Property Focus

Economics

March 2009

LINE CALL

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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 considerations when it comes to fixing, or not, and report on house price trends in NZ's traditional holiday hotspots.

The month in review (page 2)

- The RBNZ continues to throw a lifeline to the property market in the form of interest rate cuts. However, this is being stymied by rising fixed lending rates as deposit rates (a proxy for funding costs) move up. For the housing market, some data is starting to show signs of tentative recovery, but off a low base.

Property gauges (page 3)

- Interest rates have been cut but we are rapidly approaching the trough in the current cycle. Despite mortgage rates dropping to a 10-year low, it hasn't been enough to kick-start a recession wary real estate market.

Economic backdrop (page 5)

- We continue to take a circumspect tone when it comes to looking at prospects over the coming year. While lower interest rates have helped to cushion the fall in the real estate market, such cuts need to be viewed within the context of the deepest global recession in 50 years. De-leveraging remains a dominant theme.

Mortgage borrowing strategy (page 6)

- We are getting close to the bottom for floating rates, but this does not necessarily mean one should rush to fix, even though long-term fixed rates have started to move up. Given our economic prognosis we expect short-term rates to remain low for an extended period, and favour clipping this ticket repeatedly as opposed to taking the certainty long-term rates provide.

Special report – What to do? (page 7)

- The most common question we are asked at present is what should I be doing in so far as my cost of funds and duration of borrowing is concerned? Circumstances will differ from individual to individual and firm to firm so hard and fast rules do not necessarily apply. We look at some of the big picture dynamics influencing the decision.

Feature article – Location, location, location (page 11)

- We compare the growth in house prices for holiday hotspots with prices over the remainder of New Zealand. Our findings show that over the past 16 years dwelling prices in the main holiday locations have increased faster than the rest of NZ. It is not surprising to see that the price adjustment for holiday houses is now surpassing on the downside too. As the economy de-leverages, these areas will remain under pressure.

Key forecasts (page 13)

The month in review

The RBNZ continues to throw a lifeline to the property market in the form of interest rate cuts. However, this is being stymied by rising fixed lending rates as deposit rates (a proxy for the cost of overall funds) move up. For the housing market, some data is starting to show signs of tentative recovery, but off a low base.

I am a lineman for the county and I drive the main road

> **RBNZ Monetary Policy Statement – March.** The RB cut a further 50bps off the Official Cash Rate, taking it to a new low of 3.0 percent. Further rate cuts have been flagged with a low in the OCR of 2.5 percent expected. But that assumes the economy is recovering in H2 2009.

> **Rising long-term fixed lending rates?** It seems odd to see some longer-dated interest rates rise when the RBNZ is cutting, but that is precisely what is happening. To fully understand why this is happening, refer to our special report on page 7.

Searchin' in the sun for another overload

> **Building Consents – January.** The number of building consents issued slumped to the lowest level since the series began in April 1965. The depressed level of housing activity is having a material impact on construction activity, and lower mortgage rates to date are yet to turn things around.

I hear you singin' in the wire, I can hear you through the whine

> **Value of Building Work Put in Place – December.** The latest data paints a very weak picture of the residential construction sector. The 13.4 percent decline in residential activity was worse than we expected but in line with the slump in building consents. Judging by where consents are currently, further declines in residential construction activity are on the cards over the first half of this year.

> **Mortgage Lending – January.** The latest Reserve Bank data tracking bank lending to households showed a very small rise, lifting 0.1 percent in January. The 3-month annualised change has risen 2.1 percent, after hitting an all-time low of 1.3 percent in the previous month.

And the Wichita Lineman is still on the line

> **REINZ housing data – February.** The REINZ house sales data was a mixed bag in February. The number of house sales rebounded 8.3 percent but the length of time to sell rose to a seasonally adjusted 55 days – the longest time to sell since mid-2008. The median house price inched up to $330,000, but this increase was heavily influenced by the mix of sales being skewed towards the upper-end price brackets.

> **Net Migration – January.** There was an increase in net migrants of 660 people in January. There have been less people leaving permanently to Australia in recent months, which is likely to be due to less employment opportunities there. Departures beyond Australia have also declined, possibly caused by the global recession making people think twice before heading off. And while arrivals have increased, there has (so far) been no discernable increase in ex-pat NZers returning. Perhaps we will as the year progresses, but at this stage, any big increase in net migration will need to come via substantially reduced departures.

Assessment

Tentative signs of recovery are starting to emerge in so far as house sales are concerned, but considering the 50 percent plus fall since the peak, a natural base was always expected to form at some stage. Lower interest rates are a positive, particularly for serviceability but keep an eye on those long-term rates. Any changes in interest rates also needs to be weighed against the other key determinant of affordability, namely, the unemployment rate.

Property gauges

Interest rates have been cut but we are rapidly approaching the trough in the current interest rate cycle. Despite mortgage rates dropping to a 10-year low, it hasn't been enough to kick-start a recession wary real estate market.

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.

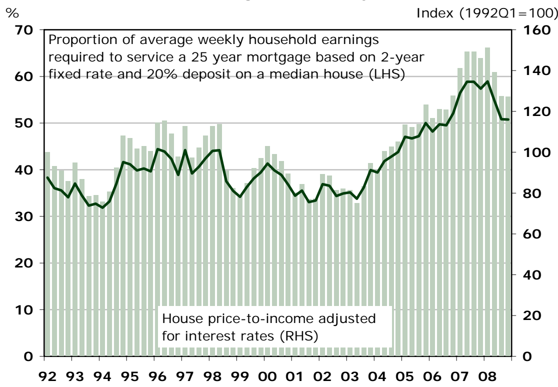
> **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

> **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.

Last week the Reserve Bank of New Zealand cut the Official Cash Rate by a further 50bps and signalled a return towards smaller policy changes going forward. In order to maintain competitiveness (attract capital), they also flagged a limit to how low rates can go.

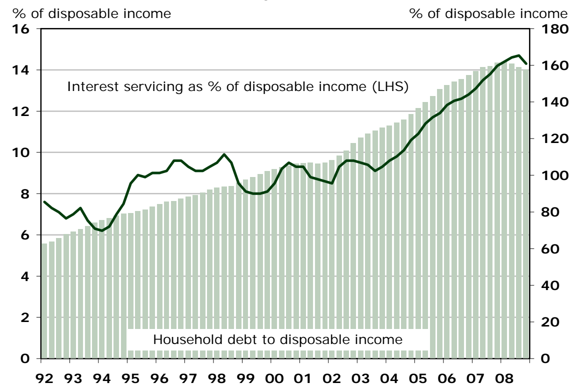
Indicator	Level	Direction for prices	Comment
Affordability	A long way to go	↓	Affordability is starting to ring true but some way to go.
Serviceability / indebtedness	Peaked	↓	Debt serviceability is still off the hook but level still high.
Interest rates	The big unknown	↑	Call rates aren't calling the shots as much as they used to.
Migration	On hold	↔	Incoming calls are only just ahead of outgoing calls.
Supply-demand balance	Returning	↔↑	A conference is needed to bring the two parties together.
Consents and house sales	Can only go so low	↔	Ghostbusters required!! Who you gonna call?
Liquidity	A lagging indicator	↓	A bird on the wire.
Globalisation	Negative	↓	Due to technical problems, all lines are down for the time being.
On balance		↓	**Dr Who's TARDIS doesn't make a great glider.**

Housing Affordability



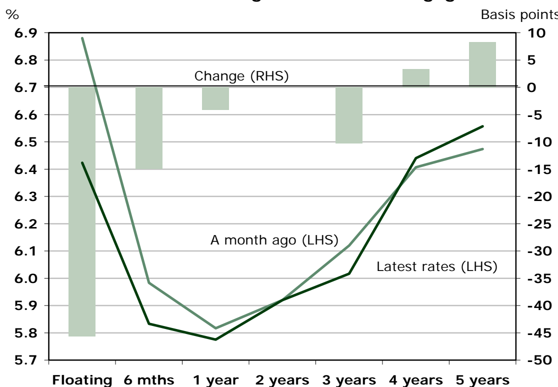
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



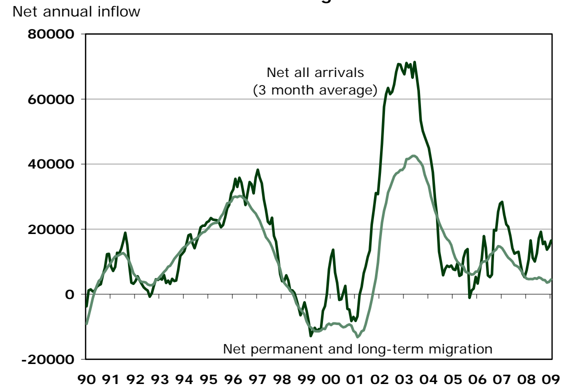
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



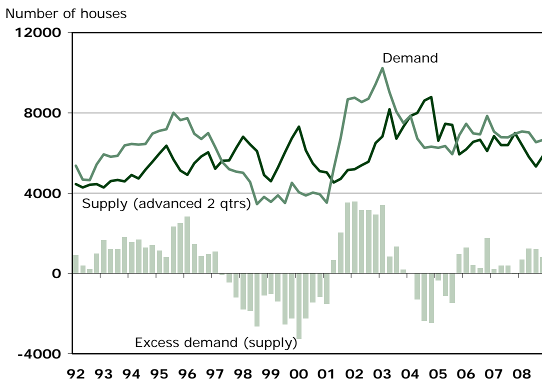
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



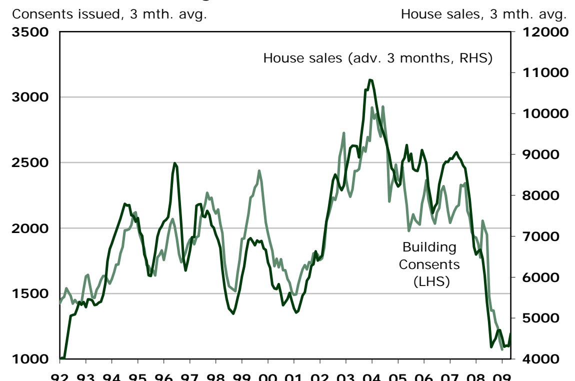
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



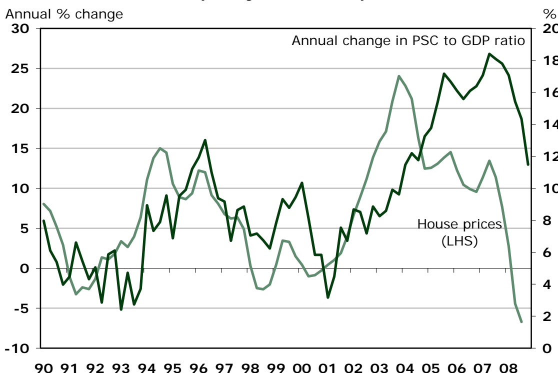
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



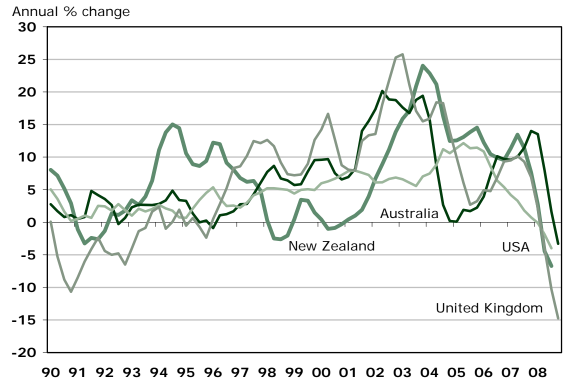
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

Economic backdrop

We continue to take a circumspect tone when it comes to looking at prospects over the coming year. While lower interest rates have helped to cushion the fall in the real estate market, such cuts need to be viewed within the context of the deepest global recession in 50 years. De-leveraging remains a dominant theme.

Our core economic view

We remain very circumspect over prospects for the coming year. Regular readers will be well aware of our rather downbeat prognosis. But to refresh, with the economy facing a structural adjustment (correcting a massive current account deficit), at the same time as being in the middle of a cyclical downturn (both globally and domestically), the sacrificial lamb will be growth. The economy is facing its weakest period in over thirty years. If that is not enough, the credit aspect to the global downturn exposes New Zealand's Achilles' heel, namely a huge current account deficit.

We are not surprised that there continues to be plenty of debate on NZ's economic prospects, not only in the media, but also inevitably across many dinner tables around the country. What should the RBNZ be doing? When will we see a recovery? Should we be spending or saving? Is it a good time to buy a house? It is the latter question, in particular, that appears to be stirring up a considerable emotional response from many. We welcome this debate and the many views that are being put forward. However, in our eyes, it is relatively clear. Fundamentals are back in focus, and in a world that is de-risking and de-leveraging, New Zealand needs (or will be forced) to do the same.

For an example of the de-leveraging process at work, look no further than the recent big improvements in the US and Australian household savings rate. After consistently declining for the best part of almost three decades, US households have improved their saving rate from near zero to 5 percent of disposable income. Australian households have improved theirs to 8.5 percent of disposable income. At this stage, there is no clear sign of NZ households doing the same, though at least the dis-saving rate has stopped getting worse. Part of the household de-leveraging (and current account rebalancing) process involves an improvement in the saving rate. US and Australian households appear to be getting this message. NZ households need to follow suit. Those that believe the NZ property market will drive an upswing over the coming months fail to appreciate the scale of what is going on. It would be truly ironic if NZ managed to borrow and spend its way out of the current jam, in the midst of the biggest financial crisis since the 1930s – it's the reason we are here in the first place!

While the RBNZ is throwing a lifeline to the property market in the form of lower interest rates, this needs to be read in conjunction with what is going on internationally. Around the globe two themes are prominent. De-risking and de-leveraging. Growth is being sacrificed in the near-term. This means less spending, lower profits and fewer jobs. A massive shift in power is taking place, away from borrowers and towards investors and savers. Locally, we can see this manifesting via deposit rates sitting far above the wholesale interest rate curve and numerous corporate bond issues around 8 percent. All are competing aggressively for cash. For a credit centric and credit hungry nation, we struggle to see how NZ will not be materially impacted. Hence, our economic assessment remains downbeat. To those that have good balance sheets and are looking at opportunities: be patient.

Mortgage borrowing strategy

We are getting close to the bottom for floating rates, but this does not necessarily mean one should rush to fix, even though fixed rates have started to move up. Given our economic prognosis we expect short-term rates to remain low for an extended period, and favour clipping this ticket repeatedly as opposed to taking the certainty long-term rates provide on the other side at present.

Our view

Fixed mortgage rates have fallen quickly over the past 12 months. However, as we start to approach the end of the monetary policy easing cycle, we expect the pace of the decline in mortgage rates to slow down, especially for longer fixed rates. In fact we've already seen long-term rates back up, and people are naturally conscious as to whether they have missed the boat.

Shorter term fixed rates are set to fall further yet, and typically follow the OCR closely. However, long term rates tend to move up and down as market expectations change and of course in the current environment, what the RBNZ sets bares little resemblance to banks' cost of funds. Rising deposit rates are putting pressure on long-term rates to move up.

In so far as what the Reserve Bank influences, with a further 50bps of RBNZ rate cuts already "priced in" by June, it is therefore unlikely that long-term rates will fall when the RBNZ does actually cut. If the RBNZ cut the OCR by more than expected, long term rates will fall, but the point is that they need to do more than what's priced in for there to be any meaningful impact. As the OCR approaches 2 to 2.5 percent, there is a limit to how much lower the RBNZ can take it.

But there is another leg to the cycle. How long the OCR remains low. Casting our mind back to late 2007, the last leg up in fixed interest rates was driven not by the RBNZ tweaking the OCR, but saying they expected to keep rates high for some time. Given the reality that the OCR will not fall too much further from here, the capacity of the Reserve Bank to influence lending rates will be determined by what they flag about future policy. Hence we see the reciprocal of late 2007 pending, particularly given our downbeat economic assessment. This in our view is the last leg to eye before taking a chunk of those longer term rates, although as noted on pages 7 and 8, there are numerous considerations to weigh up. Particularly prevalent at present is rising deposit rates, which is throwing a real spanner in the works. The only way the RBNZ can mitigate this is to get the wholesale interest rate curve even lower, and how do they go about that? Tell the market they plan to keep rates low for an extended period.

Themes we favour in the current environment

Even though further falls in longer term fixed mortgage rates like the 5 year are limited from here and courtesy of rising deposit rates they may move up, the floating rate, and short term fixed rates, will continue to fall and remain low for some time. Don't lose sight of the big picture. Even if long-term rates don't fall from here, and it turns out that we have seen the lows for the cycle, it doesn't automatically follow that the opportunity to participate in low rates has passed. On the contrary, if your objective is to minimise the overall cost of funds over the medium term (as opposed to picking the absolute low in a particular swap rate), then we believe this will be best achieved by remaining floating or fixing very short-term for now, and fixing at a later date. In effect clipping the ticket repeatedly, as opposed to paying for certainty at present.

Special report – What to do?

The most common question we are asked at present is what should I be doing in so far as my cost of funds and duration of borrowing is concerned? Circumstances will differ from individual to individual and firm to firm so hard and fast rules do not necessarily apply. We look at some of the big picture dynamics influencing the decision.

Fix or float? And if I fix, what term should I take. We are being in-undated with requests, particularly with the RBNZ flagging that cuts to the OCR are approaching an end, and of course we are already starting to see longer-term fixed rates move up.

As a general principle, the optimal solution for one may not fit another. It will depend on individual circumstances. What follows are some broad comments aimed at educating people as to what is going on, so that they can make informed decisions for themselves.

Observation 1: The question itself. It seems that no matter where you go, the question most people want to know is this: when should I fix my mortgage? It's a good question and at the heart of the matter it is the same broad question that most of businesses are asking too. But before we answer the question, let's examine it more closely.

What does a closer examination reveal? Well, in our view, the key words are "when" and "fix". When implies that we are definitely thinking of doing something, and "fix" tells us what that something is. What people are basically saying is "floating isn't an option, I need to be fixed, and I just want to know when to do it". The answer to that question is probably "about now, if you didn't get a chance to do it a few weeks ago". And that's because there is limited scope in the long-term fixed mortgage rates to fall further. However, short term swap and lending rates are falling, and we think they will continue to do so. And that's precisely why we think the question should be "what should I do if I want to minimise my interest bill over the next few years?" The answer to that question is quite different, as it opens the door to being floating, or rolling a series of shorter term fixed rates.

Observation 2: If you want certainty, there will be a cost. Simply minimising the overall interest cost is only one aspect of the decision to float or fix. Fixing also provides certainty, so you can sleep! NZ borrowers have typically done very well shifting the duration of borrowing (fixing or floating) in response to economic developments. During boom years, a lower average cost of funds has been achieved by taking a fixed rate. This gain has in part been driven by volatility of the OCR itself, but also the tendency of the NZ yield curve to be inverted. But they've achieved both a lower cost of funds and certainty to boot.

Looking forward, we see the return to a more traditional and upward sloping yield curve. Longer term interest rates are normally higher than shorter term interest rates on average simply because the further out you go, the greater the uncertainty (from areas such inflation). Hence investors expect higher returns to compensate for such factors. This dynamic was absent for a number of years as a new wave of theories including the channelling of excess savings in China into the US distorted the picture and gave the yield curve a weird shape. But what is clear at present is that "old" rules are reapplying. As the balance of power is shifting around the globe, away from borrowers and towards investors, investors are naturally demanding a higher risk premium to compensate for having money locked up for a longer term. They expect a higher return if they are going to give away some flexibility.

And of course the converse applies to borrowers who end up paying the other side.

Borrowers need to recognise this dynamic. For the decision to lock in borrowings going forward is not simply about hoping for a potentially lower average cost of funds over the cycle. It's about providing some certainty about the cost itself, particularly in light of the return to a more traditional shaped yield curve over the business cycle.

Observation 3: It's a deposit story. The OCR matters in so far as borrowing rates are concerned, but there is another dynamic at work, namely deposit rates. Historically, financial intermediaries have funded (taken money from investors) off something just above the wholesale curve. This was really predicated off an environment where credit risk was pretty well near zero, so the wholesale curve (90 day interest rate to the 5 year swap rate) determined the cost of funds. Domestically, you would also normally see deposit rates sit below the wholesale curve. Not so anymore.

Given higher funding costs overseas, people are naturally turning their attention to gathering more funds domestically. Deposit rates have moved up, and sit far above the wholesale curve. In many ways it's a reflection of the global environment but also NZ's circumstances. We have a limited pool of domestic savings, so people are competing more aggressively to secure it.

But when you eye deals in the market at present for deposits around 5 percent, you immediately start to question how low, or long interest rates from the borrowers' side can have a five in front of them.

In fact we can go further. On the one hand borrowers expect to benefit substantially from lower interest rates via their borrowing costs. Yet when it comes to parting with their own cash as investors, they are telling corporate New Zealand they need to offer an eight percent yield. These sorts of inconsistencies leave us scratching our heads.

Source: ANZ National, interest.co.nz

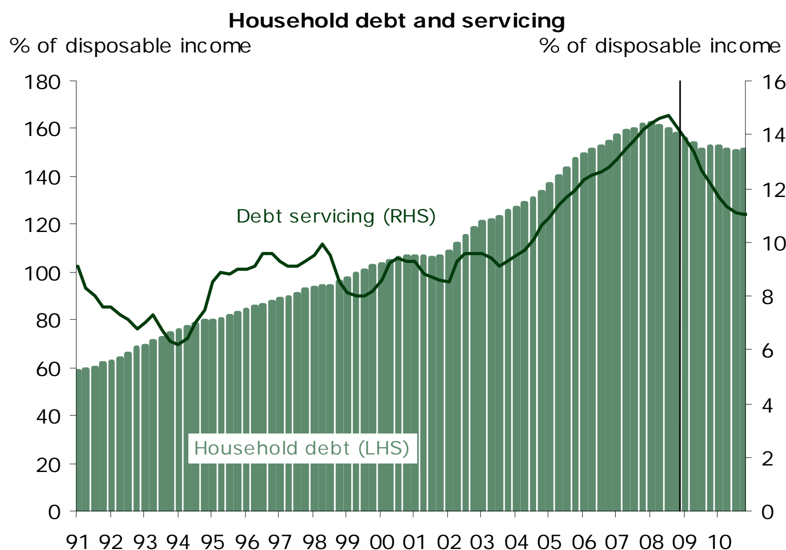
Observation 4: Monetary policy – stepping beyond the OCR itself. Cut the OCR and the general expectation is for interest rates to fall. As a general principle it applies in so far as short-term rates are concerned, abstracting from deposit and funding costs. But what a lot of people fail to appreciate is that long-term borrowing costs are not only a function of what the RBNZ does today, but what they are expected to do over time.

In terms of interest rate markets at present, there is pretty well wide-spread agreement that the OCR will fall another 50 odd basis points. The "market"

already reflects that. But 2 and 3 year borrowing costs also reflect the expectation that the RBNZ will be raising rates in 2010. In fact the market has around 35 basis points of tightening factored in over the first half of next year. If the market prices in more, there will be pressure for fixed rates to move up, and of course the converse also applies.

The RBNZ is now flagging that monetary policy is entering the glide-path for policy. As a small open trading nation reliant on attracting global capital, NZ interest rates cannot fall to zero and it's unrealistic to expect this to occur. The end-game for the OCR looks to be 2 to 2.5 percent. A move to price in the former (fixed rates already reflect a 2.5 percent endgame) will give scope for fixed rates to fall one last time. This does not mean the RBNZ is impotent, for the next avenue is simply keeping the OCR low for some time, as in tight through 2010. At some stage – and given our economic prognosis - we suspect this is the next leg monetary policy will embark on.

Observation 5: Our own economic view. Regular readers will be fully aware of our downbeat view. The economy has yet to fund a trough. While people are focusing a lot on the benefits lower interest rates will bring, when you look at projected debt servicing ratios and serviceability, they remain high relative to history. With interest rates sitting at historical lows, the only way this ratio can improve to anywhere near historical averages is by paying down debt, which is why de-leveraging is such a prominent theme within our forecasts. It's a process we expect to take time. On top of that we have the deepest global recession in fifty years. The world is de-risking and de-leveraging. Why will NZ not do the same?



Sources: ANZ National, RBNZ

This economic assessment has some key implications in terms of how you think about your borrowing costs. In many ways interest rates can be viewed as a hedge. If things go bad, you at least want the opportunity to have that low rate to counter (the lose-win scenario). Conversely, if our economic assessment is wrong, and things are on the improve, then you'll not mind paying more (the win-lose outcome). Where you don't want to be is having diminished flexibility to take advantage of low rates, and have the economic situation worsen. This is the lose-lose scenario and where you definitely don't want to be.

Observation 6: The interaction of monetary policy and the credit channel. Longer-dated yields are being forced higher not only by the return to a more traditional yield curve, but also the competition for limited capital,

which of course is a function of global ructions, current uncertainty and volatility. This channel is forcing monetary policy to do more than would otherwise be the case to provide an offset and the bias will remain that way for now. Yet we also struggle see central banks hiking rates until the global financial system stabilises. If the world has issues now, imagine the combination of credit dislocation and rising short-term policy rates! Of course central bank policy rates will not stay low indefinitely. Yet a prelude to this changing will of course be credit aspects to rates normalising somewhat, thereby relieving some of the pressure out the curve and on long-term rates. In the meantime, such a dynamic reinforces the importance of being patient.

The bottom line.

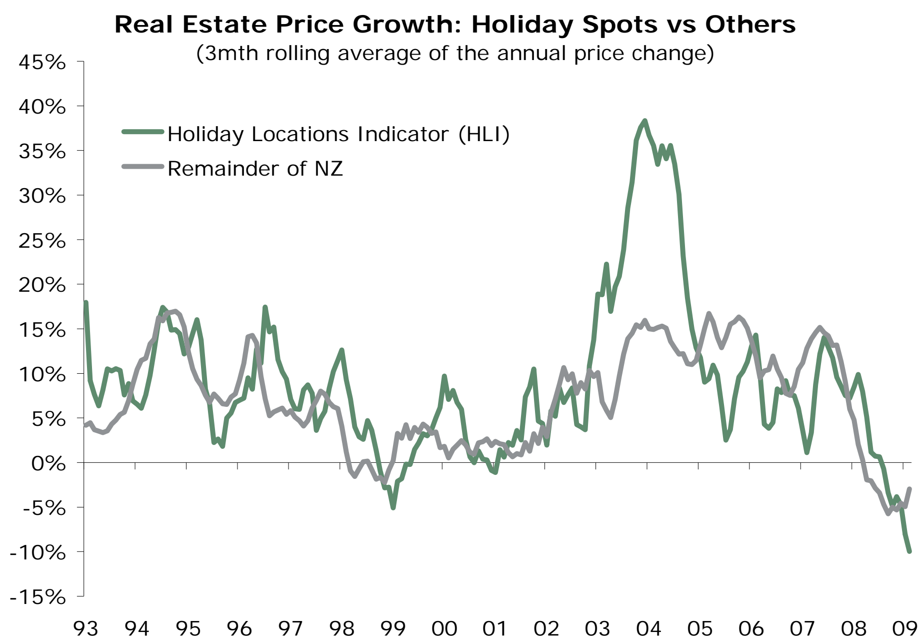
Hard and fast rules do not apply when it comes to choosing a borrowing rate. A lot depends on what people want to achieve, and their preference for certainty over flexibility. At present there is an array of issues influencing borrowing rates, and people need to appreciate and understand these dynamics before they make their decision. Our assessment remains tilted towards keeping borrowing short-term and going for flexibility. But circumstances will differ from individual to individual.

Feature article – Location, location, location

We compare the growth in house prices for holiday hotspots with prices over the remainder of New Zealand. Our findings show that over the past 16 years dwelling prices in the main holiday locations have increased faster than the rest of NZ. It is not surprising to see that the price adjustment for holiday houses is now surpassing on the downside too. As the economy de-leverages, these areas will remain under pressure.

Overview

Each month the Real Estate Institute of NZ (REINZ) publish a summary of house and section sales across 132 districts. In this article, we have split the districts into two groups: (1) those that are aligned with New Zealand's traditional holiday spots and (2) the remainder of New Zealand. Our allocation has aggregated 16 individual districts[1] into one holiday location indicator (HLI). The smoothed annual growth rate in the dwelling sale price of the HLI, versus the reminder of New Zealand, is depicted in the following chart.



The Upshot

Holiday homes are a discretionary expenditure item. As such, we would expect that prices in this segment of the real estate market would exhibit a different pattern to a traditional house used exclusively as a full-time residential dwelling.

The key features from our analysis are:

> Between 1992 and the most recent 12 months, there has been a 2.8 fold increase in dwelling prices in the holiday locations, lifting from $108,000 over the 1992 calendar year, to $409,000 for the twelve months to

[1] The districts we have aligned to being a holiday location are: Paihia, Kerikeri, Russell, Rodney North, Islands of the Hauraki Gulf, Taupo, Coromandel, Mount Maunganui, Motueka, Takaka, Marlborough Sounds, Kaikoura, Banks Peninsula, Central Otago Lakes, Queenstown and Te Anau.

February 2009 (a compound increase of 7.1 percent per annum). By comparison the remainder of New Zealand has recorded a 2.0 fold increase in the average dwelling prices, increasing from $116,000 to $346,000 over the same period (a 5.2 percent compound increase per annum)

> Dwelling prices in the holiday locations have eased 10 percent in the past three months compared to the same period a year ago. Not only is this significantly below the remainder of New Zealand (-3 percent), it is also the weakest rate of growth since our series began in 1993.

> There was a surge in holiday dwelling prices over 2003 and 2004. During these two years the average sale price of dwellings in holiday locations increased by an annual average of 27 percent. This was more than twice the rate of increase recorded over the remainder of New Zealand (12 percent). The three month smoothed annual rate of increase peaked at 43 percent in November 2003, along with a much heralded increase in dwelling selling prices for holiday locations, particularly for those with a water-front view.

> Looking at the individual districts that make up the holiday locations, we find that, at a minimum, all of the districts recorded a rise that at least matched the non-holiday locations. The largest price gain was measured in Russell, where prices have increased 6.1 fold between 1992 and now. The islands of Hauraki Gulf recorded the second largest increase (a 5.4 fold increase), followed by the Central Otago Lakes region (with a 4.4 fold increase).

Conclusion

New Zealand's various holiday locations enjoyed a rapid rise in prices over the earlier part of this decade. Now, with the nation bracing for a deteriorating economic environment, we are seeing the prices in these locations unwind on the downside a lot faster than other parts of New Zealand. As the economy de-leverages and discretionary spend comes under pressure, we fully expect this dynamic to continue.

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 February 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	7.4	-6.6	124	(+22%)	65	A peak load measured in house prices and sale numbers
Auckland	-1.3	0.4	1,522	(+8%)	49	Median sale price and the time to sell blew a fuse
Waikato/BOP/Gisborne	-5.1	-0.9	625	(+9%)	67	Time to sell running at dial-up speed, not broadband
Hawke's Bay	-1.1	-4.5	162	(-1%)	56	Past three months have recorded weak price growth
Taranaki	-1.9	-1.9	135	(+3%)	47	Joint shortest time to sell a house in February
Manawatu-Wanganui	2.2	-1.6	277	(+12%)	60	The number of real estate sales are at a 12 month high
Wellington	-0.2	1.8	554	(+16%)	65	Wellington's house sales have sparked into action
Nelson-Marlborough	-8.2	-5.5	199	(-2%)	60	The three month rate of price growth goes underground
Canterbury/Westland	-9.4	-1.0	712	(+11%)	48	Where annual house price growth eased to a new low
Otago	-3.7	-1.7	214	(-4%)	59	Otago's house sale numbers hit a short-circuit
Central Otago Lakes	-17.5	-8.4	67	(+1%)	63	House price growth has been hit by a black out
Southland	-10.4	-5.4	124	(-1%)	47	An alternating current in house prices and time to sell
NEW ZEALAND	-2.2	-1.9	4,771	(+8%)	55	A mixed bag but a longer time to sell remains the key

Key forecasts

	Actual			Forecast						
Economic indicators	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
GDP (Ann Avg % Chg)	2.5	1.7	0.2	-1.1	-2.2	-2.9	-2.7	-1.8	-0.5	1.1
CPI Inflation (%)	4.0	5.1	3.4	3.0	2.2	1.3	2.5	2.7	2.4	2.4
Unemployment Rate (%)	3.9	4.2	4.6	5.1	6.1	6.8	7.2	7.6	7.7	7.5
	Actual			**Forecast (end month)**						
Interest rates	Jan 09	Feb 09	Latest	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Official Cash Rate	5.1	3.7	3.0	2.5	2.5	2.5	2.5	2.5	3.0	4.0
90-Day Bank Bill Rate	4.4	3.4	3.3	3.0	3.0	3.0	3.0	3.0	3.7	4.7
Floating Mortgage Rate	7.5	6.9	6.5	6.0	6.0	6.0	6.0	6.0	6.5	7.5
1-Yr Fixed Mortgage Rate	6.9	5.8	5.8	5.7	5.8	5.6	5.5	5.4	6.0	6.9
2-Yr Fixed Mortgage Rate	7.0	5.9	5.9	6.0	6.0	5.9	5.9	6.0	6.6	7.3
5-Yr Fixed Mortgage Rate	7.1	6.5	6.6	6.7	6.8	6.8	6.8	6.8	7.3	7.7

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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