



NEW ZEALAND ECONOMICS NBNZ PROPERTY FOCUS

LIGHTS, CAMERA, (READY FOR) ACTION

APRIL 2010

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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 look at how policy makers are implementing new rules and regulations to control where credit is channelled, and avoid a repeat of another financial crisis.

THE MONTH IN REVIEW

Real estate and building activity inched up in the month but remains a long way down on historical levels. Credit growth remains weak. The market remains in limbo awaiting details on tax changes in the Budget.

PROPERTY GAUGES

Our property gauges continue to suggest more downside as opposed to upside pressure on prices over the year ahead.

ECONOMIC BACKDROP

Economic momentum is intensifying, but the recovery to date has been patchy. Nonetheless, the building blocks for a stronger upturn are moving into place, although this is subject to the global economy not taking another backwards step. One of these building blocks is the requirement that the NZ economy continue de-leveraging. This is a growth suppressant in the near-term (with it holding the housing market in check), but ultimately it is required if the upturn is going to have real legs. We are becoming increasingly encouraged on prospects for 2011, and this partly reflects softness (courtesy of de-leveraging) that we saw in the first part of 2010.

MORTGAGE BORROWING STRATEGY

Mortgage rates have been reasonably steady over the past month but borrowers still face a very steep yield curve, and at a time when we are getting close to the RBNZ lifting the Official Cash Rate. This makes any decision to lock in for a longer period a difficult one, as doing so comes at an immediate and hefty premium. Breakevens continue to show that interest rates need to rise quickly and by a long way to "win" on a fixed rate. Certainty has some value, but in the "new" normal, this certainty now comes at a price.

FEATURE ARTICLE – HELP FROM ABOVE

In the aftermath of the financial crisis, policy makers are in the process of introducing greater prudential supervision of financial activity, to avoid a repeat of the global meltdown. Some countries have already begun to implement new credit regulations, other nations will undoubtedly follow suit once their economies build some momentum. We report on developments offshore, to paint the scene of what may result here.

THE MONTH IN REVIEW

Real estate and building activity inched up in the month but remains a long way down on historical levels. Credit growth remains weak. The market remains in limbo awaiting details on tax changes in the *Budget*.

REINZ HOUSING DATA – MARCH

You can achieve a lot when you just have *48 Hours* to do it

House sales increased by 1.5 percent (seasonally adjusted) in March, following the 8.8 percent rise in February. But the massive 17 percent decline in January means that house sales are still off almost 15 percent, for the quarter as a whole. Days to sell fell slightly but are still above what was seen at the end of last year. Prices lifted in March but have pretty well been static over previous months (in fact falling slightly). Given the rise in listings and where house sales and the days to sell reading is at, we can expect further downside to prices in the coming months.

SNZ BUILDING CONSENTS – MARCH

To be sure, *fabricators* are starting to get more business.

The seasonally adjusted number of new dwellings authorised fell 0.4 percent in March. Excluding apartments, consent issuance dropped 8.3 percent. Non-residential issuance retraced 3.9 percent. However, the value of non-residential consents is roughly 20 percent below year earlier levels. Of the 11 non-residential building types, 9 recorded a fall in seasonally adjusted consent issuance. Amongst the major contributors, were lower issuance for health (down 6 percent month-on-month) and education buildings (down 9 percent). For most forms of private commercial buildings, issuance remains below year-ago levels.

RBNZ MORTGAGE LENDING – MARCH

Could this be *Sidney Manson's broken toy*?

Household credit growth (for housing and other consumer purposes in aggregate) remains subdued, up 0.1 percent on the month to be 2.7 percent higher from a year ago. Mortgage lending growth increased by 0.3 percent to be 3.3 percent up on a year ago. Housing market activity remains very subdued through to mid-April, judging from the latest RBNZ weekly housing loan approvals data. Normally, we see a pick-up in the weeks prior to Easter, as deals get done ahead of the long weekend, but this failed to occur this year.

SNZ MIGRATION - MARCH

Moving back while zooming in? Or, as they refer to it in the trade, a "*dolly shot*".

On a seasonally adjusted basis, PLT arrivals exceeded departures by 990 in March 2010, following a net inflow of 1,010 persons in February. Both months have been the lowest since the start of 2009, and are considerably below the average monthly readings over the past year (1,900 inflows). Over the last few months annualised net immigration has eased from just over 20,000 persons to around 12,000.

ASSESSMENT

To coin an English phrase it's "*all fur coat and no knickers*".

The housing market is treading water. Consent outturns over the past few months, are suggesting that residential investment will be basically flat over the first six months of the year. House sales are wobbling around low levels. There is still support from migration, but the latest figures suggest the magnitude of this support is waning somewhat. Uncertainty over tax changes to property are no doubt part of the reason for the lack of activity as is speculation interest rates are set to move up. Altogether it suggests further hard grinds for the market into winter.

PROPERTY GAUGES

Our property gauges continue to suggest more downside as opposed to upside pressure on prices over the year ahead.

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.

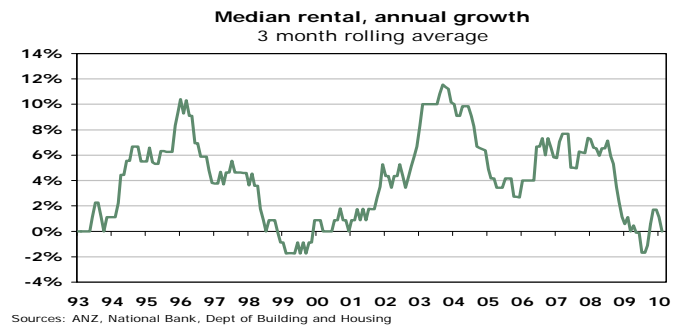
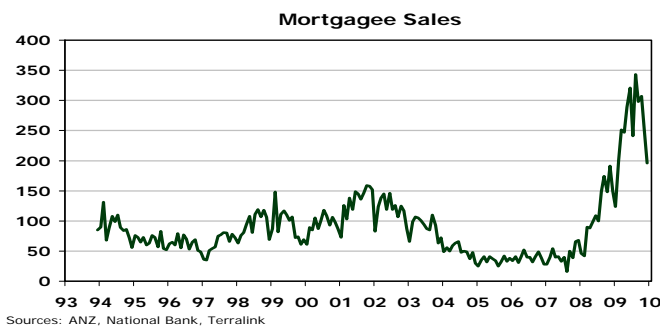
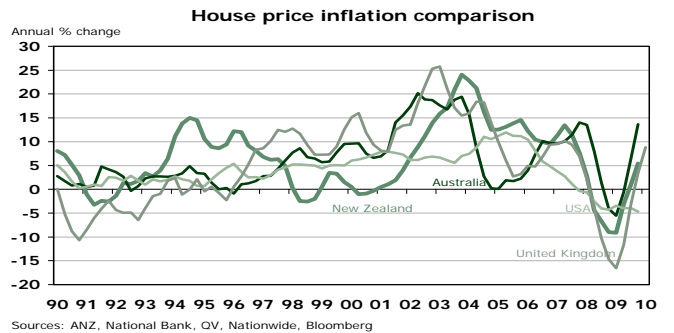
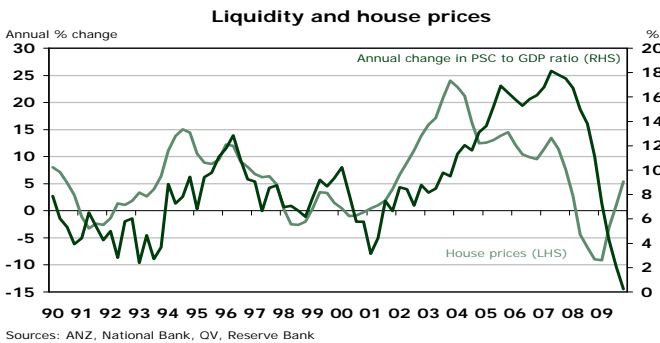
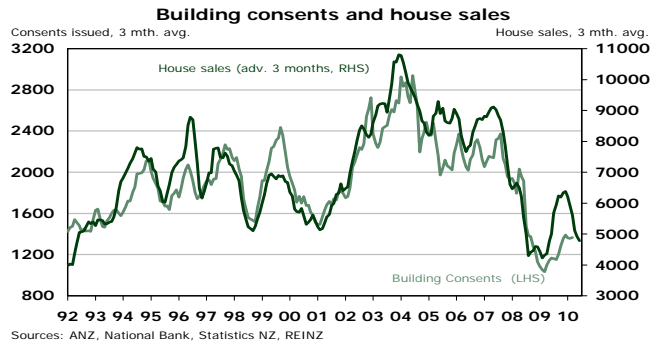
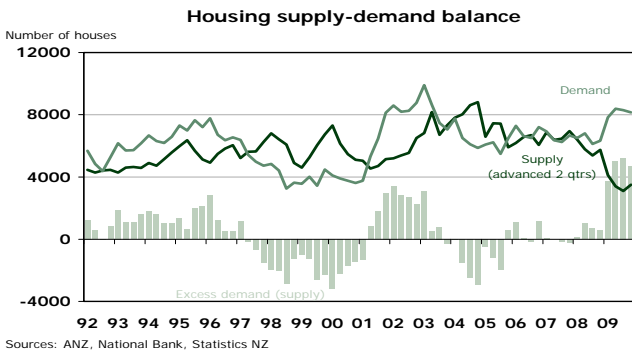
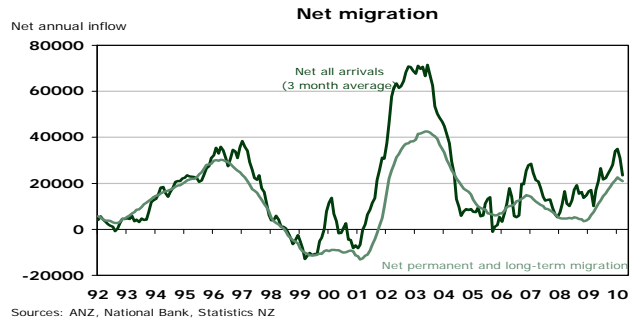
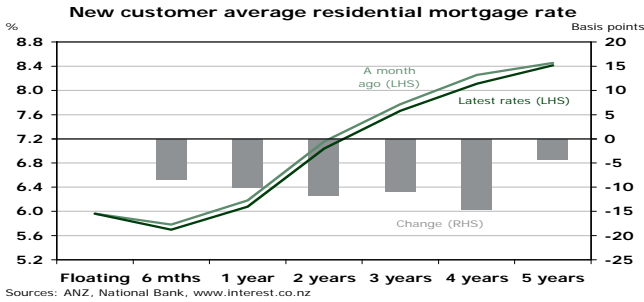
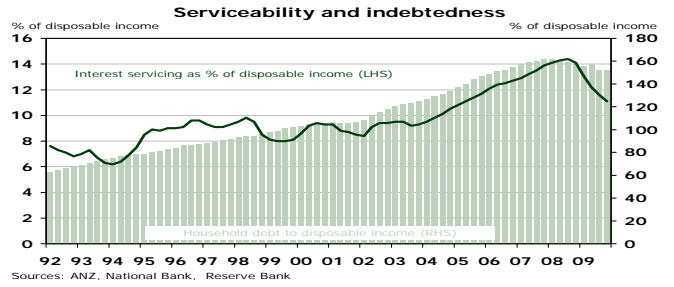
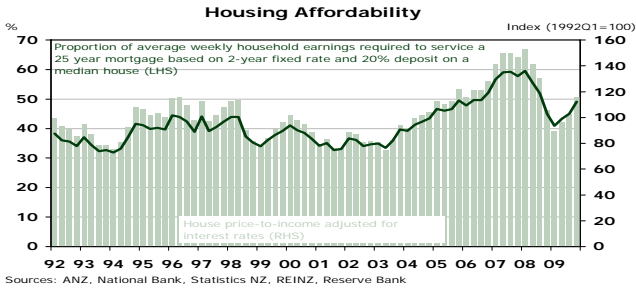
LIQUIDITY. We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

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	Slipping	↔	Rising interest rates have dented affordability.
Serviceability / indebtedness	Easing	↓	De-leveraging continues.
Interest rates	Trimmed	↔/↓	Fixed mortgage rates edged down across the curve but are still high.
Migration	Peaked?	↑	Given the divergences between the two economies, a rise in departures to Australia remain a key risk going forward. But the absolute level of migration remains supportive.
Supply-demand balance	Out of kilter	↔/↑	A wide imbalance still prevails.
Consents and house sales	Headwinds ahead	↔/↑	Buyers appear to be holding back as concerns over job prospects and pending changes to the taxation of residential property investment weigh. This will exacerbate the shortage.
Liquidity	Illiquid	↓	Credit has all but dried up. Households continue to focus on repairing balance sheets.
Globalisation	Coming up for air	↓	Our trans-Tasman neighbours are leading the way, while the US remains in the doldrums.
Mortgagee sales	Off its peak	↓	Off its high but remains elevated.
Median rent	Rising	↔	Starting to build.
On balance		↔/↓	Supply-demand dynamics positive but de-leveraging the number one priority over the year ahead.



ECONOMIC BACKDROP

Economic momentum is intensifying, but the recovery to date has been patchy. Nonetheless, the building blocks for a stronger upturn are moving into place, although this is subject to the global economy not taking another backwards step. One of these building blocks is the requirement that the NZ economy continue de-leveraging. This is a growth suppressant in the near-term (with it holding the housing market in check), but ultimately it is required if the upturn is going to have real legs. We are becoming increasingly encouraged on prospects for 2011, and this partly reflects softness (courtesy of de-leveraging) that we saw in the first part of 2010.

OUR CORE ECONOMIC VIEW

Momentum continues to build across the economy but the economic data coming through is best described as "patchy". We have seen both businesses and consumers report higher levels of sentiment. But it is still some time before this translates into a sustainable economic expansion and there remains a substantial gap between expectations and reality. Two building blocks that will assist in a self-sustaining recovery are a strengthening in commodity prices and a NZD/AUD exchange rate that favours some key exporters. Nevertheless, retailing remains soft, the housing market is treading water and credit growth is anaemic. This mix is still giving us growth, but nothing at present to write home about.

The pace of the latest economic pick up thus far has been more muted compared to previous recoveries. The 0.8 percent expansion in GDP measured in the final quarter of 2009 was the strongest in almost two years. Yet, rather than building on this momentum, economic activity looks to have slowed a tad over the first quarter of this year. Growth will remain positive, but at a sub-trend rate.

De-leveraging, or paying off debt and the process of balance sheet repair, remains a dominant theme in restraining the extent of the rebound. New Zealand still has a structurally weak balance sheet. Net external debt stands at 90 percent of GDP. The household sector has a negative savings rate, though this is slowly improving. Such structural dynamics are a major headwind on cyclical support and lean against the historical experience where strong rebounds follow deep downturns. And while growth at the end of last year received a fillip from inventory rebuilding, business investment remains weak and consumer spending is still subdued. Adding to near-term weakness is a weakening housing market due to uncertainty over the tax treatment of investment property. While we expect a rebound once the uncertainty clears up at the May Budget, and any move to reduce over-investment in housing is a positive step over the medium to long-term, it will nonetheless have a negative impact on real activity in the near-term.

Developments in Greece are a timely reminder that while the global financial crisis has past, the after-effects will linger. As a rough rule of thumb, it's a simple question of following the trail of debt in terms of identifying the next problem areas. Sovereign related debt issues are now on investors' radars. Thankfully, while New Zealand faces fiscal deficits for the next few years, the size is small and manageable compared to other countries. Public debt, at around 30 percent of GDP, stands in contrast to Greece's 115 percent or even the US which is around 92 percent. However, it is still critically important for the Minister of Finance to get the government's books on a stronger footing, to ensure that New Zealand continues to stand out and does not get dragged into any wider global unease over sovereign debt.

We expect the "real" recovery to occur by the end of this year, and one that will be driven by the tradable sector. Record high prices for New Zealand's major export commodities, which could see New Zealand's terms of trade hit new highs by the end of this year, will help boost national income. Already, there has been an upward revision to the dairy payout forecast for this season. And if current global dairy prices hold, next season's payout could be looking better. Stronger commodity prices are a significant factor in allowing the economy to de-leverage in an orderly fashion (which does not necessarily require that you actually reduce the size of the debt, merely that your debt burden fall relative to your income levels). This will set us up nicely for the upswing in the economic cycle.

The RBNZ sees the economy growing at 1 percent per quarter in 2010. We agree with the rate of growth, but have this pencilled in for late 2010 and over 2011. This really reflects our judgment that global forces (the lingering after-effects from the financial crisis), a drought in key regions, uncertainty towards pending tax changes and the de-leveraging dynamic mentioned above will curtail momentum for a while yet. But there is little doubt that things are gradually moving into place.

MORTGAGE BORROWING STRATEGY

Mortgage rates have been reasonably steady over the past month but borrowers still face a very steep yield curve, and at a time when we are getting close to the RBNZ lifting the Official Cash Rate. This makes any decision to lock in for a longer period a difficult one, as doing so comes at an immediate and hefty premium. Breakevens continue to show that interest rates need to rise quickly and by a long way to “win” on a fixed rate. Certainty has some value, but in the “new” normal, this certainty now comes at a price.

OUR VIEW

We have long spoken of the cost versus certainty trade-off, which has become something of a “conundrum” for mortgage borrowers. With official interest rates set to rise in a matter of months, there is likely to be some appeal to being fixed, and not having to worry about rates for a while. Long-term fixed mortgage rates are much higher than floating rates, so unless you fixed for a long term a year ago, when rates were much lower, chances are you face this “conundrum”. So what do you do? Of course, the answer depends on your personal circumstances, but in what follows we will discuss the key considerations that are likely to apply to most borrowers. The key message is to not panic about the prospective mortgage rate increases and avoid fixing at the long end of the mortgage borrowing curve.

Affordability – not just now – but in future too is arguably the most important consideration. Choosing a cheap (and perhaps floating) rate now is clearly going to deliver cost savings at the moment, and might feel like payback after years of high rates. However, these savings may evaporate quickly as mortgage rates rise. If your mortgage balance is low and repayments are only a small part of your overall expenses, chances are you can still afford to make repayments if mortgage rates rise. It also probably means you have more flexibility when it comes to choosing a strategy, offering you a better opportunity to take a view on interest rates. That's not to say you should take a punt, but if you do think breakevens imply higher rates than what you expect will eventuate, then you might want to consider remaining floating for a little longer. However, if mortgage repayments are already consuming a large proportion of your budget, chances are you have less tolerance for higher rates. If that is the case, and you can afford to fix for a longer period (say 2 or 3 years), then you may want to consider doing so. Fixing is going to cost more now, but if you know you can afford that cost, you won't be hit with any nasty surprises if rates do rise more quickly. The point is, the degree of choice you have is generally constrained by your budget. Certainty may cost more, but it may be easier to swallow than a nasty surprise, and if you can't afford a surprise, but you can afford the certainty, it may pay to opt for a fixed rate.

Flexibility is also important. If you're a few months into a hefty 25 year mortgage over a house that you intend living in permanently, then chances are you probably won't be looking at selling, and don't need to think too much about having to break a fixed rate. In this case, you may value the certainty of a fixed rate mortgage, even despite the added cost. But if you do intend selling, or expect to make lump sum repayments, you'll need to take that into consideration when choosing a rate, or splitting your mortgage between fixed and floating.

While we do acknowledge the importance of certainty for some borrowers, we are also mindful of the maths, particularly for those who have the luxury of choosing. As the table below shows, breakeven rates imply a fairly rapid rise in mortgage rates, so it may be worth holding off paying fixed for a little longer if you can. For example, if you are thinking about the next 2 years, you could fix for 2 years at 7.20% at the moment. But you might also choose to fix for 6 months at 5.70% instead, and then fix for the remaining 18 months at the end of 6 months. As long as the 18 month rate is less than 7.60%, the latter strategy is cheaper (but riskier). By comparison, the current 18 month rate is 6.60%, so the question is do you expect the 18 month rate to rise by more or less than 1.00% (7.60% - 6.60%) in the next 6 months? We don't think they will (and if they do, it won't be by much). This suggests fixing is expensive, but as noted, we are mindful of the value of certainty.

Mortgage Rates		Breakevens			
Term	Current	in 6mths	in 1yr	in 18mths	in 2 yrs
Floating	5.75%				
6 months	5.70%	6.31%	7.40%	8.73%	8.48%
1 year	6.15%	6.91%	8.20%	8.70%	8.87%
18 months	6.60%	7.60%	8.36%	8.89%	8.99%
2 years	7.20%	7.87%	8.59%	8.97%	9.15%
3 years	7.79%	8.33%	8.87%	9.18%	9.33%
4 years	8.20%	8.65%	9.08%		
5 years	8.50%				

FEATURE ARTICLE – HELP FROM ABOVE

In the aftermath of the financial crisis, policy makers are in the process of introducing greater prudential supervision of financial activity, to avoid a repeat of the global meltdown. Some countries have already begun to implement new credit regulations, other nations will undoubtedly follow suit once their economies build some momentum. We report on developments offshore, to paint the scene of what may result here.

In the aftermath of the global financial crisis, it has been quite widely signalled by economic commentators and policymakers alike, that fundamental changes in lending rules (under the guise of prudential policy) lie ahead, so that a repeat of the turmoil is avoided. While prudential policy or greater regulation are broad terms, the endgame appears clear: credit growth of 2 to 3 times the rate of GDP got the global economy into this mess, so new mechanisms that aim for a more normal rate of credit growth, relative to the economy's underlying servicing capacity, are in store. Already we have seen examples of this locally with the introduction of new liquidity rules for banks (fostering a deposit war and higher fixed lending rates), greater supervision of finance company activities and the RBNZ is in discussions with banks over new rules for rural based lending.

There has been a range of measures introduced in selected countries over recent times. These measures are just the thin end of the wedge and the trend will continue and accelerate, as economies return to a more normal environment. It is widely acknowledged that the new "normal" will be a vastly different norm from the credit driven frenzy of the last decade. To be sure, for much of the post-war period, more credit regulations have been in existence, with easier credit only being a relatively recent phenomenon. Here in New Zealand direct regulation of trading bank lending occurred by way of the cash reserve ratio system (which set a lending ceiling on the banking system and the mechanical adjustment of bank's cash reserve requirements). These controls were dismantled over the mid-1980s, resulting in the growth of lesser controlled types of financial markets (such as the commercial bill market). The financial crisis in 2008-09 was underpinned by the availability and demand for easier credit. Households were able to leverage up, leading to an excessive rise in property prices, fuelling household's perceived wealth, lifting demand for lending... and the wheels of increasing indebtedness was in motion.

The international economy has been supported by massive stimulus packages put in place in a global fashion. Policy makers now have the job of gradually weaning economies off these supportive measures. But at the same time, collectively, policy makers are proposing to regain control of credit. And in doing so they want to avoid being overly regulatory. They want to still provide a market friendly system that promotes stability, while protecting economic growth and insulating swings in the business cycle (ie. contra-cyclical). Some nations have started to implement lending controls and more changes are undoubtedly on the way. The following table summarises what credit controls have been implemented thus far, which may allude to what form of controls we could expect here.

Coverage	Type of Credit Control
Global Basel II & III	It is proposed that banks will be required to meet a minimum debt-to-equity ratio (i.e. the leverage ratio), meaning the degree to which the leverage of the capital may be utilised. With respect to liquidity, more stringent requirements will be placed on the amount and quality of the investments to be held. There will likewise be stricter requirements vis-à-vis the maturity and quality of the funding to be employed for financing long-term and less liquid assets. The Basel Committee proposes a global minimum liquidity standard for internationally active banks including both a 30-day liquidity coverage ratio and a longer-term structural liquidity ratio.
Global IMF	A wide range of official and private sector financial reform initiatives have surfaced. These include the establishment of a specialised supervisor of systemically important firms, refinements in the lender-of-last-resort principles, new funding liquidity and leverage restrictions for banks, and capital surcharges based on an institution's likely contribution to systemic risk. The adoption of capital surcharges and related regulatory measures is likely to represent an additional burden on the financial sector at a time when capital is scarce. To fully assess the desirability of surcharges, their costs need to be contrasted against the benefit of lowering systemic risk and the desirability of other measures.

China	Credit officials ordered to halt any new yuan loans due to overly fast lending growth. Banks must set a lending quota after must not lend excessively. Banks are also required to improve risk control after granting loans and to be aware of factors that might influence the repaying capabilities of borrowers through inspections and monitoring. For personal lending, the CBRC asked banks to be more sophisticated in the management of the lending process, especially on the use of the loans. Borrowers will not be able to obtain loans without declaration of a specific use.
United States	The Comptroller of the Currency, indicated that the US needs to adopt reforms to capital, liquidity, and risk management that will fortify the financial system to prevent inevitable future problems from mushrooming into the type of meltdown it sustained in 2008. The new regime will be designed to monitor the withdrawal of liquidity and the inability of banks to deal with the liquidity shortage.
Canada	Three changes to the standards governing government-backed mortgages have been made recently. Firstly, mortgage insurers are to ensure that new borrowers qualify for a five-year fixed rate mortgage when calculating the gross debt service and total debt service ratios. Secondly, the amount that borrowers can use the security of their home was lowered from 95% to 90% of the value of the property. Lastly, a minimum down payment of 20% for government-backed mortgage insurance on non-owner-occupied properties purchased for speculation is required.
England	The Bank of England recommends implementing some macro prudential tools, either by adjusting capital requirements across-the-board, or by doing so at a more disaggregated level. It is also considering using policy that might be set judgmentally, via a Committee that could take the full range of data into account when setting policy, but accepts that it would require robust mechanisms to ensure accountability, transparency and predictability. The Bank also supports a capital surcharge to address these issues. This would not only lower the probability of those firms failing, but also potentially encourage restructuring (e.g. to make the firm less interdependent on others). The Bank has also explored the question of institutional coverage and the international dimension.
New Zealand	New Zealand banks have in recent years had an unusually high proportion of their international debt securities maturing within one year, by comparison with other developed countries. The RBNZ has set a minimum Core Funding Ratio as a target for banks, to ensure a higher proportion of stable funding, and a reduced reliance on short-term offshore funding. The Core Funding Ratio was set at 65% from 1 April 2010, to be increased to 75% within two years.

WHAT DOES IT MEAN?

The shake-up following the global crisis means that for the next 2-3 years there will be de-leveraging, rising deficits, debt default and re-regulation. At the same time, there is the danger of prematurely withdrawing fiscal stimulus and monetary easing that may send some economies into another tail-spin. To minimise credit bubbles in the future, there is a need for policy makers to take a more proactive role in regard to prudential policy, which in effect is about more direct control of credit. This may come in the form of reserve requirements, direct intervention by central banks in the asset markets and the use of taxes (taxation of speculative capital gains) to reduce credit demand linked to speculative investments in assets.

Any new credit regulations will need to cover the spectrum of financial institutions which create credit, not just banks. The new regime also needs to be equitable when applied on an international basis, in order to minimise any chance of institutional arbitrage. (ie. not creating artificial incentives that confuse the markets). But the message is simple: there is a new normal and policymakers are already taking steps to implement it.

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 March 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	2.4	-3.9	117	(-3%)	77	Second lowest 3-month rate of change.
Auckland	9.3	1.7	1,727	(+7%)	36	Recorded the highest annual lift in prices.
Waikato/BOP/Gisborne	3.2	-0.6	677	(+1%)	49	First negative 3 month change in a year.
Hawke's Bay	2.1	-0.6	162	(-9%)	45	Days to sell back up to a 9-month high.
Taranaki	2.9	2.1	235	(+16%)	49	Second largest rise in sale numbers.
Manawatu-Wanganui	8.6	4.3	157	(+3%)	51	Strongest three month change in prices.
Wellington	8.6	-1.2	594	(+10%)	32	Second strongest annual rise in sale prices.
Nelson-Marlborough	5.3	2.3	179	(-6%)	42	Days to sell lower but remains elevated.
Canterbury/Westland	5.2	0.0	703	(-2%)	32	The joint fastest region to sell a house.
Otago	0.9	1.9	78	(-18%)	75	Second lowest annual change in prices.
Central Otago Lakes	0.3	-6.4	228	(+25%)	33	Lowest annual change in house prices.
Southland	5.4	2.5	125	(-9%)	35	Second highest 3 month change in prices.
NEW ZEALAND	7.6	0.3	4,960	(+2%)	38	A modest improvement in the month.

Key forecasts

Economic indicators	Actual			Forecast						
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
GDP (Ann Avg % Chg)	-2.2	-2.3	-1.6	-0.4	0.7	1.7	2.4	2.9	3.5	4.0
CPI Inflation (%)	1.9	1.7	2.0	2.0(a)	2.4	2.0	5.0	5.3	5.4	5.3
Unemployment Rate (%)	6.0	6.5	7.3	7.1	7.1	6.9	6.4	6.2	5.9	5.6
Interest rates	Actual			Forecast (end month)						
	Feb 10	Mar 10	Latest	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11
Official Cash Rate	2.8	2.8	2.5	2.8	3.3	3.5	3.8	4.3	4.8	5.3
90-Day Bank Bill Rate	2.7	2.7	2.7	3.1	3.7	3.8	4.2	4.7	5.2	5.7
Floating Mortgage Rate	6.0	6.0	6.0	6.3	6.8	7.0	7.3	7.8	8.3	8.8
1-Yr Fixed Mortgage Rate	6.2	6.2	6.1	6.6	6.8	6.8	7.1	7.6	8.0	8.4
2-Yr Fixed Mortgage Rate	7.2	7.2	7.0	7.4	7.5	7.5	7.7	8.0	8.5	8.7
5-Yr Fixed Mortgage Rate	8.5	8.5	8.4	8.6	8.6	8.6	8.6	8.7	9.1	9.2

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.

DISCLAIMER

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

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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