

NEW ZEALAND ECONOMICS ANZ PROPERTY FOCUS

NOVEMBER 2010

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VIEWING TIMES

SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we summarise the 2010 ANZ Property Investor survey.

THE MONTH IN REVIEW

The housing market continued to weaken in October, with the lowest number of sales reported for any month of October since the series began in 1992. And that's before adjusting for population growth. Positive, if relatively weak, net migration helps, as does weak consent issuance, in terms of a shortage of quality stock. But it's hard to get excited about prospects for 2011.

PROPERTY GAUGES

The usual spring seasonal lift in activity was absent in October's housing statistics. Whether this was attributable to the increase in GST to 15 percent is unclear. Most other factors haven't changed dramatically. Mortgage lending and borrowing rates were little changed, de-leveraging continues, rental returns inched up and net migration sparked up in September but was again lacklustre in October.

ECONOMIC BACKDROP

New Zealand's modest near-term economic performance continues to reflect the structural imbalances within the economy, with ongoing deleveraging weighing down domestic economic activity. However, recent data has not been all one-way traffic, with positive signs on the earnings side of the economy suggesting continued progress on the much-needed economic rebalancing.

MORTGAGE BORROWING STRATEGY

Mortgage rates are unchanged again this month, having been steady for around two months now. We expect the Reserve Bank to keep policy on hold until the end of the first quarter, with floating rates likely to follow suit. However, where fixed rates go depends on wholesale interest rates, and these are subject to opposing forces.

FEATURE ARTICLE – 2010 ANZ PROPERTY INVESTOR SURVEY

For each of the past seven years, the ANZ, in conjunction with the NZ Property Investors Federation (NZPIF), have conducted a survey to gain insights and an understanding of property investors, the profile of portfolios held, and other issues related to property investment. We report on the more interesting findings from this year's survey. In addition, for this year, questions were added to gauge opinions relating to property tax changes announced in the *2010 Budget*.

THE MONTH IN REVIEW

SUMMARY

The housing market continued to weaken in October, with the lowest number of sales reported for any month of October since the series began in 1992. And that's before adjusting for population growth. Positive, if relatively weak, net migration helps, as does weak consent issuance, in terms of a shortage of quality stock. But it's hard to get excited about prospects for 2011.

SNZ BUILDING CONSENTS – SEPTEMBER

After a very weak August, dwelling consent numbers rose 0.6 percent in September (seasonally adjusted). This series is noisy, and now earthquake effects are further muddying the waters. However, **the trend remains weak**. The average number of new dwelling consents in the 3 months to September was 11.2 percent lower than the previous three months (s.a.).

ANZ ROY-MORGAN CONSUMER CONFIDENCE - NOVEMBER

Within this survey is a question in regard to where consumers view prospects for house prices. Consumers expect house prices to average 2.3 percent per year for the next two years. The glass half-full response is that such expectations are positive, although consumers expect inflation to rise faster. Hence, **the underlying spirit is one of expected declines in real house prices**.

REINZ HOUSING DATA – OCTOBER

The 7.2 percent fall in house sales in October (s.a.) pulled the series down to **its lowest level since November 2008**, and moreover was the weakest October month since at least the early 1990s. Even accounting for earthquake-related disruptions sales were weak, with sales excluding Canterbury falling a seasonally adjusted 9.3 percent to be a third lower than 12 months earlier. GST timing may be at play but September was a weak month too. The REINZ House Price Index fell 1.3 percent in seasonally adjusted terms in October. The seasonally adjusted median days to sell ticked up from 45 days to 46 days in October.

RBNZ MORTGAGE LENDING – SEPTEMBER

There was a **slight increase in household claims in September** of 0.2 percent, following August's 0.1 percent rise. The more timely weekly housing loan approvals showed a seasonal rise in approvals, but the level remains very low by historical standards. Spring-time is normally when we see a pick-up in housing market activity, and we expect to see a bit more life in the housing approvals and credit growth data over the next few months (off a very low base and certainly not a return to the strong growth rates seen during the boom years).

SNZ NET MIGRATION – OCTOBER

Permanent and long-term (PLT) arrivals rose by 0.7 percent in October (s.a.), whereas departures surged by 6.6 percent. **Net inflows remain well below 2009 levels, due primarily to a big pick-up in departures to Australia** (with 35,000 persons leaving for Australian shores over the last 12 months). This dynamic is not likely to reverse anytime soon.

ASSESSMENT

The monthly net permanent and long-term (PLT) migration inflow was relatively weak, due to a sharp lift in departures. Reduced migration stimulus is exacerbating wider dynamics on the property market. Weak credit growth numbers paint a picture of subdued domestic demand. Housing market activity is being dominated by the balance sheet constraint (i.e. de-leveraging) as opposed to supply-demand balance. We doubt this will change any time soon.

I can see clearly now,
the pain is gone,

Once all these
obstacles aren't in my
way

Gone are the dark
clouds that had me
borrowin' less

Crossin' the ditch to
find, a bright, bright,
bright, sun-shiny stay?

PROPERTY GAUGES

The usual spring seasonal lift in activity was absent in October's housing statistics. Whether this was attributable to the increase in GST to 15 percent is unclear. Most other factors haven't changed dramatically. Mortgage lending and borrowing rates were little changed, de-leveraging continues, rental returns inched up and net migration sparked up in September but was again lacklustre in October.

We use ten gauges to assess the state of the property market, and for signs that changes are emerging.

AFFORDABILITY. For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.

SERVICEABILITY / INDEBTEDNESS. For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.

INTEREST RATES. Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.

MIGRATION. A key source of demand for housing.

SUPPLY-DEMAND BALANCE. We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.

CONSENTS AND HOUSE SALES. These are both key gauges of activity in the property market.

LIQUIDITY. We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

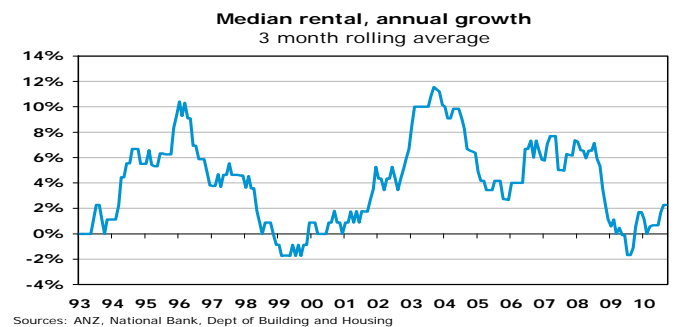
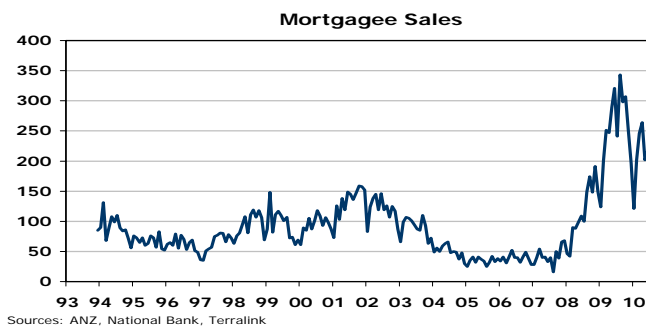
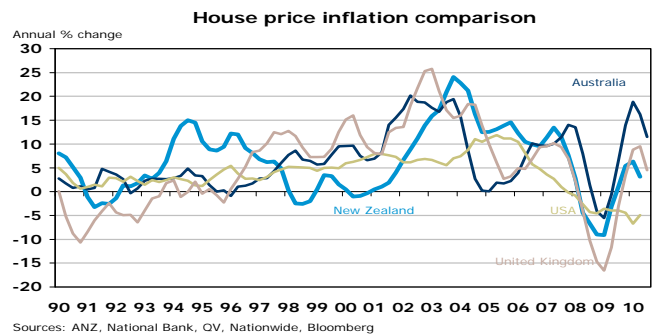
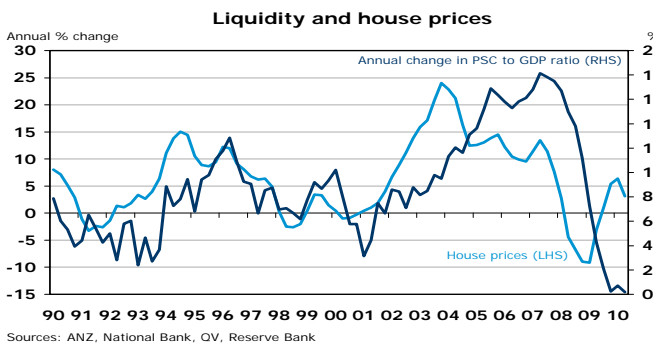
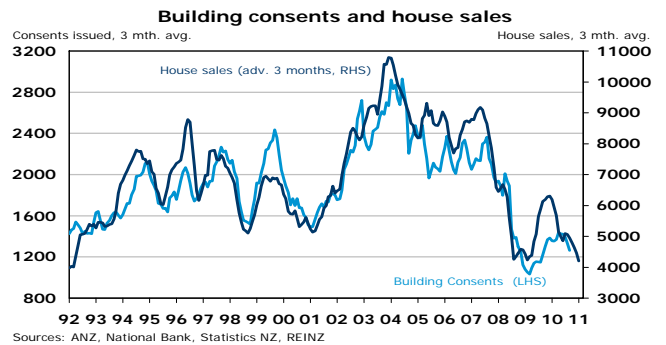
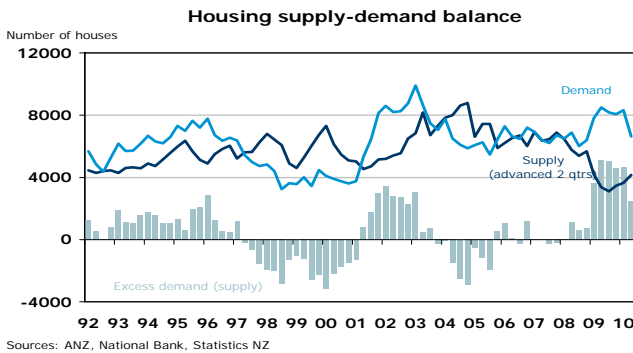
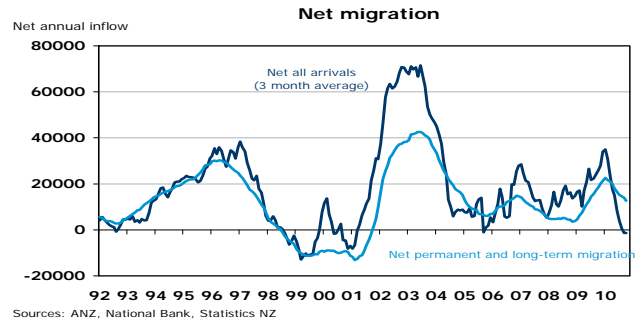
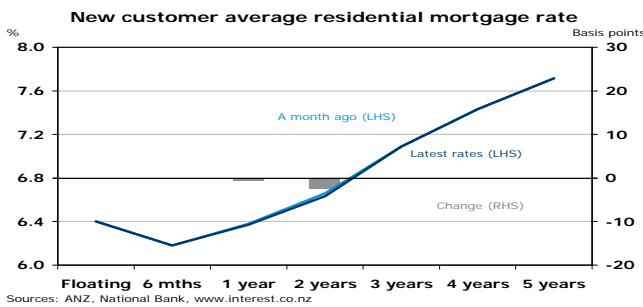
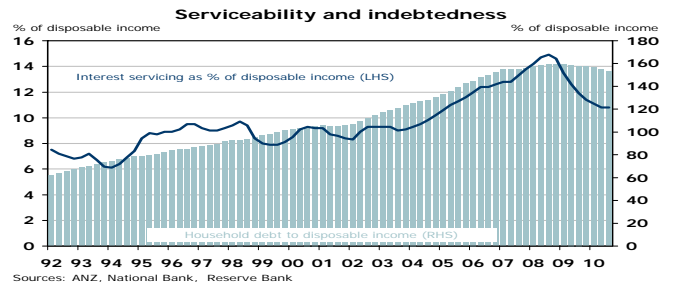
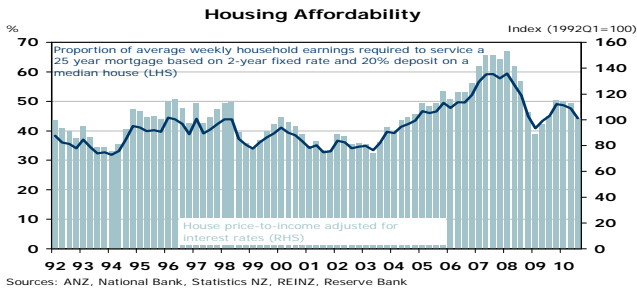
GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

MORTGAGEE SALES. We look at how mortgagee sales are tracking for an indication of distress in the property market.

RENTAL GROWTH. We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Improving	↔/↓	Affordability is improving but there's a long way to go yet.
Serviceability / indebtedness	Deleveraging	↓	Interest servicing has troughed and the de-leveraging phenomenon continues.
Interest rates	Lower	↔	Mortgage rates were virtually unchanged.
Migration	Easing off	↔	There was a sharp rise in departures in October.
Supply-demand balance	Closing the gap	↔/↑	The imbalance is slowly correcting.
Consents and house sales	Lack of action	↔/↑	House sales have slowed to a near-record low.
Liquidity	Stall speed	↓	People focusing on balance sheets so credit is not driving the market.
Globalisation	Turned the corner	↔	The global momentum in house price growth has run out of puff.
Mortgagee sales	Lifting	↔	Remains elevated.
Median rent	Gaining momentum	↔	Inching up.
On balance		↔/↓	Continued grind lower

PROPERTY GAUGES



ECONOMIC BACKDROP

New Zealand's modest near-term economic performance continues to reflect the structural imbalances within the economy, with ongoing deleveraging weighing on domestic economic activity. However, recent data has not been all one-way traffic, with positive signs on the earnings side of the economy suggesting continued progress on a much-needed rebalancing. We continue to remain positive on the outlook for 2011, with the recovery in business sentiment, supportive financial conditions, the 2011 Rugby World Cup and earthquake-related reconstruction expected to underpin a pick-up in economic activity. The challenge for policymakers is to ensure the right conditions are in place to enable New Zealand to capitalise on emerging global trends which are complementary to our comparative advantage.

OUR CORE ECONOMIC VIEW

Medium-term prospects remain good. Commodity prices have hit all-time highs. New Zealand is not Australia but our commodity prices have risen by just as much since the GFC, and we are seeing similarities in regards to emerging commodity price trends and growing trade linkages with Asia. Infrastructure work remains solid. China is now our second-largest trading partner and progress on initiatives such as free-trade agreements will cement Asia's growing importance to us. There is some progress being made in policy circles to unlock various natural endowments across New Zealand – though subject to political realities. Amongst all the hurly-burly we must not lose sight of the simple reality that NZ produces a lot of stuff the global economy – and emerging markets – want.

Near-term economic performance continues to be hampered by structural imbalances in the economy. Some progress has been made towards rebalancing the economy, with household saving improving and the current account deficit narrowing. Activity continues to be weighed down by the dynamics of deleveraging – which is the price of years of spending-centric over-indulgence. **Such excesses are taking time to purge and continue to weigh heavily on the domestic economy.**

While recent local data has tended to print on the weaker side of the ledger, it is not one-way traffic. Domestic business sentiment is now recovering, with the 18 percent climb in capital good imports in the September 2010 quarter pointing to further recovery in (weak) business investment. The earnings side of the economy is being underpinned by solid labour income growth and broad-based strength in export commodity prices. Consumer core retail (ex-auto and fuel related) volumes managed to generate a respectable 0.9 percent increase in Q3, although there are signs that consumers have cut back on discretionary spending.

The outlook for the New Zealand economy continues to be strongly dependent on global developments. We see major pockets of the developed world remaining in an elongated period of economic adjustment. Greater economic linkages with Asia and stronger areas of comparative advantage differentiate New Zealand from other OECD nations, though the counter to this is a structurally weaker national balance sheet.

We remain positive on the outlook for 2011. Right through 2009 and 2010 we've been less sanguine in our projected economic prospects than most commentators. Put simply, we didn't believe the global or NZ economy could shake off a credit crisis in the space of 18 months. But at this present juncture, we suspect sentiment has turned unduly bearish, somewhat of a flip-flop from the optimism that was rampant in late 2009 and early 2010. Financial conditions are extremely supportive. Business confidence is starting to recover from a mid-year lull. Booming commodity prices are assisting the rebalancing process for the economy. Weakness in 2010 is putting in place a better base for activity in 2011 to springboard from. Earthquake-related reconstruction will provide a modest boost, as will activity associated with the Rugby World Cup. However, such a rebound in growth remains within the context of a lower trend growth rate over a number of years. Such a dynamic is a pre-requisite for true rebalancing of the economy to take hold, before a more robust and sustainable growth can occur. **However, for a host of sectors, the rebound will feel somewhat like grumpy growth, with the rebound coming off a low level of activity.**

The next five years may be a critical period in New Zealand's economic history. Emerging global trends are complementary to New Zealand's comparative advantage. New Zealand is embarking on a period of profound change, getting more spine and balance into the economy. The challenge is to ensure the policy framework supports opportunities, and the change process. We are taking mild comfort from decisions that seem to show more leadership as opposed to populism, with the latter likely to be an emerging (and worrying) theme going forward. But such decisions are small steps as opposed to the step-change variety. NZ.Inc's DNA is spending-centric and will take time to change.

MORTGAGE BORROWING STRATEGY

Mortgage interest rates are unchanged again this month, having been steady for around two months now. We expect the Reserve Bank to keep policy on hold until March next year, with floating rates likely to follow suit. However, where fixed rates go depends on wholesale interest rates, and these are subject to opposing forces. Recent comments from RBNZ Governor Bollard suggest he is in no hurry to raise the OCR, and this should keep short-term fixed rates stable. However, long-term wholesale interest rates are rising, reflecting rising global yields. With limited scope for long-term fixed interest rates to fall, the key judgment for borrowers is whether or not it is worth fixing for a longer period now. Breakeven analysis suggests it may be, but only for 1 or 2 years.

OUR VIEW

Mortgage interest rates have been stable for around two months now, with **most fixed rates at their lowest levels for the year**. While the fact that interest rates haven't changed means that the maths behind the decision to fix or float hasn't changed, two contrasting developments may influence the decision somewhat. The first was comments by RBNZ Governor Bollard at last week's Financial Stability Report (FSR) releasing warning that the market has potentially misinterpreted recent data. The second is the growing possibility that we have seen the lows in long-term rates this cycle. We discuss these developments below and conclude that taken together, they serve to discourage fixing for anything other than the shortest of periods, namely 1 or 2 years.

As noted, the first development worthy of note was comments by RBNZ Governor Bollard after the release of the FSR two weeks ago. Not only did Bollard take the opportunity to remind the market that his view of the economy had not fundamentally changed since September, he took the unusual step of saying that there had been "some misinterpretation" of the data (over-optimistic). But it was the comment that "we'd look for the market to correct that and we'll be talking further about that when we put out the monetary policy statement" that is really telling, and **suggests that he feels no urgency to adjust policy**. Interestingly, Bollard also made pointed references to the interaction between interest rates and the exchange rate, noting that the high NZD "does reduce pressure on monetary policy and the markets will presumably reach that conclusion". Taken at face value, these comments suggest that the RBNZ is in no hurry to raise the OCR, which in turn, suggests there is no urgency to fix. However, as we go on to discuss in the breakeven section below, because the spread between floating and 1 year and 2 year fixed rates is relatively small, and **we do expect the RBNZ to start raising the OCR at the end of Q1 next year, it is worth contemplating fixing for 1 or 2 years**.

The second development is the recent rise in global interest rates that has occurred in the wake of the US Federal Reserve's second round of quantitative easing. Although the Fed delivered all the market wanted plus more, interest rates failed to push lower, leaving QE II to be a classic "buy the rumour, sell the fact" move. Although the prospect of rising term rates may imply a need to act now, this does need to be weighed against other choices, as we do in the breakeven analysis that follows. And although term rates are more likely to rise than fall over the next year or so, **we do expect New Zealand to be in a low interest rate environment for a few more years yet**, with less reason to fix simply to escape the clutches of the RBNZ, than has been in the past. Anyone seeking certainty may not be too concerned about the maths (after all, fixing is currently more expensive), but where there is flexibility, it's worth doing the sums.

Regular readers will be familiar with our breakeven analysis, which we use to gauge the potential value in a chosen strategy. As we always reiterate when introducing the concept, breakeven analysis doesn't help much when it comes to choosing between fixed and floating, but it is helpful when considering a set of fixed rates over a given timeframe. By comparing the choices available, breakeven analysis provides a set of figures showing where rates need to be in future to make two strategies equivalent, enabling better choices. When thinking about the next 2 years, there are several choices you might consider if you wanted to fix. For instance, you might consider fixing for 2 years; or a "split" strategy like fixing for 1 year, and then for another year in 1 year; or fixing for 6 months, and then again in 6 monthly intervals over the remaining 18 months, and so on. Breakeven analysis allows you to compare these strategies against one another, and the table overleaf shows breakevens as they currently stand. To illustrate the current situation, when thinking about the next 1 year as a time horizon, you might be contemplating whether it is better to remain floating, be fixed for 1 year at 6.45%, or to fix for 6 months at 6.35%, with a view to re-fixing in 6 months for another 6 months.

MORTGAGE BORROWING STRATEGY

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.20%				
6 months	6.35%	6.55%	7.05%	6.81%	7.72%
1 year	6.45%	6.80%	6.93%	7.26%	7.92%
18 months	6.65%	6.80%	7.19%	7.55%	8.06%
2 years	6.69%	7.03%	7.43%	7.74%	8.21%
3 years	7.10%	7.43%	7.78%	8.04%	8.37%
4 years	7.45%	7.73%	8.01%		
5 years	7.70%				

As was the case last month, the 6 month breakeven in 6 months is 6.55%. That's only 0.20% above the current 6 month rate, and with the RBNZ set to lift the OCR by 25bps by then, chances are the 6 month rate will be above 6.55% in 6 months. As such, **the 1 year rate looks attractive**. Similarly, as it was last month, the 1 year breakeven in 1 year's time is at 6.93%. That's just 0.48% above the current 1 year rate, which isn't much, especially when you consider that the RBNZ is almost certain to lift the OCR by at least that amount (i.e. at least 2 rises of 25bps) over the next year. **2 year mortgage borrowing therefore also looks reasonably attractive**.

However, when we compare longer-term fixed rates against their breakevens, we find that the RBNZ would have to raise the OCR by a long way to make long-term fixing beneficial. When considering the next 3 years as a time horizon, you could, say, fix for 3 years at 7.10%, or fix for 1 year at 6.45% with the intention of re-fixing for the final 2 years in 1 year. As long as the 2 year rate is 7.43% or less in 1 year's time, the latter will be the better strategy in hindsight. The thing is, 7.43% is 0.74% above the current 2 year rate. That not only suggests that the RBNZ would need to raise the OCR by 3 times in the next year, but it also means that the 2 year rate will need to move up by as much as the OCR. However, we know that it typically doesn't. Indeed, while short rates like the 6 month and 1 year tend to be very closely correlated with the OCR, longer maturities tend to be more influence by other factors, including offshore interest rates. It therefore seems likely that the 2 year rate in a year will be less than the 7.43%. meaning today's 3 year rate doesn't look like a steal.

THE 2010 ANZ PROPERTY INVESTMENT SURVEY

SUMMARY

For each of the past seven years, the ANZ, in conjunction with the NZ Property Investors Federation (NZPIF), have conducted a survey to gain insights and an understanding of property investors, the profile of portfolios held, and other issues related to property investment. We report on the more interesting findings from this year's survey. Nearly 1,000 property investors completed this year's questionnaire. The survey consisted of questions relating to investors' property portfolios, their use of property managers, their investment strategy, sources of information, insurance cover, investment property finances, and the Property Investors' Association. In addition, for this year questions were added to gauge opinions relating to property tax changes announced in the May 2010 Budget.

KEY POINTS FROM THE 2010 SURVEY

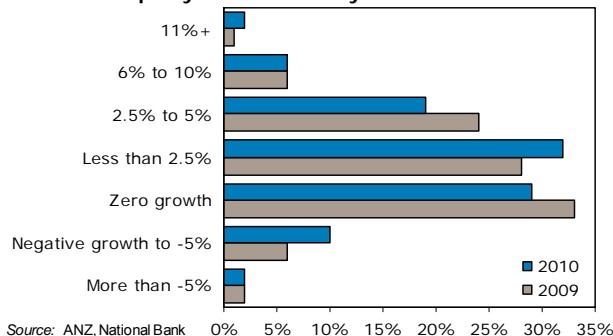
An online survey of 985 interviews with New Zealand property investors was carried out in a three week period between the last week of August and the middle of September. Six in ten respondents (62 percent) class themselves as a small-scale property investor, holding between one and three properties. This was up significantly from the 2009 survey (56 percent). The proportion of respondents that identify as full-time investors with 7-10 properties fell from 11 percent in 2009 to 8 percent.

44 percent of property investors have the majority of their property investments set up as a Loss Attribution Qualifying Company (LAQC). This figure is down from 48 percent a year earlier. A quarter of investors have their investments set up as a family trust, down from 30 percent in 2009. The proportions set up as trading trusts or companies were also lower than in 2009. Full-time property investors are more likely than average to have their investments set up as a family trust (43 percent) or trading trust (13 percent).

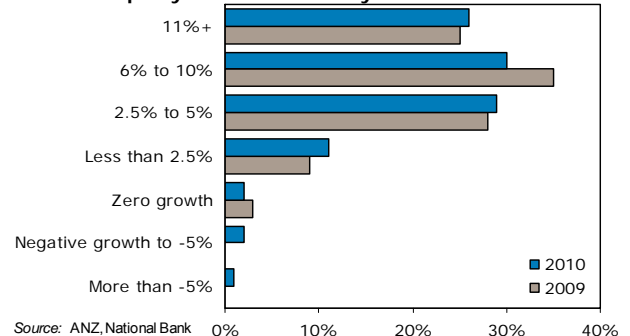
The number of respondents that **expect negative growth in property values next year has risen from 8 percent last year to 12 percent this year.** The proportion that expect to see modest property price gains (between 0-2½ percent) has risen from 28 percent to 32 percent. So while capital gains are expected next year, any gains are expected to be relatively modest.

In the next five years the most common expectation of property price growth is between 6 and 10 percent. Full-time investors (46 percent) are more likely than average (26 percent) to expect growth of 11 percent or higher over the next five years. The expectations of growth in property values (the right-hand chart below) reveals a smaller proportion in the 6-10 percent bracket in 2010 versus 2009. On the face of it, this translates to rises in the range of 1½-2 percent per year. However, this rough calculation hinges on an assumption that all the respondents interpreted the question the same way and answered accordingly. We suspect some may have misunderstood and recorded their expectations per year rather than the overall lift over a five year span.

Property values - next year



Property values - next 5 years



The expected growth profile for rental growth was very similar to the growth expected in property values. **Over the next year a fifth of respondents expect zero rental growth and another third of respondents foresee rental growth of up to 2½ percent.** Over the next five years a third of respondents expect rental growth to rise by 6 – 10 percent, with another quarter of respondents expected 11 percent or higher.

Property values decreasing is seen as the main risk by 19 percent of property investors, up from 13 percent in 2009. The risk of property remaining vacant has fallen from 21 percent to 15 percent, the same level

THE 2010 ANZ PROPERTY INVESTMENT SURVEY

as the risk of tenants defaulting on their payments. The risk of not meeting expected returns has increased from 5 percent to 8 percent.



The majority of investors (88 percent) are planning to keep their property investments for the longer term. Fewer (32 percent compared to 46 percent) plan on purchasing another property in the next year, **and 36 percent do not plan to purchase another property at all, up from 24 percent in 2009.**



Property Investors have continued to use a range of sources of information during 2009/2010 to monitor the property market. **Newspapers are still the most common source of information**, used by almost half of property investors (46 percent). This is followed closely by the NZ Property Magazine (37 percent), and now Real Estate agents (30 percent). Use of the New Zealand Property Investors Associations has fallen from 38 percent to 24 percent.

Four out of 10 property investors (42 percent) currently use property managers, and a further two out of 12 would consider using one, not significantly different to 2009. When considering who to use for a property

THE 2010 ANZ PROPERTY INVESTMENT SURVEY

manager, geographical location continues to be the most important (28 percent), followed by their fee as a percentage of income on property to be managed (24 percent).

2010 BUDGET IMPLICATIONS

The majority of investors (64 percent) do not plan to change their ownership structure as a result of the May 2010 Budget announcements. There are no differences by investor type. Investors in Auckland are more likely than average to be considering a change (23 percent). **Two thirds of investors are intending to raise rental prices due to the May 2010 Budget announcements**, and of them two thirds (65 percent) are planning to raise rents by 2.5 percent to 5 percent.

Full-time investors are more likely than average to raise them straight away (31 percent). Medium investors are more likely than average to wait until current tenants leave (49 percent) and more likely to raise them by 2.5 percent to 5 percent (74 percent).

Small investors are more likely than average to say they won't raise rentals (39 percent). **A quarter of investors said their investment strategy has changed at least somewhat due to this year's Budget announcements** (8 percent 'yes' and 17 percent 'somewhat'). Seven in ten said their strategy has not changed.

Full-time investors appear slightly more likely than average to say their strategy has not changed (76 percent)

THE UPSHOT

This year's property investors survey paints a similar picture to the year prior with limited expectations for capital gain, both over the coming year and next five years. To be fair, the questions themselves leave the answers open to some bias but we'll take the survey results at face value. We can see elements of property responding to a different environment but are coy about making sweeping assessments.

For most investors, the underlying spirit looks to be one of business as usual. Rents are expected to move up modestly. The *Budget* has changed the strategy of some but not an overwhelming proportion.

For further details of the survey, please refer to the October issue of the NZ Property Investor magazine.

KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

		Mortgage Rate (%)													
		5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
Mortgage Size (\$'000)	200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
	250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
	300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
	350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
	400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
	450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
	500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
	550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
	600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
	650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
	700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
	750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
	800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
	850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742	
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for October 2010 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	1.4	4.4	115	(+29%)	73	Recorded the largest rise in sale numbers
Auckland	1.1	0.7	1,376	(-11%)	40	Days to sell hits 40 for first time since Mar09
Waikato/BOP/Gisborne	-6.8	-1.1	520	(-6%)	64	Second largest fall in annual house price apc
Hawke's Bay	5.7	1.5	133	(-15%)	39	Largest annual increase house prices
Taranaki	3.7	-0.7	151	(-34%)	58	Second-largest decline in sale numbers
Manawatu-Whanganui	3.6	-2.0	115	(-8%)	51	The number of house sales hit a fresh low
Wellington	-5.8	1.4	478	(-4%)	45	First negative annual price change in over a year
Nelson-Marlborough	0.3	-1.5	151	(-13%)	41	The median selling price hit a 12-month low
Canterbury/Westland	1.6	-1.8	514	(+25%)	48	Recorded a post-earthquake rebound in sales
Otago	-20.4	2.3	64	(-16%)	67	Houses prices down sharply on a year ago
Central Otago Lakes	4.3	-1.7	184	(-1%)	49	The second largest annual rise in house prices
Southland	-5.9	-4.1	88	(-44%)	36	The number of house sales plummeted
NEW ZEALAND	-1.4	-0.1	3,897	(-7%)	46	Further weakness is evident in the latest data

Key forecasts

Economic indicators	Actual			Forecast						
	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
GDP (Ann Avg % Chg)	-0.4	0.7	1.6(f)	1.9	2.0	2.4	3.0	3.9	4.3	4.1
CPI Inflation (%)	2.0	1.7	1.5	4.1	4.4	5.2	4.9	2.9	2.8	2.5
Unemployment Rate (%)	6.0	6.9	6.4	6.3	6.2	5.8	5.6	5.5	5.5	5.6
Interest rates	Actual			Forecast (end month)						
	Sep 10	Oct 10	Latest	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
Official Cash Rate	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
90-Day Bank Bill Rate	3.2	3.2	3.2	3.2	3.7	4.2	4.3	4.7	5.2	5.5
Floating Mortgage Rate	6.5	6.4	6.4	6.5	6.8	7.3	7.5	7.7	8.0	8.4
1-Yr Fixed Mortgage Rate	6.4	6.4	6.4	6.6	7.0	7.2	7.2	7.6	8.0	8.2
2-Yr Fixed Mortgage Rate	6.8	6.7	6.7	7.0	7.3	7.6	7.7	8.0	8.2	8.4
5-Yr Fixed Mortgage Rate	7.7	7.7	7.7	7.9	8.2	8.5	8.5	8.5	8.5	8.5

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:



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- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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