

The Pirates of Reinzance

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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 a discussion on where house prices could head over the next 12 months.

The month in review (page 2)

- The property market remains weak with the latest REINZ figures for March tumbling over the end of the plank. Large declines in consumer and business confidence are indicative of weak housing momentum diffusing into the wider economy.

Property gauges (page 3)

- The latest REINZ housing market report captured a rise in the median sale price over March. But this reflected a quirk in the data, as a greater proportion of lower value houses didn't sell. Expect further price declines to help gradually improve housing affordability.

Economic backdrop (page 5)

- The longest economic expansion since the 1960s has come to an abrupt end with the economy now stalling. Rather than highlight the negative, our attention is now turning towards how elongated the adjustment will be, what is required for the next upswing, and when that will occur.

Mortgage borrowing strategy (page 6)

- Our borrowing strategies remain largely unchanged from last month. We continue to expect wholesale interest rates to begin to fall in 2008 although this may not necessarily manifest in lower retail rates given the global credit environment. Given signs of an abrupt stalling in economic momentum, we favour shortening duration to between 1 and 2 years.

Feature article – Big picture themes (page 7)

- Fundamentals such as affordability suggest a decent correction in house prices is pending. Key themes in our eyes include the speculative, credit and land-driven aspect of the recent upswing, which implies the correction on the other side will be deeper, more protracted, but also far more concentrated in some key areas. However, a portion of the adjustment will also be achieved via steady income growth.

Key forecasts (page 10)



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The month in review

The property market remains weak with the latest REINZ figures for March tumbling over the end of the plank. Large declines in consumer and business confidence are indicative of weak housing momentum diffusing into the wider economy.

Shiver me timbers!

> **REINZ housing data – March.** Monthly house sales collapsed in March. In seasonally adjusted terms, house sales fell a whopping 30 percent, hitting a 17-year low. The timing of Easter will have impacted, although abstracting from this the trend has been weakening for close to a year. With fewer sales in the lower price brackets, the median house price recorded an increase over the month to \$349,500. The seasonally adjusted number of days to sell a house fell to 42 days, from 45 days in February. The composition of the figures makes interpretation quite difficult. It may well be a case that good properties are continuing to attract buyers (quality sells), while the growing stock of unsold homes has yet to be reflected in the reported data.

We're not feeling very jolly roger.

> **Westpac/McDermott-Miller consumer confidence – March quarter.** The reading for Q1 was 96.5, which is a big drop from the 110 reading in Q4 2007. This is the lowest reading since September 1998, when the economy was last in recession.

> **National Bank business confidence – March.** Confidence was weaker across all the five major subgroups (retailing, manufacturing, agriculture, construction and services) with the construction sector the most pessimistic. Residential investment intentions (with a net 46 percent expecting a deterioration) have fallen to a historical low. Commercial activity fared a little better, but still with a net 30 percent expecting worse times ahead.

A poop deck?

> **Building Consents – February.** Residential dwelling consent issuance fell 6.5 percent in February (seasonally adjusted). On an ex-apartment basis, consent issuance fell 3 percent in February. If the traditional close relationship with house sales is maintained, further declines in consent issuance look set to emerge (refer chart page 4). Nevertheless commercial consent issuance continues to hold up at elevated levels. At this stage, there still looks to be a reasonable pipeline of commercial construction activity – contrary to the outlook for residential construction.

> **External Migration – February.** There was a rise in net migration in February compared to the previous two months, but the number remains soft. A net 170 people (seasonally adjusted) permanently migrated to New Zealand in February. A year ago, that figure was 490 people. The 12 month total for net migration continues to ease and is currently sitting at 4,643 people. This is well down from a net 14,000 at the start of 2007 and is at its lowest level since the end of 2001.

Assessment

The property market continues to weaken and there are growing signs that weaker activity is diffusing into the broader economy. Retailing, which tends to be closely correlated with the housing market, is the latest sector to show signs of stalling. Now it's a case of waiting to see how and when the weakness in the housing market etc will spill over into reduced economy-wide inflationary pressures.

Construction cost-related inflation showed signs of weakening in the March quarter CPI, a natural flow-on from easing house prices. Such a dynamic is the first leg in how softer (housing-led) growth typically filters through into lower inflation. Yet, at the same time we are seeing increased pressure on rents. With a huge amount of inflation also coming from food, petrol, government charges and a tight labour market, the inflationary beast will take some taming.

Property gauges

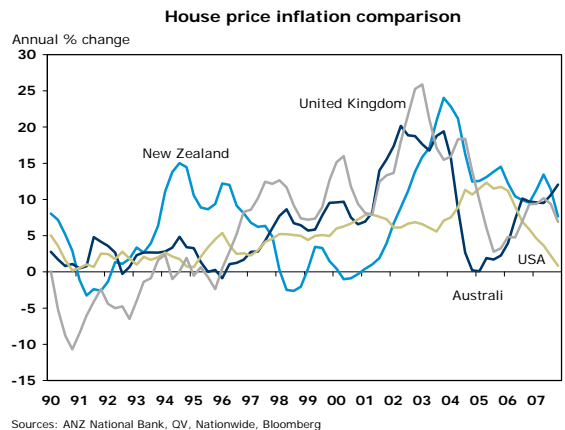
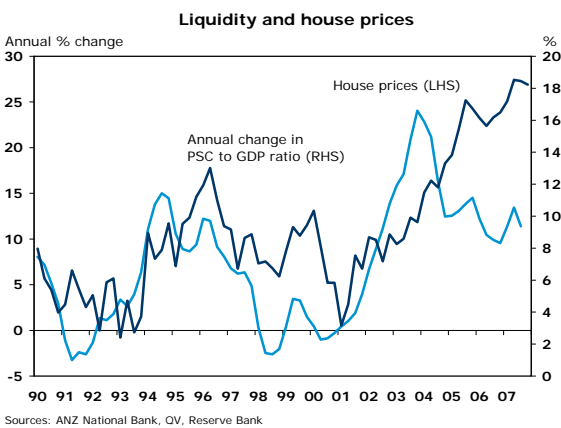
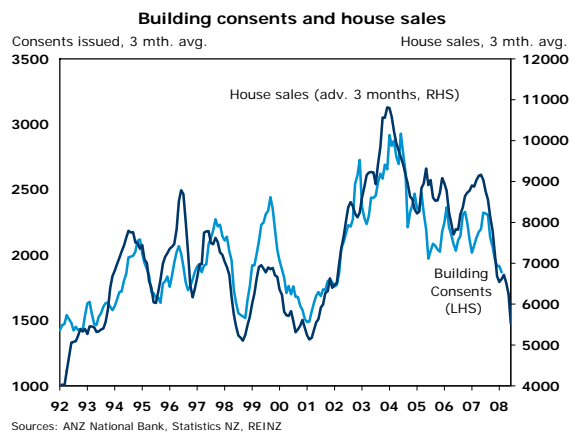
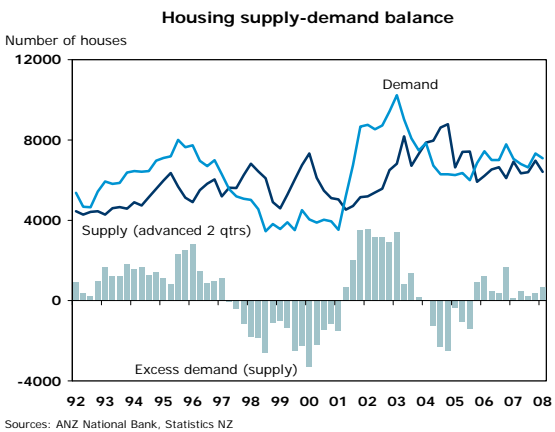
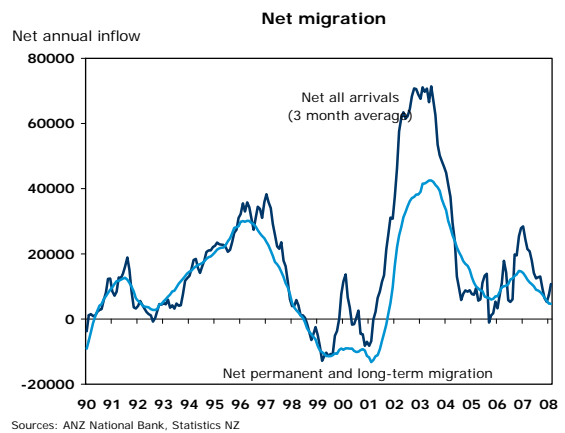
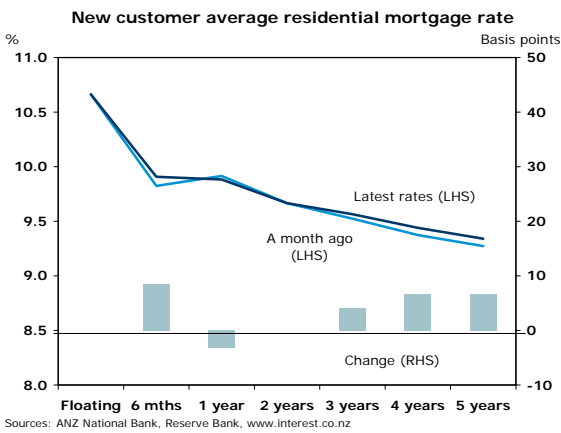
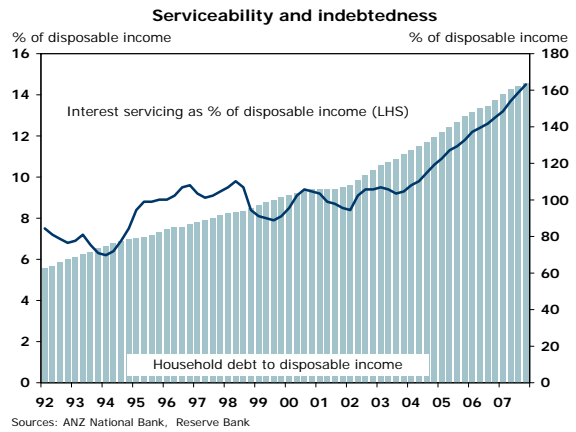
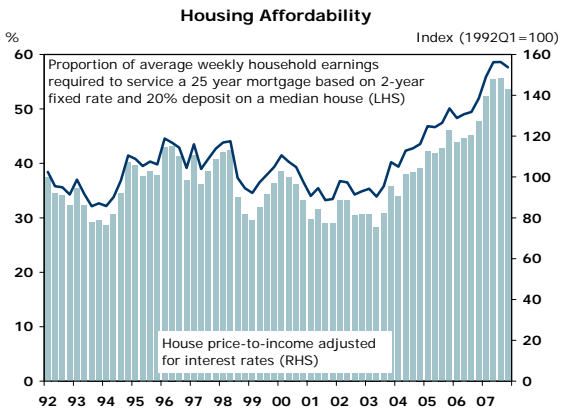
The latest REINZ housing market report captured a rise in the median sale price over March. But this reflected a quirk in the data, as a greater proportion of lower value houses didn't sell. Expect further price declines to help gradually improve housing affordability.

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 (augmented 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.

Migration remains a key pillar of support for the housing market and consumer spending. The risks for migration are skewed to the downside. While not our central view at this stage, there is a real risk that annual net migration could turn negative over 2008.

Indicator	Level	Direction for prices	Comment
Affordability	Expensive	↓	Affordability, while at extremely expensive levels, may have peaked.
Serviceability / indebtedness	High	↓	Household indebtedness and the debt servicing burden keep hitting new highs and show no signs of consolidating yet.
Interest rates	High	↔/↓	Fixed-term mortgage rates inching up.
Migration	Medium	↔/↓	The migrants are still arriving but you can now sometimes count the net monthly inflow on your fingers and toes.
Supply-demand balance	Neutral	↔	Close to balance.
Consents and house sales	Consents easing, sales softening	↓	Ex-apartment consent issuance has been easing. Sales volumes have been scuttled.
Liquidity	High	↓	A lot of cash but not much confidence to put it to work. Credit criteria tightening.
Globalisation	Not that cheap	↔	Median house prices in New Zealand are correcting but remain more expensive than the US (based on current exchange rates), but cheaper than in Australia.
On balance		↓	Walking the plank



Economic Backdrop

The longest economic expansion since the 1960s has come to an abrupt end with the economy now stalling. Rather than highlight the negative, our attention is now turning towards how elongated the adjustment will be, what is required for the next upswing, and when that will occur.

Our core economic view

A shot across the bow.

Night follows day as well known, and in a similar spirit, the longest period of growth within the NZ economy since the 1960s looks like it has come to an abrupt end. Key leading indicators suggest the economy is flat to stagnant – at best. While no-one likes to see such outcomes, there was always a sense of inevitability about the end-game given the spending-centric aspect to growth, high current account deficit, and inflationary pressure. It is an unsustainable mix. As always, we end up paying the piper at some stage, and such “payment” manifests via very weak growth. Such is the reality of the NZ business cycle.

A lot of attention is being drawn to the dreaded recession. In our eyes, such talk is unhelpful, as doom and gloom can quickly become self-fulfilling, but also misses a more significant issue, namely how long the adjustment will last.

Hoist the mizzen and weigh anchor.

In our view, this economic cycle is likely to be far more protracted at the trough, with weakness set to extend into 2009. The Reserve Bank has no inflation leeway at present to cut interest rates as a shock absorber. Even if they did, retail rates will not go down to the same extent given the global credit backdrop. A key dynamic shaping this cycle will be inevitable household sector de-leveraging, that is, restoring a sense of health to consumers’ balance sheets. Given falling house prices, and a low savings rate, this is likely to be a drawn out and arduous process as consumers have only one avenue of recourse: reduce spending.

Eventually, day will once again follow night as the sun invariably rises in the morning. A weaker currency (watch this space over the coming months) will help underpin the upswing. Yet, the critical seeds for the next upswing need to be sown by productivity growth, which leads the cycle. We’ve noticed some worrying trends in productivity growth over the past few years, and if we continue the current trajectory, growth will remain anaemic beyond 2009, irrespective of good fundamentals such as high commodity prices.

Offshore developments

Squawk. Polly wants a cracker.

While the prevailing view or hope at present is that the worst of the global credit crisis may be over, the real economic effects are only starting to be felt. The International Monetary Fund (IMF) has revised down their latest global forecasts. They have slashed their US growth forecast for 2008 and 2009 to 0.5 and 0.6 percent respectively – essentially predicting that the world’s largest economy will be in recession and effectively stay that way for a while. And while the Fund still sees above trend growth for emerging economies, they also see a 25 percent chance that the global economy will enter a recession.

An international organisation such as the IMF tends to be conservative in their assessments. As such, when they are so circumspect, we must take notice.

Pieces of eight.

An uncertain global backdrop is expected to impact on the New Zealand economy in a number of ways. First, we will continue to see a lot of volatility across the currency and equity markets. Second, investors (financiers of New Zealand’s penchant for housing) will continue to demand a higher risk premium, and this will be reflected in retail lending rates. Finally, as everyone competes aggressively for a limited pool of savings, deposit rates will be elevated. This is encouraging better savings behaviour, but also raising the hurdle that rate yields, dividends and capital gain expectations need to cross in order to put money to work in housing and equities. Cash remains king, and will do so for some time.

Mortgage borrowing strategy

Our borrowing strategies remain largely unchanged from last month. We continue to expect wholesale interest rates to begin to fall in 2008 although this may not necessarily manifest in lower retail rates given the global credit environment. Given signs of an abrupt stalling in economic momentum, we favour shortening duration to between 1 and 2 years.

Our view

Recent reads on inflation show that pressures remain intense. Pricing intentions and capacity utilisation are rising, and cost-push forces coming from high food and petrol prices remain strong. Although the latest CPI release is unlikely to have provided any surprise that would cause the Reserve Bank to change their stance at their upcoming *OCR Review*, a lack of inflation headroom means they lack the ability to take too softer tone in response to weak growth.

Economic activity is clearly slowing considerably faster than the Reserve Bank was expecting in March. Although recent speeches from Governor Bollard have acknowledged the markedly weaker domestic growth profile this year, he remains sanguine about the prospects for New Zealand's major trading partners (an area where we are more circumspect) and worried about inflation pressure. Where we also appear to differ from the Reserve Bank is in our assessment of the flow-on impact of a turn in the global credit cycle. This is keeping pressure on retail rates to increase and risks taking monetary conditions from being restrictive, to bordering on severe levels. Just as the credit cycle "leaned against" the Reserve Bank's attempts to slow the economy on the way up, the danger is that the Reserve Bank fails to recognise the significance of the credit channel as a driver of slower momentum as the credit cycle flows through.

However, weak growth by itself is not a sufficient prerequisite for the Reserve Bank to change their stance. They need to be sure it will translate into less inflation. Previous cycles tell us that non-tradable inflation turns sharply when growth slows sharply. But the link between the two resides in the labour market, which needs to turn, in order for medium-term inflation pressure to ease.

We continue to look for rate cuts from the September quarter, and believe the real risk at this juncture is that the easing cycle is very aggressive, with movements down in 50 basis point clips. However, as we stated last month borrowers need to be aware that this is likely to be slow to filter through to fixed lending rates given the altered credit environment and higher risk premium global investors are demanding to fund our savings shortfall.

Themes we favour in the current environment

We continue to view the two year part of the curve as the "sweet" spot. However, relative to last month we are more inclined to shorten the duration of borrowing somewhat to within the 1 to 2 year window. While we don't strictly like longer-dated borrowing, we still see some value further out as an insurance policy against a disorderly current account adjustment. By disorderly, we mean credit dislocation extends and global forces break the link between the New Zealand dollar and interest rates as risk is reassessed and peripheral investments are scorned. A lower currency lifts inflation sharply, leaving the Reserve Bank on tenterhooks, and possibly forced to hike rates. A number of high current account deficit nations have seen such an outcome of late (e.g. Iceland)

- > **Borrowers should continue to have a degree of diversification.**
- > **The 2 year part of the curve, and even shorter duration borrowing, looks to be the sweet spot at this juncture.**
- > **While historically expensive, we continue to recommend a portion of borrowing be locked for five years** as an insurance policy against disorderly inflation and current account adjustments.

Feature article – Big picture themes

Fundamentals such as affordability suggest a decent correction in house prices is pending. Key themes in our eyes include the speculative, credit and land-driven aspect of the recent upswing, which implies the correction on the other side will be deeper, more protracted, but also far more concentrated in some key areas. However, a portion of the adjustment will also be achieved via steady income growth.

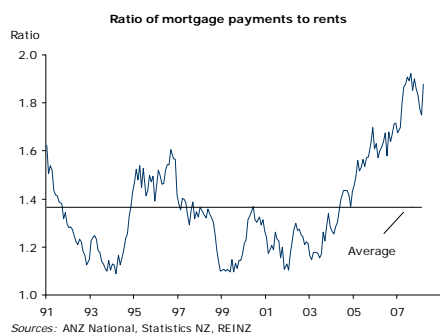
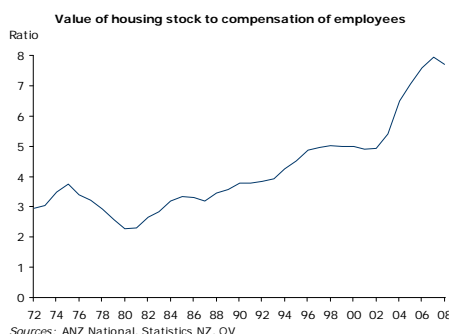
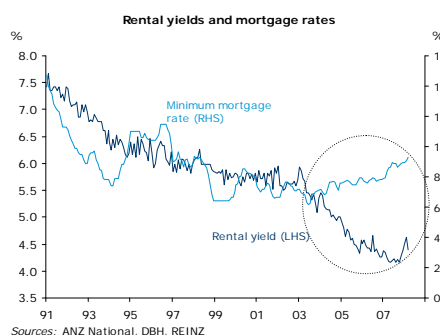
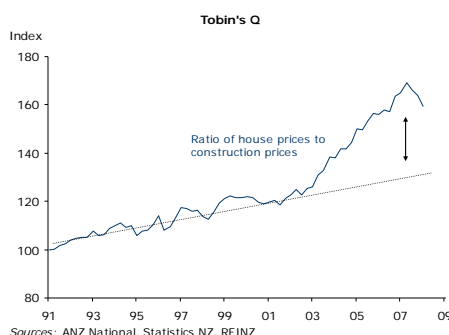
Avast ye bilge rat!

We are asked repeatedly for our views on how deep the inevitable adjustment in house prices will be. Indeed, it has been remarkable of late to see how quickly sentiment has turned from expecting a correction where prices flatten (the house prices never fall brigade), to some sizeable declines now being flagged. As is usual with much of the commentary, a lot is uninformed, lacks substance, and the danger is that the herd takes over.

We must say at the outset that forecasting both the extent and timing of a trough in the housing market is probably nigh on impossible. The property market is so diverse, and in some cases regional specific, that a generic view of the entire market will not necessarily apply in most instances. We need to remember that the property market is not a “pure” market in the classical sense. People simply do not sell unless they have to and prefer to ride out any periods of weakness. Rather than providing point estimates for any potential house price falls, we believe it is more useful to convey key themes that investors may find useful in making their own assessment.

Man the rigging and prepare to overhaul

Observation 1: The starting point for analysis is inevitably where the market resides relative to the fundamentals. We use a number of methods in this regard. These include affordability (as detailed in the top left-hand chart on page 4), Tobin’s Q (house prices relative to construction costs), the rental yield, the value of the housing stock relative to the compensation of employees across the economy and the ratio of mortgage payments to rents. More complicated approaches exist but they don’t change the conclusions. In interpreting such models or indicators we are also mindful of the immortal words of a former US Federal Reserve Governor who noted: *“use as many models as possible, but trust none of them”*. Hence the specifications are indicative as opposed to prescriptive.



Cat o' nine tails

Observation 2: The housing market is substantially overvalued. All the gauges are partial indicators and hence we consider it prudent to average across the measures. Affordability, as measured by the ratio of house prices to income (adjusted for interest rates), is some 40 percent above its average level since 1992. Mortgage payments to income are also around 40 above their average since 1992. We admit that these indicators are likely to increase over time as the size and quality of homes improves, however, most of the increase has come in the last five years, so we would hardly call it a gradual upward trend. Rental yields are wallowing, particularly when compared with mortgage rates up over 9 percent. Although rents have increased recently, they still have some way to go. The ratio of rental yields to the minimum mortgage rate is some 30 percent below its average since 1991. In terms of Tobin's Q, the current level is currently around 25 percent above where the trend over the previous decade would suggest. Averaging across all the partial indicators suggests house prices could be between 30-40 percent overvalued.

Observation 3: This does not mean houses prices need to fall by the same. The fundamentals for housing are determined by both movements in the numerator (typically house prices) and denominator (typically some income variable or derivative). It has been frustrating of late that some have called for material outright declines based on the former without recognising the latter.

The typical NZ property cycle has tended to "end" or correct via two mechanisms. First, house prices fall. Historically dips have not been large in nominal terms, but can be substantial if looking at real house prices (i.e. excluding inflation). This was shown in the mid to late 1970s when real house prices fell 30 percent following a boom that was similar to the recent upswing. Second, as income or rents (the denominator) rise over time, property prices become more affordable or less extended relative to the fundamentals. Indeed it has been the latter channel that has typically played the largest role in improving valuations. Four years of five percent income growth can improve a property's affordability by 20 percent. Hence, we tend to see property cycles where prices are flat for four years after a five year boom. If our starting point is that house prices are 30 to 40 percent overvalued, we can easily envisage combinations of 10 percent falls in house prices, and 5 to 7 years of flat house price growth, or a larger near-term correction, but less elongated period of flat growth.

Observation 4: This cycle is looking different in some regards.

- > It has been the biggest boom in history. House prices have doubled since 2002. Indeed, the current housing cycle has been both the largest upswing in magnitude, but also the longest in length since the mid 1970s.
- > The last legs have been a credit or speculative-driven expansion. While a lot of commentators point to migration as being the big driver of the housing market, migration peaked in 2003 and slowed thereafter. The last run-up in property prices (2006 and early 2007) was clearly credit and speculative-fuelled.
- > Land as opposed to the price of the dwelling itself has accounted for a large chunk of the rise in property prices. The median sale price for sections has risen 130 percent between 2002 and 2007. If we do some rough and crude maths and deduct the median section sale price from the median sale price, the implied dwelling itself has increased in price by less and 67 percent over the same period.
- > Supply-demand balance indicators are broadly balanced (refer chart page 4).
- > Households carry a lot more debt relative to previous cycles, giving less scope for a leveraged floor. Household debt as a percentage of disposable income has risen to a whopping 164 percent as at the December 2007 quarter. This is up from 116 percent at the end of 2002. As a result of this greater stock of debt, and higher interest rates, debt serving has risen to 14.5 percent of disposable income.

Davey Jones' locker

- > The economy is facing far greater inflation pressure. This implies a continued disinflationary stance by the Reserve Bank via tight monetary policy. Seeing as a far greater proportion of borrowing has been locked in for a fixed-term, this leaves less scope for borrowers to take advantage when rates do eventually and aggressively fall. Just as the Reserve Bank's impact was dulled by borrowers moving onto fixed-term rates, the same is likely to be the case when the Reserve Bank decides that monetary policy stimulus is required.
- > There has been no period in New Zealand's history when the housing market has been as weak as at present, when the labour market has been as strong. What does this imply for the housing market once the labour market begins to turn and unemployment increases? There is a sense of inevitability about a rising unemployment rate if the Reserve Bank is going to get inflation down.

Observation 5: Such differences are expected to manifest in a number of ways.

Yo ho ho and a bottle of rum.

- > When you have the biggest boom, we suspect historical benchmarks of the average "dip" are largely irrelevant. House prices will fall.
- > This unwind will be far more speculative-dominated relative to previous cycles (implying an even larger price adjustment), particularly in relation to the price of land. Speculative driven hot spots that had surged massively such as Taupo and Central Otago Lakes, could be vulnerable. Regular readers will remember our analysis on regions that have a high proportion of apartments, and sections on the market. We'll update this analysis over the coming months.
- > The trough is likely to be more protracted and elongated given the household balance sheet position and time it will take to repair. The credit nature of the global event is implicitly leading to tightened credit criteria, which will accentuate weakness.
- > Interest rate (cash-flow) relief will be slow to support the investor market as retail lending rates are not set to come crashing down. The Official Cash Rate will (we believe), but retail rates will not, given the global environment.
- > The next leg will be driven by a change in employment prospects, with such an outcome key to reducing inflation pressures and hence allow the Reserve Bank to begin to provide interest rate relief.

Observation 6: It is not all one way traffic. As the old saying goes, if you strip out all the positives the outlook will be negative.

The overvaluation measures could be considered at the top end of ranges. Less economic volatility, and greater employment certainty (abstracting from a pending cyclical turn in the labour market) support a structural uplift in a household's ability to service a higher debt level relative to the preceding decades. It's easy to see migration inflows turning aggressively up in the year prior to the Rugby World Cup. A by-product of the inevitable rebalancing phase will be a lower currency, thereby making NZ property cheaper overseas. We remain positive about NZ's long-term economic prospects given a favourable outlook for soft commodity prices as the Asian region flourishes. There is ample liquidity waiting patiently for precisely the dip a lot are projecting, which ironically means the floor may appear earlier.

Watch for the housing equivalent of sea dogs.

Observation 7: So our advice (oops, given the Investment Advisers Disclosure Act, we'll rephrase that to our "humble opinion") to investors is three-fold. Beware of special deals and trying to catch falling knives in the near-term, particularly in speculative areas. Brace for an elongated adjustment that has a way to go yet. Quality, like it does time and time again, will invariably count, no matter what quadrant of the economic cycle we reside.

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 March 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	6.2	-1.6	140	(-19%)	61	Where selling a house takes a long time, me hearties
Auckland	-1.4	-4.3	1,292	(-27%)	37	Scallywag prices over the first 3 months of the year
Waikato/BOP/Gisborne	0.0	-0.9	596	(-32%)	49	Aaarrghh! Hang 'em house prices from the yardarm
Hawke's Bay	-0.4	0.8	169	(-36%)	60	Aye, tis time to sell a house has turned to shark bait!
Taranaki	-2.7	-2.0	125	(-29%)	59	Taranaki's median house price visits Davy Jones' locker
Manawatu-Wanganui	-2.2	-3.6	190	(-46%)	57	House sale numbers got keelhauled in March
Wellington	9.3	2.0	504	(-26%)	39	Strong annual growth among the northern landlubbers
Nelson-Marlborough	-3.5	-1.1	164	(-27%)	40	Avast, ye! The largest annual price fall across the fleet
Canterbury/Westland	3.7	0.2	664	(-25%)	44	The time to sell a house whipped by the cat o' nine tails
Otago	4.8	-1.7	208	(-26%)	42	X marks the spot where sale numbers have been buried
Central Otago Lakes	15.4	5.6	81	(-10%)	60	Yo ho ho. Sale prices have improved over recent months
Southland	21.3	5.2	140	(-33%)	30	By the powers! Nay lily-livered landlubbers down thar!
NEW ZEALAND	1.6	-2.0	4,203	(-31%)	42	Terror and skulduggery on the high seas

Key forecasts

Economic indicators	Actual			Forecast						
	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
GDP (ann avg % chg)	2.7	3.1	3.2	2.7	2.1	1.1	0.6	0.6	0.7	1.2
CPI inflation (%)	1.8	3.2	3.4	3.2	3.6	3.2	3.0	2.8	2.7	2.7
Unemployment rate (%)	3.5	3.4	3.5	3.5	3.6	3.8	3.9	4.0	4.1	4.2
Interest rates	Actual			Forecast (end month)						
	Feb 08	Mar 08	Current	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Call rate	8.40	8.67	8.25	8.25	8.00	7.50	7.00	6.50	6.00	6.00
90-day bank bill rate	8.8	8.9	8.9	8.8	8.4	7.7	7.1	6.6	6.2	6.2
Floating mortgage rate	10.5	10.7	10.2	10.2	10.0	9.5	9.0	8.5	8.0	8.0
1-yr fixed mortgage rate	9.8	9.9	9.9	9.9	9.7	9.2	8.7	8.2	7.9	7.9
2-yr fixed mortgage rate	9.6	9.7	9.7	9.7	9.6	9.1	8.7	8.3	8.0	8.0
5-yr fixed mortgage rate	9.1	9.3	9.4	9.4	9.3	8.8	8.4	8.1	7.9	7.8

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