

## Get your motor runnin'

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### Summary

- > Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we report on labour market conditions and an urban versus rural split of house sales.

### The month in review (page 2)

- > Confidence in the real estate market continues to build, especially in the metropolitan centres. Weighing against this is a further lift in fixed mortgage lending rates, with the likelihood of more to come.

### Property gauges (page 3)

- > A belief that the worst of the economic crisis is now behind us, combined with relatively attractive borrowing rates, has spurred the house market into action.

### Economic backdrop (page 5)

- > After a string of five consecutive quarters of rolling backwards, the economy has finally kicked into forward gear. Questions still surround the durability of the upturn given the imbalances that remain. We anticipate a lower trend rate of economic growth over the next few years.

### Mortgage borrowing strategy (page 6)

- > The OCR will be increased in the next year, which is leaving borrowers uneasy. However, given the positive and steep slope of the yield curve, we see little value in any fixed rates beyond one-year. While borrowers need to be prepared for higher rates, structural changes mean the OCR will not push up anywhere like what we have seen in previous cycles.

### Feature article – The labour market (page 7)

- > Indicators continue to point to further rises in unemployment despite the economy emerging from recession. Hours worked per employee has fallen to record lows, which indicates considerable labour slack that can be mopped up in the early stages of the recovery. Hence, the unemployment rate will not only increase in the coming quarters, but will likely remain elevated for some time. This will have an effect not only on job mobility (such as Generation Y chopping and changing), but also on household's perceived job security and hence their spending decisions. We see this dynamic as accentuating the need for households to rebuild their precautionary savings buffer.

### Feature article – The lie of the land (page 10)

- > An urban/rural split of the real estate statistics reveals a marked divergence in house prices since the previous low in 2001. By our reckoning, urban real estate prices peaked (and pulled out of the latest trough) earlier than that of the rural areas.

### Key forecasts (page 13)



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## The month in review

Confidence in the real estate market continues to build, especially in the metropolitan centres. Weighing against this is a further lift in fixed mortgage lending rates, with the likelihood of more to come.

### Heading up the higher way

> **Mortgage Rates.** The mortgage curve continues to get steeper, and it is not hard to see this positive slope continuing. Three to five year mortgage rates are now above their decade averages, and it would be surprising to see too many people at all going into that part of the curve. Those who fixed two years ago at 9.1 percent and one year ago at 8.2 percent who are coming up for renewal will still be looking at decent savings even at the 2-year part. What is clear is that more and more people will be heading into floating and short-term fixed mortgages, giving the RBNZ the kind of traction they have not had in years. How long before the current mortgage curve starts to weigh on the housing market?

### Lookin' for a censure

> **RBNZ Mortgage Lending – August.** Household lending growth rose 0.3 percent in the month, which is still quite soft considering the pick-up in the housing market. This suggests while new lending growth for housing is rising, a lot of people are paying down their existing debt. Confidence may be picking up, but it is certainly not translating into enough of a conviction to get out and invest just yet.

### And whatever buyers come our way

> **REINZ housing data – September.** In seasonally adjusted terms, house sales rose 2.7 percent in September, to be up over 43 percent on a year ago. Sales have more or less held onto this level of activity over the past six months, albeit with still an upward trend. In saying this though, the number of sales is still well down from the peaks experienced between 2002 and 2007. This better illustrated once house sales are adjusted for the size of the housing stock, which shows turnover still below historical averages. However putting this aside, it is still clear that a shortage of listings is continuing to support prices and ensure a reasonable quick time to sell. The REINZ median house price rose to \$350,000 in the month – up 6.1 percent on a year ago. The new stratified house price measure rose 1.9 percent in the month to be up 5.3 percent on a year ago. The median number of days to sell (in seasonally adjusted terms) held constant at the reasonably low level of 34 days. Auckland still appears to be leading the pack in terms of price growth, with the region's median selling price rising 8.3 percent compared to a year ago.

### Built to be wild

> **Building Consents – August.** Total residential consents rose 1.7 percent, following a 4.5 percent increase in July. If apartments are excluded, consents rose 2.8 percent after an 11.4 percent increase in July. It is clear that building consent issuance is now beginning to stabilise, although at this stage the pace of recovery is nothing to write home about and we need to remember that the level remains extremely low. Nevertheless, we are expecting further rises over the coming months.

## Assessment

With housing market turnover improving, it is not at all a surprise to see residential consent issuance begin to rise. There has been a strong historical relationship in the past and we see little reason why it won't continue into the future. The rebound in housing has of course seen wholesale swap yields rise, necessitating an upward re-pricing of mortgage rates, and it looks to be a case of the chicken and the egg between the two.

## Property gauges

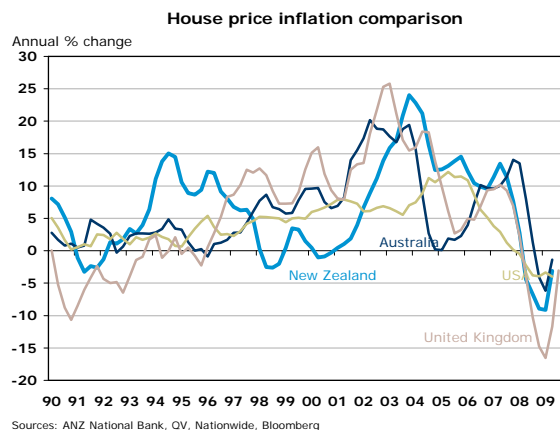
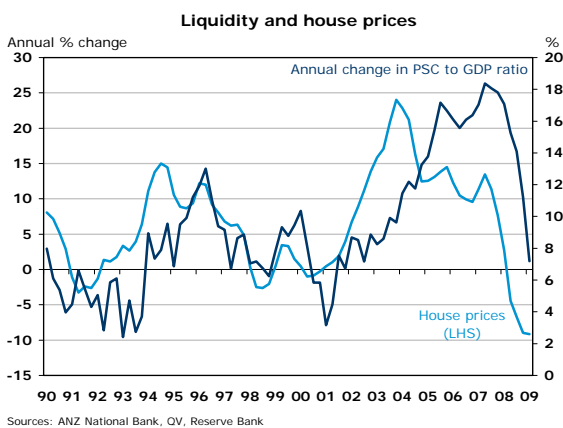
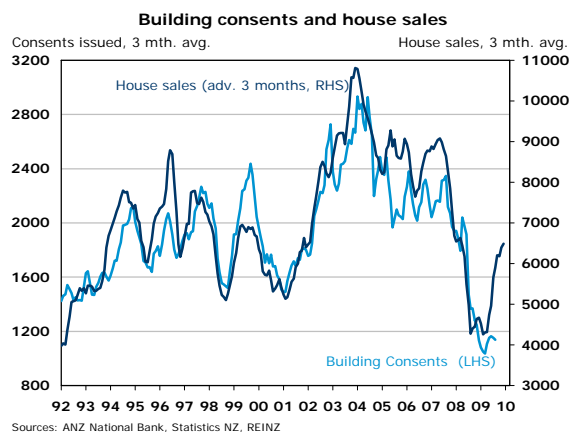
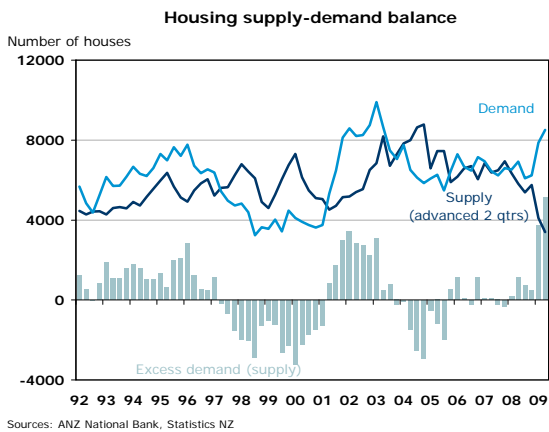
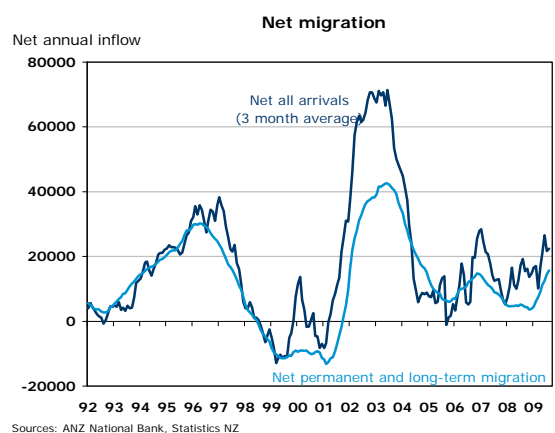
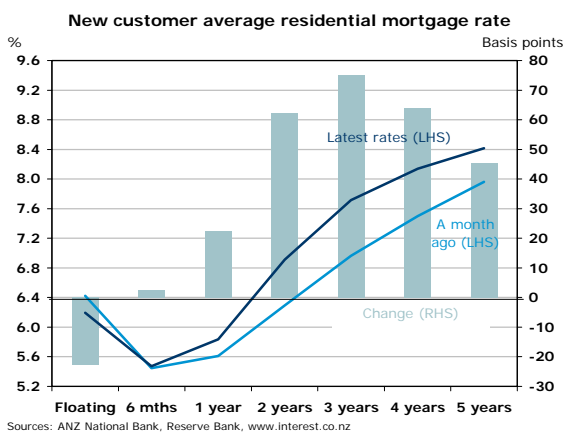
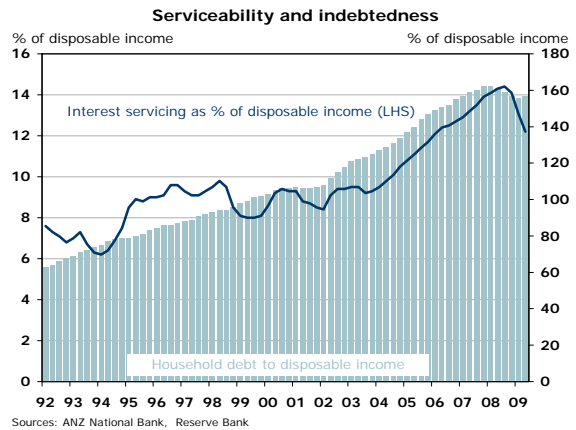
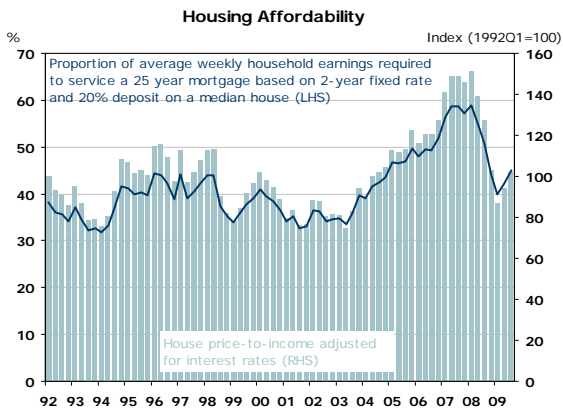
A belief that the worst of the economic crisis is now behind us, combined with relatively attractive borrowing rates, has spurred the housing market into action.

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 (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.

The lower mortgage rates that underpinned the recovery in the housing market is now starting to be reflected in the residential dwelling consents. It will also be interesting to see if the recent rises in fixed mortgage rates dampens the current optimism in the real estate market. How the real estate markets performs, given the traditional increase in listings as we head into the summer months, is also of significance. Another area to keep an eye on is non-residential construction. This segment is expected to experience some challenging times ahead.

Indicator	Level	Direction for prices	Comment
Affordability	Deteriorating	↔	Higher mortgage rates are putting a dent in affordability.
Serviceability / indebtedness	High but easing	↓	More improvement is still to come.
Interest rates	Bumping up	↔/↓	Another round of fixed lending rate rises, while floating rates have eased further.
Migration	Building	↑	Net migration is still a positive influence.
Supply-demand balance	One sided	↔/↑	Currently the widest gap between the two sides.
Consents and house sales	Glimmer of hope	↔/↑	House sales are outpacing dwelling approvals.
Liquidity	Still a way to go	↓	Liquidity has all but evaporated.
Globalisation	A deep hole to recover from	↓	Increasing prices but still less than where they were a year ago.
<b>On balance</b>		↓	<b>Fingers crossed for what spring will bring and if summer will be a stunner.</b>



## Economic backdrop

After a string of five consecutive quarters of rolling backwards, the economy has finally kicked into forward gear. Questions still surround the durability of the upturn given the imbalances that remain. We anticipate a lower trend rate of economic growth over the next few years.

## Our core economic view

The NZ economy has emerged from recession, one quarter earlier than we had expected. Economic momentum is building as business and household confidence rises. The housing market continues to recover, with net migration gains providing support. A sharp narrowing in the current account deficit to a five-year low shows that the economy has gone some way towards the rebalancing it needs. The early stages of recovery still look statistical in nature but nevertheless, it is still growth.

We expect that the economy will continue to build momentum into 2010 and through to 2011 as support is delivered by lingering policy stimulus, net migration, pent-up demand and activity relating to the Rugby World Cup. As confidence returns, pent-up demand has the potential to be unleashed. The economic cycle is hugely influenced by behavioural type dynamics and these are forces that are impossible to capture within macroeconomic frameworks and models. Economists have had a notorious tendency to underestimate booms and busts and we suspect this cycle will be no different, despite obvious structural challenges remaining.

Abstracting from this technical rebound or potential overshoot off lows, we continue to ponder the endgame. The NZ economy still faces an elongated period of de-leveraging. With each sign of improving momentum, we appear a day closer to the stimulatory policy exit strategies. History is not on policymakers' side in terms of removing this support in an orderly fashion.

The interaction of cyclical and structural factors introduces a huge degree of uncertainty into any economic prognosis. Both need to be respected. In balancing the two factors our chosen path is to focus on the trend rate of growth over a number of years, as opposed to intra-yearly movements. We see the trend rate residing closer to 2 percent than 3 percent, as resources progressively respond to different price signals and excesses are purged. Within that assessment we still believe the probability of a double-dip is high, but at this stage not above 50 percent to make it our central view. We believe there is a material risk of a double-dip style recession. Candidates for the potential trigger include: (a) an accelerated de-leveraging and rebuilding of precautionary savings buffers; (b) a second wave of financial distress, caused by rising loan defaults from high unemployment, further removal of spare capacity and feedback effects from the real economy to the financial system; and (c) a policymaker induced recession, linked around the unsuccessful removal of excess liquidity – when the time is right.

So what does this mean for residential investment? Given the supply – demand situation residential consent issuance will continue to rise. History shows that suppressed demand can quickly be unleashed as confidence returns, and upturns tend to be inversely proportional to the degree of the downturn. Throw into the equation, migration inflows and natural population growth, which are powerful support factors, particularly when accompanied by policy stimulus. Hence there is the potential for considerable upside in the outlook. But structural constraints on the economy, such as high household indebtedness and a low savings rate, are expected to ensure that the recent rebound in house prices does not extend too far.

## Mortgage borrowing strategy

The OCR will be increased in the next year, which is leaving borrowers uneasy. However, given the positive and steep slope of the yield curve, we see little value in any fixed rates beyond one-year. While borrowers need to be prepared for higher rates, structural changes mean the OCR will not push up anywhere like what we have seen in previous cycles.

### Our view

**The market is now expecting the RBNZ to start hiking rates in early 2010.** Almost 130 basis points of hikes have been priced into the first six months of 2010, and the forward curve implies the OCR will end up over 6 percent over the second half of 2011.

**Key driving factors include** an interest rate hike from the RBA, a better tone to domestic data, and a worrying read on Q3 inflation. On top of this the market is also mindful of history, which has shown the RBNZ to push rates far higher than initially expected. And while history may not repeat, people certainly expect it to rhyme.

**Borrowers need not panic.** Certainly the window for getting attractive long-term rates has closed, with even the 2 year rate now above 7 percent. But there are other dynamics to be wary of. The economy continues to face challenges. The unemployment rate is still rising. The NZD/USD has passed 0.75 and looks likely to keep pushing higher. We struggle to see the RBNZ hiking in that environment. In addition, people are overlooking the role of fiscal policy. Facing years of large structural deficits, fiscal consolidation means a more contractionary stance for fiscal policy, allowing monetary policy to remain supportive for longer. While there is some debate over when the RBNZ will start to hike rates (we think later as opposed to earlier), we do not believe the NZ economy can sustain the extent of rate rises the market is banking on.

**Borrowers need to factor in structural changes to the yield curve.** We continue to harp on about this but it is something borrowers need to be aware of. New liquidity rules mean the mortgage curve will remain positive and steep. So if you want certainty, there will be a price to pay. Borrowers are naturally shortening their duration. This carries risks of course, as eventually rates will move up. People will naturally squeal when this occurs. But they are overlooking the big picture. Because so many people will be on short-term rates, the RBNZ will achieve considerable policy traction, which will mean rates should not need to have to rise anywhere near as far as in previous cycles. On top of this we believe the neutral OCR is lower than previously calculated (owing to lending margins being wider given where deposit rates sit). Overall, given where mortgage rates are at present, we see little value fixing beyond one year.

Fixed Mortgage Rate		Break-evens			
Term	Current	in 6mths	in 1year	in 18mths	in 2years
6 months	5.45%	6.45%	7.57%	8.49%	8.77%
1 year	5.95%	7.01%	8.03%	8.63%	9.12%
18 months	6.49%	7.50%	8.28%	8.91%	9.29%
2 years	6.99%	7.82%	8.58%	9.09%	9.51%
3 years	7.70%	8.40%	9.02%	9.43%	9.76%
4 years	8.25%	8.83%	9.33%		
5 years	8.65%				

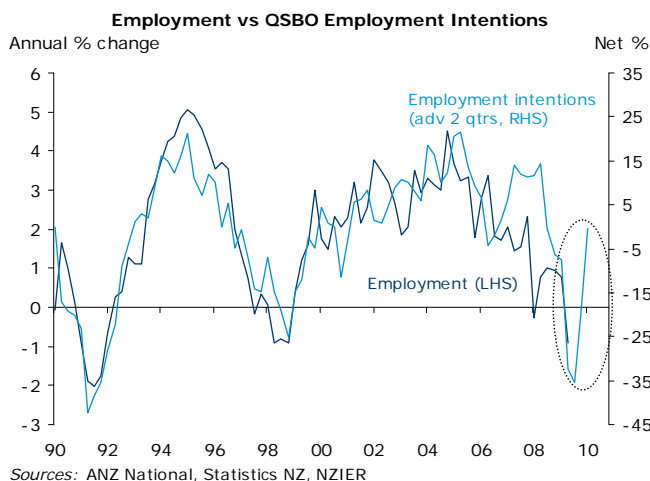
### Feature comment – the labour market

Indicators continue to point to further rises in unemployment despite the economy emerging from recession. Hours worked per employee has fallen to record lows, which indicates considerable labour slack that can be mopped up in the early stages of the recovery. Hence, the unemployment rate will not only increase in the coming quarters, but will likely remain elevated for some time. This will have an effect not only on job mobility (such as Generation Y chopping and changing), but also on household’s perceived job security and hence their spending decisions. We see this dynamic as accentuating the need for households to rebuild their precautionary savings buffer.

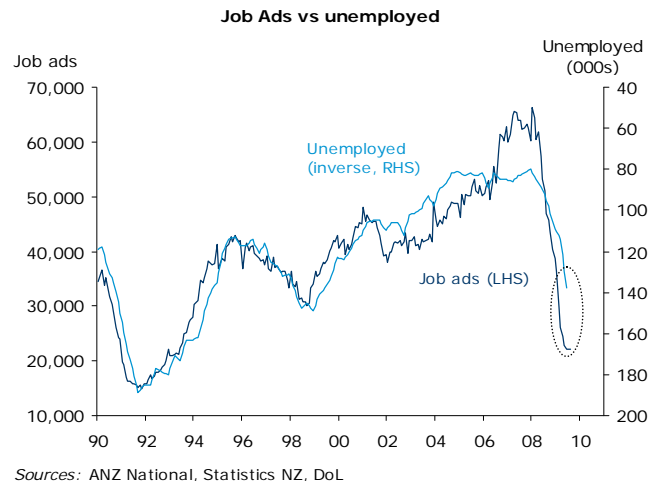
#### Overview

**The labour market continues to weaken.** The unemployment rate rose to 6 percent in the June quarter – a full percentage point rise on March. While we will not receive the September quarter unemployment figures until 5 November, we know that there was an increase of almost 10,000 people on the unemployment benefit over the September quarter. So it seems safe to assume that the unemployment rate is still moving up. (As an aside, there was also an increase of close to 6,000 people on the domestic purposes, sickness and invalids benefits in the quarter, so the unemployment benefit numbers are not capturing all movements). Historically, 6 percent or thereabouts is still low, but of course it’s a huge jump from the 3.5 percent low recorded in December 2007.

**Employment indicators are however slowly turning the corner.** Typically the labour market lags the economic cycle. Improved perception towards the economy in general will at some stage flow into the labour market. Employment intentions have turned from being decidedly negative to either neutral or marginally positive. The month of September saw close to 1,000 people added to the unemployment benefit (seasonally adjusted), the smallest monthly increase since October 2008. Job advertisements have started to recover, although you need to interpret the recent rises within the context of the level as depicted in the chart below. There is obviously some way to go!



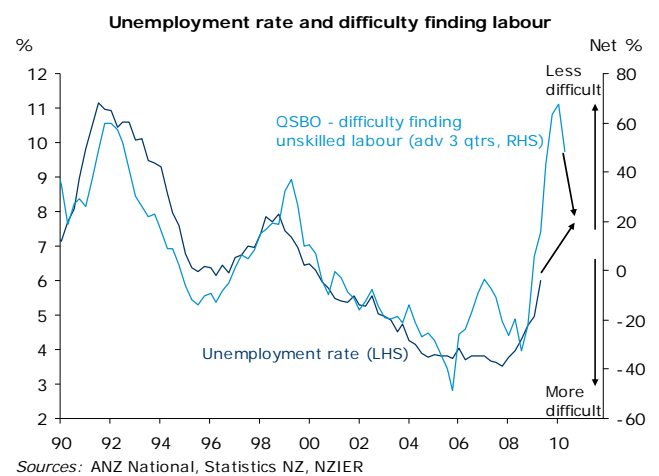
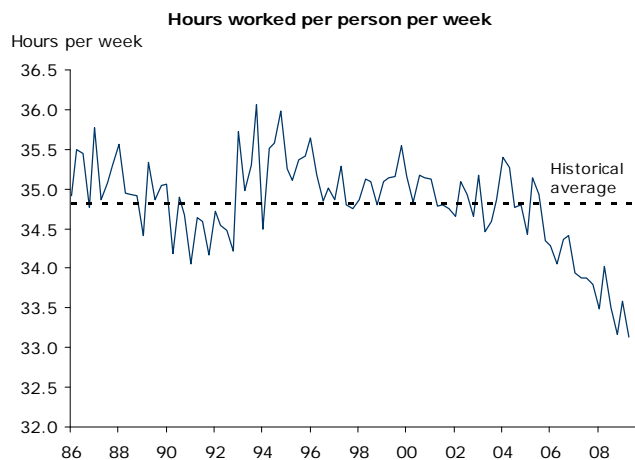
Sources: ANZ National, Statistics NZ, NZIER



Sources: ANZ National, Statistics NZ, DoL

**There are a lot of spare resources in the labour market.** Commentary typically focuses on the unemployment rate when it comes to the labour market. Yet when you look at measures such as hours worked (down 3.5 percent on a year ago compared with a fall of 0.9 percent for employment), hours per employee sitting at record lows, or measures of underemployment (those that would like to work more hours), it is clear that considerable slack remains. The positive spin on this is that firms (and the government) have worked proactively to keep people in employment during the recession. Working fewer hours and earning less is a lot better than having no job at all and living off the unemployment benefit. But there is also a flip side. When labour demand starts to recover, there is ample scope to increase the hours of the existing workforce to meet that demand without needing to take on new staff. With 114 thousand people or 22.8 percent of part-timers saying they would prefer to work more hours (up from a low of 15 percent three years ago and the highest since 2003), there should be no trouble on that front.

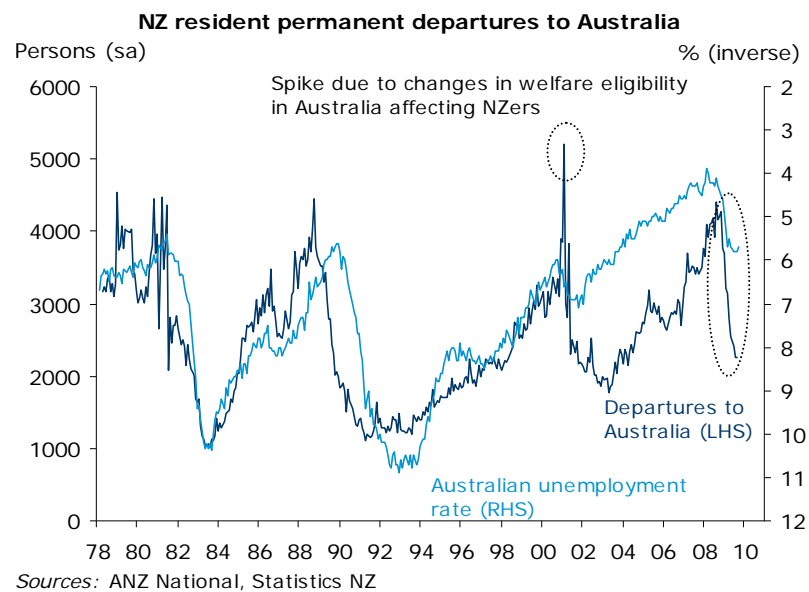
**Hence the term “jobless recovery” could be what is in store, at least over the coming six to twelve months. In this environment the unemployment rate will remain elevated for some time.** Of course this still needs to be put in perspective. If the unemployment rate peaks around 7 percent, as we expect, and remains above 6 percent for the next couple of years, it's a far cry from the levels reached in 1990 and 1991 when double-digit rates were recorded.



**Higher unemployment will have a direct financial impact on those who lose their jobs or can't find one, but there will also be an indirect impact for those employed in terms of perceived job security (or lack of).** Income growth is a key influence on the housing market via the confidence to take on, and the ability to service, debt. However, to that we would now add a new dynamic. And it is one that is built around the idea of change. The labour market – like a lot of sectors in the economy – is undergoing not only a cyclical adjustment in response to the business cycle, but also a degree of structural change. In particular, we see the unemployment rate settling for some time at a higher level than what we had become accustomed to in recent years (i.e. around 4 percent). Hence, we need to be mindful of indirect influences on household behaviour including perceived job security and mobility (the ability or willingness to chop and change jobs, particularly for Generation Y). When there are not as many jobs on offer, people will tend to stay put for longer. And maybe worries about being made redundant (even though the odds are small) will cause

households to rebuild their precautionary savings buffer. In addition, there has been a larger increase in the unemployment rate among younger workers (aged between 15 to 24, whom accounted for half of the total increase in the unemployed over the past year). If the young experience a structurally higher unemployment rate in the coming years, this will have an impact on housing demand as their ability to save is hindered, and they could end up living at home for much longer rather than rent.

**Relative unemployment rate divergence between New Zealand and Australia is expected to influence migration trends.** The Australia unemployment rate fell from 5.8 to 5.7 percent in September, and indicators are pointing to an Australian economy that is picking up strong forward momentum. Job ads in Australia have trended higher over the past few months, indicating better employment prospects. If the unemployment rate across the Tasman has indeed peaked and is about to turn around, we could see a sharp rise in New Zealanders heading across the ditch. There is certainly a great deal of pent-up demand, judging by the large drop in departures over the past twelve months. On the one hand, a rise in departures should see more house listings hit the market, which will help alleviate the supply shortage situation at present. But it also means reduced support for domestic demand and the housing market.



## Implications

How the labour market fares will have an important bearing on the housing market. While the economy is emerging from recession, the typical lags mean we will not see a commensurate pick-up in labour demand for a few more quarters. The fall in hours worked per employee to record lows and a large rise in part-timers looking to work more hours point to considerable labour slack that can be mopped up in the early stages of the recovery, without resulting in increased demand for new workers. This will see the unemployment rate rise into early next year, and stay sticky for some time. Higher unemployment, and the associated behavioural changes that go with it, remain a key headwind facing the housing market, and is a key factor behind our still cautious view.

## Feature comment – The lie of the land

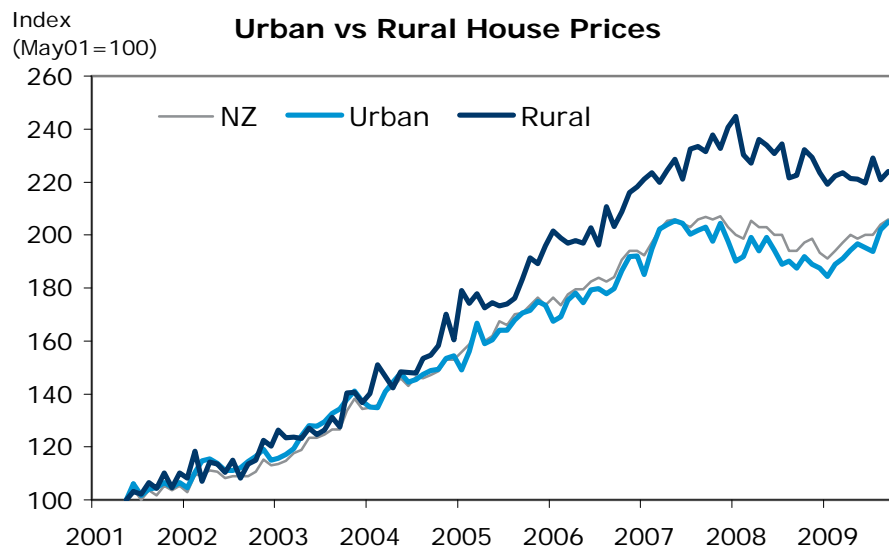
An urban/rural split of the real estate statistics reveals a marked divergence in house prices since the previous low in 2001. By our reckoning, urban real estate prices peaked (and pulled out of the latest trough) earlier than that of the rural areas.

### Overview

In this analysis, we present a comparison of cumulative growth in house prices in the rural areas versus urban regions. The rural and urban split was derived by allocating the disaggregated sales data, as reported by the Real Estate Institute of New Zealand (REINZ), into either category, depending on whether it was predominantly contained in one of the sixteen official main urban areas or not. A weighted average for both categories was calculated – based on the monthly number of sales in each area. May 2001 was used as the reference end date for the previous trough in house prices. The indices we report on below plot the cumulative rise in prices over the previous growth phase.

### The boom...

In the following chart, we present a comparison of house prices in the rural areas versus urban regions. As mentioned above, the data aggregates the rural aligned areas into one measure and the urban areas into another. The grey line is the nationwide measure of house prices. May 2001 was determined as the reference point of the start of the previous property price growth phase.



Two key features are portrayed in the chart.

Firstly, the level of residential real estate prices in the urban areas peaked eight months earlier than in the rural counterparts. The peak in urban property prices occurred a May 2007, whereas the peak in the rural real estate prices didn't occur until January 2008.

The second feature is that the cumulative rise in prices in the rural areas was more pronounced than that of the urban areas. Property prices in rural New Zealand grew at an annualised average of 14 percent since 2001. In comparison, the average compound growth rate in the urban areas up until

its peak was 12 percent per annum. Bear in mind the lines in the chart are indexed so that May 2001=100. While the rural index has grown faster than the urban equivalent, in monetary terms it is still only 84 percent of the urban figure. For instance, the average sale price for a rural property in September 2009 was \$301,000 and the urban figure was \$389,000. A lot of the rural region's house price explosion could be accounted for in terms of catch-up (i.e. regions such as Southland were just too cheap, even after accounting for income and rent variation), but a fair portion also reflected the flow-on from a booming rural economy, including the dairy industry and increasing farm values.

### ...and the bust

Based on data for the past few months, the residential real estate market looks to have turned. However, our rural/urban dissection reveals that while the urban areas certainly look to have troughed, the trend in the rural real estate market is not as clear cut.

From a peak in May 2007, urban house prices fell 10 percent, hitting a low point in January 2009. Since hitting this low, house prices have rebounded 11 percent in the eight months up to September (and are now only marginally below the peak recorded in May 2007).

A turn-around in the rural housing real estate market is not as evident. Rural real estate prices also hit a low in January of this year. Since then, excepting a spike in July, prices have generally drifted sideways or only slowly upwards. In July prices made a significant push up, with the median sale price lifting 4.5 percent above the trough in January. However, before we had time to pop the champagne corks, the median sale price in August was pared back. It has recovered some more in September, so that the cumulative gain is now 2.1 percent above the January low. Based on a rough rule of thumb, using the past two turning points as a benchmark, an eight month lag in rural house prices following the urban house price cycle, would see the level of rural house prices lifting in earnest from now onwards.

	Median Days to Sell			Number of Sales			Average Sale Price (\$)		
	Sept 2009	L-term Avg	Diff (Days)	3 Mths to Sept 09	3 Mths to June 09	Change (%)	3 Mths to Sept 09	3 Mths to June 09	Change (%)
Northland	59	49	10	443	468	-5	298,500	302,167	-1.2
Auckland	31	35	-4	6,525	6,214	5	448,333	440,000	1.9
Waikato/BOP/Gisb	46	43	3	2,801	2,675	5	317,500	315,250	0.7
Hawke's Bay	36	45	-9	697	701	-1	263,167	269,917	-2.5
Taranaki	38	37	1	537	557	-4	283,533	267,333	6.1
Manawatu-Wang	31	38	-7	964	962	0	219,833	220,583	-0.3
Wellington	31	34	-3	2,169	2,028	7	381,056	374,167	1.8
Nelson-Marlbg	30	41	-11	721	713	1	330,042	325,417	1.4
Canterbury/WstInd	33	33	0	2,945	2,824	4	301,167	291,667	3.3
Otago	32	34	-2	888	717	24	417,000	422,083	-1.2
Cent. Otago Lakes	59	58	1	310	276	13	232,000	220,133	5.4
Southland	39	30	9	475	489	-3	193,167	187,833	2.8
New Zealand	34	36	-2	19,473	18,614	5	345,583	339,167	1.9

The preceding table highlights how much momentum is in the property market at the moment. At the nationwide level the number of sales has lifted strongly and the days to sell has dipped below the long-term average. A broadly similar pattern has also been recorded in the three most urbanised regions of Auckland, Wellington and Canterbury. A lot of the other areas in New Zealand have also recorded relative strength in one indicator or another.

### **The upshot**

On the face of it, urban house prices look like they have troughed. House prices would have to back-track nearly ten percent to retrace all of the gains made in the calendar year to date and virtually replicate the 10 percent fall in prices between the peak in May 2007 and the trough in January 2009. This is not to say that it will not occur, or that house prices are set to continue rising strongly from here on in. A shortage of listings and pent-up demand has played a part in the price rise of late, and further price rises in the next couple of months look on the cards. However, given that housing valuations still look stretched, and recent increases in fixed rate mortgages could yet start to weigh on house prices, it is too soon to call a new upswing in urban house prices.

When it comes to the rural segment of the housing market, we are less confident that house prices have troughed. Indeed, given the eight month lag at the turning point on the way up and the flat nature of prices over recent months; we are still in a grey area as to whether rural house prices may actually trough in the second half of this year, or not. The sharp rise in July looked as if the rural residential property market was out of the woods. However the latest slip in rural house prices in August makes this general conclusion more remote. Despite the recent increase in the forecast dairy payout, rural incomes are still set to decline in the current season. Farm land prices continue to come under downward pressure, which will have a flow-on effect on rural house prices. The dichotomy between urban and rural house prices look set to persist for some time yet.

## Statistical Annex

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

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
100	135	138	142	145	149	152	156	159	163	167	170	174	178	182
150	202	207	212	218	223	228	234	239	244	250	256	261	267	273
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1000
600	809	829	850	870	891	913	934	956	978	1000	1022	1045	1068	1091
650	876	898	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182
700	944	967	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273
750	1011	1036	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364
800	1078	1105	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454
850	1146	1174	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545
900	1213	1244	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636
950	1281	1313	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727
1000	1348	1382	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818

Housing market indicators for September 2009 (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	-4.2	-1.2	157	(+16%)	59	Although easing, time to sell remains the joint longest
Auckland	8.3	1.9	2,293	(+7%)	31	The average sale price hit its highest level since Dec07
Waikato/BOP/Gisborne	0.2	0.7	941	(+6%)	46	This region continues to be third slowest place to sell
Hawke's Bay	-2.5	-2.5	240	(+14%)	36	The median time to sell improved to a two-year low
Taranaki	10.3	6.1	183	(+6%)	38	The only region to achieve a double-digit price increase
Manawatu-Wanganui	0.1	-0.3	302	(-6%)	31	Suffered the largest fall in the number of house sales
Wellington	8.0	1.8	743	(+8%)	31	The strongest annual increase in prices in 18 months
Nelson-Marlborough	5.4	1.4	247	(+11%)	30	The median time to sell improved to a 2½ year low
Canterbury/Westland	7.4	3.3	989	(+2%)	33	Median sale price above \$300k for first time since Mar08
Otago	7.0	5.4	298	(-2%)	32	Median time to sell dropped to a two-year low
Central Otago Lakes	-15.6	-1.2	106	(+3%)	59	Average sale prices have slumped from a year ago
Southland	1.3	2.8	157	(+7%)	39	Median days to sell is rising, in contrast to national avg
NEW ZEALAND	6.1	1.9	6,572	(+3%)	34	A lift in listings over spring will be the next test to pass

## Key forecasts

Economic indicators	Actual			Forecast						
	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11
GDP (Ann Avg % Chg)	1.5	0.0	-1.1	-1.8	-2.0	-1.3	-0.2	1.0	1.9	2.4
CPI Inflation (%)	5.1	3.4	3.0	1.9	1.7	2.5	2.5	2.7	2.1	2.5
Unemployment Rate (%)	4.3	4.7	5.0	6.0	6.3	6.6	6.9	7.1	7.0	7.0
Interest rates	Actual			Forecast (end month)						
	Aug 09	Sep 09	Latest	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Official Cash Rate	2.5	2.5	2.5	2.5	2.5	2.5	3.0	4.0	4.5	5.0
90-Day Bank Bill Rate	2.8	2.8	2.8	2.8	2.8	2.8	3.6	4.5	5.0	5.5
Floating Mortgage Rate	6.4	6.1	5.8	5.8	5.8	5.8	6.3	7.3	7.8	8.3
1-Yr Fixed Mortgage Rate	5.7	5.7	5.9	6.0	6.0	6.0	6.7	7.2	7.5	7.8
2-Yr Fixed Mortgage Rate	6.6	6.7	6.9	6.9	6.9	6.9	7.4	7.7	7.9	8.2
5-Yr Fixed Mortgage Rate	8.4	8.5	8.6	8.6	8.6	8.6	8.9	9.0	9.0	9.2

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### *Qualifications, experience and professional standing*

#### **Experience**

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

#### **Relevant professional body**

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

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

#### **Professional indemnity insurance**

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

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

The insurer is ANZcover Insurance Pty Limited.

#### **Dispute resolution facilities**

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

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

#### **Criminal convictions**

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

#### **Fees**

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

### *Other interests and relationships*

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

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

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

### *Securities about which investment advice is given*

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

## PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

#### **Record Keeping**

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

**Auditing**

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

**Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

**NEW ZEALAND DISCLAIMER**

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