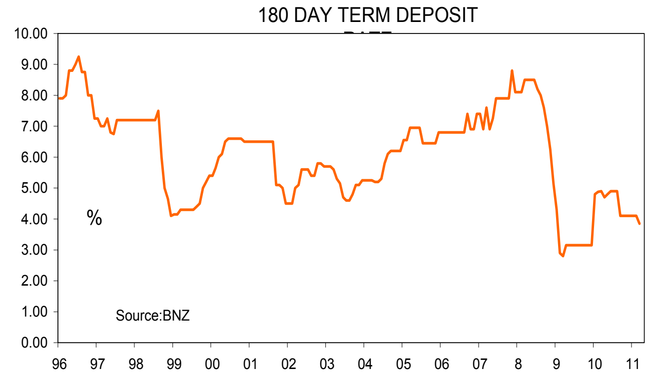
At this stage, although during the week a few people were looking at the rise in US yields following the ending of the QE2 money printing period and concluding the time is at hand in NZ to jump from floating to fixed we think borrowers still have time on their side if that is the switch they are planning to make. Capacity utilisation in the latest NZIER has gone down, data from Australia are coming in weaker than expected, world growth prospects are deteriorating because of heightening worries about Europe, and US yields have pulled back down to some degree. The US ten year government bond yield for instance finished at 3.09% last night which although up from a low of 2.87% two weeks ago is only where it was in the last week of May. Plus in spite of the fortnight's rise expectations of the timing and extent of monetary policy tightening in the United States have not increased.











If I Were a Term Deposit Investor What Would I Do?

Nothing new. I'd stay short waiting for monetary policy to tighten.

HOUSING MARKET UPDATE

To view the most recent results of our monthly BNZ-REINZ Market Survey and read our monthly Real Estate Overview click here. http://tonyalexander.co.nz/bnz-reinz-survey/

A Capital Gains Tax?

The media are reporting that next Thursday Labour will announce they will go into the election with a set of tax raising proposals including a capital gains tax on investment property perhaps at 15% effective for new purchases from a future date. The aim it appears is to turn NZers back into a nation of home owners as opposed to renters – back to someone's view of the good old days – and raise revenue to pay for a tax free threshold of perhaps the first $5,000 of income and the removal of GST on fresh fruit and vegetables (what an admin nightmare that will be, and why not books as well, or school charges, detergent, rates, electricity, water charges?)

If a tax were introduced what would the impact be? The analysis is actually quite simple and it goes like this.

Australia has a capital gains tax and their housing is less affordable than ours. Most other countries also have a CGT and their housing markets have experienced major booms and busts. Therefore introducing a CGT is not likely to lead to noticeably cheaper houses or stop the house price cycle. We will still borrow and buy housing when we believe prices are going to rise, and sell them when we feel prices will fall.

The long term effect on NZ house prices is likely to be to increase rather than lower them. This arises first because investors with existing properties will be reluctant to trade them. That is, if you already hold one investment property and want to sell that then a bit later on get a new one you will shift your capital from tax free to taxed status. Therefore those with properties purchased before the CGT effectiveness date will tend to hold onto them and not make them available either for other investors or owner occupiers. These properties may be redeveloped however depending upon the treatment under the tax system of such activity. If such activity results in being captured by a CGT then they may be allowed to run down.

In addition, if you are thinking about building houses to let the introduction of a CGT will reduce the likely long term return therefore this will lead to a combination of higher rents and reduced construction. This latter effect would not matter if we had an ample supply of houses in NZ, but we do not. We have a shortage of about 45,000 dwellings and by reducing returns to investors the resulting reduction in construction will lead to an even greater shortage. That is where the upward pressure on house prices will come from – after what would likely be a short term dip.

As we pointed out some time ago, the horse has bolted with regard to introducing a CGT on residential investment property. Had it been introduced when houses were plentiful the reduction in investor construction may have had not much long term impact. But now it would be a sizeable factor keeping prices up.

There should of course be a CGT on residential investment property and its absence does cause a distortion of investment choice in our country. But the time has passed to introduce it – unless that is one makes substantial changes which will permit a rapid increase in housing supply and reduce other costs facing property developers. That is where real change needs to occur to address NZ's worsening housing issue – cut the costs of building new houses.

This would involve a substantial loosening up of zoning restrictions, an easing back on the building code, removal of developers levies imposed by councils, somehow boosting competition in the building materials sector, encouraging us to buy low unit cost cookie-cutter houses rather than our preferred individually designed ones , etc. The chance of any of these things happening seems fairly low – as in nil and buckleys.

And finally, it pays to remember that one of the factors driving the surge in house prices and the eventual oversupply in the United States was a set of policies aimed at increasing the home ownership rate. People were encouraged to buy property they could not actually afford – the zero equity, near zero documentation loans for instance. Now many of those folk are destitute.

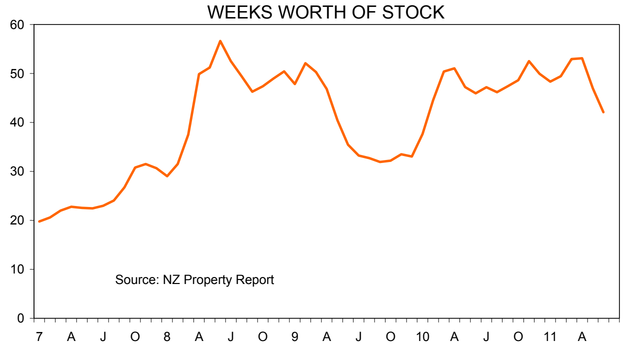
New Zealand's deficiency is not in some theorised cultural preference for housing for which we have never seen documented evidence, but our fairly obvious preference for borrowing over saving. Where we differ substantially from other countries is not home ownership or our investment in housing but our lack of financial assets caused by our lack of saving. Will introducing a CGT, raising the top marginal tax rate, and whatever other tax boosting proposals to come from Labour cause us to save more, to work harder, to gain more education, to take more business risks, to stay in New Zealand? Or will we join our cuzzies across the ditch?

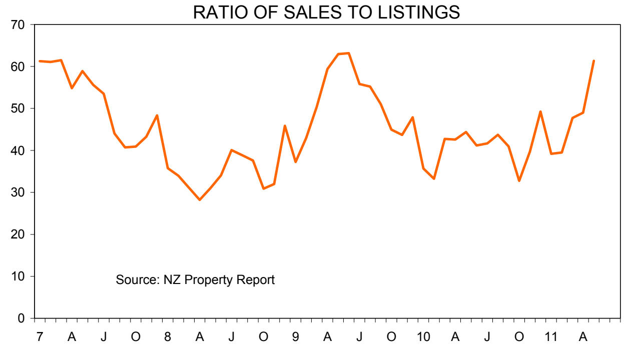
Plus, if Labour introduce a CGT it seems reasonable to extrapolate the taxing trend into a tax on farm land price gains – especially given Labour's recent attack on the low tax they claim flows from the farming sector. On that issue, this week I spoke with farmers in a number of locations in the deep south and some have noted that they've only paid tax in 4 – 9 of the past 30 – 40 years. Their wealth accumulation derives from higher land prices and not production yield even though that is where all their invention and innovation goes.

Is it likely that we will see a capital gains tax on residential investment property soon? Not really given what the political polls are showing.

Stock Availability Falling

In another sign that the housing market is slowly tightening up the monthly NZ Property Report prepared using data from the www.realestate.co.nz website showed that at the end of June there were 42.1 weeks worth of inventory compared with 47 weeks at the end of May and a peak of 53.1 weeks in April. A year ago in June 2010 the total was 46 weeks and as the first graph below shows the change in stock availability has been quite rapid. In the second graph we compare sales up to May using REINZ data with listings to May and the rise in the ratio is even more startling. Given that during June the number of listings was down 18% from a year earlier the chances are the ratio of sales to listings will move even higher when we get the REINZ June sales numbers in a week or so's time.





In this month's Real Estate Overview which we shall publish in a couple of weeks time we shall look at sales to listings ratios on a regional basis.

Auckland Takes A Breather - Maybe

The monthly Barfoot and Thompson data on their Auckland residential real estate activity showed that they sold 873 dwellings in June. This was a 31% gain from a year ago and took the change over the June quarter to a roughly estimated seasonally adjusted movement of 0% from the March quarter. This followed a 10% gain in the March quarter so the latest numbers suggest more that a jump in activity early in the year has been sustained than that a new decline has set in. But they also suggest the housing market – not too surprisingly – is not straight-line rising upward.

The median dwelling sale price eased in June to $521,000 from $529,000 in May and was down 0.4% from a year ago. Prices have essentially gone nowhere for a year.

In terms of stock availability, the number of new listings received during the month was down 3.4% from a year ago at 1,153 and total listings were 12.5% below end-June 2010 levels at 5,067. These numbers mainly tell us that vendors are staying fairly cautious and there is no flood of property going onto the market.

The numbers don't add all that much to our knowledge of the current state of the Auckland housing market which based on the full market data from REINZ we believe is improving more firmly than the data here show.

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.

MAJOR OFFSHORE ISSUES

European Debt

Things have taken a new turn for the worse with regard to the European sovereign debt problem this week for a number of reasons.

- Moodys have placed a number of smaller German banks on negative credit watch.
- Moodys also cut Portugal's credit rating four notches to junk status warning that they may like Greece need another bailout package.
- Governments have responded with threats of some sort of retaliation against credit rating agencies for downgrading debt and in their opinion helping worsen the situation . (These of course would be the same recalcitrant whingers who have criticised the very same agencies for not being pessimistic enough about lenders ahead of the global financial crisis. When a shoot the messenger attitude begins to appear you know those involved don't have solutions)
- There are growing doubts that the current hopes of private sector involvement in a voluntary restructuring of Greece's debt will be much use if it happens at all as the debt held by banks party to the negotiations is turning out to be less than earlier thought. Interestingly it is not known where the bulk of Greek government debt is held.
- The credit rating agencies have indicated they would consider the recently discussed voluntarily debt swap plan to be a technical default.
- Some of the economic optimism which sprang up a few weeks ago following the release of stronger than expected March quarter GDP numbers has taken a step back with the release of weaker than expected PMIs for the Euro zone – meaning weakening growth in industrial production. In contrast the US June PMI was strong.

Chinese Inflation

This week the People's Bank of China lifted interest rates for the fourth time in nine months adding 0.25 to the one year benchmark lending rate (now 3.5%) and the one year deposit rate now 6.56%). Inflation in China is currently 5.5% and when data for June are released next week a rise to above 6% is generally expected.

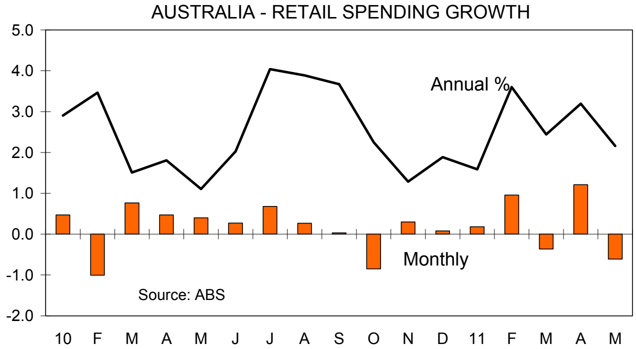
The other item of interest regarding China this week was a report from Moodys estimating that local government debt is about one-third higher than currently believed.

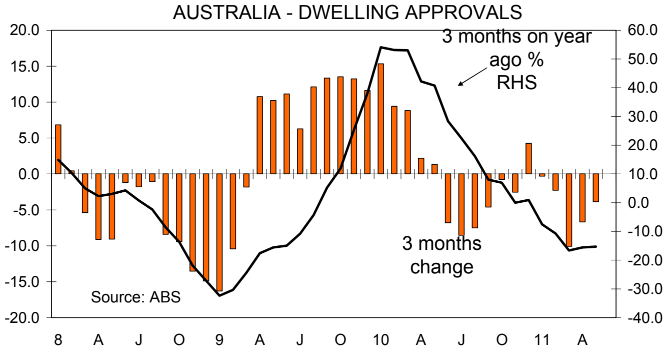
US Growth Momentum

No time to write here this week – besides we wrote a lot last week. This Friday night our time the much-watched monthly non-farm payrolls report will be released. The May report was much weaker than expected so there is a lot of attention on the June outcome to see if May was an aberration with its low 54,000 gain or the start of a string of results much lower than the average gain of 162,000 achieved between November and April.

Australian Growth

The Reserve Bank of Australia met expectations on Tuesday by leaving their cash rate unchanged at the 4.75% they took it to in November last year and the markets are pricing in a small chance that the next move will be a cut because of recent weak data. For instance on Monday we learnt that retail spending fell 0.6% across the country in May which was a much weaker than expected result perhaps driven by people's worries about the labour market slowing down, house prices on average falling, the rise in interest rates from last year, and the intense debate about the Gillard Government breaking its promise and planning to introduce a carbon tax which companies warn will lead to job losses even with the growing list of exemptions.





In addition, the seasonally adjusted number of dwelling approvals fell by a strong 7.9% in May to lie 14.5% down from a year ago.

Exchange Rates

Exchange Rates	This Week	Week Ago	4 wks ago	mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.827	0.831	0.813	0.778	0.692	0.689	0.629
NZD/AUD	0.773	0.774	0.759	0.746	0.815	0.773	0.855
NZD/JPY	66.900	66.800	65.200	66.500	60.6	67.7	68.4
NZD/GBP	0.517	0.515	0.497	0.477	0.457	0.448	0.368
NZD/EUR	0.577	0.573	0.558	0.543	0.549	0.52	0.511
NZDCNY	5.348	5.371	5.271	5.092	4.692		4.83
USD/JPY	80.895	80.385	80.197	85.476	87.572	98.3	109.9
USD/GBP	1.600	1.614	1.636	1.631	1.514	1.54	1.705
USD/EUR	1.433	1.450	1.457	1.433	1.260	1.33	1.229
AUD/USD	1.07	1.07	1.07	1.04	0.85	0.891	0.737

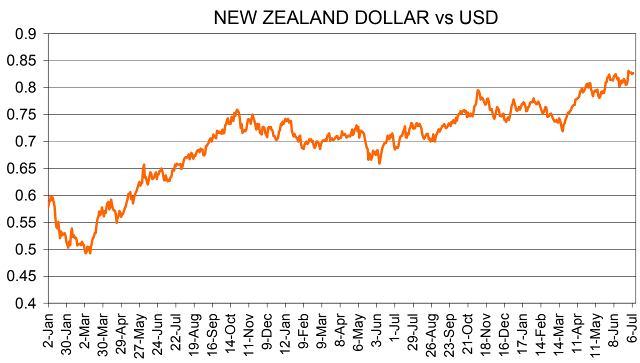
*Sourced from Consensus Economics. http://www.consensuseconomics.com/

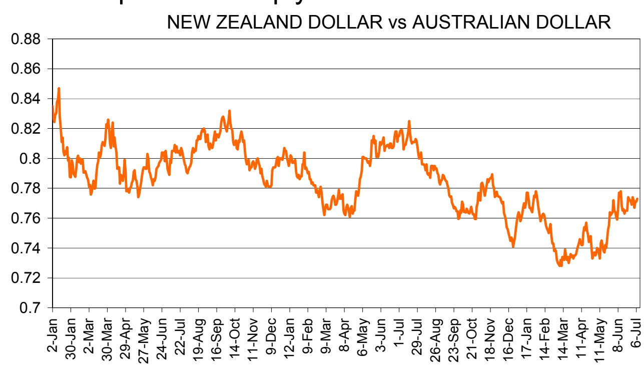
Kiwi Steady

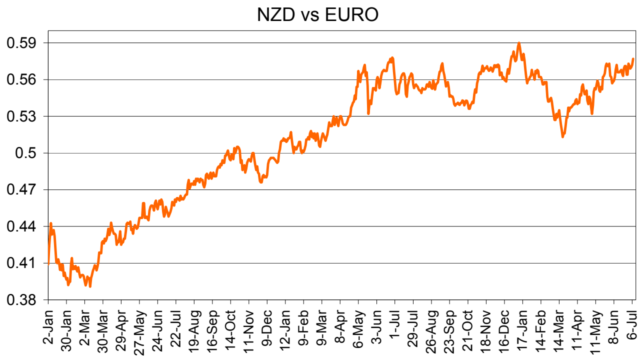
There has been little change from a week ago in the level of the Kiwi dollar against all the other currencies we monitor. The only point of interest was achieving a new post-float high against the greenback mid-week near 83.3. There was only mild selling following news of a 6.7% fall in prices at Fonterra's fortnightly auction and a small fall in average prices in ANZ's monthly index. Although world risk aversion has climbed because of deepening European debt worries the fact that the US sharemarket has been strong in recent times has tended to keep our peripheral currency up as well.

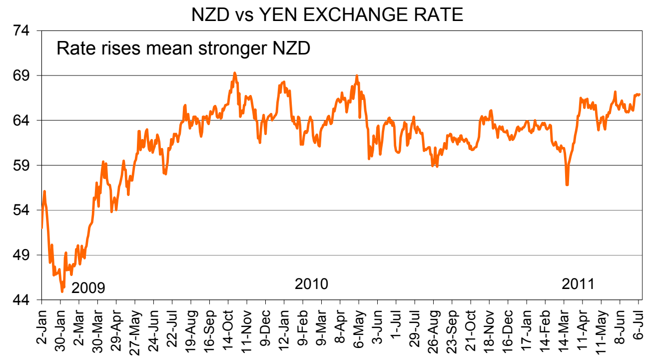
While our view is that the NZD is going to trend upward over the next year or so on the back of firm commodity prices, the world economy getting better, and tightening NZ monetary policy, before then one cannot rule out a sizeable fall in the NZD. One trigger may be a new major deterioration in the European debt situation – or perhaps just market and government acknowledgment of the true dire situation. Another trigger could be greater than anticipated slowing in the Chinese economy causing a sharp fall in commodity prices. A third could be a major reduction in global growth forecasts associated with bad US data.

Therefore exporters looking at their hedging going forward may want to give thought to taking advantage of the periods of weakness in the NZD when they come along, and perhaps using options as well as forward rate contracts in order to allow some benefit should the NZD be pushed sharply lower.



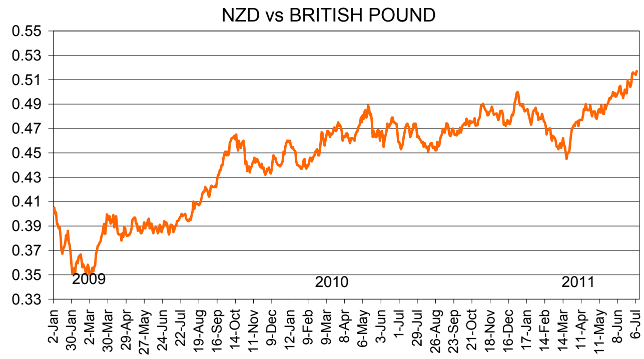






United Kingdom

The NZD has ended the week not much changed against the pound near 51.7 pence. The June Purchasing Manufacturers Index for the UK came in weaker than expected at a reading of 51.3 and this contributed to a new round of worries about UK growth which has helped keep the pound weak in recent days. In addition an employment gauge from KPMG and Markit found permanent and temporary job numbers improving at their slowest paces in 22 months and 8 months respectively in June. Basically the bad news keeps on coming.



Exchange Rate Assumptions

The following table contains year end assumptions for exchange rates in 2011 and 2012. It also contains a column beside each rate for each year indicating where the risk lies – that the outcome will be higher than shown or lower.

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.75	Higher++	0.79	
NZD/AUD	0.74	0.77	Lower	0.86	
NZD/YEN	64.2	66		67.9	Lower
NZD/GBP	0.44	0.45	Higher	0.46	Lower
NZD/EUR	0.51	0.51	Higher	0.57	Lower
USD/JPY	88	88.0	Lower	85.9	Lower
GBP/USD	1.66	1.67		1.72	Higher
EUR/USD	1.43	1.47		1.39	Higher
AUD/USD	0.99	0.97	Higher++	0.92	Higher+

ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	0.8%	2.3	4.5	2.0	3.0
GDP growth	Average past 10 years = 2.6%	0.2	-0.2	+1.5	-2.1	-0.2
Unemployment rate	Average past 10 years = 4.8%	6.6	6.7	......	6.1	5.2
Jobs growth	Average past 10 years = 1.9%	1.4	-0/4	1.8	-0.1	0.6
Current a/c deficit	Average past 10 years = 5.5% of GDP	2.3	2.2	......	2.8	8.8
Terms of Trade		0.9	0.8	6.8	0.1	-5.0
Wages Growth	Stats NZ analytical series	0.6	1.0	3.6	2.5	5.2
Retail Sales ex-auto	Average past 9 years = 3.9%.	0.7	0.0	1.4	1.0	-3.6
House Prices	REINZ Stratified Index	-0.7	-0.5	-0.7	5.5	-7.2
Net migration gain	Av. gain past 10 years = 13,900	+4,625	8,249yr	......	17,967	11,202
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	0.9	2.0	0.9	3.1	-2.6
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	57	42	18	26	18
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	103	112	122	103
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.5	2.3	2.9	2.8
Dwelling sales	10 year average growth = 2.5%. REINZ	10.8	-4.2	-15.2	-17.2	43.9
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	5.59	6.09	6.09	5.59	6.49
3 yr fixed hsg rate	10 year average = 7.8%	6.99	7.15	7.15	7.95	5.99

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 tony.alexander@bnz.co.nz www.tonyalexander.co.nz

Key Forecasts

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.4	1.0 – 1.5	3.5 - 4.0	4.0 - 4.5
CPI	on year ago	4.0	3.0 – 3.5	2.5 – 3.0	2.5 – 3.0
Official Cash rate	end year	3.0	2.5 - 2.75	4.0 – 5.0	4.0 - 5.0
Employment	on year ago	1.3	2.0 – 2.5	2.0 – 2.5	2.0 - 2.5
Unemployment Rate	end year	6.8	6.0 - 6.5	5.0 - 5.5	<5.0

*extrapolated back in time as TotalMoney started in 2007