

# NEW ZEALAND ECONOMICS ANZ PROPERTY FOCUS

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## CONTRIBUTORS

**Khoon Goh**  
**Head of Market Economics and Strategy**  
 Telephone: +64 4 802 2357  
 E-mail: Khoon.Goh@anz.com

**Steve Edwards**  
**Economist**  
 +64 4 802 2217  
 Steve.Edwards@anz.com

**David Croy**  
**Senior Interest Rate Strategist**  
 +64 4 576 1022  
 David.Croy@anz.com

**Mark Smith**  
**Economist**  
 Telephone: +64 4 802 2199  
 E-mail: Mark.Smith2@anz.com

## ON A PLATE

### SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we look at recent interest rate developments.

### THE MONTH IN REVIEW

House sales in an uninspired market continue to drift sideways, with average selling prices still trending down. The slowdown in the flow of net migrants to just a trickle isn't helping, but fixed mortgage rate cuts may help to prop the housing market up.

### PROPERTY GAUGES

Residential consent issuance remains at a low level. Higher costs of constructing a new dwelling, a large supply of existing dwellings on the market, ongoing household deleveraging, low income growth and lower net immigration are playing a more influential role in constraining residential building activity.

### ECONOMIC BACKDROP

The soft tone of recent domestic data suggests the recovery is losing some momentum – but that is not to say it has petered out. Our long held view is that the recovery will be more subdued compared to previous economic cycles. Downside risks are building, but a real risk at present appears to be one of wrapping ourselves in a shroud of gloom. We've always said the recovery would be protracted, but it's still a recovery nonetheless, albeit of a grumpy variety.

### MORTGAGE BORROWING STRATEGY

Floating mortgage rates have risen again following the Reserve Bank's decision to raise the OCR by a further 25 basis points to 3.00 percent. However, falls in wholesale term interest rates has led to further declines in fixed mortgage rates, particularly the 2 year, which has been cut by a further 21bps to 6.79 percent. The "step-up" between floating and fixed rates has decreased substantially as a result, and has left many people pondering if now is a good time to fix. We analyse the current set of interest rates against the economic outlook and conclude that there is some value in fixing, particularly in the 1-2 year maturities.

### FEATURE ARTICLE – INTEREST RATE CONUNDRUMS

One of the curious aspects of the last two months has been the fact that fixed mortgage interest rates have actually fallen since the RBNZ started raising rates. Indeed, while floating interest rates offered by most lenders are up around half a percent (matching the two quarter percent rises in the OCR), fixed mortgage interest rates have fallen by a similar amount. In this article we discuss recent developments as they pertain to mortgage borrowers.

# THE MONTH IN REVIEW

## SUMMARY

House sales in an uninspired market continue to drift sideways, with average selling prices still trending down. The slowdown in the flow of net migrants to just a trickle isn't helping, but fixed mortgage rate cuts may help to prop the housing market up.

## SNZ BUILDING CONSENTS – JUNE

Including apartments, the seasonally adjusted number of new dwellings authorised rose by 3.5 percent in June. **Excluding apartments, consent issuance rose by 1.7 percent, following a 10 percent fall in May.** Smoothing through some of the monthly volatility, we note that the three month average consent issuance is still around 5 percent higher compared to three months ago. The increase in GST on October 1 may be encouraging some residential work to be brought forward, but to date this effect appears to be marginal.

Popping up.

## REINZ HOUSING DATA – JULY

The number of house sales were broadly unchanged from June, but were 27 percent below July 2009 levels. Following the June spike, **prices fell by 1.0 percent in seasonally adjusted terms in July.** Smoothing through the monthly volatility, the trend in prices remains downwards with the prices in the 3-months to July 0.7 percent lower than in the previous 3-month period. Days to sell continue to climb, reaching their highest level since early 2009.

Cheap eats.

## RBNZ MORTGAGE LENDING – JUNE

**Household credit growth also remained weak**, up 0.2 percent on the month to be 2.5 percent higher from a year ago. Housing credit is also suitably restrained, with the annual increase (2.9 percent) considerably below the double digit rates evident when the property market was in a more robust state. Consumer credit continues to ease (down 1.9 percent y/y).

Light meal.

## NET MIGRATION – JUNE

On a seasonally adjusted basis, permanent and long-term (PLT) arrivals exceeded departures by 70 persons in June 2010, following a net inflow of 230 persons in May. **This was the lowest monthly net PLT inflow since November 2008**, and is considerably below the average monthly readings over the past year (net inflow of around 1400 persons). Annualised net PLT immigration has eased from just over 21,000 persons in the three months to January to around 4000 persons (4,080) in the June quarter.

Local flavours.

## ASSESSMENT

The low number of sales and rising days to sell suggests **there is not a lot of optimism currently in the housing market.** The June and July hikes by the RBNZ would be one factor encouraging increasing caution by buyers. Offsetting this, however, have been recent cuts to fixed mortgage rates, which may start to entice more buyers into the market. Given the low numbers of sales, this cannot come too soon. With a large proportion of mortgages now on floating (a third of the value of all mortgages), there is a risk that we could start to see **more people deciding to fix for 2 years.** We know that when the spread in the 2-year to floating was near 100bps, it was not seen as worth moving from floating. With that spread now narrowed to 60bps, some may be tempted to. In addition, those rolling off their fixed rate mortgages over the next few months are coming off a weighted average rate of around 6.7 percent, **so locking in the 2-year rate is attractive since this effectively results in very little increase in their overall repayments but gives them certainty for another two years.**

Housing market is on a plate.

## PROPERTY GAUGES

Residential consent issuance remains at a low level. Higher costs of constructing a new dwelling, a large supply of existing dwellings on the market, ongoing household deleveraging, low income growth and lower net immigration are playing a more influential role in constraining residential building activity.

We use ten gauges to assess the state of the property market, and for signs that changes are emerging.

**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.

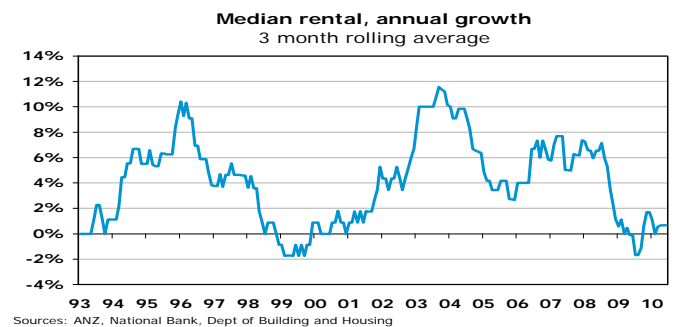
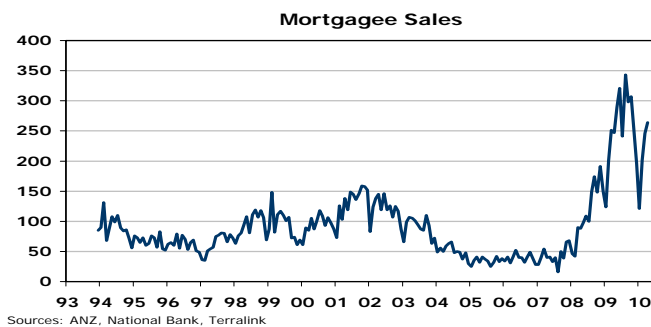
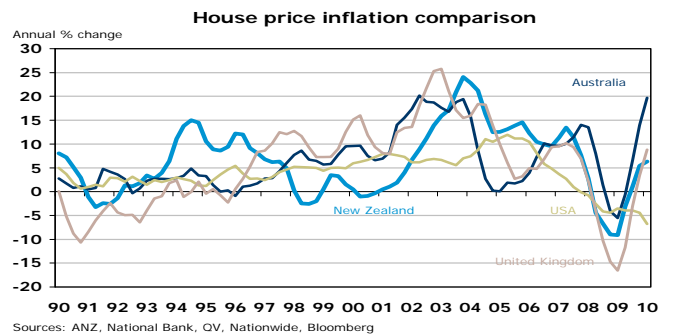
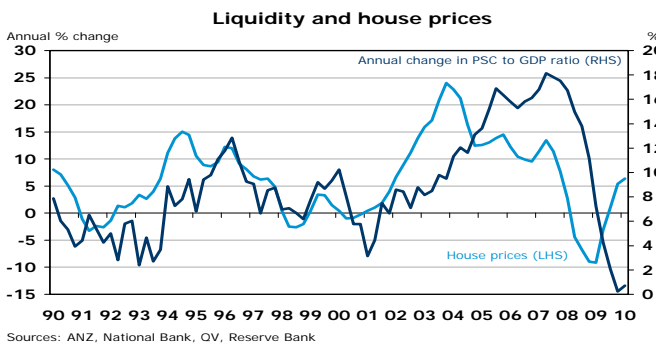
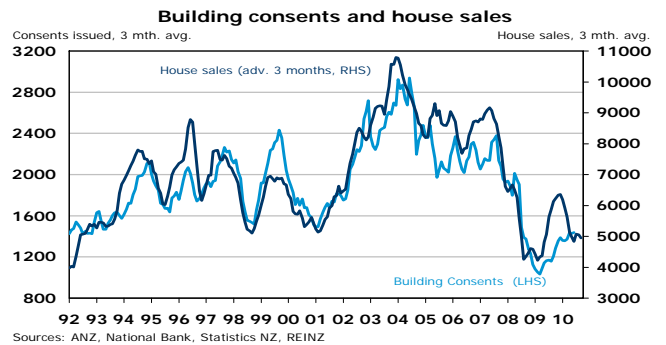
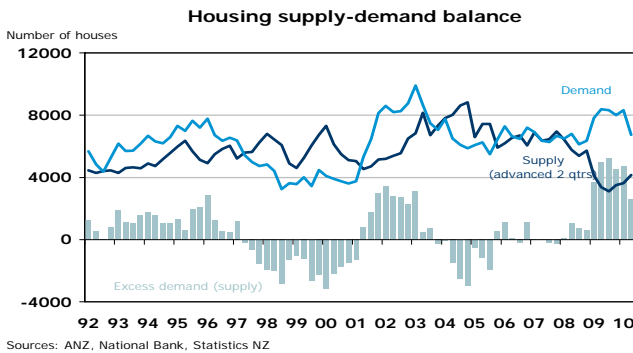
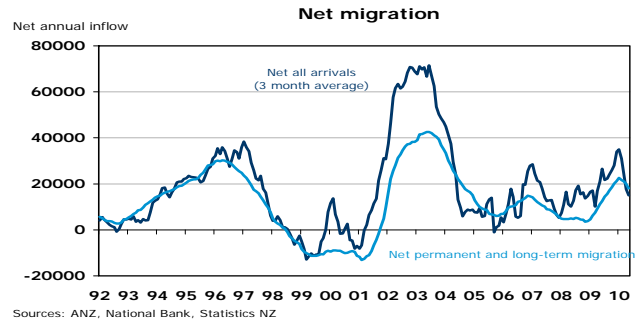
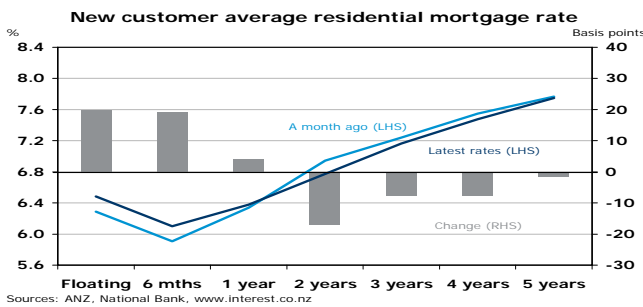
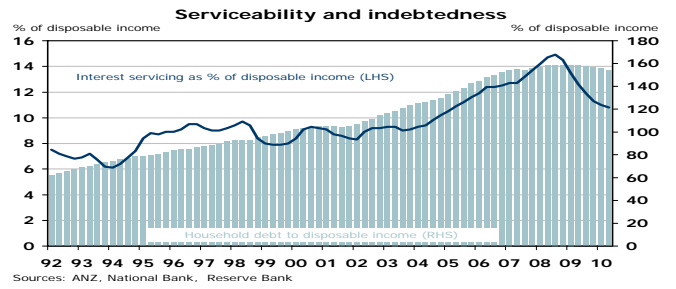
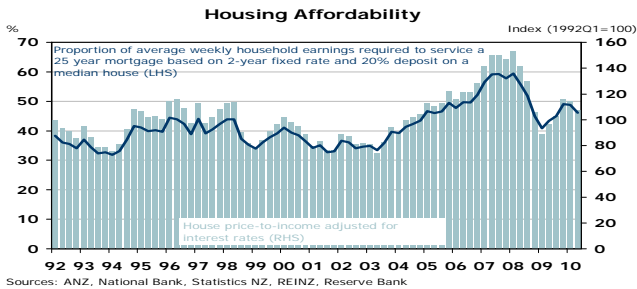
**GLOBALISATION.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

**MORTGAGEE SALES.** We look at how mortgagee sales are tracking for an indication of distress in the property market.

**RENTAL GROWTH.** We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Improvement likely	↔/↓	Affordability improved in the June quarter, after deteriorating during the previous year.
Serviceability / indebtedness	Easing	↓	Deleveraging continues.
Interest rates	Flattening	↔/↓	Drops in fixed term mortgage rates, especially for two year rates but floating and six months have lifted.
Migration	Easing	↔	The steady flow has turned to a trickle.
Supply-demand balance	Out of kilter	↔/↑	Demand is weakening and supply is slowly lifting
Consents and house sales	Headwinds ahead	↔/↑	In a holding pattern.
Liquidity	Illiquid	↓	May have turned the corner, but remains very illiquid.
Globalisation	Lagging behind	↔	Most are out of the woods but the United States is still lost in the forest.
Mortgagee sales	Rebound	↔	Tick up is a telling sign.
Median rent	Still flat	↔	Nothing to write home about.
On balance		↔/↓	Expect a relatively modest contribution of residential investment to GDP growth over the remainder of the year.

# PROPERTY GAUGES



## ECONOMIC BACKDROP

The soft tone of recent domestic data suggests the recovery is losing some momentum – but that is not to say it has petered out. Our long held view is that the recovery will be more subdued compared to previous economic cycles. Downside risks are building, but a real risk at present appears to be one of wrapping ourselves in a shroud of gloom. We've always said the recovery would be protracted, but it's still a recovery nonetheless, albeit of a grumpy variety.

### OUR CORE ECONOMIC VIEW

**Domestic economic data released over the past few weeks echoed a familiar theme, generally coming in on the low side of expectations.** Housing market data has been particularly soft, casting a shadow over households, which remain cautious in their spending decisions. Commodity prices, business sentiment and consumer confidence have also softened, but their overall levels remain respectable. We read the recent retreat in consumer and business sentiment as the reality of a more subdued recovery starting to dawn, as opposed to the recovery itself coming under threat. Indeed, it is entirely consistent with our long held view that the economic recovery will be more muted compared to past cycles, with bumps along the way. Deleveraging remains a dominant theme, and this will hold growth back in the near term. However, somewhat ironically, a more subdued growth outcome in 2010 means we will be more optimistic about prospects for 2011, for it shows that the NZ economy's imbalances are being addressed, which will set the stage for a more sustainable rebound further down the track.

**Two developments are particularly notable and risk accentuating the shroud of gloom (or rapidly diminishing optimism) that seems to be descending.**

- **There looks to be considerable downside risk to the forecast dairy payout for the 2010/11 season,** with Fonterra announcing that the payout is under review (currently NZ\$6.60/kg ms for the milk price component plus a distributable profit of 30-50 cents per share).
- **The unemployment rate rose sharply in Q2 from 6 to 6.8 percent.**

**Now, we would caution against getting overly excited by either of the above.** Dairy prices are still very high relative to historical norms and there is a long way to go before the end of the season. The sharp spike in wheat prices due to severe drought in Russia, could yet see dairy prices recover as feed costs for the northern hemisphere dairy herd rise. The unemployment rate may have jumped but hours worked are up 1.8 percent in H1 2010, and firms would obviously not be adding to hours if the demand picture was not improving (albeit off lows). We view the sharp climb in the reported unemployment rate with some scepticism and believe it misrepresents the spirit of a gradually improving labour market. The outlier on the seasonally adjusted unemployment rate looks to be Q1's sharp fall to 6 percent, with an improvement from Q4 2009 to Q2 2010 from 7.1 to 6.8 percent. This feels about right.

**Upside surprises also need to be acknowledged.** Indeed, modest wage growth and rises in hours worked is buoying incomes with total gross earnings up 1.8 percent in Q2 to be 4.6 percent higher compared to a year ago. Improving labour incomes will help the deleveraging process and ultimately lend support to consumer spending and the housing market.

**That being said, the risks are still pointed to the downside.** New Zealand households still have a negative reported savings rate and this is a huge headwind to the economy when seen in association with house prices moving side ways (at best). Net migration looks set to turn from a tailwind to a headwind, with net outflows now a real possibility. Global financial markets remain volatile, and while risk appetites have returned in recent weeks, investor sentiment is as fickle as ever. Concerns over a global growth slowdown in H2 (and talk of a double dip in the US) alongside the lack of any clear trends tend to have a negative impact on investment and spending decisions.

**Our long-held view has been that the recovery would be more protracted relative to previous cycles and we see little reason to shift from this view.** At this juncture there is the inevitable temptation to get carried away by recent gloom. Suffice to say that just as sentiment appeared overly optimistic three months ago, the danger is that the reciprocal emerges. While it is nothing to write home about, the economy is still growing. Housing is lagging, and correctly so. NZ needs more income generation before the spending side of the economy can fire up. We're moving in the right direction in this regard but it's a drawn out process.

# MORTGAGE BORROWING STRATEGY

Floating mortgage interest rates have risen again following the Reserve Bank's decision to raise the OCR by a further 25 basis points to 3.00 percent in July. However, falls in wholesale term interest rates have contributed to further declines in fixed mortgage rates, with the 2 year rate cut by a further 21bps to 6.79 percent by one Bank. The "step-up" between floating and fixed rates has decreased substantially as a result, and has left many people pondering if now is a good time to fix. We analyse the current set of interest rates against the economic outlook and conclude that there is some value in fixing, particularly in the 1-2 year maturities.

## OUR VIEW

**The Reserve Bank's decision to raise the OCR by a further 25bps to 3.00 percent late last month has led to a matching rise in the floating mortgage interest rates.** And while the absolute level of the floating rate remains low by historical standards, with the OCR set to rise further in the months and years ahead, many borrowers are naturally wondering whether it is worth fixing. This decision had been made all the more interesting by the fact that some fixed mortgage rates have fallen. Indeed, whereas 6 months ago the "step up" between floating and 2 years fixed was around 1.6 percent, at the moment it stands at around 0.6 percent. On the face of it, fixing is starting to look attractive, especially as roughly half of the reduction in the step-up has come from falling fixed rates, as opposed to just from rising floating rates.

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	6.20%				
6 months	6.35%	6.55%	7.05%	7.21%	7.82%
1 year	6.45%	6.80%	7.13%	7.51%	8.02%
18 months	6.65%	6.94%	7.36%	7.75%	8.21%
2 years	6.79%	7.16%	7.58%	7.96%	8.41%
3 years	7.20%	7.58%	7.98%	8.19%	8.39%
4 years	7.60%	7.84%	8.08%		
5 years	7.75%				

**Nonetheless, some caution is required. Paying fixed still costs more,** and there is no guarantee that the RBNZ will push interest rates up by enough to make fixing a better strategy over any given horizon. But what has changed dramatically in the past month are the relativities, and this is best demonstrated by way of breakeven analysis. **Regular readers will be familiar with our breakeven analysis, which we use to gauge the potential value in a chosen strategy.** Indeed, by comparing the choices available, breakeven analysis provides a set of figures showing where rates need to be in future to make two strategies equivalent, enabling better choices. For example, when thinking about the next 2 years, there are several choices you might consider if you wanted to fix. For example, you might consider fixing for 2 years; or a "split" strategy like fixing for 1 year, and then for another year in 1 year; or fixing for 6 months, and then again in 6 monthly intervals over the remaining 18 months, and so on. Breakeven analysis allows you to compare these strategies against one another. And what has changed in the last month is the degree to which these breakevens have fallen. So **whereas a month ago you would need to be fairly confident that mortgage rates would need to rise fairly quickly in order to be better off fixing, at the moment, you'd only need to see a small rise in rates for the fixing strategy to be the better option,** especially for terms between 1 and 2 years. Not only that, because 1-2 year fixed rates are actually lower, there is better outright value.

For example, when thinking about the next 2 years as a time horizon, you might be contemplating whether it is better to be fixed for 2 years at 6.79 percent, or to fix for 1 year at 6.45 percent, with a view to re-fixing in a year for another year. At the moment the 1 year breakeven in 1 year's time is at 7.13 percent. That's 0.68 percent above the current one year rate, but more importantly, it's probably about where the 1 year rate might be if the RBNZ lifts the OCR 2-3 more times in the next 12 months. And given the likelihood that they do just that, the premium payable to fix for 2 years might just be worthwhile. By comparison, the comparable figure (to the 7.13 percent) was 7.55 percent a month ago, implying that rates would need to rise by much more to make it worthwhile to fix. Breakevens for longer terms have also improved, but given the step-ups we believe the better balance resides in the 1-2 year fixed terms. Of course, **much depends on whether you can afford the step-up. But if you can, and you share our view that the RBNZ will still be raising rates over the next 12 months, it is worth considering fixing for a short period.**

# INTEREST RATE CONUNDRUMS

## SUMMARY

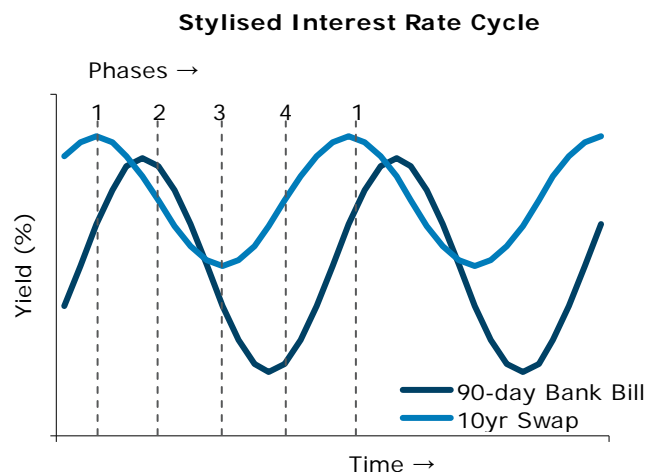
One of the curious aspects of the last two months has been the fact that fixed mortgage interest rates have actually fallen since the RBNZ started raising interest rates. Indeed, while floating interest rates offered by most lenders are up by around half a percent (matching the two quarter percent rises in the OCR), fixed interest rates have fallen by a similar amount. While this may appear to be a positive development for borrowers, it's worth being mindful of the main reason why it has occurred – and that's because the global outlook has deteriorated – and that's hardly good news. We expect more "wobbles" in respect to the differences between fixed and floating interest rates in the future, but it's difficult to imagine fixed interest rates falling below floating rates any time soon.

## What normally happens when the RBNZ starts raising the OCR?

The best way to get an idea of what "should" happen as the RBNZ starts raising interest rates is to look at what has happened in the past – both here and overseas. What one typically observes is that long term "swap" rates tend to lead the economic cycle, so much so that this is regarded as a reliable leading indicator in its own right. This process typically occurs in 4 distinct repeating phases:

- The first occurs at the end of an economic upswing. As early signs of a slowdown emerge, investors tend to move from risky assets (like equity and property) and into safer assets like bonds. As a result, bond yields start to fall, even though the policy interest is elevated (and may still be rising). This produces a flattening (and in some cases an inversion) of the yield curve.
- The second phase tends to start when there is widespread confirmation of a slowdown, which the central bank must inevitably respond to. As the realisation sinks in that policy rate cuts are coming, both short and long end interest rates tend to fall together. But because long term interest rates have already fallen some way in anticipation, short term interest rates tend to fall faster, "steepening" the yield curve in the process.
- The third phase starts when early signs that the economy is starting to recover emerge. At this point, bond investors become wary of committing capital for longer periods. Because bonds mature well into (and often beyond) a single economic cycle, investors start to demand a higher risk premium, and long term interest rates start to rise, in some cases even before the central bank is finished cutting its policy rate. As a result, the yield curve steepens even further.
- The fourth and final stage begins when it becomes clear that the economy has bottomed out and has started to recover, necessitating a response by the central bank. As the realisation of rate hikes sink in, both short and long term interest rates tend to rise. But because long term interest rates have already moved up in anticipation, they tend to rise less rapidly, and as short term interest rates catch up, the yield curve flattens.

A stylised interpretation of this is shown in the chart below, and at the moment we would regard the current cycle as being in phase 4.



## INTEREST RATE CONUNDRUMS

But if the yield curve tends to “flatten” significantly as phase 4 unfolds, why is the yield curve so steep at the moment? Why, for instance, is the gap between the 90 day rate and the 10yr swap rate still close to 1.8 percent? Worse still, the current spread between the OCR and the 5 year fixed mortgage interest rate is close to 4.8 percent. There are several reasons for this, and among other things, this helps explain why this recovery is “different”.

Among these reasons, two stand out:

- **The return of reasonable premiums.** Textbooks are rich with theories on the existence of a term premium. This risk comes from several (related) sources. For instance, typically, the longer you lend money to someone, the less the likelihood you get it back (credit risk). Similarly, the longer you lend money out for, the less flexibility you have to invest in something better that comes along later (opportunity cost). These risks were all but forgotten in the lead up to the global financial crisis – everybody was assumed to be creditworthy, and debt was easy to come by, so the whole concept of credit rationing was lost. As markets have normalised, they have pushed on in the other direction, and as a result, there is now a steeper term premium.
- **Regulatory change.** The RBNZ introduced changes to its prudential liquidity policy from April this year, and this requires banks to source a greater proportion of their funding from more stable sources like term deposits and long term wholesale markets (as opposed to short term money markets). Banks have responded by paying premiums for retail term deposits, and it is now common to see retail term deposit rates in excess of 1 percent above the OCR. Similarly, as banks have looked to secure long term funding (i.e. 2-5 years), this has placed upward pressure on 2-5 year mortgage interest rates.

The combined impact of higher risk premiums and tighter regulations has been a steeper yield curve. This has made certainty more expensive – and so it should be when new debt is scarce and the private sector is deleveraging.

### What's going on now?

**Although the domestic yield curve remains steep, the level of interest rates has changed significantly, largely in response to growing fears of a double-dip recession in the US.** Short term interest rates have fallen in reaction to weaker domestic data, on the view that this is likely to result in a more gradual tightening of monetary policy in New Zealand. Long term interest rates have fallen too – but this has mainly been in reaction to falling global (read US) interest rates. This has occurred largely in response to the weaker US outlook and the possibility that the US Federal Reserve (the “Fed”) will implement a second round of quantitative easing (QE). At present these global influences appear to be having a significant impact on domestic long-term interest rates, with the 10 year swap rate back below 5 percent again, which is where they were in early 2009. This is having a knock-on effect on mortgage rates – and while it may feel like something to cheer about, when you consider that these changes have been brought about by the weakening US and global growth outlook, there are less reasons for optimism.

Nonetheless, **when we look at how the NZ economy is placed, we do think the outlook is better than the sense you'd get from looking at the level of interest rates.** Indeed, whereas the last time swap rates were at these levels, the RBNZ was slashing the OCR (in clips of 150bps!) and the economy was entering a deep recession. The economy is now expanding. To be sure, the recovery is proving to be somewhat less vigorous than at first assumed (and well short of the RBNZ's June MPS projections of growth of 1 percent per quarter until late 2011). But make no mistake, it is recovering, and the implication that the 90 day rate will average below 5 percent for the next 10 years (as implied by swap yields) is a stretch. That is, of course, unless you expect the economy to start going backwards again. We expect longer term interest rates over the next few years will continue to “wobble” around as perceptions over the outlook change. But we doubt we will get back to the days when fixed rates will persistently be below floating rates as they have been in the past. This is the reality of a de-leveraging environment. There is no “fun” in de-leveraging (most people would probably get more joy from buying a new car/boat/TV than they would in paying off their mortgage). However, once debt has been repaid, it paves the way for better growth later. In that regard it's a good thing.

## INTEREST RATE CONUNDRUMS

**As such we see the current level of interest rates as being opportunistic for borrowers.** This stems wholly from our view that the interest rate environment is not as benign as the term structure of interest rates assumes. The economy may not be booming, but it is in reasonable shape, and we do expect growth (albeit patchy and slow growth) over the next few years. However it would be foolish not to ignore the “elephant in the room” that is the Fed’s QE programme. Arguably, it has already had a significant impact on lowering longer-term domestic interest rates and it may yet have more impact going forward. But long-term interest rates are already very low, and at some point we expect a rebound. This could be mild if, for example the Fed makes small concessions that are seen to take effect. Or it could be sharp if the Fed rules out further QE and the US economy starts to recover. But the point is, valuations look stretched at present. And while it’s always difficult to make a decision in an environment where opposing forces exist, or to go against the trend for fear of missing out on better levels, you’ll never know till after the fact whether the decision you made was the most cost effective. But that’s not a reason to shy away from making a decision.

### What is QE?

Finally, we thought a quick description of QE would be useful for those not familiar with it, particularly as it is having such a large impact on US interest rates and hence New Zealand interest rates. Some describe QE as printing money, and in its crudest form this is true. However in the modern monetary economic context it’s slightly different. What actually happens is the Fed buys bonds with money that is “created” by simply crediting the seller’s account. This leaves sellers cashed up, forcing them to contemplate other investment or spending decisions, and as this spending and investment filters through the economy, it typically produces growth. In reality it is far more complex, and the Fed will target specific bonds of specific maturities in specific sectors to force what it sees as a desirable outcome. But the one inescapable fact is the downward pressure QE will initially have on benchmark interest rates – after all, that’s the whole point of QE. Indeed, central banks prefer to implement monetary policy by adjusting the cash rate (and in many cases giving guidance around likely future decisions), but when the cash rate is at zero already (as it is in the US), this leaves the Fed with few alternatives. Among these, getting long term rates lower via QE is seen as a viable alternative.

## KEY FORECASTS

Weekly mortgage repayments table (based on 25-year term)

		Mortgage Rate (%)													
		5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00
Mortgage Size (\$'000)	200	290	297	304	311	319	326	333	341	348	356	364	371	379	387
	250	363	371	380	389	398	407	417	426	435	445	455	464	474	484
	300	435	446	456	467	478	489	500	511	522	534	545	557	569	581
	350	508	520	532	545	558	570	583	596	610	623	636	650	664	677
	400	580	594	608	623	637	652	667	682	697	712	727	743	758	774
	450	653	669	684	701	717	733	750	767	784	801	818	836	853	871
	500	725	743	761	778	797	815	833	852	871	890	909	928	948	968
	550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064
	600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161
	650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258
	700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355
	750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451
	800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548
	850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742	
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for July 2010 (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	-3.0	-3.2	99	(-1%)	65	Annual growth lifts but remains second lowest.
Auckland	2.3	-3.4	1,544	(-5%)	37	Days to sell cut by one day to lowest in NZ.
Waikato/BOP/Gisborne	-1.7	-0.4	622	(+4%)	62	Time to sell remains at an elevated level.
Hawke's Bay	-2.6	-1.1	164	(-5%)	55	APC falls to 8 month low and NZ's 3 <sup>rd</sup> lowest.
Taranaki	3.4	-2.2	211	(-10%)	57	Large fall in sale numbers back to recent lows.
Manawatu-Whanganui	3.7	0.6	148	(+3%)	52	3 month change back into positive territory.
Wellington	4.2	-0.3	582	(+11%)	44	Sales rebound from an 18-month low in June.
Nelson-Marlborough	-0.3	-0.6	171	(-4%)	45	Days to sell mirrored the nationwide average.
Canterbury/Westland	4.2	3.0	727	(-1%)	41	Strong 3 monthly rise in house prices.
Otago	-4.8	-5.7	55	(-47%)	64	Number of house sales halves from June.
Central Otago Lakes	9.7	3.4	233	(+10%)	47	Second strongest annual rise in sale prices.
Southland	10.6	0.2	113	(-1%)	39	Median house sale price lifts back above 200k.
NEW ZEALAND	2.6	-1.2	4,738	(0%)	45	Caution reflected in low sales and prices.

## Key forecasts

Economic indicators	Actual			Forecast						
	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12
GDP (Ann Avg % Chg)	-1.6	-0.4	0.8(f)	2.1	2.7	3.0	3.4	3.4	3.9	3.9
CPI Inflation (%)	2.0	2.0	1.9	1.7	4.8	5.0	5.6	5.3	3.0	2.9
Unemployment Rate (%)	7.1	6.0	6.8	6.6	6.4	6.1	5.7	5.5	5.4	5.5
Interest rates	Actual			Forecast (end month)						
	Jun 10	Jul 10	Latest	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12
Official Cash Rate	2.75	2.75	2.75	3.25	3.25	3.50	4.00	4.50	5.00	5.50
90-Day Bank Bill Rate	3.2	3.2	3.2	3.5	3.5	3.9	4.4	4.9	5.4	5.8
Floating Mortgage Rate	6.3	6.3	6.5	6.8	6.8	7.0	7.5	8.0	8.3	8.6
1-Yr Fixed Mortgage Rate	6.4	6.4	6.4	6.5	6.5	6.9	7.3	7.8	8.2	8.4
2-Yr Fixed Mortgage Rate	7.3	7.0	7.0	7.1	7.2	7.4	7.8	8.2	8.5	8.6
5-Yr Fixed Mortgage Rate	8.5	7.8	7.8	7.9	8.0	8.2	8.3	8.8	8.9	8.9

# IMPORTANT NOTICE

## 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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL 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:



## IMPORTANT NOTICE

- 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.

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