

On the rebound

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Summary

- Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we revisit the impact that migration has on the housing market.

The month in review (page 2)

- Several real estate market indicators are showing tentative signs of recovery, in response to lower mortgage rates and favourable buying conditions. However, the two key influences that will govern the direction the market will take are the unemployment rate and the wider de-leveraging process for the economy as the current account deficit falls.

Property gauges (page 3)

- The drop in mortgage rates last month has made housing more affordable, and consequently a rebound in the housing market was recorded in March. We will likely see further signs of increased activity in the next few months, judging from anecdotes we are hearing, not to mention the mad rush we have seen to fix longer-term in the past month.

Economic backdrop (page 5)

- The housing market is showing classic FIFO characteristics, that is, first in, first out. While encouraging, the economy in general has still to hit rock bottom and attention is now shifting to prospects for a rapid rise in the unemployment rate. We expect the Reserve Bank will continue with an easing profile at the next Official Cash Rate Review, at the end of the month.

Mortgage borrowing strategy (page 6)

- Mortgage rates shot higher last month as the market was gripped by panic, which has now largely subsided. We expect the Reserve Bank to cut the OCR by 0.5 percent on April 30th, paving the way for further reductions in fixed mortgage rates, particularly for shorter terms. We favour the 6 month as the best value fixed rate.

Feature article – Migration update (page 7)

- Migration is being seen as the housing market's saviour and we are detecting signs of improvement. While encouraging, we suspect it will not be until 2010 that the impact of this pick up in migration – if sustained – will be felt.

Key forecasts (page 11)



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The month in review

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Bounce in building permits.

> **Building Consents – February.** There was a rebound in residential building consent issuance in February, following on from a sharp fall in the previous month to the lowest level in over 40 years. But compared to a year ago, consents are still down 43.5 percent. When apartments are stripped out, consents only managed a 0.3 percent rise following a 8.5 percent fall the previous month – hardly a rebound at all.

Lethargic lending.

> **Mortgage Lending – February.** Credit growth to households remains subdued, rising 0.2 percent in February. A far cry from the 1+ percent monthly growth rates seen in past years. De-leveraging among non-bank financial institutions continues, with lending to households from that sector down 20 percent from a year ago. Looking at the 3 month annualised growth rate suggests that we may have reached a base. The recent pick-up in mortgage approvals suggests 0.2 and 0.3 percent monthly growth can be expected in the next few months.

Recovery in real estate.

> **REINZ housing data – March.** The latest REINZ data recorded a rebound in housing market activity in March, with rises in sales and prices, and a fall in the days to sell. On the face of it, it suggests we have seen a bottom in the housing market in terms of turnover, but it is far from clear that this rebound will be sustained. After all, we are recovering from very depressed levels, and the number of house sales, despite being 38 percent above its low of late last year, is still running at some 40 percent below the average levels prior to the downturn. Nonetheless, at least we can take some comfort that things are not deteriorating further. And the RBNZ can definitely take some comfort that lower mortgage rates are having an effect.

Increasing interest rates.

> **Rising long-term fixed lending rates.** We first referred to this last month. We have seen longer-dated mortgage rates rise at a time when the Reserve Bank is cutting the Official Cash Rate. To fully understand why this is happening, refer to our special report in last month's *Property Focus*.

Migrant movements.

> **Net Migration – February.** A solid net inflow of 1,670 people permanently migrated to NZ. This was due to a considerable fall in the number of people permanently leaving the country, which (on a seasonally adjusted basis) has fallen to the lowest level since December 2006. Obviously, while the employment situation and outlook in NZ is not positive, it is also not flash offshore. This appears to be causing more people to shelve their migration plans. PLT arrivals did post a small increase in the month, and we wonder if this is a theme we will see more and more of over the coming year as ex-pats return home in the face of the challenging economic times.

Assessment

We are seeing signs of tentative recovery in the housing market, but this is following precipitous declines over 2008. While there are several factors indicating an upturn is at hand, we continue to take a circumspect tone given (a) rising unemployment and (b) the wider need for the economy to de-leverage and improve the current account deficit.

Property gauges

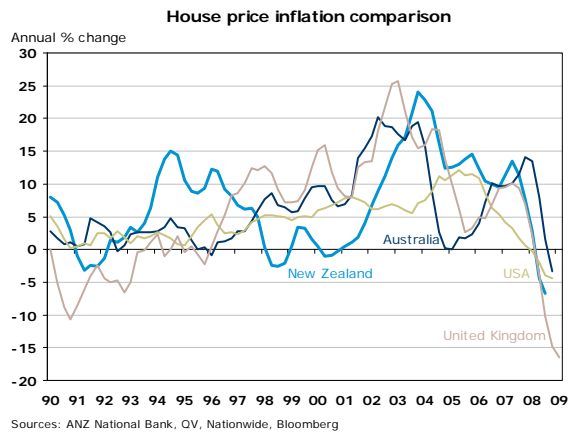
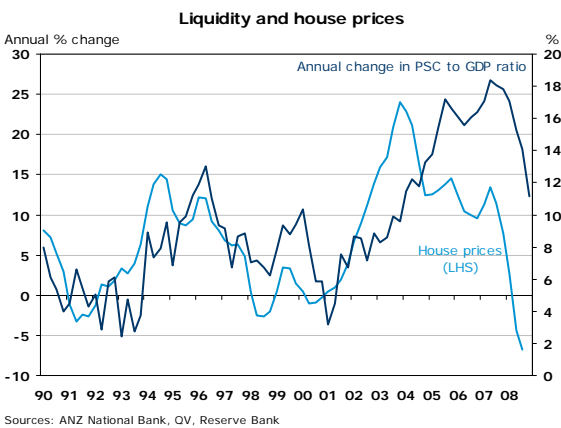
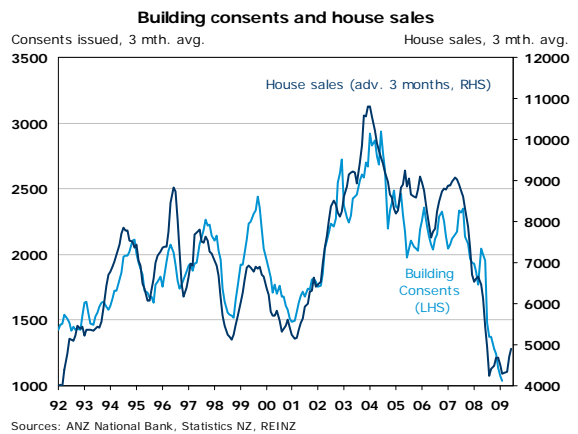
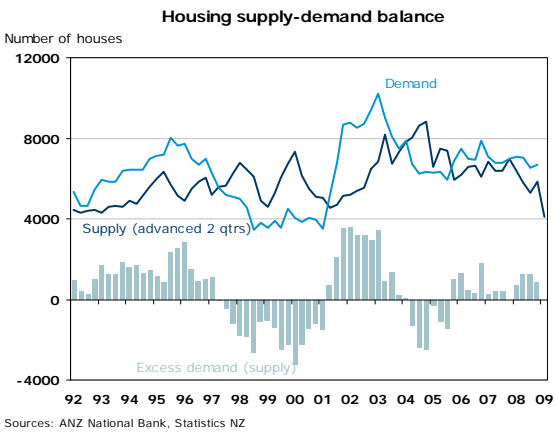
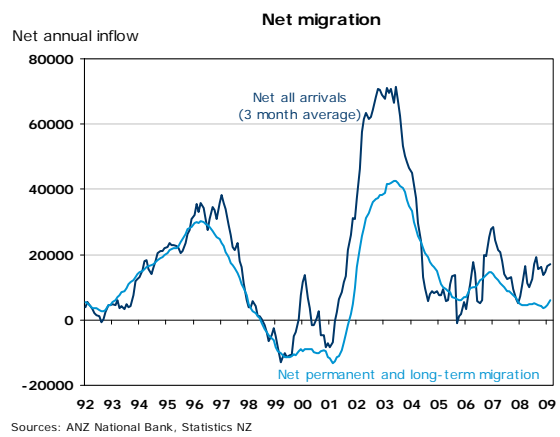
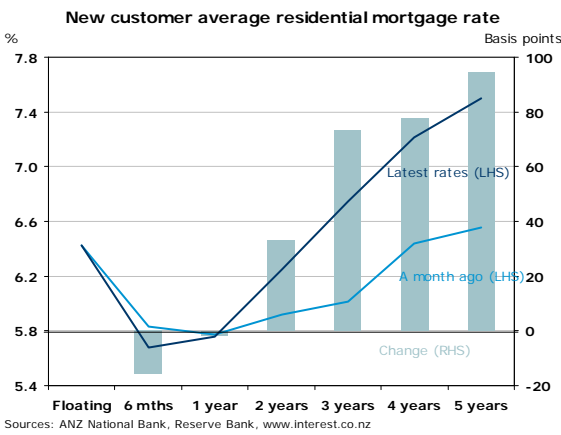
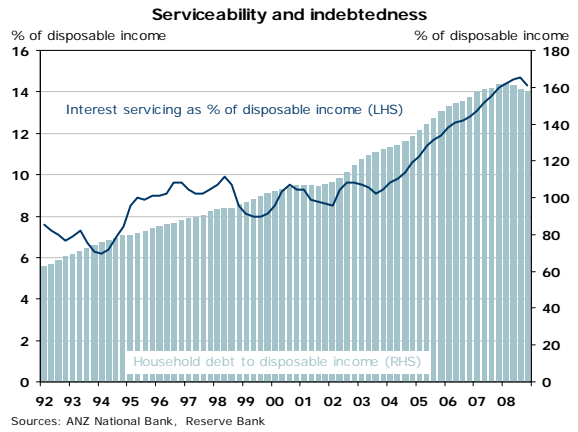
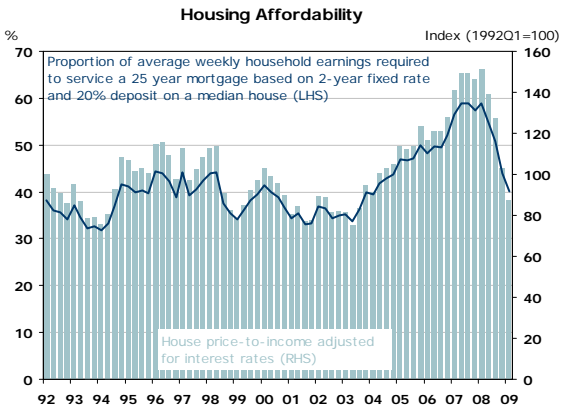
The drop in mortgage rates last month has made housing more affordable, and consequently a rebound in the housing market was recorded in March. We will likely see further signs of increased activity in the next few months, judging from anecdotes we are hearing, not to mention the mad rush we have seen to fix longer-term in the past month.

We use eight gauges to assess the state of the property market and whether warning signs 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 new 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.

A rebound in the housing market will not deter the RBNZ from cutting rates further. It is no longer about the housing market (indeed, it has not been about the housing market for a while now). Instead, it is more a case of whether there is a risk of adverse conditions from a higher unemployment rate hindering the economy, especially at a time when the economy is yet to really find a base.

Indicator	Level	Direction for prices	Comment
Affordability	Retracement	↔	Mortgage rate cuts have resulted in an improvement in housing affordability. The big uncertainty though is jobs.
Serviceability / indebtedness	Peaked	↓	Debt serviceability has peaked but is slow to retrace.
Interest rates	See-saw	↔	Mortgage rates have bounced at the long-end of the lending curve but short-term rates are still set to fall.
Migration	On the up?	↔	Migration has ticked up.
Supply-demand balance	Excess demand	↔↑	Excess demand is likely to continue.
Consents and house sales	Rebound from 40 year lows	↔↑	House sales rebounded as first home buyers and investors moved to take advantage of favourable conditions.
Liquidity	A lagging indicator	↓	Credit has yet to mirror current conditions.
Globalisation	Negative	↓	It's all going in one direction.
On balance		↓	A rising unemployment rate will be a reality check.



Economic backdrop

The housing market is showing classic FIFO characteristics, that is, first in, first out. While encouraging, the economy in general has still to hit rock bottom and attention is now shifting to prospects for a rapid rise in the unemployment rate. We expect the Reserve Bank will continue with an easing profile at the next Official Cash Rate Review, at the end of the month.

Our core economic view

The economy is set to cool some more.

The latest business opinion survey published by the NZ Institute of Economic Research made for grim reading, and suggests that the pace of slowing actually accelerated in the March quarter. Furthermore, other components of the survey are consistent with firms easing up on investment and hiring, which threatens to create a nasty negative feedback loop. While tempting to tweak our economic forecasts on the back of it, the reality was that the survey was broadly in line with what we were expecting, as opposed to providing new information on that front.

Given this type of weak backdrop, it was not surprising that the Reserve Bank of New Zealand moved to remind the NZ financial markets that the Official Cash Rate (OCR) will remain low for "*an extended period*" following increases in longer term wholesale rates. These sort of economic developments also have us now tipping a 50 basis point cut to the OCR by the RBNZ at the end of the month and a terminal rate of 2.25 percent.

But the property market is warming up.

Yet, when one observes market pricing and gathers housing anecdotes in the suburbs, the tempo is much more upbeat. Talk of a rebound in the property market and rising mortgage rates are seen by some as concrete evidence that the economy has turned the corner. Yet we don't share that view, and expect more de-leveraging, more weakness on the high street, and more difficulties abroad. This will eventually be reflected in the local real estate market, but it may take a while.

When we look at the broad economic picture, four themes dominate and leave us circumspect as to whether a sustained recovery in the housing market can take place.

- > **A credit centric shock.** Despite signs that global credit spreads have eased and major central banks are embarking on quantitative easing to keep longer dated yields down, credit markets are still far from normal. It is no longer a question of price. We are in a world where capital is scarce, and this is not about to change for some time.
- > **A deep global recession,** which started at the end of last year and is set to last throughout most of this year.
- > **A structural change in the pricing of risk,** with a clear relative shift in the balance of power away from borrowers and towards savers and investors. NZ is already seeing this via changes in retail deposit rates, which now sit materially above the wholesale interest rate curve.
- > **NZ's heavy reliance on offshore capital,** which is evident via a large current account deficit and large net external liability position. The latter, at 93 percent of GDP, is a key source of vulnerability in the current global environment and needs to be reduced.

Mortgage borrowing strategy

Mortgage rates shot higher last month as the market was gripped by panic, which has now largely subsided. We expect the Reserve Bank to cut the OCR by 0.5 percent on April 30th, paving the way for further reductions in fixed mortgage rates, particularly for shorter terms. We favour the 6 month as the best value fixed rate.

Our view

One word springs to mind when we consider developments in the mortgage market over the past month – and it's this: panic. After months of patiently standing by watching mortgage rates edge lower, the Reserve Bank's smaller than expected 0.5 percent cut on March 12th set off a chain reaction. Not that 0.5 percent would normally be considered a small cut. However, hot on the heels of two consecutive 1.5 percent cuts, and in a market that had gotten used to bold moves, it was a mild disappointment. But it was what happened next that was the real surprise. In the days following the cut there was a mild rise in wholesale rates, which led to a rise in mortgage rates, which coincided with widespread media advice to lock in now. This led to more rises, and more panic, and so on. The question now is, will mortgage rates stay high, or come back down, as comments from the Reserve Bank would seem to indicate? We believe the latter is more likely, but of course not all fixed rates will necessarily be moving in tandem.

First we need to appreciate that aggressive competition for deposits has forced longer-term rates up, creating a positive sloped yield curve. We don't see this pressure subsiding anytime soon. If depositors expect to earn a premium in order to be persuaded to place money on deposit for a long time (say 5 years), then the reciprocal must apply to borrowers. That is, borrowers can expect to pay a premium to lock in for longer terms. Strictly speaking, explicit comments from the Reserve Bank about the likelihood that the OCR will be remaining low for an extended period should keep term rates down (which is exactly why they made the comments). However, if competition for deposits remains intense, this will limit the degree to which mortgage rates can fall.

This doesn't mean fixed mortgage rates won't fall, but it does suggest that there is less scope for long-term fixed rates to fall, at least over the next few months. By contrast, we remain confident that short-term fixed rates will continue falling as the Reserve Bank follow up their words with action, starting with another 0.5 percent cut at the end of the month. This is much more than what's "priced in" the market, so if it does happen, you can be sure wholesale rates will snap lower and this will drag the floating rate, six month and 1 year borrowing rates down as well. The 2-year looks to remain the inflection point between in the tug of war between a lower OCR and aggressive competition for deposits.

Themes we favour in the current environment

The prospect of the Reserve Bank following their words with action should see wholesale interest rates fall over the next month or so, paving the way for mortgage rates to follow. Provided homeowners don't respond by rushing to fix again (which is possible), we'd expect mortgage rates to continue falling as the market gravitates to the Reserve Bank's view of a prolonged period of low cash rates. In the meantime, it is difficult to look beyond the value offered by 6 month rates (currently 5.79 percent). In a positive sloping yield curve environment its hard to argue against rolling shorter terms repeatedly as opposed to taking the certainty more expensive fixed rates provide.

Borrowers have moved off the sidelines and onto the field of play

Has the term team peaked too early?

The playing season is far from over.

Feature article – Migration update

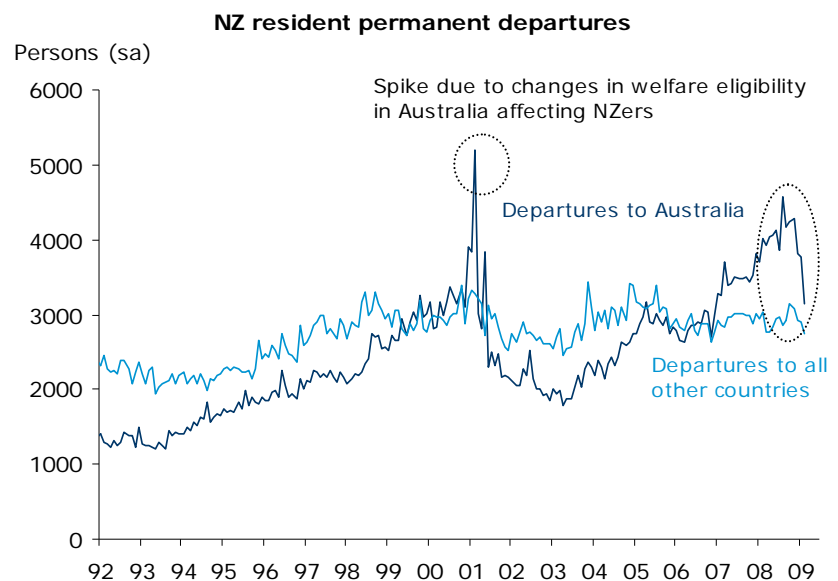
Migration is being seen as the housing market's saviour and we are detecting signs of improvement. While encouraging, we suspect it will not be until 2010 that the impact of this pick up in migration – if sustained – will be felt.

Overview

Large swings in external migration tend to generate significant fluctuations in the demand (and ultimately pricing) for residential housing. In the early part of the decade net migration flows peaked at 42,000 per annum – partly driven by an influx of international student arrivals. This, along with easy access to credit, a strong economy and insatiable risk appetites, contributed to a significant boom period for the NZ property market. However, net migration flows then eased and in fact some negative monthly net outflows were recorded over 2008 – something that has not occurred since 2001. Encouragingly though, there are some early signs that net migration is now stabilising (or even improving), largely driven by less New Zealanders leaving. At a time when the property market generally remains depressed, positive net migration will help to at least provide a base level of support.

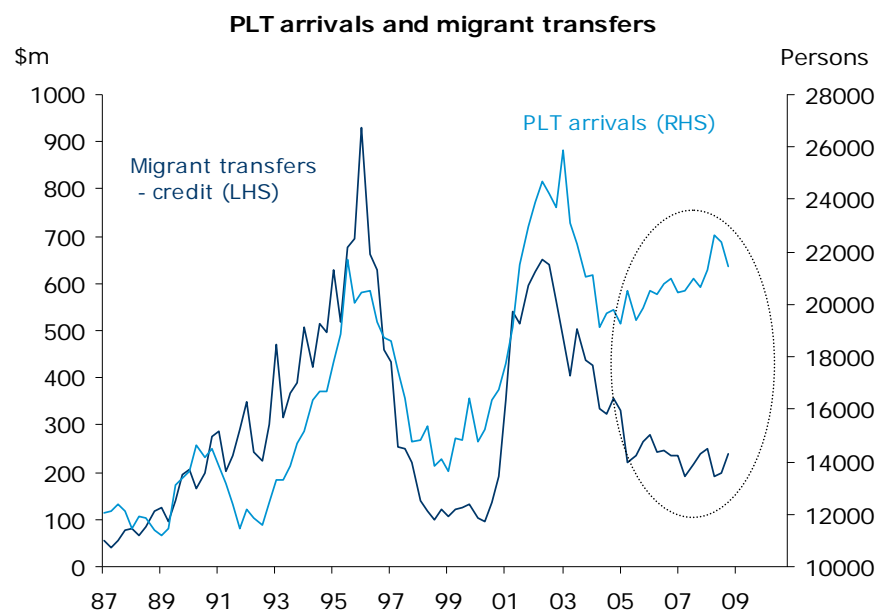
Some key observations

- > **The stabilisation (or improvement) in net migration is coming from less New Zealanders leaving.** In seasonally adjusted terms, the number of people permanently leaving the country fell to 5,880 in February. This was the fourth consecutive monthly fall and is now at the lowest level since late 2006. This comes after permanent and long-term (PLT) departures had been steadily trending higher since 2006. A lower number of PLT departures to Australia is clearly the biggest contributing factor. After peaking in August 2008, PLT departures to Australia have fallen by 31 percent. While the NZ employment outlook is deteriorating rapidly, it is also a theme offshore, with the Australian unemployment rate rising a massive 1.2 percent points since December, to 5.7 percent. This uncertainty is obviously seeing many shelve their migration plans. What does this mean for the housing market? Fewer people leaving is a fundamentally different proposition to more people arriving and will result in considerably less economic impetus.



Sources: ANZ National, Statistics NZ

- > **But there are also some interesting aspects of recent immigration trends.** PLT arrivals have been slowly rising since around 2004 and are currently averaging around 7,000 per month. Despite the fact that the economy has been in recession for four quarters, the country is still managing to attract people who want to live here. Obviously New Zealand has some key factors that will always encourage new immigration (reasonable living standards, generally a peaceful part of the globe, typical openness to new cultures, etc). However, there is the potential for NZ's attractiveness to be marginalised over the coming months by a few factors. First, there is the reality that people will still have to find a job. Recent survey evidence and anecdotes have suggested the labour market is deteriorating rapidly. We expect the unemployment rate to rise to close to 8 percent by mid-2010. Second, many potential migrants offshore have taken a big hit to their wealth portfolios and so are no longer as 'cashed up'. And it also may be difficult for some to move given the requirement to sell a property in the country where they currently live. This could particularly be a case for those from the UK (NZ's biggest source country of migrants), where house prices have fallen by a fifth. And third, we are starting to hear protectionist type chatter emerge such as "NZ jobs for New Zealanders". There is one large potential offset though to all these factors and that is the possibility of a number of ex-pat New Zealanders returning home as economic prospects remain weak offshore. However, there is limited evidence of this occurring yet.

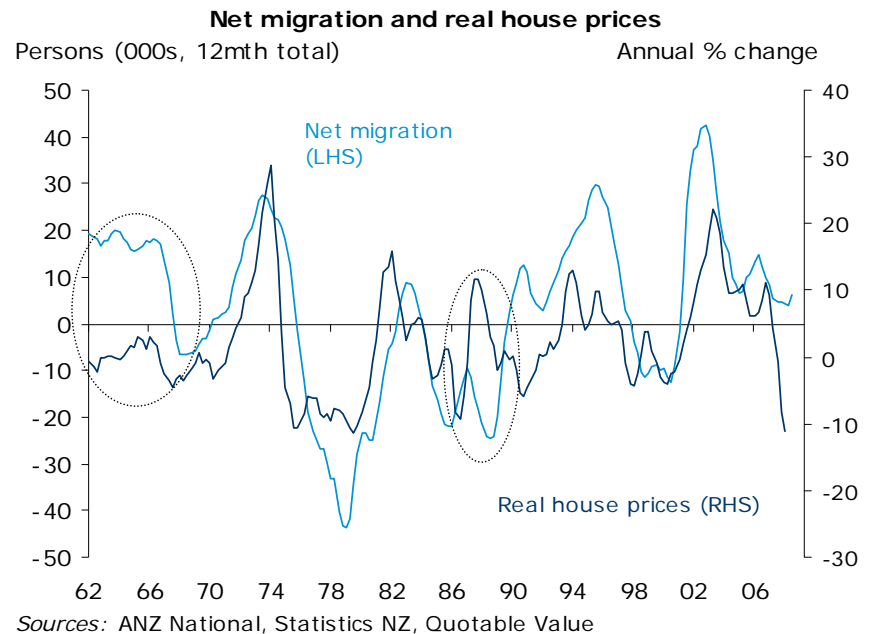


Sources: ANZ National, Statistics NZ

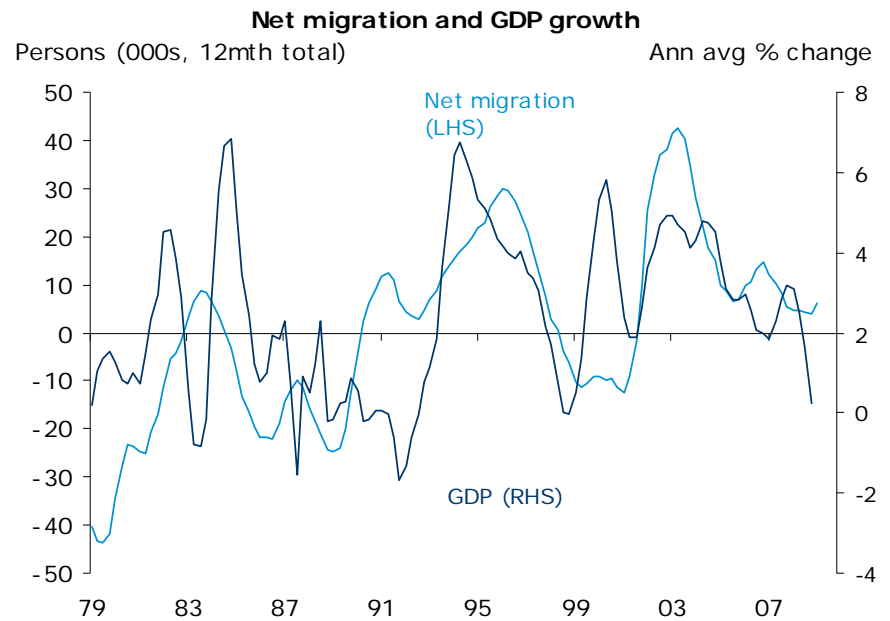
- > **Migrant transfer flows are important to monitor.**¹ While of course the absolute number of bodies arriving or leaving the country is important from a housing demand perspective, the amount of money or capital they bring (take) with them is also very important. Interestingly, while the number of PLT arrivals has remained at elevated levels, the amount of capital brought per person has fallen significantly. In 2008, PLT immigrants brought an average of \$10,000 per person. This compares with over \$25,000 per person in 2002. Conversely, PLT emigrants took with them an average of \$20,000 in 2008, compared

¹ Migrant transfers are the funds which immigrants bring with them to New Zealand and emigrants take to other countries.

with around \$14,000 in 2002. So while it is positive on a number of bodies sense, on a capital flow sense, net migration is negative, to the tune of \$800 million in 2008. This obviously is a different dynamic compared to past migration cycles.



- > **Migration has not been the driving force of the property market over the past few years.** A disconnect developed between the housing market and net migration between 2004 and 2007. Migration was not the be-all and end-all driving the property market. Annual net migration has been below 15,000 since the start of 2005 yet house prices are still 30 percent higher relative to then (and this includes the fact that real prices have fallen around 11 percent from their peak). It is therefore clear that something else was going on and we suspect it is the credit nature of the upturn, and then the downturn, that is playing a key role. Behavioural aspects to the cycle also cannot be discounted as the “house prices only go up” mantra led to a significant amount of exuberance. This disconnect is not uncommon though. While migration is clearly an important driver of housing demand, there have been periods in New Zealand’s history where the relationship has broken down.
- > **The causality process?** What comes first, the chicken or the egg? Does GDP drive migration or the other way around? Historically, migration flows have tended to deteriorate during times of economic weakness or rising unemployment. In that situation it is only natural to pack your bags and look overseas as was the case over the 1980s. This has tended to make migration a consequence and accelerant of the cycle as opposed to the determinant. So based on the traditional relationship and prospects for fewer job opportunities in NZ, we may well see migration numbers slide. Yet this economic cycle is also different. It’s a deep global downturn. NZ is suffering, but looks better than most, particularly those in the Northern Hemisphere. Hence, it is possible that migration will hold up better than it has in the past. There is also the possibility that ex-pat New Zealanders will return home as prospects remain weak offshore. These sort of conflicting dynamics leave us musing over prospects for migration over 2009.



- > **Nevertheless, the recent trends are encouraging.** With residential building consent issuance hitting record low levels, any additional net migration inflows on top of natural population growth will only exacerbate the current demand-supply imbalance that is forming (refer to chart on page 4). With a tightening in bank lending criteria, positive net migration inflows will join low mortgage rates as helping to provide a base of support for the housing market. There is little doubt that pent up demand for houses is building. However, we also need to remember that this cycle is more of a land price adjustment, as opposed to a physical house price correction. The former was the component that experienced the biggest appreciation on the way up. Therefore, while improved net migration inflows will support the demand/supply imbalance, there still remains a relatively large number of sections on the market. Regular readers of our *Property Focus* will be aware of our analysis looking at the number of sections for sale relatively to total properties and this has remained at elevated levels.

The upshot

There is little doubt that increased net migration inflows is a positive for both the housing market and the economy as a whole. The recent early sign that net migration is improving, albeit as a result of less New Zealanders leaving, is encouraging and will help provide a base level of support to the housing market. However, as our discussion above states, net migration is not the holy grail of drivers for the property market. There are other forces at play. We are particularly interested in how a deteriorating labour market will impact, particularly as the housing market turned when the unemployment rate was still at historically low levels. The risk is that the recent pick-up in housing market activity will not be maintained. Therefore, the rise in net migration inflows, if sustained, is more likely to be a key accelerant over 2010, rather than a 2009 story.

Statistical Annex

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

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
100	135	138	142	145	149	152	156	159	163	167	170	174	178	182
150	202	207	212	218	223	228	234	239	244	250	256	261	267	273
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1000
600	809	829	850	870	891	913	934	956	978	1000	1022	1045	1068	1091
650	876	898	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182
700	944	967	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273
750	1011	1036	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364
800	1078	1105	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454
850	1146	1174	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545
900	1213	1244	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636
950	1281	1313	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727
1000	1348	1382	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818

Housing market indicators for March 2009 (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	-4.3	-8.2	136	(+5%)	71	Has recorded the lowest three month price change in NZ
Auckland	-0.5	-1.5	1,717	(+12%)	40	The most monthly house sales since January 2008
Waikato/BOP/Gisborne	-3.1	1.1	767	(+19%)	67	Median days to sell has been unchanged for all of 2009
Hawke's Bay	-0.7	-3.7	212	(+20%)	63	The median sales price is clinging around \$265k
Taranaki	1.8	-2.5	132	(-3%)	39	Recorded the strongest annual growth in house prices
Manawatu-Wanganui	0.0	-1.2	240	(-13%)	53	The largest fall in sale numbers in the month of March
Wellington	-8.3	0.5	576	(+1%)	53	Median house sale prices inched up to a 10-month high
Nelson-Marlborough	1.6	-1.5	225	(+9%)	53	The number of house sold in March hit a 6-month high
Canterbury/Westland	-6.8	-3.0	890	(+22%)	45	Annual percent growth below NZ for 9th month in a row
Otago	-4.6	-2.9	241	(+11%)	38	The shortest time to sell a house was in Otago
Central Otago Lakes	-9.4	-4.4	96	(+40%)	94	Sale numbers pick up but prices remain depressed
Southland	-4.5	1.4	141	(+10%)	50	Recorded the strongest 3 month rise in house prices
NEW ZEALAND	-4.0	-1.1	5,287	(+7%)	48	A nationwide rebound, sparked by lower mortgage rates

Key forecasts

Economic indicators	Actual			Forecast						
	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
GDP (Ann Avg % Chg)	2.5	1.7	0.3	-1.0	-2.1	-2.8	-2.8	-2.0	-0.8	0.8
CPI Inflation (%)	4.0	5.1	3.4	3.0	2.1	1.1	2.2	2.4	2.2	2.3
Unemployment Rate (%)	4.0	4.3	4.7	5.4	6.3	7.0	7.5	7.9	8.0	7.9
Interest rates	Actual			Forecast (end month)						
	Feb 09	Mar 09	Latest	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Official Cash Rate	3.7	3.0	3.0	2.25	2.25	2.25	2.25	2.25	2.75	3.75
90-Day Bank Bill Rate	3.4	3.2	3.1	2.7	2.7	2.7	2.7	2.7	3.5	4.4
Floating Mortgage Rate	6.9	6.5	6.4	5.7	5.7	5.7	5.7	5.7	6.2	7.2
1-Yr Fixed Mortgage Rate	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	6.4	7.2
2-Yr Fixed Mortgage Rate	5.9	6.2	6.3	6.0	6.0	6.1	6.3	6.3	7.0	7.7
5-Yr Fixed Mortgage Rate	6.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	8.1	8.3

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.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies 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:

- 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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