

Can you help?

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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 mortgage borrowing strategy. In this issue, there are two feature articles, which both examine the REINZ data in more detail – one from a price bracket point of view, the other on a regional basis.

The month in review (page 2)

- > While house sales rebounded in October, there are further signs of moderation and softness. The Reserve Bank needs to see this weakness filter through to other areas of the economy before it can start to relax.

Property gauges (page 3)

- > Affordability measures remain over-extended, and high mortgage rates are having an impact on housing market activity. The question is whether the support from liquidity will diminish given a global reassessment of risk appetites.

Economic backdrop (page 5)

- > The New Zealand economy looks to have found a base, but inflation pressure is disconcerting. Growth needs to ease in such an environment and the housing market is (unfortunately) likely to be a key transmission mechanism.

Mortgage borrowing strategy (page 6)

- > The inflation risks facing the economy mean the hurdle to a rate cut looks high. A rate cut is likely to require a significant deterioration in global prospects and a sizeable fall in house prices. Both are possible but are not our central scenario. Higher interest rates, given the upside risks to inflation, cannot be ruled out. The 2-3 year part of the mortgage borrowing curve looks to offer the best combination of cost versus flexibility.

Feature article – Devil in the detail (page 7)

- > Looking at the composition behind the real estate data suggests the market is very dichotomised and house prices are falling – albeit modestly. While interest rates are clearly having an impact at one end, the reality of cash and strong balance sheets is supporting the other. It all leaves us wondering how the broad-based slowdown in housing will be achieved.

Feature article – Regional disparities (page 9)

- > Housing market activity looks to have softened across the regions over the past six months, but there remain some clear dichotomies. In particular, the bottom of the South Island still looks solid, while Northland, Auckland, Hawke's Bay, Taranaki and Wellington have all seen house prices fall over the past six months. We present some quick observations.

Comment – Can you help? (page 10)

- > We are launching a monthly measure of domestic inflation in the new-year. The property sector – and related services – is a key component of domestic inflation. We are keen to involve as many people from the property industry as possible, but specifically from areas including real estate, building, valuers, and other property related services. If you are prepared to help us out, please email bagrie@anz.com.

Key forecasts (page 11)



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The month in review

While house sales rebounded in October, there are further signs of moderation and softness. The Reserve Bank needs to see this weakness filter through to other areas of the economy before it can start to relax.

Further signs of a softening housing market...

- > **REINZ housing data – October.** House sales rebounded 12 percent to 6,827 (s.a.) in October, although this must be put into context, with sales still down nearly 30 percent since the start of the year. Days to sell increased to 36 (seasonally adjusted). The median sale price eased to \$350,000, and while this is up 8 percent on a year ago, it has been flat for six months.
- > **Building Consents – September.** Residential building consent issuance eased in September (total residential consent issuance was down 8.3 percent seasonally adjusted, while ex-apartment consents fell 2.5 percent).
- > **Mortgage lending - September.** Growth in lending to households eased to 0.8 percent for the month of September (and was revised to 0.8 percent from 0.9 percent in August).
- > **External migration – September.** There was a seasonally adjusted net inflow of 720 people in the month. Monthly net migration inflows appear to have formed a base after trending lower over the early part of this year. It is still too early to tell whether this is the start of a new uptrend.
- > **Retail sales – September.** Core retail spending increased 0.5 percent (m/m s.a.) and headline sales grew 1.0 percent in the September month. Quarterly volume growth was soft at 0.2 percent. Trend growth in both monthly headline and core spending is running at 0.2 percent. Overall, the data confirmed that the moderation in consumer spending is continuing, albeit at a gradual pace.
- > **Reserve Bank *Official Cash Rate Review*.** The Reserve Bank left the Official Cash Rate (OCR) unchanged at 8.25 percent, as widely expected, and remains in wait-and-see mode. The statement was balanced, noting risks either side, but with familiar hawkish undertones towards inflation pressures suggesting a mild tightening bias remains. Fiscal policy is strongly on the RBNZ's watch-list.
- > **Wages – September quarter.** The Labour Cost Index (LCI) measure of private sector ordinary time earnings rose 0.9 percent in the September quarter, taking annual wage inflation (adjusted for changes in productivity) to 3.3 percent – an all time high. Wage growth is likely to remain sticky at around current levels for some time, and will remain a concern for the Reserve Bank given wages' traditional influence on inflation.
- > **Employment – September quarter.** Q3 labour market data was a mixed bag, with the unemployment rate, employment, and the participation rate all falling. The more stable unemployment rate is the better indicator of the state of the labour market, and suggests ongoing upside pressure on wage inflation, which will keep the Reserve Bank on alert.

...but inflation pressure remains a concern for the Reserve Bank.

Assessment

The housing market continues to soften, and we expect it to remain under pressure over the months ahead as mortgage rate increases continue to bite. There is evidence that softness in the housing market is progressing through to price growth. The Reserve Bank will be looking for this softness to filter through into other parts of the economy. Given large support factors for the economy (e.g. dairy prices, fiscal spending and a tight labour market) an outright fall in house prices looks like the transmission mechanism needed to dampen inflation. However, such a fall would also need to be put in perspective following the boom over the past six years. The speculative end will be most at risk.

Property gauges

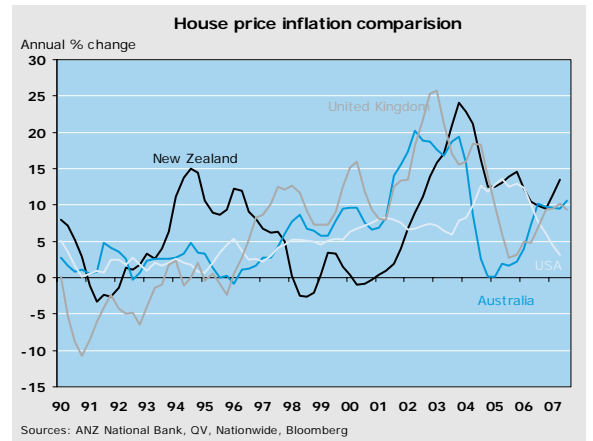
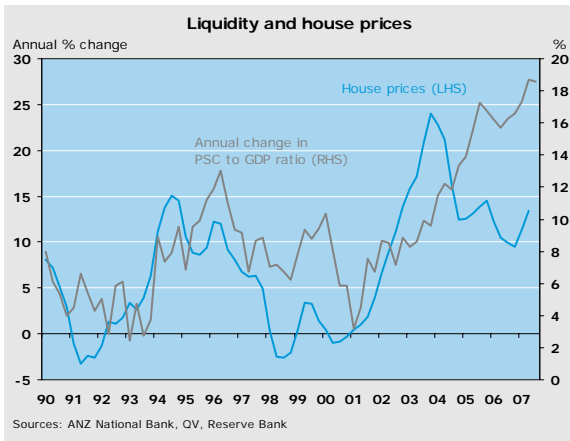
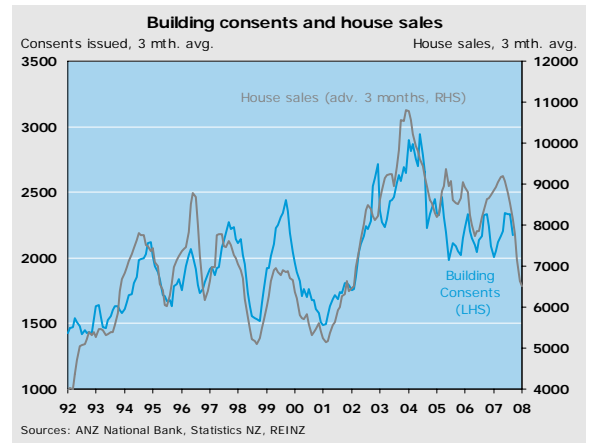
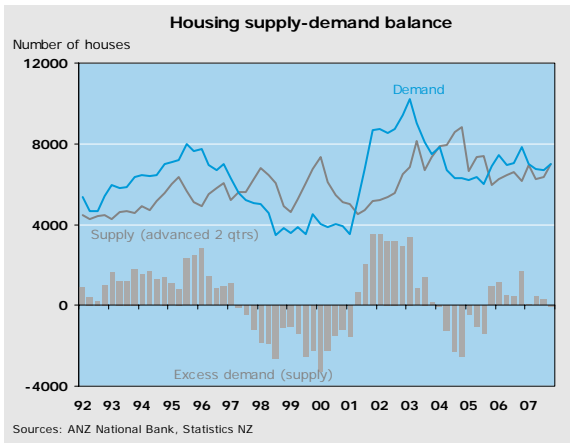
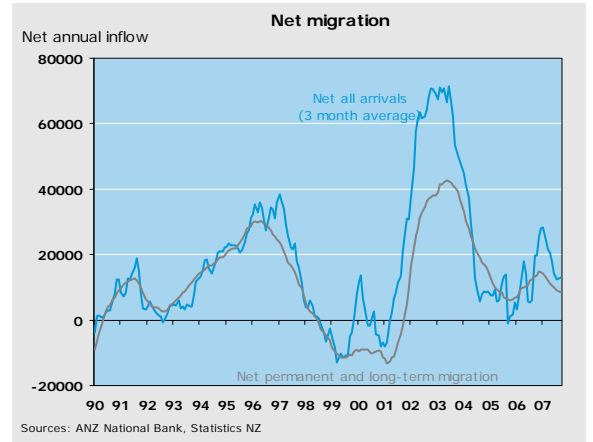
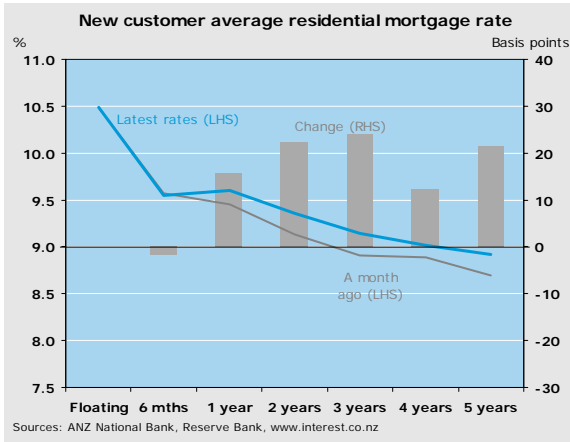
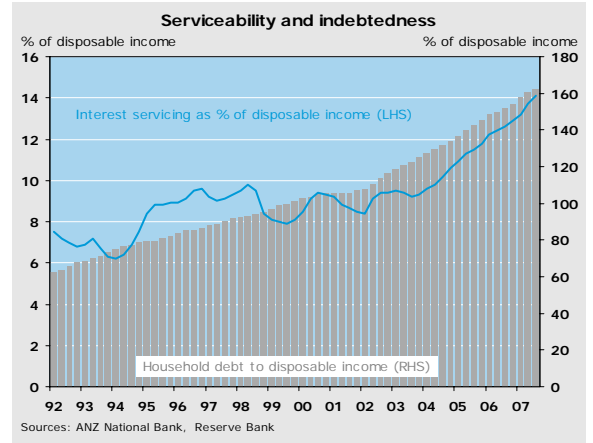
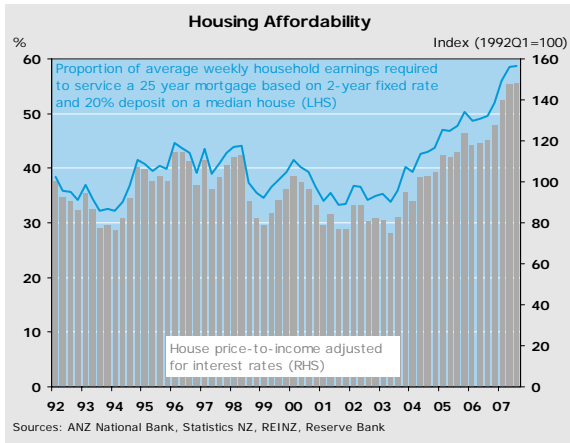
Affordability measures remain over-extended, and high mortgage rates are having an impact on housing market activity. The question is whether the support from liquidity will diminish given a global reassessment of risk appetites.

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.

The housing market and consumer spending are slowing. The Reserve Bank will now be looking for signs that this slowdown is translating into reduced inflation pressure from the non-tradables sector. They will remain cautious until they see conclusive evidence of this.

Indicator	Level	Direction for prices	Comment
Affordability	Expensive	↓	Price increases are showing signs of slowing, but mortgage rates have increased. 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 rates are up on a month ago, and with the Reserve Bank still concerned about inflation, little relief is in sight.
Migration	Medium	↔/↓	Migration inflows stabilising but below historical averages.
Supply-demand balance	Neutral	↔	Close to balance.
Consents and house sales	Consents stable, sales softening	↔	Looking through recent volatility, ex-apartment consent issuance has been stable. 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		↓	RBNZ is winning, but needs to see more proof.



Economic backdrop

The New Zealand economy looks to have found a base, but inflation pressure is disconcerting. Growth needs to ease in such an environment and the housing market is (unfortunately) likely to be a key transmission mechanism.

> Our core economic view.

The economy is finding a base.

The New Zealand economy looks to be finding a comfortable base. Recent business and consumer confidence readings have shown surprising resilience in the face of higher interest rates and a stronger NZ dollar. At this stage, there is limited evidence that the turn in the housing market is extending further, although pockets of retailing softness are emerging. Employment and investment intentions continue to hold up, and nuances we are receiving from our recent roadshow around the country suggest businesses by-and-large are trading reasonably.

But inflation pressures remain a concern.

Inflation remains the predominant concern for the Reserve Bank. Though they maintained a wait-and-see stance at their October *OCR Review*, their warning over the inflationary consequences of looser fiscal policy and ongoing concerns about upside inflation risks skew the risk profile for interest rates upwards. The political reality is that a sizeable tax package will be delivered at next year's *Budget*, necessitating higher interest rates for longer.

Weaker activity and falling house prices will be necessary to see inflation pressure subside.

But we continue to expect weaker activity going forward to arrest inflation pressure. Partial data to date relating to the September and December quarters is pointing to moderating activity from a strong H1 2007. Weaker housing market activity resides at the heart of this moderation. While strong income growth, higher rural incomes and prospects of tax cuts next year are providing support, financial conditions are sufficiently tight to foster a continued slowdown into 2008. The housing market – and our expectations of falling house prices – will likely remain a key focal point and transmission mechanism in order for the slowdown to broaden, and in turn dampen inflation. A fall in house prices is now looking a pre-condition to see inflation pressures subside.

> Offshore developments.

Credit worries have been re-ignited.

In the August issue of *Property Focus* we discussed developments in the US subprime mortgage market and the consequent credit concerns that have developed. These credit concerns have returned following the announcement of large losses by several major US banks, leading to a widening in credit and swap spreads.

The current environment is very uncertain. While liquidity is plentiful, this uncertainty stems from three levels:

- How extensive are subprime losses?
- Who is holding them?
- To what extent does it spillover beyond subprime and into other investment areas, which are also vulnerable to write-downs as risk is re-assessed and re-priced.

Central banks' responses suggest that inflation remains the dominant concern.

The response of central banks to date suggests that they are concerned about inflation despite the risks posed by the fallout from the subprime difficulties and credit concerns. The RBA has increased rates, the US Federal Reserve, while cutting rates, has been pointed in its anti-inflation rhetoric. The environment remains challenging for central banks as they face a delicate balancing act with downside risks to growth stemming from credit concerns on the one hand, and upside risks to inflation from surging commodity prices on the other. Their rhetoric suggests that inflation is the more pressing concern at the moment. This is making for a more challenging and riskier economic and investment climate.

Mortgage borrowing strategy

The inflation risks facing the economy mean the hurdle to a rate cut looks high. A rate cut is likely to require a significant deterioration in global prospects and a sizeable fall in house prices. Both are possible but are not our central scenario. Higher interest rates, given the upside risks to inflation, cannot be ruled out. The 2-3 year part of the mortgage borrowing curve looks to offer the best combination of cost versus flexibility.

> Our view

Our interest rate view has not changed over the past month. We retain our neutral stance towards the Reserve Bank, still harbour concerns on some levels (e.g. the credit cycle), but are also mindful of a more persistent inflationary theme that will have the Reserve Bank on alert.

As discussed last month, the inflation risks facing the economy are of concern to the Reserve Bank. We are already starting to see the flow through from high commodity prices into food prices, and an election-year *Budget* is likely to provide additional fiscal stimulus. In such an environment, it is unlikely that the Reserve Bank will cut official interest rates any time soon. Our interest rate forecasts contain an easing profile, with cuts from late 2008, but the underlying spirit is one of official interest rates being high and restrictive for some time.

Borrowers need to be aware of these issues at present:

- Inflation is becoming more persistent.
- The Reserve Bank is likely to be cautious in such an environment, making sure inflation is well and truly contained before easing. It is likely to take an accident of sorts to kick-start an early easing cycle.
- Mild weakness in housing may not be sufficient to contain inflation in an environment where cost pressures are significant, and inflation expectations are uncomfortably high. Outright falls in house prices appear to be a necessary condition to see inflation pressures dissipate. The response of wage and price setting behaviour to cost pressures and a higher inflation rate in the near-term will be critical. The year ahead is likely to provide a fundamental test of the monetary policy framework.

> Themes we favour in the current environment

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 only advantage in the current environment is a small (relatively short-term) cash-flow advantage.

- **Take a balanced (diversified) approach.** A balanced approach to spread risk by having exposure to different parts of the mortgage yield curve.
- **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.
- **We continue to struggle to see value in the 5-year rate at present.**

Heightened inflation risks will keep rates high.

There is nowhere to hide in the current interest rate environment.

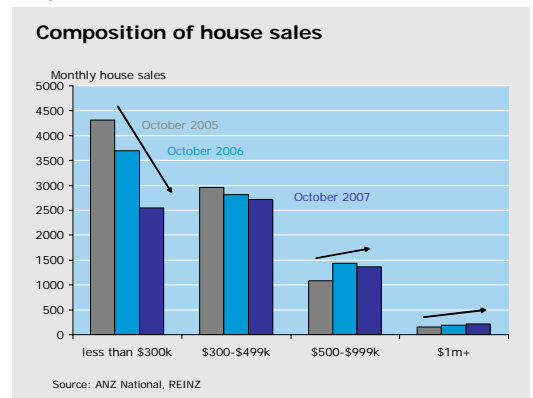
Feature article – Devil in the detail

Looking at the composition behind the real estate data suggests the market is very dichotomised and house prices are falling – albeit modestly. While interest rates are clearly having an impact at one end, the reality of cash and strong balance sheets are supporting the other. It all leaves us wondering how the broad-based slowdown in housing will be achieved.

The housing market has turned...

The latest REINZ data for October reinforces that the housing market has turned. Despite the fact that house sales rebounded in the month, they remain well down on the level from the similar period last year. Given the weakness seen recently – with house sales falling around 30 percent since the start of the year – some form of recovery was inevitable.

However, what the data also highlighted is that it is only certain pockets of the housing market that have experienced weakness. House sales at the lower-end of the market (i.e. less than \$300,000) – typically associated with investment properties and first-home buyers – have eased 30 percent in the past 12 months and 41 percent in the past 24 months. But sales at the upper-end of the market have typically remained relatively stable, with sales of houses worth \$1 million or more actually increasing in the past 12 months.



...with the lower-end of the market, in particular, struggling.

A key implication from this compositional shift is that official REINZ median price statistics (which show annual growth of 8 percent and flat growth over the past six months) is likely to be overstating what the typical (quality adjusted) house is selling for.

Moreover, the statistics also highlight a clear dichotomy in the market, although we acknowledge that average house price growth in the past few years also means there are fewer houses available for sale in the lower price bracket so some care must be taken interpreting the figures.

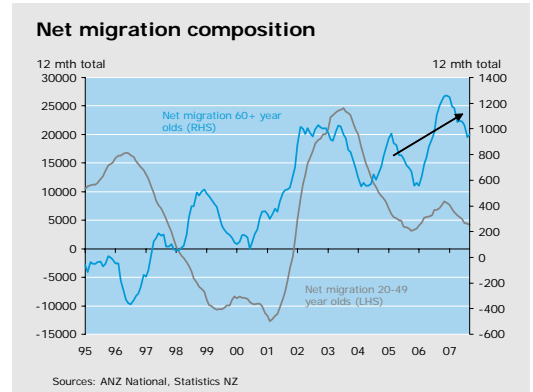
Nonetheless, at one end of the market:

- The four OCR increases from the Reserve Bank this year and the fact that fixed mortgage rates are now all around 9 percent or higher is impacting on the speculative and investment-end of the market.
- Rising house prices relative to incomes in association with a squeeze on incomes through high costs such as petrol, electricity, and food prices are making it more difficult for new home buyers to enter the market.
- Household indebtedness and the debt servicing burden keep hitting new highs and show no signs of consolidating yet.
- Migration data also shows a sharp moderation in net inflows within the 20-49 year age bracket – the age group that is typically associated with first-home buyers. It is equally difficult to go past the 26,000 New Zealanders who are heading to Australia each year.

However, the upper-end remains well supported.

Against this backdrop, there are still a number of support factors for certain areas.

- Liquidity and cash remain plentiful, a consequence of generally loose monetary policy and rising asset prices since 1999.
- The upper-end of the market, in particular, has been a key beneficiary of rising asset values, which has in turn increased wealth substantially. The average net worth per household (including housing assets) has risen from \$195,700 to \$375,200 over the past 5 years.



- There are growing anecdotes of a significant portion of the population aged 55 to 65 cashing up businesses and farms, therefore giving them plenty of spare funds to purchase the retirement dream.
- Net migration across the 60+ age group – an area that given current residency laws is likely to be dominated by high net-worth individuals – remains buoyant, notably from the UK which makes up around one third of permanent arrivals in this age bracket.

> Our assessment

We continue to expect further housing market weakness over the months ahead.

Typically a housing inspired slow-down starts at the lower-end and filters up. This is generally a reasonably drawn out process and rather than coming about because of higher interest rates (which is often what contributed to a slowing at the lower-end), it usually arises from broader spillover effects as marginal wealth diminishes, which results in a slowing in the economy all-round via the business sector, which then takes the heat out of the upper-end.

We are not expecting this cycle to be any different and continue to expect further housing market weakness over the coming months. Once this diffuses through into a more broad-based economic slowing (the Reserve Bank's key end-game), we expect the upper-end of the property market to also go through a subdued period.

But this remains far from clear cut.

However, it is far from clear-cut and we must also be mindful of the array of positives that will remain influential on the property market. The stark reality is that people have cash, strong balance sheets, and the impetus from surging commodity prices (land values) and altered demographics is massive. While such developments are welcome in terms of supporting the property market, they will nonetheless continue to lean against the Reserve Bank's desire to see housing activity slow more broadly. Certainly a turn in the credit cycle (watch section prices going forward) will assist the Reserve Bank's efforts. But it also leaves us wondering what will be the catalyst that leads to a more broad-based slow-down against a backdrop of pure cash. In this regard, we suspect the key resides with what happens offshore, and we are closely watching US housing / economic developments, and whether the global economy remains immune and decoupling holds.

Feature article – Regional disparities

Housing market activity looks to have softened across the regions over the past six months, but there remain some clear dichotomies. In particular, the bottom of the South Island still looks solid, while Northland, Auckland, Hawke's Bay, Taranaki and Wellington have all seen house prices fall over the past six months. We present some quick observations.

- With the exception of Nelson/Marlborough, all regions have experienced a softening in housing volume activity over the past six months, with house sales down from 4.6 percent in Wellington, to 37 percent in Northland. The median number of days to sell a house has risen in all regions suggesting some buyer resistance all round.
- However, just like with the nationwide data, housing volumes (or sales) rebounded in October in every region excluding Northland and Southland. We are not reading too much into this though as some form of rebound was always on the cards given previous weakness.
- Southland and Central Otago Lakes are still performing well. House price growth over the past six months is running at 13.1 percent and 26.7 percent for Southland and Central Otago Lakes, respectively. This is well above the 0.3 percent comparable growth for the country as a whole. It is hard to go past the dairy boom, a retirement theme for those cashed up, and potential exploration activity as being influential. Sales of more upper-end properties may have biased the median sale price somewhat.
- Five out of twelve regions have shown a fall in the median sales price over the past six months. Those regions that have generally fared better (Southland, Otago, Nelson, Waikato, and Central) are all strongly linked to commodity prices to a degree although it is far from a clear pattern with Taranaki softening.
- Urban areas such as Auckland, Wellington and Canterbury have generally seen softish price growth looking at the six-month change, although we note the average days to sell is below the national average of 36 days.
- Other regions to experience house price falls over the past six months all have a North Island feel about them with Northland, Hawke's Bay and Taranaki all recording falls.

By and large, the Reserve Bank is having success in reining in the housing market (rising days to sell, and outright falls in house prices across close to half of regions in the past six months). Unfortunately, more of the same is required to tame inflation.

Region	Volume (sales)		Days to sell		Prices	
	m/m % (s.a.)	six month % chg	Current level (s.a.)	Six months ago (s.a.)	y/y %	six month % chg
Northland	-0.3	-36.8	42	40	1.2	-3.1
Auckland	10.0	-24.3	34	28	7.2	-1.5
Waikato/BoP	12.7	-14.7	48	37	9.5	5.3
Hawke's Bay	42.7	-18.9	42	39	-5.2	-6.4
Manawatu/Wanganui	6.5	-23.7	45	22	8.5	1.4
Taranaki	19.2	-15.1	43	29	2.8	-4.6
Wellington	6.3	-4.6	31	25	2.8	-3.4
Nelson/Marlborough	14.9	4.8	37	28	11.9	5.1
Canterbury/Westland	5.4	-21.0	35	24	9.0	0.0
Central Otago Lakes	5.0	-17.1	49	36	26.7	26.7
Otago	14.1	-4.3	36	28	2.2	3.5
Southland	0.0	-13.5	27	20	24.0	13.1
New Zealand	11.7	-17.9	36	29	8.0	0.3

Comment: Can you help?

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There is a gap in the statistical landscape...

Imagine running a business and only knowing where you stand from quarter to quarter on the cost front. Now relate this to the Reserve Bank, who are mandated to keep inflation between 1 to 3 percent, yet only receive information on consumer prices four times a year.

New Zealand is one of the few countries that fails to produce monthly inflation figures. This 'gap' means data comes with a considerable lag, a disappointing outcome for policy-makers, forecasters and businesses.

...that we are going to fill...

There seems little appetite across policy circles for producing a monthly CPI or inflation gauge. So we are going to take it upon ourselves to fill the void as leaders in the market. To do this we need your help. For simplicity we're going to limit it to a domestic or non-tradable inflation measure (i.e. one that does not contain an import element, such as retailing). The technological age means it is possible to capture many areas of domestic inflation via the internet, which we've already started doing. But we have gaps, and need you help. Construction, property and housing are a significant proportion of consumer spending on non-tradables, accounting for 12 percent of it (based on their weight in the CPI).

So if you're involved in the housing industry as a builder, tradesman, valuer, real estate agent, or other property related services or trades we'd love to have you involved.

...and we need your help!

Sounds daunting? Don't worry. Responding and participating will be easy. We'll simply send out an email each month asking a couple of simple questions. In some cases a simple phone call may be easier.

Full confidentiality conditions would apply, and we'll use technology to make responding easy.

Just like the *Business Outlook*, we'll dispatch a timely write-up of the results, at an aggregate level, and of course an appropriate Christmas gift each year to show our appreciation.

If you are prepared to help us out, please email Cameron Bagrie, bagriec@anz.com, detailing your name, business area, email address, physical address and phone number.

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	
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450	767	784	801	818	836	853	871	889	907	925	943	961	980	998	
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700	1193	1219	1246	1273	1300	1327	1355	1382	1410	1438	1467	1495	1524	1553	
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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	
1,000	1704	1742	1780	1818	1857	1896	1935	1975	2015	2055	2095	2136	2177	2219	

Housing market indicators for October 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	1.2	-1.5	151	(0%)	42	Sales flat – slowest month since late 2001.
Auckland	7.2	-0.3	2,213	(+10%)	34	Days to sell highest for 15 months.
Waikato/BOP/Gisborne	9.5	1.7	1,015	(+13%)	48	Prices posted a record high in October.
Hawke's Bay	-5.2	-1.2	250	(+43%)	42	Sales rebound from very slow September month.
Taranaki	2.8	-2.0	173	(+19%)	43	Sales recover following slow September quarter.
Manawatu-Wanganui	8.5	-1.7	341	(+6%)	45	Longest days to sell since December 2002.
Wellington	2.8	0.5	755	(+6%)	31	Days to sell stable, lowest in North Island.
Nelson-Marlborough	11.9	2.9	289	(+15%)	37	Most sales in 8 months.
Canterbury/Westland	9.0	1.6	919	(+5%)	35	Prices ease from September's highs.
Otago	2.2	1.6	307	(+14%)	36	Slowest annual price growth in South Island.
Central Otago Lakes	26.7	10.3	124	(+5%)	49	Longest days to sell in NZ, but strongest price growth.
Southland	24.0	3.2	207	(0%)	27	Days to sell still shortest in NZ.
NEW ZEALAND	8.0	0.9	6,827	(+12%)	36	Softness extending through to prices and days to sell.

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)	1.7	2.2	2.7 ⁽¹⁾	2.8	2.6	2.1	1.7	1.5	1.6	2.0
CPI inflation (%)	2.5	2.0	1.8	2.9	2.9	2.6	2.9	2.8	2.7	2.6
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)						
	Aug 07	Sep 07	Current	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Call rate	8.25	8.25	8.25	8.25	8.25	8.25	8.00	7.5	7.00	6.75
90-day bank bill rate	8.8	8.7	8.7	8.6	8.6	8.6	8.0	7.5	7.0	7.0
Floating mortgage rate	10.5	10.5	10.5	10.5	10.5	10.5	10.2	9.7	9.2	9.0
1-yr fixed mortgage rate	9.5	9.5	9.6	9.6	9.4	9.3	8.8	8.3	7.9	7.8
2-yr fixed mortgage rate	9.2	9.1	9.4	9.4	9.3	9.1	8.7	8.2	7.9	7.8
5-yr fixed mortgage rate	8.9	8.7	8.9	8.9	8.9	8.9	8.7	8.5	8.3	8.1

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