

SWINGS AND ROUNDABOUTS

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Summary

- Our monthly *Property Focus* publication is aimed at providing investors and prospective homeowners with an independent appraisal of recent developments in the property market, as well as our favoured mortgage borrowing strategy. In this issue we review recent trends in international migration flows.

The month in review (page 2)

- The Reserve Bank of New Zealand is now brandishing some larger calibre weaponry to restore economic sentiment and financial market stability. Expect the newly elected National led government to do their utmost to stamp their mark on things too.

Property gauges (page 3)

- Housing affordability is, at last, moving in the right direction, but don't expect prospects in the property market to turn around anytime soon.

Economic backdrop (page 5)

- The global environment remains the main concern for policymakers both here and abroad. NZ will be impacted as the global economy enters a severe downturn. We now expect the Reserve Bank to front-load a larger easing cycle with more severe cuts to the Official Cash Rate – until the OCR reaches 4 percent.

Mortgage borrowing strategy (page 6)

- Mortgage rates have fallen a long way, and will continue doing so. In this environment it pays to keep your options flexible, and fix for the shortest period possible. Floating is an option, but it's much more expensive. Six month and 1 year rates offer better value, and are sufficiently short that they offer good flexibility.

Feature article – Migration update (page 7)

- Swings in international migration flows inevitably cause ripples in the local residential housing market. The inflow of students and migrants has slowed, coinciding with an easing in demand for residential real estate. At the same time, departures continue to rise. Looking forward, we expect the annual rate of net migration to meander around 5,000 over the coming 12 months. An altered global economic environment may well be a "good" news story on the migration front, as offshore jobs become harder to secure.

Key forecasts (page 9)



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The month in review

The Reserve Bank of New Zealand is now brandishing some larger calibre weaponry to restore economic sentiment and financial market stability. Expect the newly elected government to do their utmost to stamp their mark on things too.

A very slippery slide.

> **Reserve Bank of NZ – October OCR Review.** The Reserve Bank cut the OCR by 100bps and made it clear that the decision was largely influenced by the global situation. Given that the NZ economy is already in recession, prices for our major export commodities are falling and the housing market is still subdued, monetary policy should at the very least be close to neutral. Going forward, the RBNZ remains on a clear easing bias. However, in a reminder that inflation concerns have not been totally cast aside, the Governor reiterated their focus on medium-term inflation, which is still stubbornly high. While the RBNZ expects inflation to return towards the target band around the middle of next year, the Bank highlighted concerns over the stickiness of domestically generated inflation.

A tyre(d) swing to the right.

> **Election 2008.** With National forming a centre-right coalition with ACT, United Future and the Maori Party, the focus now turns to what the new Government will do. Another round of tax cuts from April 1 next year is on the way and there are plans for more transitional assistance for those who lose their jobs. But we will have to wait for more details on what other measures could be implemented. We expect a substantial fiscal package to be announced prior to Christmas.

A shaky climbing frame.

> **Building Consents – September.** Residential consent issuance rose 8.4 percent (seasonally adjusted). However, the bounce was entirely a result of increased apartment consent issuance. Excluding apartments, consents fell 0.8 percent. The residential construction sector remains extremely weak, with the overall level of consents comparable with 1991.

> **Mortgage Lending – September.** Household credit growth for the month of September was 0.2 percent, the lowest rate of growth since this series began in 1991. Compared to a year ago, household credit growth was 6.9 percent, but the more timely 3-month annualised rate slowed to 2.8 percent in September, from 3.0 percent in August.

A well balanced see-saw.

> **REINZ housing data – October.** The housing market stabilised somewhat in October. Seasonally adjusted house sales fell 2.8 percent from a month ago, to be 35 percent down on last year. But the median sale price rose from \$330,000 to \$335,000, though they are still down over 4 percent from last year. Days to sell fell in seasonally adjusted terms from 56 days last month to 51.

> **Quotable Value house price indices – June.** House prices fell 4.4 percent in the June quarter, according to Quotable Value. While their series are considerably less timely than the REINZ median price series, the Quotable Value data is quality adjusted, and thus a much more robust indicator of house price changes.

> **Net Migration – September.** In September, permanent and long-term arrivals fell 9 percent. The level of net migration inflows is currently a very modest 4,700 annualised (based on the last three month's average) and certainly not sufficient to boost spending for struggling retailers, nor help revive the flagging housing market.

Assessment

The economic picture is still one of weakness despite the RBNZ moving aggressively. Attention is now firmly on how recent global ructions influence New Zealand in 2009. Critical for both the economy and housing market will be the state of the labour market and how high the unemployment rate gets. We see it rising up, rapidly, and the reverse for interest rates.

Property gauges

Housing affordability is, at last, moving in the right direction, but don't expect prospects in the property market to turn around anytime soon.

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

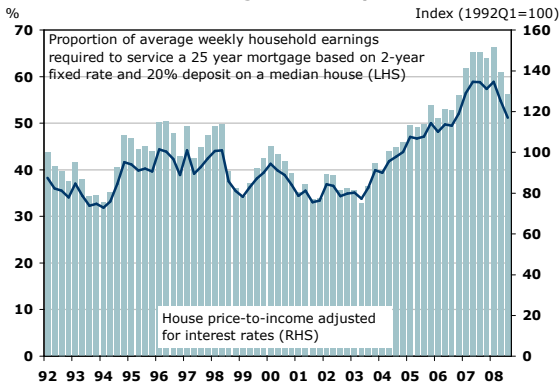
Playtime has finished, and silence has descended on this playground.

- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.
- > **Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.
- > **Migration.** A key source of demand for 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 sales seem to have found a base in recent months, and lower mortgage rates will certainly help out on the affordability front. But there is still some way to go for affordability (as defined by house prices to income) to get back towards more "normal" levels. While central banks are cutting rates aggressively as a lifeline to the property sector, we need to appreciate the reason they feel the need to do that in the first place.

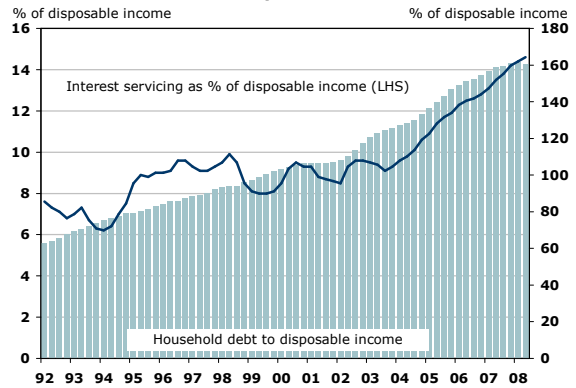
Indicator	Level	Direction for prices	Comment
Affordability	A slow grind down	↓	Housing affordability has improved to a two year low.
Serviceability / indebtedness	Higher	↓	The cost of servicing and indebtedness remains high and is increasing.
Interest rates	Thud	↔	We would normally turn the direction for prices arrow up, but lower wholesale rates and the OCR are not completely flowing to retail rates.
Migration	Plodding along	↔	Net migration is still positive but has slowed over the past couple of years.
Supply-demand balance	Excess demand	↔↑	Excess demand has developed as housing demand remains largely unchanged, whereas the supply of housing has shrunk.
Consents and house sales	Rock bottom?	↔	Both around levels not seen for 15 years.
Liquidity	Clueless	↓	Back to "old" lending standards.
Globalisation	Testing the negatives	↓	Synchronised in one direction.
On balance		↓	Still carrying an injury from the real estate jungle gym.

Housing Affordability



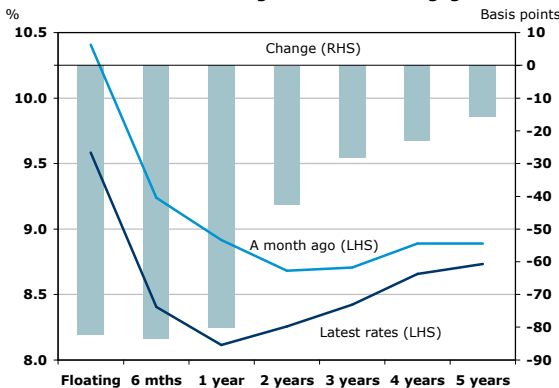
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



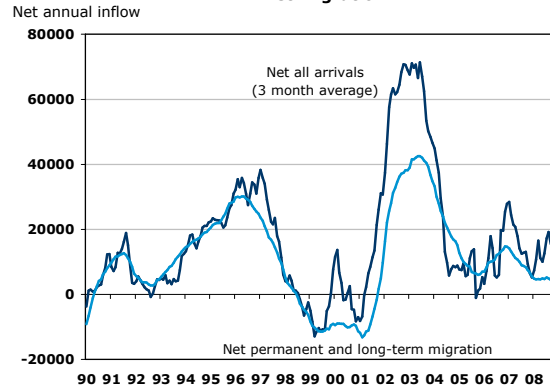
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



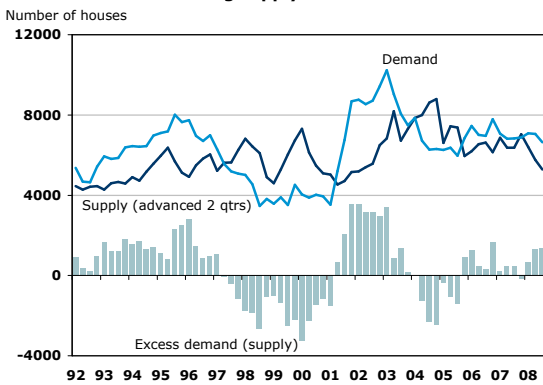
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



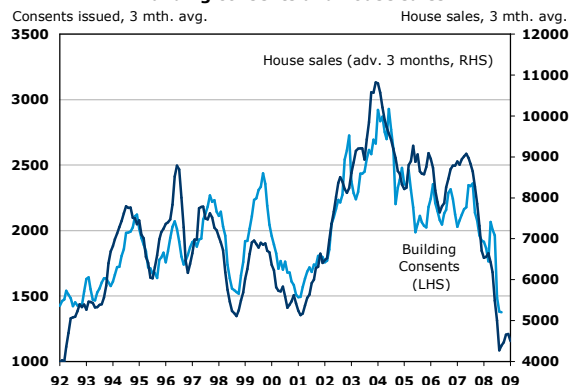
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



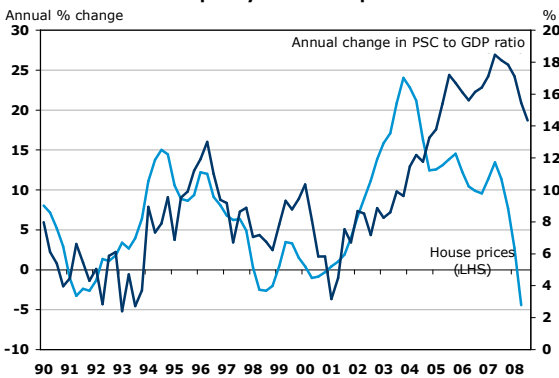
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



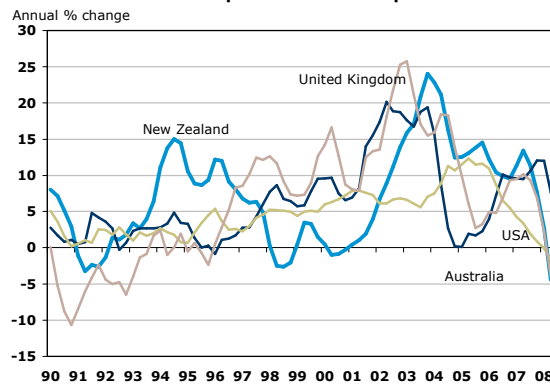
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

Economic backdrop

The global environment remains the main concern for policymakers both here and abroad. NZ will be impacted as the global economy enters a severe downturn. We now expect the Reserve Bank to front-load a larger easing cycle with more severe cuts to the Official Cash Rate – until the OCR reaches 4 percent.

Our core economic view

The NZ economy remains horizontally and vertically challenged. Key leading indicators of domestic economic activity like the National Bank's *Business Outlook* deteriorated significantly in October, validating our concerns that the economy is yet to trough and any recovery is more likely to resemble an "L" rather than a "U" or "V".

Sure, the election will provide some bounce in economic sentiment, but the international financial contagion is spreading this way and New Zealand is by no means immune. For NZ there are three key areas to watch very closely:

- First, the impact on our tradable sector as the global economy slides into recession. The massive hit to global wealth means people will travel less, and tourism is our major export earner. Weaker global demand means less demand for exports, and we also note that commodity prices are falling (and in the case of dairy prices, faster than the currency). The Fonterra dairy payout (which was a huge source of stimulus to rural regions including property prices) is now being revised lower, and we expect it will fall below \$6 per kilogram of milk solids.
- Second, appetites for risk, given the "new" economic environment. Asset prices remain expensive according to traditional benchmarks such as detailed on page 4, and investors (both borrowers and providers) are naturally being cautious in the current environment. This means asset prices have yet to trough.
- Third, the unemployment rate, which looks set to rise rapidly as firms face less demand, and respond accordingly by cutting (staff) costs. We expect the unemployment rate to hit 6.5 percent, and this means another leg is pending for the property market despite interest rates falling.

So expect a protracted period of subdued growth, and at present, we believe 2009 will be weaker than 2008. Previous economic slowdowns in New Zealand have shown that the economy remains choppy and wobbly at the trough, with no clear trend. We foresee this cycle to be no different as NZ navigates through uncertain times. At this juncture, and courtesy of global events, it's fair to say there is more downside risk than up.

New Zealand's macro framework is responding to the rapidly changing global environment. Interest rates have, and are set to fall aggressively. So too has the currency. A budget stimulus package is likely pre Christmas. Around the globe, policymakers are responding aggressively. Such forces are tremendously positive.

Yet we also need to be realistic. New Zealand runs a huge current account deficit, and has a high stock of foreign debt. A global credit crisis is the worst possible shock for NZ to envisage, and we need to acknowledge the scale of the challenges ahead.

Going forward, we continue to look for an elongated adjustment process for the economy and housing market in general. Following the biggest asset price and housing boom we have seen in NZ's history, we continue to envisage the adjustment on the other side as being deeper, and more protracted than the average outcome or historical experience. And global events add more downside risk than up.

Don't expect much bounce in the trampoline!

The wobbly stepping logs will take a while to cross.

Mortgage borrowing strategy

Mortgage rates have fallen a long way, and will continue doing so. In this environment it pays to keep your options flexible, and fix for the shortest period possible. Floating is an option, but it's much more expensive. Six month and 1 year rates offer better value, and are sufficiently short that they offer good flexibility.

Our view

Wholesale interest rates have fallen a long way in the past month, thanks to aggressive rate cuts across the globe, as well as here in New Zealand. Central banks have also been actively supplying additional liquidity in a bid to improve the functioning of money markets, which has seen interbank lending rates fall, which has in turn seen mortgage rates fall further.

Looking ahead, we expect to see more of the same. This is just the start of the monetary policy easing cycle, and interest rates need to fall a long way to reignite growth. And while inflation remains high, rapidly slowing demand and falling energy prices mean it is likely to fall quickly in 2009, and will no longer be a constraint on the Reserve Bank. Indeed, we expect the Reserve Bank to cut the OCR aggressively over the next six months, taking the OCR to 4 percent by April, less than half the level it was at six months ago.

We mentioned last month that the trick to deciding how long to fix for was in striking the right balance between cost and flexibility. If you fix for a longer period you'll have more certainty, but you run the risk of missing out if rates fall further. Conversely, if you fix for a shorter period, you may pay a higher rate, but you'll be in a good position to switch to a lower rate if rates fall. This suggests that when interest rates are likely to fall, it's best to err on the short side, while when rates are stable or rising, it pays to err on the long side.

But there's more to it than just that – it also pays to “do the math”, as the Americans like to say. Thankfully, that's pretty easy to do at the moment, mainly because the 1 year rate is the lowest rate available. If you think interest rates will continue to fall, you may as well ignore anything longer than 1 year – it will cost more, and you'll have less flexibility. That leaves the practical choice between floating, the 6 month, and the 1 year. In an environment where the Reserve Bank is likely to be cutting rates aggressively, it's appealing to fix for as short as possible. However 6 month rates tend to be high, at around 8.50 percent. If you fix for 6 months at 8.50 percent, you'll need to fix at 7.30 percent or less in 6 months to be better off than fixing for 1 year. If interest rates fall quickly, that may be possible. However, that's the point – the 1 year rate already has that expectation “built in” to it.

Themes we favour in the current environment

The 1 year fixed rate offers the best value in the current environment, and offers a good balance of saving and flexibility. At 7.90 percent*, it is the lowest of the fixed rates, and is 1.55 percent below the variable rate, which currently stands at 9.45 percent. It's also worth considering the 6 month rate, currently at 8.50 percent. As noted in the previous section, we need to see rapid falls in wholesale interest rates for this to work out cheaper in the long run. We think there's a good chance that wholesale rates will fall quickly, but there's no guarantee they will. If certainty and a low rate is what you want, fix for 1 year. But if you don't mind paying a little more now, and you want to participate in falling interest rates, then fix for 6 months and review the situation again then.

* Our 1 year fixed rate of 7.90 percent p.a. is available to customers below 80 percent LVR. For customers above 80 percent LVR, the current 1 Year fixed term rate is 8.20 percent p.a.

Its imagination over dexterity in the mortgage rate sandpit.

Feature article – Migration update

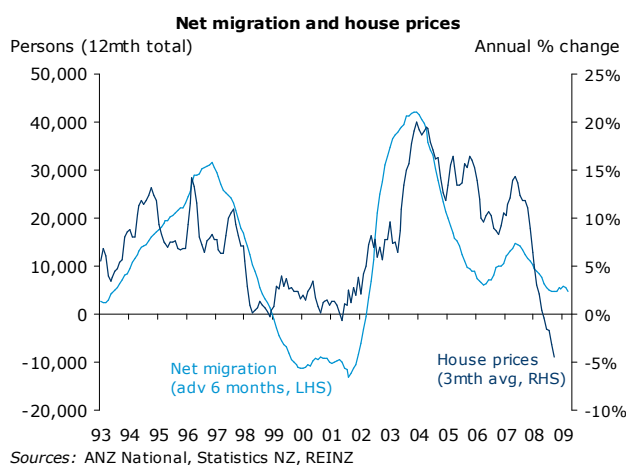
Swings in international migration flows inevitably cause ripples in the local residential housing market. The inflow of students and migrants has slowed, coinciding with an easing in demand for residential real estate. At the same time, departures continue to rise. Looking forward, we expect the annual rate of net migration to meander around 5,000 over the coming 12 months. An altered global economic environment may well be a “good” news story on the migration front, as offshore jobs become harder to secure.

Overview

Large swings in external migration tend to generate significant fluctuations in the demand (and ultimately pricing) for residential housing. Recently, net migration flows have stabilised at around 5,000 per annum. In the middle of the decade net migration flows peaked at 42,000 per annum – partly driven by an influx of international student arrivals. While flows have eased since then, it is encouraging that the level of net migration has remained positive, and as such continues to provide a base level of support for the housing market, albeit at a reduced rate.

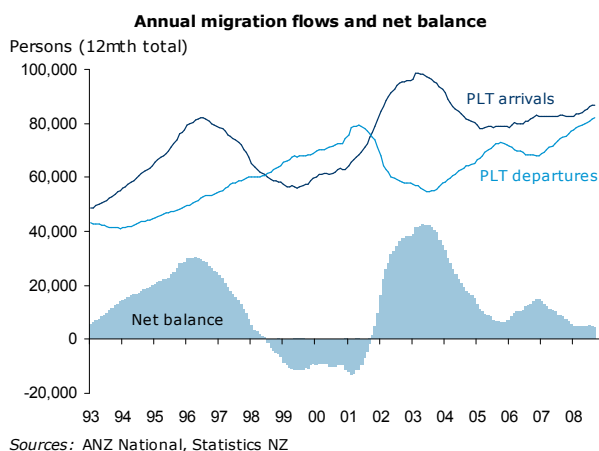
Thus locations with relatively high population growth also tend to experience relatively rapid appreciation in house prices. Currently, the housing market is in the doldrums, but this is

more to do with other factors – primarily the post-party hangover from an over-exuberant real estate market of the previous 7 years, when credit was readily available and demand insatiable. Thankfully, the headache would be worse, had there not been the aspirin in the form of a baseline stimulus from a net migration inflow.



Arrivals – some key themes

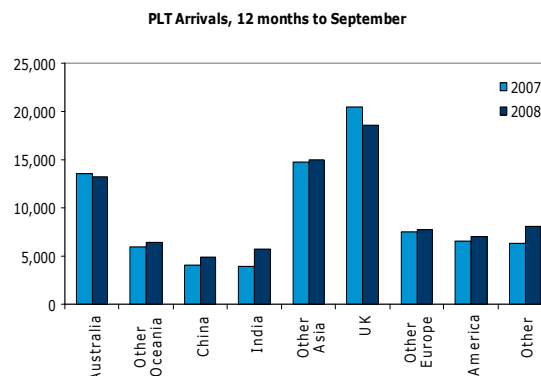
> **The gap between arrivals and departures has been narrowing.** On an annual basis, the number of people arriving in New Zealand on a permanent or long-term basis (PLT) has exceeded the number of people leaving New Zealand. This has been the case over the past six and a half years. However, the gap has been narrowing. In the twelve months to September 2008, 86,600 people arrived in New Zealand, while 82,200 left our shores. The net 4,400 immigrants that arrived in the twelve months to September 2008, is down from an equivalent 14,000 at the start of 2007.



> **There has been a decline in the numbers of immigrants from the traditional countries of residence.**

Over the 1980s, Australia was the largest source of permanent and long-term arrivals. More recently, the United Kingdom has held this honour, with currently 18,500 people arriving each year – just over a fifth of total arrivals.

Australia now accounts for 15 percent of arrivals. Migration from both the United Kingdom and Australia has declined (-2.5 and -9.4 percent respectively) in the twelve months to September 2008. The largest rise in immigrants over this time span has been from India. In the year to September 5,760 people arrived from India, nearly doubling the 3,900 from a year earlier. India is now the third largest source of immigrants, overtaking China in the past 12 months.

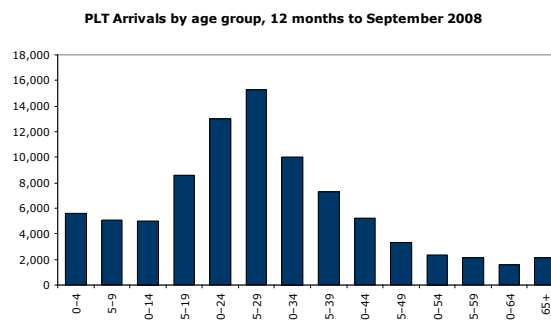


> **Foreign students are not attracted to NZ as much as they used to be.**

There are now significantly fewer foreign students arriving. Foreign student arrivals peaked in mid-2004 but have subsequently collapsed. An appreciating NZ dollar over the past few years and bad publicity surrounding education standards here (including the collapse of some large language institutions), are likely influences. The latest count has only 30,000 foreign fee-paying students in New Zealand, of which China accounts for 8,700 (28 percent). By contrast, in 2004 there were 108,000 international students studying in New Zealand, with 54,000 (50 percent) of them from China. One of the features that distinguishes foreign students from regular tourists, is the impact they have on the property market. This was especially the case in the context of the market for smaller sized apartments in Auckland, over the mid-2000s.

> **The prime working age (25-39 years) makes up the largest proportion of PLT arrivals.**

It is not surprising that this characteristic dominates arrival numbers given that residency and work permit requirements are skewed towards this age bracket. There has also been strong growth in the arrival of those aged 60 years and over, although they make up a small proportion of the total.



Departures – some key themes

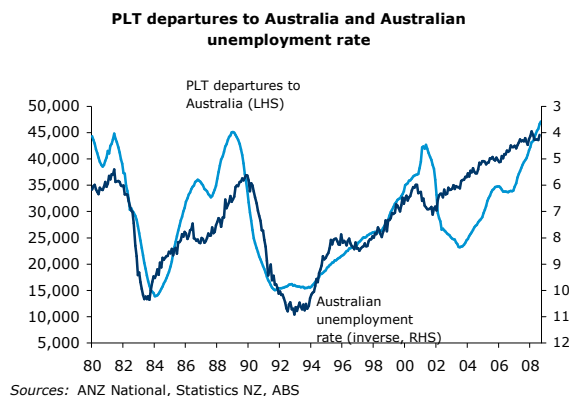
- > **Emigration numbers have risen 10 percent on a year ago.** There were 82,200 people that emigrated from New Zealand in the twelve months to September. This is up 7,500 (or 10.1 percent) from a year earlier. The destination with the largest share of permanent and long-term departures from New Zealand was Australia. The two countries now effectively operate as a single labour market. Thus better job prospects across the Tasman have a strong pull effect. The correlation between emigration to Australia and the inverted unemployment rate in Australia was strong up until 2001, when tighter labour welfare restrictions for New Zealanders caused a temporary drop in departures. Australia accounted for 47,200 of the 82,200 PLT departures in the twelve months to

September 2008. This represents an 18.5 percent rise from a year earlier. The key risk is for this trend to continue, given the higher wages that currently prevail between the two countries.

> **The second most desired destination for emigrants is the United Kingdom.**

Nearly 11,000 people emigrated to the United Kingdom in the twelve months to September - a 10.3 percent decline from 12 months earlier. Continental Europe recorded a 4.0 percent rise in emigrants. Asia attracted a 3.8 percent rise in emigrants, while the number migrating to North America rose 11.9 percent.

- > **The current global economic slowdown will inevitably result in fewer departures to offshore destinations.** Of course, the prognosis will vary from country to country, and is dependent on how attractive an overseas destination looks relative to New Zealand. Thus two factors will come into play in determining departures numbers. Namely, how well the local economy is or will perform, and secondly, how this translates into a relative performance compared to the other emigration destinations.



Outlook

A rise in foreign students caused the peak in permanent or long-term arrival numbers in 2004. Student numbers have since fallen dramatically, in part due to a rapidly appreciating currency. The recent drop in the value of the NZ dollar should help halt this decline and, once global economic sentiment returns, we would expect to see a corresponding turnaround in student arrival numbers. The education sector is one industry that benefits from a weaker currency. The free trade agreement with China, signed earlier in the year, is another positive factor that could be expected to boost student numbers flowing in this direction.

The National government has indicated it wants to move swiftly on several policy fronts. Assuming that this will include immigration policy, we expect to see additional policies introduced shortly that will

- (i) encourage ex-pat kiwis to return to New Zealand;
- (ii) target talented immigrants, with a skill set to match the needs of employers; and
- (iii) assist high net worth individuals, seeking to set up business here in NZ.

Watch this space.

If there is a positive spin to put on the migration outlook at present it may be that current financial turmoil (which is seeing a rapid change in job prospects offshore) encourages ex-pats to return, and also reduce the incentives for New Zealanders to jump across the ditch. Of course we also know that migration prospects are also closely aligned to the NZ economy. People need jobs and prospects to return to. Technically migration tends to follow the economic cycle as opposed to lead it and people often get the causal relationship mixed up. Migration is a consequence as opposed to the primary driver of the economic cycle. However, should New Zealand be disadvantaged by a prolonged period of patchy or flat economic growth, we would expect that the level of outward migration would well and truly rise again.

Netting such effects out we expect annual net migration to wobble around 5,000 over the coming year. In combination with population growth, this will provide a floor of demand. Although we also need to appreciate that falling migration did not slow the property market over 2005-2007, as other forces weighed. The biggest factors at present are offshore developments and appetites for risk.

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 October 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	8.4	-1.0	111	(-3%)	79	It now takes over two months to sell a house here.
Auckland	-2.7	-2.1	1,378	(-3%)	45	House prices have inched up to a five month high.
Waikato/BOP/Gisborne	-4.3	-0.6	663	(+2%)	64	Annual house prices have matched the nationwide fall.
Hawke's Bay	0.8	-0.9	122	(-15%)	68	Sale numbers have dropped to a record monthly low.
Taranaki	8.7	-1.7	141	(-15%)	59	House prices are up strongly from a year ago.
Manawatu-Wanganui	-1.4	2.1	247	(+1%)	66	Best 3 month spurt in house price growth seen this year.
Wellington	1.1	-2.8	497	(-4%)	55	Annual house price growth reverted to a positive figure.
Nelson-Marlborough	-6.3	-2.9	147	(-40%)	58	Monthly sale numbers down a staggering forty percent.
Canterbury/Westland	-5.8	-2.6	737	(+3%)	47	The second largest rise in sales, albeit a modest one.
Otago	-2.1	-3.3	189	(-20%)	44	The number of sales eased to the 2nd lowest on record.
Central Otago Lakes	-12.8	-9.5	77	(+2%)	76	Annual house prices have recorded a double-digit fall.
Southland	6.7	3.8	124	(+4%)	42	A lift in sale numbers, plus they're selling the quickest.
NEW ZEALAND	-4.3	-2.9	4,447	(-3%)	51	A slow journey down on the housing market flying-fox.

Key forecasts

Economic indicators	Actual			Forecast						
	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
GDP (ann avg % chg)	3.2	2.6	1.7e	0.6	-0.1	-0.6	-0.6	-0.4	0.0	0.7
CPI inflation (%)	3.4	4.0	5.1	3.7	3.1	2.2	1.5	2.7	3.3	3.1
Unemployment rate (%)	3.7	3.9	4.2	4.7	5.1	5.5	5.8	6.0	6.3	6.4
Interest rates	Actual			Forecast (end month)						
	Sep 08	Oct 08	Latest	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Call rate	7.9	7.5	6.5	5.5	4.5	4.0	4.0	4.0	4.0	4.0
90-day bank bill rate	8.0	7.4	6.0	5.8	4.6	4.3	4.3	4.3	4.3	4.3
Floating mortgage rate	10.4	10.4	9.5	8.5	7.5	7.0	7.0	7.0	7.0	7.0
1-yr fixed mortgage rate	9.0	8.9	8.19	7.9	7.2	6.9	6.7	6.6	6.5	6.5
2-yr fixed mortgage rate	8.8	8.7	8.2	7.9	7.5	7.2	7.0	7.0	7.1	7.1
5-yr fixed mortgage rate	8.9	8.9	8.7	8.5	8.2	7.9	7.8	8.0	8.2	8.2

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

NEW ZEALAND DISCLAIMER

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

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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