

Tentative signs...

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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 borrowing strategy. In this issue, the feature article is on the ring fencing of losses on property investment.

The month in review (page 2)

- > There are tentative signs that the three successive interest rate increases from the Reserve Bank are starting to have an impact on the housing market. Nevertheless, consumer spending and domestic inflation remain stubbornly strong and the Reserve Bank is wary of a strong boost to dairy incomes giving housing a 4th wind.

Property gauges (page 3)

- > Signs of a slowing property market are emerging, but liquidity and restricted supply are still providing support.

Economic backdrop (page 5)

- > The balancing act continues. While the economy has slowed, and there are signs that the Reserve Bank's desired turnaround in the housing market is occurring, the lack of inflation headroom and risk of the housing market gaining another wind will keep the Reserve Bank on its toes.

Borrowing strategy (page 6)

- > Strong retail spending and an acceleration in domestic inflation have increased the likelihood that the Reserve Bank will raise interest rates further, this despite the housing sector showing early signs of cooling. We struggle to see an easing for at least 18 months in the absence of a major event. We see little value in 5-year lending rates around 9 percent and continue to favour the slightly more expensive 2 and 3-year rates, which provide greater flexibility to take advantage when rates eventually move down.

Feature article – ring fencing (page 7)

- > We believe ring-fencing property investment tax losses lacks a sound economic rationale. If policy-makers are serious about helping the Reserve Bank contain inflationary and housing pressure, the solution resides in looking at supply constraints, productivity, savings, and the enforceability of the existing rules towards housing – all areas with the potential to deliver better economic incentives. The introduction of such assistance is distinct from ancillary policy instruments, which we believe would deliver additional distortions.

Key forecasts (page 9)

The month in review

There are tentative signs that the three successive interest rate increases from the Reserve Bank are starting to have an impact on the housing market. Nevertheless, consumer spending and domestic inflation remain stubbornly strong and the Reserve Bank is wary of a strong boost to dairy incomes giving housing a 4th wind.

Tentative signs of slowing housing market activity...

...although the data is not yet painting a consistent picture.

Consent rebound likely influenced by fee increase.

Consumer spending and domestic inflation pressures will not be welcomed by the Reserve Bank.

Some signs that things are going in the right direction, but still early days yet.

- > **REINZ housing data – June month.** The housing market is showing further evidence of slowing, although a change in the reporting process at REINZ has complicated the picture (tighter reporting deadlines for sales, meaning that the number of sales reported for June has been biased lower). Both the median house price and number of house sales fell compared to May (and house prices have been effectively flat now for three months) with prices down from \$350,000 to \$347,500, and house sales down from 8429 to 7859, seasonally adjusted). Even after adjusting for the change in reporting deadline, we estimate seasonally adjusted house sales fell by around 2 percent in June, continuing their recent easing trend. The median number of days to sell a house was unchanged at 29.
- > **External migration data – June month.** Migration recorded a net inflow of 590 (s.a.) in June, taking the annual total down to 10,078. Annual migration inflows continue to ease from their November 2006 peak.
- > **Quotable Value housing data – year to June quarter.** QV data for the 3 months to June recorded a 12.2 percent increase over the 3 months to June 2006. This rise in house price inflation will not be welcomed by the Reserve Bank. However, we note that the QV data tends to lag REINZ data and does not pick up early signs of a turning point well.
- > **Building Consents – May month.** Residential building consents rose by 5.5 percent in May. On an ex-apartment basis, consents rose 2.8 percent in the month. Announced council fee increases, which came into force from July, are likely to have contributed to the rise in consent issuance as builders lodged applications early to avoid the fee increase.
- > **Retail sales – May month.** Both total and core retail sales completely reversed the weakness recorded in April. Total retail sales rose 1.2 percent in May, while core sales rose 0.8 percent – both much stronger than market expectations. The strength of the data increases the chances of a July OCR hike, although the composition of the result (which was largely driven by food and car sales) complicates the matter.
- > **Consumer prices – June quarter.** June quarter inflation came in stronger than expected at 1.0 percent, taking the annual inflation rate to 2.0 percent. The key non-tradable inflation measure increased more than expected (1.1 percent for the quarter, 4.1 percent for the year, underpinned by housing-related inflation) and given the lack of inflation headroom will be a concern for the Reserve Bank.
- > **Mortgage lending - May.** Mortgage borrowing increased by 1.1 percent (NZ\$1.5b) in May. Annual growth in mortgage borrowing (14.4 percent) continues to run at its fastest rate since the middle of last year.

Assessment

While it is still early days yet, easing house price growth and fewer houses being sold are at least pointing in the right direction for the Reserve Bank, although they will be displeased with the ongoing strength in retail spending and domestic inflation. The real test will be whether this is indeed the beginning of an emerging trend or if it is just a short-term response to higher interest rates. The Reserve Bank will want to see further signs of a slowing in the housing market. The full impact of recent increases in mortgage rates is likely to emerge in the July and August housing market data. Until then, the Reserve Bank will remain on edge.

Property gauges

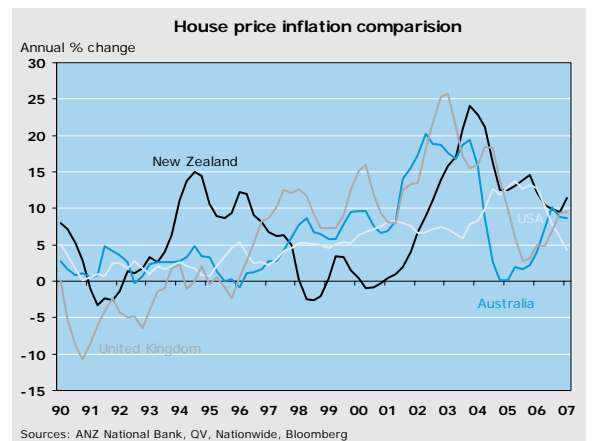
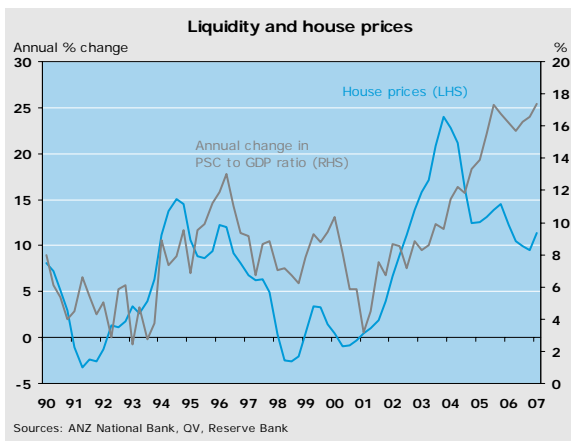
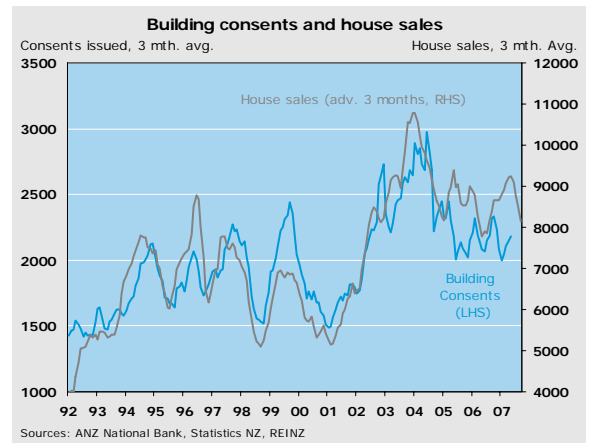
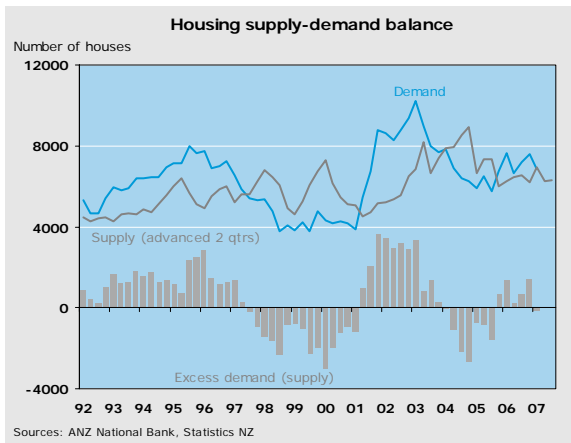
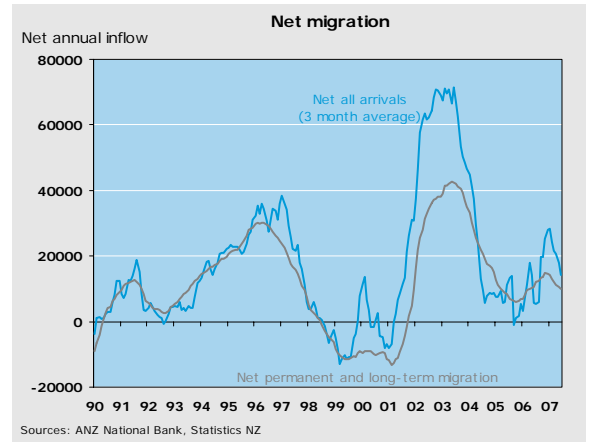
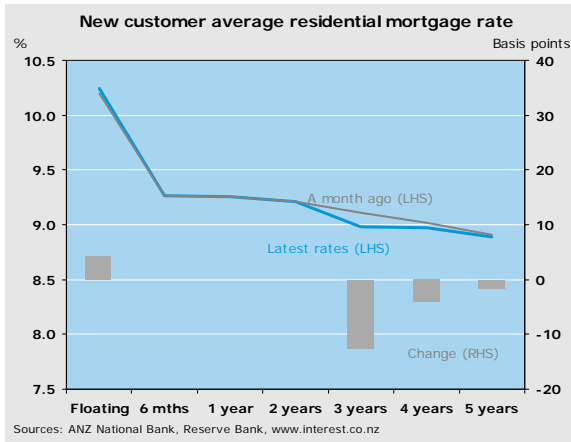
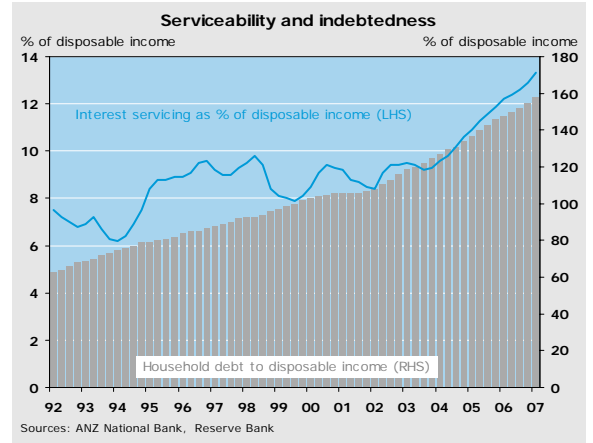
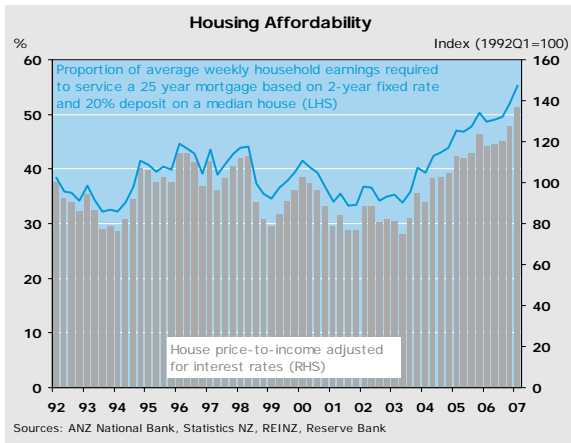
Signs of a slowing property market are emerging, but liquidity and restricted supply are still providing support.

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.

It is still early days yet, but recent housing market data suggests that the market may be turning as a result of high mortgage interest rates, slowing net migration, and reduced confidence about the economic outlook. Nevertheless, restrictive supply and ample liquidity will help to underpin activity. The balancing act facing the Reserve Bank looks to be getting more difficult.

| Indicator | Level | Direction for prices | Comment |
|-------------------------------|----------------------|----------------------|---|
| Affordability | Expensive | ↓ | Affordability continues to deteriorate sharply, not helped at all by rising mortgage rates. |
| Serviceability / indebtedness | High | ↓ | Household indebtedness and the debt servicing burden keep hitting new highs and show no signs of consolidating. |
| Interest rates | High | ↓ | Mortgage interest rates are virtually all above nine percent across the curve and will remain high for some time yet. |
| Migration | Medium | ↔/↓ | Migration inflows are slowing. |
| Supply-demand balance | Neutral | ↔ | Close to balance, in line with a slowing migration inflow. |
| Consents and house sales | On the up? | ↔ | The real estate market still looks to be supply constrained. |
| Liquidity | High | ↑ | Liquidity remains abundant and the demand for credit appears to be resilient at this stage. |
| Globalisation | Cheap in world terms | ↑ | On a relative basis, NZ property is still cheap. |
| On balance | | ↓ | Anyone for a game of Jenga™? |



Economic backdrop

The balancing act continues. While the economy has slowed, and there are signs that the Reserve Bank's desired turnaround in the housing market is occurring, the lack of inflation headroom and risk of the housing market gaining another wind will keep the Reserve Bank on its toes.

> Mission Implausible

A stronger-than-expected one percent rise in GDP over the March quarter lifted year-on-year growth to 2.5 percent. The strength and duration of the current economic expansion has reinforced an inflationary under-current, much to the concern of the Reserve Bank. Non-tradable inflation (i.e. excluding imports or services that do not face foreign competition) has remained elevated over the first half of this year, above 4 percent, with inflation expectations continuing to point to a persistent inflationary under-current.

In response to the elongated growth pulse, the Reserve Bank has tightened financial conditions courtesy of the three hikes to the Official Cash Rate this year. This has in turn led to increased mortgage lending rates, and has had the flip-side consequence of a lift in the NZ dollar to post-float record highs.

And thus, the engineered economic slowdown is underway. Consumer sentiment has fallen, no doubt a result of the recent increases in mortgage rates. Net migration inflows have eased further and will continue to provide less impetus to the housing market. Retail spending has slowed after a bumper March quarter, though still remains stubbornly robust. Business confidence fell dramatically, then rebounded, but remains consistent with 1½ to 2 percent growth.

> Economic Outlook

Partial data points to the momentum in economic activity continuing into the middle of this year, though not at the same pace. Against this backdrop, there are strong forces that will provide support to the economy, particularly very strong dairy prices and the likelihood of added expansionary fiscal policy from the Government next year.

This impetus, along with the lack of inflation headroom, will keep the Reserve Bank on its toes. Governor Bollard will want to avoid repeating the experience earlier in this tightening cycle of taking the foot off the monetary policy brake too quickly and then watching the housing market reignite. Indeed, the Reserve Bank is more likely to want to err on the side of caution from here on in, and interest rate settings are unlikely to be loosened before conclusive signs of a softening in the housing market (and domestic demand more generally) are evident.

With close to 120 basis points of policy tightening in the pipeline for mortgages rolling off over the coming year, and with household debt servicing as a share of income around 13.3 percent and rising (compared with 8.1 percent at the end of 1999 – the last time the housing market was weak), any adjustment in the housing market could well be sharper and more severe than previous corrections.

We are already seeing tentative signs of a cooling in the property market, and our own internal data suggests that this has continued beyond June. The question, then, is whether the slowdown will be fast enough and soon enough for the Reserve Bank, or will additional bitter medicine be required to "cure" the patient? With housing-related inflation stronger than expected, the bias has shifted to more bitter medicine.

Good Morning, Mr Phelps.

Your mission, should you decide to accept it...

... this tape will self-destruct in five seconds.

Housing momentum showing signs of softening, although the big test remains.

Borrowing strategy

Strong retail spending and an acceleration in domestic inflation have increased the likelihood that the Reserve Bank will raise interest rates further, this despite the housing sector showing early signs of cooling. We struggle to see an easing for at least 18 months in the absence of a major event. We see little value in 5-year lending rates around 9 percent and continue to favour the slightly more expensive 2 and 3-year rates, which provide greater flexibility to take advantage when rates eventually move down.

> Key themes

The themes that dominate our interest rate view are unchanged.

- **The risk profile for rates remains skewed to the upside.** The Reserve Bank's June projections noted little inflation headroom, inflation pressure remains strong, and in such an environment, the risk profile for rates remains up. With financial markets pricing in a further interest rate hike, we suspect that the temptation for the Reserve Bank to raise rates again will be too great, and we expect a hike this week.
- **Regardless of whether rates are increased, it is difficult to see rates moving down for a long time.** The 2008 *Budget* is likely to be a sticking point given the sizeable impetus it will provide to the economy.
- **When rates do come down, it is likely to be aggressively.** History shows that central banks typically end up getting behind the curve (keeping rates too high for too long) and we expect this cycle to be no different. We continue to favour an aggressive easing cycle, but not until late 2008/early 2009.

> The choice?

We continue to believe that the housing market will be a key factor determining where interest rates head over the near-term.

If the housing market does not continue to consolidate, then interest rates are likely to increase further, and to remain high for some time. In such an environment, it would be prudent to lengthen your duration and take a 5-year rate.

Conversely, if you are more circumspect – as we are – then the 2 and 3-year part of the curve would seem relatively more attractive. We find it hard to look past the vulnerabilities that have emerged in the housing market. In particular, the increasing deterioration in the serviceability of debt, suggests that monetary policy and interest rates are going to have an impact, and that impact will be stronger than it has been in the past.

> Themes we favour in the current environment

- **Take a balanced (diversified) approach.** A balanced approach to spread risk by having exposure to different parts of the yield curve.
- **We see the 2 and 3-year rates as more favourable than the 1-year at this stage.** There is still a chance that the Reserve Bank will increase the Official Cash Rate further, and at the very least, it doesn't look like they will be cutting interest rates until late 2008. Taking a two or three year term now will allow you to take advantage of lower rates in late 2009.
- **We struggle to see value in the 5-year rate at present.**

The risk profile for interest rates is still higher for longer...

...although borrowers should maintain a degree of flexibility.

Two to three-year rates retain their position as the most attractive (relatively speaking).

Feature article – ring fencing

We believe ring-fencing property investment tax losses lacks a sound economic rationale. If policy-makers are serious about helping the Reserve Bank contain inflationary and housing pressure, the solution resides in looking at supply constraints, productivity, savings, and the enforceability of the existing rules towards housing – all areas with the potential to deliver better economic incentives. The introduction of such assistance is distinct from ancillary policy instruments, which we believe would deliver additional distortions.

Policymakers are looking at alternative measures to cool the housing market.

The ring fencing of losses, noted by the Reserve Bank, and brought up by the Minister of Finance at the Finance and Expenditure Committee last month, has been touted as a solution to help quell the rampant growth in the housing market, therefore allowing the Reserve Bank more scope to take their foot off the monetary policy brake.

Since 1991, investors have been able to offset losses related to property investment either through mechanisms such as a Loss Attributing Qualifying Company (LAQC) or simply directly against their personal income. The ANZ *Property Investors Survey* this year showed that LAQC's were by far the most popular ownership structure for property investors. And their popularity is increasing, with 55 percent of investors running their properties through an LAQC this year, compared to 48 percent in 2005. As noted by Dr Cullen last month, there has been a literal explosion in both the size of the losses reported, and the number of property investors since the change came into force. The Reserve Bank noted in its submission into housing affordability that New Zealand tax policy appears to be favourably disposed towards rental property as opposed to other countries.

There are some misunderstandings about the advantages of LAQCs.

But amongst all the hoop-la, there seem to be some genuine misunderstandings.

Housing receives no tax advantages relative to other investments (apart from a temporary cash flow benefit from being able to depreciate, which is subsequently recoverable). As noted by the IRD's Deputy Commissioner Robin Oliver before the Finance and Expenditure Committee, housing receives no favourable treatment. Investors can use LAQC structures to offset losses from other activities. According to Mr Oliver, the tax rules were tougher for housing investment than other types of investment.

The advantage property has resides in investors' ability to leverage, which gives it a considerable advantage over other assets. This partly derives from the recognition that house prices are less volatile and rarely experience the big dips other asset classes such as equities have shown historically. Financial institutions are more willing to lend against housing for these reasons as opposed to other asset classes, even though housing is less liquid compared to equities and attracts higher transaction costs.

Property investors are not all "rich". The mean household income of the property investors surveyed in the ANZ *Property Investors Survey* was between \$80,000 and \$90,000 per annum, excluding investment property income. This appears to contradict the general perception that property investors tend to be in the \$100,000+ income bracket (37 percent of respondents fit into this income bracket, while 14 percent of respondents earn less than \$40,000 per annum).

There is no widespread tax rort going on. Another interesting aspect of the ANZ *Property Investors Survey* was that 75 percent of property investments run at either a profit, or a loss of no less than \$10,000. The massive growth in the number of housing investors Dr Cullen alluded to since 1990 (from 50,000 to 200,000) has been of the typical mum and dad type. The implication we take from this is that the sizable losses being claimed by Dr Cullen look to be inflated by a few. The correct mechanism to address this is likely to reside in enforcement.

Moreover, when we look at the justification for ring-fencing losses arising directly from property investment, it looks a little dubious to us. It would

undermine the principal of tax neutrality, in that all investment is taxed equally. Rents would likely increase sharply, placing more upward pressure on inflation. In any case, ring-fencing of property losses would be too late for this current housing cycle anyway.

Politically it looks a no-go, with noted opposition coming from National, while United Future and New Zealand First remain unconvinced. **This does not mean policymakers have no clout**, and we believe there will be two areas to watch over the coming year.

- **Stricter enforcement.** The IRD has the power to enforce a capital gains tax if it is felt that investors are “trading” property in order to pocket the capital gain. The 2007 *Budget* committed an additional \$14.6 million of resources to IRD. (However, we note that this is spread over three years, making the annual contribution a meagre \$4.9 million).
- **The impact on confidence.** While we do not expect any changes, prudent investors and the market will nonetheless have to ascribe a non-zero probability to such a possibility.

Looking at the broader picture, the talk of ancillary policy instruments to target the housing market specifically reflect the increasing concern across policymakers that a rampant housing market – that has proven insensitive to rises in interest rates so far – could be having on wider sectors of the economy, namely the export sector.

In our view, monetary policy does need additional assistance from other areas and policy instruments. This primarily reflects changes that have occurred over the past decade. The process of globalisation means New Zealand is now far more integrated with the global economy. Interest rate settings reflect both domestic and foreign factors. The currency will reflect sentiment towards the other side (i.e. we are going up because of precarious sentiment towards the US dollar at present). Monetary policy now works with a longer lag given the prevalence of fixed rate borrowing.

Too much is expected of monetary policy. It is unrealistic to expect a relatively blunt instrument in the form of the Official Cash Rate to curtail activity in a key pocket of the economy such as housing by itself when facing supply constraints, globalisation, excess liquidity, and various dis-incentives to invest in other areas. Monetary policy is a broad impact tool; addressing sector specific activity needs to be also managed through more targeted approaches and such targeted approaches need to be assessed within the context of economic efficiency. Such targeted measures include looking at supply constraints, productivity, savings, and the enforceability of the existing rules towards housing. It is in these areas that policymakers’ attention should be.

This is completely distinct from the introduction of ancillary policy instruments and specific vices such as ring fencing of losses. The distinction resides in putting in place the economic incentives (as opposed to potential distortions) that allow stakeholders to respond in an efficient manner.

The upshot

While we do not expect to see ring fencing of property losses gain traction, the key areas to watch are stricter enforcement. We likewise believe there is greater scope for policymakers to assist the Reserve Bank in its desire to moderate housing demand, but via sound policy as opposed to distortionary ancillary policy instruments. Keep a close eye on developments into the current inquiry into monetary policy by the Finance and Expenditure Committee in this regard.

Monetary policy requires assistance.

But this should come from policy that delivers sound economic incentives as opposed to distortions.

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 | 1,007 | 1,027 | 1,048 | 1,068 | 1,089 | 1,109 | |
| 550 | 937 | 958 | 979 | 1,000 | 1,021 | 1,043 | 1,064 | 1,086 | 1,108 | 1,130 | 1,153 | 1,175 | 1,198 | 1,220 | |
| 600 | 1,022 | 1,045 | 1,068 | 1,091 | 1,114 | 1,137 | 1,161 | 1,185 | 1,209 | 1,233 | 1,257 | 1,282 | 1,306 | 1,331 | |
| 650 | 1,108 | 1,132 | 1,157 | 1,182 | 1,207 | 1,232 | 1,258 | 1,284 | 1,310 | 1,336 | 1,362 | 1,389 | 1,415 | 1,442 | |
| 700 | 1,193 | 1,219 | 1,246 | 1,273 | 1,300 | 1,327 | 1,355 | 1,382 | 1,410 | 1,438 | 1,467 | 1,495 | 1,524 | 1,553 | |
| 750 | 1,278 | 1,306 | 1,335 | 1,364 | 1,393 | 1,422 | 1,451 | 1,481 | 1,511 | 1,541 | 1,572 | 1,602 | 1,633 | 1,664 | |
| 800 | 1,363 | 1,393 | 1,424 | 1,454 | 1,485 | 1,517 | 1,548 | 1,580 | 1,612 | 1,644 | 1,676 | 1,709 | 1,742 | 1,775 | |
| 850 | 1,448 | 1,480 | 1,513 | 1,545 | 1,578 | 1,611 | 1,645 | 1,679 | 1,713 | 1,747 | 1,781 | 1,816 | 1,851 | 1,886 | |
| 900 | 1,534 | 1,567 | 1,602 | 1,636 | 1,671 | 1,706 | 1,742 | 1,777 | 1,813 | 1,849 | 1,886 | 1,923 | 1,960 | 1,997 | |
| 950 | 1,619 | 1,655 | 1,691 | 1,727 | 1,764 | 1,801 | 1,838 | 1,876 | 1,914 | 1,952 | 1,991 | 2,029 | 2,069 | 2,108 | |
| 1,000 | 1,704 | 1,742 | 1,780 | 1,818 | 1,857 | 1,896 | 1,935 | 1,975 | 2,015 | 2,055 | 2,095 | 2,136 | 2,177 | 2,219 | |

Housing market indicators for June 2007 (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 | 15.2 | 4.8 | 182 | (-29%) | 35 | Largest fall in house sales in the month of June |
| Auckland | 9.9 | 4.6 | 2,740 | (-10%) | 27 | The number of days to sell continues to stay down |
| Waikato/BOP/Gisborne | 14.0 | 1.6 | 1,218 | (-3%) | 38 | The level of house prices hit a new record high of \$325k |
| Hawke's Bay | 3.3 | 0.6 | 288 | (+2%) | 38 | Weakest three month price change across the nation |
| Taranaki | 11.8 | 2.9 | 218 | (+14%) | 34 | Second strongest rise in sale numbers in June |
| Manawatu-Wanganui | 19.2 | 5.0 | 385 | (-9%) | 31 | Strongest price rise in June, hitting a new high of \$248k |
| Wellington | 14.3 | 3.7 | 896 | (-8%) | 24 | The second quickest region to sell a house in the nation |
| Nelson-Marlborough | 18.0 | 5.3 | 212 | (-22%) | 30 | The lowest number of house sales in over three years |
| Canterbury/Westland | 12.5 | 3.7 | 1,086 | (-8%) | 26 | The number of house sales eases to a 1½ year low |
| Otago | 1.5 | 2.2 | 303 | (-8%) | 30 | Recorded the lowest annual percentage price rise |
| Central Otago Lakes | 7.3 | 3.6 | 105 | (-13%) | 58 | Time to sell a property just falls short of two months |
| Southland | 24.7 | 8.6 | 280 | (+16%) | 18 | Top of the pops over all of the indicators we monitor |
| NEW ZEALAND | 12.1 | 4.1 | 7,859 | (-7%) | 29 | Early signs of a slow down, but its taking time to roll |

Key forecasts

| Economic indicators | Actual | | | Forecast | | | | | | |
|-----------------------|--------|--------|--------|------------------|--------|--------|--------|--------|--------|--------|
| | Sep 06 | Dec 06 | Mar 07 | Jun 07 | Sep 07 | Dec 07 | Mar 08 | Jun 08 | Sep 08 | Dec 08 |
| GDP (ann avg % chg) | 1.4 | 1.5 | 1.7 | 2.1 | 2.4 | 2.3 | 1.9 | 1.5 | 1.3 | 1.3 |
| CPI inflation (%) | 3.5 | 2.6 | 2.5 | 2.0 ^a | 1.9 | 2.7 | 2.7 | 2.5 | 2.6 | 2.8 |
| Unemployment rate (%) | 3.8 | 3.7 | 3.8 | 3.8 | 3.9 | 4.1 | 4.1 | 4.2 | 4.3 | 4.3 |

| Interest rates | Actual | | | Forecast (end month) | | | | | | |
|--------------------------|--------|--------|---------|----------------------|--------|--------|--------|--------|--------|--------|
| | May 07 | Jun 07 | Current | Sep 07 | Dec 07 | Mar 08 | Jun 08 | Sep 08 | Dec 08 | Mar 09 |
| Call rate | 7.75 | 8.00 | 8.00 | 8.25 | 8.25 | 8.25 | 8.25 | 8.25 | 7.75 | 6.75 |
| 90-day bank bill rate | 8.1 | 8.3 | 8.5 | 8.5 | 8.4 | 8.4 | 8.4 | 8.4 | 7.7 | 6.8 |
| Floating mortgage rate | 10.0 | 10.2 | 10.2 | 10.3 | 10.3 | 10.3 | 10.3 | 10.3 | 9.6 | 8.7 |
| 1-yr fixed mortgage rate | 9.0 | 9.3 | 9.3 | 9.4 | 9.3 | 9.1 | 8.7 | 8.2 | 7.8 | 7.5 |
| 2-yr fixed mortgage rate | 8.9 | 9.2 | 9.2 | 9.3 | 9.2 | 9.0 | 8.6 | 8.2 | 7.9 | 7.9 |
| 5-yr fixed mortgage rate | 8.6 | 8.9 | 8.9 | 9.1 | 8.8 | 8.6 | 8.3 | 8.1 | 8.1 | 8.2 |

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