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## AUTUMN LEAVES?

### SUMMARY

Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. This month we review likely population dynamics in Christchurch.

### THE MONTH IN REVIEW

Christchurch aside, the housing market is building momentum, albeit off a low base. Cuts in mortgage rates and displaced persons from Christchurch entering the market are playing a role. Abstracting from these factors, however, the improvement was already flagged by mortgage approvals in prior months, indicating that the move has some substance behind it.

### PROPERTY GAUGES

Following last month's cut to the Official Cash Rate and the associated drop in mortgage rates, the property market has strengthened further from the trough at the end of last year. The surge in momentum that is building is most noteworthy in Auckland, but has been apparent in most localities, except Canterbury. How long the current easier monetary conditions prevail is now the pertinent question.

### ECONOMIC BACKDROP

The NZ economy is navigating three events simultaneously. Our high external debt and low national savings emphasise the need to rebalance. Commodity export prices continue to hit record highs. And the February 22nd earthquake resulted in significant damage and disruption. These events are complementary in some facets but opposing in others. The economy is set to remain weak over the first half of 2011 but there remains a solid base from which a springboard style recovery is set to emerge. A less benign inflation outlook is expected to encourage the RBNZ to raise the OCR in December.

### MORTGAGE BORROWING STRATEGY

Mortgage interest rates were basically unchanged over the month. While we are becoming more upbeat regarding economic prospects and, with that, prospects for the March reduction in the Official Cash Rate to be reversed, the "value" in the curve, from a borrowers perspective, remains short dated.

### FEATURE ARTICLE – THE DE-POPULATION OF CHRISTCHURCH

There has been a large outflow of people out of Christchurch following the February earthquake. Some will return but it is inevitable that some residents will decide to leave permanently. We estimate that Christchurch could possibly lose 4 percent of its population permanently in the first year, via emigration to elsewhere in the country or overseas, and a reduction in immigration, if overseas patterns are followed. Furthermore, strong intra-regional migration into Christchurch over past decades could easily reverse, causing larger population outflows.

## THE MONTH IN REVIEW

Christchurch aside, the housing market is building momentum, albeit off a low base. Cuts in mortgage rates and displaced persons from Christchurch entering the market are playing a role. Abstracting from these factors, however, the improvement was already flagged by mortgage approvals in prior months, indicating that the move has some substance behind it. If this is the case we expect to see eventual flow-on to other indicators, such as building consents, which remain weak for now.

### STATISTICS NZ, BUILDING CONSENTS – FEBRUARY

Slip sliding away...

A fall in residential consents was inevitable, given the upheaval of the Christchurch earthquake. **On an ex-apartment basis, consents plummeted 7.7 percent, more than unwinding the 5.8 percent (s.a.) rise in January.** Alterations and addition work from the September 2010 quake will also be delayed, but there will be considerably more work in the coming months once repair activity picks up. Non-residential consents bounced back from their January weakness in terms of floor area, but declined in value. Consents issuance across the various categories was mixed, with some rises and falls in values. It calls into question whether the Q4 2010 strengthening in non-residential construction will continue into early 2011. Earthquake reconstruction will provide more work for the non-residential sector but most likely from Q3 onwards.

### RBNZ, CREDIT GROWTH – FEBRUARY

Slip sliding away...

**Household credit growth remains very low, rising only 0.1 percent (s.a.)** in February and 1.6 percent annually. This confirms the relatively soft state of the housing market and also reflects ongoing deleveraging.

### REINZ, HOUSING DATA – MARCH

You know the dearer your estimation...

**Nationwide sales rose a seasonally adjusted 4.6 percent.** Sales have continued to lift from their late 2010 trough but **remain at low levels in relation to the dwelling stock.** Sales in Canterbury fell a seasonally adjusted 4.1 percent after a 27 percent decline in February. Excluding Canterbury, sales rose 5.9 percent. Prices are showing signs of stabilisation. In seasonally adjusted terms the REINZ House Price Index eased by 0.2 percent and the median days to sell eased slightly to 45 days, from 48 days in February. On this metric the housing market remains weak, with the median days to sale considerably above the mid 30s range that was apparent at the end of last year.

### STATISTICS NZ, NET MIGRATION – FEBRUARY

... the more you slip sliding away

Permanent and long-term arrivals fell a seasonally adjusted 1.7 percent in February. **Net inflows remain well below early 2010 levels.** With future migration flows to be significantly influenced by the Christchurch earthquake and with the Australian unemployment rate considerably below our own, this dynamic is unlikely to reverse anytime soon.

### RBNZ, MORTGAGE APPROVALS – EARLY APRIL

Mortgage approvals started the year on a firmer note than in 2010, suggesting more demand was in the pipeline. However, following the February earthquake, approvals trailed the year ago benchmark. Weekly mortgage approvals have now risen above the level they were at a year ago, but are well below what was the norm over 2008 and 2009. The level of weekly housing loan approvals is one of the most a timely barometers of real estate activity, and hence one we keep a close eye on.

## 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.

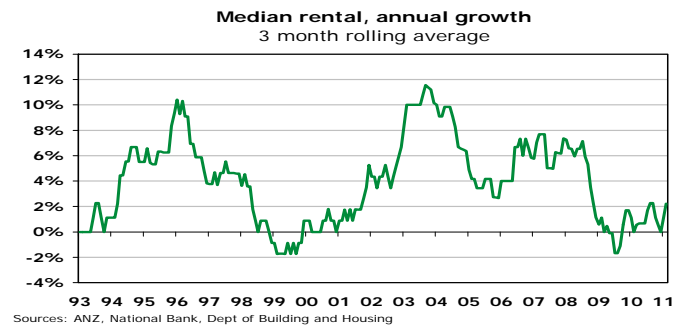
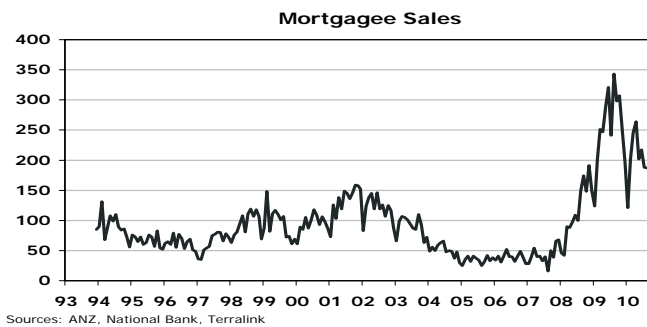
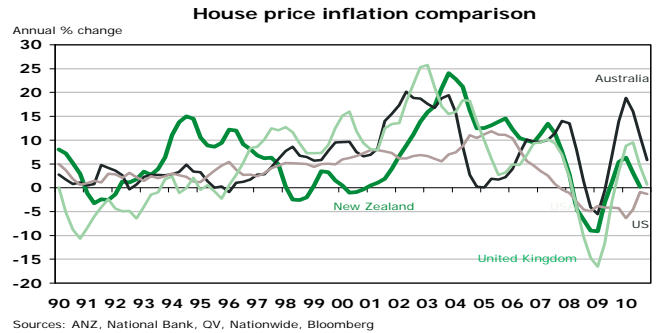
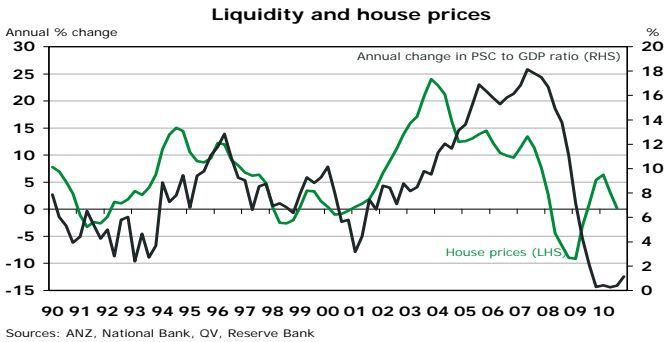
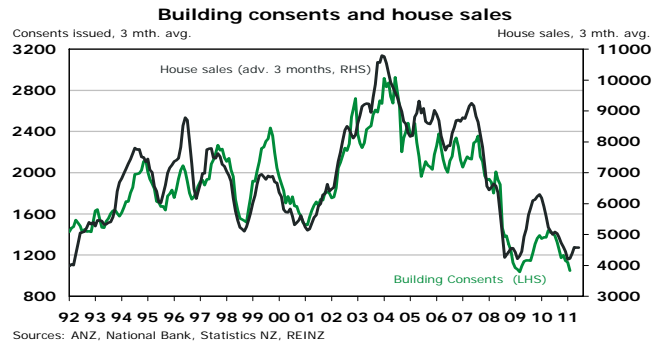
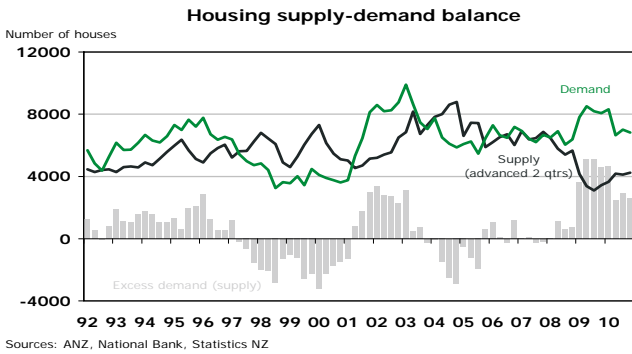
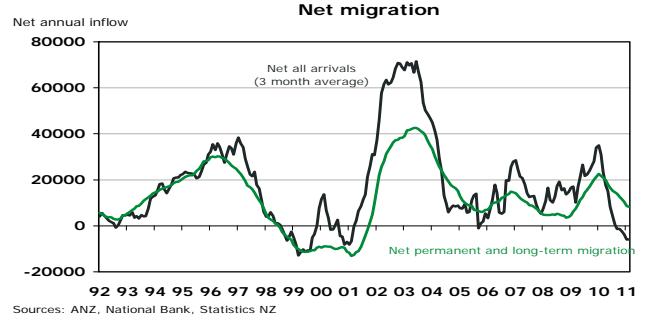
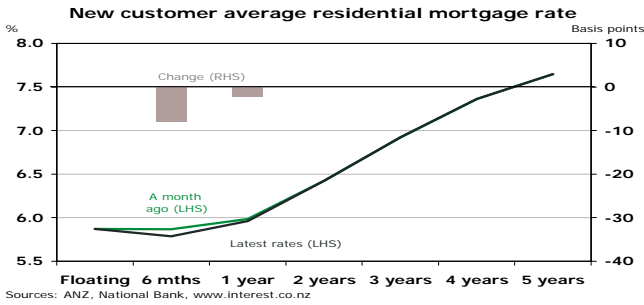
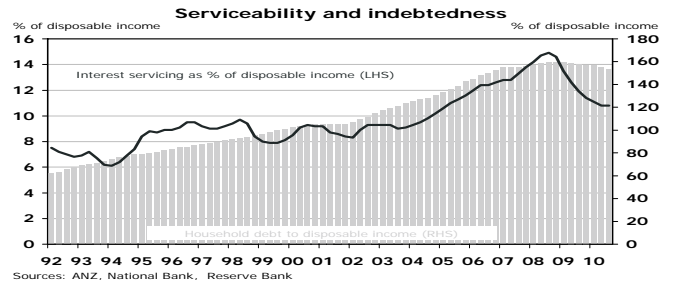
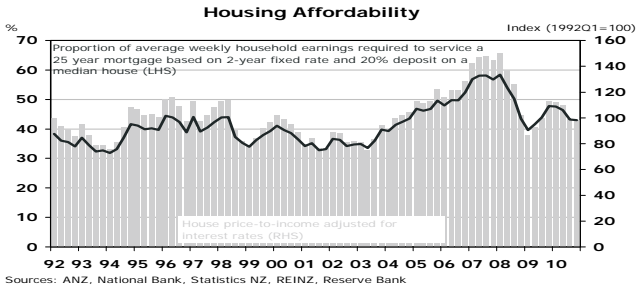
**LIQUIDITY.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

**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.

**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	Will improve	↓	Still expensive but set to improve, thanks to the mortgagee rate cuts.
Serviceability / indebtedness	Saved by deleveraging	↓	Will the reduced mortgage rates spark a lift in indebtedness?
Interest rates	Lower for a limited time	↑	A small drop, with the main reduction recorded last month.
Migration	Easing	↔	We expect some weakness in immigration numbers over the next few months.
Supply-demand balance	Regional gaps opening up	↔/↑	Auckland and Christchurch have the greatest imbalance.
Consents and house sales	Lifting but very low	↔/↑	Sales have continued to lift from their late 2010 trough but remain at low levels in relation to the dwelling stock.
Liquidity	Tick up	↓	Households are still deleveraging but recent data suggest a few are itching to get back into the market.
Globalisation	Flat-lining	↔	Rising house prices are less prevalent.
Mortgagee sales	High but dated	↔	Remains high but the data hasn't been updated for 6 months.
Median rent	Upward	↔/↑	Should lift further.
<b>On balance</b>		↔	<b>Sales turnover responding to the insurance cut.</b>



## ECONOMIC BACKDROP

The NZ economy is navigating three events simultaneously. Our high external debt and low national savings emphasise the need to rebalance. Commodity export prices continue to hit record highs. And the February 22nd earthquake resulted in significant damage and disruption. These events are complementary in some facets but opposing in others. The economy is set to remain weak over the first half of 2011 but there remains a solid base from which a springboard style recovery is set to emerge. A less benign inflation outlook is expected to encourage the RBNZ to raise the OCR in December.

### OUR CORE ECONOMIC VIEW

**The economic outlook for the first half of this year remains weak**, with the Christchurch earthquake having pushed back the recovery by six months. Business and consumer confidence measures have fallen, with ongoing household and agricultural sector deleveraging illustrating the ongoing mood of caution. The economy is in the midst of rebalancing. Consumer spending and retailing remain subdued. The earning side of the economy is being bolstered by record high commodity prices. Other parts of the export sector not benefiting from high export prices or the low NZD/AUD are finding the going more difficult.

**We are still taking encouragement from a number of indicators.** Momentum across the housing sector is recovering, though off an awful base. While the level of activity is low, the "change" is still growth. Our general feeling looking at the marked fall in confidence surveys in March is that the reaction was more knee-jerk than substance. Reads on April are expected to show signs of recovery. Numbers registered for the unemployment benefit fell in the March quarter. Of course the numbers will rise over April and May given announced layoffs in Christchurch but the main message is that the labour market had a better baseline feel to it pre-quake.

**Challenges remain.** The household savings rate is still poor. Households have made great progress over the past few years repairing their balance sheets and by our calculation the savings rate has gone from -14 percent (i.e. for every dollar earned a \$1.14 was spent) to be broadly zero at the end of 2010. Retailers have suffered the fallout from a more austere household sector, but households in aggregate are still not saving. With rising costs of essentials such as food and petrol eating into income, restoring more health to the savings rate will need to come out of discretionary spending.

**Money is being siphoned out of households pockets.** Petrol, food, rates, electricity charges, you name it and it's rising. If it weren't for deflation in the retail sector, inflation would be problematic. However, while NZ is paying the cost of higher commodity prices globally via petrol prices and dairy products in the supermarkets, we are actually still better off. NZ's terms of trade – the ratio of export prices to import prices – has jumped 20 percent in the past year. That's a massive income boost. The diffusion of this into the real economy is taking time, which leaves the nation somewhat "grumpy" in the interim as we wear the immediate cost. But the benefits will accrue and eventually be unlocked.

**Repairing an estimated \$15-20b in damages from the Christchurch earthquake will be a multi-year undertaking and will require considerable resources.** It is likely to check the economic rebalancing, with the upshot being a rising profile for external debt and large current account deficits. The rebuild will also put pressure on the Government balance sheet, which will require spending reprioritisation and some cuts, politically difficult in an election year.

**We are more optimistic over the outlook in the second half of 2011.** A lower level of activity provides a larger springboard from which recovery can occur. Financial conditions are providing considerable support. Commodity prices remain strong, with the Rugby World Cup set to provide another pillar of growth. A key part of our story is that there will be more economic activity from earthquake reconstruction in 2011 than most (including the RBNZ) expect. The state of emergency remains in place and the Government has moved quickly to facilitate the deployment of resources. We see momentum in a steadily rising fashion, as opposed to the consensus, which is centred on work going from zero to a boom overnight.

**The Reserve Bank faces a delicate balancing act supporting the economy via a lower OCR, but must be alert to pending inflation pressure.** Firming activity and persistent inflationary pressure are expected to result in the RBNZ removing the March Monetary Policy Statement insurance cut fairly promptly, with a 25bp increase expected in December.

## MORTGAGE BORROWING STRATEGY

Mortgage interest rates were basically unchanged over the month. While we are becoming more upbeat regarding economic prospects and, with that, prospects for the March reduction in the Official Cash Rate to be reversed, the “value” in the curve, from a borrowers perspective, remains short dated.

### OUR VIEW

**Slowly but surely the economic patient is recovering, and with that arrives the prospect of higher interest rates.** It seems incredible to be thinking about rising interest rates a mere month after the RBNZ lowered the Official Cash Rate. However, we need to remember the last cut was somewhat exceptional. The Official Cash Rate sits at a historical low and with a pending recovery comes the requirement to lift interest rates to more normal levels. This is easier said than done, of course, and the RBNZ faces a delicate balancing act over the coming year, with data likely to remain somewhat confusing given the impact of the quake, and inflation pressure rising.

**For now, the path of least resistance for the Reserve Bank is to exercise caution, but we expect that to change around mid-year.** Key judgements here are prospects for the economic recovery and where we see inflation headed. Regular readers probably characterise us as prophets of doom over the past few years with our grim assessment. There are certainly challenges still to come. However, we noted on page 5, we’re becoming more upbeat on prospects for the second half of the year. After years of scrooge and savings-centric behaviour, we expect a more broad-based recovery to emerge. With that will come a few challenges on the inflation front; hence the need for rates to eventually move up.

**We’ve pencilled in higher interest rates from later in the year.** The Joe-consensus view at present and the view that the RBNZ depicted in March suggest early 2012. Our differing view reflects our assessment that the economy (and inflation pressure) has far more scope to surprise on the upside over the coming year. Of course economic challenges remain, but we are coy about extending the 2010 malaise too far into 2011 when we eye up the boost to farmers from commodity prices, earthquake-related activity, the Rugby World Cup and low base of activity in a lot of sectors. The latter point needs elaborating on. It is far easier to “bounce” and surprise when you sit near record lows, and we can see a suggestion of that occurring in some indicators, such as building consents.

**The main value from a borrower’s perspective remains in the front part to the curve.** Our breakeven analysis table shown below shows that one needs to expect future interest rates to be a lot higher for it to be worthwhile fixing. So while we are somewhat optimistic about the economy, this doesn’t translate to pushing the panic button in regarding to fixing. The combination of structural regulatory changes and the aftermath of the Global Financial Crisis (which has shifted the balance of power towards savers and investors – which you can see via where deposit rates sit) has fundamentally altered the shape of the yield curve. Investors now demand and expect a term premium, that is, higher rates in exchange for locking their funds in for longer. Borrowers are on the flipside of this dynamic – hence the upward sloping curve borrowers face. This will certainly wobble around (i.e. flatten and steepen) from time to time. But the underlying “shape” will remain positive, so if you want certainty there is simply a premium to pay.

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 – THE DE-POPULATION OF CHRISTCHURCH

## SUMMARY

There has been a large outflow of people out of Christchurch following the February earthquake. Some will return but it is inevitable that some residents will decide to leave permanently. We estimate that Christchurch could possibly lose 4 percent of its population permanently in the first year, via emigration to elsewhere in the country or overseas, and a reduction in immigration, if overseas patterns are followed. Furthermore, strong intra-regional migration into Christchurch over past decades could easily reverse, causing larger population outflows. The government and business sector response, and attitudes toward residing in Christchurch, will be critical.

As the dust settles following seismic events in Christchurch (regular aftershocks aside) people are turning their attention beyond the rebuild to more structural issues such as likely migration and population trends, and in particular the potential for depopulation in the region, which tends to happen following a major disaster. The following article on likely Christchurch population trends appeared in our regular weekly *Market Focus* publication three weeks ago.

## WHO WILL LEAVE AND WHERE TO?

**Cities can experience population decline (also known as depopulation) for many reasons.** Economics is a common one. People tend to go to where there are jobs and opportunities. Wars, famines and natural disasters are also common reasons for areas to experience depopulation. EM-DAT<sup>1</sup> estimates that the number of people affected by natural disasters has risen from around 50 million a year in the mid-1970s to around 300 million a year over the past decade.

There is a vast international literature on how weather-related disasters affect migration<sup>2</sup>. But these tend to focus on developing countries affected by droughts or other disasters. What is less well known is the permanent effect on the population following an event such as an earthquake in a developed economy.

**There are reports that as many as 65,000 Christchurch residents left the city shortly following the February 22 earthquake.** This is around 17 percent of the city's population. While a temporary exodus is understandable given the damage to homes, the big question is how many will decide not to return and what this will do to future migration trends. And for those that decide not to return, where will they choose to settle?

**Looking at estimates of the permanent population loss following some recent natural disasters in developing countries suggest a large variation.** The 1995 Kobe earthquake resulted in 2.5 percent of the population leaving permanently<sup>3</sup>. There was a far higher proportion that left following Hurricane Katrina and Rita in 2005. However, Florida lost only a very small proportion of its population following hurricanes in 1992 and 2004 (see table below).

% of population permanently leaving following natural disaster	
Hurricane Andrew 1992	0.3
Florida hurricanes in 2004	0.3
Hurricane Katrina and Rita 2005	8.9
Kobe earthquake 1995	2.5
<i>Sources: ANZ, Alexeev et al (2010), Horwich (2000)</i>	

These are useful benchmarks, although it is impossible to lump all disasters into the same box. A key differentiating factor with regard to Christchurch has been the extended nature of seismic activity, which will exaggerate the psychological impact on residents. In addition, there will also be changes to the risk profile when businesses think about issues such as locality and where operations reside.

<sup>1</sup> See [www.emdat.be/natural-disasters-trends](http://www.emdat.be/natural-disasters-trends).

<sup>2</sup> See Alexeev, A, Good, D. and Reuveny, R (2010) *Weather-Related Disasters and International Migration*, School of Public and Environmental Affairs, Indiana University; and International Organisation for Migration (2007) *Migration, Development and Natural Disasters: Insights from the Indian Ocean Tsunami*, IOM Migration Research Series No.30, for examples.

<sup>3</sup> Horwich, G (2000) *Economic Lessons of the Kobe Earthquake*, Economic Development and Cultural Change Vol. 48 No.3.

Christchurch City has a population of around 380,000. The potential migration effects will stem from:

- Permanent outward migration to another area in NZ (internal emigration);
- Permanent outward migration overseas, especially to Australia (external emigration);
- Lower inward migration from another area in NZ (internal immigration); and
- Lower inward migration from overseas (external immigration).

Over the past decade, Christchurch City has benefited from net gains in internal migration (i.e. internal immigration less internal emigration) of around 0.3 percent of the population per annum, or around 1,100 persons a year. Net gains from external migration (i.e. external immigration less external emigration) have averaged around 0.4 percent of the population per annum, or equivalent to 1,600 persons a year.

If we assume that the permanent emigration (i.e. outflows) either to another part of NZ or overseas is similar to Kobe, then there will be a loss of 9,500 people (2.5 percent of the population). In practice, this estimate is likely to be at the conservative end. While there are certainly frictions that will restrict labour mobility (such as selling your house), there are other New Zealand specific factors, such as the higher tendency for New Zealanders to head offshore (especially to Australia), at any given time. The number of permanent departures from New Zealand accounts for between 1½ and 2 percent of the population over the past decade.

Christchurch has also been a net beneficiary of migration from Australia – which goes against the national trend. Migration from England, Japan and Australia dominate the net inflow. Certainly there looks to be immediate risks to immigration from Australia and Japan. And migration research has also showed that NZ has been used at a springboard destination to Australia<sup>4</sup>. What is less clear is the impact on internal and external immigration (i.e. inflows), which account for almost 3½ percent of the population in any given year.

Of the roughly 7,500 external immigrants (i.e. permanent arrivals from overseas) arriving into Christchurch each year, it is possible that we could see a halving of that in the near-term. In fact this seems somewhat optimistic. And while we could also see a rise in internal emigration, the net effect will likely be far less as there will be people coming in to carry out essential work relating to assessing and repairing the earthquake damage.

Christchurch City migration patterns as % of population per annum	
Internal immigration (inflow)	1.4
Internal emigration (outflow)	1.1
<b>Net internal migration</b>	<b>0.3</b>
External immigration (inflow)	2.0
External emigration (outflow)	1.6
<b>Net external migration</b>	<b>0.4</b>
<i>Sources: ANZ, Statistics NZ</i>	

Looking at where those who choose to leave permanently will go, we look at data from past Censuses for guidance (refer to the table at the end).

The key takeouts are:

- Christchurch has been a net beneficiary from intra-regional migration in the past, consistently recording net gains. Dunedin is the largest source, followed by Wellington, though there is a net outflow with the latter. We are likely to see less people from these two cities choosing to settle in Christchurch in the near term.
- For those choosing to leave Christchurch, most head to Wellington, with Central Auckland attracting the second highest share, and Dunedin coming in third. Given past migration patterns, this implies that there will be stronger family connections to those destinations, and we can expect a greater proportion of former Christchurch residents heading to Wellington and Auckland. However, relocating from one quake prone area to another does not feel right, so we suspect you can rule out Wellington as a major beneficiary.

<sup>4</sup> See Hayden Glass and Wai Kin Choy, 'Brain drain or brain exchange?', New Zealand Treasury, [www.treasury.govt.nz/workingpapers/2001/01-22.asp](http://www.treasury.govt.nz/workingpapers/2001/01-22.asp)

- On a net basis, the largest gains are likely to be in Dunedin, followed by Invercargill. Areas on the Christchurch periphery – Timaru, Ashburton, Blenheim, Greymouth and part of the wider Canterbury area – have also seen a large big city drift in the past. We will likely see this drift reverse sharply.

Of course, key for those choosing to leave Christchurch permanently will be the availability of work and access to public services such as schools, universities and hospitals in other regions. It would seem that Auckland and Dunedin will see the most migration out from Christchurch – at least for those people staying within New Zealand.

## IMPLICATIONS

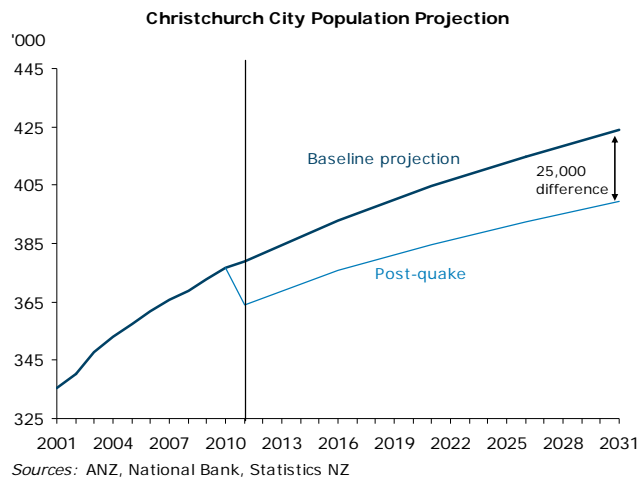
All up, we think it is possible that Christchurch City could see a loss of around 15,000 residents in the first year, equivalent to almost 4 percent of the population. This consists of around 9,500 residents deciding to leave permanently, 4,000 fewer migrants from overseas than otherwise would be the case, and 1,500 fewer internal migrants. Some regions will benefit from having a larger population base, but others such as Auckland, which is already experiencing a shortage of housing (see last months *Property Focus*), may see existing pressures intensify.

In practice these sorts of estimates seem intuitively light. The nature of Christchurch's seismic events – and extended period of shaking – has changed the situation completely, relative to offshore norms.

Of course it is possible to detail more severe scenarios. However, we have stopped short of doing so at this juncture. We have assumed that the heart of Christchurch's economic infrastructure including the port, universities and airport will remain the dominant players in the South Island. If this is not the case, then the depopulation fallout is likely to be significantly greater than what we assume.

There are some important long-term issues to consider. If we conservatively assume that the annual population growth rate will be 0.1 percentage points lower than the previous baseline forecast, the population in Christchurch will be around 25,000 lower than the baseline by 2031. This will have implications for the amount of infrastructure, services and amenities that will be required.

By way of comparison, the population in Kobe fell for the next two years following the 1995 earthquake. It took a decade before the population reached pre-earthquake levels. We should note, however, that this could also partly reflect the low population growth rate in Japan overall. In New Orleans, the population fell by almost a quarter five years following Hurricane Katrina, according to data from the US Census Bureau.



Our estimate is necessarily rough, and should be viewed as indicative only. How quickly this situation can turn around will depend on the Government and business sector response, the speed and comprehensiveness of the rebuilding effort, and attitudes toward residing in Christchurch.

Distribution of internal migration into and out of Christchurch City (average inter-Census change i.e. 5-yearly changes)					
	Internal immigration into Christchurch from:		Internal emigration out of Christchurch to:		Net Internal Migration (Persons)
	Persons	% share	Persons	% share	
Whangarei	188	0.8	129	0.7	59
Northern Auckland	956	4.3	960	5.5	-4
Western Auckland	641	2.9	530	3.0	111
Central Auckland	1,515	6.8	1,900	10.8	-385
Southern Auckland	1,032	4.6	878	5.0	154
Hamilton	631	2.8	534	3.0	97
Cambridge	48	0.2	47	0.3	1
Te Awamutu	41	0.2	32	0.2	9
Tauranga	362	1.6	357	2.0	5
Rotorua	289	1.3	203	1.2	86
Gisborne	170	0.8	91	0.5	79
Napier	347	1.6	174	1.0	173
Hastings	275	1.2	180	1.0	95
New Plymouth	288	1.3	161	0.9	127
Wanganui	214	1.0	114	0.6	100
Palmerston North	581	2.6	463	2.6	118
Kapiti	188	0.8	170	1.0	18
Upper Hutt	261	1.2	208	1.2	53
Lower Hutt	676	3.0	513	2.9	163
Porirua	296	1.3	248	1.4	48
Wellington	1,556	7.0	2,208	12.5	-652
Nelson	1,382	6.2	1,115	6.3	267
Dunedin	2,502	11.2	1,579	9.0	923
Invercargill	1,264	5.7	489	2.8	775
Pukekohe	54	0.2	44	0.2	10
Tokoroa	60	0.3	34	0.2	26
Taupo	91	0.4	66	0.4	25
Whakatane	68	0.3	44	0.2	24
Hawera	41	0.2	27	0.2	14
Feilding	83	0.4	39	0.2	44
Levin	89	0.4	49	0.3	40
Masterton	116	0.5	69	0.4	47
Blenheim	964	4.3	687	3.9	277
Greymouth	578	2.6	324	1.8	254
Ashburton	836	3.7	488	2.8	348
Timaru	1,209	5.4	542	3.1	667
Oamaru	461	2.1	205	1.2	256
Gore	210	0.9	74	0.4	136
Rural centre	1,778	8.0	1,639	9.3	139
<b>Total</b>	<b>22,335</b>	<b>100.0</b>	<b>17,611</b>	<b>100.0</b>	<b>4,724</b>

Sources: ANZ, Statistics NZ

## 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 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	3.5	4.4	98	(+7%)	88	The strongest annual lift in selling price
Auckland	-1.2	2.0	1,914	(+11%)	37	A sharp pick up in house sales volumes
Waikato/BOP/Gisborne	-4.6	-0.7	660	(-1%)	65	Drop in sales following a stronger February
Hawke's Bay	-3.7	-2.4	169	(-1%)	52	Median sale price at an 8-month low
Taranaki	-5.6	-0.3	226	(+0%)	52	The second weakest annual percent change
Manawatu-Whanganui	-3.5	0.6	145	(+5%)	52	Fourth consecutive monthly rise in sales
Wellington	1.3	1.4	548	(+6%)	43	The region with the second strongest apc
Nelson-Marlborough	-2.3	-0.1	170	(+8%)	63	Median days to sell is the highest since 2008
Canterbury/Westland	-4.8	-3.3	403	(-4%)	53	Earthquake induced fall in house sales
Central Otago Lakes	0.1	6.3	77	(+3%)	57	The strongest three month percent change
Otago	-7.2	-4.5	211	(+5%)	60	The weakest annual percent change in prices
Southland	-3.6	3.9	113	(+1%)	37	Had the joint quickest time to sell
NEW ZEALAND	1.2	0.6	4,757	(+5%)	45	Sales continue to lift from the 2010 trough

## Key forecasts

Economic indicators	Actual			Forecast						
	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12
GDP (Ann Avg % Chg)	0.4	1.3	1.5	1.0	0.5	0.4	1.0	2.0	3.3	4.0
CPI Inflation (%)	1.7	1.5	4.0	4.6	5.5	5.1	2.8	2.4	2.2	2.1
Unemployment Rate (%)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Interest rates	Actual			Forecast (end month)						
	Feb 11	Mar 11	Latest	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
90-Day Bank Bill Rate	3.2	2.7	2.7	2.7	2.7	3.1	3.7	3.8	4.2	4.3
Floating Mortgage Rate	6.4	6.0	6.0	6.0	6.0	6.3	6.7	6.8	6.9	7.1
1-Yr Fixed Mortgage Rate	6.4	6.1	6.1	6.1	6.2	6.6	6.8	6.8	7.0	7.2
2-Yr Fixed Mortgage Rate	6.6	6.5	6.5	6.6	6.9	7.3	7.5	7.5	7.7	7.8
5-Yr Fixed Mortgage Rate	7.7	7.7	7.7	7.8	8.2	8.5	8.6	8.5	8.5	8.4

## 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.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies 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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