ANZ RESEARCH

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CONTRIBUTORS

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com

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

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

Steve Edwards
Economist
Telephone: +64 9 357 4065
Steve.Edwards@anz.com

GHOST TRAIN

SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we offer our views on the recent turmoil in global financial markets.

THE MONTH IN REVIEW

A long, drawn-out slog of debt repayment for Western societies is settling in. New Zealand will remain susceptible to adverse swings in the global scene. But at present we suspect the economy has enough momentum to remain a relative growth outperformer across Western economies. This means the temporary deferral of a higher OCR, as opposed to a long delay. Housing-centric indicators remain mixed.

PROPERTY GAUGES

Residential consents cannot remain this low given ongoing population growth. Earthquake rebuilding will provide further impetus to the residential and non-residential construction sectors. Robust levels of construction sector sentiment and the June 22 initiatives by the Government to provide clarity over the rebuilding of residential Christchurch are expected to further boost consent issuance over the next few months. However, against this backdrop, affordability and serviceability are pointing to limited house price upside. We expect the market to continue muddling along as opposing forces interact.

MORTGAGE BORROWING STRATEGY

Mortgage rates remain broadly unchanged, having not moved much since they fell after the RBNZ's decision to cut the OCR in March. Although the domestic economic outlook looks reasonably positive, and the inflation outlook is supportive of the RBNZ lifting the OCR, this is more than offset by deepening concerns about the global outlook and financial market turmoil. As such, we have pushed out our forecast for the first OCR hike from September to December. With the floating rate set to stay low for longer, and global and financial market uncertainty escalating, it is not clear that there is value in paying a premium to fix.

FEATURE ARTICLE – WHAT IS GOING ON?

Recent global events are a timely reminder that recovery from the 2008 financial crisis was always going to be a long journey. While we've been surprised by the intensity of market movements in some instances, the developments fit within the key theme of our economic prognosis: healing in the post-GFC world will be a long, drawn-out process. We think NZ is progressively moving into a sound position, and is far less vulnerable than in 2008. In the current deleveraging environment, where grumpy growth and limited asset (house) price appreciation is likely to be the norm, focusing on the fundamentals is vital. In such an environment, it is prudent to keep borrowing focused on the short term as opposed to chasing longer-term rates.

THE MONTH IN REVIEW

A long drawn-out slog of debt repayment for Western societies is settling in. New Zealand will remain susceptible to adverse swings in the global scene. But at present we suspect the economy has enough momentum to remain a relative growth outperformer across Western economies. This means the temporary deferral of a higher OCR, as opposed to a long delay. Housing-centric indicators remain mixed.

TURMOIL IN WORLD FINANCAL MARKETS

"*Fear*-is" wheel

Financial markets see-sawed over the first two weeks of August, led by **snowballing sovereign debt concerns**. The US Federal Reserve temporarily assuaged markets by committing to an "exceptionally low" Federal Funds rate until at least mid-2013. This confirms our suspicion that the world's challenges haven't suddenly disappeared, with large public deficits raising fiscal solvency concerns. The outlook for the Eurozone, and Italy in particular, is troubling. **Talk is now turning to a double dip recession in the US.** An OCR hike remains off the table until the global scene stabilises.

STATISTICS NZ, BUILDING CONSENTS – JUNE

Roller coaster

Dwelling consents eased 1.4 percent in the month of June, while on an ex-apartment basis consent numbers fell 4.5 percent. The level of building consents remains extremely low. Signs of pending improvement are apparent from a slight uptick in section sales.

RBNZ, MORTGAGE APPROVALS – LATEST AVAILABLE (MID AUGUST)

Mad tea party

The *value* of housing approvals has been steadily rising and is now 22 percent above last year's levels. Approval values, however, are still below 2007 peaks. Compared to the July monthly average, **the *number* of approvals has lifted 10 percent since the start of August.**

RBNZ, CREDIT GROWTH – JUNE

Mirror maze

Household mortgage lending in June **mirrored the previous month**. Lending rose 0.1 percent in June, with the annual rate at 1.3 percent, both unchanged from the previous month. People continue to pay back debt.

REINZ, HOUSING DATA – JULY

Haunted house

Nationwide house sales eased a seasonally adjusted 2.6 percent in July, which followed a small fall in June. Sales volumes rose 10.5 percent s.a. in the three months to July compared to the previous three months. Sales are above their late 2010 trough but are 28 percent below historical averages as a portion of the dwelling stock. In seasonally adjusted terms the REINZ House Price Index eased 0.2 percent after a 1.8 percent rise in June. Price trends are still positive, but only just, with prices up 0.1 percent in the three months to July.

STATISTICS NZ, NET MIGRATION – JULY

Dodgem cars

Net permanent and long-term migration staged a **fifth consecutive monthly net outflow** in July. PLT arrivals strengthened by 6.7 percent s.a. (+8.2 percent y/y) whereas departures rose 5.4 percent s.a (+25.9 percent y/y). Annual net PLT immigration slowed to 2,867 persons, the lowest net annual inflow since October 2001. The net PLT outflow overseas continues to be driven by the 386 person net PLT outflow from Canterbury. Since March **around 2,150 persons have left Canterbury**, as opposed to the net PLT inflow of 676 persons to other regions. With New Zealand standing out amidst the global gloom a return to a net PLT migration inflow remains in prospect.

PROPERTY GAUGES

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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 housing.

SUPPLY-DEMAND BALANCE. We use dwelling consents issuance to proxy growth in 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.

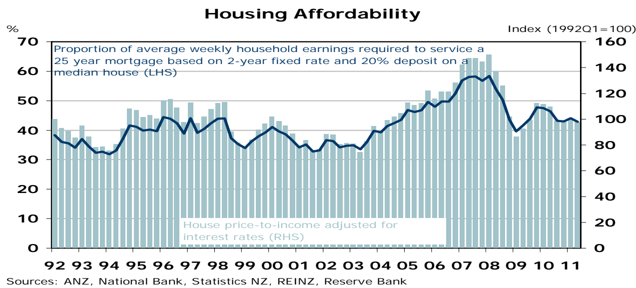
GLOBALISATION. We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

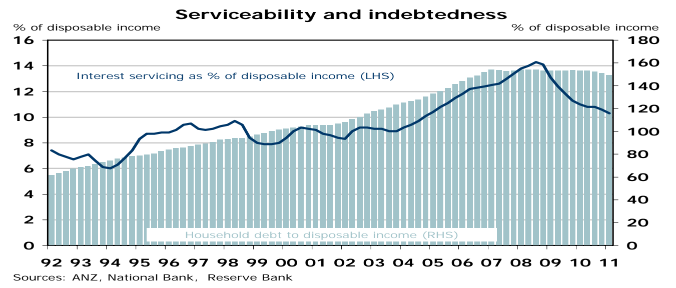
HOUSING SUPPLY. We look at the supply of housing listed on the market, recorded as the number of months needed to clear the housing stock. A high figure indicates that buyers have the upper hand.

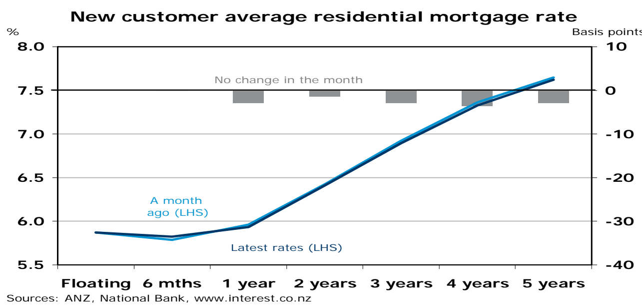
RENTAL GROWTH. We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

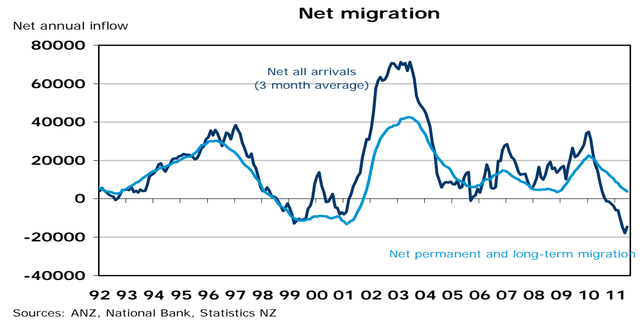
Indicator	Level	Direction for prices	Comment
Affordability	Settled	↓	Little change in affordability over the past nine months.
Serviceability / indebtedness	Saved by debt payback	↓	Debt payback still in play.
Interest rates	Spooked	↔/↑	Small (and unexpected) drop in fixed mortgage rates.
Migration	Dwindling	↓	Migration outflows continue to weigh on demand.
Supply-demand balance	Regional gaps exist	↔/↑	Lower demand and supply, and a sizable gap persists.
Consents and house sales	Lifting but off low base	↔/↑	A lift in section sales portends an upcoming rise in building permit issuance.
Liquidity	Not moving	↓	Drop in borrowing, at a time that the economy is slowly expanding.
Globalisation	Sinking	↔/↓	In sync but it is south of the border.
Housing supply	Listless	↔/↑	The amount of time needed to clear the market Available housing supply compared with monthly sales remains low.
Median rent	Consolidating	↑	Annual growth rate eased a little from a 2½-year high measured last month.
On balance	**Drifting**	↔	**Turnover and prices little changed.**

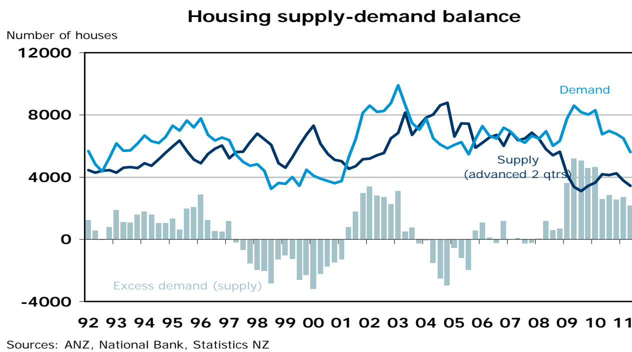
PROPERTY GAUGES

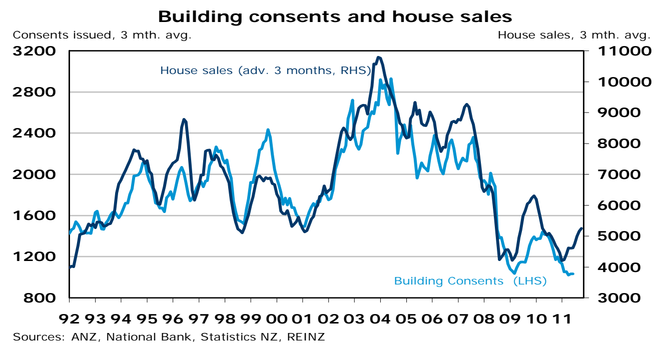


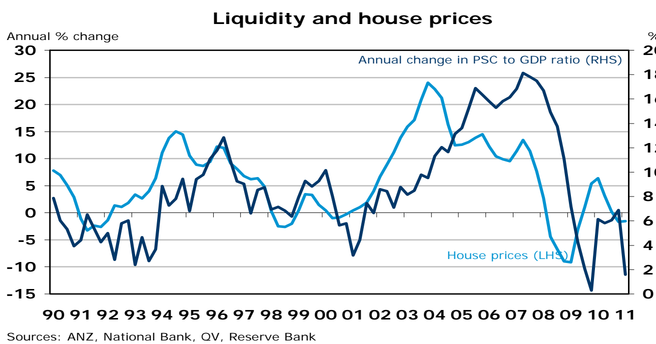


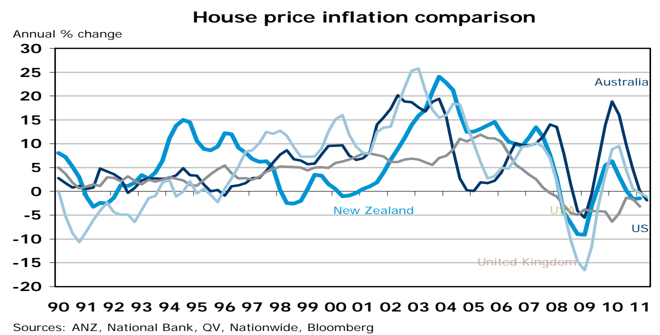


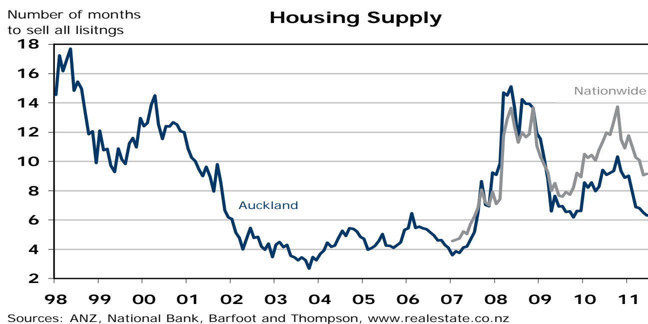


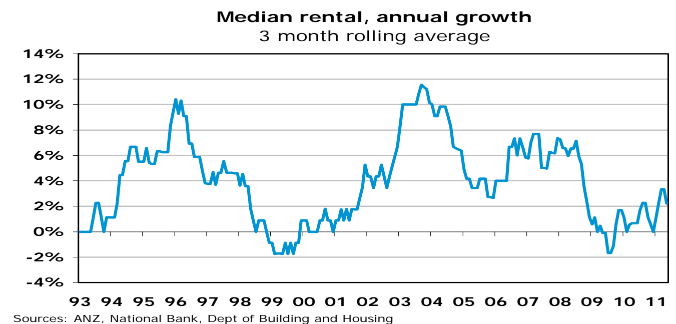












MORTGAGE BORROWING STRATEGY

SUMMARY

Mortgage rates remain broadly unchanged, having not moved much since they fell after the RBNZ's decision to cut the OCR in March. Although the domestic economic outlook looks reasonably positive, and the inflation outlook is supportive of the RBNZ lifting the OCR, this is more than offset by deepening concerns about the global outlook and financial market turmoil. As such, we have pushed out our forecast for the first OCR hike from September to December. With the floating rate set to stay low for longer, and global and financial market uncertainty escalating, it is not clear that there is value in paying a premium to fix.

OUR VIEW

Although mortgage rates have not changed materially over the past month, this **masks significant movements in wholesale interest rates**, which have been extremely volatile. Indeed, wholesale rates rose significantly during the last week of July, following the RBNZ OCR Review where Governor Bollard noted that "provided current global financial risks recede and the economy continues to recover, the Bank sees little need for the March 2011 'insurance' cut to remain in place much longer". Such was the scale of the move higher in wholesale rates that some banks responded by lifting mortgage rates. However, this proved to be short lived as wholesale interest rate started falling rapidly in early August after global interest rates fell in reaction to an escalation of the European sovereign debt crisis and the US credit rating downgrade.

Why the volatility? There are several reasons, but the main one was that markets initially focussed on the latter part of the Governor's comments, and raced to price in a September rate hike. But as global markets tumbled, the focus soon switched to the proviso in the Governor's comments. That is, rates would only move "provided global financial risks recede". At the moment **that condition is far from being satisfied**, and the situation is only made worse by the growing chorus of analysts in the US predicting a recession. **Global developments have always been a key consideration** for RBNZ policy, and in the near term, they will dominate. In such an environment, which is as fickle as it is negative, we see little point in paying a premium to fix. This view may well be proven incorrect if we do see a "bounce". But sustained bounces have been rare in the post-GFC environment, and as we have long argued, the recovery was always going to be **patchy and slow, and characterised by surprises and volatility**.

Recall too that we have always had reservations about how much tighter monetary policy would need to go to cool inflation. Indeed, with more borrowers than ever (since the RBNZ started using the OCR) on a floating rate, and debt levels only just off record highs, there is a limit to how high the OCR will go. It's not so much the case that "things will be different this time"; it's more a case that the 2002-2007 period was different, characterised by a hyper-extended rate hike cycle. With rate rises more likely to be muted, **we do not favour rushing to fix in the current environment**.

To be sure, consider breakeven rates, which we always include in this section. As the table below shows, not only is the floating rate the cheapest, but you would need to see some fairly stiff rises in interest rates in order to make fixing worthwhile. For example, if you wanted certainty, and decided to fix for, say, 2 years at 6.49 percent, this would only prove to be a cost saver if the 1 year rate rose to 7.03 percent in 1 year's time. That's about 1.1 percent higher than where the 1 year rate is now, and that just seems inconsistent with the economic picture. Of course, some may strongly prefer certainty, and this is understandable. If that's you, just be aware that it does come at a cost. That cost is low for 6, 12 and 18 month terms, but escalates quickly from 2 years and beyond.

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.74%				
6 months	5.99%	5.91%	6.97%	7.09%	7.74%
1 year	5.95%	6.44%	7.03%	7.42%	7.99%
18 months	6.29%	6.66%	7.27%	7.69%	8.19%
2 years	6.49%	6.93%	7.51%	7.92%	8.41%
3 years	6.99%	7.43%	7.95%	8.22%	8.51%
4 years	7.45%	7.77%	8.14%		
5 years	7.70%				

FEATURE ARTICLE – WHAT IS GOING ON?

SUMMARY

Recent global events are a timely reminder that the recovery from the 2008 financial crisis was always going to be a long journey. While we've been surprised by the intensity of market movements in some instances, the developments fit within the key theme of our economic prognosis: healing in the post-GFC world will be a long, drawn-out process. We think New Zealand is progressively moving into a sound position, and is far less vulnerable than in 2008. In the current deleveraging environment, where grumpy growth and limited asset (house) price appreciation is likely to be the norm, focusing on the fundamentals is vital. In such an environment, it is prudent to keep borrowing focused on the short term as opposed to chasing longer-term rates.

OVERVIEW

It has been a brutal few weeks for the global economy. We have seen equities drowning in a sea of red ink, commodity prices retreat, measures of risk capitulate, and growing fears of another financial crisis around the corner. Markets have been doing more somersaults than a gymnast. One day it's "risk on", and the next is "risk off". The New Zealand interest rate market has gone from pricing in an imminent interest rate hike by the RBNZ, to paring this back massively. Australian market pricing has also rallied substantially, with more than 100 basis points of rate cuts now priced in by December!

On some levels, we are hardly surprised by global developments.

- **Our sovereign risk analysis had been warning of further problems**, especially for some big nations such as Italy.
- Deleveraging (debt reduction) has always been a precondition to the global economy returning to a sustainable recovery path. However, there is now **more debt in the global economy than prior to the 2008 event**, with lower private sector debt offset by a massive rise in government debt. This debt transfer was needed to buy policymakers some time as they dealt with the financial bust in 2008 and 2009, and in some cases this involved the nationalisation of financial institutions. However, moving debt around is not the solution. Excessive leverage was a precursor to the crisis and lower leverage is a precursor to healing.
- **Markets are notorious for "tipping".** The efficient market hypothesis is based on the premise that markets will not deviate too far from fundamental value. It has good empirical support. However, in practice, markets exhibit herd-like behaviour. A given issue is not problematic until sufficient critical mass believes it is, and at that point there is only a small exit window to escape from. The old adage of "never try to catch a falling knife" applies. Throw together the combination of slowing US growth, a credit downgrade for the US, and worrying European sovereign debt concerns that go well beyond Greece, and we seem to have simply "tipped".
- Our "bathtub with waves" shaped economic cycle analogy to depict the post-financial crisis economic environment (**a long journey with a few ups and downs**) still applies. We have never been uber-bullish regarding the global economy.
- We are putting some of the volatility down to the market finally "getting it". The post-financial-crisis trend rate of growth for a host of Western nations must by necessity be lower than seen previously. That's the reality of a deleveraging environment**. A different trend growth rate means a different secular outlook for earnings and asset prices in general**.

That said, there are some disconcerting signs:

- **Policymakers' arsenals have been seriously depleted over the past few years.** Most Western governments are running large fiscal deficits and have seen net public debt climb substantially. The average level of net public debt across the OECD is almost 70 percent of GDP. Interest rates are already at record-low levels. We have had QE1 and 2 already in the US, and there is talk of QE3. If QE1 and 2 did not solve the issue, it begs the question of what QE3 could realistically hope to achieve.
- **There are signs of stress in money markets** (though not dislocation such as we saw in 2008). These include a massive widening in the spread between expected policy interest rates and the actual traded rate for cash in several markets. These spreads typically widen when the market starts worrying that cash might get "tight" in global interbank markets. Relative to what we saw in 2008, developments so far are mild, but we know from experience that things can turn quickly. One silver lining: policymakers are now practised in addressing liquidity crunches and can respond rapidly.

FEATURE ARTICLE – WHAT IS GOING ON?

- **Political gridlock is not helping things.** Markets are desperate for leadership and signs of constructive initiatives on how large fiscal deficits are to be solved. In the absence of such leadership, markets will remain nervous. If we think New Zealand has it rough in reaching political consensus to get things done under MMP, try getting something done in the US and Europe, which is where markets' attention is focused.

Markets are looking for solutions. The US Federal Reserve has already stepped up to the plate, promising to keep the Fed Funds Rate low until the middle of 2013. Most now seem to be waiting for the ECB to do its part as well and expand its balance sheet further. This is both logical and illogical. It's logical because it seems inevitable. The cupboard looks pretty bare otherwise. It is illogical because **central banks should not be expected to bail out fiscal irresponsibility**, which is effectively what is happening in huge parts of Western society at present (though to be fair, a host of governments have had to "socialise" debts associated with the 2008 financial crisis).

Getting the correct balance between the two arguments is one reason we are seeing a game of chicken play out around the globe. Markets are demanding solutions. Central banks know they need to act. But it is not their job to bow to market demands, nor to support fiscal profligacy. The ECB, more than others, is taking a stern line, but is under considerable pressure. Pump priming is hardly the "structural" solution to ensure sustained economic recovery; it has been done in various forms since the 1990s. All it seems to have achieved is to lead to increasing indebtedness in both the private and public sectors, and a larger problem to eventually confront.

We now need to see decisive leadership as opposed to populism. We are sure the phones have been running hot in central banks, treasuries and in political circles. Liquidity stresses in the market can be solved. Policymakers have the tools. However, it is the solvency aspect to various nations' fiscal positions that ultimately need to be addressed. And you do not address such challenges by minor tinkering and bowing to populism. The courageous decision by S&P to remove the US's triple-A status is telling. Bond markets are increasingly starting to hold irresponsible fiscal managers to account. Witness the gyrations in Italian bond yields over the past couple of months. Time is no longer on the side of politicians. Ironically, S&P's action might be the catalyst to drive more decisiveness and leadership.

Fiscal austerity will be a major headwind for Western economies for a decade. Of course, some argue that governments should keep the spending floodgates open until economies recover, i.e. keep borrowing. This, however, fails to recognise three dynamics:

- **Markets are not that patient.** Witness the recent volatility in Greek, Spanish and Italian yields. It took the ECB purchases of Italian and Spanish bonds to cap the surge in peripheral Eurozone yields, but this is likely to be a temporary fix.
- **Businesses need certainty,** and this is where tough decisions can lead to an aggressive private sector response. A huge risk for the global economy at present is simply that uncertainty forces everyone to wrap themselves in cotton wool. Uncertainty is not the friend of investment or hiring.
- **Taxpayers are not stupid.** They know they will end up paying for the fiscal ineptitude one day, so they do not spend.

Of course, not every economy is facing the same challenges. **China, for example, continues to see strong growth, as does much of the Asian region** – indeed, so much so that inflation pressures are forcing policymakers there to attempt to slow growth. However, the risk at present is that a failure to address Western societies' challenges will ultimately engulf Asia as well, though Asia has considerably more firepower (i.e. monetary and fiscal policy stimulus) to call upon.

Locally, **New Zealand still looks in good shape.** Four percent growth is still within reach, and we are not tempted to substantially change our prognosis yet. Yes, there could be some tweaking, but the revisions to date have been up and not down! Four percent sounds like a lot, but remember the New Zealand economy is still four percent smaller than it was in 2007 in per capita terms, so we have a lot of lost ground to recover. Moreover:

- New Zealand was out of sync in 2009 and 2010 with key Western trading partners, effectively remaining in recession. Such an outcome was a precondition to fixing the national balance sheet. This journey is not over but the progress to date has **the country better placed than some peers**. Put simply: while NZ was paying the piper, others were not. Taking hard decisions early can have benefits.

FEATURE ARTICLE – WHAT IS GOING ON?

- We are seeing an appropriate market response. We do not like to see New Zealand's export commodity prices fall, and the reasons behind the New Zealand dollar's decline have us concerned. But overall **financial conditions remain supportive of the economy**. Greater prospects that the RBNZ will stay on the sidelines for longer will also help.
- **We have a good base off which growth can springboard.** Accommodative financial conditions and the pending boost from earthquake-related construction, not to mention the Rugby World Cup, will provide further support.

This does not mean we are downplaying global developments. We are closely watching three channels to New Zealand:

- **Funding markets and the cost of credit.** Derivative markets have re-priced the credit risk of the "Big Four" Australian banks that operate in New Zealand. This is largely a reaction to global trends. However, as this is a derivative market, and with no actual funding deals having been done of late, it remains to be seen where the "true" bank funding spreads lie. In addition, lower wholesale interest rates have offset the moves somewhat. That said, we must acknowledge that CDS spreads have risen, and we should not be in too much of a hurry to dismiss it. New Zealand is reliant on offshore funding, given our savings shortfall. This is our national Achilles heel. In the weeks ahead, we will be keeping a close eye on how spreads develop, particularly in relation to actual funding rates – via bank bond issues and retail deposit rates.
- **Commodity prices**. They have fallen in every other downturn and we struggle to see why the same will not happen again. They have eased over the past month but remain at historically high levels. A lower currency would act as a buffer.
- **Confidence.** These sort of global developments and fickle market movements are hardly solid foundations for growth. The danger in such situations is that knocks to confidence become self-fulfilling. We will not get a steer on the "confidence" fallout until the end of the month. Till then it is simply a case of watching and worrying. Confidence will be dented; it is merely a question of degree.

For New Zealanders, and those with a focus on the property market, we would encourage people to think strategically about what recent events mean:

- We are still in a deleveraging (debt-reducing) environment globally across Western society. New Zealand is no different. While economists' forecasts tend to be dictated by cyclical barometers such as house sales and consumer confidence, we are paying equal attention to the national balance sheet. It is far better than it was three years ago. **Net external debt is down** (from 90 to 75 percent of GDP), household savings are less dire (we have gone from dis-saving a massive amount to roughly square), and the current account deficit is lower. We have made progress, though it is a journey not yet complete.
- **Deleveraging will continue to restrain the housing market's performance.** Supply/demand measures – the most quoted support factor for price rises – are still relevant. However, they are simply superseded in the current instance by the balance sheet.
- Recognise the risk profile. We are sticking to our "bathtub with waves" analogy and **fully expect more ups and downs**. We expect the current "down" phase and worrying signs to subside. Touch wood, policymakers will take the decisive steps required. However, there is far more risk on the downside than up.
- **Fundamentals count.** In an uncertain and volatile world, quality counts. Think blue chip. It is all about the quality of the balance sheet, cash-flow and yield. Enough said.
- Keeping borrowing focused on the short term as opposed to chasing longer-term rates. This is for two reasons. Firstly, in a deleveraging world, **lenders will demand a higher "term premium"** for lending for longer periods. We cannot see this disappearing any time soon. And secondly, **central banks will take a long time to get interest rates appreciably higher**, given what is likely to be a volatile period over coming years. Together, these two factors imply long rates that are relatively more expensive (in technical terms, we're looking at a more steeply upward-sloping yield curve for both deposit and lending rates).

For the smart and savvy this sort of climate should be treated as opportunistic, as opposed to pessimistic. There are two sides to every transaction. Those who are nimble and well placed should continue to do well.

KEY FORECASTS

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

Mortgage Size ($'000)	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
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 2011 (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	-11.6	-6.6	114	(+6%)	78	Median selling price dropped to 5-year low
Auckland	3.3	-0.7	1,872	(-8%)	34	Returned to being the quickest selling region
Waikato/BOP/Gisborne	-2.9	1.6	715	(-3%)	58	Median time to sell trimmed to a 14-mth low
Hawke's Bay	3.9	-2.8	184	(+10%)	52	Number of sales hit an 18-month high
Taranaki	-7.3	0.5	238	(-9%)	55	Median selling price eased to a 2-year low
Manawatu-Whanganui	-11.4	-7.5	109	(-23%)	65	A very large drop in sale numbers
Wellington	-5.2	-5.8	562	(-6%)	42	The lowest selling price for 27-months
Nelson-Marlborough	-5.0	-3.7	202	(-13%)	48	Median sale price dropped to a 2½ year low
Canterbury/Westland	1.4	4.0	619	(+17%)	37	Selling prices up strongly in past 3 months
Central Otago Lakes	5.3	-7.2	90	(-8%)	82	A solid gain in prices compared to a year ago
Otago	-6.8	1.7	229	(-6%)	46	A strong lift in prices noted over last 3 months
Southland	-11.8	-6.9	145	(+7%)	44	Sale prices are down sharply from a year ago
NEW ZEALAND	-1.1	-1.3	5,145	(-3%)	41	Sales down with prices easing in a few regions

Key forecasts

	Actual			Forecast						
Economic indicators	**Dec 10**	**Mar 11**	**Jun 11**	**Sep 11**	**Dec 11**	**Mar 12**	**Jun 12**	**Sep 12**	**Dec 12**	**Mar 13**
GDP (Ann Avg % Chg)	1.7	1.5	1.5f	1.9	2.7	3.3	4.0	4.2	4.0	3.8
CPI Inflation (%)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.8	2.7	2.9
Unemployment Rate (%)	6.7	6.5	6.5	6.2	5.9	5.6	5.5	5.3	5.3	5.3

	Actual			Forecast (end month)						
Interest rates	**Jun 11**	**Jul 11**	**Latest**	**Sep 11**	**Dec 11**	**Mar 12**	**Jun 12**	**Sep 12**	**Dec 12**	**Mar 13**
Official Cash Rate	2.50	2.50	2.50	2.50	3.00	3.25	3.50	3.75	4.00	4.50
90-Day Bank Bill Rate	2.7	2.7	2.9	2.8	3.4	3.5	3.9	4.0	4.4	4.9
Floating Mortgage Rate	6.1	6.1	6.1	6.1	6.6	6.8	6.9	7.0	7.1	7.6
1-Yr Fixed Mortgage Rate	6.0	6.0	6.0	6.0	6.5	6.5	6.8	6.9	7.3	7.7
2-Yr Fixed Mortgage Rate	6.5	6.5	6.5	6.5	6.8	6.9	7.0	7.1	7.5	7.7
5-Yr Fixed Mortgage Rate	7.7	7.7	7.7	7.7	7.7	7.8	7.8	7.9	8.0	8.0

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This document has been prepared by ANZ National Bank Limited. ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 http://www.anz.co.nz e-mail nzeconomics@anz.com

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