BNZ Weekly Overview

9 December 2010

Mission Statement

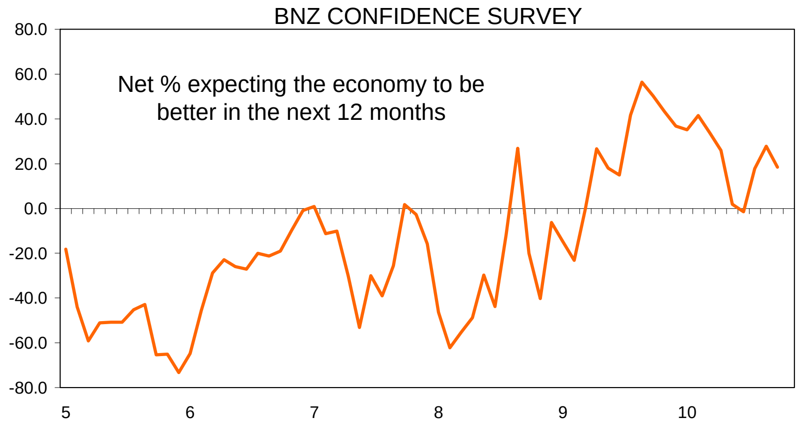
To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

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.

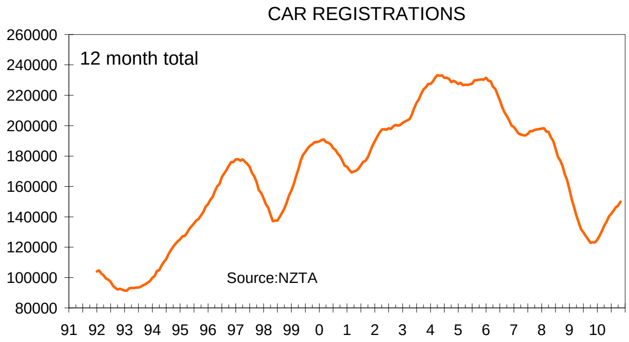
Optimism Eases But Still Strong

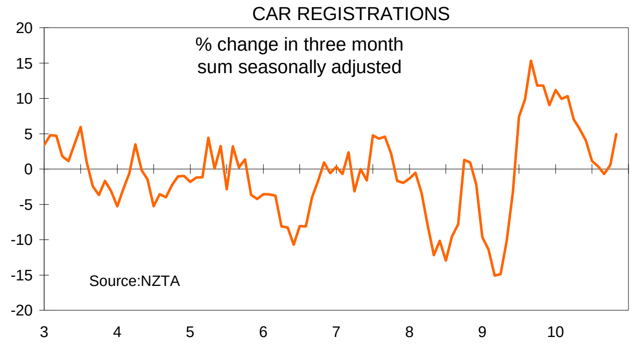
Our monthly Confidence Survey conducted last Friday shows that a net 18% of respondents feel the economy will improve over the coming year. Although this is down from a net 28% positive a month ago the result is still relatively high and supportive of our expectation that the economy will show quite good growth next year assisted by a relatively wide range of factors. But although optimism for the future is good people still largely report that current economic conditions are tight with cash flows generally constrained and some amazingly patchy (some good some bad) responses across many sectors.



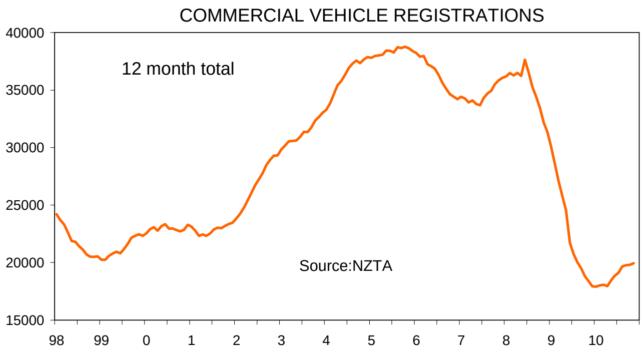
Residential real estate still remains quite subdued with buyers in no hurry and only vendors with a pressing need to move meeting the market. In retailing the responses were a tad more positive than in earlier months and it is interesting to note that this slight positivism can be seen in the monthly motor vehicle registration data released this week.

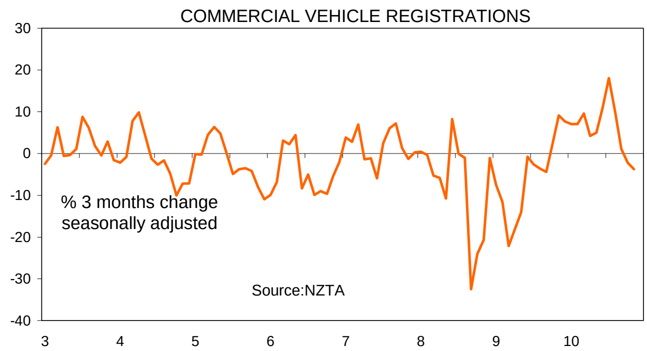
In November there were 13,680 cars registered around New Zealand which represented a firm rise of 23% from a year earlier. In the three months to November the gain was 17% from a year earlier and in seasonally adjusted terms regos were up 5% from the three months to August. The data show that there is slow growth continuing in car registrations consistent with slowly rising household expenditure in general and that just maybe that growth is accelerating.



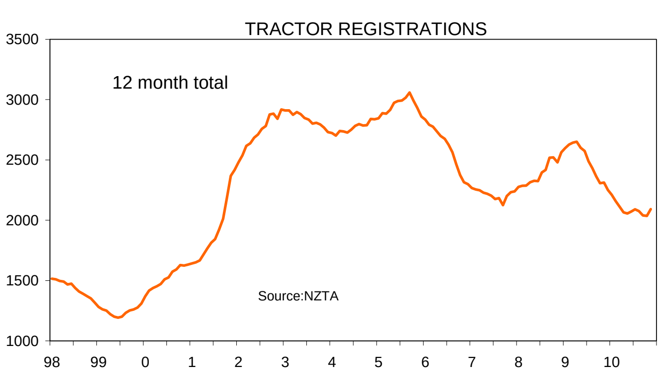


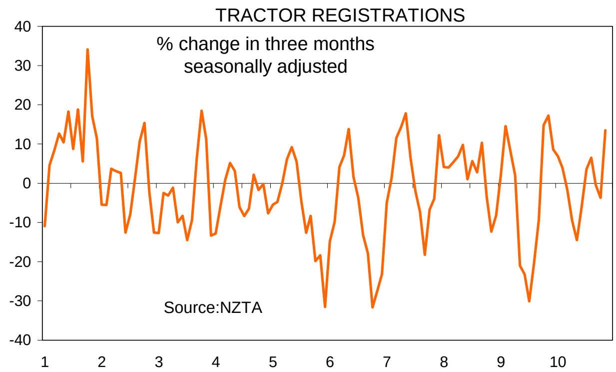
With regard to commercial vehicles we see that in November registrations were 10% ahead of a year ago, 7% ahead for the three months to November form a year ago, and down 4% in seasonally adjusted terms compared with the three months to August. This last rate of change is the weakest since September last year and suggests that businesses still feel cautious enough about cash flows, economic conditions etc. that they are largely unwilling to commit to new large vehicles. Caution in capital spending in other words which is consistent with what we read from other such indicators – not that there are many when it comes to business capital spending unfortunately.





Finally, in November there were 271 tractors registered around the country which was a strong 25% gain from a year ago. Sounds good, especially as regos in November 2009 were up 2% from November 2008. In the three months to November tractor regos were ahead 2% from a year ago and up 13% seasonally adjusted from the three months to August. The results suggest that farmers are starting to spend some more money. But the feedback regarding the farming sector in our monthly confidence survey was quite cautious therefore we don't think this is the start of a big spend-up, especially in light of anecdotal feedback of continuing efforts to get debt levels down and the drought conditions associated with the La Nina weather pattern.



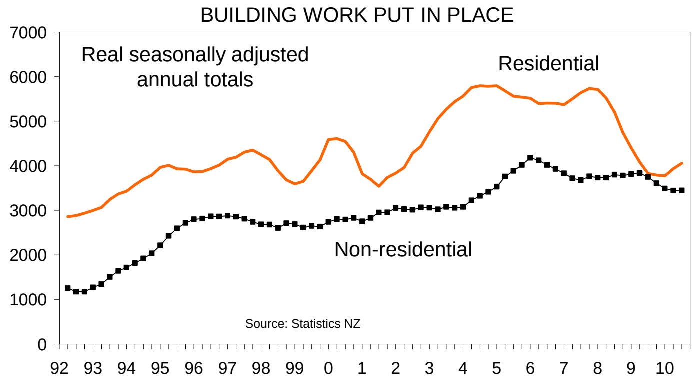


For your guide here are the comments relevant to the motor vehicle industry submitted by respondents to our monthly confidence survey. They show that apart from some improvement in t heavy trucks things are considered still to be quite weak.

- New Motorcycles / Farm ATV / jet-skis --- Our Industry sales for 2010 yr will slightly below (-4%) that of 2009 and what needs to be remembered is 2009 is 45% below the peak in 2008 and 33% below the average of 2007/7/8 2011 won't see any great increase due to -- 30% of our sales are farm related so the pending drought and continued debt reduction makes slow spending on new vehicles -- 30% is luxury off-road sports and recreation vehicles which sell in bulk when the economy is booming and there is job confidence I see neither in 2011 -- and 30% is in the commuter market and On road recreation the top $ range in this sector will be O/K but the middle range purchase by the average income earner will be slow, as they have had an effective wage freeze for 2 years, so all the spare cash has been sucked up by essentials of life. Our industry has currently retreated to the volume levels of 2001/2
- Automotive repairs. October was the worst month many of us had experienced in many years how ever November was a busy month
- Since August the business activity in all departments has been disappointing. The 1st. 8 months were GOOD, the last 3 months have been below our 'plan' and well below our Business Expectations that were set at the beginning of the 2010.We don't see any growth in any areas of or business for 2011. Luxury motor. Just the same as.
- Heavy truck sales, workshop & parts getting better, picking up all round still well off 2008 high and 2007

Construction Confirmed As Weak

While a sign of life has appeared with regard to car sales things remain moribund in the construction sector. The volume of non-residential construction undertaken during the September quarter was down 0.7% from the June quarter while residential building pulled back by a relatively large 5.4%. That means total construction was down 3.2% for the quarter, and 1% for the entire year to September. Because this result was weaker than we were expecting and because other manufacturing data were also poor we now think the NZ economy only grew 0.1% during the September quarter rather than the 0.5% we have been estimating. That is, our economy remains stuck in a minimal growth phase which is consistent with the results of our monthly survey.



Monetary Policy Outlook Gets More Dovish

This morning the Reserve Bank released their six weekly official cash rate review and three monthly Monetary Policy Statement. As expected they left the cash rate unchanged at 3.0% but they also shifted out the likely timing for the next rate rise by a couple of months to the middle of next year noting “Interest rates are now projected to rise to a more limited extent over the next two years than signalled in the September Statement.”

““The pace of economic growth appears to have moderated. Corporate investment intentions are now below average. Household spending also remains weak, with household credit still flat and housing market activity slowing further. House prices may decline a little further in the near term. This continued household and business caution suggests current low interest rates are having a less stimulatory effect than in the past.”

""While interest rates are likely to increase modestly over the next two years, for now it seems prudent to keep the OCR low until the recovery becomes more robust and underlying inflationary pressures show more obvious signs of increasing."

The change was slightly more than market expectations (but only slightly) hence mild downward pressure on short term interest rates.

INTEREST RATES

What could be one of the best things to happen at the moment? That we are so newly extremely sensitive to interest rates that the Reserve Bank at some point in the next few months regrets raising the official cash rate 0.5% in the middle of this year, indicates no further rate rise is likely until late-2011, and cuts its projected peak in the cash rate.

The trick with the cash rate and where it takes housing and business lending rates is recognising that the more you and I are happy – if not greedy – to borrow someone else's money and spend it the higher interest rates sit on average in our country. That means a higher investment hurdle for businesses thus less growth in the country's capital stock, productivity, and ultimately income per capita. It also means a Kiwi dollar at higher levels than would otherwise be the case.

The question then is to what extent has our interest rate sensitivity changed? We don't know yet but there are firming indications that sensitivity may be more than we were thinking. For instance, since the Reserve Bank raised the cash rate from 2.5% to 3.0%, although the labour market has showed accelerating improvement (job numbers up 1% in the September quarter) household debt growth has slowed down. Seasonally adjusted debt grew 0.14% per month on average in the five months leading into June and the five months since, but in October debt was flat and in the five months to December last year growth averaged a stronger 0.26% a month.

Seasonally adjusted dwelling consent numbers have fallen on average 2.9% a month in the five month period from June to October. In the five months before they rose 0.3% on average and the five months before that ending in December they rose on average 3.7% a month. It looks like we don't want to borrow money to build houses – and undoubtedly on top of that developers are struggling to raise funds so their development of spec properties is curtailed.

Our rough seasonally adjusted dwelling sales measure has fallen 4% a month between June and October after falling 2% in the five months ending May and falling 2.7% in the five months ending in December. We don't want to gear ourselves into a brighter shinier used house.

The monthly retail trade data only go to September, but in the four months to then seasonally adjusted core retail spending has averaged a rise of 0.6% from 0% in the four months to May and -0.2% in the four months to January. And so we have some inconclusive data. People have continued to increase their spending at retail stores in spite of rising interest rates, but the housing market has weakened anew and our debt aversion may have increased slightly. Yet if we throw in some pre-GST buying and acknowledge that retailers have been discounting stock like the end of days is approaching then one can run an argument that retailing is also weak – which of course is what our confidence survey anecdotes have been telling us for a long time.

This sort of analysis along with other variables thrown in is going to be done extensively by the Reserve Bank over the coming months and in fact years as they and we try to get a grip on how our interest rate sensitivity has changed, how our debt hunger has eased. And because we are uncertain of the extent of these changes along with the sheer uncertainty about economic growth generally here and overseas we should all be quite prepared to see further changes in expectations for how rapidly interest rates will rise, where they will peak, when the next tightening comes and so on. Or – we're almost certain to change our forecasts as we lean new stuff.

So have we learnt anything nice and new over the past week? The fact that the Reserve Bank left the cash rate unchanged at 3% this morning is not something new because we all expected no change. But they have shifted out by a couple of month's their indication for when the next rate rise will occur so we have decided to shift our formal forecast for the next rise from March to June. The mildly growth sapping effects of the continuing European debt crisis are not new. The US non-farm payrolls data were much weaker than expected and that suggests less upward pressure n medium to long term interest rates which are influenced firmly by events offshore. But those rates have risen over the past week instead of falling. Why? Partly because US long rates have risen with their ten year Federal government bond yield climbing to 3.24% from 2.95% last week. Also the strong Aussie jobs data placed some upward pressure eon long rates here.

This rise in US bond yields this week has been driven by the agreement reached among the US President and house representatives to extend the Bush era tax cuts another two years while also extending the unemployment benefit another 13 weeks. These moves and others have avoided a near 2% fiscal contraction which some had started to factor into bond prices and hence the rise in US yields. In addition however, although the November jobs data were weak other indicators recently released in the US are raising hopes that the domestic economy is finding its feet. That helps explain the rising sharemarket as well. Maybe also some focus on the Federal Reserve Chairman's comment that he would extend the US$600bn bond buying programme if necessary assuaged a few more concerns about the domestic economy and perhaps gladdened also the hearts of some US exporters anticipating additional downward pressure on the US dollar as the money printing continues.

Back here in NZ our expectation for the moment is that the RBNZ will leave the official cash rate on hold until June when rises will recommence with the cash rate peaking somewhere between 5% and 5.5% in the first half of 2012. But be aware that there is a near 100% chance that these forecasts will change as we learn how we and other economies are exiting the global recession and moving forward.

Key Forecasts

- Tightening through to mid-2012 with the next rate rise in June.

FINANCIAL MARKETS DATA

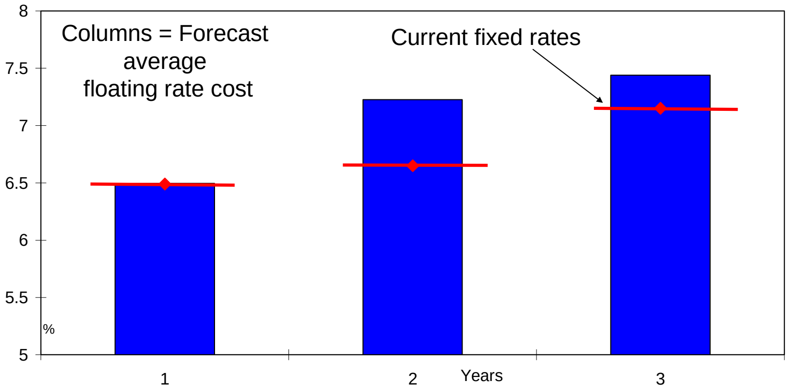
	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	3.00%	3.00	3.00	3.00	2.50	5.9
90-day bank bill	3.20%	3.21	3.20	3.21	2.81	6.2
1 year swap	3.47%	3.48	3.64	3.57	3.59	6.3
5 year swap	4.79%	4.82	4.70	4.54	5.55	6.6
180-day term depo	4.10%*	4.10	4.80	4.90	3.15	6.0
Five year term depo	6.50%	6.50	6.75	6.75	6.00	6.5

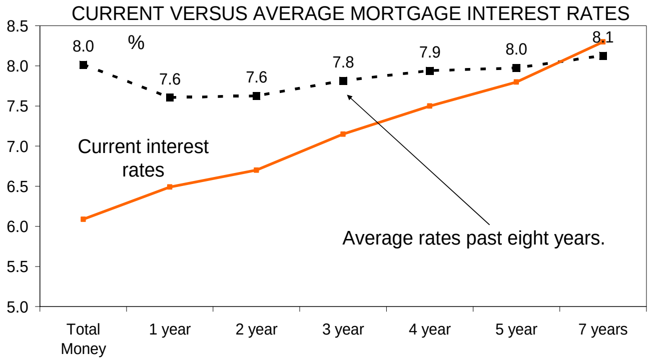
* 150 days = 5.1%

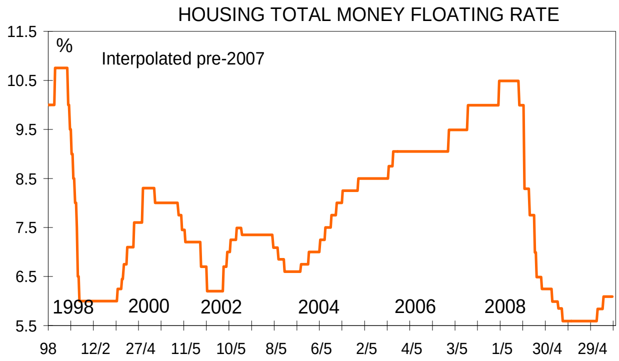
If I Were a Borrower What Would I Do?

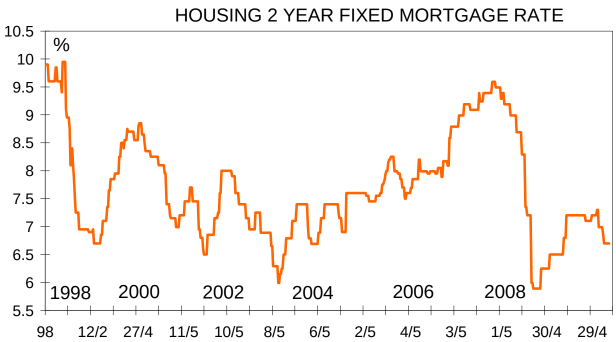
If it is true that householders really are pulling out all the stops to get debt levels down then at the margin the natural market for those who would take a fixed rate has declined. That is, as we shorten the length of time we expect to have a large mortgage our need for long fixed rates naturally declines, our need for interest rate hedging because our debt is huge declines, and we will possibly be more receptive to a currently nice low floating rate as we see the immediate cash flow improvement and the extra cash freed up for reducing debt levels. This probably helps explain why hardly anyone is showing an inclination to do other than sit floating.

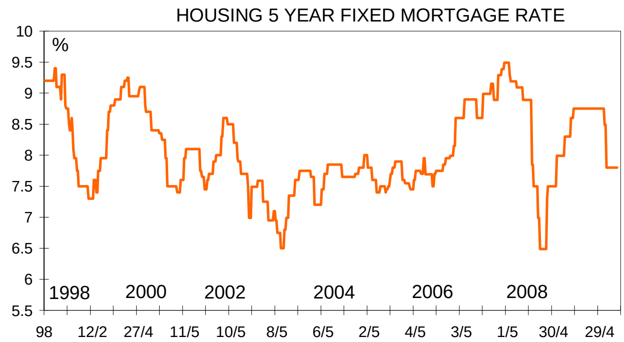
In light of the weaker than expected data received this week on the NZ manufacturing and construction sectors along with the Reserve Bank's dovish Monetary Policy Statement this morning the chances of fixed housing rates rising in the near future have decreased yet again. So I now switch back to being happy to just sit floating expecting that my floating rate will remain the same until the middle of next year.





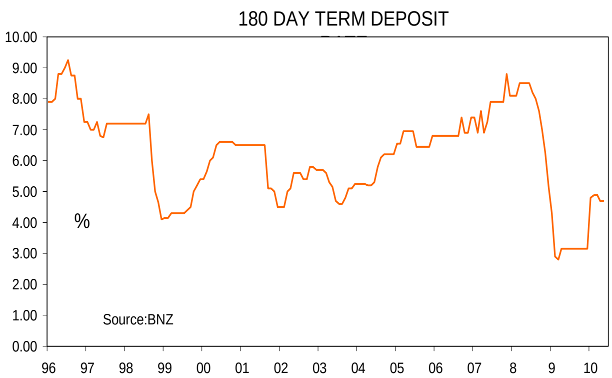


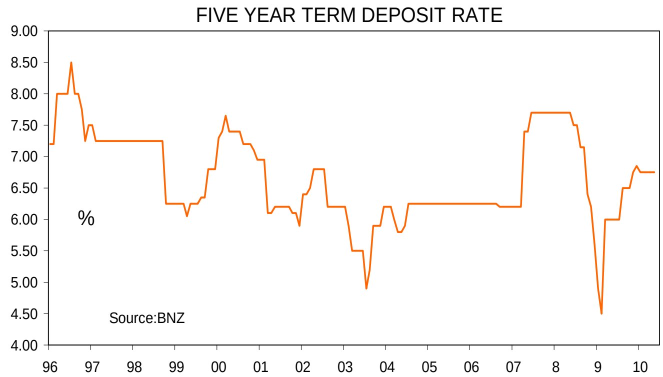




If I Were a Term Deposit Investor What Would I Do?

I'd still be invested mainly in short terms but would spot pick a few longer terms to boost the average yield. But I would also simply have to acknowledge that in an environment where the RB is not going to raise the cash rate again for quite some time returns are going to remain low for probably a great number of years.



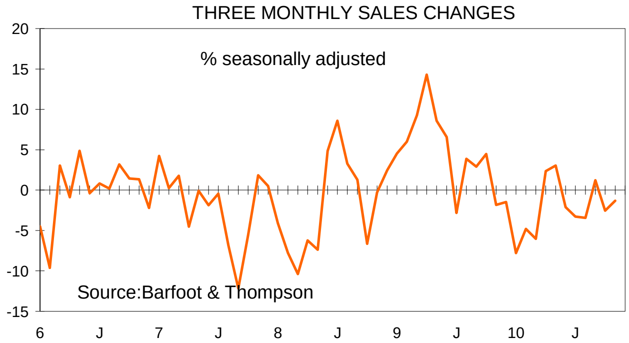


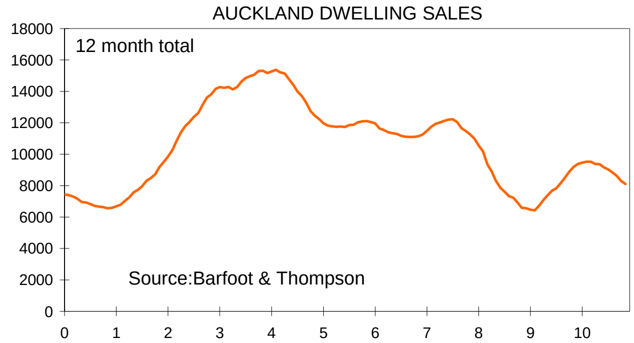
HOUSING MARKET UPDATE

Auckland Real Estate Still Flat

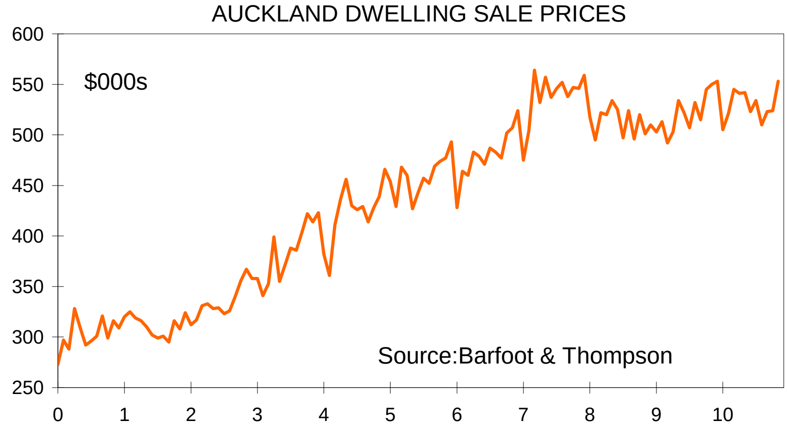
This week we received the monthly Auckland residential real estate data from Barfoot and Thompson who have about one-third of the Auckland market. Their numbers show improving sales, higher prices (but due to more high priced houses sold), and rising listings.

In November B&T sold 668 dwellings. This was a fall of 23% from a year ago but in seasonally adjusted terms represented a rise of around 10% from October. Given however that October saw a s.a. fall near 13% one cannot look at these latest numbers and safely conclude that activity is picking up. It remains relatively weak.

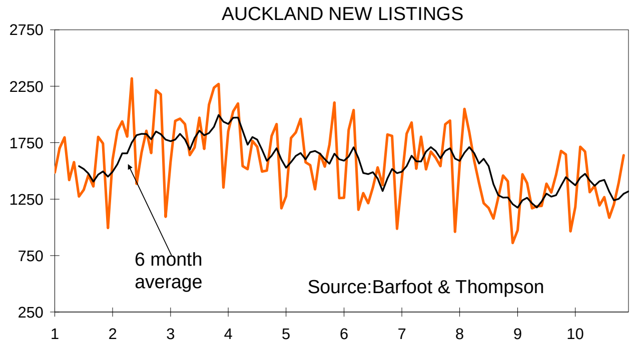


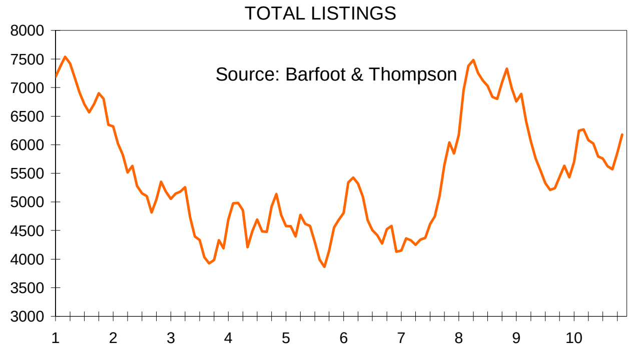


The average dwelling sale price improved in the month to $553,000 from $524,000 in October to lie 0.5% ahead of a year ago. This sounds strong, however in November 21.1% of sales were for properties priced over $1mn. In November last year this percentage was 19.7% and two years ago 13.6%. So there is an upward bias to the price average measure meaning we don't think one would be on safe ground concluding that prices are rising again.



During November B&T received 1,639 new listings. This was 0.4% fewer than October last year but followed annual falls near 17% in each of the previous three months. This hints therefore at a few more properties coming onto the market which is what the NZ Property report covering internet listings showed last week. At the end of November B&T had 6,179 listings in total which was a rise of 9.7% from a year earlier but 16% fall from two years ago. Mild evidence of a listings stack building up but nothing extreme.





Overall the data tell us that things still remain fairly flat in the Auckland real estate market and given that we think that market has greater strength than most other parts of the country it says to us that November was almost certainly a weak month for the country overall.

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

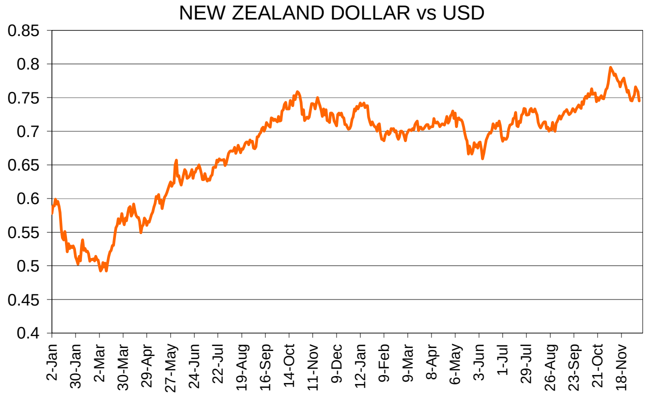
- Dwelling consent numbers to improve further out.
- House prices edging higher from second half of 2011.

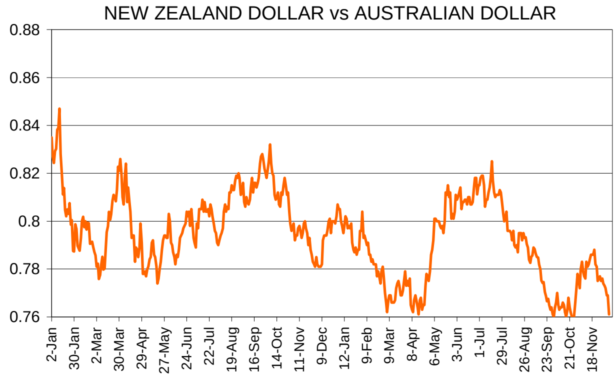
Exchange Rates & Foreign Economies

Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.750	0.750	0.788	0.722	0.708	0.610	0.592
NZD/AUD	0.759	0.774	0.777	0.786	0.782	0.770	0.856
NZD/JPY	62.800	63.100	64.000	60.620	62.5	61.366	66.8
NZD/GBP	0.474	0.480	0.488	0.467	0.436	0.380	0.345
NZD/EUR	0.564	0.571	0.565	0.567	0.482	0.445	0.51
USD/JPY	84.133	83.377	80.628	84.418	86.657	100.600	113.9
USD/GBP	1.563	1.576	1.602	1.545	1.664	1.607	1.709
USD/EUR	1.313	1.332	1.389	1.281	1.511	1.372	1.156
AUD/USD	0.969	0.978	0.985	0.909	0.926	0.792	0.69

Kiwi Stays Down

With weaker than expected data appearing for the manufacturing and construction sectors this week, a narrowing interest rate advantage over the greenback, and this morning's marginally more dovish than expected Reserve Bank monetary policy review the NZ dollar has ended the week where it was last week near US 75 cents. Why not lower? Mainly because we have ridden the coat-tails of a rising AUD buoyed by much stronger than expected (yet again) employment data released today. But because of that we have fallen back to just below 76 cents against the Aussie dollar from 77.4 cents last week.

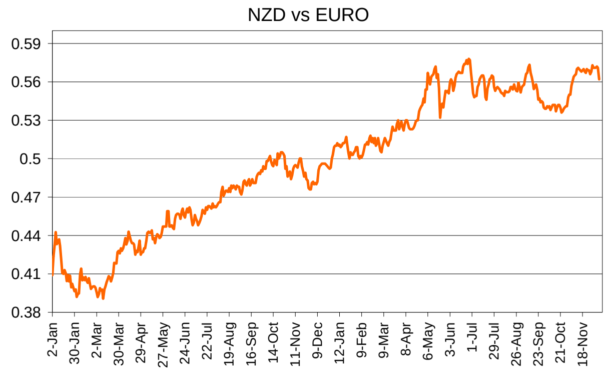


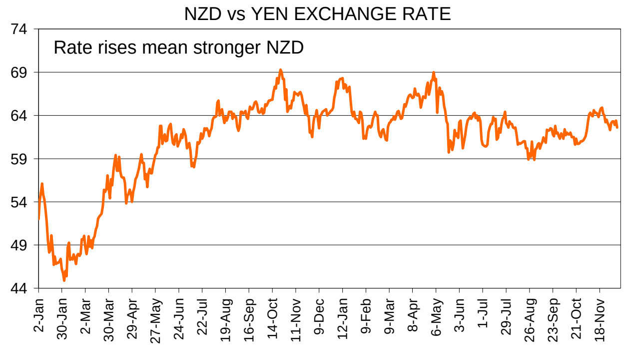


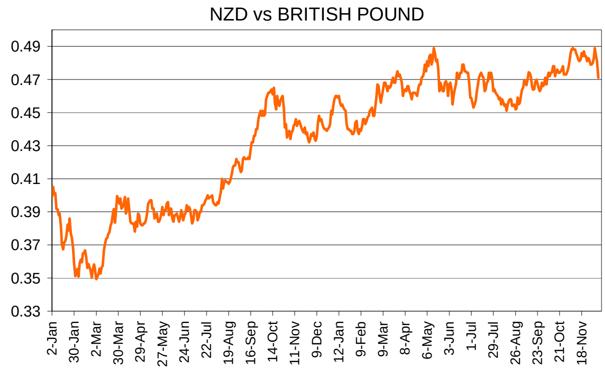
The NZD has been edging down now for a month against the US dollar assisted partly by a rise in the greenback itself caused by increased worries about the European economy. Part of the USD's strength however has also come from some recently better than expected economic data (excluding the latest labour market report – see below) and agreement being reached to extend Bush-era tax cuts for two years.

Against the generally out of favour Euro the NZD has ended down half a centime from last week just over 56.4, against the Yen we have edged down to 62.8 from 63.1, while against the British Pound we have ended near 47.4 from 48 last week.

From current levels we struggle to see the NZD rising all that much in the near future given the increasing delay until NZ monetary policy tightens again. But there is good support for the NZD from high commodity prices and expectations of economic growth picking up quite well next week. Exporters may want to boost hedging on falls in the NZD toward 73 cents.







Australia

Key issues =

- Strong growth on biggest mining boom in more than a century but retailing and house construction still weak hit by rising interest rates (floating rates near 7.8%) and desire to reduce debt as in other countries.
- Labour market strong with average monthly jobs growth near 30,000, but shortages appearing and wages growth to accelerate.
- Add in other cost increases and the inflation threat means maybe another 0.75% on interest rates over 2011.
- This will pressure the AUD higher thus encouraging more Aussie companies to seek relatively cheaper imported inputs and goods, including from NZ.
- We are likely to see a sharp rise in labour outflows to Australia bringing a tightening NZ labour market much earlier than most here are thinking.

One quite interesting issue in Australia at the moment is that with the Aussie dollar so high imports are obviously cheap. Normally shoppers get the benefit of this as importing wholesalers pass on cheaper prices to retailers who pass the price cuts onto shoppers. But on top of this effect there is increasing outright purchasing on-line by Aussie shoppers who not only then get the purchasing benefit of a high AUD but also avoid paying GST. One can import goods up to the value of AU$1,000 before GST is levied and retailers experiencing some recent weakness in retail spending are lobbying the government to reduce this threshold in order to get people back into their shops.

The argument they use is that the government is losing tax revenue – how benevolent of them. One pressure point being applied comes from Myers who have said if something does not happen they will offer GST free on-line shopping for customers and arrange for the goods to be sent direct from the factories offshore.

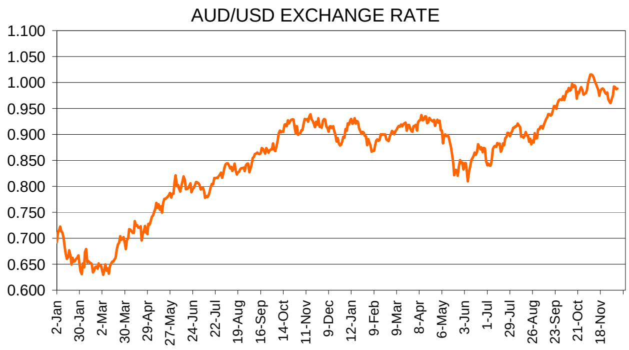
One argument against the government doing anything to change the situation is that the retailing sector only exists because consumers buy things and have traditionally gone to stores rather than direct to suppliers because the stores were handy. But if the suppliers are now more handy and cheaper then there is no way a government will want to make shoppers effectively poorer by regulating them so they are forced to use local retailers who simply can’t match the new competition. The counter argument however is that local retailers simply want a level playing field. But the interest of the government is in efficiently generating revenue to finance its spending rather than ensuring a decreasingly competitive sector maximises its customer grab. So the retailers need to show the government not just that a revenue hole is opening up for them from lost GST receipts but that the hole will get much much bigger. That however becomes quite a challenge as on-line shopping has been around for many years now and yet one sees no diminution in new shops opening up.

In addition, does the Australian government feel that it needs to plug every small revenue hole opening up? Currently the Federal budget deficit is expected to turn into surplus in 2015/16 but when the next projections come out that date is expected to be brought forward due to the positive economic outlook. Plus, the government is showing little sign that it wants to do more than let automatic stabilisers bring the budget back into surplus.

Another issue across the ditch is that whereas in NZ La Nina means drought, over there it means the wettest weather in many many years for most locations apart from southern Western Australia. Predictions for the grain harvest are being slashed and that is placing upward pressure on grain prices – which will mean higher basic food prices both there and here as Aussie flour goes into NZ bread. But the real income shock from reduced farm incomes which were just recovering after ten years of drought means that inflation risks for the moment have taken a step back – assisted by last week's reporting of weak 0.2% growth during the September quarter and some other weak partial economic indicators including a 2.2% fall in non-food retail sales in October.

At least that is what everyone was thinking up until this afternoon's November labour market report which showed a large 55,000 rise in employment, upward revision to the October increase, rise in the participation rate to a record high, and fall in the unemployment rate to 5.2% from 5.4%. The Aussie economy is bursting at the seams so tighter monetary policy beckons and it is simply a matter of when the RBA will feel it is necessary to raise rates again. One suspects they are quite happy that last month banks raised their lending rates more than their 0.25% rise in the cash rate.

For the moment we don't expect the Reserve Bank of Australia will be raising interest rates again until May next year. The good employment result has seen the AUD end this evening against the greenback near 99 cents from 97 cents last week.



China

Key issues =

- Strong growth for 30 years achieved, another 30 expected. Growth currently above 9% driven by building new cities, low cost housing, massive infrastructure (roads, energy), rail, plus strong export growth. But consumption only near 30% of GDP vs. 60% in developed countries = the new challenge: raising it.
- Currency held down artificially to boost exports. Reluctance to allow it to rise for three reasons. Uncertainty about an appropriate "safe" future exchange rate regime (managed, floating with wild capital flows?). Use as a bargaining chip in various negotiations. Worries that consumption cannot yet take over once exports get hit by a higher Yuan.
- Inflation at 4.4% and increasing efforts being made to reduce it including higher bank reserve asset requirements, interest rate rises (one so far), and bank lending directive changes. Main worry is not economic but political unrest from high inflation as older people are on fixed incomes, have low participation in labour market benefits of strong economic growth, have time to think about protests. Food prices up 10.1% in year to October.
- For NZ positives = soaring commodity exports, strong tourism potential, but vulnerable if inflation fighting produces sharply slower growth. The result would be lower commodity prices, lower NZD.

The Chinese economy grew by 9.6% in the September quarter compared with a year ago, down from 10.3% growth in the June quarter and 11.9% growth in the March quarter. The slowdown has been caused by slowly tightening monetary policy as the authorities act to reverse growing inflationary pressures and property bubbles and there is widespread expectation that further tightening measures will be taken over the coming year.

United States

Key issues =

- Manufacturing okay boosted by low USD and restocking but households unwilling to spend on housing or retail for fear of high debt levels, still wobbly house prices (estimated 3mn too many houses), and weak though slowly improving labour market. Business balance sheets good but unwilling to gear up and invest.
- Huge Federal debt and deficit yet to scare markets but efforts to reduce the deficit will need to start soon – and last 1-2 decades.
- Extra US$600bn money printing by the Fed. has depressed the USD but boosted non-housing asset markets. The extent of the economic boost is likely to be minimal as consumers don't want to borrow plus food and fuel prices will rise.

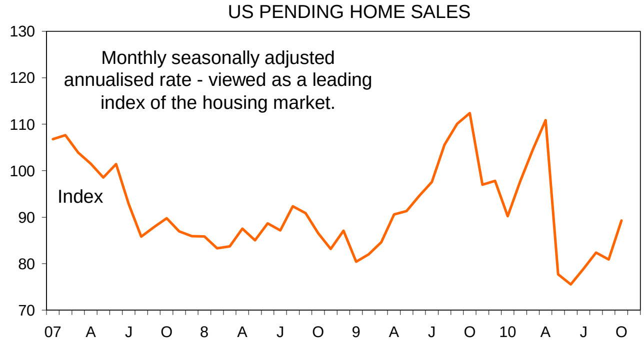
Just when people were starting to think it was safe to go back into the water – joblessness 2! The monthly non-farm jobs report released on Friday came in much weaker than expected with the unemployment rate rising to 9.8% and only 39,000 jobs added during the month following a 179,000 gain in October. A rise of 150,000 had been expected. There are now some 15 million unemployed people in the US of which 6 million have been unemployed for over six months. In the US they classify these people as long term unemployed, though one suspects that in Europe where rigid labour regulations make employers exceedingly wary of hiring people the long term unemployed are probably those who have been out of work 18 months.

Generally the labour market is a lagging indicator of the state of the economy – meaning that people usually start spending more and businesses investing then those businesses start hiring extra people as they become confident the growth will persist and they won't be laying the same people off a few months down the track. That dynamic is definitely still in play now but because household debt levels are high and people have lost huge equity in their houses a lot of focus by people is on what their chances are of getting a job or keeping the one that they have. This confidence effect is an important feedback effect at the moment with regard to the housing and retailing markets.

The other thing going on however is that businesses are almost certainly more reluctant than normal at this point in the economic cycle to take people on because of all the trouble they see around them. In addition they are highly uncertain about future tax levels, regulatory changes and health care costs.

Nevertheless there are still a number of things going in the right direction in the United States economy – most notably with regard to exports and manufacturing, and there was even a positive housing report released last week.

In October there was a firm 10.4% seasonally adjusted rise in the number of pending home sales. This measures tends to give a one to two month lead on what actual home sales do therefore suggests there may be some life returning to the housing market – especially as the latest reading is the best since special tax credits for housing ended.

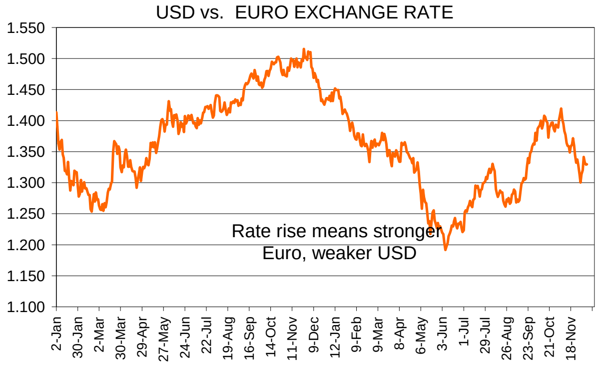


A big piece of news out of the US this week was the agreement reached between President Obama and the Republicans to extend the Bush tax cuts by two years and also extend unemployment insurance eligibility another six months. These moves effectively remove what was setting up to be a 2% contraction in the economy from tightening monetary policy and the extra stimulus has caused a lift in expectations for US growth and a rise in bond yields to their highest levels since June.

Europe

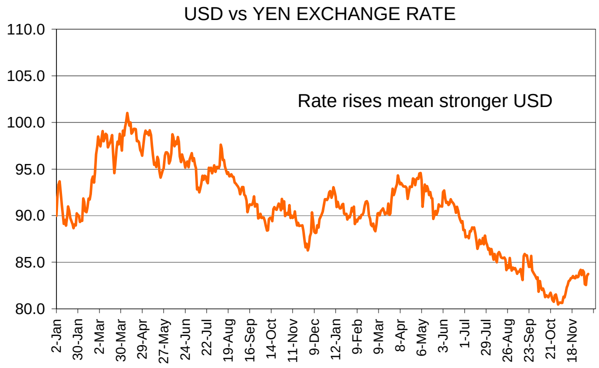
- Huge fiscal tightening to fight massive deficits and debt in Greece, Portugal, Ireland, and Spain.

No time to write anything here this week sorry. No new bailout yet but growing debate about how bad things will get from here.



Japan

- Population old, ageing and shrinking with rural areas emptying out, agriculture heavily protected, people unwilling to spend (weak consumption) ever since the collapses of 1989-91. Property prices have fallen near 85%, the sharemarket is about 75% below the 1989 peak. The manufacturing base is being eroded from below by rising Asian competitors, dependency upon imported energy and raw materials remains huge, and politically the country is poorly served with frequently changing Prime Ministers.
- Over half foreign receipts come from investments offshore, huge opportunities in neighbouring China and other growing Asian economies.



No time to write here either.

For more detailed commentaries from BNZ and the NAB group on foreign currencies, commodities, etc click on the following link.
https://research.bnz.co.nz/Research/Pages/default.aspx

*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	1.1%	0.2	1.5	1.7	5.1
GDP growth	Average past 10 years = 2.6%	+0.2	0.5	+0.7	-2.2	2.4
Unemployment rate	Average past 10 years = 4.7%	6.4	6.9	......	6.5	4.3
Jobs growth	Average past 10 years = 2.0%	1.0	-0.2	1.8	-1.8	1.1
Current a/c deficit	Average past 10 years = 5.9% of GDP	3.0	2.4	......	5.6	8.1
Terms of Trade		2.0	5.8	12.7	-13.5	10.7
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.9%.	0.9	0.9	1.9	-0.9	0.4
House Prices	REINZ Stratified Index	-1.1	0.1	0.5	2.9	-7.9
Net migration gain	Av. gain past 10 years = 13,900	+12,610	15,221yr	......	18,560	4,329
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	3.1	4.1	3.1	-1.0	-0.2
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 3%. Colmar survey	46	36	57	3	-34
Business confidence	BNZ survey	18	28	26	43	-6
Household debt	10 year average growth = 10.3%. RBNZ	2.0	2.3	2.8	2.7	6.0
Dwelling sales	10 year average growth = 2.5%. REINZ	-35.9	-33.2	-16.2	36.3	-34.8
Floating Mort. Rate	(TotalMoney) 10 year average = 7.9%*	6.09	5.84	5.59	5.85	10.49
3 yr fixed hsg rate	10 year average = 7.8%	7.15	7.30	7.95	7.45	9.09

ECONOMIC FORECASTS

Forecasts at Oct. 7 2010	**March Years**					**December Years**				
	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012
GDP - annual average % change										
Private Consumption	-1.2	0.6	1.9	1.9	1.4	-0.4	-0.6	2.2	1.8	1.5
Government Consumption	4.3	1.1	2.3	1.4	0.9	5	1.4	2.7	1.1	1.2
Investment	-7.1	-9.7	4.8	5.3	4.1	-3.5	-12	2.5	4.9	5.1
GNE	-1.5	-3.3	2.6	3.9	1.9	0.4	-5.1	2.8	3.4	2.6
Exports	-3	3.2	2.6	5.9	2.3	-1.1	0.4	3.2	5.3	3
Imports	-4.3	-9.5	6.4	5.3	3.1	2.3	-14.8	7	4.9	3.7
GDP	-1.5	-0.4	2	4.1	1.6	-0.2	-1.7	2	3.6	2.3
Inflation – Consumers Price Index	3	2	4.8	2.8	2.6	3.4	2	4.6	2.7	2.6
Employment	0.8	-0.1	1.4	2.3	0.9	0.9	-2.4	1.7	2.8	0.8
Unemployment Rate %	5.1	6	6.2	5.4	5.5	4.6	7.1	6.5	5.4	5.5
Wages	5.1	1.6	2.7	3.8	3.4	5	3.1	1.6	3.4	3.5
Currently reasonable exchange rate ASSUMPTIONS										
NZD/USD	0.53	0.7	0.75	0.69	0.65	0.56	0.72	0.74	0.7	0.66
USD/JPY	98	91	86	90	94	91	90	85	89	93
EUR/USD	1.31	1.36	1.34	1.39	1.43	1.34	1.46	1.35	1.38	1.42
NZD/AUD	0.8	0.77	0.79	0.81	0.84	0.83	0.79	0.76	0.8	0.84
NZD/GBP	0.37	0.47	0.48	0.42	0.39	0.37	0.44	0.47	0.43	0.4
NZD/EUR	0.41	0.52	0.56	0.5	0.45	0.41	0.49	0.55	0.51	0.46
NZD/YEN	51.8	63.7	64.5	62.1	61.1	50.9	64.2	62.9	62.3	61.4
TWI	53.8	65.1	68.4	64.1	61.8	55.1	64.7	66.9	64.8	62.4
Official Cash Rate	3	2.5	3.25	5	5	5	2.5	3	4.75	5
90 Day Bank Bill Rate	3.24	2.67	3.57	5.15	5.15	5.23	2.78	3.2	5.07	5.15
10 year Govt. Bond	4.77	5.86	5.75	6.75	6.75	4.88	6.02	5.5	6.5	6.75

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 TotalMoney started in 2007