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Putting Humpty together again

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 the feature article is a response to some debate in the media about the current state of the demand-supply balance in the New Zealand housing market.

The month in review (page 2)

- A very weak economy spurred the Reserve Bank into action in July. While this has obviously been welcomed, the reasons for the reduction are perhaps not. Housing market indicators remain very weak.

Property gauges (page 3)

- Affordability (or unaffordability) has started to improve, but still has a way to go. Serviceability remains elevated and consents issuance is depressed. It could take a while for lower mortgage rates to impact materially on the market, given the opening positions.

Economic backdrop (page 5)

- In a move reminiscent of the Grand old Duke of York, the Reserve Bank have begun the slow march of interest rates down the hill. While providing some welcome relief, financial conditions remain tight, and the labour market continues to soften. We continue to envisage an elongated adjustment process, as households curb consumption and increase precautionary savings.

Mortgage borrowing strategy (page 6)

- With the RBNZ starting to cut rates, the big picture remains tilted towards relatively short-dated borrowing, and last month we recommended targeting a rate of one year or less. The broad spirit of this view remains intact, although with the market now expecting some pretty significant rate cuts going forward (and hence factored into borrowing rates), we are a tad more inclined towards 12 to 18 months as opposed to the 6 to 12 month part of the curve.

Feature article – A response (page 7)

- A commentator recently took us to task over some of our views, and our failure to understand the basic laws of supply and demand in relation to the property market – particularly, urban land policy. While such factors are certainly influential, we believe that other factors have been more influential in regards to the boom we've seen in house prices over the past few years.

Key forecasts (page 11)



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The month in review

A very weak economy spurred the Reserve Bank into action in July. While this has obviously been welcomed, the reasons for the reduction are perhaps not. Housing market indicators remain very weak.

- > **RBNZ Official Cash Rate Review – July.** The RBNZ reduced the Official Cash Rate (OCR) by 25bps, taking it to 8.00 percent. The cut was despite a high headline inflation rate, and the fact that inflation expectations remain elevated. This reduction in the OCR acknowledges that economic activity is far weaker than the Reserve Bank's June projections. Tighter financial conditions have obviously been influential, with the RBNZ noting "*the cost of funds raised abroad by banks has been rising in recent months as the international financial situation has deteriorated*". Any recovery is expected to be "gradual" through 2009 – and we expect that the Reserve Bank's next set of projections (to be released in September) will incorporate downward revisions to their 2008 and 2009 growth outlook.
- > **REINZ housing data – July.** The number of house sales rose by a seasonally adjusted 11.6% in July, following a 14.3% rise last month. Considering that the level of sales had reached their lowest levels since 1991 in May, the movements look to be a fair degree of recoil. The more telling indicator is the length of time it is taking properties to be sold. In seasonally adjusted terms, the median number of days to sell rose to an all-time high of 57 days, from 51 days last month. Although the rebound in house sales over the past two months may be a sign that some vendors are letting go and that a base for house sales may be forming, the fact that prices were unchanged in the month at \$340,000, suggests that are still a large number not fully adjusting their price expectations to the realities of the state of the market.
- > **Mortgage Lending – June.** Housing lending growth rose only 0.3 percent in June – the lowest monthly increase since the start of the series in 1991. Even the more timely 3-month annualised credit growth figure has slowed to a record low (4.7 percent). Annual growth in the series has slowed to 8.7 percent – the lowest rate of increase in six years.
- > **Building Consents – June.** Residential consent issuance fell sharply in June. Following a 40.8 percent fall in May, residential dwelling consent issuance fell a further 20.1 percent in June. Consent issuance has been incredibly volatile of late given the approval of some large apartment complexes in Auckland and Wellington, as well as the early Easter this year. Hence, some caution needs to be placed on the monthly movements. But volatility aside, the June numbers do look remarkably weak. The seasonally adjusted level of residential consent issuance is the lowest since October 1986.
- > **Employment – June.** March quarter employment weakness completely reversed in the June quarter. Employment grew by 1.2 percent in the quarter, completely reversing Q1 weakness. Hours worked also rose strongly, up 2.3 percent following a 1.7 percent fall in Q1. Looking at the first half of 2008 as a whole, employment growth was essentially zero – which is consistent with an economy on a hiring freeze. The unemployment rate is the best measure of conditions. With an unemployment rate of 3.9 percent, its still low, but has been steadily rising for six months.

Assessment

The past month has hardly been pretty on the data front, including the housing market, although the past week has seen some tentative signs of stabilisation and recovery in some leading gauges of activity. While the Reserve Bank's actions are obviously welcome, we need to bear in mind the reasons for the earlier than expected reduction in rates: the economy is far weaker.

**Up and down the city road,
in and out the Eagle.
That's the way the money goes
Pop! goes the easing.**

**And when they were only
halfway up,
they were neither up nor
down.**

**This is the house that Jack
hasn't built.**

Property gauges

Affordability (or unaffordability) has started to improve, but still has a way to go. Serviceability remains elevated and consents issuance is depressed. It could take a while for lower mortgage rates to impact materially on the market, given the opening positions.

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

This little piggy assessed the real estate market,

This little piggy stayed a homeowner,

This little piggy got rates biff,

This little piggy had none,

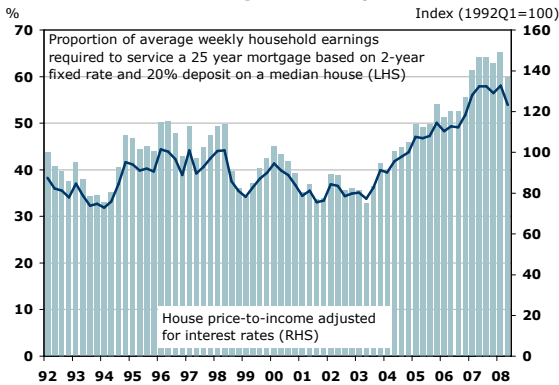
And this little piggy went... "Wee, wee, wee" all the way home.

- > **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.

House affordability is slowly retracing but this process will take time, as will the "pipeline effect" eventual easing in effective mortgage rates. The number of house sales ticked up in July but the more telling indicator is the length of time to sell – which has hit a record high. Prices remained unchanged and this will be the next step in the housing market adjustment, as vendors adjust their price expectations to match market conditions.

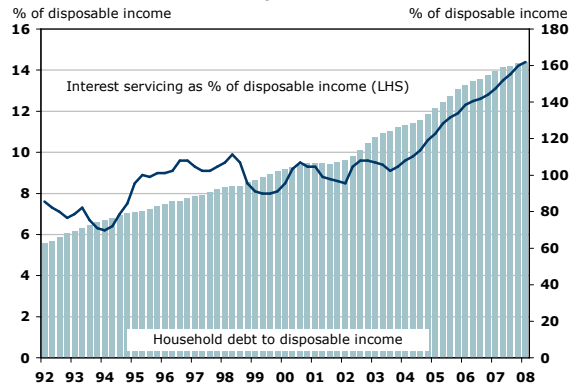
Indicator	Level	Direction for prices	Comment
Affordability	Expensive	↓	The OCR clock struck one cut and the affordability mouse is beginning its run down the clock.
Serviceability / indebtedness	High	↓	All the "wee, wee, wee" way down?
Interest rates	High	↔/↓	If the Reserve Bank gets its way, Incy Wincy mortgage rates will get washed down the interest rate spout.
Migration	Medium	↔	Rain, rain go away, the migrants will come again another day.
Supply-demand balance	Neutral	↔	Diddle, diddle dumpling, balanced like my son John - one shoe off, and one shoe on.
Consents and house sales	Consents down, sales rise	↔	Like the crooked man who walked a crooked mile, so to have building consents and house sales.
Liquidity	High	↓	House prices could eat no fat, liquidity could eat no lean.
Globalisation	Not that cheap	↓	Ding dong dell, house prices are in the well.
On balance		↓	When she got there, the cupboard was bare. So the poor little doggie had none.

Housing Affordability



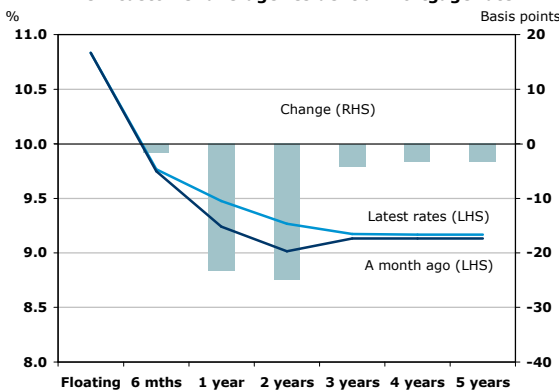
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



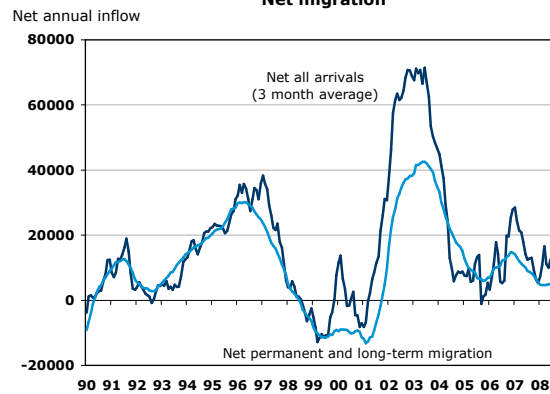
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



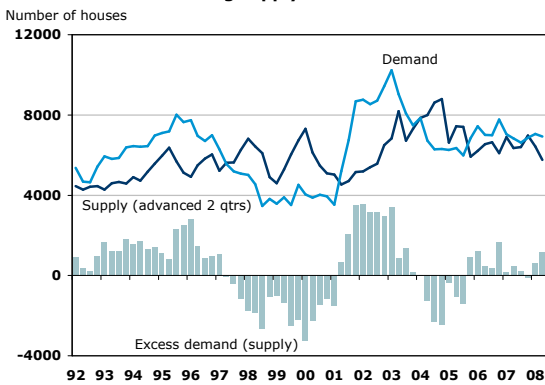
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



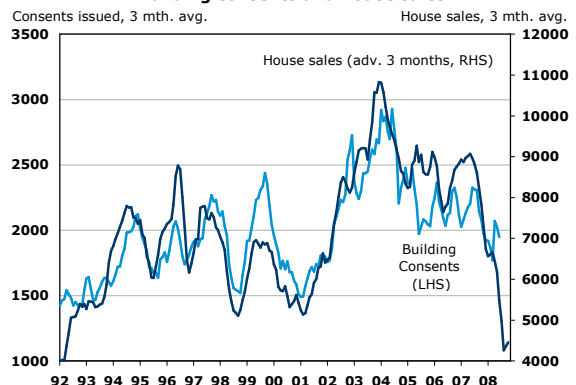
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



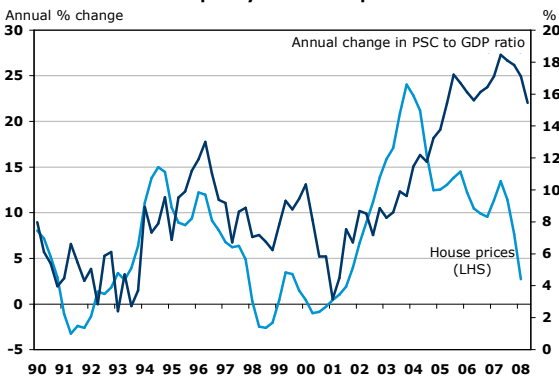
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



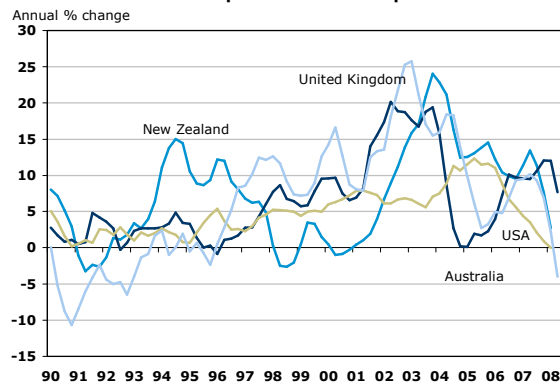
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

Economic backdrop

In a move reminiscent of the Grand old Duke of York, the Reserve Bank have begun the slow march of interest rates down the hill. While providing some welcome relief, financial conditions remain tight, and the labour market continues to soften. We continue to envisage an elongated adjustment process, as households curb consumption and increase precautionary savings.

Our core economic view

The first interest rate cut by the Reserve Bank last month, to eight percent, took some market commentators by surprise, but has since been fully vindicated by data and events since then. There is now almost universal acceptance that the economy headed backwards in the first half of the year, with a lot of uncertainty over the outlook.

Financial stabilisers have immediately swung into action. Fixed lending rates have nudged lower (in expectation of further falls in the Official Cash Rate) and the NZD has fallen considerably against the USD and on a TWI basis (although recovered of late against the AUD). The fall in the currency is a particularly encouraging aspect in terms of assisting the rebalancing of growth that needs to occur. This is also coming at the same time as petrol prices have eased, with 91 octane falling below \$2/litre. The NZX is up 10 percent from its trough. The opposition political party has announced it intends to bring forward the 2010 tax cuts to April 2009. Such forces are major cyclical support factors that will underpin an eventual recovery. Certainly, we're already starting to see some tentative signs of improvement in leading gauges, albeit off precipitous lows. With a host of indicators testing historical lows, it would have been truly perplexing if they'd continued to track south.

At this stage, we are coy about the speed for any potential recovery. We'd characterise developments as welcomed stabilisation, a healthy dynamic in itself.

While prospects of lower interest rates are an encouraging support factor to households, we need to be mindful that asset values continue to fall, mortgage rates are still higher than the rates that are rolling off, and the unemployment rate is rising as firms enter the next leg of the business cycle – cost containment and improving productivity growth. The stark reality is that imbalances such as a high current account deficit will take time to purge.

Hence we continue to envisage a slow and steady improvement (as opposed to a spectacular rebound) in momentum in 2009. Underpinning this prognosis is the notion that households are in for an extended period of de-leveraging, as imbalances in the form of a high current account deficit and low savings rate are addressed.

Offshore developments

Internationally, the global economy continues to slow. Europe is the latest area to report sharply slowing momentum, and even Australia – a major beneficiary of soaring commodity prices – has hit a wall. Speculation continues to surround Asia's prospects and we have rapidly moved back to a "re-coupled" world.

Commodity prices have fallen as a consequence, and we need to pay close attention to the reasons for those falls. While a lower currency is indeed welcome, the reasons for it are not. Remember 1997? Indeed, commodity prices appear to have considerable scope to ease after such a huge run-up. A year ago, who would have been excited about oil prices at US\$115/bbl? From a domestic flavour, we are also closely watching dairy prices. For now, it's a question of waiting for more information and keeping our legs, toes, and knees crossed.

**Sing a song of eight-percent,
a pocket full of rye,**

**Four and twenty tax cuts
baked in the fiscal pie.**

**When the purse was opened
the tills began to ring,**

**Oh, wasn't that a dainty dish
to set before the RB king?**

**Yes sir, yes sir, three bags
full!**

Mortgage borrowing strategy

With the RBNZ starting to cut rates, the big picture remains tilted towards relatively short-dated borrowing, and last month we recommended targeting a rate of one year or less. The broad spirit of this view remains intact, although with the market now expecting some pretty significant rate cuts going forward (and hence factored into borrowing rates), we are a tad more inclined towards 12 to 18 months, as opposed to the 6 to 12 month part of the curve.

Our view

The big picture for interest rates is that they are moving lower. Easing cycles are typically relatively large in magnitude (such as 200 to 300 basis points) so the broader view remains tilted towards keeping borrowing relative short in duration. While this certainly carries a cash-flow cost in the near-term, you stand to benefit from the associated pick-up and benefit as interest rates progressively fall. With the RBNZ now actually starting to cut rates, and signalling more to come given the weak state of the economy, the broad spirit of this view remains intact.

However, we also need to be cognisant with what the market has priced in, or expects. Remember, the fixed-term borrowing rate today are expectations as to what the RBNZ will be doing over the coming 12 to 24 months. With the RBNZ starting the easing cycle, the market of course has been quick to anticipate more. In fact there are now 150 basis points of rate cuts priced into the NZ curve. It is these expectations as opposed to cutting the cash rate itself that determines where the 1 and 2 year borrowing rate resides, although of course, it is also being heavily influenced by higher international credit costs.

We're expecting rate cuts like everyone else. However, relative to the market, we suspect the RBNZ will pause at some stage, so we've gone from being "dovish" relative to the market, to be mildly "hawkish". Inflation has not disappeared from the radar screen, despite a very weak economy. Hence, while we believe the market is moving in the right direction for rates, it looks to have moved a tad too far for now. The wild-cards in our view remain financial stability and the global environment. If we see a deterioration in one, the other, or both, there won't be a pause. This is where our bias resides, but we'll hold fire for now.

Twinkle, twinkle interest rate star,

How I wonder where you are?

Up above the yield curve so high,

OCR expectations



Sources: ANZ National, Bloomberg

Themes we favour in the current environment

We've tweaked our recommended strategy this month. Stepping back, borrowers should continue to have a degree of diversification. Relative to last month, we still like shorter dated duration borrowing, but are more inclined towards 12 to 18 months, as opposed to the 6 to 12 month part of the curve.

Like a diamond in the sky.

Feature article – a question of supply and demand

A commentator recently look us to task over some of our views, and our failure to understand the basic laws of supply and demand in relation to the property market – particularly, urban land policy. While such factors are certainly influential, we believe that other factors have been more influential in regards to the boom we've seen in house prices over the past few years.

"Economists urgently need to start living in the real world - by focusing on the structural urban issues."

Simple Simon met a pie(chart) man going to the fair;

Ouch! Statements such as this, along with a few others, appeared in a commentary that has been doing the rounds. A few mainstream media sources even reported on it. The background was an article that featured in *The Press*, in which our Chief Economist made reference to being rather perplexed why New Zealanders had proven so insensitive to high real interest rates, relative to our counterparts around the globe. The Reserve Bank has made references to the same, so it's really nothing new. But it obviously touched a nerve.

The answer according to the commentator (which we'll keep nameless) is that *"Should housing prices exceed three times annual household incomes - this is proof that there is some structural impediment to the supply of affordable housing."* It's all about supply and demand. *"Urban housing bubbles cannot form - if affordable new supply is allowed to meet increased demand. Just like computers, cars and any other household item. If affordable new supply is impeded as demand "kicks in" - this "scarcity" triggers inflated prices (fake value) - a bubble."*

Said Simple Simon to the pie(chart) man "Let me taste your ware".

To be fair, the commentator – in the interests of generating debate, did forward us the commentary. Such debate is welcomed, and the author actually encouraged us to respond. Indeed, if you suddenly see everyone rowing in the same direction, that's when warning bells should start ringing.

We won't go into the details, but the spirit of the commentary is clear. Structural (particularly urban) issues account for housing's relative unaffordability. There is certainly some support for this hypothesis.

The Reserve Bank has made references on numerous occasions to urban housing policy and land supply having a role. There is a host of international research, and domestically, Motu (a NZ economic and public policy research institute) has looked extensively at the role that: excess demand; restricted supply or land (zoning restrictions); and difficulties in the consent process have played in housing policy.

So, as an independent observer and practitioner, we find it hard to disagree with the spirit of what was said, although perhaps telling economists to live in the real world went a bit far. But such is the life of being a commentator and having a public profile. You risk such responses.

However, like most analysis, you need to be careful how far you extend it and the relative weight you place on it. Supply-demand issues are, and certainly have been, a factor. Yet you need to be careful stating how much of a role it has played.

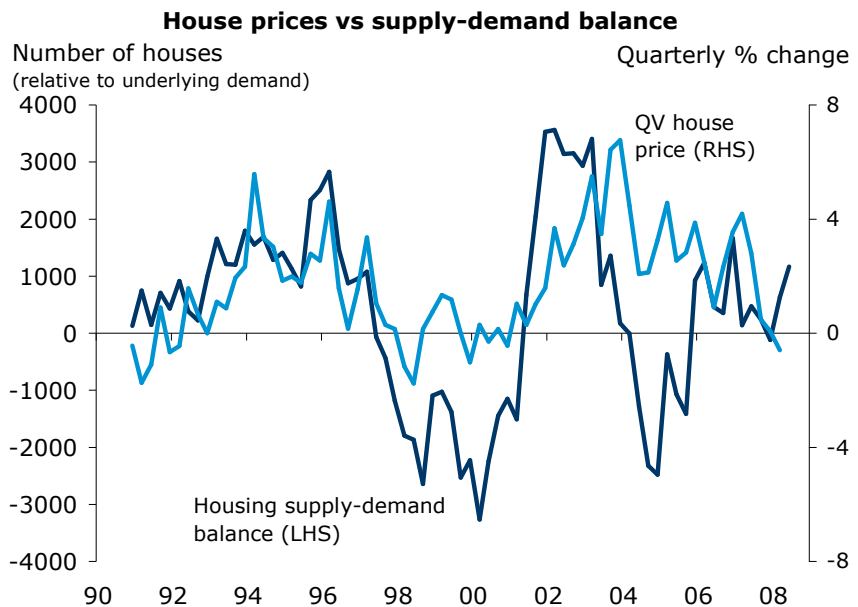
So in the interest of free and frank debate, here our some wider issues to think about.

First, the housing market is not exactly what we would consider a pure market *per se* where the laws of supply and demand can be strictly applied. Typically we see and hear the same story. If you can't get the price you want you just take it off the market. Hence, prices tend to be very sticky on the downside. We see the same sort of dynamic in the labour market. If you believed in simple supply-demand metrics, wages in NZ should have come crashing down during the 1980's etc when the unemployment rate was marching up and there was an excess supply of labour. Of course they didn't. They were very sticky. Hence,

we need to be cognisant of the reality of certain markets, such as housing in making sweeping assessments in terms of supply and demand.

Second, we have a few issues with the notion of housing policy being predominantly set with a view to providing a match between supply and demand. For sure, housing affordability and related issues are substantial policy challenges that should materially influence policy settings. Yet there are other areas to be mindful of. For one, there are strong lags involved, and by the time policymakers typically respond, or realise a response is necessary the horse has typically bolted. Additionally, policymakers' track record is very poor. Who, or why should we suddenly make them God in terms of trying to "fix" market disequilibriums? They can certainly try to iron out extremes. But just like the RBNZ and currency intervention, it is neither a policymakers' job nor desire to turn trends. All the international research tells people firmly that they can't. Finally, decisions by policymakers are undertaken for a host of reasons. A fair degree of Auckland housing policy for example is being influenced by a wider regional strategy for transport. Policy-making is neither black nor white. It involves trade-offs. As we head into the election, debate will no doubt rage about tax cuts, the potential economic benefit, who gets what amount and how they are funded, or potential implications for spending. But the key point is simply that for every policy decision, there is a winner, and other pockets who don't benefit.

Third, supply-demand indicators have not been seriously out of whack. The third chart in the left-hand column on page four, clearly bares this out. When we overlay supply-demand conditions on house price movements we can see a close relationship up to 1997, something reasonable around 1997 to 2001, but a breakdown from that period onwards. Clearly, other forces have been at work.



Fourth, house price gains have been too widespread and extensive for the urban supply-demand hypothesis to have **dominated**. Once again, this doesn't mean it hasn't been influential, merely just one of the many factors that has played a role. The table below details median price gains across NZ regions over the past six years. What it shows is it is the rural-aligned areas have experienced the strongest house price gains. Obviously commodity prices and catch-up will be playing a role here. Yet, even abstracting from that, there is consistent pattern. Auckland and Wellington (two areas where urban land policies are often discussed as having a key influence on house prices) have actually lagged the rest of the country over the past six years.

	Median house price (\$ 3-mth avg)	6-year % change
Northland	309,300	99.3
Auckland	434,500	65.5
Waikato/BOP/Gisborne	317,000	91.5
Hawke's Bay	270,300	100.5
Taranaki	268,300	144.7
Manawatu-Wanganui	224,000	118.2
Wellington	375,200	85.4
Nelson-Marlborough	334,000	114.3
Canterbury/Westland	298,300	113.1
Otago	235,000	148.7
Central Otago Lakes	523,000	138.6
Southland	184,800	169.8
NEW ZEALAND	341,700	84.0

Fifth, markets can typically diverge from fundamentals. There was no shortage of IT related stock (or euphoria) when the NASDAQ was going up. In another market, there were repeated comments from key stakeholders across OPEC about there being more than sufficient oil supply. Yet over the past year we've seen oil more than triple in price. Around the regions, we've constantly seen land carved off willy-nilly, as developments take place. So there's been no shortage of supply, yet land prices have continued to track up.

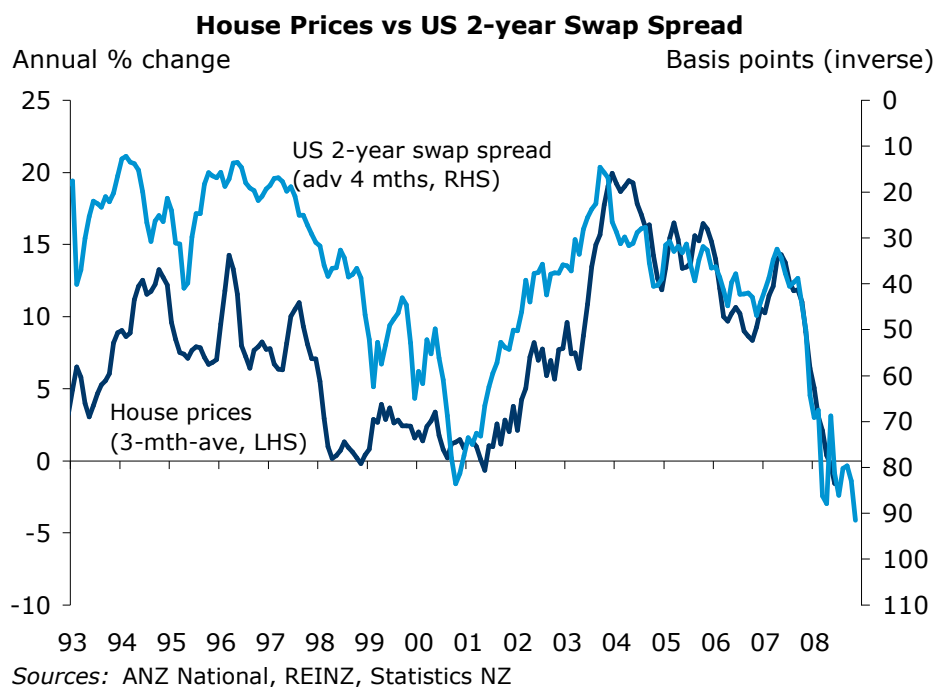
	Median section price (\$ 3-mth avg)	6-year % change
Northland	170,500	99.0
Auckland	272,300	120.4
Waikato/BOP/Gisborne	168,200	133.5
Hawke's Bay	150,800	121.5
Taranaki	127,500	230.7
Manawatu-Wanganui	108,200	144.0
Wellington	204,500	173.8
Nelson-Marlborough	213,200	151.8
Canterbury/Westland	183,200	108.5
Otago	120,500	158.2
Central Otago Lakes	247,500	157.3
Southland	62,700	114.9
NEW ZEALAND	176,700	102.3

**Mary, Mary, quite contrary,
how does your demand-supply
grow?**

So while we know that demand-supply balance is influential, and yes the rubber band invariably corrects when markets move too far from the fundamentals, we also know that markets are now as much about behavioural aspects as well as the fundamentals. Markets simply can (and will continue to) take on minds of their own.

It is this behavioural aspect we believe to have dominated. It's manifested through a number of avenues including: expectations for prices (double-digit); the availability and demand for credit as a result of its cheap availability around the globe; risk appetites in general (both in NZ and around the globe); and demographics such as the generation Y (or the Freddie Mercury generation) phenomenon where they "want it all and want it now". Put simply, it has been an environment of invincibility, but also with a strong financial accelerator that has premised up exceptional appetites for risk. If there is a reason for the property markets outsized performance, this issue in our eyes has dominated.

One of our favoured charts is the relationship between house prices and the US 2-year swap spread. Now immediately a lot of people are going to ask what the heck is the later. Consider it a global benchmark for risk appetites. The correlation – and particularly since 2001 is staggering.



Finally, we don't believe in the one-size or rule fits all approach, such as assuming house price valuation benchmarks will magically mean revert, or if they are above some level (such as three times income) there is a major problem. Certainly, you need to be mindful of such valuation metrics, and look at a host of indicators (such as those on page three) as our preferred approach. Regular readers will know we've been very bearish property for some time. But like most indicators, their interpretation needs to contain a fair degree of judgement mixed in with the science. For example, we believe there has been a structural uplift in the ratio of house prices to income. Less economic volatility, and hence greater earnings certainty are powerful dynamics in this regard. Tax rules have changed. Financial market deregulation has been a powerful influence allowing households to optimise their balance sheets. However, we'd still agree that the ratio of house prices to income at present (over 6:1) is too high and representative of an overvalued market. Yet we'd also take the counter position in terms of saying it needs to go back to a ratio of three.

**Jack Sprat could eat no fat,
his wife could eat no lean**

The upshot

As commentators, we have to respect people whose views differs from our own. Debate and engagement are to be welcomed, and we thank the commentator for encouraging us to respond. It is all part of giving the investor, and stakeholders the best information possible.

Once again, we agree with the spirit of our objector's assessment, and do recognise the importance of supply and demand. To not do would go against the first rule we were ever taught in economics. We merely believe that wider forces have been, and continue to be in operation. It's our job to keep people informed and point those factors out. Here's hoping that the spirit of our reply is taken in the same manner with which it is intended and we don't have to stop living in the real world!

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 July 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	-0.5	-4.2	122	(+15%)	61	"A-tishoo! A-tishoo!" House prices all fall down!
Auckland	-5.4	-0.8	1,439	(-1%)	52	The cupboard was bare, and poor little Auckie had none.
Waikato/BOP/Gisborne	1.6	-1.8	727	(+20%)	64	Days to sell is jumping over a candle stick.
Hawke's Bay	-1.7	-0.5	195	(+40%)	64	"Oranges and lemons" say the bells of St. Hawke's Bay.
Taranaki	3.9	2.2	169	(+12%)	69	The days to sell jumped over the moon.
Manawatu-Wanganui	1.6	-2.5	241	(+16%)	63	The number of house sales went up the spout again.
Wellington	3.1	-3.0	598	(+18%)	56	Days to sell get their tails cut off with a carving knife.
Nelson-Marlborough	3.1	-0.1	191	(+10%)	47	Star light star bright, the least days to sell I see tonight.
Canterbury/Westland	-3.2	-3.9	764	(+10%)	54	Annual price growth requires vinegar and brown paper.
Otago	5.3	-0.4	274	(+42%)	57	House sales go up the hill to fetch a pail of water.
Central Otago Lakes	24.9	8.3	83	(+12%)	59	Four and twenty percent price growth baked in a pie.
Southland	-7.0	-8.6	141	(-11%)	54	This little star has lost its twinkle, twinkle.
NEW ZEALAND	-1.4	-0.6	4,984	(+12%)	57	When the bow breaks, the house price cradle will fall.

Key forecasts

Economic indicators	Actual			Forecast						
	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
GDP (ann avg % chg)	3.1	3.0	2.3f	1.4	0.3	-0.2	-0.1	0.3	1.0	1.6
CPI inflation (%)	3.2	3.4	4.0	5.0	4.7	4.5	3.6	2.9	2.7	2.7
Unemployment rate (%)	3.4	3.7	3.9	4.2	4.5	4.6	4.8	4.9	5.0	5.0
Interest rates	Actual			Forecast (end month)						
	Jun08	Jul08	Latest	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Call rate	8.5	8.4	8.0	7.8	7.3	7.3	7.0	6.5	6.0	6.0
90-day bank bill rate	8.8	8.5	8.2	8.0	7.6	7.6	7.1	6.5	6.2	6.2
Floating mortgage rate	10.8	10.8	10.8	10.5	10.0	10.0	9.7	9.2	8.7	8.7
1-yr fixed mortgage rate	9.5	9.2	9.2	9.1	9.0	8.9	8.5	8.1	7.8	7.8
2-yr fixed mortgage rate	9.2	9.0	9.0	9.0	8.9	8.7	8.5	8.1	7.9	7.9
5-yr fixed mortgage rate	9.1	9.1	9.1	9.0	8.9	8.8	8.6	8.2	8.0	8.0

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.

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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