

NEW ZEALAND ECONOMICS ANZ PROPERTY FOCUS

MARCH 2011

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SQUARE ONE

SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we revisit the regional housing demand/supply balances.

THE MONTH IN REVIEW

Signs of improving activity (house sales, building consents) – though far from conclusive – have now been quashed as uncertainty surrounding a local natural disaster and now a foreign one to boot dominates. Looking forward, we envisage that the cut to the Official Cash Rate and mortgage rates will provide some relief to the property market. But the scale of challenges is immense.

PROPERTY GAUGES

The RBNZ's cut to the OCR has resulted in a drop in mortgage rates. The rate cut is designed to shore up confidence and support the economy during a very fragile period following the earthquake. The big uncertainty is whether households choose to spend some of their lower mortgage servicing costs, or use it to pay down their debt faster. Funny how sometimes it is difficult to get households to save when you want them to, and now to spend when you need them to.

ECONOMIC BACKDROP

Local and global seismic events have effectively quashed a recovery until late 2011 and 2012, though off a lower base. The speed of the Government's policy response in relation to Christchurch is critical. The experience of Chile shows that a concerted and speedy effort can see a quick turnaround in economic prospects in growth terms, though the hit to the nation's wealth will be long-lived regardless.

MORTGAGE BORROWING STRATEGY

Short-term mortgage rates have fallen, mirroring the reaction in wholesale markets to the OCR cut by the Reserve Bank. The floating rate remains the cheapest rate available to homeowners, and not surprisingly, more borrowers than ever are now on a floating rate. The question is, now that rates have fallen, does it make sense to lock in for a longer period? Our feeling is that it does not.

FEATURE ARTICLE – HOUSING SHORTAGES IN AUCKLAND AND CHRISTCHURCH

Two years ago, we did some analysis highlighting that no shortage of housing existed across NZ in aggregate, although regional disparities existed. Prior to the Christchurch earthquake, the picture was the same. Given the destruction to the housing stock in Canterbury, a housing shortage has now emerged in that region. While there is the potential for some parts of the country to partly absorb any outflow of people from Canterbury, there is no capacity at present for Auckland to handle a big inflow.

THE MONTH IN REVIEW

Signs of improving activity (house sales, building consents) – though far from conclusive – have now been quashed as uncertainty surrounding a local natural disaster and now a foreign one to boot dominates. Looking forward, we envisage that the cut to the Official Cash Rate and mortgage rates will provide some relief to the property market. But the scale of challenges is immense.

STATISTICS NZ, VALUE OF BUILDING WORK PUT IN PLACE - DECEMBER

In a state of limbo.

The volume of all building work rose 1.1 percent in the December quarter, following a 3.2 percent fall in September. With **the volume of residential construction work more than one-third below mid 2007 peaks**, fortunes in the residential construction sector have not been particularly good over the last few years.

STATISTICS NZ, BUILDING CONSENTS - JANUARY

Rebound but still down.

Following a 18 percent plunge in December, a rebound in residential consents was inevitable in January. However, the 9.6 percent rise was a damp squib in context, leaving the level 19 percent lower than a year ago. It suggests **there will not be much new dwelling construction activity over the first half of this year.**

RESERVE BANK OF NZ, MONETARY POLICY STATEMENT - MARCH

Cut delivered, but for how long?

The RBNZ delivered an insurance cut of 50bps in response to the Christchurch earthquake. The broad spirit of their assessment is that economic activity will be much weaker over the first half of the year, before rebuilding sees strong growth return in 2012. The pre-emptive nature of the cut suggests that the RBNZ is front-running some weak economic data which is expected to appear over the next few months. We have pencilled in the first rate hike for December 2011, given our view that inflation will prove less benign than the RBNZ has projected, and that reconstruction efforts will begin in earnest by the end of Q3.

RBNZ, CREDIT GROWTH – JANUARY

Not much happening.

The level of housing credit inched up 0.1 percent in January. But the annual rate of growth slipped from 1.8 percent to **a new record low of 1.7 percent.**

REINZ, HOUSING DATA – FEBRUARY

Canterbury's contribution will be missed.

In seasonally adjusted terms, the number of house sales rose 3.0 percent, only partially bouncing back after a 7.3 percent fall in the previous month. Sales were 10.5 percent lower than a year ago. House prices rose 2.2 percent on a nationwide basis, more than offsetting January's fall, but were flat compared to a year ago. **In Canterbury, seasonally adjusted sales fell 28.0 percent**, reflecting that sales activity evaporated following the quake.

STATISTICS NZ, NET MIGRATION - JANUARY

Under pressure.

Permanent and long-term arrivals rose by 1.6 percent in January (s.a.), while departures rose 6.1 percent. **Annual net migration at 8,689 persons is well below the net inflow of 22,600 persons at the start of last year.**

ASSESSMENT

The housing market has been thrown another curve ball. Typically, there are two schools of thought on prospects, depending on whether you believe household balance sheet or supply-demand balance is the dominant force. We're in the former camp. Seismic events will add more to the debate. On the one hand balance sheets have taken a hit and we expect further consumer caution. But some housing stock has now been destroyed, opening up a bigger shortage, though a possible migration exodus may stymie this. All up, we're still on the balance sheet side of the contest.

ECONOMIC BACKDROP

The RBNZ cut the OCR by 50bps last week, and retail banks have been quick to pass it on with a similar reduction in the floating rate. This follows cuts to fixed rates the preceding week. With almost half of all mortgages now on floating, the effect on household cashflows will be immediate. The rate cut is designed to shore up confidence and support the economy during a very fragile period following the earthquake. The big uncertainty is whether households choose to spend some of their lower mortgage servicing costs, or use it to pay down their debt faster. Funny how sometimes it is difficult to get households to save when you want them to, and now to spend when you need them to.

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

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

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

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

MIGRATION. A key source of demand for housing.

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

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

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

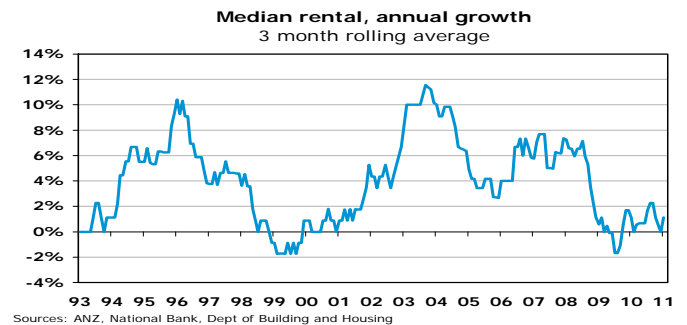
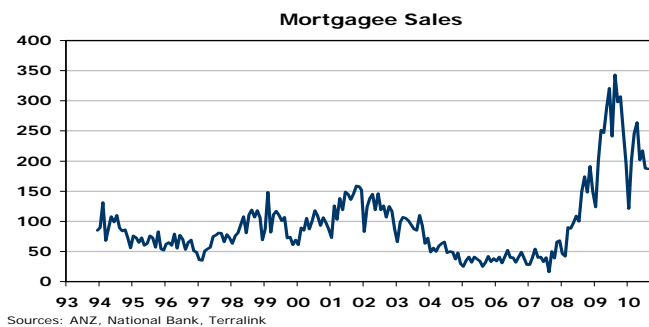
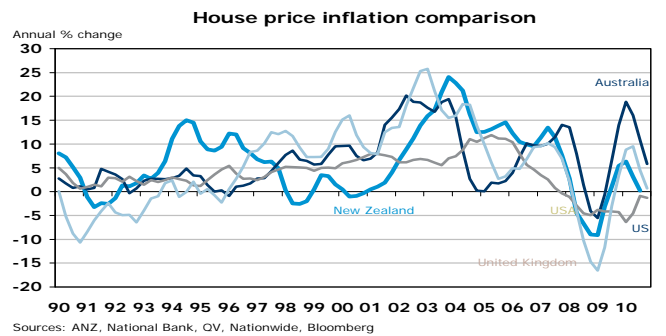
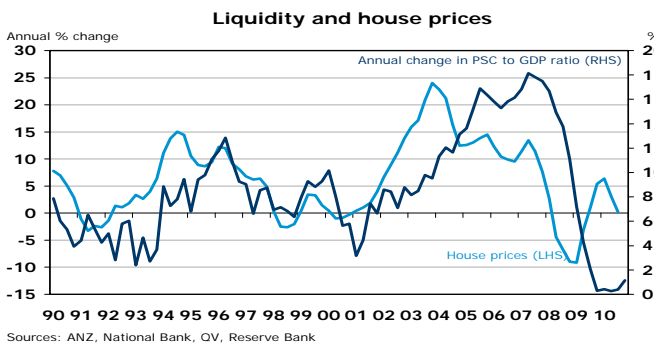
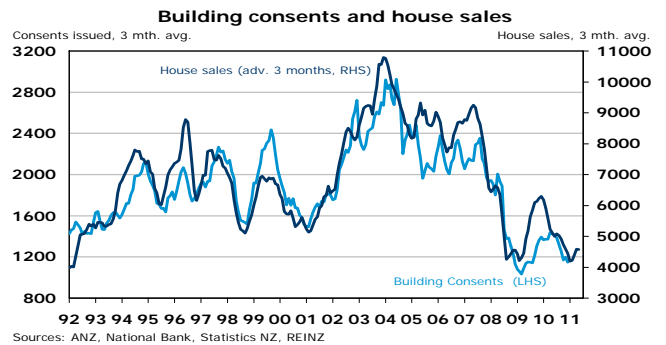
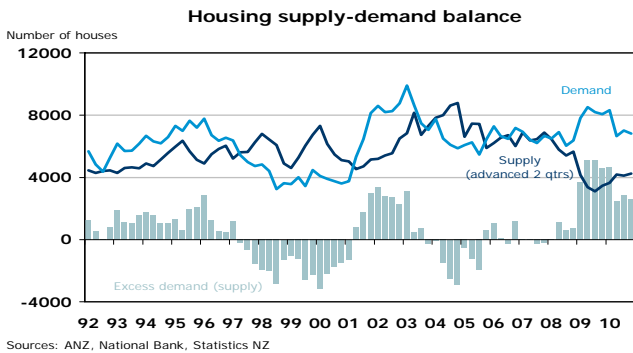
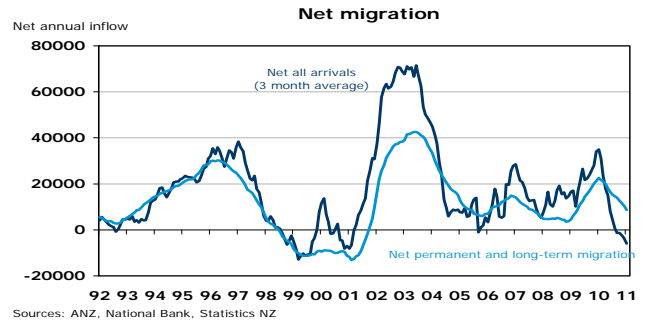
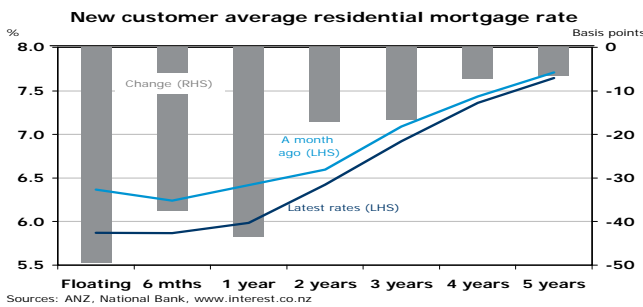
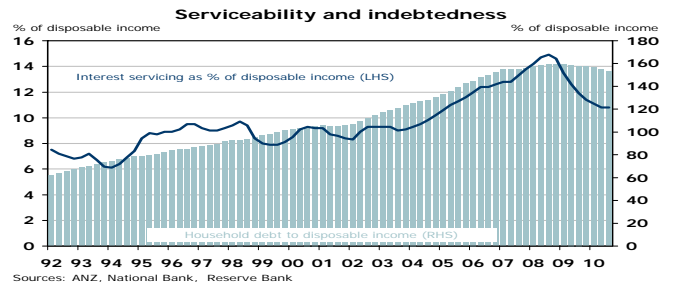
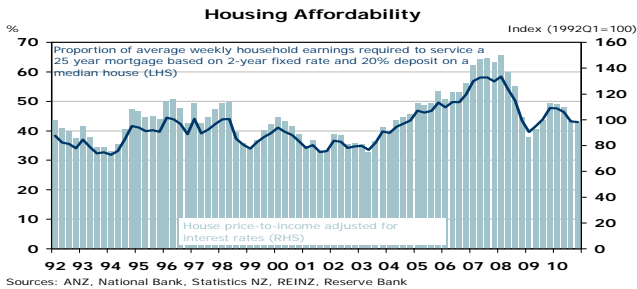
GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

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

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

Indicator	Level	Direction for prices	Comment
Affordability	Will improve	↓	The recent cut in mortgage rates will improve affordability but level still too high.
Serviceability / indebtedness	Saved by deleveraging	↓	Expect interest servicing to ease further but level still pointing down for prices.
Interest rates	Lower for a limited time	↑	Cuts across the entire mortgage rate curve, with larger cuts for the shorter rates.
Migration	Easing	↔	Migration flows will become migration lows.
Supply-demand balance	Regional gaps opening up	↔/↑	The excess of demand over supply remains at elevated levels and is going to get bigger in Auckland and Christchurch. (see feature article on page 7)
Consents and house sales	Lifting but very low	↔/↑	The rolling three month average of the number of house sales has ticked up, but not so for residential consents.
Liquidity	Tick up	↓	Households are still deleveraging and a negative savings rate suggests some way to go.
Globalisation	Flat-lining	↔	Global annual house price growth is slowing.
Mortgagee sales	High but dated	↔	Remains high but the data is not timely, with September the latest observation.
Median rent	Upward	↔	The latest tick-up could become more commonplace.
On balance		↔/↓	The quake's impact will be with us for quite a while.

PROPERTY GAUGES



ECONOMIC BACKDROP

Seismic events – both local and global – have effectively quashed signs of recovery. We expect momentum to recover as 2011 progresses – and the recovery is likely to be stronger in late 2011 and 2012, though off a lower base. The speed of the Government's policy response in relation to Christchurch is critical. The experience of Chile shows that a concerted and speedy effort can see a quick turnaround in economic prospects in growth terms, though the hit to the nation's wealth will be long-lived regardless.

OUR CORE ECONOMIC VIEW

The economy was recovering nicely up until the middle of February. 2011 had a different feel in the first six weeks of the year than how 2010 closed. Commodity prices were surging, confidence was improving, investment was picking up and mortgage approvals were pointing to better times ahead for property volumes. It was far from one way traffic, though, with the likes of the retail sector still struggling.

Seismic events, however, have changed the landscape. New Zealand's overall wealth has taken a substantial hit with an estimated \$15-20 billion of capital destroyed. The rebuild and insurance associated will compensate, but replacing lost capital is simply not the sort of growth one would wish for. In the near term a lot of growth will be displaced – pockets of Christchurch remain non-operational and the city represents 10 percent of national GDP. The earthquake is also likely to reinforce the mood of consumer restraint we have been seeing, with the process of household deleveraging still having some way to run.

Thankfully NZ's economic framework has stepped up to the plate. The currency has fallen – and this has been exaggerated by Japan's seismic corollary. Fortunately, the debate surrounding NZ having a fixed currency fell on deaf ears: we'd really be in the pickle now if the currency had been pegged. The exchange rate is a key shock absorber and has adjusted lower – a correct adjustment given economic developments. The RBNZ has cut interest rates, describing the rate cut as an *insurance measure*. This was a brave move given that inflation is 4 percent – but appropriate when you consider the scale of challenges ahead. Fiscal policy and the Government have been quick off the mark offering job subsidies, and this will surely be the start of numerous packages to help the economy and Christchurch out. The government has low levels of debt and now is precisely the time to lean on the government's balance sheet.

We expect the economy to remain in limbo for another six months before recovering strongly in late 2011. By that stage rebuilding-related activity, the Rugby World Cup and diffusion of strong commodity prices into the broader economy should manifest. At this stage we'd expect the RBNZ to reverse its supportive interest rate cuts. The experience of Chile – which suffered a similar earthquake in early 2010 – is that a speedy fiscal policy response can see a sharper economic turnaround. **But we need to emphasize that while we expect growth, this will not compensate for the capital lost, so it's a hollow measure to focus on.**

We're at pains to emphasise the dual nature of the shocks the NZ economy is now navigating. The economy needs to rebalance in favour of export-orientated earning over domestic spending, at a time when it now also needs to deploy resources to restore destroyed capital stock that is by-and-large related to the domestic economy. This is a tall order and will stretch the economy for years.

Residential and business investment have borne the brunt of the rebalancing process in the New Zealand economy to date. Both have declined sharply as a share of GDP. This is not a sustainable adjustment, as the former is opening up a supply-demand imbalance for the housing stock, and the latter does not bode well for future productivity trends. Non-residential construction and residential investment are both set for a major boost beyond the normal pro-cyclical upswing: both components are set to account for as large a share of output as when the economy was white-hot in 2005-2007 – and this time over 5-10 years! If this work displaces output in other sectors of the economy, imbalances of old may emerge. Certainly, a larger current account deficit (abstracting from favourable one-offs from reinsurance inflows) is to be expected, but we are also talking about imbalances in a number of other areas, and higher inflation.

Given that investment will suck up a greater share of resources over the coming years, there will have to be an offset and more likely than not this will be consumption. All parts of the economy cannot grow above trend – we don't have the supply side capacity. This does not mean falling consumption, but certainly it will need to expand at a slower rate than GDP as investment will certainly grow faster than the economy as a whole. If we don't see this sort of offset, we'll be set for a massive blow-out in our current account deficit and an even more lopsided economy. In practice this may well be inevitable.

MORTGAGE BORROWING STRATEGY

Floating mortgage rates and the majority of fixed rates have fallen in the past month in the wake of the Reserve Bank's decision to cut the OCR by 0.5 percent on March 10th. As a general rule, short term fixed rates have fallen the most, mirroring the reaction in wholesale markets to the OCR cut. The floating rate remains the cheapest rate available to homeowners, and not surprisingly, more borrowers than ever are now on a floating rate. The question is, now that rates have fallen, does it make sense to lock in for a longer period? Our feeling is that it does not. Indeed, not only are cheap floating rates here to stay for some time yet (read: till the end of the year), but the opportunity cost of fixing just went up substantially.

OUR VIEW

In our last edition we warned that mortgage rates were likely to fall, having seen wholesale interest rates collapse as the market moved to price in an Official Cash Rate (OCR) cut by the Reserve Bank. In the event, many mortgage rates fell, led by the floating rate. Although this was the last rate to fall, the fact that the Reserve Bank cut the OCR by half a percent (as opposed to a quarter percent as most people expected) meant that it fell further. As a result, **the floating mortgage rate is now at its lowest rate in 46 years**. Of course, the question is; will floating rates stay low? We believe they will, at least until the end of the year. Although the RBNZ have said they expect to be raising rates down the track, this is likely to be a late 2011/early 2012 story, once the rebuild of Christchurch has begun, and it is clear that economic activity is set to recover.

We should also add that we also do not expect floating rates to fall any further, even if the tone of economic data continues to deteriorate. This is because in cutting by half a percent, the RBNZ have pre-empted soft data, implying that the hurdle for another rate cut is high. **That's not to say we can rule out another cut. However, at the moment our feeling is that we'd need to see another left-field event or a substantial and sustained downturn in the economy's prospects for the Bank to seriously consider taking the OCR lower still.** The Christchurch earthquake was a tragedy, and lower interest rates will bolster confidence, but government policy will be far more effective than monetary policy.

Nonetheless, with the Official Cash Rate set to rise late this year or early next year, **this begs the question, is it worthwhile moving to a fixed rate? Our feeling is that it is not, and we don't favour doing so.** We say this for three reasons. First, we cannot discount the possibility that fixed mortgage rates (particularly the longer dated ones like the 4 and 5 year) may move lower yet. This is not a forecast; we should make that clear from the outset. However, we do note that global long term interest rates have moved lower since the Japan earthquake and tsunami (which happened after the RBNZ cut rates and after the last round of mortgage rate cuts), and if they remain low, mortgage rates may well follow. This will have more of an influence on longer term rates, as these rates are the most reactive to global interest rates. Second, there is a degree of conditionality around the expectation that the RBNZ will be lifting the OCR at the end of the year. This is our forecast, but there is a lot of water to flow under the bridge before this happens, and given recent global events, we need to be flexible in our thinking. **But of all the reasons to be cautious, cost is the most obvious. Not only is the floating rate the cheapest rate available, but having fallen, it is now even cheaper, increasing the opportunity cost of fixing.** This is borne out on our breakeven table below, which regular readers will be familiar with. This shows that you need to expect future rates to be a lot higher for it to be worthwhile fixing. That's a big call just one week after the Reserve Bank cut rates!

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.74%				
6 months	6.35%	5.55%	6.97%	7.09%	7.74%
1 year	5.95%	6.26%	7.03%	7.42%	7.99%
18 months	6.29%	6.54%	7.27%	7.69%	8.19%
2 years	6.49%	6.84%	7.51%	7.92%	8.41%
3 years	6.99%	7.37%	7.95%	8.22%	8.51%
4 years	7.45%	7.73%	8.14%		
5 years	7.70%				

HOUSING SHORTAGES IN AUCKLAND AND CHRISTCHURCH

SUMMARY

Two years ago, we did some analysis highlighting that no shortage of housing existed across NZ in aggregate, although regional disparities existed. Prior to the Christchurch earthquake, the picture was the same: there was no major housing shortage on a nationwide basis despite low building consents and ongoing population growth. Cumulative years of over-investment and a rise in the average household size have reduced the extent of housing demand growth over the past couple of years. However, it was a different situation in Auckland, where housing demand has consistently outstripped supply over the past six years. Given the destruction to the housing stock in Canterbury, a housing shortage has now emerged in that region, though depopulation will partially mitigate this. While there is the potential for some parts of the country to partly absorb any outflow of people from Canterbury, there is no capacity at present for Auckland to handle a big inflow.

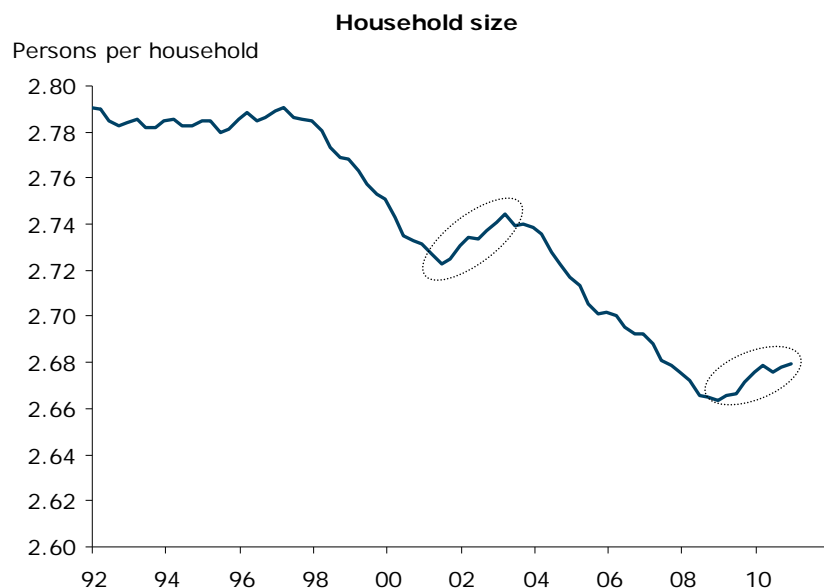
NOT BUILDING ENOUGH?

Building consents remain at depressingly low levels. When expressed in relation to the size of the population, the number of consents is at -2 standard deviations from historical average. In other words, consents should be running at around 2,150 per month, instead of the 1,200 that has been the average over the past six months.

On the face of it, the combination of low consents and ongoing population growth suggests a looming housing shortage. In simple terms, there were around 15,600 consents issued in 2010. Population growth was 46,300, consisting of net migration inflows of 10,500 and natural population growth of 35,800. If you apply the average household size to the growth in the population and assume that there was no change to the household size of the existing population, then the demand for housing would be around 17,000.

However, such static analysis fails to recognise the difference between the flow and stock of housing. It is important to look at the past cumulative years of supply-demand forces as opposed to just one year. During the building boom years, housing supply outstripped demand. As a result, it is possible for a period of under-supply to develop without creating an issue, as the past oversupply is absorbed. Of course, a limitation of that is that a lot of the stock during the boom years has been put in the wrong place (i.e. coastal properties and popular holiday spots).

One commentator took umbrage at our assessment two years ago, believing house prices were set for double-digit rises courtesy of what they perceived to be a clear shortage. Rents and housing related activity over that two year period show otherwise. **That is not to say supply-demand balance is not relevant, rather that greater forces were – and still are – at play, the greatest of which is pressure on the household balance sheet and the need for the household sector to deleverage and gets its financial house in order.**

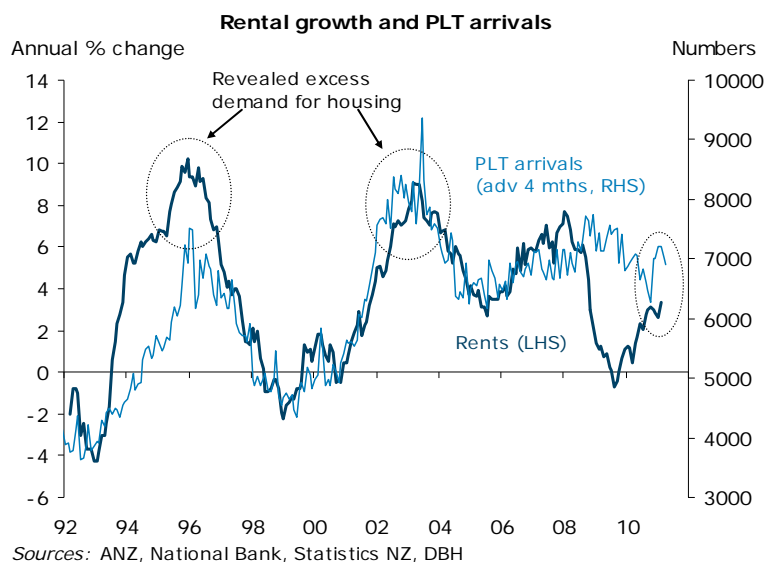


Sources: ANZ, National Bank, Statistics NZ

HOUSING SHORTAGES IN AUCKLAND AND CHRISTCHURCH

The extent of housing demand growth has also been dampened by a rise in the average household size. This is an important dynamic that has prevented an outright housing crisis from emerging. The average household size has been trending lower over time, but there have been periods where it temporarily bucked the trend. This tends to occur following recession periods. When times are tough and jobs are harder to come by, the kids stay with mum and dad for longer rather than venturing out on their own. People take on flatmates in order to spread the cost of living around. Since early 2009, the average household size has risen from 2.66 to close to 2.68 by the end of last year. This movement is not far off from the increase seen between mid-2001 and early 2003, when the average household size increased from 2.72 to 2.74. While difficult to demonstrate, we strongly suspect household size is partly related to debt levels in general: rising debt as a share of income is associated with a falling number of people per household. One way to think about this is that the willingness to take on debt is partly a function of confidence in your future and such confidence also manifests in household size (i.e. whether you can afford to live at home, flatting, number of flatmates, buying etc). If true, then we suspect deleveraging – a decline in household debt to income (which has dropped from 160 to 155 percent) will also manifest in continued rises in the number of people per household. Of course other factors will be influential here, including divorce rates, and demographic and ethnic trends.

The changes to the average household size might seem small, but the impact on housing demand is large. If the average household size were to remain constant at the late-2008 level, this would have translated into an additional housing demand of close to 10,000.



Prior to the Christchurch earthquake, we estimate that the excess demand for housing at the nationwide level was not significant enough to cause a housing shortage. Population growth may have been 46,300 in 2010, but the increase in the number of households was only estimated to be around 15,300. Even when we factor in some form of depreciation of the existing housing stock, the housing demand-supply equation is not too far off balance. This is confirmed by the lack of upward pressure on rental price growth so far. If there was genuine excess demand for housing, rents would be going up by between 8 and 10 percent by now.

AUCKLAND IS THE EXCEPTION

When we look at the housing demand-supply situation at the regional level, a different picture emerges. We should note that regional analysis is hampered somewhat by the availability of data. There is good regional data on the number of building consents issued, so the supply side is easy to estimate. But the demand side picture is harder to collate. There are a lot of good Census data, but they are outdated (the last one was for 2006). We estimate housing demand based on Statistics NZ's regional population estimates and the average household size trend from past Census data. The regional data was scaled to ensure that the totals match the national number.

HOUSING SHORTAGES IN AUCKLAND AND CHRISTCHURCH

What we find is that there has been a persistent excess demand for housing in Auckland over the past six years. Other regions by and large do not have a large demand-supply imbalance. This finding should not be too surprising given that Auckland attracts a disproportionate share of new migrants. Wellington had excess demand between 2003 and 2007, but not since then. In other parts of the country, a clear excess supply is evident, as the overhang from the large development of coastal properties and holiday homes lingers in the market.

CANTERBURY NOW FACES SHORTAGES

Although Canterbury recorded an excess supply of housing in the past couple of years, our estimates do not take into account the destruction of the housing stock from the earthquake. With reports of 10,000 houses needing to be rebuilt and damage to 100,000 homes, the situation in Canterbury has now clearly swung into a housing shortage situation. It will be some time before major rebuilding can get underway, so the housing shortage will persist for a while. The extent of this will of course be influenced by the future population of Christchurch as distinct from the current population, an issue that will require careful monitoring.

There is some capacity for other parts of the country to absorb any outflow of people from Canterbury. The exception to this is Auckland, where its housing situation is already stretched. A lot of uncertainty remains over how many people will decide to permanently leave the Canterbury region as a result of the earthquake. As it stands, Auckland has limited capacity to absorb a large inflow.

THE UPSHOT

Our analysis pointed to a fairly even demand-supply balance at the nationwide level prior to the earthquake. The exception was Auckland, where demand has outstripped supply over the past six years. Should Auckland receive a disproportionate share of any outflow from Canterbury, it will place more pressure on the housing stock, helping to put a floor on Auckland house prices and leading to greater upward pressure on rents. Should resourcing for new dwelling construction become harder in Auckland due to diversion of construction-related resources to Canterbury, the housing shortage situation in Auckland will only intensify.

Calendar Years	Excess Demand (Supply) for Housing by Regions																
	Northland	Auckland	Waikato	Bay of Plenty	Gisborne	Hawke's Bay	Taranaki	Manawatu-Wanganui	Wellington	West Coast	Canterbury*	Otago	Southland	Tasman	Nelson	Marlborough	TOTAL NZ
1997	-530	180	-1110	-1100	-200	-100	-300	-420	-590	-110	-1400	-450	-540	-220	-130	-220	-7240
1998	-150	1020	-580	80	-90	0	-50	-200	-540	-170	-620	-30	-480	10	20	-40	-1820
1999	-490	-3500	-1030	-420	110	-230	-190	-240	-590	-180	-1020	-160	-280	-130	140	-70	-8280
2000	-240	280	-560	220	-90	-20	-170	-220	-420	-190	150	-60	-100	160	-30	10	-1280
2001	-340	-810	-790	-120	-190	-140	-60	-580	200	-110	-120	-520	340	40	120	-50	-3130
2002	-330	-970	-300	-380	-190	0	-180	-390	-270	-10	-570	-440	-170	-170	-180	-110	-4660
2003	-510	1860	-840	-390	10	-370	90	-140	180	40	-280	-600	0	-240	-60	-100	-1350
2004	-370	-310	50	190	-20	220	80	260	1220	-90	470	-130	80	220	80	-20	1930
2005	-150	1780	-310	-30	70	-150	0	-140	720	0	-110	-360	-320	-50	-110	-140	700
2006	-90	2850	-1010	-300	-50	-310	-320	-600	320	60	-20	-320	-350	20	-70	-90	-280
2007	-30	4700	-1140	-90	-70	-350	-380	-850	380	-260	-260	-190	-210	-70	-250	-170	760
2008	50	5110	-160	180	-140	-210	-150	-290	-100	-20	630	30	-290	-50	-200	-120	4270
2009	-40	2990	-370	-110	-100	-480	-270	-400	-40	-140	-320	-470	-300	-240	-60	-170	-520
2010	90	3080	-240	-70	-10	-170	-300	-340	-260	-70	-580	-310	20	-60	-80	-120	580

Note: A positive number indicates that housing demand exceeds supply. A negative number means that supply exceeds demand. * The Canterbury numbers do not take into account the destruction to the housing stock from the earthquake.

Sources: ANZ, National Bank, Statistics NZ

KEY FORECASTS

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

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

Housing market indicators for February 2011 (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	6.6	-0.3	91	(-2%)	98	The third month with the longest time to sell
Auckland	2.5	-0.6	1,663	(+9%)	41	Time to sell at 2 year high but lowest in NZ
Waikato/BOP/Gisborne	-3.4	0.5	670	(+10%)	63	The number of houses sold hit a 10-mth high
Hawke's Bay	-0.2	0.7	171	(+15%)	56	A week extra to sell a house in Feb than in Jan
Taranaki	1.8	1.2	221	(+21%)	57	The highest median sale price since April 2008
Manawatu-Whanganui	-0.2	-0.1	138	(+4%)	57	Annual change improved from -9% in January
Wellington	3.9	-0.7	516	(0%)	50	Median time to sell hits a 2-yr high of 50 days
Nelson-Marlborough	0.2	-1.2	156	(-5%)	43	The number of sales equalled a 2 year low
Canterbury/Westland	-4.6	-2.3	420	(-28%)	45	Recorded the weakest annual price change
Central Otago Lakes	0.6	1.2	72	(+31%)	66	Strong rebound in number of house sales
Otago	6.1	-3.1	200	(+18%)	48	Recorded the weakest 3-mth price change
Southland	10.4	6.7	113	(+4%)	50	Strongest annual percent rise in house prices
NEW ZEALAND	0.0	-0.1	4,547	(+3%)	48	Earthquake affecting the countrywide data

Key forecasts

Economic indicators	Actual			Forecast						
	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12
GDP (Ann Avg % Chg)	0.6	1.4	1.4(f)	0.9	0.4	0.4	1.0	2.0	3.3	4.0
CPI Inflation (%)	1.7	1.5	4.0	4.8	5.7	5.4	3.7	3.1	2.8	2.7
Unemployment Rate (%)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Interest rates	Actual			Forecast (end month)						
	Jan 11	Feb 11	Latest	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12
Official Cash Rate	3.00	3.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25
90-Day Bank Bill Rate	3.2	3.2	2.7	2.7	2.7	3.1	3.7	3.8	4.2	4.7
Floating Mortgage Rate	6.4	6.4	6.0	6.0	6.0	6.3	6.7	6.8	6.9	7.4
1-Yr Fixed Mortgage Rate	6.4	6.4	6.1	6.1	6.2	6.5	6.8	6.8	7.1	7.5
2-Yr Fixed Mortgage Rate	6.6	6.6	6.5	6.6	6.9	7.2	7.5	7.5	7.8	8.0
5-Yr Fixed Mortgage Rate	7.7	7.7	7.7	8.0	8.2	8.6	8.6	8.5	8.6	8.5

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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



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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

NEW ZEALAND DISCLAIMER

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

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