

BNZ Weekly Overview

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.

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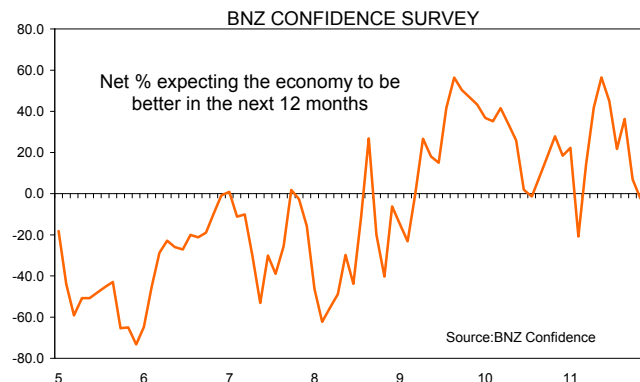
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN_7WOAw

To change your address or unsubscribe please click the link at the bottom of your email.

Monthly Survey Results

Many thanks to those people who responded in this month's confidence survey. If you are on our emailing list you will have already received the results, but just in case you missed them what they show is that sentiment about the economy over the coming year has deteriorated a tad further, but only just into negative territory. A net 2% of respondents expect the economy to be worse in a year's time compared with a net 7% expecting improvement in last month's survey and 36% two months ago. Down but not out.



So the first point to note is that confidence has fallen quite a bit over the past two months. The second point though is that this is not a straight line collapse and much as we are all been reading (and sometimes writing) semi-apocalyptic material regarding the European debt crisis, (see the Major Offshore Issues section) confidence here has not been shattered as such which is interesting. Maybe this is the because of the ecstasy surrounding the (lucky) win at the Rugby World Cup. Maybe happiness about that outcome has made us turn away from other issues for a while and take a decent break – perhaps accounting for the relatively low response rate for this month's survey.

The third point to note from the survey is that sentiment is only just negative and still above our six year average of a net 9% pessimistic. This outcome leaves us content with our forecast that the economy will be improving next year. But there is still no reason for discounting the events offshore and blindly settling back into the couch waiting for the world to knock on our door asking if they can bid to buy our primary products. Global growth prospects continue to deteriorate and even though the US economy is growing at a 2.5% pace, big problems remain there, Europe is imploding as you read this, and China is slowing. We've said it before and now so is everyone else it seems - the risks for 2012 remain on the downside.

Some Offshore Observations

A man gets into a bit of trouble sometimes at home for it, but I will come right out and say that I love travelling. I love the days leading up to boarding the plane when I prepare my bag to have minimum weight. In doing that I am replicating my approach to tramping – carry as little as possible, be prepared for as much as possible.

I love the time spent waiting in the lounges sampling the food, having a rum and coke maybe, reading the Straights Times before flying out of Auckland late of an evening, and then sitting wonderfully enclosed on an airplane for two near 12 hour legs. I usually only sleep two hours the whole way to London and spend most of the time watching films, episodes of House or Bones, listening to The Killers on the Ipod, and now – remembering the travelling light bit – reading books on my Kindle.

The little machine is fantastic. It does not have the capabilities of a proper touch screen PC but displays the words wonderfully and it seems exactly as they would appear on a page – except that as one gets older and the eyes get worse you can increase the print size. That function is also useful when the light is a bit dim.

The trick with the Kindle is learning how to recognise a good book before paying the money to download it. In a store this is not too hard. But online I have found the reviews submitted by readers do not give an accurate guide to what my final assessment of the book will be. I've also developed a tendency now to steer clear of books self-published. These books tend to have inferior writing styles where the author concentrates on minutia of little relevance and character analysis not really relevant to what the book is about.

I know many people will disagree, but I quite like the stopover in Los Angeles. Yes one has to be processed and that can take quite a while if you are not quick getting off the avion. But I like getting to the small lounge, being welcomed in usually by the woman there called Barbara, snacking on the American tid bits, shaving, then in not too long a period of time being whisked back on the plane. Using the internet there however is a waste of time if one wants to download a newspaper.

Offshore I keep an eye on what is happening in NZ the same way I get good insight into what is happening offshore when at home – by downloading newspapers from www.pressdisplay.com For about US\$30 a month one has access to almost 2,000 newspapers from around the world and getting them through their service is astoundingly more cost effective than subscribing to individual issues for one's Kindle or other device.

I like landing at Heathrow then taking the slow train into town – not the fast one which goes to Paddington. I like using the Tube to get quickly from one appointment to the next, but have learnt to include a lot of space between appointments just in case something goes wrong or one takes a wrong turn. Speaking of which...

Navigating using the sun in London is difficult. Looking at one's watch and checking the sun's position is an exercise one must treat with care because in November at least the sun is relatively low in the sky and before midday south always looks like the east and after midday it always looks like the west. That is of course if one can see the sun for the frequently present cloud. It does not rain much though this time I did invest in what is supposed to be a sturdy foldaway umbrella which had better last longer than the rubbish I have tended to buy in the past.

I have learnt to not let people holding roles we used to call secretary do any accommodation booking for me. There is a tendency to put one up in hotels which are quite respectable – but unnecessarily so and well over-priced for a fairly basic Kiwi. So I book all my accommodation myself and half the cost, generally using www.booking.com

As for the travelling around, the Eurostar is a piece of cake. It is quiet, the seats are good, and one gets to see a lot of countryside. Don't bother getting put into business class. Coach is just fine. I fly to and from London always using Air New Zealand – who on earth would willingly use Qantas now? The Air New Zealand service is fantastic, the staff tend to have reasonable senses of humour, and one is made to feel quite welcome.

BNZ WEEKLY OVERVIEW

I'd like to be able to say I like the shopping in London. But frankly I hardly ever buy anything offshore – or in NZ clothing wise for that matter. A once in a ten year buy up usually does the job. But if you are looking for clothes then London is absolutely fantastic no matter what price range or snob level you are interested in. The big stores on the north side of Oxford Street are very good. The Primark store on Oxford Street near Marble Arch has to be seen to be believed.

Picture the Warehouse having a clothing sale. Now multiply their clothing floor area you are thinking of 5 times, quadruple the number of people you have just placed in the space, and now give them East European accents. Its an experience to be endured perhaps once but the clothing range and prices are good. Don't buy socks though. They last four days then one's toes poke through.

I did for the first time have a decent walk through Harrods. And I saw a jacket I really liked. So I tried it on. I was royally fussed over by the very helpful saleswomen. I was told the sleeves could easily be taken up a bit and that it looked lovely on me. Then, remembering the bit above about being able to increase the Kindle font size as one's eyes go through aging – I looked at the price. As your eyes age two letters and numbers tend to blur into one. So I thought I was seeing a price of £340. But to be sure I asked one of my lovely helpers. 'The price is three thousand three hundred and forty pounds.' I had her repeat the numbers. The lovely jacket is still hanging there as far as I know and I remain perfectly satisfied with my 320 rating merino Icebreaker top purchased \$100 off in Tauranga last month for about \$280 if I recall rightly. It will be great for tramping.

Don't bother shopping for clothes in Paris. I found the grande surfaces (big classy department stores) to actually be quite small, and the range nothing flash. Don't even think about buying shoes. The prices are absurd. Actually food is also ridiculously expensive in Paris. The footpaths are covered in litter, dog crap and pee, the surfaces are uneven, there are works everywhere, and you take your life in your hands crossing the road because of the omnipresent scooters. In London it is the taxis or buses which will take you out. I'd like to be able to say that as a pedestrian you will be safe waiting for the crossing signals and can do so for London. But one cannot say the same thing for Paris. They run the lights so don't ever assume you have the right of way.

Don't go looking for a newspaper in the Oxford Street area on a Saturday or Sunday morning before 10.00am. I know two places to go but the uninitiated could spend ages wondering around looking for some reading material. I ended up selling my already used copy of Saturday's Financial Times to a woman who had been sent out by her boss to find exactly that paper and who had entered the café I was in asking for directions to a newsagents. A busker in Bond Station scored that money.

This time in London I stayed at the Britannia International Hotel at Canary Wharf. It was fine, very handy to the train station and DLR (Docklands Light Rail), and the shopping malls are alright. There are hardly any tourists there during the working week but the pace in the malls is almost frantic as people are pouring in and out getting coffee, meeting partners for lunch often pushing prams, men walking around proudly holding (displaying) their baby, and everyone very well dressed as they go hither and thither.

Canary Wharf is a private estate so there are well dressed guards everywhere keeping an eye on things, there is no litter anywhere (London overall is much cleaner than shitty old Paris).

Apart from time working in London and a quick trip to Paris I also visited Brussels for a conference. The thing about Brussels is this. You look at it and one word comes to mind. Why?

I like waiting at Hong Kong Airport. The shopping is acceptable, the place is very tidy, the atmosphere is nice with calming music. I stayed one night in Hong Kong this trip before going to Osaka the following morning. Whereas I usually stay in Wan Chai (Charterhouse Hotel) this time I stayed at the Novotel Citygate by the Airport which seems to be a hotel favoured by air crew. It is very modern and tidy, good breakfast area and menu, and there is a very large shopping mall attached to it with an MTR station right there handy for going into town. The train takes about 30 minutes so is a tad slower than the Airport Express one should take if going into town direct from the airport itself. Wan Chai on a Saturday night around Times Square just has to be seen to be believed. The number of people out and about is huge – but then the same can be said I believe for other good shopping areas of which there are so many in Hong Kong. The thing is they are not

necessarily visible from the road so you have to do some research or just follow the crowds to see where they are going to. I love one of the centres on the east of the island with an ice skating rink in the middle.

Next week, if the inspirational juices hit at some stage in the next seven days, I shall write about Osaka and Beijing.

Willingness To Contribute

I have some comments I would like to make regarding the New Zealanders I have encountered on my three visits to London over the past two years, summed up in these words.

- Genuine caring about what happens to New Zealand.
- A strong willingness to contribute.
- Generally an absence of cynicism regarding NZ's prospects.

We have in these many thousands of Kiwis in the UK a vast and as yet minimally tapped resource able to be put to work for the betterment of our paradise down under.

I would not use the same words to describe the Kiwis I have encountered on my visits to Hong Kong. Those in Hong Kong tend to be somewhat more cynical, somewhat less attuned toward the possibility of returning to NZ and raising a family, and in a way harder. I wonder if this might be because they have seen so many wide-eyed innocent Kiwi businesspeople decide to engage with China then stuff up and get burnt because they did not listen to the warnings, the stories and the advice regarding slowing their pace and radically altering their myopic plans. The Kiwis in Hong Kong in my experience have some extremely deep knowledge regarding the best way to go about doing business in China. Going to London and Europe to grow one's business one will encounter a business culture broadly similar though more hard nosed than what we have back home. Going to China though is completely different and the innocent and arrogant will come badly unstuck.

My advice before developing a China plan is to spend a considerable amount of time speaking with experts on the ground over there and being far more prepared to take their advice than one might be inclined to do for expansion in a Western country. Or more succinctly. I would heed advice from those who know the UK and European markets. But I would take instruction from our experts on China.

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

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

What else but the debacle offshore?

Outlook for the NZ Economy <http://tonyalexander.co.nz/topics/occasional-papers/>

Paper referred to as a handout for talks in London.

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

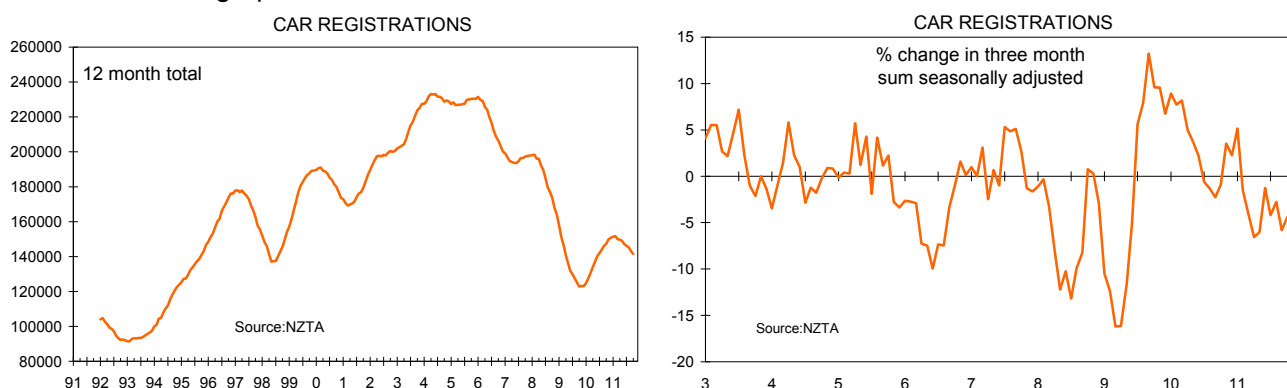
Is Our Economy Getting Better or Worse?

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

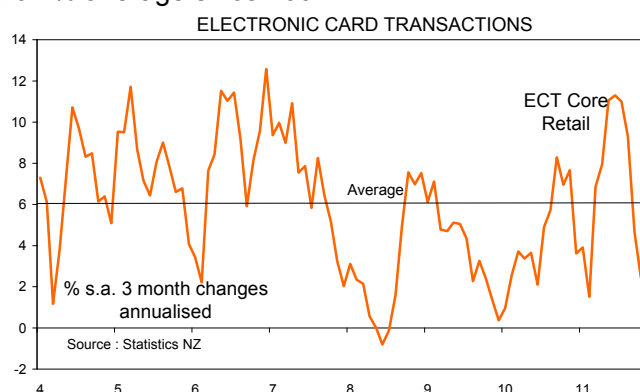
Car registrations continue to fall and that says there is strength lacking in household spending – or that we simply watched the rugby rather than going out and buying a car. In fact underlying spending using debit and credit cards is growing at a well below trend pace which would be even worse if one were to strip out apparel and hospitality which were undoubtedly boosted by the RWC. The driving force in a modern economy – consumer spending – is weak in NZ. Our growth may well have stalled.

Are householders opening their wallets more?

The number of cars registered around NZ was down 8.8% in October from a year earlier after being down 12.2% in September. Over the three months to October registrations were down about 5% seasonally adjusted so we are seeing continuing weakness in this area of spending following a generalised rise late last year. This is what we are talking about when we say that consumers have not yet really undertaken a strong sustained period of catch up spending on durable goods. Note the downward trend which has set back in as shown in the first graph.



But electronic card spending rose by a healthy 0.9% in seasonally adjusted terms in October after rising 0.6% in September. Yet these gains followed a 1% fall in August and goodness knows how exactly the Rugby World Cup has affected things. The anecdotes from retailers are that normal spending patterns have been disturbed. In the three months to October core retail spending grew at an annualised pace of just 2.5% which was less than half the 6.1% average since 2004.



Durables spending fell at an annualised pace of 2.7% in the October quarter. If people were happy and committed this number would be rising strongly. Spending on ongoing consumables rose at just a 2.5% pace which is weak. Spending on hospitality jumped 7.3% and apparel 12.3% - both undoubtedly RWC boosted.

I look at these numbers and they say to me that consumer spending growth in New Zealand is actually very weak and the chances are that with the RWC now out of the way some more of that weakness is going to be revealed bringing with it another round of retail sector rationalisation perhaps.

Is business output rising?

Nothing.

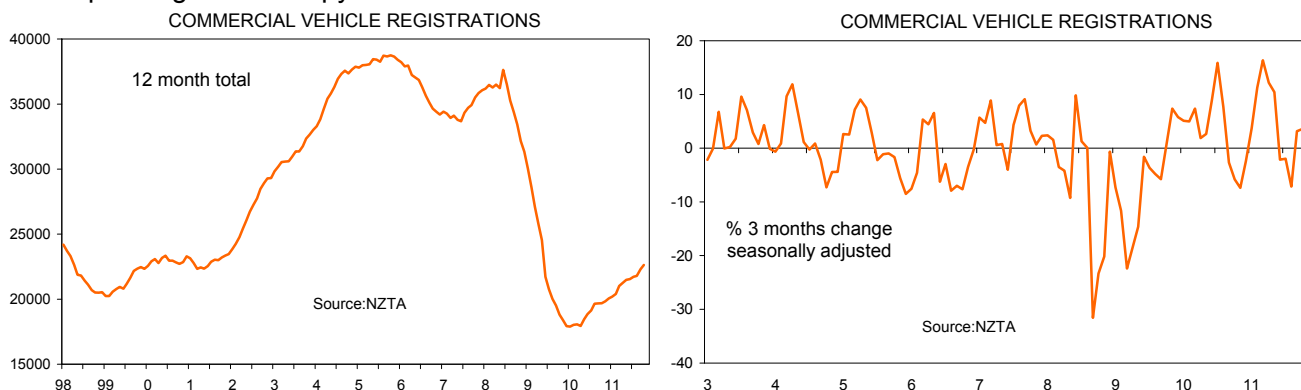
Are businesses hiring more people?

Nothing new.

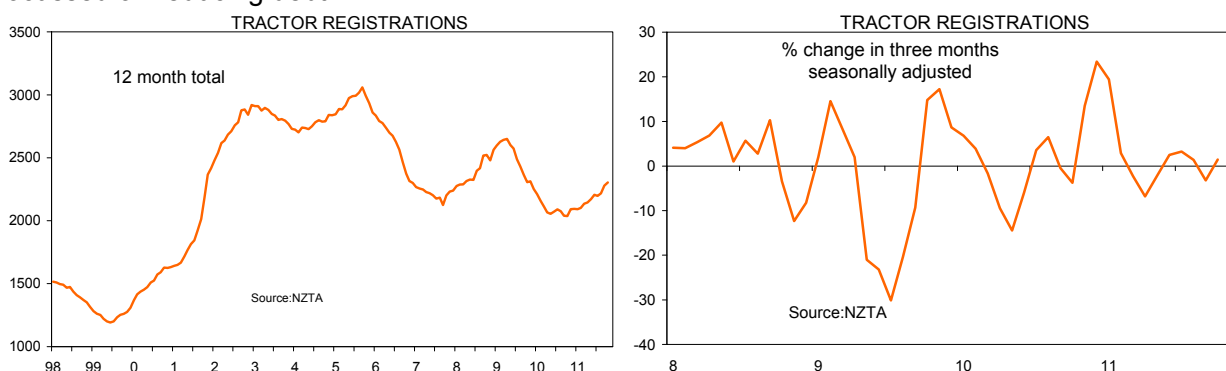
Are businesses boosting their capital spending?

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

The number of commercial vehicles registered around the country in October does appear to be rising again with registrations in October ahead 22.5% from a year earlier and in the three months to October ahead close to 5% in seasonally adjusted terms from the previous three months. So businesses are engaging in some spending in this lumpy area.



Farmers are not yet showing strong signs of raising their spending with the number of tractors registered in October ahead 10.7% from a year earlier following a 26.3% rise in September. In the three months to October tractor registrations were essentially flat in seasonally adjusted terms from the previous three months though the underlying trend does appear to be upward. Farmers are largely remaining strongly focussed on reducing debt.



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 discussed the worsening in our monthly confidence survey above. Global growth projections are also being cut by every man and his dog on a daily basis now. Sharemarkets are freshly selling off after what must rank as one of the most ridiculous rallies in global equity history over October. Nothing good basically.

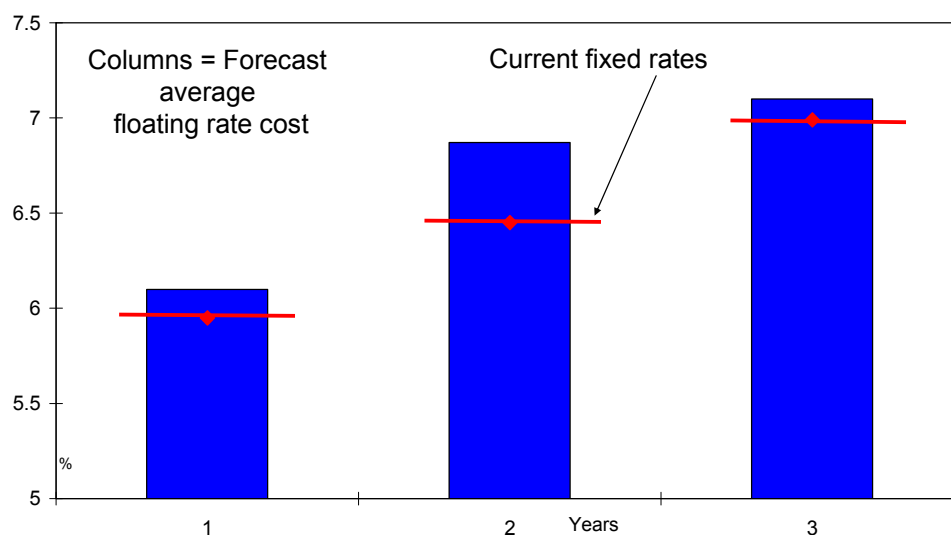
INTEREST RATES

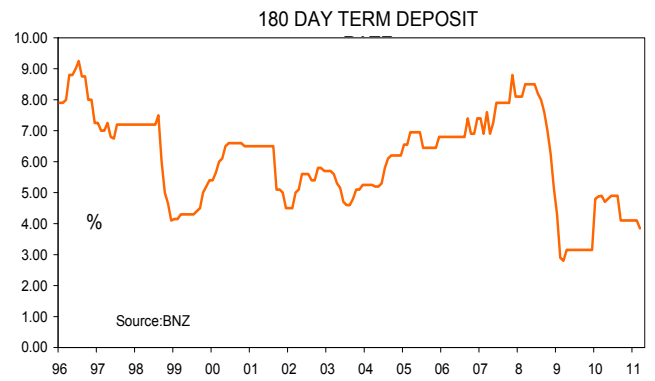
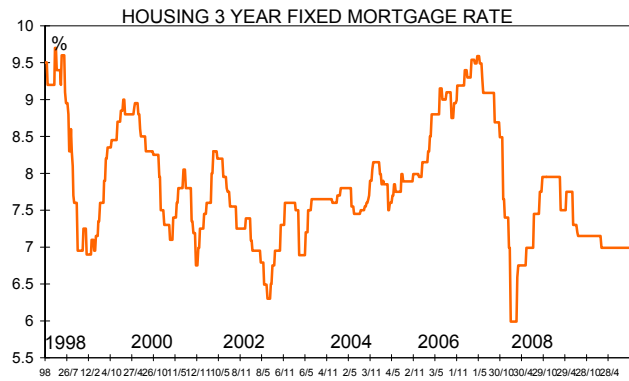
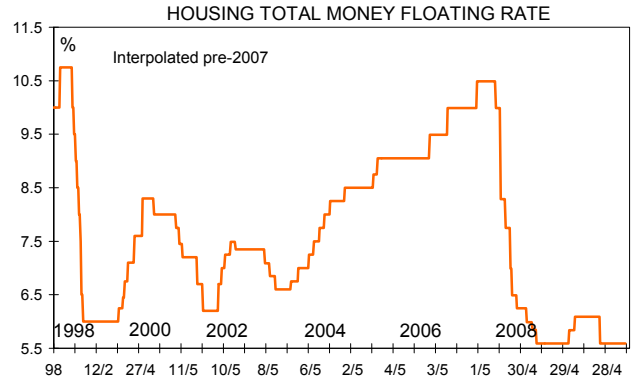
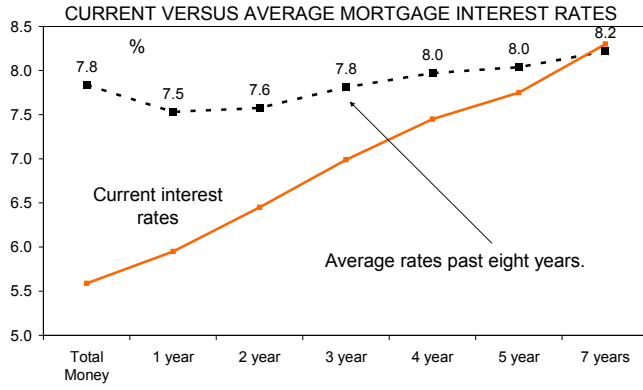
I am pressed for time typing this up in my hotel room in Beijing so lets just state the obvious. The world it no look so good. Interest rates down. See the table.

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	2.72%	2.75	2.82	2.85	3.20	6.2
1 year swap	2.92%	2.94	3.03	3.00	3.64	6.0
3 year swap	3.36%	3.40	3.44	3.61	4.35	6.2
5 year swap	3.87%	3.94	3.99	4.18	4.70	6.4
180-day term depo	4.00%	4.00	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?

Phloat.



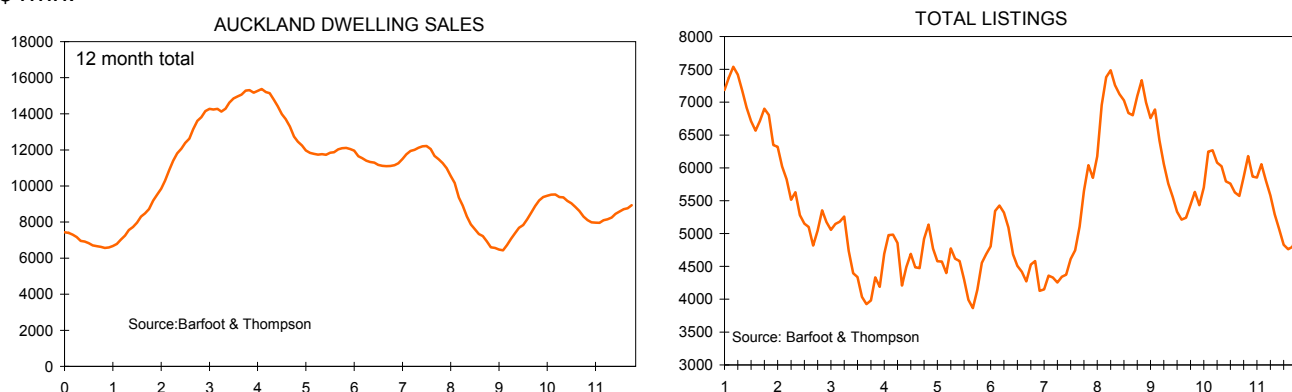


HOUSING MARKET UPDATE

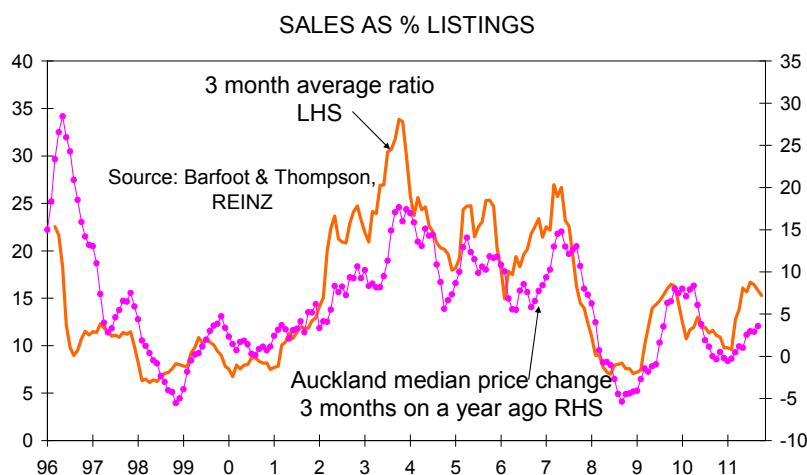
To view the most recent results of our monthly **BNZ-REINZ Market Survey** and read our monthly Real Estate Overview click here. <http://tonyalexander.co.nz/bnz-reinz-survey/>

Auckland Housing Market Only Slowly Moving Ahead

There was little we could glean from the monthly Barfoot and Thompson numbers for Auckland residential real estate activity. They sold 727 dwellings in October which was a 30% rise from a year ago but seasonally adjusted gain of only maybe 3% from September. In the three months to October sales were down slightly seasonally adjusted though the average sales price was ahead 3.3% with a near 5% gain from a year earlier. This was partly because of an unusually high proportion of house sales being for amounts over \$1mn.



New listings were down 6% from October 2010's rise and total listings at month's end of 4999 were down 14.7% from a year earlier. The ratio of sales to listings has pulled back a tad in the past four months but the past relationship between this ratio and Auckland sales prices suggests the annual rate of change in prices will soon move toward maybe 7% though not go above that.



Survey Results

As per usual, for those who skipped the detail earlier this week here are the comments on real estate submitted in our monthly BNZ Confidence Survey.

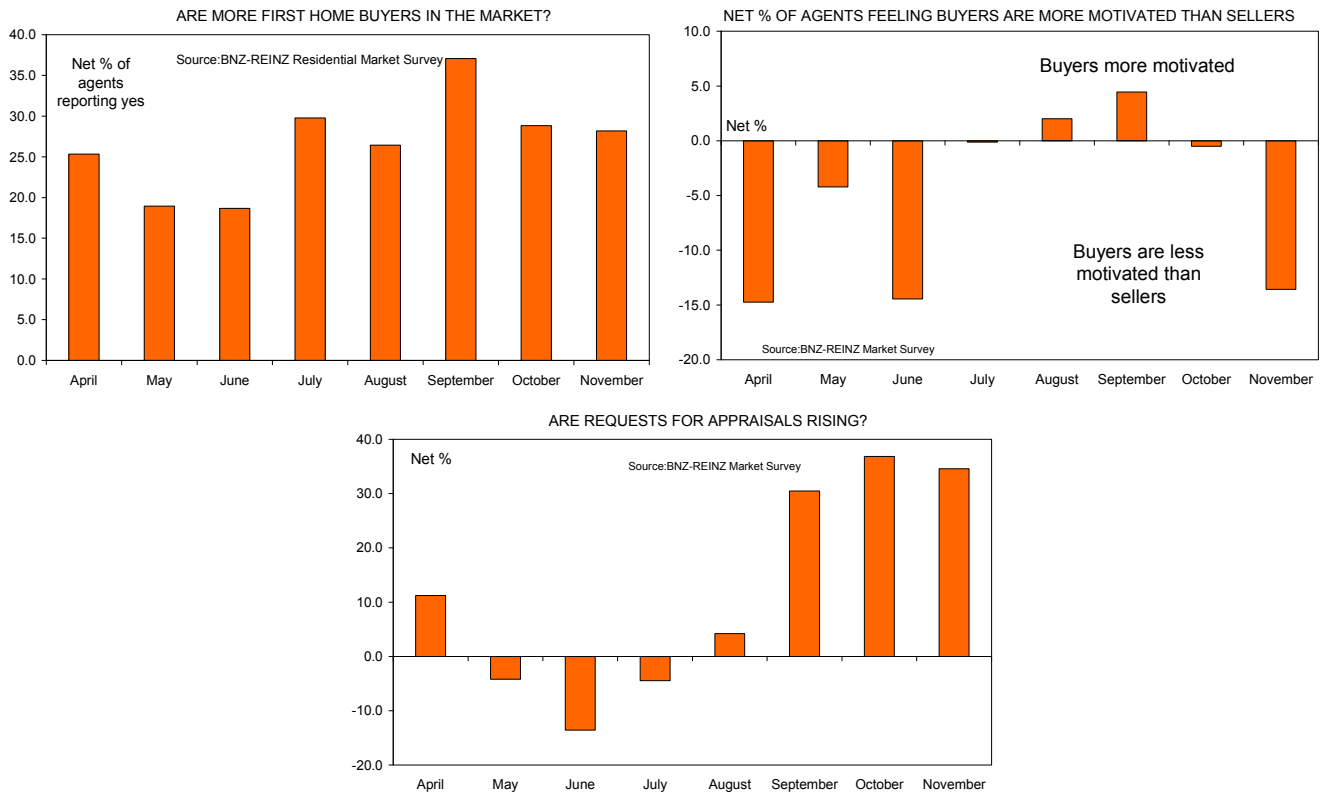
- Residential real estate in Christchurch...as the aftershocks recede confidence grows. People are cautiously moving forward. Appraisals are increasing, listings are on the up and the sales graph is looking a lot more positive. The Banks are doing their best to support sales growth, its just the Insurers that need a good kick in the backside .

BNZ WEEKLY OVERVIEW

- Real Estate Tauranga Visits to Open homes in particular during Rugby World cup were well down marketed improvement last weekend.
- Real Estate agent Motueka - Real estate market in this area is doing really well. Lots of buyer enquiry and sell times for new listing's dramatically decreased. Number of cash buyers in the market.
- Auckland fringe city residential rental investment - steady to strong, Demand expected to increase but no big rent increases expected yet - ability to pay more is still constrained
- Locally the property market has taken a hit with PSA infecting kiwi fruit and Rena affecting local trades , The Kiwifruit workers on the move with the contractors selling their homes puts pressure on the rental market, we are repositioning to other rental markets, taking advantage of the housing markets low prices, and hungry contractors being available and cheaper to upgrade existing holdings. .
- Real Estate, Eastern beaches. Same mud, different bucket; listings hard to come by but good property achieving great to stellar results. Poor presentation/price/marketing punished. Sub \$650k property achieving up to 10% above '07 peaks.
- Real Estate. Hard work.....Our Napier R.V have just come out and the common tread is a drop in land value, but an increase in rates!!! Insurance cost have skyrocketed up. It seems to me the only money maker in real estate is the number of divorce cases we are dealing with.
- Real Estate Auckland City fringe. Good listings and plenty of motivated buyers. Buyers still nervous and easily distracted by any kind of issue. Good "clean" properties are selling quickly for excellent prices. Greece of course is not helping anyone's confidence.
- Real Estate North Shore Auckland - Still very busy with lots of buyers out there - good sales rates. Prices could even be creeping up more - still a sellers market for well priced homes in good condition.
- Real Estate in Gisborne. Still a very low level of sales with listings still hard to find. Many Sellers hanging out for unrealistic prices to fund their proposed buying into the two new Retirement Villages.
- Real Estate - Central North Island. Sales have definitely picked up over the last six weeks and there are plenty of properties being listed as well.
- Real Estate. Property still coming on the market, people still looking for bargains, sellers still not wanting to sell for too much less than they feel it is worth, others taking less so that they can move on to the next stage of their lives. In other words pretty much normal.
- Residential real estate. Central Auckland. Have just (unwillingly) left the industry as have others (in commercial as well). Prices good but just enough volume to support agents who need a full time wage. Many agents who are hanging in there have secondary income or a partner as support.
- Residential Real Estate. Shortage of new listings, existing stock slow moving if priced incorrectly. Lots of buyers, albeit cautious about making a decision.
- Real Estate - home buyer enthusiasm picking up after World Cup distraction. Still difficult to get commitment and urgency from buyers.
- Residential Real estate Napier - very very slow!! Listings down as is buyer enquiry. Very concerning
- Real Estate Johnsonville: Appears to have lifted in sales over the past 4 weeks. Good numbers of buyers and properties coming to market. Sales have picked up noticeably.
- Real Estate - Improving
- Real Estate still struggling to come back to some normality. Rental side of our business remains very strong and growing.
- Real Estate, Invercargill, sales volumes steady, prices still flat.
- Real estate: Discretionary income buyers to the fore buying holiday homes. First home buyers disappeared off the market. Many young people prefer to rent and that could be a lifestyle choice as opposed to an inability to get finance. Interesting times ahead. Good inflow of expats looking for properties in the upper bracket.
- Real Estate - Eastern Beaches. Continues to show a number of buyers wanting to buy, and multiple offers on some well priced properties. No rush being shown from sellers to join the market and predictions are the Christmas market will be active due to the shortage of properties.
- Hamilton Real Estate sales: The expected 'feel good' boom after the world cup has not happened yet - almost the reverse. Most properties are worth more to the owner than any other person. After the advertising hype of 'shortage of stock', the reality is that we are left with even more choice than before. Overall, a strong buyers market. Not much in Santa's sack for the struggling agent, I feel.
- Real Estate - Sales up but any increase in unit sales due to forced sales. Buyers only buying if property is keenly priced. Usual spring increase in listings. Market nothing like is being reported in AKL.

Other Survey Results

We also ran our monthly BNZ-REINZ Residential Market Survey this week and the results bespeak of an improving market driven by more and more first home buyers, but with signs of vendors getting itchy feet and looking more willing to capitulate than buyers. Full results are as usual at www.tonyalexander.co.nz



Note that the file I sent out on Wednesday did not contain this month's data in the second section looking at what is motivating buyers and sellers. Luckily those numbers hardly move so I have not bothered resending the document to everyone. But if you are particularly anal about these sort of things you can download the correct copy at www.tonyalexander.co.nz

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

Last Thursday the Greek PM announced that he would not be holding a referendum on accepting the latest bailout, then he won a confidence vote in Parliament though indicated a willingness to not stand again when elections come along. It now looks like Greece will get the extra funding it needs, and 50% of debt will be written off. But as many analysts have noted, this still means that come 2020 the debt to GDP ratio will be at Italy's current level of 120% which is where Greece was just three years ago.

(At the time of updating this on Thursday night a fresh unity government had yet to be formed in Greece so in fact it is still not certain that the bailout funds will be advanced. The horror, the horror.)

Few analysts see much chance that Greek competitiveness will radically change in the near future and with the economy now into its fourth year of shrinkage and Europe itself looking like it may have slipped back into recession, the risks are that the fiscal process hoped for will turn out disappointing. The option of Greece leaving the Euro remains very much on the table and that means the chances of a Greek economic/banking collapse which could trigger another post-Lehmans like scenario remain strong.

The way things would go is that if the Greeks decide to leave the Euro or are thrown out all debts bar maybe those to the ECB will be written off. That sounds fine, and the return of the drachma would allow the competitiveness of Greek industry to improve as a devaluation of 70% - 80% from pre-Euro levels is commonly talked about. But companies, banks and individuals with debts denominated in Euros would find themselves unable to pay. So we are not just talking here about the Greek government defaulting on its debt, but Greek companies and households as well while the banking sector would lose all ability to fund in other than drachmas – and most banks may go under and be nationalised due to the loss of any worth for their Greek bonds, plus the loss of deposits from Greeks which must currently be underway. Who of sane disposition would be leaving their savings in a Greek bank currently?

One would expect immediate hefty printing of drachmas bringing seriously high inflation which means massive economic damage.

As for the rest of Europe, uncertainty about which banks would lose most on Greek debt exposure (government, private, and interbank) not to mention who would be paying out on the default insurance would see a seizing up of willingness to lend to all banks as happened after the Lehmans collapse. The credit squeeze would probably throw the world economy back into recession like the 0.7% shrinkage of 2009. Growth usually averages just over 4%.

One would expect worries about Italian debt to soar higher than they already are and default there could happen as well. Some €650bn of Italian government debt matures in the next three years and there is not enough capacity for the IMF and EFSF to supply that sort of funding. In that regard there was also bad news this week. Emerging nations gave no indication at the G20 talks over the weekend in Cannes that they would (be stupid enough) to invest money in the EFSF. Plus there has not been much support it seems for expanding the IMF's financing ability. The US in particular is in no position to aggressively raise its IMF contributions or guarantees given its own debt problems.

We've been saying it since early 2010 and we are probably going to keep saying it for a while. The end game for the European debt crisis has not yet been reached. Were I an investor I might have a trading account which could be providing lots of interest at the moment as one tries to guess the very large market movements. But I'd be keeping the bulk of my exposure in low risk assets – of which one struggles to find large quantities. Hence the huge demand for German and US government bonds, Japanese Yen, and Swiss francs. One can probably add NZ land to that mix one would suggest as well.

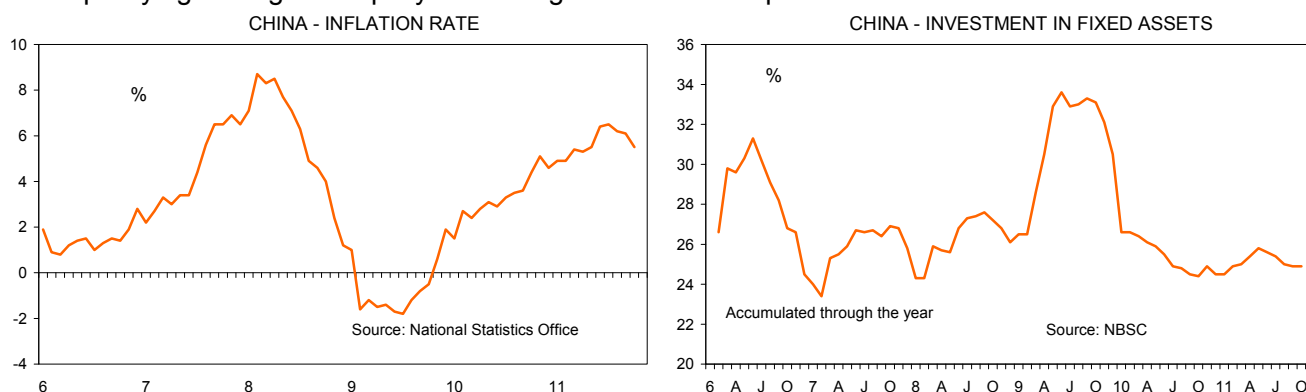
Last Thursday night the new President of the European Central Bank, Mario Draghi, cut the cash rate 0.25% to 1.25% reacting to downward revisions to their forecasts for Euro-zone growth over 2012, a high chance

the area is already back in recession, and out of all that a solid reduction in inflation risk. The tiny interest rate cut makes almost no difference to the indebted nations facing already high interest rates.

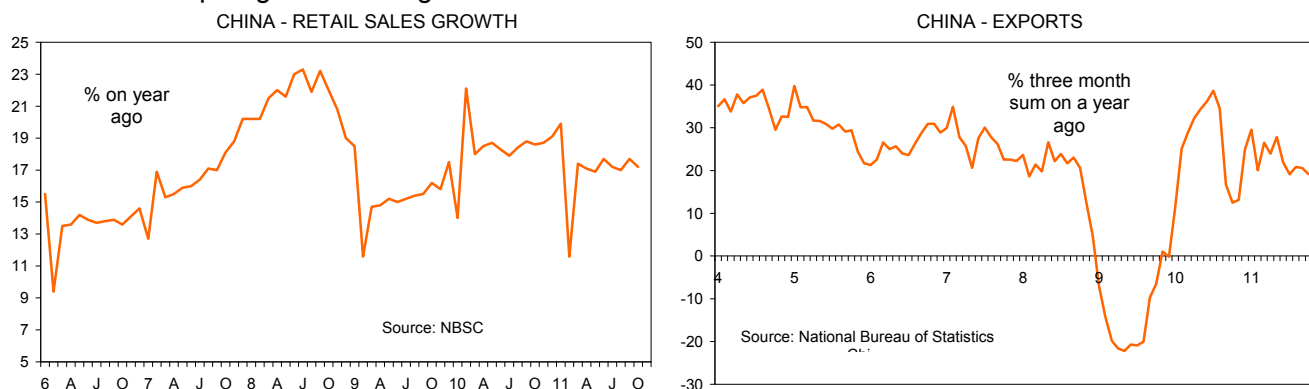
German factory orders came in much weaker than expected revealing a 4.3% fall in September to lie 2.4% lower than a year ago. Plus industrial production fell by 2.7% in September after falling 0.4% in August with a decline of only 0.5% having been expected.

Chinese Inflation

The annual inflation rate in China retreated to 5.5% in October (food 11.9%) from 6.1% in September which is the biggest rate change between two months since 2009 and the lowest inflation rate in five months. The outcome was expected and leaves China in a position where if necessary it can ease monetary policy further (mainly ease up on credit restrictions) in order to offset the depressing impact on economic growth of the earlier policy tightening and rapidly worsening conditions in export markets.



In fact this week also brought further evidence of that slowing growth. The annual rate of growth in industrial production fell to a lower than expected 13.2% in October from 13.8% in September, residential housing starts were down 1.3% from a year earlier, annual growth in fixed asset investment held steady at 24.9%, and retail sales were ahead 17.2% after being up 17.7% in September. Earlier today we learnt that the annual rate of growth in exports slipped to 15.9% in October from 17.1% in September. The graph below shows annual export growth averaged over three months.



US Growth Momentum

The monthly non-farm payrolls report showed jobs growth in the US of only 80,000 in October which was below expectations. But revisions to past numbers totaling just over 100,000 mean the outcome was not all that bad and the unemployment rate fell from 9.1% to 9%. But there is no improving trend as such yet in place capable of sustainably lowering the unemployment rate. No time to write anything more here sorry.

Australian Growth

There was a lot of data released this week but I have not had the time to analyse it because of commitments in Osaka and Beijing.

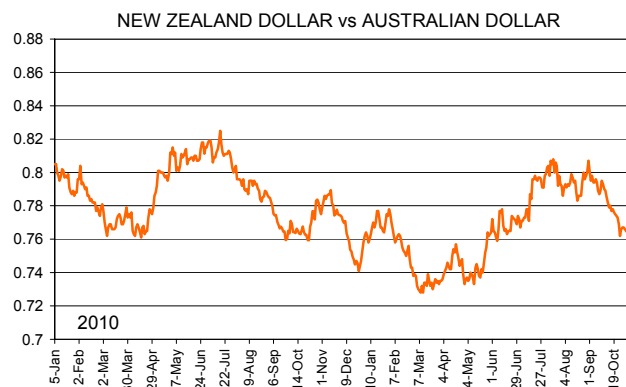
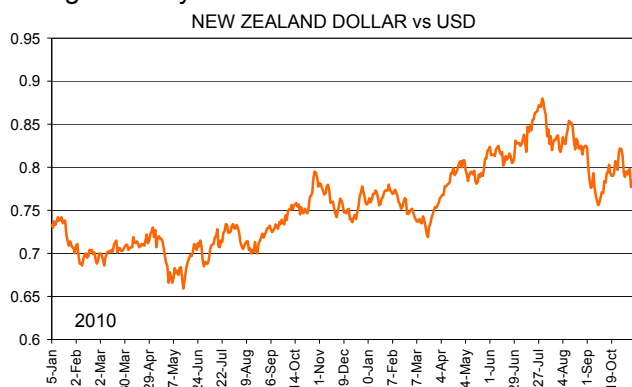
Exchange Rates

Exchange Rates	This Week	Week Ago	4 wks ago	Mths Ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.777	0.789	0.770	0.836	0.7776	0.689	0.629
NZD/AUD	0.768	0.764	0.789	0.808	0.775	0.773	0.855
NZD/JPY	60.300	61.600	59.100	64.400	63.56	67.7	68.4
NZD/GBP	0.488	0.493	0.495	0.512	0.4865	0.448	0.368
NZD/EUR	0.572	0.572	0.574	0.582	0.5645	0.52	0.511
NZDCNY	4.927	5.006	4.890	5.376	5.166		4.83
USD/JPY	77.606	78.074	76.753	77.033	81.739	98.3	109.9
USD/GBP	1.592	1.600	1.556	1.633	1.598	1.54	1.705
USD/EUR	1.358	1.379	1.341	1.436	1.378	1.33	1.229
AUD/USD	1.01	1.03	0.98	1.03	1.00	0.891	0.737

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

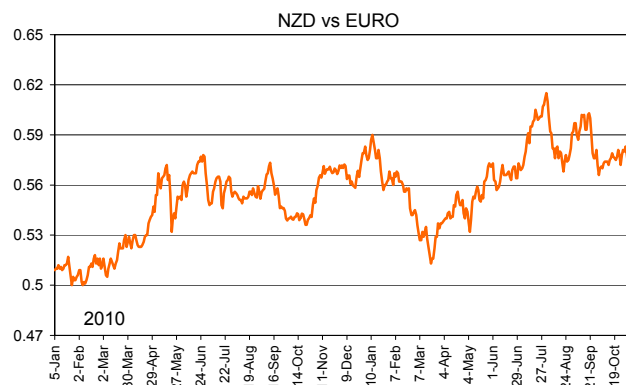
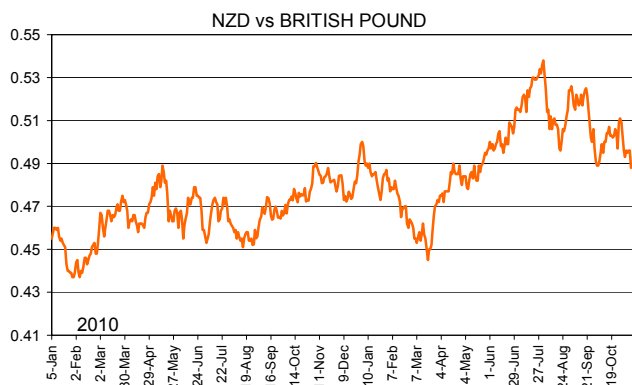
Risk Returns

Writing this section is sometimes so very easy. Markets have again become worried about the European debt situation so have moved from the Euro and traditionally risky/volatile assets like the NZD and AUD into what are perceived as current safe havens – the greenback, Swiss Franc and Japanese Yen. Hence the obvious exchange rate moves shown in the table above. No time or need to write anything more. These moves will repeat next week if global risk once again rises. They will reverse if things start smelling of roses. Your guess. My view does not involve roses.



United Kingdom

No time this week.



Exchange Rate Assumptions

	2010	2011	Risk	2012	Risk
Year end					
NZD/USD	0.73	0.87		0.84	Higher
NZD/AUD	0.74	0.81		0.85	
NZD/YEN	64.2	68		72.0	
NZD/GBP	0.44	0.53		0.52	
NZD/EUR	0.51	0.60		0.60	
USD/JPY	88	78	Lower	86	Lower
GBP/USD	1.66	1.64		1.62	Higher
EUR/USD	1.43	1.45	Higher	1.40	Higher
AUD/USD	0.99	1.07		0.99	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	0.4%	1.0	4.6	1.5	1.7
GDP growth	Average past 10 years = 2.6%	0.1	0.9	+1.5	0.5	-2.4
Unemployment rate	Average past 10 years = 4.8%	6.6	6.5	6.4	6.5
Jobs growth	Average past 10 years = 1.9%	0.2	0.0	1.1	1.8	-1.8
Current a/c deficit	Average past 10 years = 5.5% of GDP	3.7	3.6	2.5	5.6
Terms of Trade		2.3	0.8	7.0	12.7	-13.5
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%.	1.0	1.0	1.3	1.9	-3.1
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	+773	3,867yr	13,914	17,043
Tourism – an. av grth	10 year average growth = 3.2%. Stats NZ	1.2	-0.1	1.2	3.9	-1.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Business confidence	BNZ survey	7	36	14	18	50
Consumer confidence	ANZ-Roy Morgan 100=neutral	113	113	101	116	120
Household debt	10 year average growth = 10.3%. RBNZ	1.2	1.2	1.5	2.4	2.6
Dwelling sales	10 year average growth = 2.5%. REINZ	21.1	21.1	-5.1	-33.1	43.7
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.

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Key Forecasts

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.4	2.0 – 2.5	3.0 – 3.5	3.5 - 4.0
CPI	on year ago	4.0	2.5 – 3.0	2.5 – 3.0	2.5 – 3.0
Official Cash rate	end year	3.0	2.5	3.0 – 4.0	4.00 – 4.50
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

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