

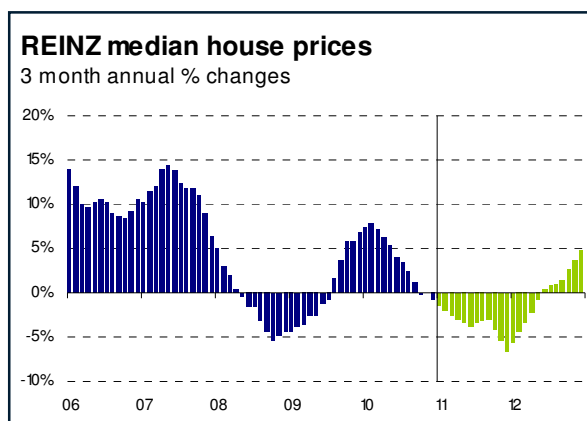
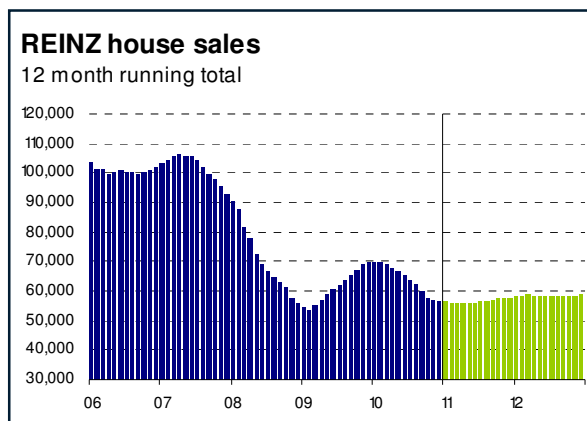


|  | New Zealand |                            | Auckland |                            |
|--|-------------|----------------------------|----------|----------------------------|
|  | Dec 2010    | Annual % ch <sup>(1)</sup> | Dec 2010 | Annual % ch <sup>(1)</sup> |
| <b>Number of house sales</b>               | 4,397       | -21.4%                     | 1,428    | -22.6%                     |
| <b>Median house price</b>                  | 352,000     | -0.7%                      | 455,000  | -0.2%                      |
| <b>New dwelling consents<sup>(2)</sup></b> | 994         | -16.1%                     | 193      | -11.1%                     |
| <b>Apartment consents</b>                  | 85          | 40.8%                      | 0        | 4.7%                       |
| <b>Non-residential building (\$m)</b>      | 332         | -3.5%                      | 94       | 3.6%                       |

<sup>(1)</sup> Average last three months compared to same months previous year <sup>(2)</sup> Including apartment and non-apartment consents  
 Data sources: Real Estate Institute of New Zealand, Statistics New Zealand

## Overview

The New Zealand labour market closed out 2010 on a low note, with employment declining and the unemployment rate rising to 6.8%. The slow pace of the economic recovery over the second half of 2010 combined with uncertainty regarding future growth has again seen firms hold back from their normal seasonal hiring in the December quarter. Although global growth has begun to recover, and manufacturing activity is showing signs of life, the endemic weakness in the New Zealand economy during the closing stages of 2010 will convince the Reserve Bank to hold back from increasing the official cash rate until September 2011.



## House sales

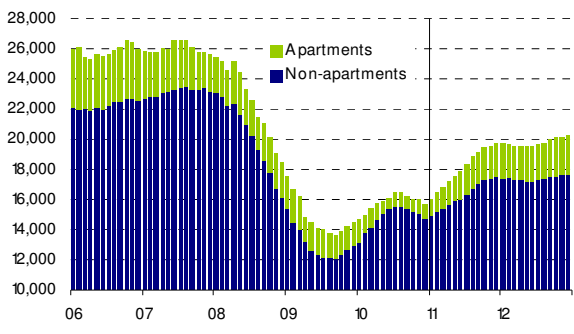
- In December, monthly house sales rose to their highest level since May 2010 (seasonally adjusted). Even so, sales volumes remain historically low.
- With the economy treading water over the second half of 2010, and investor demand for property weak, the housing market has moved sideways in recent months.
- Although house sales are expected to rise slightly from their current levels, continuing economic uncertainty and a dearth of investor interest will ensure that sales volumes remain low.

## House prices

- According to the REINZ's stratified house price index, the average house price in the December quarter was down 2.3% from a year earlier.
- Quotable Value's quality-adjusted house price index has also fallen from its level a year earlier, down 0.9% from December 2009.
- With investor sentiment poor and last year's tax changes lowering the underlying value of property, we expect house prices to decline throughout 2011.

## Dwelling consents

12 month running total

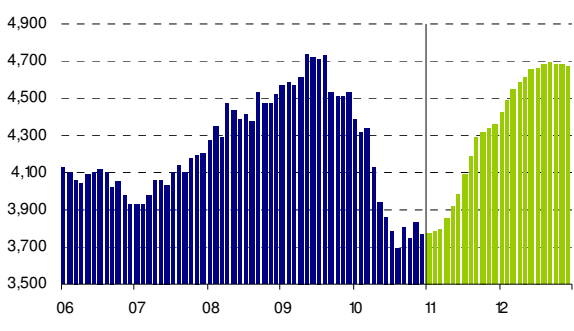


## Dwelling consents

- Seasonally adjusted non-apartment consents fell for the sixth consecutive month in December, to their lowest level since April 2009.
- Sentiment in the housing market is currently very weak. With house prices falling and uncertainty regarding prices elevated, we expect investor interest in the housing market to remain soft in the coming months.
- Even with the Canterbury earthquake boosting consent numbers, non-apartment building activity is expected to stay low over the next two years.

## Value of non-residential consents

12 month running total, \$m

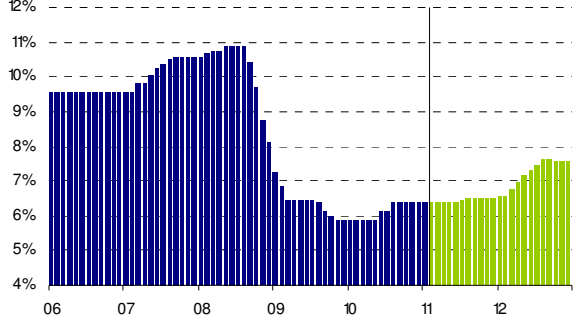


## Non-residential building

- In the December quarter, the value of non-residential consents fell 3.5% from a year earlier. Excluding individual consents over \$25m, the value of non-residential building was up 3.6% during this period.
- Private sector building activity appears to have stabilised following a prolonged period of weakness, rising 1.7% from December 2009.
- With domestic and global demand recovering, non-residential building will rebound strongly during the next year.

## Floating mortgage rates

% per annum

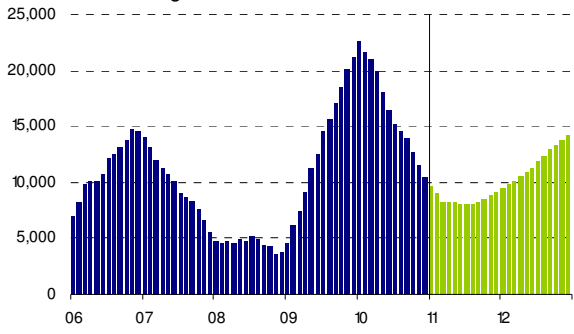


## Interest rates

- Floating mortgage rates have remained unchanged over the past month.
- Fixed mortgage rates were unchanged during January.
- The bad run of recent economic indicators has convinced us that the Reserve Bank will not lift the official cash rate until September.

## Net migration

12 month running total



## Net migration

- The annual net migration inflow shrank to 10,451 people in December.
- Permit approval figures have cooled sharply during the second half of 2010, indicating that permanent arrivals are likely to ease back through 2011.
- With the New Zealand labour market weak, permanent departures will rise. Combined with falling arrivals, this trend will see net migration decline further during the first half of 2011.