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Ready to knock? Turn the lock

Summary

- > The 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 outline some of our key housing-related themes for the year.

The month in review (page 2)

- > House prices are starting to head in the direction that the Reserve Bank wants to see, but we suspect the Bank needs to see outright falls. New Zealand has been caught in the rip of the US subprime fiasco, with higher international funding costs now being transferred to borrowers.

Property gauges (page 3)

- > Housing affordability measures remain over-extended, and higher mortgage rates are starting to bite. Don't expect any respite for a while yet.

Economic backdrop (page 5)

- > Too much inflation equals less room for growth. Domestically, the Reserve Bank needs to see a weak housing market diffuse into the broader economy. Excluding Australia and emerging market Asia, offshore prospects are looking fragile.

Mortgage borrowing strategy (page 6)

- > Two contrasting forces continue to reinforce the need for a flexible approach. Inflation pressure is sticky and elevated implying higher rates for longer. Yet the economic cycle (and inflation) has the potential to unwind quickly given a deteriorating global picture. In this environment, we favour a diversified strategy along the curve (25% 1 year, 50% 3 years, and 25% 5 years). The 2 to 3 year part of the curve look best relative value on an outright basis.

Feature article – The BIG picture (page 7)

- > We kick-start 2008 with an outline of our key housing-related themes for the year. While the majority of the themes leave us very circumspect towards the "adjustment" the housing market is facing, this needs to be put in perspective following the largest boom in New Zealand's history.

Key forecasts (page 11)



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The month in review

House prices are starting to head in the direction that the Reserve Bank wants to see, but we suspect the Bank needs to see outright falls. New Zealand has been caught in the rip of the US subprime fiasco, with higher international funding costs now being transferred to borrowers.

(The) Doctor (will hopefully) dolittle.

Little house (sales) on the prairie.

Where the wild things are (and aren't).

- > **REINZ housing data – December.** Seasonally adjusted house sales dropped 8.5 percent in December, and the median house price fell \$7,000, taking the median sale price to \$345,000 (4.5 percent up on a year ago). House prices have largely been trending sideways since March 2007. The median numbers of days to sell a house continues to track up, portending of continued easing price growth. Volume weakness now looks to be diffusing across all price segments. Volumes in the <\$400k bracket are down 36 percent on a year ago, \$400-600k are down 27 percent, \$600-1,000k are down 22 percent, and \$1m plus are down 15 percent.
- > **External Migration – November.** Monthly net migration inflows recovered in November, although the trend remains downwards. NZ recorded a monthly net migration inflow of 530 people in November – basically the average net monthly inflow since the start of 2007. However, the 12-month total, at 6,588, continues to ease. This is down from 7,517 in October, and its recent peak of 14,757 in November 2006. The 3-month annualised rate – a timelier indicator of trends – continues to soften, falling to just under 6,000.
- > **CPI Inflation – December.** The 1.2 percent increase in the December Consumers Price Index pushed annual inflation up to 3.2 percent – exceeding the Reserve Bank's target band. Core inflation measures remain uncomfortably elevated. Conversely, a softer tone in non-tradable inflation is of some comfort. One-off Government subsidies may have helped in the September quarter with some further spillovers into the December quarter, but housing related inflation also appears to be easing. However, it is still too early to say that the RBNZ have gotten on top of domestic inflation pressure, given resilience in some pockets of the economy and resource pressures.
- > **Mortgage lending – November.** Growth in lending to households slowed slightly to 0.8 percent for the month of November, from 0.9 percent in October. Annual growth in lending to households eased to 13.3 percent in November, the lowest rate of increase in over four years.
- > **Building Consents – November.** Following a 4.6 percent seasonally adjusted fall in October, dwelling consents issuance was essentially flat in November. On a trend basis, ex-apartment consents continues to decline.
- > **Fixed lending rates.** Fixed borrowing rates pushed higher, a consequence of higher wholesale funding costs to financial intermediaries. Investors are demanding a higher risk premium in light of the subprime fiasco in the US and general repricing of risk. This is placing upwards pressure on bank funding costs, and hence being reflected in lending rates.

Assessment

The housing market continues to soften as the combination of aggressive increases in lending rates and moderating migration weigh. As a key source of inflation pressure, it's a dynamic that will please the central bank. Yet against this backdrop, resource and capacity pressures remain prevalent, and inflationary pressure is not merely a housing phenomenon. The Reserve Bank needs to see the slowdown in the housing market diffuse into the broader economy and into non-housing inflation pressure. This looks to ultimately require outright falls in house prices, consequential flow-on for spending and a loosening in the labour market.

Property gauges

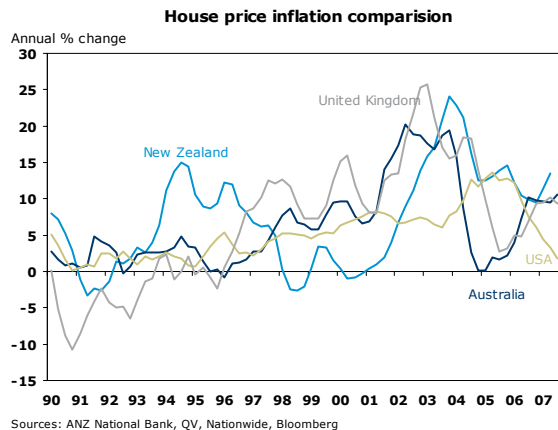
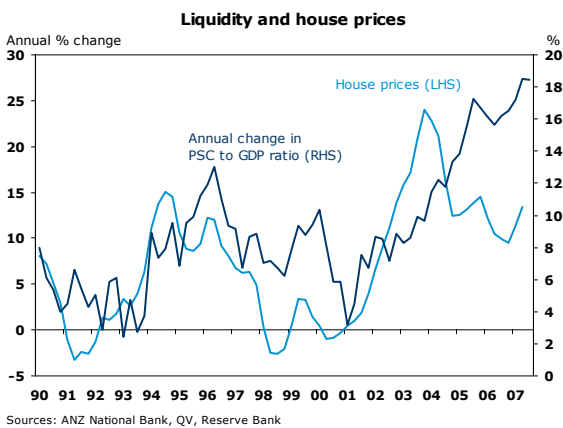
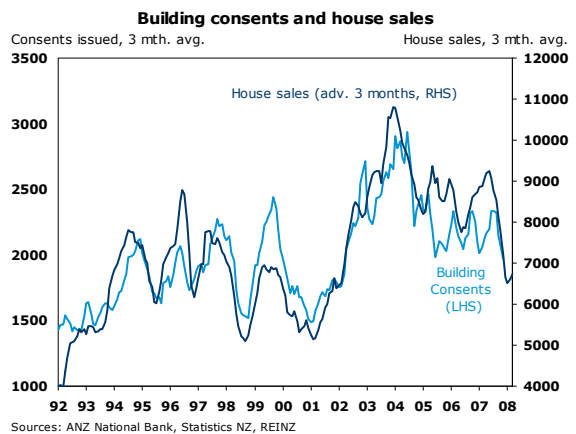
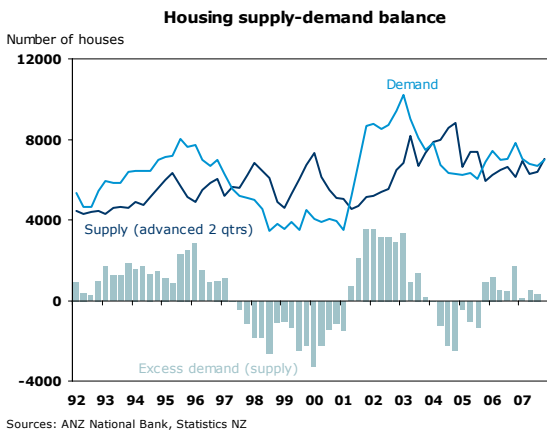
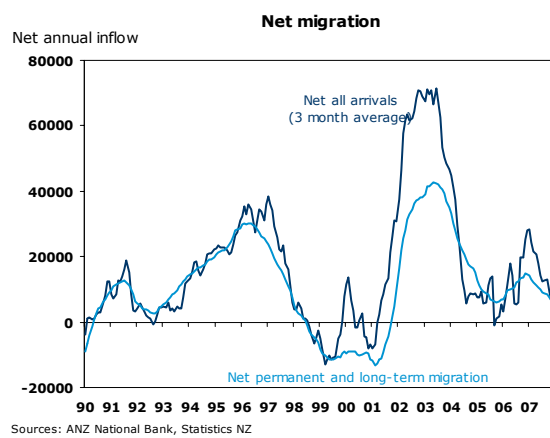
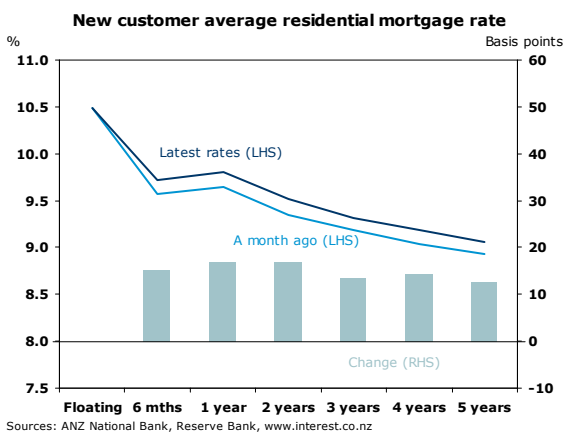
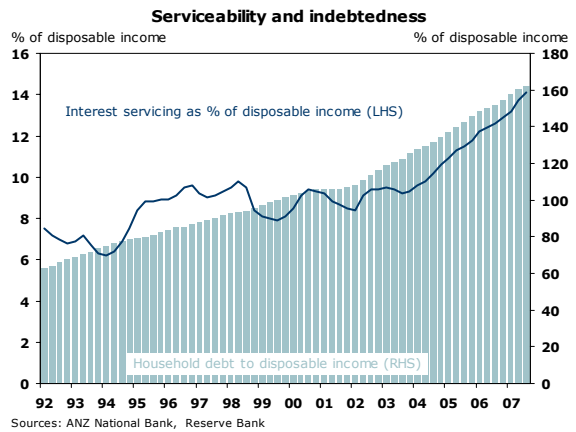
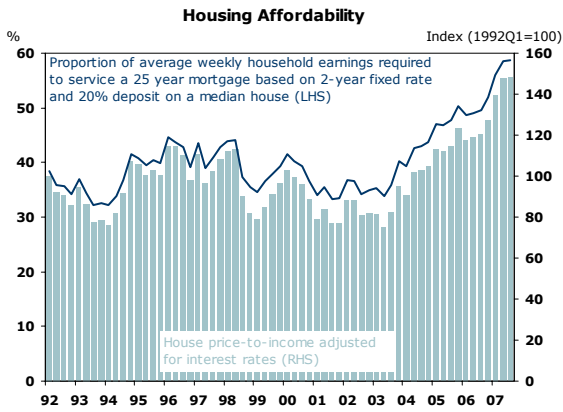
Housing affordability measures remain over-extended, and higher mortgage rates are starting to bite. Don't expect any respite for a while yet.

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.

Increases in fixed rate mortgages over the past two weeks suggest housing demand will remain under pressure over the coming months. If house sales continue to fall, expect further downward pressure on house prices.

Indicator	Level	Direction for prices	Comment
Affordability	Expensive	↓	Affordability remains at extremely expensive levels.
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 increased as a result of offshore developments.
Migration	Medium	↔/↓	Migration inflows stabilising but below historical averages.
Supply-demand balance	Neutral	↔	Close to balance.
Consents and house sales	Consents easing, sales softening	↓	E-apartment consent issuance has been easing. Sales volumes are falling.
Liquidity	High	↑/↔	Liquidity remains abundant. But global financial market volatility and changing attitudes towards risk have increased the likelihood that diminished appetites to lend could be pending from certain pockets.
Globalisation	Not that cheap	↔	Median house prices in New Zealand are more expensive compared to the US (based on current exchange rates), but cheaper than in Australia.
On balance		↓	A Grimm fairy tale.



Economic backdrop

Too much inflation equals less room for growth. Domestically, the Reserve Bank needs to see a weak housing market diffuse into the broader economy. Excluding Australia and emerging market Asia, offshore prospects are looking fragile.

Our core economic view

Despite the monetary policy screws being tightened last year, the economy hasn't slowed as fast as perhaps might be expected. New Zealand's GDP, which was released just prior to Christmas, expanded by 0.5 percent in the September quarter, slightly stronger than market expectations of a 0.4 percent increase. This took annual growth to 3.3 percent and annual average growth to 2.7 percent. The latest quarterly outturn was boosted by production from the Tui oil field coming on line, as well as increased exploration activity. We estimate that Tui added around 0.2 percentage points to growth in the quarter. Certainly we are seeing softness in some sectors such as housing and retailing, but other pockets such as dairy, tourism, infrastructure, and anything linked to government spending continue to do well.

Looking to what the new year may have in store, the broad trajectory for the economy continues to be dominated by inflation. Too much inflation equates to less room for growth. The two latest surveys of business confidence published by the National Bank and New Zealand Institute of Economic Research portray an economy slowing towards 2 to 2.5 percent growth (in annual percent change terms) over the next 6-12 months.

Easing growth will certainly help to improve the inflation picture, although perhaps not by much given the supply side capacity of the economy is around 2.5 percent at present, and cost push pressures from oil, commodities, government charges and food are abundant.

Domestically though, the housing market remains the key area to watch. With additional tax cuts in the pipeline, and herd like exuberance in the dairy sector, achieving a softer economic result (a prerequisite to dampening inflation) looks to require an outright fall in house prices as an offset. While a 5 percent fall is a drop in the bucket relative to the massive surge in house prices seen over the past five years, such an outcome would be a timely reminder to the speculative pocket, and remove the "wealth effect" that has supported consumer spending exuberance.

Offshore developments

Domestic developments leave us pencilling in a relatively benign outlook for the economy with real economic growth slightly south of 2 percent. However, if there is one area that we remain circumspect over at present it is the global economy.

A weak prognosis for the United States – which looks to be in recession, and moderating growth in the United Kingdom, Europe and Japan, is casting a shadow on the international outlook. US equities are in a bear market. Meanwhile, China and other emerging markets continue to bask in the sunshine. Just how long the emerging market economies will underpin international economic prospects is the unknown. What is known is that, as a small exporting country, New Zealand's economic prospects are directly correlated to conditions in the global marketplace as a key driver of commodity prices.

We know from history that material swings in the NZ economic and housing cycle are traditionally linked to offshore. Higher funding costs is one area New Zealand is already being impacted. If dislocation in the US extends into Asia, commodity prices could be next. We've got our fingers, toes and knees crossed. But weakness in the global economy, with flow-on to New Zealand, may well be the catalyst that does the Reserve Bank's job and dampens inflation.

Add the inflation jelly crystals to the warm water.

Keep stirring until inflation is completely dissolved.

Wait until it has completely cooled.

Voilà.

Mortgage borrowing strategy

Two contrasting forces continue to reinforce the need for a flexible approach. Inflation pressure is sticky and elevated implying higher rates for longer. Yet the economic cycle (and inflation) has the potential to unwind quickly given a deteriorating global picture. In this environment, we favour a diversified strategy along the curve (25% 1 year, 50% 3 years, and 25% 5 years). The 2 to 3 year part of the curve look best relative value on an outright basis.

Our view

Gimme a bullet to bite on.

Two contrasting forces continue to dominate. Strictly looking at inflationary pressure, a prima-facie case can be made for rate hikes. It's an argument we are not buying into, although at a minimum the case is strong for rates being on hold for an extended period. At 1.2 percent for the December quarter, headline CPI surprised on the upside and takes the annual inflation rate to 3.2 percent — above the top of the Reserve Bank's target band. The Bank will remain on alert to the potential second round effects from a higher headline inflation rate seeping into more generalised wage and price setting behaviour. Collectively, this leaves the Reserve Bank with no inflation headroom to absorb any further upside inflation surprises, and they will remain alert to pipeline pressures. We expect the talk to remain tough at the next *OCR Review*, to manage inflation expectations, and ensure they get their pipeline tightening. Don't expect rates to move down anytime soon.

Faith healer or witch doctor.

Conversely, the housing market has a fragile feel about it at present, and the wildcard is what happens around the globe. Just like 1997, this cycle could unfold quickly, and interest rates come crashing down just as fast. Inflation pressures tend to disappear rapidly when an economy unfolds.

The spirit of our interest rate forecasts remains one of rates remaining on hold for an extended period. Strictly speaking we've pencilled in rate cuts in late 2008, a reflection of our concern over the global growth cycle and housing market in general. However, the risk profile underlying our core view is not symmetrical, and the fat-tailed risk is that rates remain high into 2009.

Themes we favour in the current environment

Balm or balmy?

Mortgage borrowers should not expect much relief in floating or shorter-term borrowing rates any time soon. While these remain at current levels (9½ percent plus), their attractiveness will be limited to those borrowers who require the increased flexibility that they offer.

While fixed mortgage lending rates have increased over the past month, we continue to prefer rates in the middle part of the fixed rate mortgage curve as they appear to offer the best combination of flexibility against lower relative cost. Five-year mortgage interest rates remain well above their historical average and their advantages in the current environment are a small (relatively short-term) cash-flow advantage and hedge against a full-blown inflation problem.

- > **Take a balanced (diversified) approach** along the curve (25% 1 year, 50% three years, and 25% five years).
- > **We are more inclined to 2 to 3-year rates given recent developments.** With the OCR likely to be kept high for longer, these rates appear to offer a reasonable balance between cost and flexibility.
- > **At around 9.15 percent, the five year part of the curve looks expensive buying** – this is the highest level it has been for eight years. However, those maintaining bullish property views, or are very wary of inflation, should have a chunk locked in here.

Feature article – The BIG picture

We kick-start 2008 with an outline of our key housing-related themes for the year. While the majority of the themes leave us very circumspect towards the “adjustment” the housing market is facing, this needs to be put in perspective following the largest boom in New Zealand’s history.

Observation 1: The rubber band is taut.

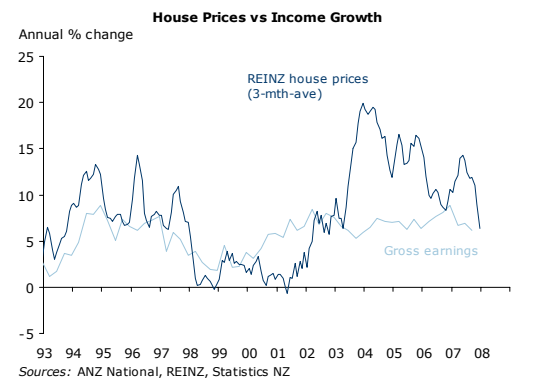
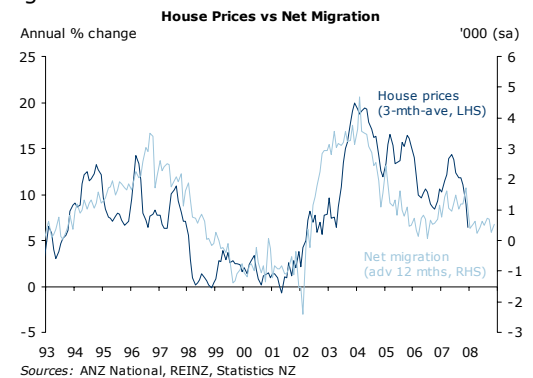
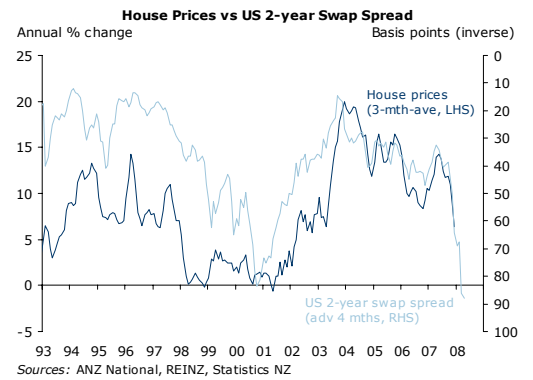
Whether you look at the ratio of house prices to rents, house prices to income, or debt servicing levels, the messages are the same; New Zealand house prices are fundamentally expensive (refer to the top right-hand chart on page 4). This doesn’t mean a correction is pending. However, it does give a flavour as to the relative risk profile of the investment at present. Markets and asset prices can be, and have been, divorced from fundamentals for a material period. Yet they invariably end up with the rubber band becoming taut, and an adjustment (and sometimes potentially a snapping) eventually occurring.

Observation 2: Credit versus migration versus jobs: it’s been a credit story of late.

We’ll let the following charts speak for themselves. Statistically, NZ house price movements are most strongly correlated to the US 2 year swap spread. The correlation between New Zealand house prices and the US 2-year swap spread may seem spurious, although it has a strong economic rationale. The US 2-year swap spread proxies risk appetites, and the availability of cheap credit, which have been key drivers of the strength and length of the latest economic and housing cycle. US credit worries has seen swap spreads widen, indicating less willingness to take risk on.

Migration has a strong relationship with house prices as well. Migration can be thought of as a proxy for housing demand. Given the lags (construction) response to increased demand, it is little wonder higher migration inflows can eventually result in price increases. The converse also applies. Recent migration data shows annual net inflows stabilisation around 6,500, although the continued rise in NZers departing to Australia is disconcerting.

The labour market remains a key driver of the housing market through income growth, job security and hence the ability to borrow. However, in our eyes it is a second-order or potential exaggerator of the housing cycle as opposed to the catalyst. Robust job growth and income gains don’t explain why the ratio of house prices to income has



leapt 80 percent in 4 years (see the top left-hand chart on page 4). Greater income security (less economic volatility) and tax changes will explain part, but in our eyes, housing strength has been a consequence of strong risk appetites together with cheap and abundant credit, a combination that has been a global phenomenon.

Observation 3: The Reserve Bank will remain on the inflation warpath.

The latest Reserve Bank projections foresee the headline inflation rate pushing through the top of their 1 to 3 percent policy band, and remaining at the top of the range for three years. It is an inflation picture that stretches the interpretation of the Policy Targets Agreement, which means the Bank will keep the talk tough posing the threat of additional bitter (hike) medicine.

The Reserve Bank has a relatively blunt tool in its armoury, namely the OCR, which obviously makes the housing market the primary target area monetary policy is expressed through. Will inflation pressure ease if the unemployment rate remains sub-4 percent and house prices continue to rise? We struggle to see this occurring. The stone cold reality is that house prices need to fall to get inflationary pressure down, and the real debate is whether the Reserve Bank has done enough to get housing under control, and let second round effects on retail spending diffuse through the rest of the economy. We believe they have, but the Reserve Bank will keep the screws on housing until it sees inflationary pressure starting to ease. High inflation leaves no scope for patience.

Should housing investors be at odds with the Reserve Bank's mandate or actions? Bluntly, no! Counter to common perception (which is that inflation is actually good for the housing market), the housing market performs stronger in a low inflation environment. Sure, nominal house prices increased an average of 9 percent annually between 1962 and 1990. But the increase was only 1.3 percent once the effects of inflation were removed. People tend to forget that in a high inflation environment, interest rates are far north of 10 percent and this removes the benefit investors obtain from being able to leverage. Since 1990, nominal house prices have averaged 7.3 percent and real house prices 4.9 percent. Of course it is real growth rates that matter, as the nominal-real gap tends to manifest in borrowing rates. The difference in real growth rates largely reflects improved economic performance, in part a reflection of having a low and stable inflationary environment. So far from trying to decimate the housing market, the Reserve Bank is actually trying to keep the economy on a sustainable footing, which in the medium-term is actually a positive for the housing market.

Observation 4: Beware the ripple effects.

There are two ripple effects that we are wary of at present. The first is the downstream impact from reduced lending activities across domestic finance companies as they baton-down-the-hatches and focus on strengthening balance sheets in the face of funding difficulties. While lending from this sector is relatively small, it is typically directed at more speculative activities from which positive ripple effects tend to follow and drag the entire market up. Now that lending growth is slowing from this sector, some of these projects may find it more difficult to get off the ground. Moreover, liquidation in key areas may in fact invoke reciprocal ripple effects. Keep an eye on land / section developments as these look most vulnerable.

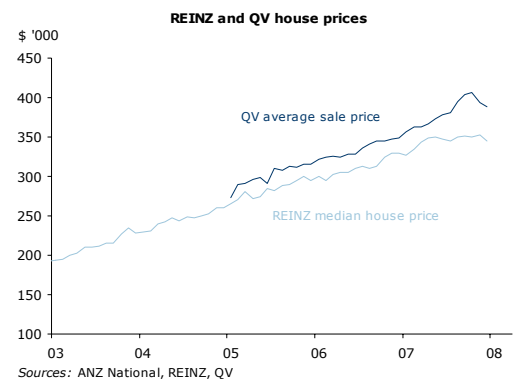
The second is what is happening around the globe. US housing woes suggest the world's largest economy is in recession. Credit is being re-priced. Offshore funding (to finance New Zealand's savings shortfall) is becoming more expensive as even New Zealand gets caught in the re-pricing rip, and that is a cost borrowers will progressively have to face. Internationally, debate is raging about whether dislocation remains contained to the US (the decoupling thesis), or broadens into a more global event. At present, the downstream impact on New Zealand has so far been contained to small nudges up in retail interest rates

in response to higher funding costs. A full-blown global event would see commodity prices – a key leg of support to the economy and indirectly the housing market – fall. With the Reserve Bank already tightening the screws on housing, the New Zealand economy now finds itself very reliant on the Asian (China) and commodity price story for growth. Can Asia remain strong with the US in recession, and growth in Japan, Europe and the UK slowing? This remains to be seen, but we will be keeping our fingers and toes firmly crossed.

The housing market has traditionally struggled when the global economy has performed poorly (think 1991 and 1997). Traditionally, global events have been the catalyst for hard landings for the New Zealand economy, and we are closely watching for evidence of US dislocation spreading. International barometers continue to give a mixed message at present. Global growth bellwethers like copper prices have increased after a period of softness, but the Baltic Dry Freight index – a measure of shipping demand – is off almost 40 percent from its November 2007 high. There is a lot of speculation that this is an early sign that weak US growth is impacting on global trade

Observation 5: House prices will fall, and we've pencilled in a 5 percent drop.

House prices have been flat since April, although official REINZ data in our eyes mask a weaker picture given compositional effects in house sales. Sales for lower-end valued properties have been falling faster than upper priced brackets. An implication from this is that the median sale price is bumped up. The latest REINZ reports for November and December showed that softer house sales have now flowed through into the upper-end of the market and the \$7,000 fall in the median sales price in December is probably a better reflection of the underlying state of the market. Quotable Value statistics suggest prices have been easing since October, although they remain 10 percent up on a year ago. As strong price growth in early 2007 rolls out of the annual figures, the picture being painted will certainly be less rosy.



As noted earlier, easing house prices in our eyes is a pre-condition to inflation subsiding. Put bluntly, the Reserve Bank will win. If the housing market gets another wind, brace for higher rates. The time for patience – given the inflation backdrop – has run out.

We remain wary over the credit cycle. Banks certainly remain open for business, but it is the removal of funding to speculative pockets that we expect to have an impact. With a rental yield of 4 to 6 percent, borrowing costs of 9 percent plus, and flat-lining house prices at present, the implicit carry cost of existing investment properties is high, particularly relative to the 9 percent returns on offer for some alternative and less risky investments.

Looking at traditional benchmarks (such as the historically high debt servicing burden) we are in uncharted territory. This makes the housing cycle so difficult to predict. It certainly defied the fundamentals heading up! The last time the housing market weakened was in 2000, when the debt servicing burden was around 9 percent of disposable income. It is now over 14 percent! We suspect there is a strong non-linear relationship where households are immune to developments up to a certain point. But the non-linearity emerges when households hit some sort of "tipping point". This looks to be what is occurring in the US at present. A snowball effect has started with house prices expected to fall 15 percent. Certainly NZ households appear to have a lot of confidence in

the future given job security and the like. But is there a generation that is becoming conditioned to only the good times, without being mindful of history, which tells us house prices sometimes fall, and the unemployment rate moves up? The latter is more speculation than analytical, but a point we are musing on. Our prediction is not *fait accompli*, rather it should be seen as an assessment of where the balance of risks reside. Forecasting is about probabilities, and the most probable event at present looks to be towards house price weakness.

Will fiscal policy be housing's saviour? We do not believe so. Who cares about a \$20/week tax cut if the housing market is retreating! It may only mean the Reserve Bank needs to take additional interest rate action. However, there are a massive number of bureaucrats running around at the moment looking at housing affordability, an issue that the incumbent Government may try to pitch as a differentiator in the upcoming election. Watch this space.

Observation 6: Be realistic but don't panic.

We've been here before. House prices have fallen over history. The relative length of the current cycle suggests the fall could be larger than what we've seen during the past 20 years, although any easing needs to be put in perspective following what has been the biggest housing boom since the 1970's.

Stepping back, we are secular bulls towards New Zealand's medium-term prospects, which will obviously support the housing market. The tourism outlook is sound, soft commodity prices will benefit from a rising middle class in Asia, New Zealand is rich in natural resources, and we have strong developing niches across a number of industries. From these, there is much to build service industries around. Alas, navigating the current inflationary and international malaise looks to require one step back before two forward can be taken. For the savvy investor, and those hoarding cash waiting for an opportunity, weakness presents just as much of an opportunity as the booms. It is just a question of picking the cycles. Historically, New Zealand house prices have undergone 8 to 9 year cycles, the latter three to four being periods of consolidation amidst modest falls. We are now in the latter stages of that cycle. The message at this juncture is to be cautious and do your numbers. Yield (cash flow) as opposed to capital gain will be key over the next few years.

Cycles in NZ Real House Prices (1970 – 2007)					
Start	Finish	Number of quarters	Real Gain/Loss	Nominal Gain/Loss	Average 90 day bill rate
Jun 71	Mar 75	16	57%	126%	9.9 [†]
Jun 75	Mar 81	24	-40%	37%	11.8
Jun 81	Sep 84	14	30%	85%	14.5
Jun 86	Mar 87	4	-9%	7%	20.1
Jun 87	Sep 88	6	16%	29%	18.8
Jun 90	Mar 92	8	-7%	-2%	11.4
Mar 93	Jun 97	18	37%	50%	7.7
Sep 97	Sep 98	5	-4%	-2%	8.0
Sep 99	Jun 01	8	-5%	0%	5.9
Sep 01	Sep 07	25	94%	127%	6.5

For the purposes of this examination, we define an expansion as four or more consecutive quarterly increases in real house prices. Similarly, a contraction is defined as four or more consecutive quarterly declines in real house prices. There are several occasions where there is a single quarter of expansion (contraction) in the middle of a longer run of contractions (expansions). Where this has occurred we have essentially ignored those quarters when determining the length of the phase. Using these definitions, as illustrated in the following table, New Zealand has recorded five expansions and five contractions since March 1970. The average length of these expansions is 15 quarters, and the average length of contractions is 10 quarters.

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 December 2007 (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	15.3	-0.2	158	(+1%)	48	Strongest annual price growth in the North Island
Auckland	8.9	1.4	2,002	(-8%)	37	Average time to sell eased slightly in December
Waikato/BOP/Gisborne	10.0	1.4	952	(-4%)	47	The median sale price rose to a new high of 330k
Hawke's Bay	7.2	-4.3	271	(+21%)	53	Largest 3 month fall in prices but sale numbers up
Taranaki	-3.7	2.5	170	(-20%)	43	Recorded the largest annual fall in sale prices
Manawatu-Wanganui	13.5	3.0	324	(-6%)	50	The time to sell figure hits 50 days for the first time
Wellington	1.4	0.8	658	(-23%)	38	House sales hit a new low in the Capital
Nelson-Marlborough	5.6	3.4	265	(-9%)	40	The median time to sell hits an 18-month high
Canterbury/Westland	8.6	0.4	891	(-18%)	37	A surprising retracement in the length of time to sell
Otago	9.2	2.6	294	(-3%)	37	Median price hits new high of a ¼ of a million dollars
Central Otago Lakes	-0.8	-0.7	122	(0%)	53	Recorded the joint highest number of days to sell
Southland	27.3	5.4	222	(+6%)	29	2007 was a stunner for the region's real estate market
NEW ZEALAND	4.5	0.0	6,386	(-8%)	40	At last, some good news for the Reserve Bank

Key forecasts

Economic indicators	Actual			Forecast						
	Mar 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
GDP (ann avg % chg)	1.6	2.1	2.7	3.0	2.8	2.4	2.0	1.6	1.7	2.0
CPI inflation (%)	2.5	2.0	1.8	3.2	3.3	3.0	3.4	3.0	2.9	2.9
Unemployment rate (%)	3.7	3.6	3.5	3.6	3.7	3.8	3.9	4.0	4.2	4.2
Interest rates	Actual			Forecast (end month)						
	Nov 07	Dec 07	Current	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
Call rate	8.3	8.4	8.3	8.3	8.3	8.0	7.5	7.0	6.8	6.8
90-day bank bill rate	8.7	8.9	8.8	8.7	8.6	8.0	7.5	7.0	7.0	7.0
Floating mortgage rate	10.5	10.5	10.5	10.5	10.5	10.2	9.7	9.2	9.0	9.0
1-yr fixed mortgage rate	9.6	9.6	9.8	9.7	9.5	9.1	8.5	8.1	8.0	8.0
2-yr fixed mortgage rate	9.4	9.3	9.5	9.5	9.3	8.9	8.3	8.0	7.9	8.0
5-yr fixed mortgage rate	8.9	8.9	9.1	9.2	9.1	8.6	8.2	8.0	7.9	8.2

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