BNZ Weekly Overview

15 September 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.

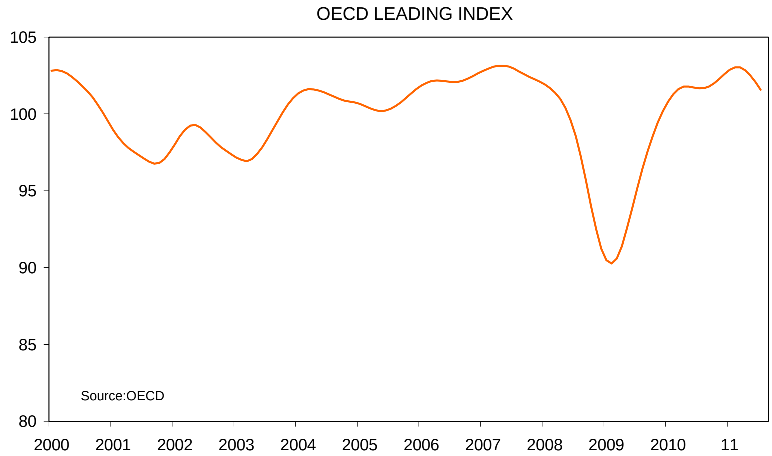
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

Offshore Looking Worse – Rate Rises A Long Way Out

There will be no Weekly Overview next week as I shall be on leave.

The battle we wrote about last week between strong domestic indicators and a possibly rapidly deteriorating global trading environment has shifted in favour of the latter these past seven days. Amidst the strongest worries to date regarding Greek default and European banks losing capital because of it sharemarkets have fallen and investors have shifted funds away from other risky assets like the NZD and Aussie dollars into currently perceived safe havens. A collection of factors have appeared to newly spook investors including the resignation of Germany's representative from the European Central Bank board, rumours (eventually confirmed) of credit rating cuts for France's top banks, and rumours of the German government preparing to shore up its banks in readiness for Greek default.

The economic data offshore have also yet again been largely on the poor side. The OECD's leading index of economic activity particular fell for the fourth month in a row in July to make the steepest decline since early 2008.



With so much bad stuff happening offshore it is frankly no surprise that this morning the Reserve Bank issued a very dovish Monetary Policy Statement which says to us that prospects for interest rate rises in the next few months are minimal. If I were a borrower I would stay floating – perhaps for the whole cycle the way things are turning bad offshore. We discuss the statement in the Interest Rates section.

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 yet look again at how things are worsening offshore.

Other Website Material

- **Weekly syndicated newspaper column** http://tonyalexander.co.nz/newspaper-column/
- **BNZ-REINZ Residential 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

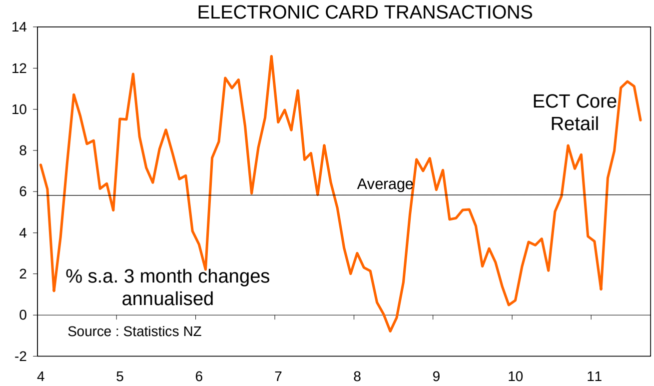
Is Our Economy Getting Better or Worse?

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

Our interpretation of the data received over the past few months has tended to be more downbeat than others who have placed a strong emphasis on readings contained in business and consumer sentiment surveys. That less optimistic interpretation received some strong support this morning with the RB's own downbeat assessment of our economy (though there are clear positives) and the world in general. This week the data we have received show some more realistic numbers (bad) on retail spending, weaker than expected manufacturing production data, but a surge in farm sales. Our interpretation remains on the weak side.

Are householders opening their wallets more?

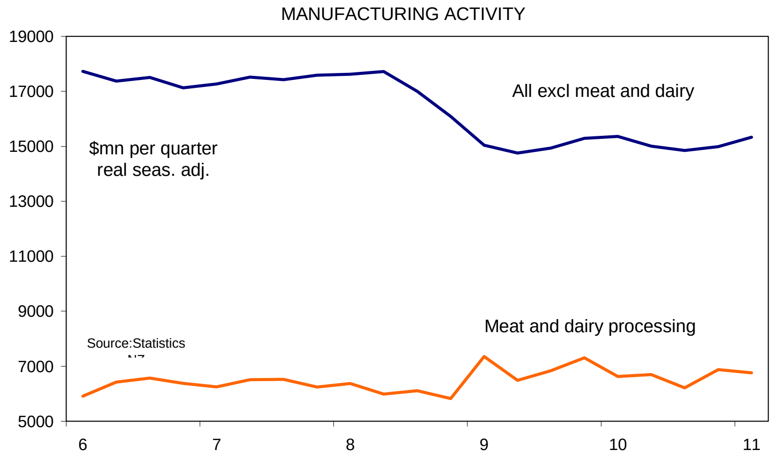
A bit of reality crept back into the data this week with the core spending measure contained in the monthly Electronic Card Transactions series falling 1% in August after rising 0.4% in July and 2.1% in June. The annualised rate of growth over the past three months has been a relatively high 9.5% though this would drop back to a weak 4% if the September data show no change in spending. The numbers are proving to be quite volatile on both a monthly and even a rolling three month average basis and we advise people to treat the growth rates with a high degree of caution – remembering that Statistics NZ explicitly warn not to use these data as a proxy for retailing spending. But we do, otherwise what possible use are they? Oh, and for the record, as interesting as the Paymark Pulse numbers may be in the story they tell of higher spending over a three day period of the Rugby World Cup compared with a year ago, we have found that these data do tend to overstate spending growth – a point we make each year in December.

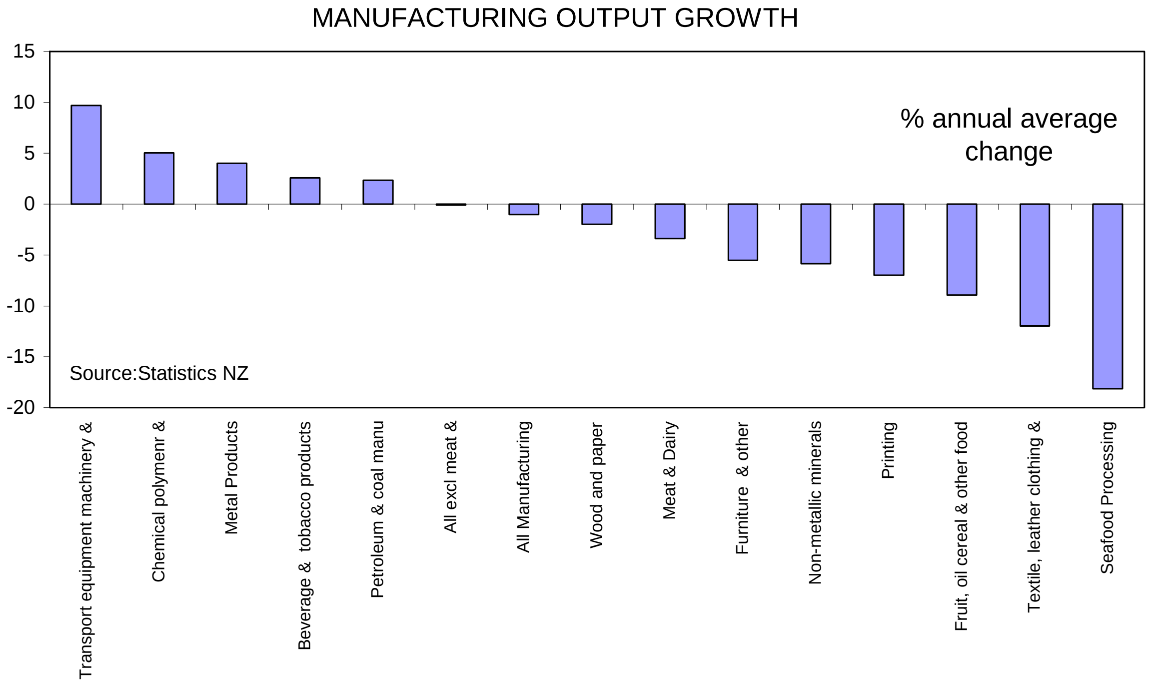


Our interpretation of the August ECT data is that they show consumer spending rising, perhaps at an annualised pace of about 6.5% nominal when we allow for the tendency of the ECT data to show annual growth about 1.5% more than revealed in nominal retail trade data.

Is business output rising?

Not all that much in manufacturing. Real seasonally adjusted manufacturing sector sales fell by 0.7% during the June quarter which was a weaker than expected result that left activity 1.7% ahead of a year ago but still down by 1% for the entire year to June. In fact the level of activity is still 8.5% below the peak in mid-2006. If we exclude the meat and dairy processing sectors then the recent story is not so bad with a rise in core manufacturing of 0.3% in the June quarter which followed a 2.3% gain in the March quarter. Compared with a year ago core activity was ahead by 2.5% but down 0.1% for the entire year to June with activity in the quarter still 13.3% below mid-2008 levels. The trend in manufacturing activity is largely flat.



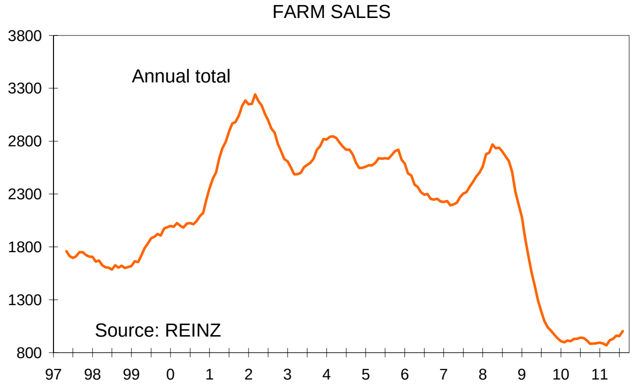


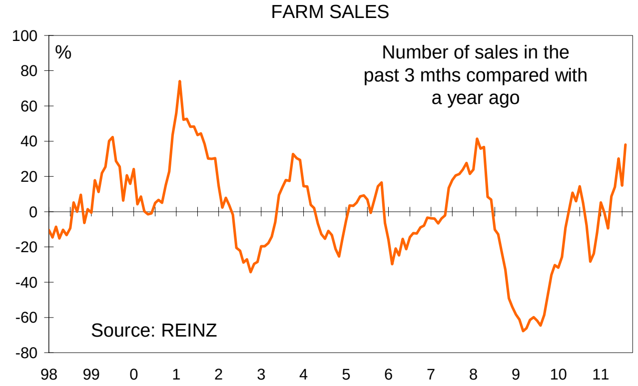
Are businesses hiring more people?

No new evidence.

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/

There is evidence of things picking up in the farming sector with the number of farms sold around the country coming in at 94 in August which is a 96% rise from 48 a year ago. In the three months to August sales were ahead 38% from a year ago and up about 2% roughly seasonally adjusted from the three months to May. This measure is increasing and leaves us clinging to expectations that next year growth will be boosted as farm spending more generally increases.





What Do The Leading Indicators Say?

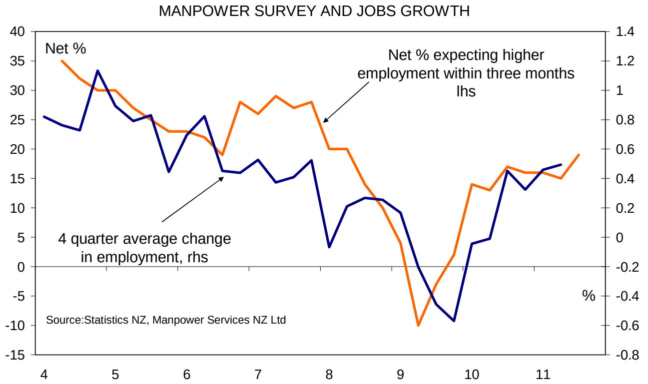
In this section we look only at the factors which can at times give insight into where the economy is headed. Generally we will only cover newly released information.

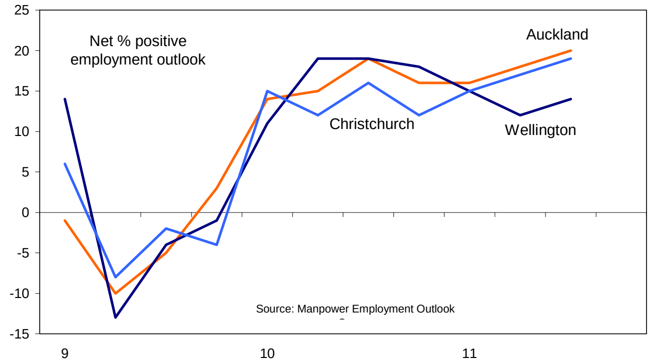
We have three to discuss this week. The first is the OECD measure discussed earlier in the WO and which has now fallen for four months in a row. Not good. The second is the movement in global sharemarkets which this week has been downward. Compared with a week ago the following movements had been recorded at the time of going to print. Also not good.

	Week	Month	3 Months
Dow Jones	-0.9	-1.3	-4.3
NZX50	-1.6	-0.3	-5.7
ASX200	-6.5	-6.9	-12.3
Nikkei 225	-0.9	-1.3	-4.3
FT100	-1.6	-0.3	-5.7

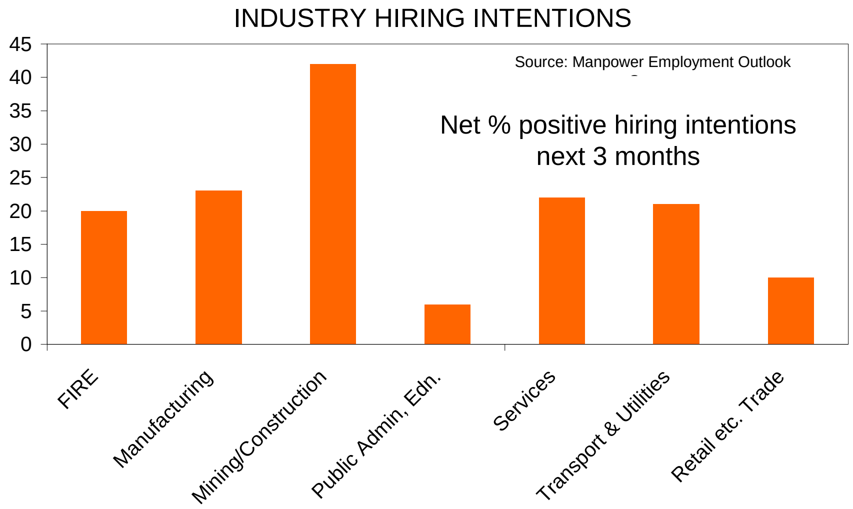
But third we have a local indicator which has come in firm though with representatives from unions and manufacturers noting that the results do not gel with the reality they are seeing on the ground.

According to the quarterly manpower survey of 650 companies around New Zealand a net seasonally adjusted 19% in the September quarter said they plan hiring more people over the next three months. This result was an improvement from a net 15% in the June quarter survey, the strongest result since the June quarter of 2008, and exactly equal to the average since the survey started in 2004. The result therefore is supportive of average jobs growth since then which has been 0.4% a quarter or about 1.6% a year.





On a regional basis Auckland and Christchurch are about the same at a net 20% and 19% positive respectively. But Wellington lags at 14%. That lag is easily explained when we look at the industry breakdown. It shows only a net 6% positive hiring intentions for the Public Administration and Education sector compared with a high 42% for mining and construction, 23% for Manufacturing, 22% for Services, and 21% for Utilities. For Retail and Wholesale Trade the reading is a low 10% likely reflecting the weakness in household spending.



While the sentiment surveys in New Zealand (our own, NBNZ Business Outlook, many others) give strong readings, personally I am of the opinion that a disconnect has opened up between sentiment and likely reality. This disconnect means that whereas in the past for instance the high own activity expectations measure in the NBNZ survey would imply economic growth easily above 4%, in the new bad global environment and with people wanting to get debt down, the new relationship may imply just 2% growth in the economy. Personally, if I were running a business I would continue to pay down debt, strengthen my cash flows, be wary of building inventories, watch debtors like a hawk, and be prepared to miss the first few months of a sustained upturn whenever it arrives rather than bulk up ready for a surge which may yet again be delayed over and over.

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 March. Have we learnt anything this week which alters this outlook?

This week the Electronic Card Transactions data and quarterly manufacturing survey both came in on the weak side. Plus we have seen weak business sentiment data across the Tasman and deepening worries about global growth which can only work toward injecting extra caution into people's spending, hiring , and investment plans back here in New Zealand. And these sorts of things which we have been highlighting for some time now have clearly fed into the Reserve Bank's thinking.

While leaving the cash rate unchanged at 2.5% as expected this morning the RB have removed their reference to needing to take away the emergency rate cut of 0.5% undertaken just after the February 22 earthquake. They have downplayed the level of underlying inflation once one removes GST and stated

"However, the outlook for New Zealand's trading partners has deteriorated markedly. There is now a real risk that global economic activity slows sharply."

The implications of their comments and analysis presented in the Monetary Policy Statement are clear. NZ monetary policy is not going to be tightened for quite some time. We now think March next year at the earliest (told you our forecasts would keep changing) and that the peak in the cash rate is now more likely to peak somewhere near 4.5% if that than 5%+. But be wary. As we have warned for a long time now, these forecasts are virtually guaranteed to change and a person would be very silly indeed to base their hedging decisions on a particular set of interest rate forecasts proving accurate.

Other Inflation Influencers

Rate Movements This Week

Reflecting the deepening worries about world growth, reducing worries about inflation, a very dovish Monetary Policy Statement, and investors moving away from risky assets like shares, wholesale interest rates have fallen this week as outlined in the table below. Decent moves back up seem a long long away.

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	3.00	5.9
90-day bank bill	2.95%	2.95	2.88	2.67	3.20	6.2
1 year swap	3.10%	3.13	3.14	2.90	3.56	6.0
3 year swap	3.54%	3.61	3.73	3.85	4.15	6.2
5 year swap	3.98%	4.09	4.27	4.45	4.53	6.4
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

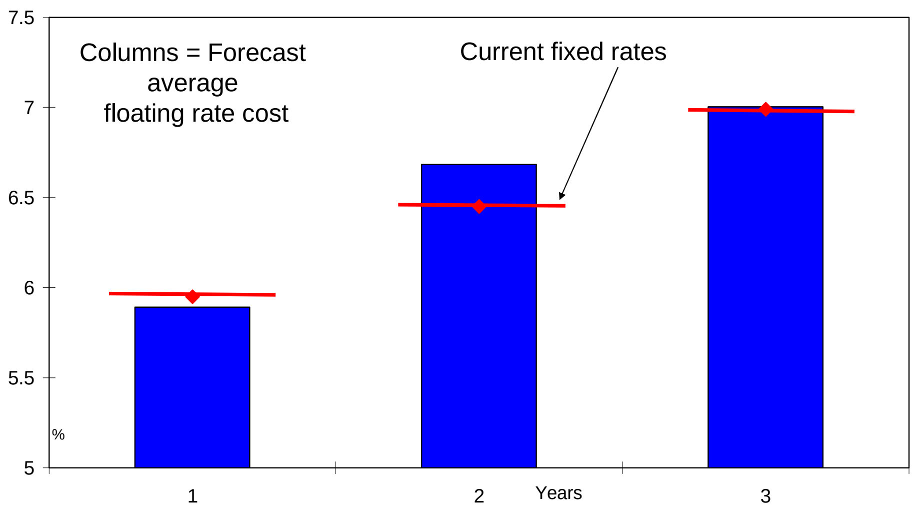
If I Were a Borrower What Would I Do?

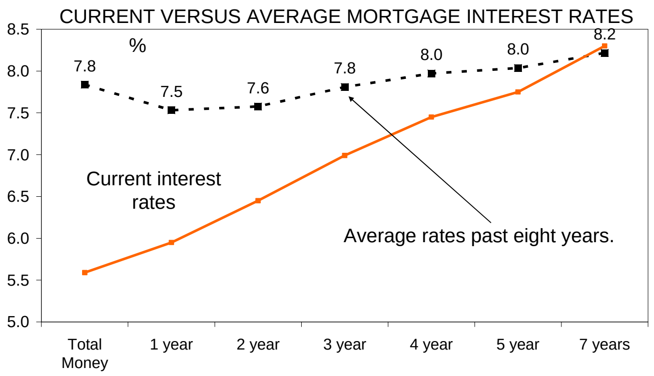
I have no intention of budging from floating for a long time. Much as we believe the Reserve Bank wants to raise the cash rate because of the domestic situation in New Zealand they will not want to repeat what happened last year when rate rises proved the wrong thing to do (only in hindsight) and they had to be reversed. Our current view is that the cash rate will start rising from March. The risk is that date gets pushed out. More than that, with central banks overseas set to keep their cash rates low for the next two years with actions perhaps explicitly aimed at keeping medium to long term borrowing costs down, the extent of the cyclical rise in fixed interest rates in New Zealand this cycle will be less than in the past. So if I stay floating so long I miss the first rises in fixed rates there will probably not be a need to panic as first the floating rate may not rise far and second the pace of fixed rate rises may be slow.

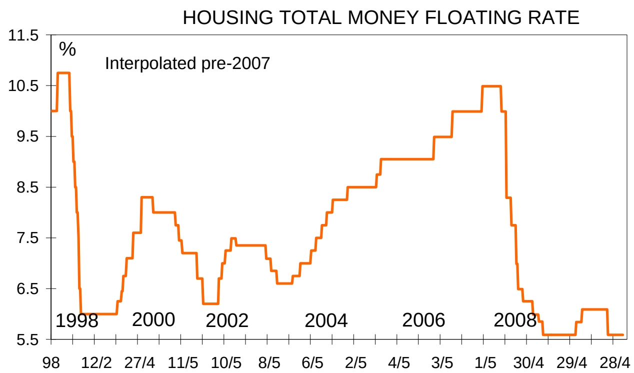
But one thing to keep in mind is that in Europe the credit markets are tightening up a tad again and this means higher funding costs for us banks as we roll over the 40%+ of funding for NZ households and businesses which we have had to source offshore in the past few decades. In fact the RB noted this morning…

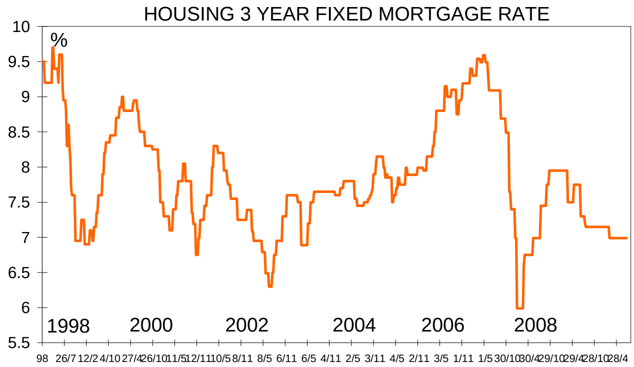
"Sovereign debt concerns in Europe and the weakened global outlook have caused international bank funding markets to tighten. If conditions do not improve, New Zealand bank funding costs will increase."

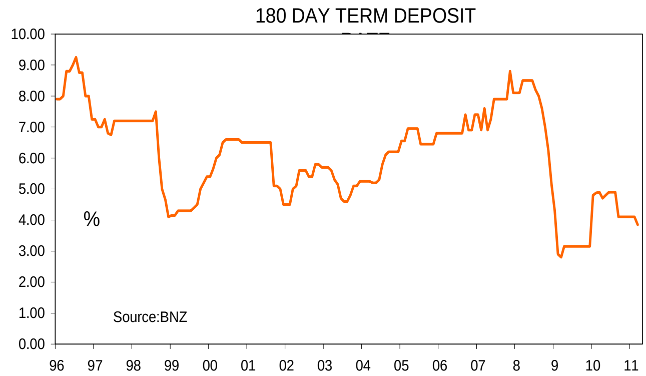
The graph below shows as the blue columns what we now expect floating rates will average over the one, two and three year periods. The red lines show current fixed housing rates. Our forecasts imply essentially no cost difference between floating and fixing for the three periods. But keep in mind that our forecasts for floating rates are guaranteed to change, and that it is worth paying a premium for the certainty which fixing offers in the most uncertain environment seen for at least a generation.









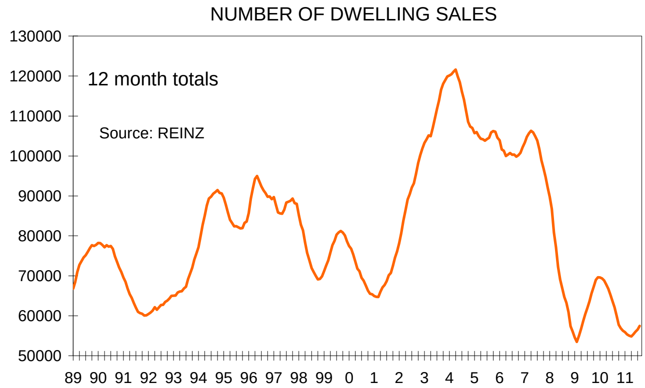


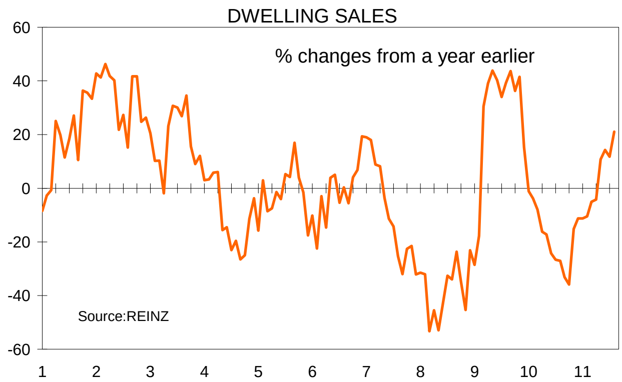
HOUSING MARKET UPDATE

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/

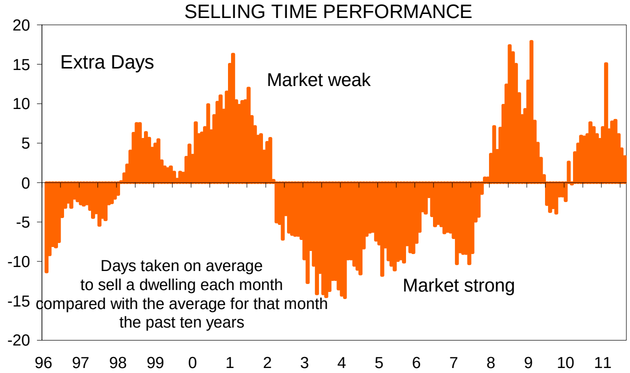
Residential Real Estate Market Slowly Rising

Data released this week by REINZ show that in August there were 5,192 dwellings sold around New Zealand which represented a strong 21% gain from a year earlier but a 12% fall from sales in August 2009. In seasonally adjusted terms sales are rising with a gain of 6.2% in the past three months. Our monthly BNZ-REINZ Residential Market Survey and feedback in the BNZ Confidence Survey show that while listings are generally in short supply buyers remain extremely cautious with investors not active but first home buyers becoming more dominant.

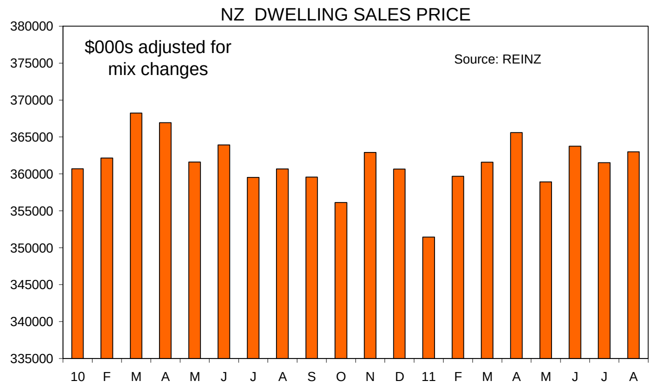


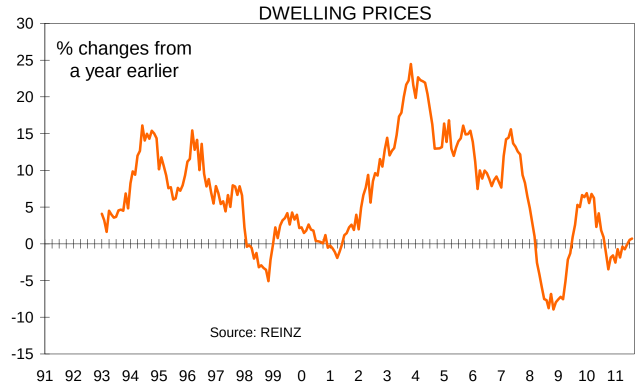


The slowly improving tone of the market can be seen in the number of days taken to sell a dwelling on average falling to 39 in August from 43 in July. More importantly, days to sell were 3.3 days longer than average for the month whereas in July the difference was 4.3 days and in May 7.9 days. Properties are slowly selling more rapidly.



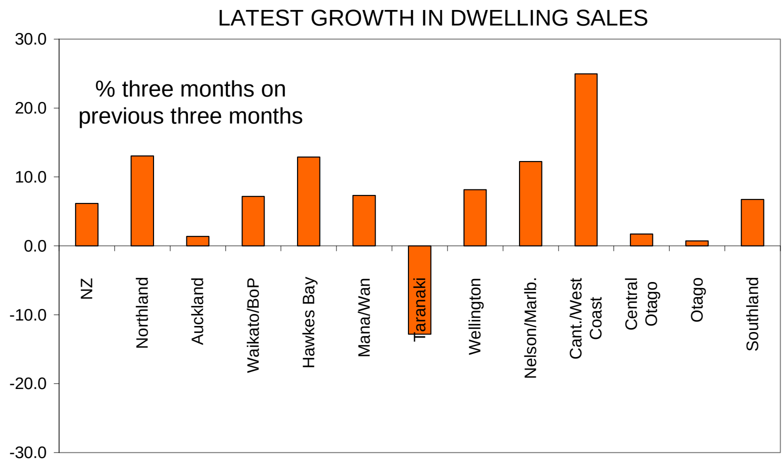
But when it comes to prices we are still receiving data showing that movements are minor. The REINZ house price index rose by a statistically inconsequential 0.5% in August and was ahead 0.2% in the three months ending in August.



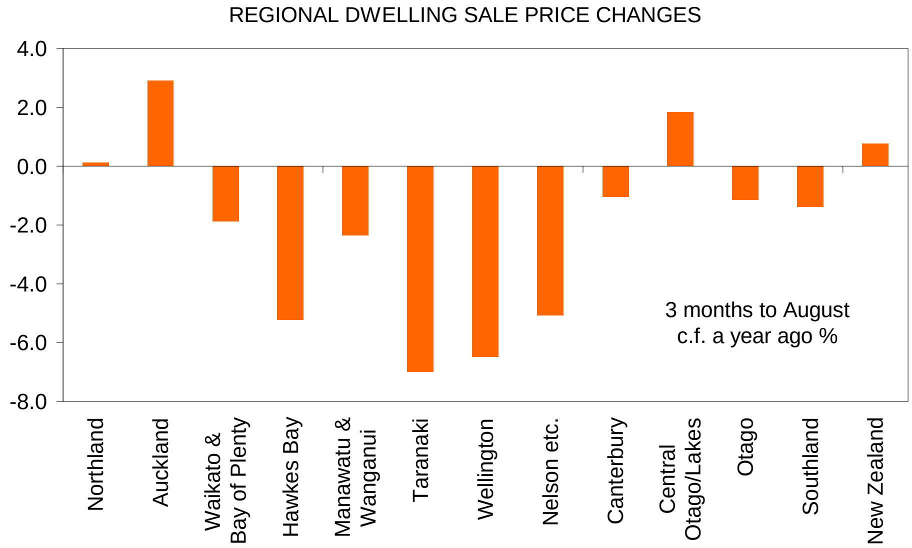


Overall the data show things slowly, very slowly, improving.

Looked at regionally we see that sales activity over the past three months has picked up strongly (obviously from a low base) in Canterbury, but Auckland's lead in the recovery has faded for now and only Taranaki is showing falling sales.

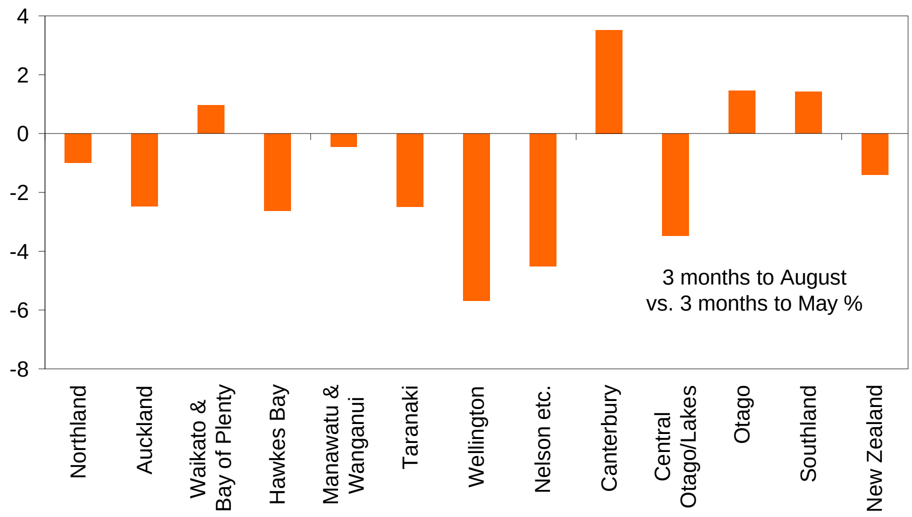


With regard to prices, on average over the past three months dwelling sales prices were ahead 0.8% for the entire country. But only three regions have shown gains led by Auckland which is ahead 2.9%. In most other regions prices are still below year ago levels.



In fact, over the past three months prices have eased 1.4% around the country but we must remind people that this measure is not adjusted for changes in the mix of dwellings sold. Making that adjustment we see prices have in fact risen 0.2%. We only have such adjusted price measures for NZ-wide, Auckland (-0.2% past three months), Wellington (-0.2%) and Christchurch (+2%).

REGIONAL DWELLING SALE PRICE CHANGES



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

Nothing good. The ECB last week significantly changed their tone regarding the strength of the euro-zone economy, no longer talking in terms of upside inflation risks but that they are currently balanced. They spoke in terms of economic risks having "intensified" with "enormous" uncertainty – of the type presumably which we have been increasingly writing about here in recent weeks/months. They cut their growth forecast for next year from 1.7% to 1.3% and spent some time defending their now increasingly criticized decision to raise interest rates 0.25% in April and again in July. But while in hindsight one might say the rises were a mistake, like for our own central bank one can also say that at the time they were the right thing to do given the way data were tracking and the underlying strong desires to get policy settings heading back toward normal.

For Greece the story is one of them not being given €8bn from the IMF and the euro-zone this month unless they enact even more deficit cutting measures, accelerate their extremely tardy privatisation programme, and put a lot more structural reforms in place. To help their deficit reducing efforts the Greek government imposed a new property tax over the weekend aimed at raising an extra €2bn. The Greek Finance Minister is now forecasting that instead of shrinking 3.9% this year the Greek economy is likely to decline by 5.3% - making three years of recession.

Possibly because of continuing conflict over the ECB monetizing the debt of recalcitrant governments by buying their bonds the Chief Economist of the ECB resigned this week three years before his term was due to end. The resignation of the German economist suggests there may be some large divisions within the ECB regarding the bond buying and if so this implies less chance of well supported and coordinated policies in the future – reason enough for European sharemarkets to sell off after the resignation was announced.

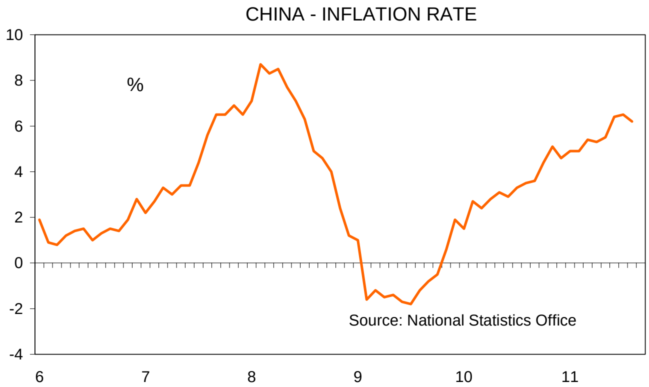
A key underlying concern causing extra selling of European sharemarkets and the euro this week in comparison with US markets and the USD is that European banks are not as well capitalised as American ones (or Australasian banks) and that in the event of a second round of the global financial crisis a number would collapse. In fact, another news item, or at least rumour, this week was that the German government is in fact shoring up its banks already in preparation for a Greek debt default – a default which is only a matter of time and management.

For France the story is one of the markets aggressively pushing down the price of bank shares amidst worries about their debt exposure. United States-based money market funds have cut back their lending of USDs to French banks and the banks are announcing staff cutbacks while reducing their USD lending.

Monday night brought some excitement with stories that the Chinese were meeting with Italian officials and from this the markets extrapolated things out to the Chinese buying hefty quantities of Italian government debt thus removing a source of worry in the marketplace. But as anyone familiar with Wellington soccer knows, even when one speaks in terms of a white knight lender waiting just over the horizon ready to advance oodles of money to buy substantial time for debt and asset restructuring, the reality can be quite different. A Chinese spokesperson has in fact denied that debt was discussed and over the past couple of days yields on Italian government bonds have again been rising. Also, in 2010 there was much talk of the Chinese buying Greek and Portuguese government debt. It did not happen to any large degree.

Chinese Inflation

The annual rate of inflation fell back to 6.2% in August from 6.5% in July which one can interpret as a victory for tight monetary policy. However the rate is still high, food prices were ahead 13.5% from a year earlier, and the non-food inflation rate actually rose to 3% from 2.9% in July.



The annual rate of growth in industrial production eased to 13.5% in August from 14% in July and 14.1% in June. One might interpret this as a sign of growth slowing. But back in May and growth rate was 13.3% and it has averaged 13.8% for the past year so to the extent it is slowing the pace is still by recent standards firm.

The annual rate of growth in retail spending edged down to 17% in August from 17.2% in July and a recent peak of 19.9% in January. Growth may be slowing, but a quick glance at the graph above would suggest a more acceptable interpretation for the moment is simply that growth has flattened out. The same interpretation appears valid for investment in fixed assets which showed 25% annual growth in August from 25.4% in July.

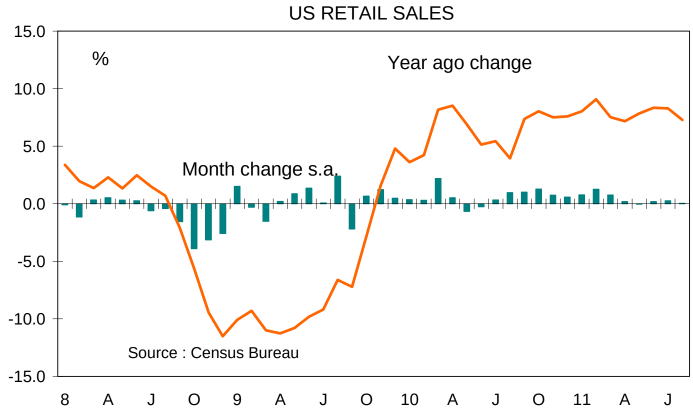
Is it likely that Chinese monetary policy will be eased in the near future? The general view among experts appears to be that this will not happen until inflation falls back below 5%.

US Growth Momentum

Last Thursday night the US President proposed a new package of tax cuts and spending increases totaling almost US450bn. About half the cost of the package is accounted for by cuts in payroll taxes which employers and employees pay, there is another US140bn for infrastructure spending and aid to states to hire more teachers and refurbish schools, and some US60bn for extending unemployment insurance benefits (yet again).

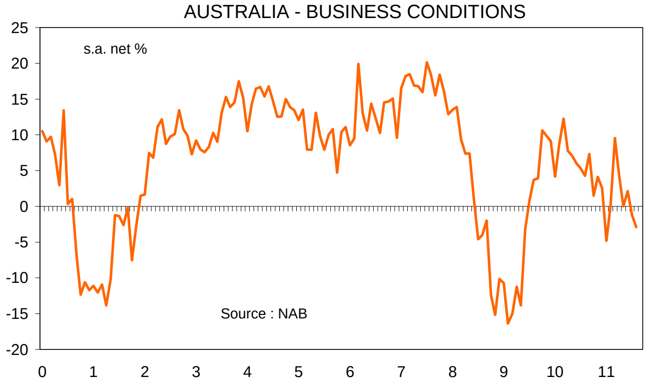
So will the package cause a deficit blowout at a time when efforts are (seemingly reluctantly) being made to get the deficit down? No because the President is proposing near US470bn of savings by cutting tax breaks for those earning over US200k and special tax arrangements for hedge funds and oil and gas companies. In other words increased taxes for the wealthy and big businesses, most of which were rejected by the Republicans during the negotiations on a deficit reduction plan ahead of the August 2 deadline for raising the Federal debt limit. The Republicans are not likely to want to support such changes this time around so there is a good chance that the President will not get his new stimulus (really simply an income redistribution) package through Congress.

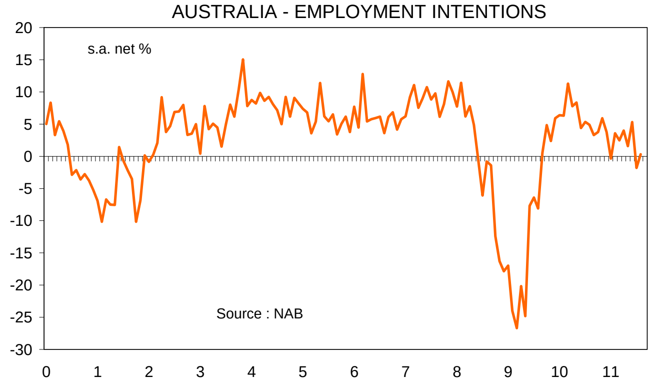
On the data front things have been relatively quiet this week. Last night we learnt that retail spending failed to grow in August and over the past three months growth has been only 0.4% or 1.2% annualised. This compares with growth from a year ago of 8% and reveals the extent of the slowing in spending growth recently which is consistent with the US economy's growth rate slowing from the lowly annualised 1% achieved during the June quarter.



Australian Growth

The key piece of news regarding the state of and prospects for the Australian economy this week came in the form of the monthly NAB Business survey. The headline business conditions index fell to its lowest level since April 2009 with a reading of -7.7 from 1.5 in July and 9.8% six months ago in February. The rapid decline over the past month reflects increased worries about the global economy, weak sharemarkets and poor economic data.





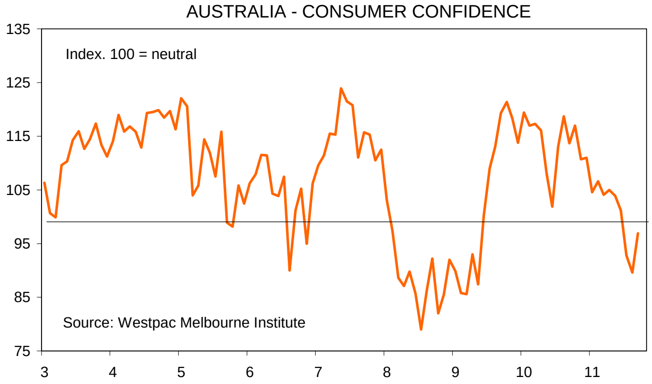
The employment intentions index improved slightly to 0.3% from -1.8% in July. But many firms have announced layoffs recently, industrial action appears to be picking up, and given the traditional lagged relationship between weakness in retailing, manufacturing, construction and employment, we are likely soon to see this measure worsen bringing with it further rises in the unemployment rate. The rate has already climbed from a low of 4.9% to 5.3%.

However while things are not flash in the survey indicator levels remain well away from those seen during the global financial crisis and are consistent with growth just above a 2% annual pace.

Note that reflecting the two-speed economy, a net 28% of mining companies plan hiring extra people over the next 12 months.

This news suggests little pressure for the RBA to be thinking about raising interest rates for quite some time if they are going to again this cycle. The same implication flows from the deteriorating global outlook. And the same applies following a reassessment by the Australian Bureau of Statistics of the seasonal adjustment applied to the consumers price index. The change has led to reductions in the March and June quarter core measures used by the RBA to measure underlying inflation and the annual core rate now sits at 2.9% rather than 3.6%.

But just to show that while things have eased off a tad in the Australian economy we are not talking about a straight line decline, consumer sentiment measured in the monthly Westpac Melbourne Institute survey improved 8 points in September to a reading of 96.9 where 100 is neutral. So things are still on the depressed and therefore weak spending side but not atrociously so.



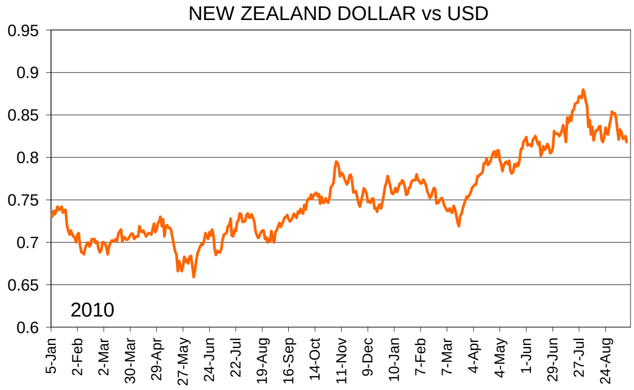
Exchange Rates

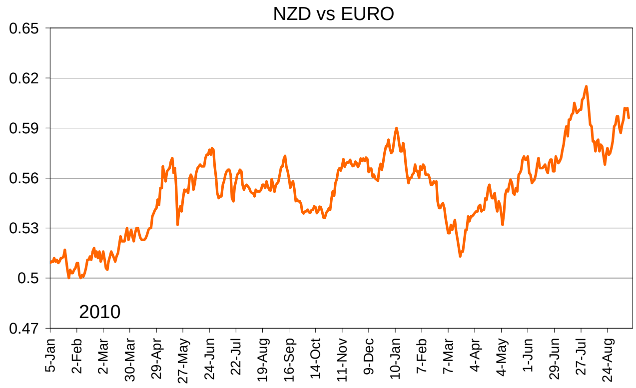
Exchange Rates	This Week	Week Ago	4 wks ago	mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.815	0.833	0.832	0.818	0.7322	0.689	0.629
NZD/AUD	0.796	0.786	0.804	0.765	0.7798	0.773	0.855
NZD/JPY	62.500	64.400	63.900	65.800	60.84	67.7	68.4
NZD/GBP	0.517	0.522	0.511	0.499	0.4715	0.448	0.368
NZD/EUR	0.593	0.592	0.583	0.566	0.56375	0.52	0.511
NZDCNY	5.213	5.327	5.316	5.302	4.937		4.83
USD/JPY	76.687	77.311	76.803	80.440	83.092	98.3	109.9
USD/GBP	1.576	1.596	1.628	1.639	1.553	1.54	1.705
USD/EUR	1.374	1.407	1.427	1.445	1.299	1.33	1.229
AUD/USD	1.02	1.06	1.03	1.07	0.94	0.891	0.737

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

Kiwi Down This Week

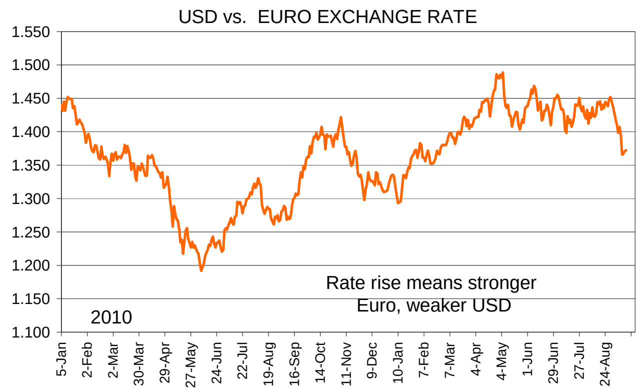
With investors around the planet growing increasingly worried about the bad combination of weak growth in the US and a deepening debt crisis in Europe it is not surprising that shares have been sold down and other risky assets such as the Kiwi dollar have weakened over the week. We now sit at a two and a half month low against the USD near 8.5 cents with just a tad bit extra weakness this morning after the more dovish than expected comments from the Reserve Bank.

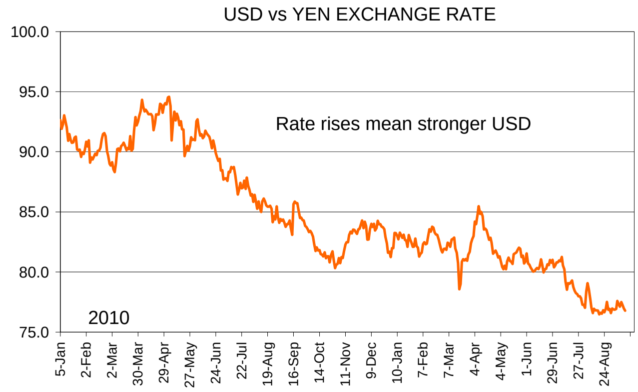




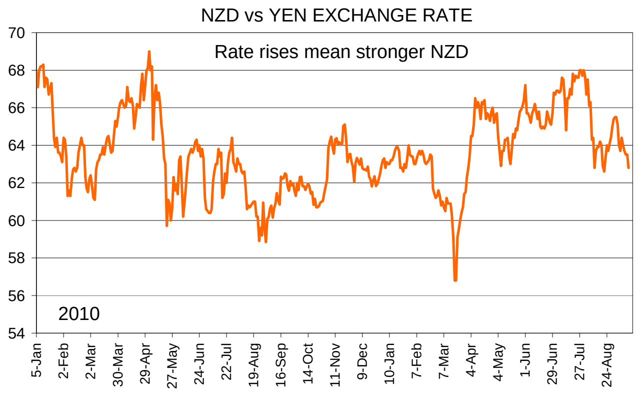
Against the Japanese yen the NZD is at the bottom of its trading range since early-April, but against the euro we remain firm. This divergence, which includes a slight rise in the NZD/EUR exchange rate this week has come about as traders have sold the euro quite aggressively against the USD recently because of debt worries, while buying the yen.

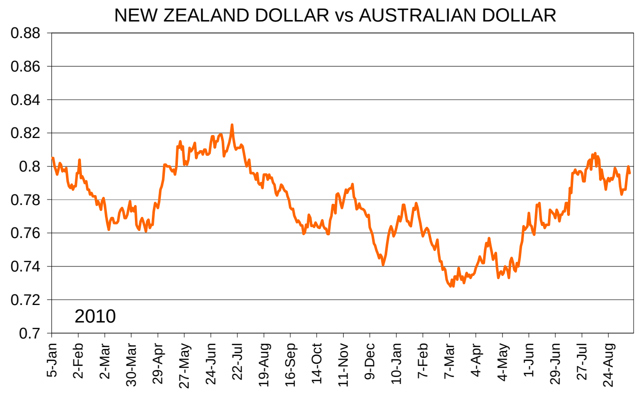
In fact the worst performing of the big bad currencies this week was the euro which got crunched to six month lows against the British pound and seven month lows against the greenback following the resignation of Germany's only representative on the European Central Bank's board. The withdrawal has raised concerns about cohesion of the important board during the continuing time of crisis and queries about whether the restarted bond buying campaign of the ECB will be eased, continue unimpeded, or even grow now that a voice strongly opposing it is no longer there. So far the ECB has bought over €125bn of bonds issued by the likes of Greece, Portugal, Italy and Spain.





Japan does not suffer the financing pressures of Europe or the United States as its debt is almost entirely domestically funded, and growth is likely to prove quite firm near 3% next year due to post-earthquake rebuilding. Hence why the yen firms when the fan gets hit by more bad events in the current market.





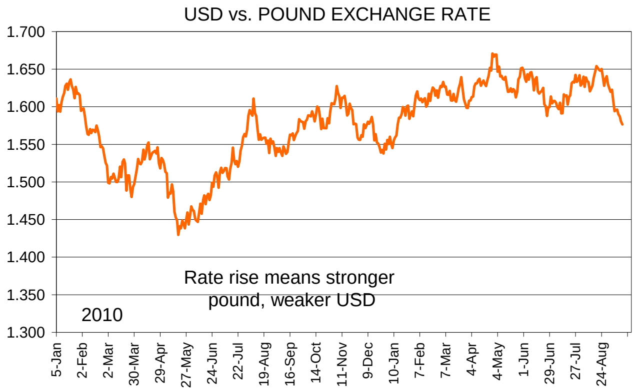
Against the AUD the NZD has gained a cent over the week as the AUD has been hit by weak data recently.

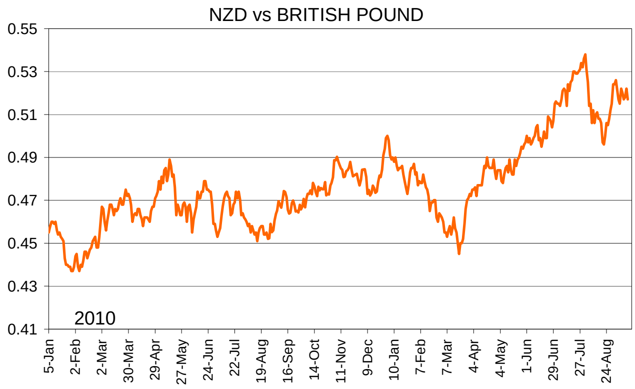
One thing to look out for in the next few weeks if not days could be comments from the likes of Standard and Poors regarding New Zealand's vulnerability in the event of global liquidity conditions becoming more squeezed in coming weeks and months if/as the European debt situation worsens. An S&P representative has already made comments regarding the vulnerability of the Australian banks to conditions offshore "The (Australian) banks are highly leveraged and are exposed to shifts in investor sentiment and tightening liquidity conditions. While we are not seeing that now, the risk is there and it just won't go away." Said Kyran Curry. The Reserve Bank in fact acknowledged that risk in there Monetary Policy Statement this morning noting "Sovereign debt concerns in Europe and the weakened global outlook have caused international bank funding markets to tighten. If conditions do not improve, New Zealand bank funding costs will increase."

However, given the way economic conditions are deteriorating in Australia's retail, manufacturing, and construction sectors, as shown in this week's NAB Business survey, the chances are rising of another spike higher in the NZD against the AUD fairly soon. If it happens then it may well be in the context of a tad more weakness in the NZD against the major currencies.

United Kingdom

Last week the OECD downgraded their expectations for the UK economy saying they expected it would practically not grow over the second half of this year. Unsurprisingly therefore the pound has weakened against a greenback benefiting from some flight to safety buying, and the NZD's fall against the GBP has been only minor from last Thursday.


USD vs. POUND EXCHANGE RATE
1.700
1.650
1.600
1.550
1.500
1.450
1.400
1.350
1.300
Rate rise means stronger pound, weaker USD
2010
5-Jan
2-Feb
2-Mar
30-Mar
29-Apr
27-May
24-Jun
22-Jul
19-Aug
16-Sep
14-Oct
11-Nov
9-Dec
10-Jan
7-Feb
7-Mar
4-Apr
4-May
1-Jun
29-Jun
27-Jul
24-Aug


NZD vs BRITISH POUND
0.55
0.53
0.51
0.49
0.47
0.45
0.43
0.41
2010
5-Jan
2-Feb
2-Mar
30-Mar
29-Apr
27-May
24-Jun
22-Jul
19-Aug
16-Sep
14-Oct
11-Nov
9-Dec
10-Jan
7-Feb
7-Mar
4-Apr
4-May
1-Jun
29-Jun
27-Jul
24-Aug

Exchange Rate Assumptions

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.80	Higher++	0.81	Higher+
NZD/AUD	0.74	0.78	Higher	0.86	
NZD/YEN	64.2	69		70.0	Higher
NZD/GBP	0.44	0.49	Higher+	0.50	Higher
NZD/EUR	0.51	0.55	Higher	0.58	Higher
USD/JPY	88	86	Lower	86	Lower
GBP/USD	1.66	1.63		1.62	Higher
EUR/USD	1.43	1.45	Higher	1.40	Higher
AUD/USD	0.99	1.03	Higher+	0.94	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	1.0%	0.8	5.3	1.7	1.9
GDP growth	Average past 10 years = 2.6%	0.8	0.5	+1.5	-0.7	-1.5
Unemployment rate	Average past 10 years = 4.8%	6.5	6.5	......	6.9	6.0
Jobs growth	Average past 10 years = 1.9%	0.0	1.3	2.0	0.0	-0.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	4.3	4.1	......	2.4	8.0
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	-0.2	1.1	-0.1	2.8	-0.9
Net migration gain	Av. gain past 10 years = 13,900	+3,867	6,554yr	......	16,504	12,515
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	-0.1	0.2	-0.1	3.8	-2.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	22	45	-21	-1	42
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	109	108	116	112
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.6	2.6	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	11.7	14.3	-11.3	-26.7	34.0
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	2.0 – 2.5	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	4.0 – 4.5	4.25 – 4.75
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