BNZ Weekly Overview

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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.
http://feedback.bnz.co.nz/forms/Fx-I8ploskSGWgjN_7WOAw
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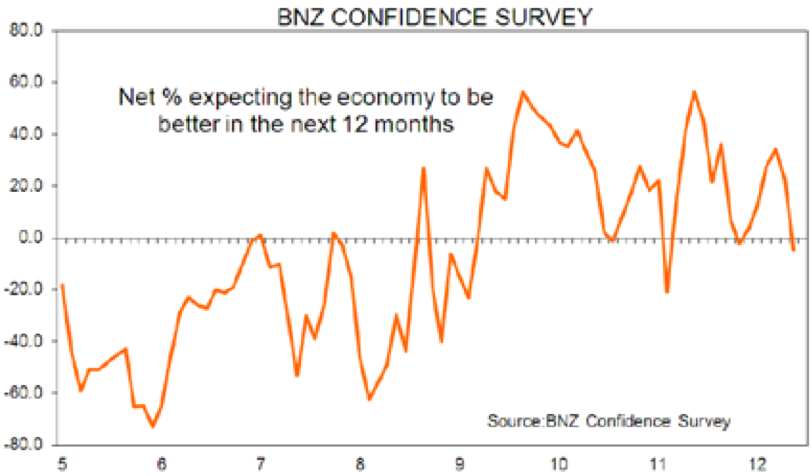
Confidence Declines

With worries about Greece abounding and commodity prices well off their peaks it is unsurprising that our monthly BNZ Confidence Survey revealed a fall in sentiment about the NZ economy. A net 5% of respondents expect that things will be in worse shape in a year's time which is the weakest result in 15 months and down from a net 22% positive in May and 37% positive in April. As such the result suggests that only mild growth in the economy can reasonably be expected in the near future.



Speaking of which, at National Farm Fieldays in Hamilton this week the mood is generally one of professional and often detached assessment by farmers of the relative merits of different items and the contribution they will make to business sustainability and resilience in coming years – as opposed to either outright pessimism keeping wallets closed, or excessive optimism leading to bountiful sales for stall operators. This is a very positive development.

Our survey actually shows that farmers have become more cautious in their spending. Some of the responses were as follows.

- Dairy Farmer (North Waikato). Production for the 11/12 season was up 11% on the previous season. I would think most farmers in this region had record production. On the negative side outlook for this season is mixed with regard to commodity prices. A lot of salespeople knocking on our door trying to sell their wares,

- I get the impression competition is tough out there with many competing for the farmers dollar. If you are a few days late paying an account you get a friendly phone call. Cash flow must be tight.
- Sheep and beef farming. A steep decline in farm gate prices. Outlook very uncertain for sheepmeat and wool, beef looking sound. Expenditure being closely monitored.
- Agriculture - Grain & Seeds - contracts now are evident for next year's feed and milling wheat and these are down on last years contracts. No room to move here as $400/tonnes for feed wheat considered a minimum. Will not grow for under that price and will switch to other options. Bread wheats need to be $450/tonne minimum. Grass seeds and clovers steady at the moment.
- Pretty unsure in the dairy industry right now.
- Farming - sheep & Beef. Demand is good but sales are not in good volumes due to overseas markets. expecting price drop this coming season
- Agriculture (Sheep, Beef and Dairy). Strong NZD frustrating through main selling season. Unbelievable growing season has mitigated lower product prices across lamb, wool, beef and dairy. Hopeful that recent softening of world dairy prices will reverse. Outlook better for beef, about time !. Big unknowns with lamb and wool.
- Dairying. Sobering at a $5.50 payout forecast
- Dairy Industry. Just finished a great season. Well set up for next season, with a lower payout forecast will be sticking to the basics and continue to lower debt. No capital expenditure anticipated.

Meanwhile offshore the downward spiral continues in Europe toward a seemingly inevitable crash. Spanish banks are to be recapitalised with money lent to the Spanish government thus raising Spanish debt and widening its deficit while upsetting other countries which have received bailouts but in exchange for huge fiscal austerity programmes. No such conditions have been imposed upon Spain. This Sunday the Greeks go to the polls again and with new anger about the seemingly pain-free Spanish bailout support for parties which reject fiscal austerity can only go up.

With regard to Italy worries have grown about the slow progress of the government in enacting reforms and across Europe bond yields have risen anew – including in Germany. The small number of economic data releases have generally been bad, and the World Bank have warned that the global economy will face years of turmoil because of Europe.

For us in New Zealand this means ongoing exchange rate volatility with the NZD oscillating at firm levels against the Euro and pound in particular but also against the greenback once their fiscal attack starts – with debt higher than Europe’s. The wobbly world economy will keep interest rates down and sharemarkets volatile thus encouraging investors toward property including farm and industrial land.

This means we need to design our businesses so they can handle shocks rather than adopting a straight line growth strategy. Income volatility as you have seen for the past five years will continue for the next 5 – 15.

Is Our Economy Getting Better or Worse?

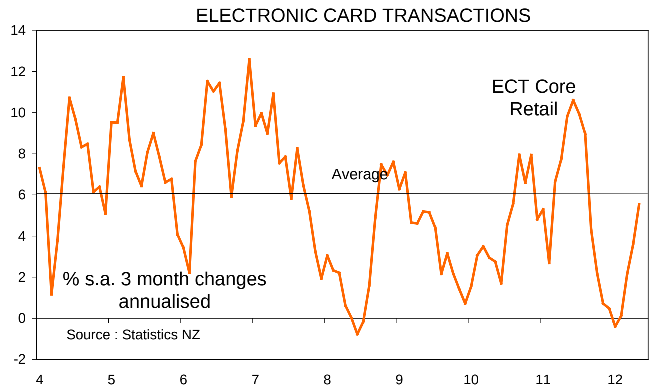
In this section we look <u>only</u> at what the data are actually telling us and pay <u>no</u> attention to forecasts or intentions measures.

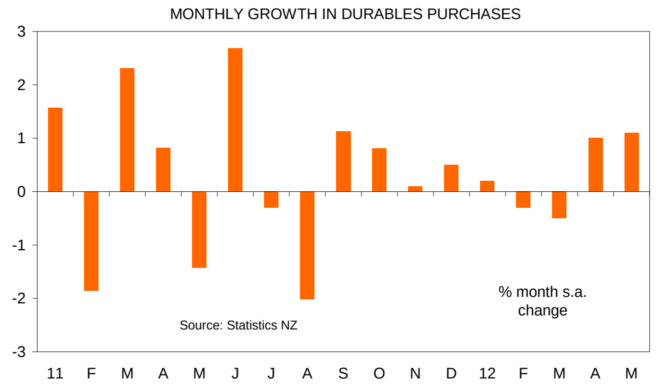
The data this week have fallen on the good side – hence one reason why the RB left its cash rate unchanged at 2.5% this morning.

<u>Are householders opening their wallets more?</u>

In the real estate market the answer is most definitely yes in terms of dwelling sales in May coming in 24.4% ahead of a year earlier, prices up 6.4% with a 2.4% rise in the past three months. For details see the Housing section below.

The answer is also yes when we look at the monthly Electronic Card Transactions data series. In seasonally adjusted terms this rough proxy for retail spending rose by 0.8% in May after rising 0.7% in April. The increase from a year ago was 5.5% which is close to the average annual rate of growth which is 6%.





Do the data mean that households are spending up large? We attempt one answer by looking at the breakdown of where the spending is occurring. Durables goods expenditure rose 1.1% in May following a 1% rise in April. That sounds strong. However the two previous months recorded declines and for the three months to May durables spending rose at an annualised pace of just 1.6%. Therefore this makes one slightly cautious in interpreting the overall result.

Second, there is a lot of discounting being undertaken currently by retailers which may drive sales but at the expense possibly of profits and future consumption.

Third, the bulk of the recent growth has come in areas of consumables and hospitality. Both are categories of high volatility.

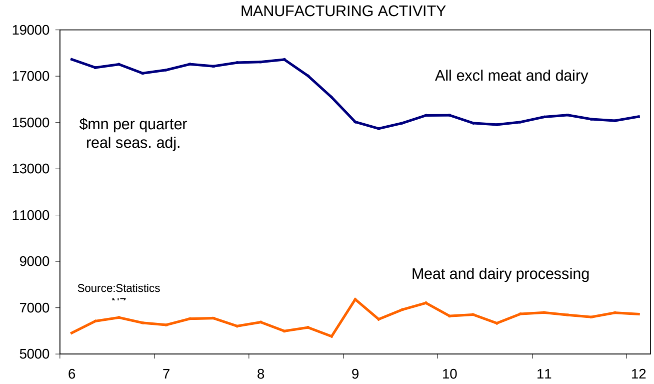
Therefore, while the data overall are good, we are reluctant as yet to interpret them as implying strong household spending – especially as the correlation between this measure and the actual retail trade data can be weak over short time periods and Statistics NZ explicitly warn us not to use the ECT data as a proxy for retail spending. But like picking your nose when you think no-one's looking, we still do it.

But yesterday Statistics NZ took the very unusual step of revising the data they released for retail sales during the March quarter. Whereas previously they reported that core retail sales in real seasonally adjusted terms fell by 2.5% now they estimate that the decline was just 1.4% which is actually quite a strong result considering one would naturally have expected quite a pullback from the 2.6% surge in the September quarter and 2.2% rise in the December quarter which were both boosted by the Rugby World Cup.

The cause of the revision was a reassessment of the supermarket data and discovery of errors.

Is business output rising?

The Quarterly Economic Survey of Manufacturing showed that in real seasonally adjusted terms total manufacturing output rose by 0.7% during the March quarter after gaining1.3% in the December quarter. This is a good result though growth was only 1% for the entire year to March thus showing underlying improvement is a tad muted. The same conclusion is reached when we exclude the one-third of manufacturing accounted for by simple meat and dairy processing which responds to supply changes rather than end market changes. Core manufacturing output rose 1.2% but this followed a 0.5% fall in the December quarter and means growth for the entire year was just 1.1%. That is not very strong but then neither is overall economic growth in New Zealand.



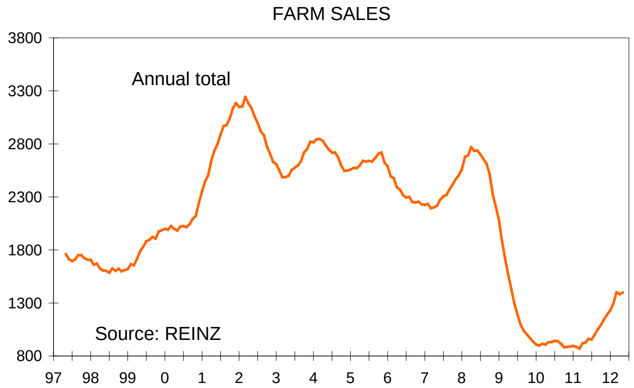
<u>Are businesses hiring more people?</u>

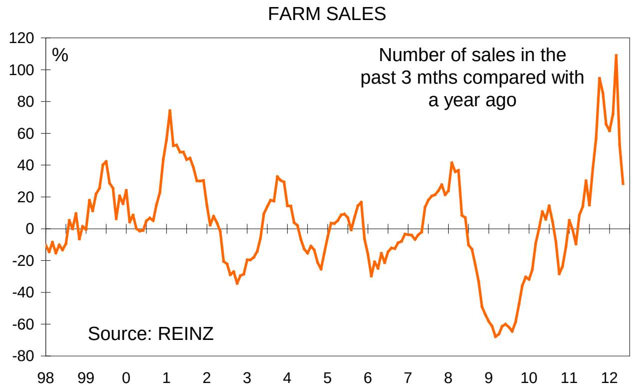
No new data I am afraid. However various employer intentions surveys have been reasonably firm recently and there is more chatter about skills shortages showing up. Plus responses from people in the recruitment sector in our monthly survey were quite strong.

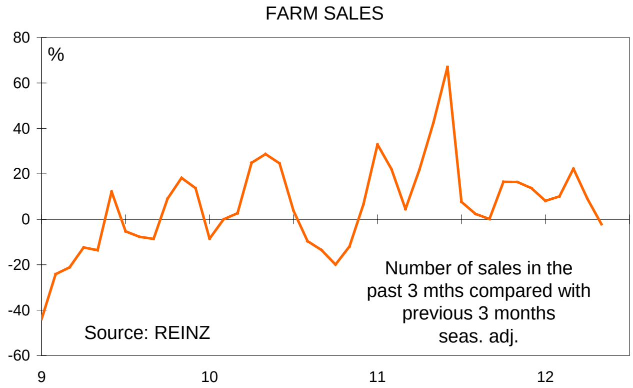
<u>Are businesses boosting their capital spending?</u>
For equipment no. Buildings = mixed.
To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey here. http://tonyalexander.co.nz/bnz-confidence-survey/

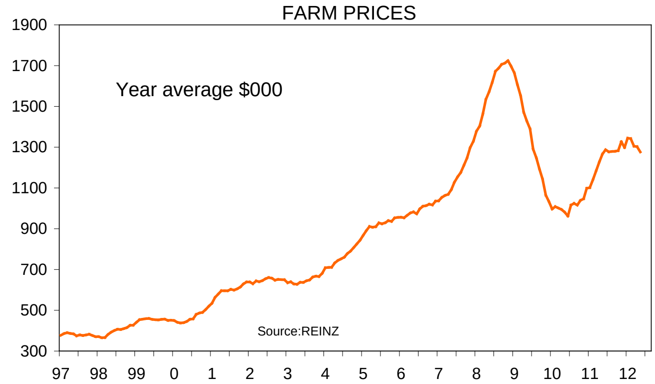
Last week I noted good growth in commercial vehicle registrations recently. A reader offered the following insightful comment.
"I would say that the spike in commercial vehicle registrations has been because long awaited stock has finally arrived after shortages that resulted from the Thailand floods rather than it being an indicator of increased activity. We have noticed particular caution in the fleet market this year. After a reasonable month in May we have come to a shuddering halt in June – enquiry has dried up. Perhaps the constant stream of bad news coming out of Europe and the slowdowns in Australia, China and the USA is starting to bite. It is certainly tempering my plans for the remainder of 2012."

In May there were 144 farms sold around New Zealand taking the total for the past three months to 28% ahead of a year ago, about average for the three month period, but flat in seasonally adjusted terms from the three months to February. What this tells us is that an earlier surge in farm sales has petered out for now with sales well off their lows.









In terms of prices one must be careful because of changes in the mix, location and size of farms sold. But if we take them altogether then stretched over the past year average farm sales prices were unchanged from a year earlier but about one-third up from their lows in 2010. They are also however still 25% down from their 2008 peak.

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.

Our monthly BNZ Confidence Survey has declined sharply and that suggests quite a degree of restraint in the near future in business investment and hiring decisions which will likely show through in surveys of such things declining shortly.

INTEREST RATES

Wholesale borrowing costs have risen over the past week though still sit at levels well below those of a few weeks ago. The drop from a few weeks ago has been driven by deep worries about Europe. The rise from last week reflects reaction to stronger than expected data out of Australia principally, and reduced expectations that the Reserve Bank of New Zealand will ease monetary policy in the near future.

In fact just this morning the RB left the official cash rate unchanged at the 2.5% level they dropped it to back in March last year following the Christchurch earthquake – and that is a reference one needs to keep in mind when working toward an understanding of their thinking.

They cut the OCR 0.5% in March last year partly because of worries about the disturbance to NZ economic activity from the February 22 earthquake in Christchurch. Now of course we have an opposite effect running through – an economic stimulus from the rebuilding which is just getting underway. This is working to substantially offset the weakness coming from reduced global commodity prices and a less good outlook for world growth.

But while leaving the cash rate unchanged and pencilling in rises starting from the middle of next year the RB also acknowledged downside risks to growth should Europe's situation become much worse – in which case we can expect interest rate cuts. We shall wait and see therefore what happens in Europe in the next few weeks and in particular next week after this Sunday's fresh general election n Greece.

FINANCIAL MARKETS DATA	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.63%	2.61	2.73	2.76	2.68	5.7
1 year swap	2.58%	2.48	2.52	2.90	2.88	5.8
3 year swap	2.83%	2.71	2.76	3.39	3.85	6.1
5 year swap	3.18%	3.16	3.17	3.86	4.49	6.3

If I Were a Borrower What Would I Do?

This person kindly wrote the following after last week's bit from an emailer not happy that they locked in a three year fixed rate earlier this year. It shows the sort of thinking I feel people need to take into their interest rate risk management decision making.

"I just wanted to drop you a quick email to say thanks for all your advice and putting the monetary policy and bank talk into layman's terms, for us non mums and dads investors!

Just wanted to add my 2 cents worth to the response you got in your 7th June update, where the unhappy mortgage owner blamed you for his current higher rates he fixed into. I would like to say that if it wasn't for you we would currently be fixed into a much much higher mortgage from about 18 moths ago when first read your newsletter.

We took our mortgage out in 2009 and had no idea what caused interest rates to go up and down so as new mortgage owners we took the safe option of generally fixing. We were savvy enough to take advantage of low short term fixed rates and as our fixed rates came up for renewal we often continued to re-fix. My brother in law put us onto your weekly newsletter about 18 months ago and as a result we now had a better informed approach to our mortgage and realised we could afford to dabble with a floating mortgage. We also felt confident in the information we received as we were able to better follow the monetary policies and OCR announcements in the media to back it what you said, and then make our own decisions.

As a result of remaining floating for a while we have managed to pay off a decent chunk of our mortgage to reduce the principal, something we were unable to do on a regular basis on the fixed term. We are also confident in speaking with the bank about our mortgage as we now know what it all means and can take informed risks to our approach to how we structure our mortgage instead of our old hard lined safe option, purely because we had no idea.

We fixed again about 3months ago, just prior to the latest OCR announcement and the rates reducing however I was not concerned the slightest because we held out for so long to get the great rates that we got (based on the information you put out) and with our new found knowledge and confidence we negotiated some really great deals off our bank which are still competitive with the latest drops. We opted to fixed again also with the perspective that the OCR was going to rise and we wanted some certainty....it didn't but who could know that but Mr Bollard! The way we see it is we still have great rates (5.89% for 3 years and 5.59% for 1 year) with certainty, the difference we may be paying now is so tiny compared to the difference we could have been paying from 18 months ago.

Just lastly, we also took the perspective of fixing a portion for 3 years, 1 year and a small amount floating, so we spread the load and kept our options open to the rates deals and hikes. I would suggest this person who complained needs to do their homework a little better to get their own understanding and appreciate the knowledge you are sharing for them to make their OWN better informed decisions."

For your guide this week BNZ raised its 18 month fixed housing rate from 5.15% to 5.55%.

HOUSING MARKET UPDATE

- **To view the most recent results of our monthly BNZ-REINZ Residential Market Survey click here.** http://tonyalexander.co.nz/bnz-reinz-survey/
- **I also write a monthly column on the residential property market in NZ Property Investor magazine available at your bookshop or newsagent.**

Mortgagee Sales Not A Useful Real Estate Market Measure

We all like to think that the thing we do is important, and one cannot doubt that Terralink provide an important data service to those interested in locational details about New Zealand's residential properties. But there is a difference between providing an important service and information, and having the information you provide be the best gauge of what is happening in the market you study.

And so on Saturday morning Terralink released a press release regarding mortgagee sales hitting a record level during the March quarter.
http://www.terralink.co.nz/about-us/news/single/?tx_ttnews%5Btt_news%5D=87&cHash=b0bf5cf15e6a70f542d342526648c596

We have zero reason for doubting their data and agree with comments in the release such as "…the numbers are a genuine cause for concern…". But the press release also contained this

"I challenge anyone to look at these figures and tell me things are getting better for Kiwi property owners"

Challenge accepted.

Lets start with last week's numbers by Barfoot and Thompson.

- Dwelling sales ahead a seasonally adjusted 30% in May and 7% for the three months to May.
- Sales in May 31% ahead of a year earlier and the strongest May since 2003.
- The average sales price rising 10% between May 2011 and May 2012 with a 5.1% gain in the past three months.
- The ratio of sales to listings over the past three months rising to the highest level since 2007 and ahead from 16% a year ago.
- These comments from a long-time correspondent received this week. "Presented to the xx yy group Tuesday night telling them it was the best conditions I had seen to invest here for 20 years and they went nuts. Haven't seen such a bunch of motivated investors in a long time. Thought it was just here in the inner suburbs things were going off but it apparently is the same out there and a valuer friend says same in South Auckland. Six months ago he thought he was running out of a job now he is run off his feet."
- The number of consents issued for the construction of new dwellings has risen 10% seasonally adjusted in the past three months. Compared with a year ago Christchurch consents are ahead 60% and Auckland 40%.
- Three front page articles in a row in the NZ Herald about three months ago discussing the buoyant rental market in Auckland and rising problems for renters finding a place to live.
- REINZ data showing sales in the three months to April nationwide ahead 25% from a year ago.
- REINZ data showing dwellings in the three months to April taking just 2.1 days longer than average to sell compared with 9.8 days longer a year ago.

Then there are the results from my monthly BNZ Confidence Survey from those in the residential property sector. The results are not all positive, but the negative responses are few and far between.

Property Management

- Residential property investor. More houses available to rent now than there were earlier in the year, but still plenty of tenants wanting a property.
- Christchurch Residential Property Management and Real Estate Sales. Rental business steady and improving. Tenant demand has dropped and availability has also increased but still a landlords/lessor

market. Sales still in the doldrums but as the seismic activity abates buyer interest increases and this puts pressure of the Banks and Insurance companies to loosen criteria.

- Property Management quiet not a great deal happening looking forward to business picking up with new apartments not selling looking for new rent as is.
- Rental property, I have six commercial tenancies and a 56 room residential lodge. All located in the Auckland City Fringe Commercial. All tenancies are leased but we have had to drop rents by 10 to 20%. Heaps of vacancy in the neighbourhood. Scary. Residential. 99% occupancy, rent increased by 10% in April, another 10% increase will happen in October. A great investment.
- Property rentals are very good. Demand is high and rents increasing. The last let in Auckland saw an 8.5% increase over one year ago.
- Residential Property Investment - Good at present

Real Estate – Residential

- Real Estate, Wellington: Still rather stagnant, minimal listings and slow buyer uptake.
- Real Estate is particularly unsettled with conditions beginning to look like the bad times of the last 4 years.
- Real Estate Whangaparoa - The numbers of houses that sell is encouraging, Auction method is proving successful. Pricing is still cautious, no boom yet! Agents are still leaving the industry.
- Real Estate - central North Island. The market has been steady and over the last week or so enquiry seems to have picked up again. Vendors are meeting the market more.
- Real Estate Hawkes Bay. Residential market for lower to mid range priced properties active. Top end slower. Rural quiet. Shortage of good saleable listings currently.
- Real Estate in Gisborne. Prices still slipping back. Having real problems with Insurance Companies obtaining Insurance for new purchasers on older houses, especially those still with Scrim or Pinex Ceilings.
- Residential Real Estate: Napier Listings are very slow which is causing concern. However buyers are looking so hopefully this will lead to selling of homes to purchase new ones.
- Real estate. Busy lots of buyers. Listings holding but slightly .down in Marlborough area. Investors still coming into the market. Not much subdivision or development of sections. House prices lower than new build cost for 2 to 4 year old home by comparison for a relatively new home and complete with drapes and landscaping getting established. 4 yr old home would sell for 485k that cost 540k to build 4 years ago. Incl section.
- Real Estate: Johnsonville. Good numbers of buyers in the market, slower numbers of new listings coming to the market, good prices being achieved for vendors at present.
- Real-estate mount Papamoa Things definitely improving but listings short
- Real estate Currently we are desperately short of stock to sell. Last month was a record month for sales and there is a backlog of buyers ready to buy. Many properties are achieving multiple offers and prices reflect that rise in demand.
- Real Estate has been busy, rental letting time increased dramatically a month ago, some properties still empty. We are selling most listings, 100% of auction properties have sold this year
- Real Estate - Orewa market is very buoyant
- Real Estate - very little enquiry
- Residential Property. Hardly any sections for sale in Hamilton and no further developments planned. Where are the builders going to build? Still some mortgagee sales around but good turnover of lower and middle priced houses.
- Real estate in Christchurch will show excellent figures for May. Christchurch may be recession proof
- Residential Real Estate Hamilton. Reasonably busy. Seems to be a new surge of buyers in the market after a quieter last few weeks. Sales still happening even on old stock. Buyers very clued up and informed on value. Well researched. Realistic vendors selling. Others not. If you want a premium, auction. Clearance rates well up and good numbers of buyers in the rooms across the board. Very fragile market though. Any negative commentary and it'll pucker up. (again)
- Real Estate - Inner West suburbs of Auckland City. The latest QV report identified Grey Lynn, Westmere and Pt Chevalier as the hot suburbs with significant value growth in the latest quarter. Extremely low stock levels and the lowest interest rates in 50 years are seeing street records broken on a regular basis. A huge number of cashed up buyers but simply not enough homes means multiple offers and sales well

in excess of 2011 CV. Likely that prices will increase an additional 10% through the current financial year!

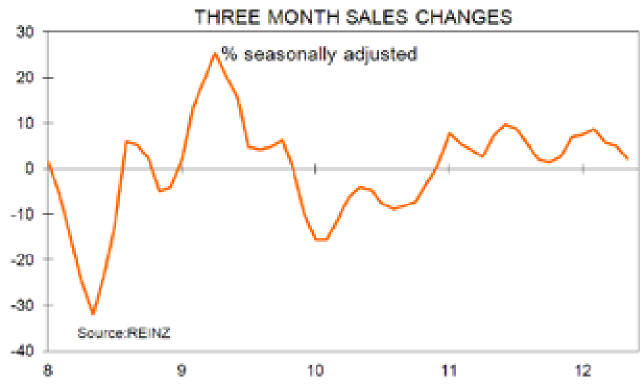
- Wellington Residential Real-estate - incredibly high volumes of sales, but all price driven with people often selling below 2007 purchase prices.
- Residential real estate - is fairly strong in Auckland

The NZ residential property market is improving strongly assisted by the lowest interest rates since the 1960s, catch-up purchasing by young people, and rapidly rising demand from investors of which there are now very few still holding out for the 40% price falls some were waiting for from four years ago. The past four years have shown us that the information content of mortgagee data relevant to the state of the residential property market and where it will go is not strong. It is not absent – just weak.

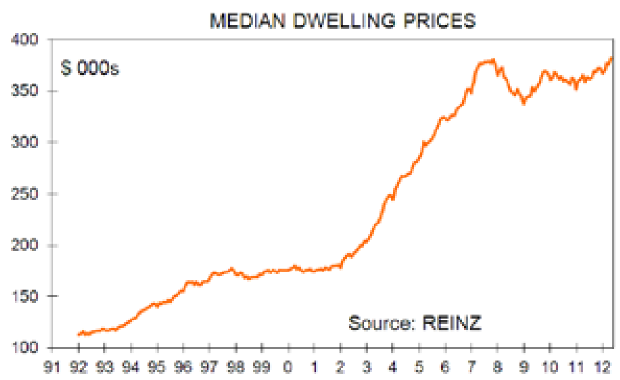
Therefore, speaking as one who years ago went through the experience not of a mortgagee sale but of a business liquidation-related loss of the family home, with mortgagee sales at high levels this is disastrous for the people concerned. But the numbers are not reflective of the true state of the real estate market or the equity position of Kiwi property owners.

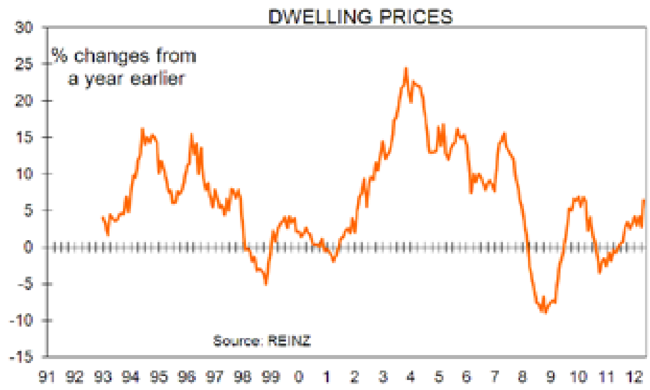
REINZ Data Strong

The REINZ reported this week that in May there were 7,175 dwellings sold around New Zealand. This was a 24.4% rise from a year ago and 5.9% seasonally adjusted gain from sales in April. Over the past three months seasonally adjusted sales have risen 2.2% so there is a reasonable though not stellar upward movement in turnover.



The stratified median dwelling sales prise rose by 1.7% in the month to lie 6.4% ahead of a year ago and up 2.4% over the past three months. Prices are rising with average Auckland prices ahead 8.3% from a year ago, Christchurch up 5.5%, and Wellington up 2%.





On average in May it took 38 days to sell a dwelling which was only 0.9 days longer than average. This is the smallest above average gap since March 2010 and tells us that activity is firm.

Overall the numbers show a rising real estate market.

MAJOR OFFSHORE ISSUES

Europe

The biggest news item for ages will of course be the outcome of the Greek national election this Sunday – and that is why although the news that Spain will receive a banking system bailout of up to €100bn is positive, it is not the end of the story at all for this current bout of the heebee geebies over Europe's ongoing debt spiral.

In fact it pays to sit back and think about the Spanish bailout. First, they are not being given money. Instead up to €100bn will be lent to the Spanish government so they can then use it to recapitalise their banks. That means higher Spanish public sector debt. That means higher debt servicing costs. That means a bigger Spanish deficit. That means more government spending cutbacks to regain the confidence of investors.

Second, the bailout was necessary from outside sources because investors do not in fact have enough confidence in the Spanish government to fund much more debt. That is partly why Spanish bond yields actually rose on Monday rather than falling which would have happened had investors been assuaged by the bailout.

Third, no-one knows the exact terms of the bailout.

Fourth, it is not guaranteed that €100bn will be enough.

Fifth, if you had funds in a Spanish bank would you still feel inclined to leave them there? Or would you prefer to switch your deposit into a German bank or out of the Euro altogether? One suspects the slow run on Spanish banks may not be over.

Sixth, the question now turns to whether Italy may need a bank bailout as well.

Seventh, the bailout increases the chances that Greek voters will opt for the anti-bailout socialist party in this weekend's elections and that the party will renege on the agreements in place. That is because of the anger Greek people now feel at a bailout equal to almost half of what they have received given to another Eurozone member but without any austerity provisions.

Sorry folks, but the latest move to boost Spanish government debt by up to €100bn is not the start of the end of this deepening crisis.

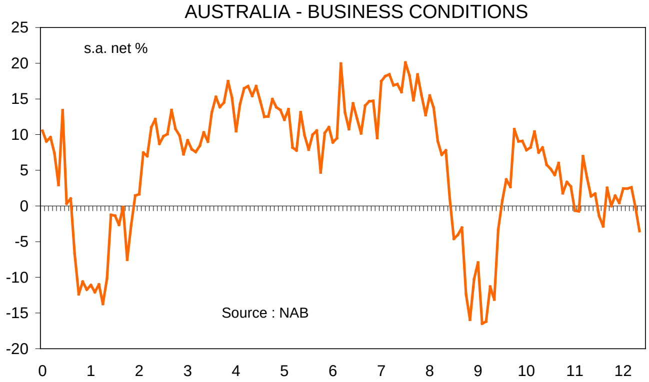
Meanwhile the new Socialist President in France is well on the way to making his country less competitive and make job prospects for young people much much harder. Legislation is to be proposed making it harder for businesses to make employees redundant. In the words of the Labour Minister "The main idea is to make layoffs so expensive for companies that it's not worth it." What this means is that companies will think twice before they hire someone and will be more inclined to invest in labour-saving technology and to undertake expansions elsewhere. They will be very reluctant to take on employees who are at higher risk of less than desired productivity and that means they will take few chances on trying out a young person.

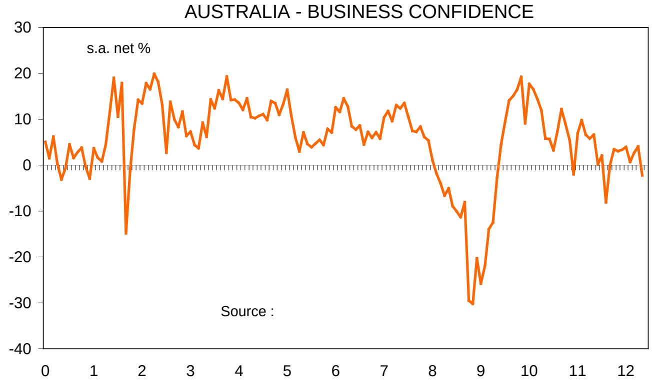
Therefore, in answer to anyone's question regarding whether the current turmoil in Europe is going to lead to a far more efficient continent the answer is not necessarily. French policies are again based upon a premise that the economic structure changes little and all one has to do is come up with measures which disrupt the extent of downturns and all will be well. But the secret to being able to achieve sustained good economic growth is to have an economy which can quickly respond to changes in market dynamics. That is something we have in New Zealand, Australia has, and the United States has. Europe does not and therefore these changes being proposed by increasingly reactionary governments merely serve to highlight the need for NZ businesses to look toward Asia and the Americas for their future bulk export growth rather than Europe – apart from niches of course of which there are many.

But having said that, if European businesses must increasingly look to non-labour means of raising outputs that means increasing opportunities for selling them systems and components which achieve just that. Such things tend to be micro in nature and that provides vast opportunities for NZ companies.

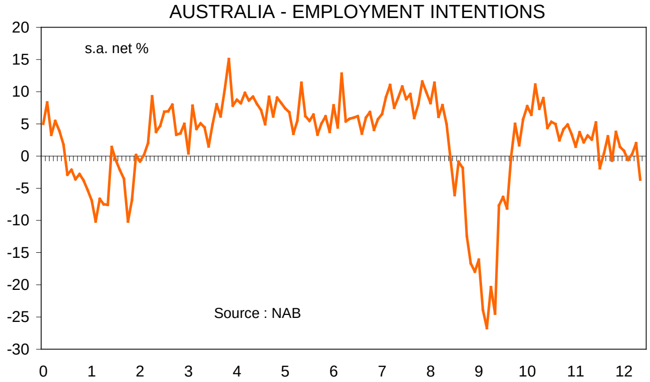
Australia

The monthly NAB Business Survey was released this week and it shows that business sentiment in Australia has also deteriorated to a three year low led by the construction and mining sectors. A net 3.5% of businesses feel that the current business situation has deteriorated compared with a net 0.1% negative in April and net 2.6% positive in March. Confidence about the state of the economy in a year's time has fallen to a net 2.2% pessimistic from 4.1% optimistic in April.





A net 3.7% of businesses say that they plan laying off staff compared with net 2% positive employment intentions in April.

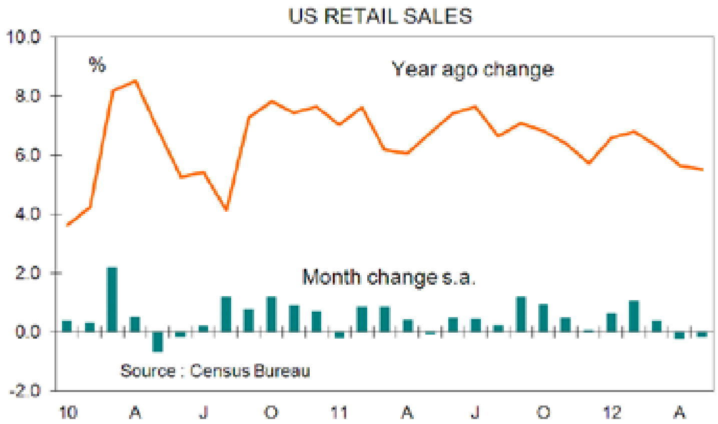


The results back up the decision of the RBA to cut interest rates 0.5% five weeks ago and by another 0.25% last week, and imply a high probability of another one or two 0.2% cuts in coming months notwithstanding the fact that May's employment data were unusually good and March quarter growth of 1.3% twice what the markets had been expecting.

Support for the cut also came this week from the Westpac consumer confidence reading which improved to only 95.6 in June from 95.3 in May in spite of the recent 0.75% worth of interest rate cuts.

United States

Little major new information has appeared regarding the state of the US economy this week. However last night the monthly retail trade number came in weaker than expected with sales excluding automotives falling 0.4% seasonally adjusted in May after declining 0.3% in April. This weak number feeds into a growing picture of the US economy once again losing steam and that means extra problems down the track when the true battle to get fiscal deficits and debt under control gets going.



China

Chinese economic developments are now covered in our new publication "Growing With China", the last issue of which appeared on May 22. The next will appear on June 21. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. Tony.alexander@bnz.co.nz

Exchange Rates

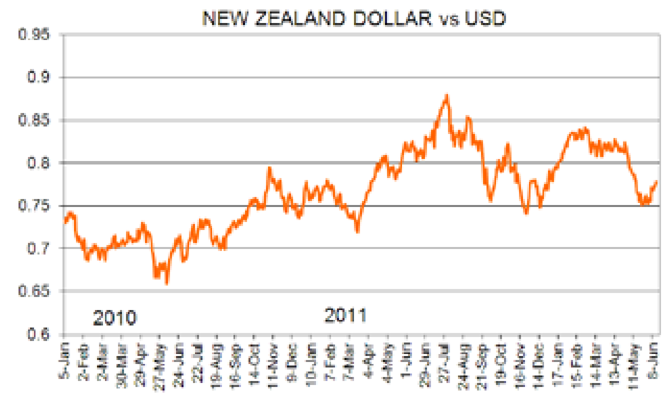
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average
NZD/USD	0.778	0.771	0.784	0.820	0.815	0.67
NZD/AUD	0.780	0.775	0.782	0.780	0.768	0.85
NZD/JPY	61.700	61.100	62.600	68.100	65.4	69.6
NZD/GBP	0.500	0.498	0.488	0.522	0.498	0.388
NZD/EUR	0.618	0.613	0.607	0.627	0.566	0.52
NZDCNY	4.941	4.907	4.948	5.189	5.284	4.99
USD/JPY	79.306	79.248	79.847	83.049	80.245	105.7
USD/GBP	1.556	1.548	1.607	1.571	1.637	1.72
USD/EUR	1.259	1.258	1.292	1.308	1.440	1.28
AUD/USD	1.00	0.99	1.00	1.05	1.06	0.788
USD/CNY	6.3507	6.3649	6.3114	6.3277	6.483	7.56

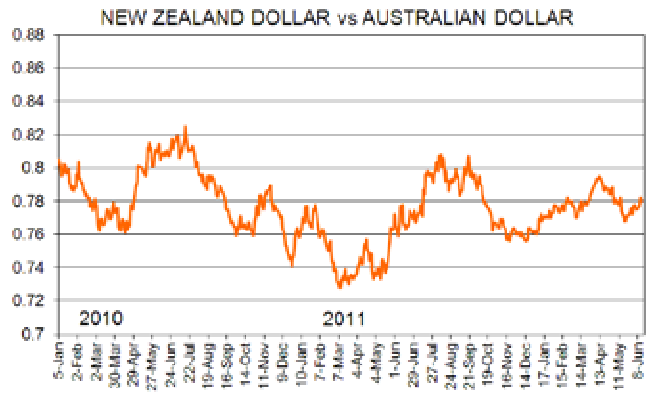
Kiwi Up Ahead Of Greek Election

The Kiwi dollar has risen against the greenback and on the crosses this week in spite of the return of worries about Europe after a brief respite associated with the debt funded bailout of Spanish banks. The upward pressure has come about in response to some strength in the Australian currency following last week's better than expected data on economic growth and employment, plus some good NZ data.

These include the revision to Match quarter retail trade numbers, stronger than expected electronic transaction data for May, reasonable March quarter manufacturing data, more strong housing numbers with prices rising, and the markets pulling back on pricing in interest rate cuts here.

Where we go from here depends heavily upon what happens in Europe and the clear risk there is that things get worse – potentially monumentally worse – before they get better. As I have been pointing out to farmers today and yesterday at Mystery Creek however, weakness in the NZD could be limited and temporary because we look to be in very good shape compared with many other parts of the world.





Key Forecasts					
Dec. year		**2010**	**2011**	**2012**	**2013**
GDP	annual average chg	1.2	1.1	1.5 – 2.2	2.5 – 3.5
CPI	on year ago	4.0	1.8	2.0 – 2.6	2.5 – 2.9
Official Cash rate	end year	3.0	2.5	2.50	3.00 – 3.75
Employment	on year ago	1.3	1.6	1.0 – 1.7	1.5 – 1.9
Unemployment Rate	end year	6.8	6.4	6.0 – 6.5	5.0 – 5.6

The Weekly Overview is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The publication is sent to 26,000 subscribers each week and is one of a stable of regular releases which include the

- monthly Growing With China publication, http://tonyalexander.co.nz/topics/china/
- monthly BNZ Confidence Survey, http://tonyalexander.co.nz/topics/surveys/bnz-confidence-survey/ and the
- monthly BNZ-REINZ Residential Market Survey. http://tonyalexander.co.nz/topics/surveys/bnz-reinz-survey/ This latter survey provides information from a survey of over 10,000 licensed real estate agents on the current state of the residential property market in New Zealand.
- He has also written a weekly newspaper column since 1998, http://www.stuff.co.nz/business/opinion
- writes a column for the Farming Show posted at http://www.farmingshow.com/opinion/
- produces a monthly column for the NZ Property Investor magazine, http://www.propertyinvestor.co.nz/ and
- writes a monthly column for the NZ China Trade Association. http://www.nzcta.co.nz/

Most of these publications plus research into impediments to NZ's economic growth are available on his website. www.tonyalexander.co.nz

Tony Alexander has been Chief Economist at the BNZ since 1994 and apart from publications and advising management spends considerable time on the road around New Zealand making presentations and speaking with the media. He travels to the UK and Europe twice a year to assess economic conditions and present at numerous functions, has five children, and his partner Dr Sarah Farquhar runs the early childhood education network www.childforum.com

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