

## DO NOT ADJUST YOUR SET

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### Summary

- Our monthly *Property Focus* publication is aimed at providing investors and prospective homeowners with an independent appraisal of recent developments in the property market, as well as our favoured mortgage borrowing strategy. In this issue we feature an analysis of which regions have a higher proportion of sections and apartments for sale, relative to other types of properties for sale on the real estate market.

### The month in review (page 2)

- Credit dislocation around the globe and the potential flow-on implications are now the key issues facing the New Zealand economy and housing market. Governments around the world have announced various rescue packages and intervention measures in a bid to restore economic confidence and stability.

### Property gauges (page 3)

- Lower interest rates are set to improve affordability and serviceability. But it is still a way to go before we see such measures in "attractive" territory.

### Economic backdrop (page 5)

- Global financial markets remain on edge, as the ripple and contagion effects of credit dislocation spread. While policymakers may (we hope) restore some stability to markets, we have yet to see the real economic consequences of recent financial developments. New Zealand will not be immune, although various shock absorbers including lower interest rates, a weaker currency, and expansionary fiscal policy will help mitigate extreme downside risks.

### Mortgage borrowing strategy (page 6)

- The escalating global financial crisis poses a significant threat to economic growth. As such, we expect the Reserve Bank to accelerate the pace of official interest rate cuts and to ensure that these cuts are reflected in lower mortgage rates. In this environment, we suggest borrowers target the 6 month or 1 year rate. Both offer a good balance of flexibility and saving.

### Feature article – Vulnerability update (page 7)

- Sections and apartments are regarded as the most vulnerable parts of the property market, being more "speculative". We have updated our table showing which regions have the most exposure to sections and apartments, relative to other types of sales. The relative rankings remain similar to recent months, although 85 percent of the regions have now recorded an increase in available listings of sections and apartments. We continue to expect a fair chunk of the adjustment in the property sector to be centred in the price of land.

### Key forecasts (page 9)



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## The month in review

**Credit dislocation around the globe and the potential flow-on implications are now the key issues facing the New Zealand economy and housing market. Governments around the world have announced various rescue packages and intervention measures in a bid to restore economic confidence and stability.**

**I've got some good news and some bad news. Which do you want to hear first?**

- > **Government intervention.** Turmoil in financial markets has spurred governments into action around the globe. Steps to shore up confidence have included "bailouts", deposit guarantees, and even brokering takeovers. Central banks have also pumped massive amounts of additional liquidity into their respective settlement systems. The New Zealand government has joined the bandwagon, by providing a guarantee for retail deposits in NZ, which is designed to provide New Zealand savers with greater certainty in the current financial environment.
- > **Westpac-McDermott Miller Consumer confidence – September.** The latest consumer confidence survey rebounded solidly in the September quarter, following a 17-year low in June. However, this was measured prior to the latest gyrations in the financial markets, and we'd expect confidence to be dented subsequent to this survey. In terms of the regions, Wellington, Bay of Plenty and Southland are the most optimistic, while Taranaki/Manawatu/Wanganui was the least optimistic. Consumers in the big bellwether Auckland region were the second least optimistic and this is only the second time they have recorded such a low level on a relative sense. The survey was another piece of evidence suggesting the economy is tentatively finding a base, but this has now been overshadowed by global events.
- > **Building Consents – August.** Total residential consent issuance fell 7.9 percent in August and is down 43 percent on a year ago. Excluding apartments, issuance fell 8.9 percent. Based on the floor area of consents issued, residential investment could fall a further 15-20 percent from current levels and this is after residential investment has already fallen around 15 percent from its peak. The level of consent issuance is extremely low and on a seasonally adjusted basis, the lowest since the mid 1980s. Seeing as the economy is significantly larger now than then, this is obviously not a good news story.
- > **REINZ housing data – September.** Housing market indicators were all broadly unchanged in September. In seasonally adjusted terms, house sale volumes rose 2.9 percent and the median days to sell was unchanged at 56 days. The median house price was also unchanged at \$330,000 and is down 6.1 percent on a year ago. However, despite this lack of change in these indicators over the month, activity in the housing market remains very soft. The length of time properties are taking to be sold is still near historical highs and house sales activity is 24 percent off levels of 12 months ago.
- > **Mortgage Lending – August.** Housing lending growth rose 0.4 percent in August and 7.4 percent annually. The more timely 3-month annualised credit growth has slowed to a new record low of 3.1 percent.
- > **Net Migration – August.** The country gained a net 440 people in the month, and 4,900 for the year. The migration data of the past few months has shown signs of stability, which is encouraging.

**These were our people today, this was homes (sold) tonight.**

## Assessment

Domestic economic releases have taken a back seat to the turmoil evolving in the world's financial markets. Pressure in the financial system and a lack of trust in the inter-bank market remains at the core of the problem. Policymakers are responding aggressively. While we expect such action to stabilise conditions somewhat – within the context of recent volatility – the next leg of the cycle will be the flow-on to the real economy.

## Property gauges

**Lower interest rates are set to improve affordability and serviceability. But it is still a way to go before we see such measures in "attractive" territory.**

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

**So it's "Goodnight" from me.**

- > **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.

**And it's "Goodnight" from him.**

- > **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.

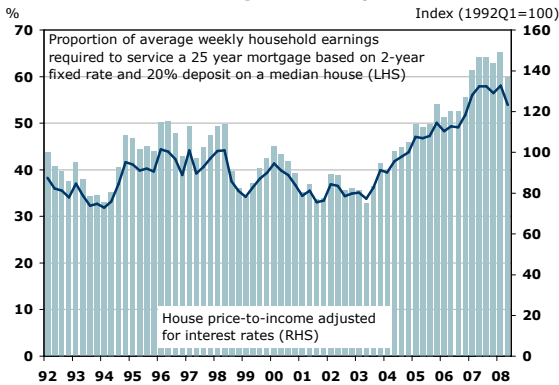
**Goodnight!**

- > **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.

In the current environment, we now expect the Reserve Bank to cut the OCR to 4.75 percent by the end of 2009. We remain of the view that interest rates will fall more quickly than many expect – especially longer term rates out to 10 years, which are more influenced by global events.

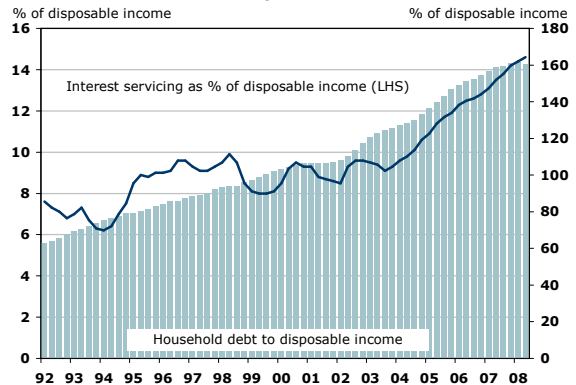
Indicator	Level	Direction for prices	Comment
Affordability	Still high	↓	Remains high, but the peak has been reached and it has started to turn down.
Serviceability / indebtedness	High	↓	The cost of servicing and indebtedness remains high.
Interest rates	Falling	↔/↓	On the way down.
Migration	Low	↔	Low migration flows still prevail.
Supply-demand balance	Neutral	↔	A small gap has opened in the supply-demand balance.
Consents and house sales	Consents down, sales blip up	↔	Weak building consents and unrealistic seller expectations are dragging the chain.
Liquidity	High	↓	Expect this channel to be switched over at the next ad break.
Globalisation	Dropping	↓	There is nothing like a competing network to bring about some changes.
<b>On balance</b>		↓	<b>At this juncture it's a case of no news is good news, in the NZ property market at least.</b>

**Housing Affordability**



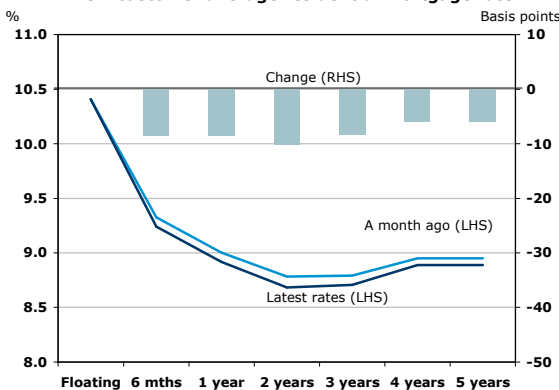
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

**Serviceability and indebtedness**



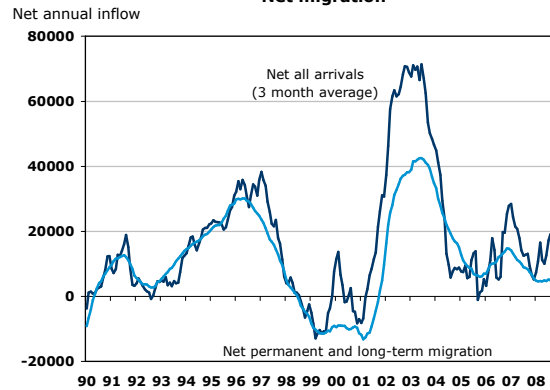
Sources: ANZ National Bank, Reserve Bank

**New customer average residential mortgage rate**



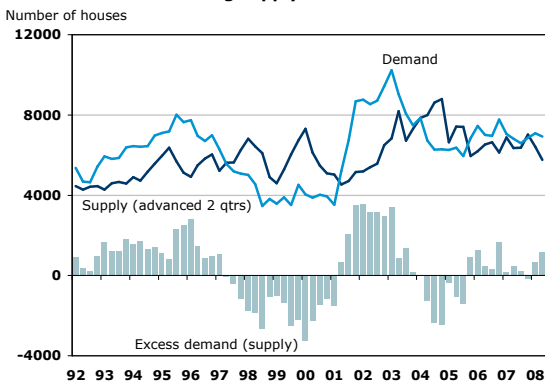
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

**Net migration**



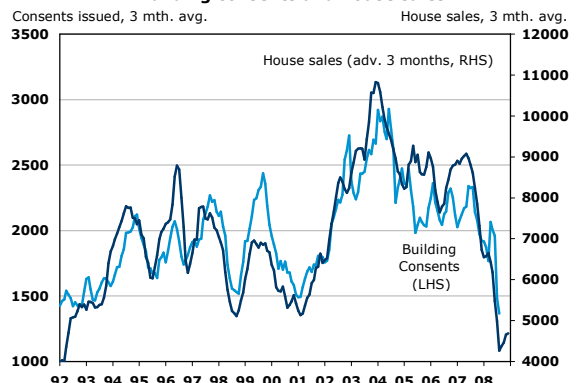
Sources: ANZ National Bank, Statistics NZ

**Housing supply-demand balance**



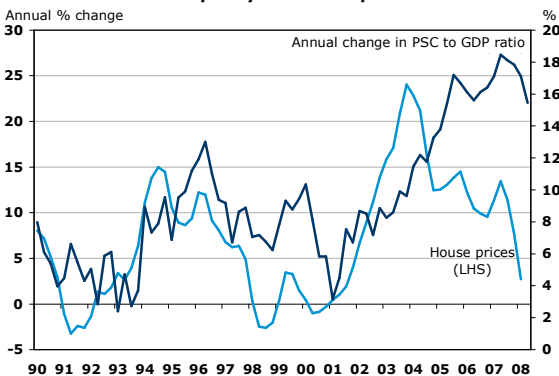
Sources: ANZ National Bank, Statistics NZ

**Building consents and house sales**



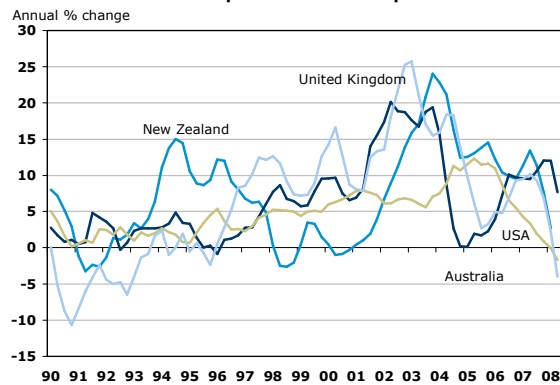
Sources: ANZ National Bank, Statistics NZ, REINZ

**Liquidity and house prices**



Sources: ANZ National Bank, QV, Reserve Bank

**House price inflation comparison**



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

## Economic backdrop

Global financial markets remain on edge, as the ripple and contagion effects of credit dislocation spread. While policymakers may (we hope) restore some stability to markets, we have yet to see the real economic consequences of recent financial developments. New Zealand will not be immune, although various shock absorbers including lower interest rates, a weaker currency, and expansionary fiscal policy will help mitigate extreme downside risks.

## Our core economic view

The NZ economy has already posted two quarters of negative economic growth. Normally, the only way is up when you slip into such a hole. But it's hard to be bullish at present. Based on the latest business sentiment survey compiled by the NZ Institute of Economic Research, the economy has yet to stabilise and has to navigate through the biggest global financial shock in 80 years.

We need to appreciate the magnitude of the global shock we are experiencing. The US equity market has fallen by 35 percent since the start of the year, and others have mirrored. Global growth barometers are extremely weak. A recession across the OECD bloc of countries now looks inevitable, but that is rapidly becoming yesterday's news. The focus is now on what is in store for emerging markets and how seriously they will be sucked into a global downturn. Unquestionably, they will feel the downturn, but to date these countries (particularly China and India) have been relatively insulated. If anything, a lot (such as Asia, Latin America and the Eastern bloc) have benefited from the "risk" seeking behaviour that has caused the global financial shock. But this scenario has been tipped on its head and now we are seeing a massive swing in risk appetites around the globe. In this environment, it isn't a question of making money, rather not losing it. As a result, de-leveraging is occurring at an unprecedented scale. If money is not being put to work, this means less funding for consumption, investment and jobs.

Governments have responded swiftly to shore up confidence. After an initial period of euphoria that the US bailout package would solve the world's problems, global interest rate markets have grown increasingly pessimistic about the outlook as the realisation dawns that financial system de-leveraging must ultimately be matched by the same for real economies. It signals an adjustment that will take time.

How will this impact New Zealand? Lower global growth means less demand for exports. Commodity prices are falling. And if people feel poorer, they tend to travel less and tourism is our largest industry. On top of that we have the reality that NZ borrows a lot of money overseas (our current account deficit and high stock of overseas debt), and it's costing a lot more at present to do this.

New Zealand's macro framework is responding to the altered economic environment. The Reserve Bank has already cut the Official Cash Rate by 75 basis points and we expect a further 150 basis points before the end of the year. Following that we have pencilled in 25 basis point cuts for each meeting in 2009, until the OCR reaches 4.75 percent. Our OCR call is at the bottom end of consensus, but we expect others (and the market) to play catch-up as the global financial crisis intensifies. Likewise, the currency has adjusted, and there are growing calls for a stimulus package from the Government.

Such a response is welcome, and is a sign of a healthy macro framework. But we need to appreciate the pure scale of global developments, in what is effectively a once in 80 year financial event. New Zealand's shock absorbers can only act to dampen the "extremes" and edges of the cycle. We've formally shifted to an "L" shaped cycle from a previous "U" or saucer. The message: things are set to remain wobbly for a while yet.

**The latest *breaking* news from NZ and around the world.**

**The NZBG RBNZ Network News**

## Mortgage borrowing strategy

The escalating global financial crisis poses a significant threat to economic growth. As such, we expect the Reserve Bank to accelerate the pace of official interest rate cuts and to ensure that these cuts are reflected in lower mortgage rates. In this environment, we suggest borrowers target the 6 month or 1 year rate. Both offer a good balance of flexibility and saving.

### Our view

#### Teleprompter or autocue?

New Zealand interest rates are heading lower, and it's not just because the economy is slowing. The Reserve Bank (RBNZ) is also cognisant of the "tail risks" extraordinary events bring to the economy and on the cost of funds for everyday borrowers. In that regard, comments made by the Reserve Bank of Australia, when they cut their interest rate by a surprisingly large 100 basis points, deserve mention. In cutting rates, they noted that they "...took careful note of movements in funding costs in wholesale markets. Having weighed these considerations, the Board decided that, on this occasion, an unusually large movement in the cash rate was appropriate in order to bring about a significant reduction in costs to borrowers...". They also made mention of the significant moderation of growth in Asia. Both of these issues are as relevant to New Zealand as they are to Australia – hence our expectation of a 100 basis point rate cut by the RBNZ at their October 23rd OCR Review.

When it comes to deciding how long to fix your mortgage for, the trick is to strike the right balance between cost and flexibility. If you fix for a longer period you'll have more certainty, but you run the risk of missing out if rates fall further. Conversely, if you fix for a shorter period, you may pay a higher rate, but you'll be in a good position to switch to a lower rate if rates fall. So, when interest rates are likely to fall, it's best to err on the short side, while when rates are stable or rising, it pays to err on the long side.

#### Not the Nine O'cent News

Another way to think about it is in terms of breakevens. Instead of choosing the shortest rate (to give yourself flexibility), or the cheapest rate (to save money), or even the longest rate (to give yourself certainty), consider which strategy will cost less over a given time frame. For example, say you wanted to fix for a reasonably short term, for either 6 months or 1 year. Where would the 6 month rate need to be in 6 month's time for you to be better off fixing for 6 months today? Based on the current 6 month and 1 year rates (9.25 and 8.99 percent respectively), the answer is 8.73 percent. In other words, if you think the 6 month rate will be below 8.73 percent in 6 months, then fix for 6 months. Otherwise, fix for 1 year.

Of course, breakeven analysis assumes there are no limits to affordability, and it requires you to make some assumptions about the future. For example, you may decide to stay floating because you think interest rates may fall quickly. Even if that turns out to be the right strategy, you won't know until later, but worse still, you may not have sufficient flexibility in your budget to pay the floating rate of 10.45 percent, while you wait for rates to fall.

### Themes we favour in the current environment

Right now we believe the 6 month and 1 year fixed rates (9.25 percent and 8.99 percent respectively) provide the best balance. Although they are at the higher end of the fixed rates on offer, they are 1.20 percent and 1.46 percent lower than the floating rate of 10.45 percent, respectively. When the RBNZ cuts rates it is likely to do so quickly at first, and continue to do so throughout 2009. Fixing for 6 months or 1 year means you'll benefit from a reasonably cheap rate (relative to floating at least), and still be in a position to switch to a lower rate before interest rates start rising again. Mortgage rates are heading lower. Keep the duration of borrowing short, around 6 months.

## Feature article – Vulnerability update

Sections and apartments are often talked about as the most vulnerable parts of the property market, being more “speculative”. We have updated our table showing which regions have the most exposure to sections and apartments, relative to total property listings. The relative rankings remain similar to recent months, although 85 percent of the regions have now recorded an increase in available listings of sections and apartments. We continue to expect a fair chunk of the adjustment in the property sector to be centred in the price of land.

The section and apartment sectors of the property market – traditionally more speculative areas – are often touted as being the pockets that are the most vulnerable at this stage in the property cycle and for good reason. Higher interest rates or changes in the credit cycle often mean that these pockets can experience large price swings, relative to other types of property, as demand wanes.

We have updated the following table, which shows the number of sections and apartments for sale, relative to the total number of properties on the market across the regions. It is based on data from the Trade Me website (which provided easy access to this type of data). Although it is somewhat of a crude indicator, we feel it is still reasonably effective nonetheless. The table ranks the various regions from highest to lowest and also shows their movement compared with a year ago.

**I'm sorry, I'll read that again.**

### So what does it show?

- > Compared with a year ago, all but six of the forty regions have shown an increase in the proportion of section and apartment listings relative to totals. Nationwide, the ratio of sections and apartments for sale relative to total properties is 30.1 percent. This is up from 22.9 percent a year ago.
- > Once again Queenstown tops the rankings, a position it has retained since February 2008. Over half of all property sales in Queenstown are either apartments or sections. A year ago this proportion was roughly a fifth less. In second and third place are The Far North and Auckland. These two regions have held these spots since February. The biggest movers up the rankings were the Auckland fringe regions (Waitakere, Franklin and Papakura). At the other end of the scale, Southland recorded the largest drop down the rankings – from top of the table a year ago – with the proportion of sales in the apartment and section sales halving from a year ago.
- > It's the holiday or retirement destinations that dominate the top end of the rankings, with a high exposure to sections and apartments. This could potentially mean they are more vulnerable, and we have heard anecdotes of some of these regions experiencing large falls in house prices.
- > This isn't a strict rule however, as Auckland City and West Coast are still high on the table. Auckland City ranks highly, with a large number of apartments listed and the West Coast with a large proportion of sections for sale.

**Fighting over the remote.**

### The upshot

The supply of sections and apartments relative to the total stock of houses for sale continues to increase. This is potentially a sign of unease and is one area where we expect the housing market “correction” to play out. With both types of properties exposed to high carry cost and the likely diminished appetites to lend by financial intermediaries, we expect to hear more and more anecdotes of these types of properties coming under increased downward price pressure.

Number of sections and apartments for sale, relative to total properties for sale							
Rank	Region	Number of apartment and sections as % of total listings			Percentage point change Oct-07 to Oct-08	Feb-08 rank	Oct-07 rank
		Oct-08	Feb-08	Oct-07			
1	Queenstown Lakes	53.8	52.5	43.5	10.3	1	2
2	Northland - Far North	46.2	45.5	40.5	5.8	3	4
3	Auckland City	44.1	51.2	37.0	7.1	2	5
4	West Coast	42.9	39.7	33.8	9.1	7	7
5	Central Otago ex Qtwn	42.7	42.2	33.1	9.7	4	8
6	Nelson City	42.6	23.3	29.6	13.1	27	15
7	Thames/Coromandel	41.2	40.6	34.8	6.4	6	6
8	Northland - Whangarei	40.6	41.1	32.9	7.7	5	9
9	Tasman	39.2	35.0	43.4	-4.2	10	3
10	Kaikoura	38.5	33.3	21.4	17.0	12	22
11	Wellington City	38.1	30.2	30.7	7.3	17	13
12	Taupo	36.8	33.2	32.3	4.5	13	10
13	Selwyn	36.2	35.9	16.7	19.5	8	25
14	Rodney	35.2	29.9	28.7	6.5	18	17
15	Marlborough	34.4	32.3	29.3	5.1	15	16
16	Waitakere	32.3	26.6	14.3	18.0	22	30
17	Papakura	32.1	30.3	9.7	22.4	16	37
18	Franklin	32.1	28.3	12.5	19.5	19	34
19	Hauraki	31.5	35.5	25.6	5.9	9	19
20	Upper Hutt	31.3	24.8	15.2	16.1	26	26
21	Tauranga City	30.6	26.6	22.0	8.5	22	21
22	Western BoP	29.1	28.1	24.9	4.3	20	20
23	North Shore City	28.9	26.0	19.4	9.5	24	24
24	Waitaki	28.8	32.4	31.0	-2.1	14	12
25	Whakatane	28.6	25.0	27.4	1.2	25	18
26	Hurunui, Hanmer	28.5	34.1	30.3	-1.8	11	14
27	Waimakariri	26.5	21.4	14.5	12.0	30	29
28	Taranaki	25.0	23.3	15.1	9.9	27	28
29	Gisbourne	24.8	27.2	31.0	-6.2	21	11
30	Kapiti Coast	23.4	18.6	14.3	9.0	32	31
31	Dunedin City	22.1	17.4	19.6	2.5	34	23
32	Hamilton City	22.0	23.2	15.1	6.9	29	27
33	Southland	21.7	19.5	50.4	-28.7	31	1
34	Manakau City	18.1	16.0	10.0	8.1	35	36
35	Manawatu/Wanganui	18.0	17.6	12.5	5.5	33	33
36	Hawke's Bay	16.9	15.0	13.0	3.9	36	32
37	Christchurch City	16.1	12.6	8.8	7.3	37	38
38	Rotorua	12.6	10.6	7.1	5.5	39	39
39	Lower Hutt	11.3	10.9	4.2	7.1	38	40
40	Timaru	8.6	10.3	10.6	-2.0	40	35

## Statistical Annex

Weekly mortgage repayments table (based on 25 year term)

Mortgage Size (\$'000)	Mortgage Rate (%)													
	7.50	7.75	8.00	8.25	8.50	8.75	9.00	9.25	9.50	9.75	10.00	10.25	10.50	10.75
100	170	174	178	182	186	190	194	197	201	205	210	214	218	222
150	256	261	267	273	279	284	290	296	302	308	314	320	327	333
200	341	348	356	364	371	379	387	395	403	411	419	427	435	444
250	426	435	445	455	464	474	484	494	504	514	524	534	544	555
300	511	522	534	545	557	569	581	592	604	616	629	641	653	666
350	596	610	623	636	650	664	677	691	705	719	733	748	762	777
400	682	697	712	727	743	758	774	790	806	822	838	855	871	887
450	767	784	801	818	836	853	871	889	907	925	943	961	980	998
500	852	871	890	909	928	948	968	987	1007	1027	1048	1068	1089	1109
550	937	958	979	1000	1021	1043	1064	1086	1108	1130	1153	1175	1198	1220
600	1022	1045	1068	1091	1114	1137	1161	1185	1209	1233	1257	1282	1306	1331
650	1108	1132	1157	1182	1207	1232	1258	1284	1310	1336	1362	1389	1415	1442
700	1193	1219	1246	1273	1300	1327	1355	1382	1410	1438	1467	1495	1524	1553
750	1278	1306	1335	1364	1393	1422	1451	1481	1511	1541	1572	1602	1633	1664
800	1363	1393	1424	1454	1485	1517	1548	1580	1612	1644	1676	1709	1742	1775
850	1448	1480	1513	1545	1578	1611	1645	1679	1713	1747	1781	1816	1851	1886
900	1534	1567	1602	1636	1671	1706	1742	1777	1813	1849	1886	1923	1960	1997
950	1619	1655	1691	1727	1764	1801	1838	1876	1914	1952	1991	2029	2069	2108
1000	1704	1742	1780	1818	1857	1896	1935	1975	2015	2055	2095	2136	2177	2219

Housing market indicators for September 2008 (based on REINZ data)

	House prices (Ann % chng)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a)	Comment
Northland	-7.0	-7.6	116	(-6%)	66	Annual and 3 monthly changes are both "breaking" news
Auckland	-4.9	-5.1	1,442	(+3%)	47	House prices in the <i>Top Half</i> sink to a 20-month low
Waikato/BOP/Gisborne	-2.6	1.5	645	(+6%)	65	Three month price change gives a positive wink
Hawke's Bay	-4.7	2.2	146	(-15%)	68	The Hawke's Bay recorded the largest drop in sales
Taranaki	-3.2	-4.6	169	(+2%)	60	There was very little change from August
Manawatu-Wanganui	-6.3	1.8	243	(+11%)	72	Recorded the longest time to sell a house
Wellington	-7.9	-3.0	529	(+5%)	57	<i>Today Tonight</i> reported the joint weakest annual growth
Nelson-Marlborough	-3.1	-3.0	235	(+18%)	63	Monthly sales increase is anything but ordinary
Canterbury/Westland	-7.9	-1.7	716	(+9%)	56	Joint weakest price change leads the <i>Mainland Touch</i>
Otago	-6.1	-1.2	239	(+15%)	58	The <i>South Tonight</i> reports a 2 year low in house prices
Central Otago Lakes	0.5	3.6	75	(+7%)	48	Only region with price growth above nought
Southland	-4.1	-8.1	118	(-11%)	45	The 3 month price change suffers in the ratings war
NEW ZEALAND	-6.1	-2.9	4,611	(+3%)	56	Reminiscent of the revised TV3 news desk – very blue!

## Key forecasts

Economic indicators	Actual			Forecast						
	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar10	Mar10
GDP (ann avg % chg)	3.2	2.6	1.7f	0.7	0.1	-0.1	0.1	0.5	0.8	1.4
CPI inflation (%)	3.4	4.0	4.9f	4.5	4.8	4.1	3.4	3.4	3.2	2.9
Unemployment rate (%)	3.7	3.9	4.2f	4.7	5.0	5.2	5.5	5.7	5.8	5.9
Interest rates	Actual			Forecast (end month)						
	Aug08	Sep08	Latest	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Call rate	8.3	7.9	6.5	6.0	5.5	5.0	4.8	4.8	4.8	4.8
90-day bank bill rate	8.2	8.0	7.2	6.5	5.8	5.3	5.2	5.1	5.0	5.0
Floating mortgage rate	10.4	10.4	10.4	9.7	9.2	8.7	8.5	8.5	8.5	8.5
1-yr fixed mortgage rate	8.9	9.0	9.0	8.5	8.0	7.6	7.4	7.2	7.1	7.1
2-yr fixed mortgage rate	8.7	8.7	8.7	8.4	8.0	7.8	7.7	7.6	7.4	7.4
5-yr fixed mortgage rate	8.9	8.9	8.9	8.6	8.2	8.1	8.1	8.0	7.9	7.9

## 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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