

# New Zealand economic update

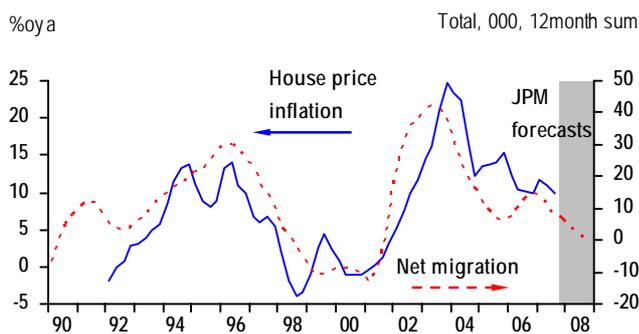
## QVNZ house price index

There is no longer any question around whether New Zealand's housing market has turned south or not - it has. According to today's QVNZ property market report, annual growth in national property prices eased to 11.4% in November (calculated over the three months ending November 2007 in comparison to the same period last year), down from the 12.7% recorded in October. It is important to note that the QVNZ data is recorded at the date of settlement, and due to the three month moving average methodology, is a smoother, slower turning, lagging indicator of house prices. When compared to the REINZ data series, both are now falling in unison. New Zealand's housing market is buckling under the weight of persistently high interest rates, falling net-permanent immigration, and growing buyer concerns.

The average sale price fell from NZ\$406,000 in October to NZ\$393,000 in November - reflecting not only a sharp drop in sale volumes, but the fact that the market is indeed more favourable to buyers, and sellers are having to lower their price expectations.

New Zealand's housing market is now six months into what is likely to be a two-year slowdown, with all forward looking indicators pointing to a dramatic drop in house price appreciation. We expect house prices to track sideways in annual terms by 3Q08 (0% oya), with the risk of a slight contraction. Turnover in the market has plummeted, and the number of days to sell a property has steadily increased, pointing to a decline in house price appreciation.

QVNZ house price inflation and net permanent migration

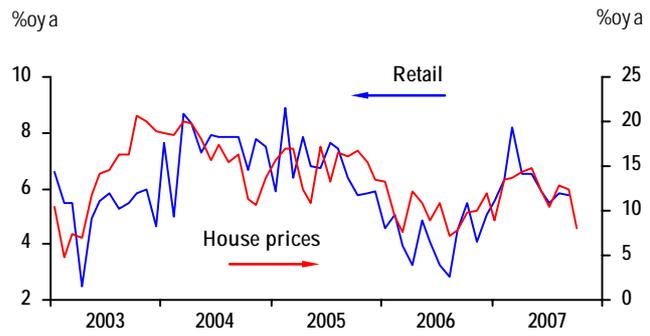


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Economic Research  
December 10, 2007



Retail sales and REINZ house prices



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