

BNZ Weekly Overview

4 February 2010

Mission Statement

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

In this week's issue....

Labour Market Weak	1	Housing Market Update	8
Guest Commentary – Icehouse	5		
Interest Rates	7	FX - Foreign Economies	11

The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night email me at tony.alexander@bnz.co.nz with 'Subscribe' in the Subject line.

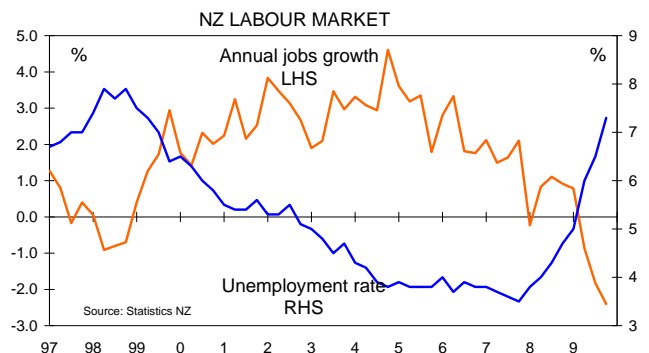
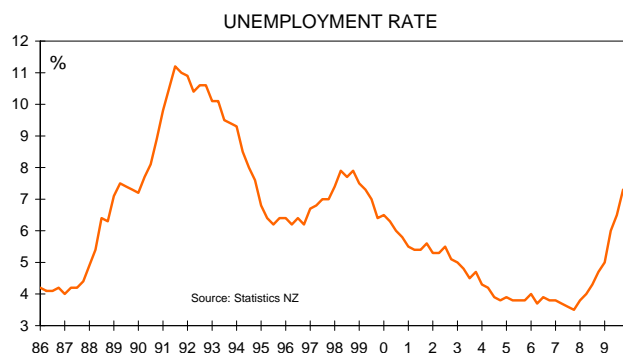
First Survey For 2010

This week we are running our regular monthly survey asking Weekly Overview readers how they see the economy. If you have not already done so from the email used for sending out the WO on Thursday night please cut and paste the URL below into your browser, click on it, and let us know whether you feel the economy will get better or worse over the coming year. If time permits pen a sentence saying how things are in your industry at the moment specifying what that industry is. The results will be released early next week.

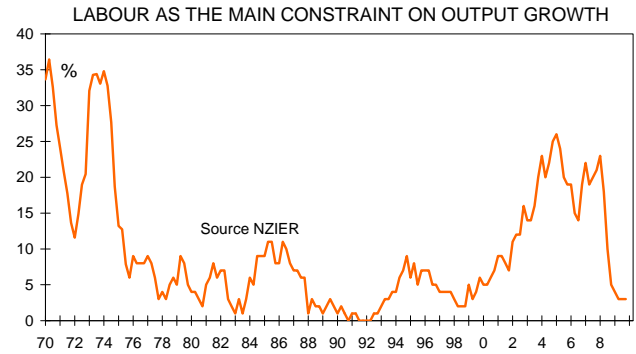
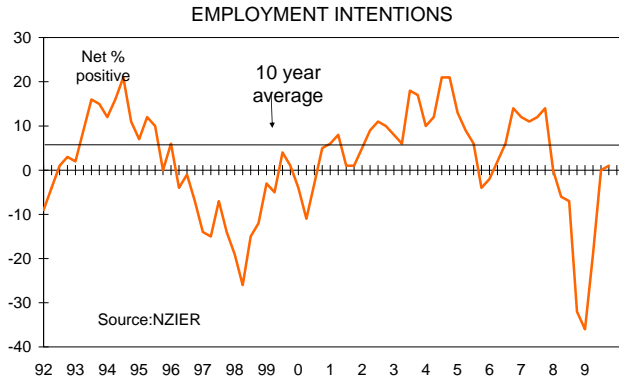
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Labour Market Still Weak At The End of 2009

This morning the quarterly Household Labour Force Survey was released containing details of jobs growth (shrinkage) during the December quarter and unemployment. The results were slightly worse than expected with respect to the unemployment rate which jumped from 6.5% to 7.3% - the highest rate since 1999 and above the forecast cyclical peak from the Reserve Bank of 6.6%. The high rate implies continuing restraint on wages growth and again reinforces that the need for the RB to tighten monetary policy before the middle of the year is not strong.

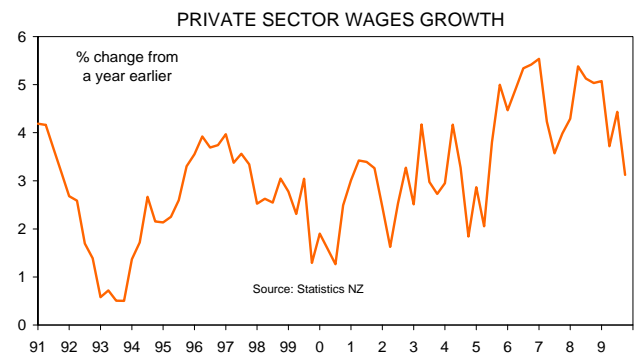
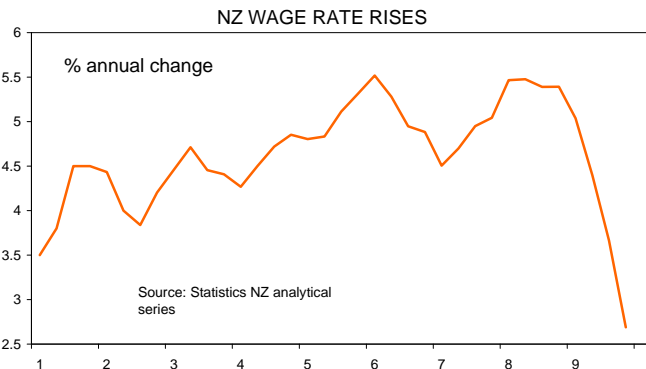


The employment change however was slightly better than the commonly expected decline of around 0.3%. Job numbers fell only 0.1% which is a good sign that employers have completed their period of layoffs – but they are not yet at the point overall of hiring more people than get laid off. At least, one can say that for the December quarter. Given the strong anecdotes we could have reached that point in the March quarter. The NZIER’s Quarterly Survey of Business Opinion for the December quarter shows a net 1% of employers plan hiring people over the coming quarter. This is however still below the average reading of +5% therefore it would be reasonable to talk yet in terms of the labour market putting in a firm performance soon.



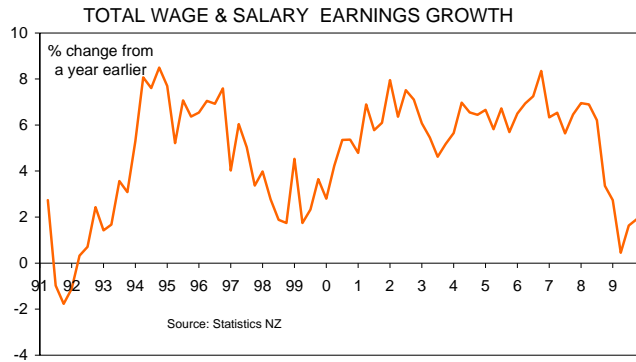
The NZ labour market has deteriorated substantially over the past two years with the unemployment rate having hit a low level of 3.5% two years ago. 53,000 jobs have been lost since the employment peak in the December quarter of 2008. We expect improvement from here on out in job numbers, but gains are likely to be quite limited given that employers still perceive the labour market as relatively in their favour.

It is not very reasonable to expect great growth in household spending if people are not earning much more money. This is what we saw revealed in the two lesser labour market releases this year in the form of the Labour Cost Index and the Quarterly Employment Survey. The LCI has a series which examines changes in wages and salaries for people in the private sector with changes caused by alterations in hours worked and such-like removed. This series showed at least an eight year low in annual wages growth of just 2.7% over 2009 compared with 3.7% in the year ending in September and 5.4% a year earlier. That is quite a slowdown.



The other series one can look at comes from the Quarterly Employment Survey. It showed that average hourly ordinary-time private sector earnings fell 0.4% in the December quarter and were just 3.1% ahead of a year earlier – a four year low.

But for a really good feel for whether people have more or less to spend one can skip the change in wage rates estimates and go straight to the gross wage and salary incomes across all households. This seasonally adjusted series is improving according to the graph below. The annual growth rate is still low at just 1.9%. But it has improved for two quarters assisted by the total number of hours worked during the quarter falling “only” 0.3% whereas in the 2008 December quarter the fall was an ugly 1.6%.

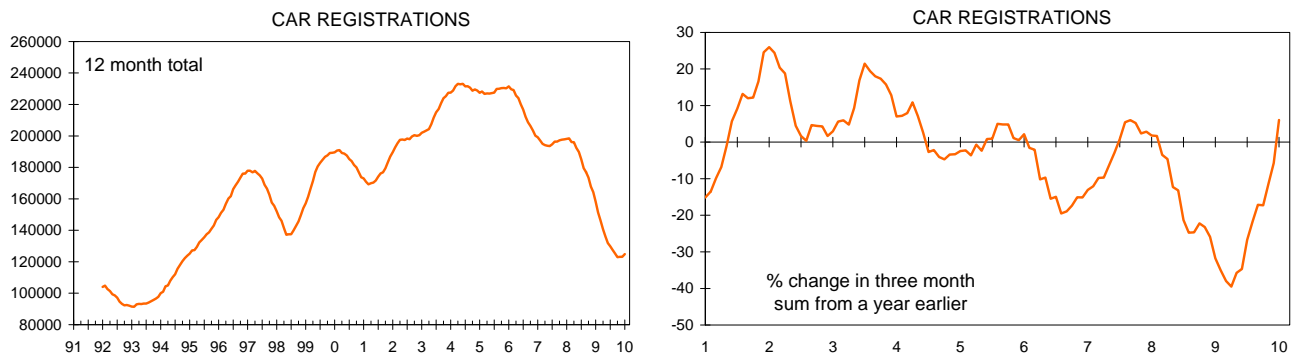


The data show wages growth remains very constrained – which is hardly a surprise considering the still generally weak state of the labour market.

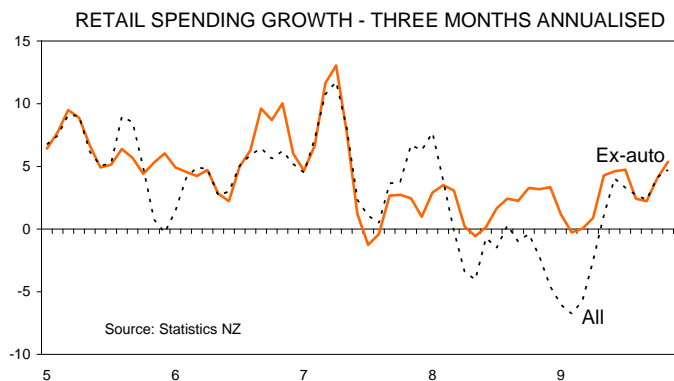
Spending on Vehicles

Outside of a property, probably the biggest purchase we ever make (private school fees?) is of a vehicle. Sales of all types of vehicles were very strong a few years ago, then they plummeted as the economy went into recession over 2008 and the global financial crisis struck. Now we can see evidence of spending recovery across all the three broad groups we monitor – cars, commercial vehicles and tractors. Firstly cars.

In January there were 12,429 cars registered around the country. This was a 16% rise from a year ago – but such an annual comparison is worthless because this time a year ago wallets were closed for fear of a new Depression. Nevertheless, it is useful to note that total car regos in the year to January were down 21% from a year earlier when the annual average decline was 20%. Registrations totalled 125,000 last year compared with 231,000 in the year to January 2006.



In the three months to January car regos were ahead in seasonally adjusted terms by about 11% from the three months to October. That earlier three month period was up 12% from the three months to July. Therefore there is a definite upward trend in place with regard to spending on cars and this gels well with the ex-auto retail sales figures which grew at their strongest annualised pace in over two years in the three months to November.

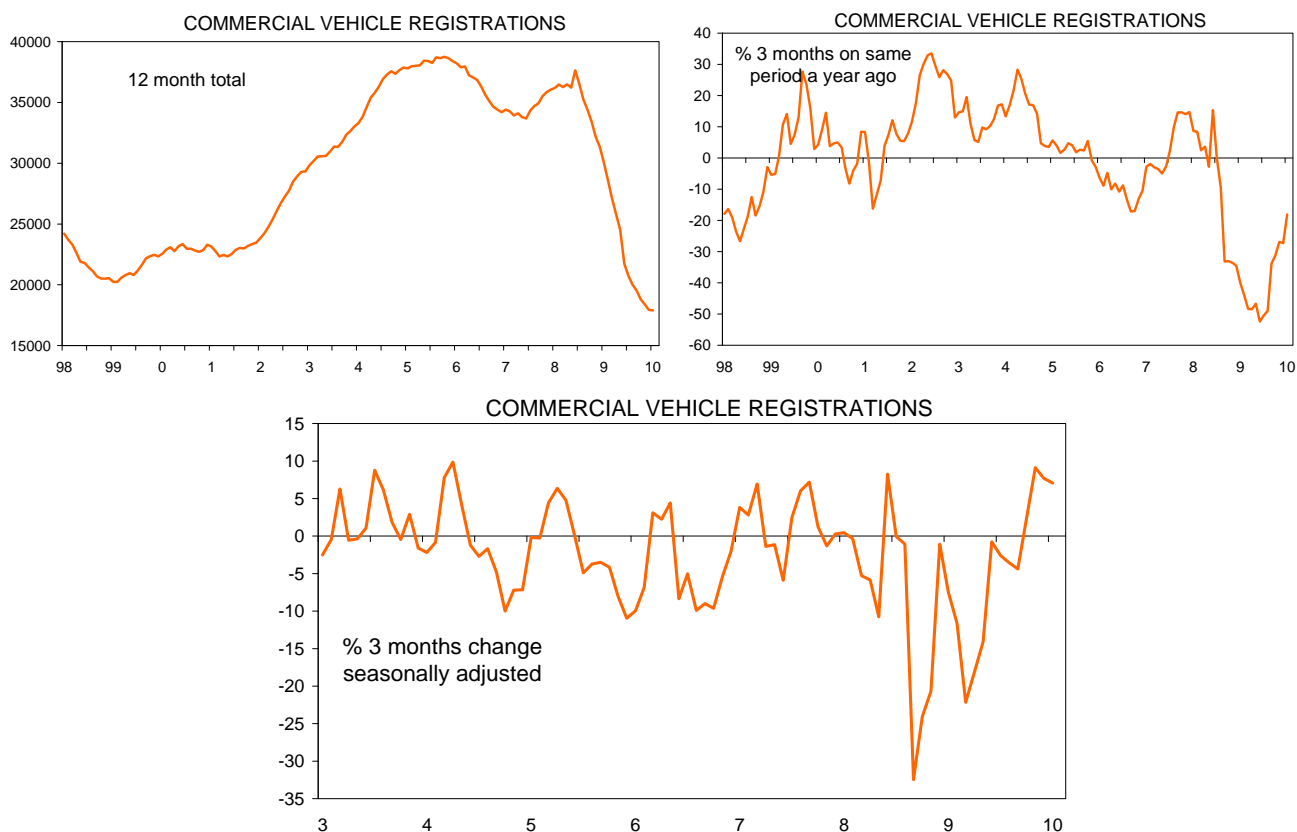


People are acting on their high levels of confidence about the economy over the coming year by increasing car purchases. However, it would be wrong to say the industry is strong. As noted above and seen clearly in the graph, annual sales are still very low. In fact sales for the January quarter were still 23% below average January quarter sales for the past six years. There will also be some necessary “catch-up” spending in the data as we replace cars which have simply worn out.

Our expectation is that over the next two years car sales will continue to rise. But a return to the heady days of 2003-07 does not seem a reasonable expectation until maybe 2012 if all goes well in the world economy.

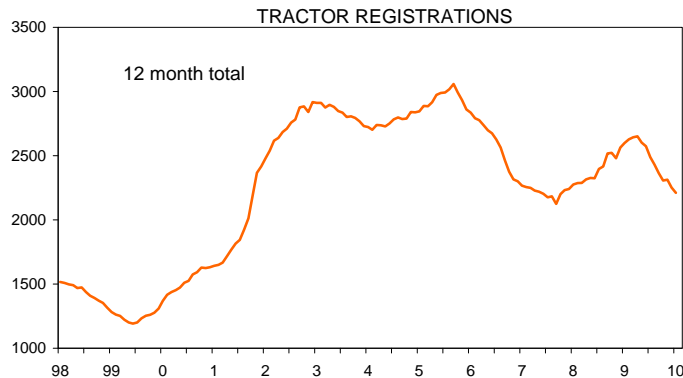
There were 1,342 commercial vehicles registered around the country in January which was a 2.8% fall from a year ago when things were very depressed because of Depression worries. Right away then we see something different from cars discussed just above. There is not an upwardly biased annual comparison in play here which suggests right away that the sector lacks strength.

In fact in the year to January commercial vehicle regos were down 40% from a year ago, in the three months to January they were down 18% from a year ago, but in seasonally adjusted terms compared with the October quarter regos were up 7%. There is a small recovery underway from a year low base.

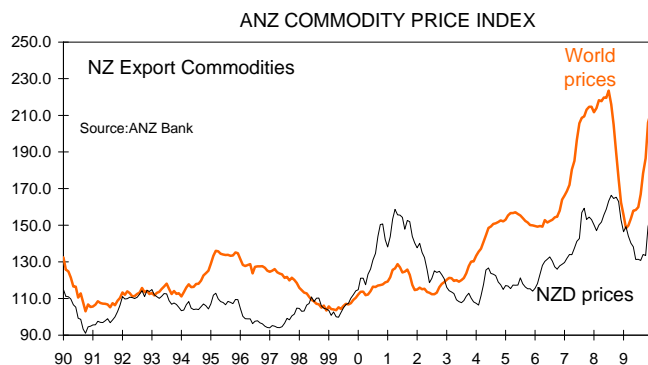


We know from our own contacts with businesses and analysis of the system-wide lending data that businesses are still strongly focussed on getting debt down and balance sheets in order. But we also know that there are many businesses now enjoying very good cash flows and they are in a position to start increasing capital expenditure, equipment replacement without threatening the bottom line. Our expectation is that spending on commercial vehicles will continue to rise over the next two years, but that as with cars, a return to annual activity seen from 2004-07 is probably not going to happen until 2012 all going well.

And finally tractors. In January there were 155 tractors registered in NZ. This was a fall from a year ago of 21% and for the year as a whole the decline was 14%. At 2,211 annual tractor regos have not fallen by anywhere near as much as for cars and commercial vehicles. And there is a similar recovery in sales underway as for those other vehicles with seasonally adjusted registrations ahead 7% in the three months to January from the three months to October.



Will this recovery in tractor activity continue? On the positive side there is the boom in commodity prices which now leaves them in NZD terms around the peak levels seen in 2008 and 2001.



But costs are much higher than back then and there is a reasonable chance that currency gains this year could outpace further international commodity price rises. In addition, farmers have been delivered a very clear message from all and sundry that farm debt levels have got too high in recent years for a variety of reasons and it would be a good idea if balance sheets were brought back into order.

Therefore, scope for recovery in tractor sales this year and next seems much less than for cars and commercial vehicles.

GUEST COMMENTARY - ICEHOUSE

If 2009 was about preparation by National in getting to terms with the issues and the opportunities, will 2010 be the year that our Government gets busy on policy, particularly as it relates to business, which we know is what will create the engine which moves our prosperity forward? Let us hope they have woken up this side of the New Year with a firm foot forward, and not a middle of the road approach.

In putting these reflections together, I have relied on Colin McKinnon to give me some perspective. Colin was most recently an adviser inside Government and is now leading the Angel, Venture Capital and Private Equity industry associations.

The Outlook

- The Government agenda will include emphasis on growth in the private sector and some rationalisation / focusing of the public sector organisations focused on Science/R&D/Economic Growth
- The first half of 2010 will be an active period of policy adjustments that will impact the private capital industry – policy, programmes and taxation

Policy Focus

- Promoting innovation generally and why it is important for our country
- R&D incentives will be introduced for large New Zealand firms on the basis of incremental change in R&D spend from year to year (i.e. you spend more in 2010 than 2009, you will get a credit)

- Significant restructure of business assistance programmes for early stage entrepreneurs and SMEs will be introduced (read simplification and end of hand-outs)
- Increased pressure on getting a return on public investment in science and R&D in terms of commercialisation

Other concurrent discussions

- Policy changes in employment legislation will be supportive and encouraging for business
- Attracting international investment across all stages of capital will become more openly promoted and the new investor and entrepreneur immigration categories will start to ramp up in terms of numbers
- International connectedness will be work in progress, especially leveraging private initiatives and helping New Zealand firms access international markets

Taskforce reports

- Many of the Capital Markets Taskforce recommendations will be implemented
- Very few of the Productivity report recommendations will be implemented
- Some of the Tax Working Group recommendations will be implemented, although key question is how brave will the Government be?
- The Henry report in Australia is likely to lead to Australia leaping further ahead due to their courage to implement aggressively
- The Taskforce report on Crown Research Institutes due in February will promote the importance of science to New Zealand without recommending radical change

Legislation

- Securities Act review will proceed slowly as it has been
- Government will drop the proposal for large company financial reporting
- Financial Intermediary legislation will run into problems in the execution phase due to unintended consequences for broad and unclear inclusion definition

What's missing?

At times for those of us from the private sector it seems easy to criticize because the complexity and volume of work is challenging to comprehend. However, the task that any Government has is akin to playing with a rubix cube while balancing its own ideology with the desire to win the next election.

We must remember that this Government has been out of power for so long that they are lacking in experience and a track record to really work out 'what matters'. That is not to say that we should sit back and let it happen to us!

My personal view is that the Government is too gun-shy and not aggressive enough in charting the path for our country. However, I take it also as a personal responsibility to get in there and create the debate with them. People like Phil O'Reilly from Business New Zealand are in that context so important to our country, he is doing a fantastic job in lobbying Government on what matters so let us hope people like Phil can get through to Government to focus on what matters – more New Zealand companies winning in international markets is one simple measure that we should judge our progress by.

The opportunity each month in this piece is to give some exposure to what is happening in the engine of the Kiwi economy – small to medium business. If you would like to give input, thoughts, comments and suggestions please email me at a.hamilton@theicehouse.co.nz Andy Hamilton, CEO, The ICEHOUSE

The BNZ is a Foundation Partner of Business Growth Centre The ICEHOUSE. The ICEHOUSE gives owner managers and entrepreneurs the knowledge, tools and contacts to grow internationally capable businesses. Together with a start-up business incubator and New Zealand's largest group of Angel investors, The ICEHOUSE delivers award-winning, education programmes for owner-managers with growth aspirations. More than 1,000 BNZ business customers have benefitted from these programmes. www.theicehouse.co.nz

INTEREST RATES

The first interesting thing to happen with regard to wholesale interest rate levels this week was the decision by the RBA to leave its cash rate untouched at 3.75%. The decision surprised everyone and produced not just a one cent fall in the Aussie dollar against the USD but also a pullback in wholesale interest rates across the ditch and here to a limited extent as well.

Then was some more downward pressure on rates from this morning's Quarterly Labour Force Survey which came in weaker than expected with regard to the unemployment rate though this does not alter our view that the RBNZ will start to take away the extra-stimulatory 2.5% OCR setting from June. We expect that initial rise to be followed by a steady series of 0.25% rises every six weeks which will see the cash rate end up somewhere close to 6% come early 2012. Beyond that it is not yet reasonable to take a firm stance. We will need to see how the rate rises affect the NZ economy's recovery, how things develop in the world economy, the extent to which fiscal policy in NZ is tightened, movement in the near unforecastable exchange rate – and shocks along the way one struggles to conceive of at the moment.

For borrowers our advice remains to budget for about a 3% rise in floating rate borrowing costs between the middle of this year and the end of 2011, with fixed rates also rising but by lesser amounts the further out along the curve one goes.

With the market again pulling back from hawkish expectations of the RBNZ raising their interest rate as early as March we have seen bill yields stay as ever near 2.8% but swap rates pull back slightly.

Key Forecasts

- Tightening by mid-2010.
- Medium to long term housing rates to keep on rising.

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	5.00	6.2
90-day bank bill	2.78%	2.80	2.84	2.81	3.53	6.5
10 year govt. bond	5.91%	5.91	6.13	5.99	4.52	6.2
1 year swap	3.45%	3.65	3.75	3.49	3.09	6.7
5 year swap	5.35%	5.38	5.68	5.70	4.09	7.0

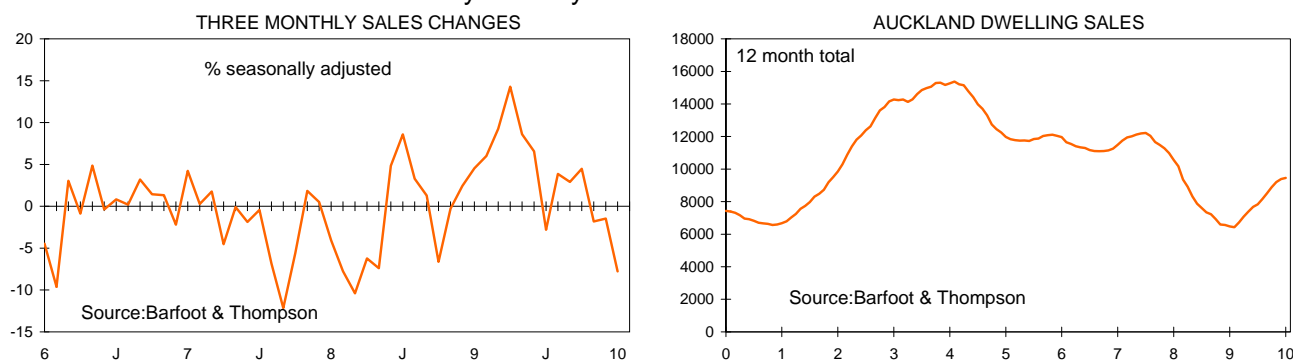
If I Were a Borrower What Would I Do?

Nothing new sorry. Floating looks best for most people. As we approach the time when floating rates start rising – mid-year – for a while the optimal thing may be to fix one year as many are still choosing to do at the moment. As yet we consider the outlook for our economy and the world economy, inflationary pressures etc. to be too uncertain to take a strong stance on when fixed rates peak and when they next bottom out.

HOUSING MARKET UPDATE

January Weak In Auckland

According to the monthly data from Barfoot and Thompson, which accounts for about one-third of Auckland residential real estate activity, sales were unusually weak in January. Only 583 dwellings were sold which was a minor 13% gain from January last year that compares poorly with the 41% annual gain in December and 58% gain in November. In rough seasonally adjusted terms sales actually declined near 25% from December and were the lowest for any January since 2000.



The result says one very clear thing. While the housing market is off its lows there is no rush of people into the housing market either looking to snap up bargains or gear up large for investment or occupancy reasons. This gels with the absence of any acceleration in household borrowing which continues to sit at a low level of 0.2% seasonally adjusted growth a month. The low levels of floating mortgage interest rates may be insulating household cash flows at a time of high unemployment, but the rates are not encouraging higher borrowing let alone anything resembling a speculative surge.

The prices measure reported by Barfoot and Thompson fell in the month to \$505,000 from \$553,000 in December. This sounds bad but at this time of year sales of high priced houses fall away and in previous years the time period has produced some large average price declines. We await the stratified measure from REINZ in a week or so to see what really happened. But there is a good chance the measure has pulled back again after easing 0.9% in December.

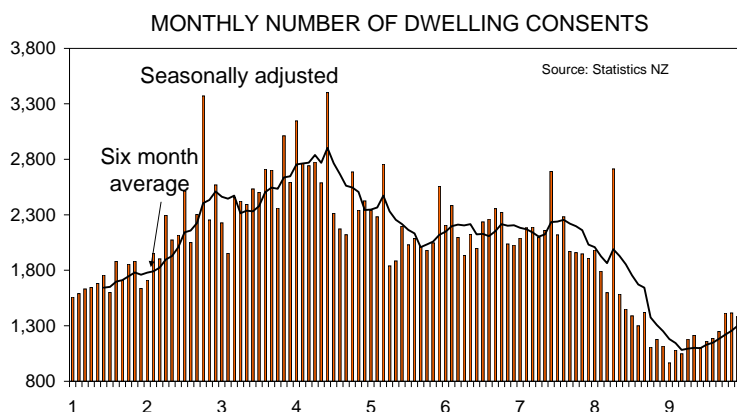
There is still no evidence of a great rush of listings – meaning both buyers and sellers are still sitting back by and large from the market following a swirl of activity in the middle of last year. There were 1,181 new listings received in January which was a 21% rise from a year ago not out of line with the 12% annual gain in December. In January last year listings collapsed to be 37% down from January 2008 following a 10% fall in December 2008. Therefore the lift in the annual growth rate this year reflects mainly the depressed listings of last January.

However, total listings were 5,703 at the end of the month, a 16% fall from January 2009 which was better than December's 22% decline. Listings rose 272 between the two months compared with a rise of 325 in 2008, 20 in 2007, 119 in 2006, and falls of 192 in 2005 and also last year of 236. The rise in listings this year is on the high side and consistent with January sales turning out to be low.

The results overall contribute to a picture of a housing market which easily came off its lows last year as buyers snapped up bargains. But continuing upward momentum has not yet developed and in light of a tax change of some sort coming along it would not be surprising if things remain relatively subdued for the first half of this year. After that things will depend upon how much the labour market is improving and the reaction of investors to the unknown tax change.

House Building Will Not Correct The Shortage For A Long Time

In December there was a small 2.4% seasonally adjusted decline in the number of consents issued around the country for the construction of new houses and apartments. This followed growth of only 0.1% in November and is quite interesting. It suggests that just as dwelling sales recovered from very low levels but eased off late last year, so too are dwelling consent numbers not shooting up in a straight line. This says to us that while it is very reasonable to speak in terms of rising activity for home builders, home furnishings, building materials etc., it is not reasonable to speak in terms of a residential construction boom.



This is significant for house prices because it means the small (unmeasurable) shortage of accommodation already in place is going to become worse. Population growth is above average due to above average net migration inflows while annual dwelling construction at just 14,425 is well below the normal construction level of 23,000 estimated approximately by various bodies as being needed to meet population growth.

One of our central themes for the housing market has been and remains that prices will be supported by an accommodation shortage. The latest consent figures tell us we seem to still be on the right track with our shortage-driven analysis and hence our lack of concern about sustained price falls as a result of whatever house tax changes will occur in this year's Budget.

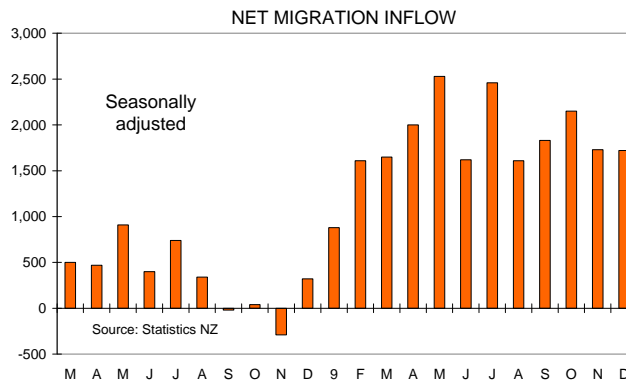
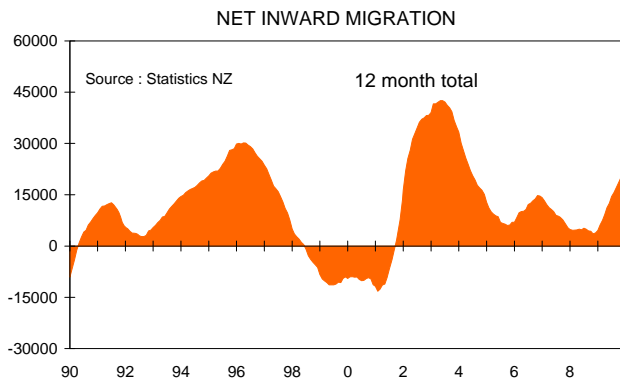
Just for your guide, while some sort of change is likely any change will simply be something tacked onto the key part of the tax regime change which will be a reduction in upper personal income tax rates possibly a rise in GST. But assuming some change does occur, it is likely to place some downward pressure on house prices. But the tax change will not alter the imbalance between the number of people needing a house to live in and the number of houses available. And because returns to landlords will reduce it is likely we will see both an increase in average rents along with less construction than would otherwise have occurred.

Any price impact is likely to be temporary and possibly quite quickly erased. But just in case there are some cashed up investors hoping for a repeat of the buying opportunities which abounded early last year, it will be surprising if average prices fall more than 5%, and nothing at all suggests a "strong" house price cycle after that. Just price recovery and increases continuing on average above the rate of inflation.

Next Tuesday at the opening of Parliament the Prime Minister will indicate what tax changes will be on the table for consideration going into the Budget which will be read on May 20.

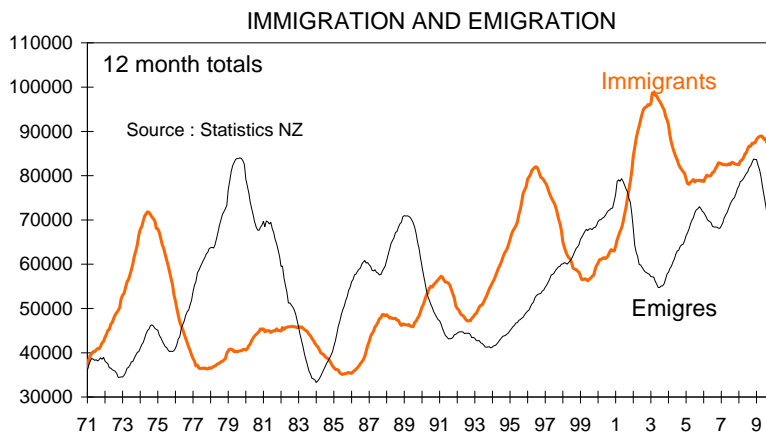
Migration Net Inflows Still High

There was a net gain to the population from permanent and long term migration flows in December of 1,371. This was 1,232 better than a year ago and takes the annual gain to 21,253 from 20,021 in November and 3,814 over 2008. Looking at the monthly seasonally adjusted data we find things are steadying out with a net gain in the month of 1,720 from 1,730 in November. Annualising the last three months gives an annual gain of just over 22,000, so unless something unusual happens one can say we are either at or extremely close to the peak in the cycle.



From here the chances are we will see things plateau for a while then fall away again over 2011 and probably before then as people find themselves attracted to Australia in particular. We are reasonably confident about the net annual gain easing away again because as we have been pointing out, contrary to our expectation of a couple of years ago, the global crisis did not produce a lift in net inflows because of people moving here, but because of fewer people leaving.

Over calendar 2009 gross permanent and long term inflows actually fell slightly by 1.2%. But departures fell by 22.1% and that is what has caused the big change in the annual net flow.



The relevance of this for the housing market is that as probably each month passes this year we will see house construction below the near 2,000 required to house normal population growth, but population growth will be above normal due to above average net migration inflows. The housing shortage therefore will get slowly worse and this will act as a cushion on house prices as the tax change adjustment does whatever it is going to do. And over 2011 as the net migration flow probably keeps easing off, the shortage will likely continue.

Are You Seeing Something We Are Not?

If so, email us at tony.alexander@bnz.co.nz with Housing Comment in the Subject line and let us know.

Key Forecasts

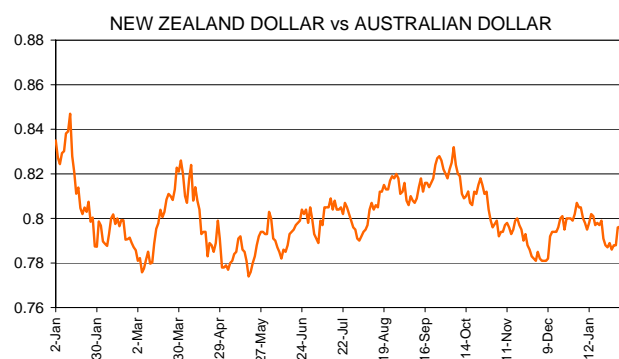
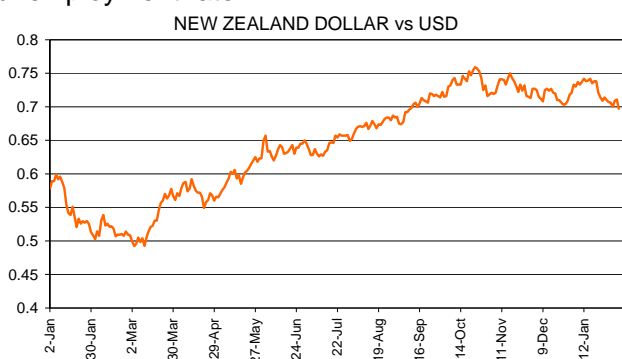
- Dwelling consent numbers to recover now with potentially good activity from mid-2010.
- Real estate sales continuing to increase but the rise limited by listings shortages.
- House prices edging higher subject to tax changes bringing short term downward pressure.

Exchange Rates & Foreign Economies

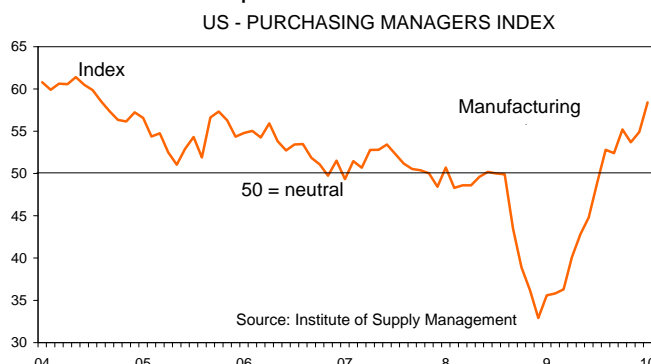
Exchange Rates	This Week	Week Ago	4 wks ago	3 mths ago	Yr ago	Consensus Frcsts yr ago*	10 yr average
NZD/USD	0.697	0.707	0.733	0.721	0.5143	0.573	0.592
NZD/AUD	0.793	0.788	0.805	0.799	0.7897	0.848	0.856
NZD/JPY	63.400	63.600	67.900	65.100	46.01	59.0	66.8
NZD/GBP	0.439	0.437	0.455	0.439	0.3556	0.358	0.345
NZD/EUR	0.502	0.503	0.509	0.490	0.3943	0.448	0.51
USD/JPY	90.961	89.958	92.633	90.291	89.461	103.0	113.9
USD/GBP	1.588	1.618	1.611	1.642	1.446	1.601	1.709
USD/EUR	1.388	1.406	1.440	1.471	1.304	1.278	1.156
AUD/USD	0.879	0.897	0.911	0.902	0.651	0.676	0.69

NZD Falls Further

The Kiwi dollar has ended this evening just below the US70. cent level while gaining slightly against the Australian dollar. Early this week the NZD jumped toward US 71.5 cents encouraged largely by some improvement in global risk tolerance in response to the likes of some good manufacturing data in Europe, the UK and the US, and reduced concerns about how Greece will handle its huge budget deficit. But it has subsequently eased in response to the absence of an Aussie rate rise this week plus a higher than forecast unemployment rate in NZ.

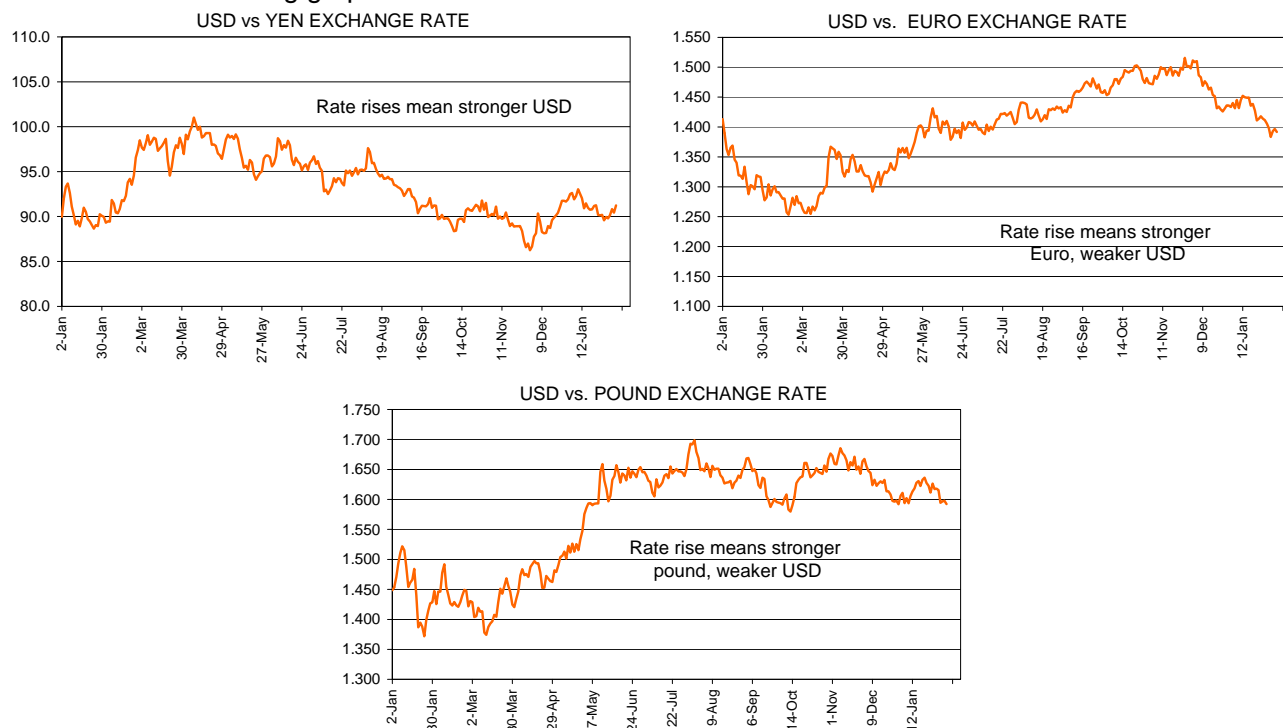


US manufacturing in January expanded at the fastest pace since August 2004 according to the Institute of Supply Management Purchasing Managers Index. As the graph shows things have changed massively in this important sector since late-2008 when deep worries abounded.



The data have helped the USD gain some minor ground against the other major currencies this week, with assistance from continuing worries about the stability of the Euro in light of major financing problems for Greece, Spain, Portugal and Ireland, plus little good news assisting the Yen in recent times.

But housing sector data in the US continue to be quite mixed and with the important non-farm payrolls report due out on Friday night gains in the greenback have still left it well within trading ranges of the past few months – as the following graphs show.



Across the ditch the big piece of news this week was the decision by the RBA to leave its cash rate unchanged at the 3.75% level it was taken to over three consecutive meetings in the previous three months. The markets had universally expected an increase so the announcement led to a scaling back of immediate interest rate support for the AUD which shed one cent against the greenback. That explains why the NZD has risen over one cent against the AUD this week. Positions which had been put in place anticipating further widening of the short term interest rate gap between Australia and NZ over the first half of this year were cut away.

We do still expect Aussie interest rates to rise further this year – and so does the RBA according to their statement. As reason for delaying a rate rise for the moment they cited the evidence of efforts being taken to slow down growth in the Chinese economy, continuing government balance sheet problems in many countries, the fact they feel they do not yet have enough information on the impact of rate rises so far, plus Aussie banks increasing their lending rates by more than the rise in the cash rate.

The recognition by the RBA of still worrying issues in many economies is in line with our own view that in spite of some reasonable data here recently and widespread expectations of accelerating NZ economic growth, the RBNZ will not feel the need to start raising the NZ official cash rate until June. When they do we expect a series of rate rises which while laid out for forecasting purposes appear as a straight line to 6% in our documents, will almost certainly be some sort of stop-start affair with the occasional 0.5% rather than 0.25% move.

The upshot however for our purposes here will be NZ rates rising more rapidly than rates overseas and that means upward pressure on the NZD reappearing as the year progresses. Good luck figuring out whether the markets – having been disturbed by the RBA news – will wait for the rate rises to start or begin aggressively building them in (higher NZD) as we approach June.

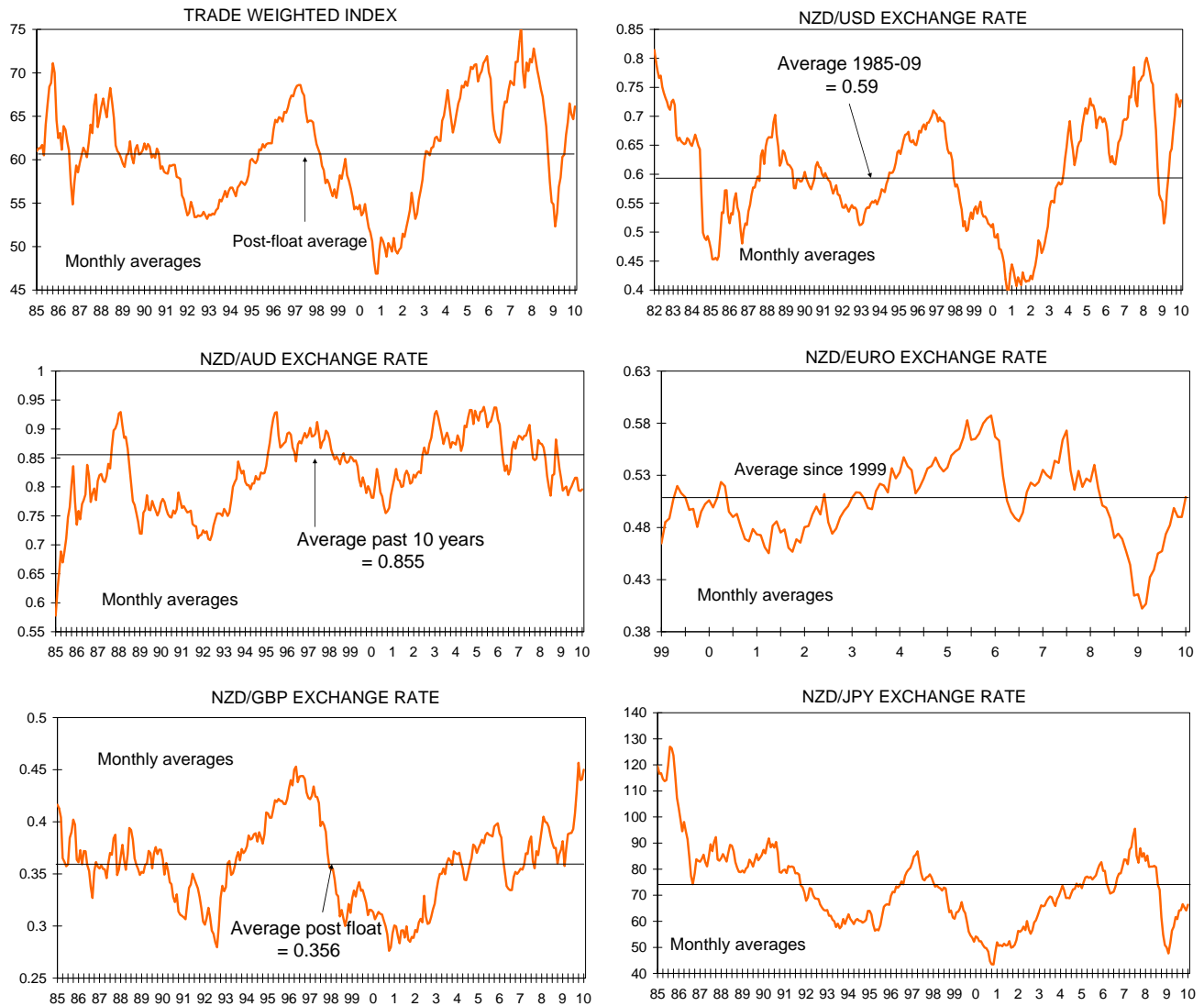
Just briefly on Japan – the country has many problems and 20 years down the track from it all hitting the fan in 1990 the country is facing increasing competition from rising Asian economies, an aging and shrinking population, and the same problem which has curtailed periods of recovery in the past two decades – consumers won't spend. The link here takes one to an article discussing again this unwillingness, this time in

response to falling household incomes rather than general caution about the economy, worries about 50 million lost pension accounts, shocking government finances etc.

<http://www.bloomberg.com/apps/news?pid=20601068&sid=aoOdBLbLcpl0>

If I Were An FX Receiver What Would I Do?

We have not learnt anything substantial enough over the past week to alter our view that over the year the NZD will move higher. Therefore I would continue to take advantage of this period of weakness in the NZD to get some extra hedging in place – keeping in mind the unpredictability of exchange rates.



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

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ECONOMIC DATA

All %		Latest qtr only	Previous qtr only	Latest year	Year ago	2 Yrs ago
Inflation	RBNZ target is 1% - 3% on average	-0.2%	1.3	2.0	3.4	3.2
GDP growth	Average past 10 years = 3.0%	+0.2	0.2	-2.2	1.5	2.1
Unemployment rate	Average past 10 years = 5.3%	7.3	6.5	4.7	3.5
Jobs growth	Average past 10 years = 1.9%	-0.1	-0.8	-2.4	0.9	2.1
Current a/c deficit	Average past 10 years = 5.5% of GDP	5.9	8.1	8.3	8.2
Terms of Trade		-1.2	-9.4	-13.8	5.8	8.4
Wages Growth	Stats NZ analytical series	0.4	0.8	2.7	5.4	5.0
Retail Sales ex-auto	Average past 9 years = 3.8%	0.5	0.3	-0.9	0.4	5.5
House Prices	REINZ Stratified Index	2.8	2.5	6.0	-7.9	8.0
Net migration gain	Av. gain past 10 years = 11,700	+21,253	17,043yr	3,814	5,494
Tourism – an. av grth	10 year average growth = 5.0%. Stats NZ	-0.0	-1.8	-0.0	-0.3	1.8
		Latest year rate	Prev mth year rate	6 mths ago	Year ago	2 yrs ago
Consumer conf.	10 year average = 2%. Colmar survey	52	57	3	5	2
Business activity exps	10 year average = 26%. NBNZ	37	34	26	-22	18
Household debt	10 year average growth = 11.3%. RBNZ	2.7	2.7	2.4	4.2	12.4
Dwelling sales	10 year average growth = 3.5%. REINZ	15.2	41.5	40.3	-23.1	-32.1
Floating Mort. Rate	(Total Money) 10 year average = 7.6%*	5.59	5.59	5.99	7.75	9.99
3 yr fixed hsg rate	10 year average = 7.9%	7.95	7.45	6.99	6.99	9.40

ECONOMIC FORECASTS

Forecasts at Jan 28 2010

March Years

December Years

	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
GDP - annual average % change										
Private Consumption	3.2	-0.8	-0.2	1.8	2	4.1	-0.1	-1	1.6	2
Government Consumption	4.2	3.3	0.8	2.7	1.9	3.8	3.8	1.3	2.3	2.2
Investment	4.2	-8.8	-11.5	5	8.8	4.9	-5.2	-13.7	1.3	9.6
GNE	4.2	-2	-3.3	4	3.4	4.4	-0.1	-4.9	3.3	3.7
Exports	3.1	-3.3	-1.3	0	4.9	3.9	-1.3	-2.4	-1.3	4.7
Imports	10	-4.7	-13.9	3	5.9	8.9	2	-17.3	1.2	5.6
GDP	3.1	-1.1	-0.7	3	3.1	3.2	0	-1.6	2.3	3.3
Inflation – Consumers Price Index	3.4	3	2.5	1.1	2.6	3.2	3.4	2.6	1.4	2.1
Employment	-0.3	0.8	-1.6	2.6	3.2	2.3	1	-2.9	1.7	3.4
Unemployment Rate %	3.8	5	7.4	7.2	6.2	3.5	4.7	7	7.4	6.3
Wages	4.4	5.1	2.4	1.5	3.8	4	5.1	3.1	1.3	3.3

EXCHANGE RATE

ASSUMPTIONS

NZD/USD	0.8	0.53	0.76	0.73	0.65	0.77	0.56	0.75	0.75	0.67
USD/JPY	101	98	92	105	109	112	91	88	104	108
EUR/USD	1.55	1.31	1.48	1.44	1.4	1.46	1.34	1.49	1.45	1.41
NZD/AUD	0.87	0.8	0.82	0.83	0.8	0.88	0.83	0.81	0.83	0.82
NZD/GBP	0.4	0.37	0.46	0.42	0.38	0.38	0.37	0.47	0.43	0.39
NZD/EUR	0.52	0.41	0.51	0.51	0.46	0.53	0.41	0.5	0.52	0.48
NZD/YEN	81.1	51.8	69.5	76.7	70.9	86.3	50.9	66	78	72.4
TWI	71.6	53.8	67.9	68.3	62.8	71.6	55.1	66.9	69.6	64.4
Official Cash Rate	8.25	3	2.5	4.25	6.25	8.25	5	2.5	3.75	5.75
90 Day Bank Bill Rate	8.91	3.24	2.7	4.62	6.62	8.9	5.23	2.76	4.12	6.12
10 year Govt. Bond	6.36	4.77	5.75	6.3	7	6.4	4.88	5.5	6	6.8

All actual data excluding interest & exchange rates sourced from Statistics NZ.

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*extrapolated back in time as Total Money started in 2007