

MIXED MESSAGES

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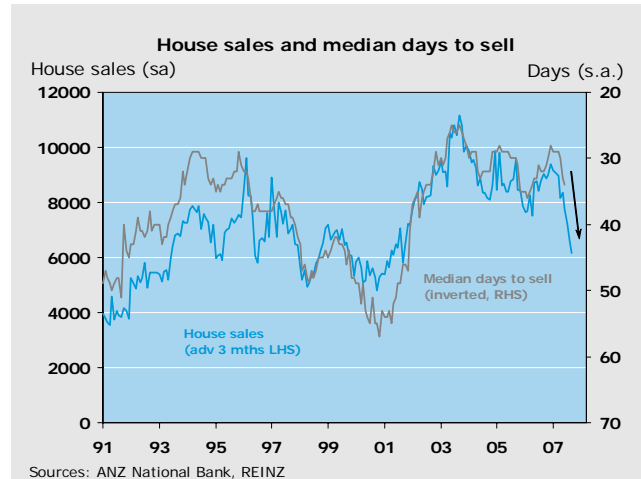
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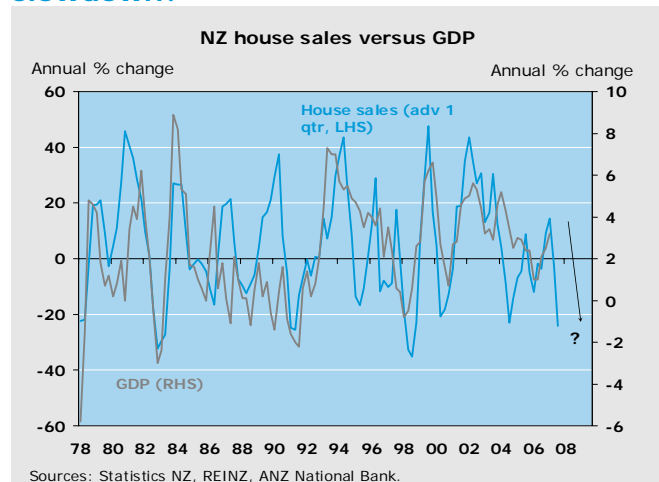
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The housing market has now clearly turned.



But will this softness spill-over and result in a more broad-based economic slowdown?



ECONOMIC OVERVIEW

Data released last week proved to be a mixed bag, with housing slowing, retail sales moderating but not stalling and confidence showing a degree of resilience. Looking forward, there is considerable uncertainty or wariness regarding this week's CPI release. The market looks to be erring towards or afraid of a result on the strong side of consensus.

What's ahead...

- NZ September quarter CPI (Monday 1045 NZDT). We expect the headline CPI to increase by 0.8 percent in the quarter keeping the annual inflation rate at 2.1 percent. Non-tradable inflation is the key focal point, with the Reserve Bank and ourselves expecting a rise of 1 percent in the quarter.
- NZ September External Migration (Friday 1045 NZDT). Migration has trended lower over recent months. However, we expect some consolidation around current levels.
- NZ September Credit Card Spending (Friday 1500 NZDT). After two consecutive monthly falls, we expect a small rebound in credit card spending in September.

What's the view

Last week can probably be characterised as one providing mixed messages. On the one hand there is now clear evidence that the housing market has turned along with confirmation that consumer spending is moderating (albeit gradually). But on the other hand, confidence remains robust and points to continued pressure on resources. It is a situation where the Reserve Bank needs to maintain a very vigilant stance.

REINZ housing data last week was decidedly soft. Monthly house sales are now at their lowest level since 2001, and 32 percent below where they were compared with this time last year. The median number of days to sell a house has begun to increase, and house price growth has moderated. Yes, annual growth is still running at over 12 percent, but this is misleading. House prices are only 2 percent higher than they were when the Reserve Bank began hiking interest rates in March this year. The housing market channel typically runs from sales, to average days to sell, and then finally prices. Given this, we feel annual house price growth will be flat by early 2008.

Consumer spending is also slowing, but not stalling. Core sales rose 0.8 percent in the month after two consecutive falls recorded in June and July, but trend measures show that retail sales growth has effectively been flat for the past four months.

Against this backdrop though, confidence within the economy remains robust and measures of resource pressure are still above historical averages. Throw

into this mix the fact that the Government's coffers continue to overflow with an embarrassment of riches – therefore increasing the chances of an election year lolly scramble – and it is an environment where the Reserve Bank will not be entirely satisfied.

Looking at the big picture, the Reserve Bank does appear to be finally having some success and the four OCR increases this year look to be gaining traction. However, at this stage the slowdown that is developing is relatively narrowly based. For the Bank to be more comfortable it needs to see evidence of diffusion from housing market weakness to other parts of the economy and this is where the key uncertainty resides.

In this environment, the Reserve Bank has two priorities. First, ensuring it gets its full pipeline tightening via traction along the yield curve. All power to the consumer but aggressive mortgage rate discounting of late from the Government-owned bank is not doing the Reserve Bank any favours in this regard. Second, ensure inflation expectations remain well anchored, and particularly that the temporary spike in inflation we are likely to see over the coming year does not become embedded in pricing and wage setting behaviour.

Looking at this week, today's inflation read holds centre stage. Given last week's bond sell-off on slightly stronger core retail sales numbers, the market looks to be on edge. With GDP coming in above expectations, the Reserve Bank has little (no) capacity to absorb another upside surprise.

Turning to offshore, the US, Europe and UK are also due to release their (monthly) CPI figures. Considering that global credit market tensions have eased, inflation is likely to have returned to the top of many central bankers' watch list, although just as is the case in New Zealand, this will be weighed against the downside risks to growth currently present. Monetary policy frameworks look likely to be rigorously tested over coming months.

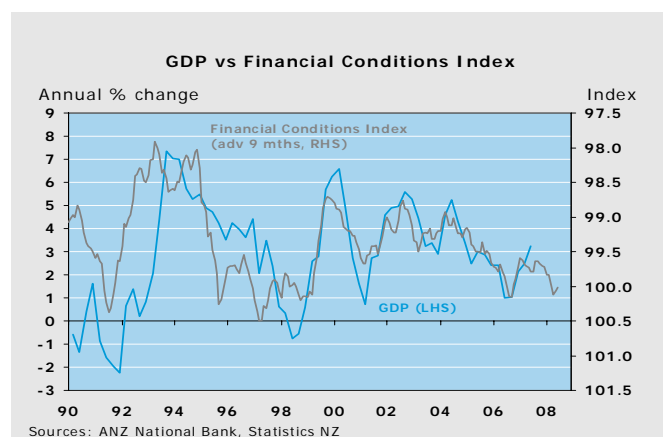
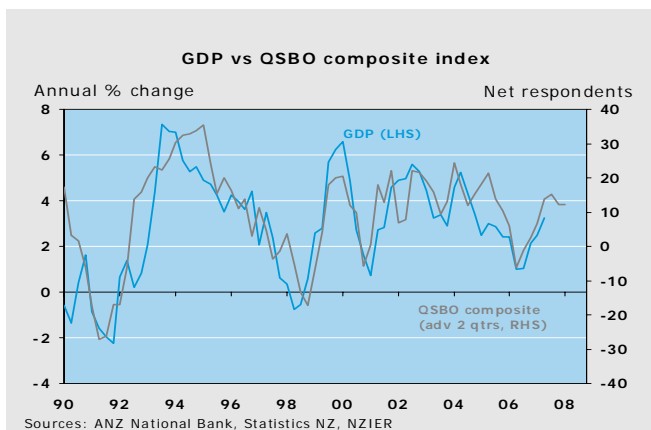
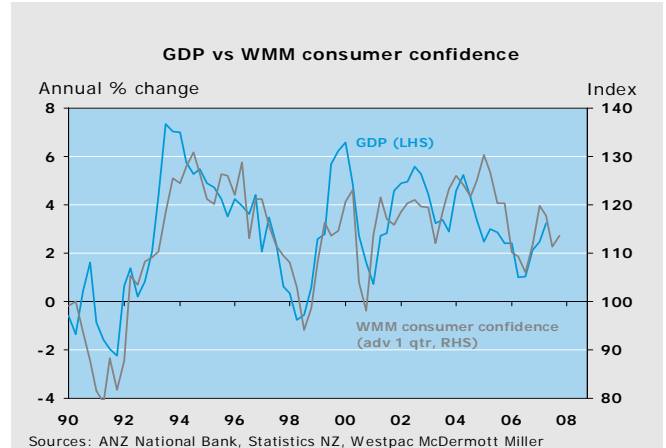
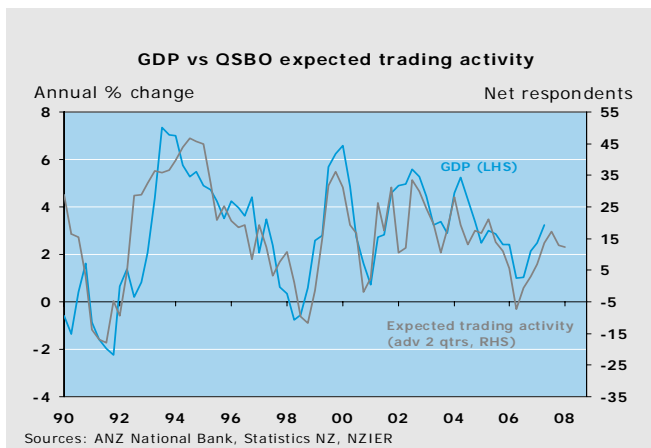
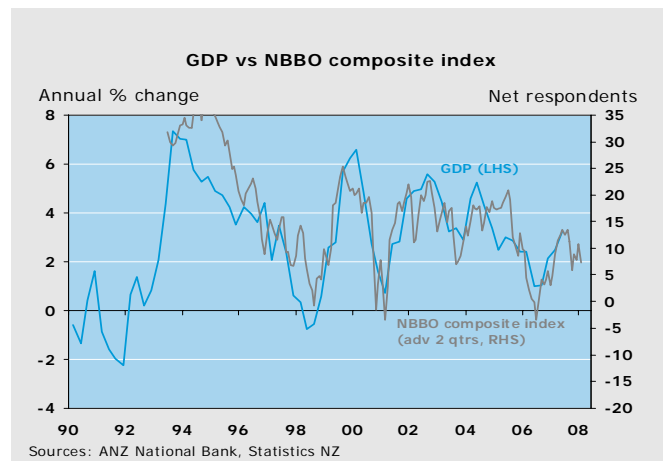
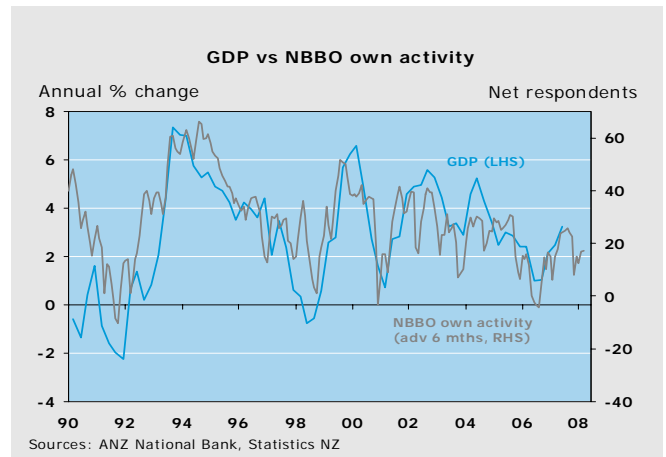
Recent data...

- **NZIER Quarterly Survey of Business Opinion (Sep qtr)**. Headline business confidence and own activity expectations improved slightly. Resource pressure and pricing intentions indicators remain elevated.
- **REINZ Housing Report (Sep)**. Seasonally adjusted house sales fell 6.2 percent to be down 31.9 percent on a year ago. Median days to sell increased to 34 days (seasonally adjusted) and the median house price rose to \$351,500 (up 12.3 percent on a year ago).
- **NZ Retail Sales (Aug)**. Total retail sales grew by 0.2 percent. However, core sales (which exclude motor vehicle-related industries) expanded by 0.8 percent.

LEADING EDGE

All the leading indicators we track are pointing to a turning point in the cycle but also depict a floor to growth being achieved. However, there is a wide range of potential outcomes over what sort of moderation is pending, ranging from a bullish 3.5 percent outcome, to more sedate 1-1.5 percent growth. The average across five specifications suggests growth of 2-2½ percent. The most correlated and economically sound indicator is pointing to growth at the lower end.

	Correlation with GDP growth	Estimate of GDP growth by late 07/early 08
QSBO expected trading activity	0.788	2¼% - 2¾%
QSBO Composite Index	0.771	3½% - 4%
NBBO own activity	0.736	2% - 2½%
NBBO Composite Index	0.780	2% - 2½%
WMM consumer confidence	0.640	2½% - 3%
Financial Conditions Index	-0.854	1% - 1½%
Average	-	2%-2½%



INTEREST RATE STRATEGY

CPI today to set the tone and direction. Strong print to see continuation of payside bias and for the market to seriously think about a rate hike.

Market themes...

- It's all about the CPI today.
- 2-year swap yield broken through topside of its 8.3-8.5 percent range.
- US yields higher as odds of a Fed rate cut for October pared back.

Outlook...

Last week's dataflow was a mixed bag. Business sentiment was basically unchanged from three months ago, and indicators of resource pressures eased but remain tight. This would have disappointed the Reserve Bank, who would have been hoping for more of a reaction given the rate hikes they delivered. Nonetheless, there is no doubt that domestic demand is slowing, even though last Friday's core retail sales number surprised on the upside. The question is whether it is slowing enough to ease inflation pressure.

This morning's CPI release will set the tone and direction for the local rates market heading into the October *OCR Review* next week. Judging from recent price action, the market is gearing up for a strong CPI print. While an upside surprise, particularly on non-tradables, will see yields head higher, a print in line with market expectations may actually see a relief rally in the rates market.

Just as quickly as the 2-year swap yield broke out of the 8.1-8.3 percent range, it has now broken out of its 8.3-8.5 percent range. With the 90-day rate moving lower and easing the carry cost, the move in the 2-year reflects the marked change in sentiment towards the Reserve Bank over the past week. Expectations for rate cuts have been pushed out to December 2008 now, with 3 basis points of tightening currently priced in by March. Expect the market to up the ante on a rate hike should the CPI come in strong.

In offshore markets, the US data calendar is busy with industrial production, the NAHB housing index, CPI and Philly Fed survey. Several Fed officials are also scheduled to speak. Given the resilience in recent US economic data, a continuation of this trend could see the US bond market sell off further as the market re-thinks monetary policy prospects in the US. The calendar is also busy for Europe and UK, with CPI numbers due as well as the minutes from the BoE's October 4 meeting.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	Q3 CPI data last piece of major data prior to October <i>OCR Review</i> .
NZ data	↔	Domestic demand slowing but RBNZ needs to see that translate into easing inflation pressure.
Fed Funds/front end	↔	US economic data showing resilience, reducing prospect of further Fed rate cuts.
RBA	↔/↑	AU data printing one way. Rate hike looking likely but question on timing.
US 10 year	↔/↑	Resilient data and hint of inflation concern to see 10-year drift higher.
NZ swap spreads	↔/↓	Despite domestic data, EFPs look to narrow via the Government bonds.
Flow	↔/↑	Payside pressure to continue.
Technicals	↔/↑	2-year swap yields at post-OCR highs (8.56%). CPI to dictate next technical levels.

Borrowing strategies we favour at present

Interest rates rose across the board last week following strong economic data, which suggests that inflationary pressures are still present. The market has moved from pricing in a cut in the Official Cash Rate from June to December next year. Given the change in the economic outlook lately we suggest that people consider fixing into the 3-5 year part of the curve. This will give a greater cost saving over floating whilst also providing greater certainty as to what interest payments will be.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 25-Oct-07	2	4
Thu 6-Dec-07	4	7
Thu 24-Jan-08	6	9
Thu 6-Mar-08	8	11
Thu 24-Apr-08	0	11
Thu 5-Jun-08	-16	3
Thu 24-Jul-08	-44	-21

Trading themes we favour at present

Market is all beared up for a strong CPI print. Payside pressure to continue though EFP spreads expected to narrow on the back of government bond moves.

CURRENCY STRATEGY

Having broken through the consolidation range 0.75-0.77, the NZD/USD is now in danger of regaining USD0.80. USD weakness and NZ inflation data will be key to these moves.

Market themes...

- Yield-related demand boosts NZD and AUD.
- CPI (NZ and US) and US housing data key for the week.

Outlook...

While data out of New Zealand last week sent mixed messages (weak housing market, only limited signs of easing inflation pressure in the QSBO, and strong core retail spending) yield-related demand continued to provide support to the NZD. A no-change decision from the Bank of Japan, strong retail spending data out of Australia and further gains in equity markets all reinforced the attractiveness of yield, and provided a boost to carry-related currencies at the expense of a beleaguered USD. The AUD/USD hit a 23-year high of 0.9061 in the week, the euro traded within a cent of all-time highs, and the NZD/USD pushed through resistance at 0.7715 to trade as high as 0.7770.

A short-lived dip in the kiwi on Friday morning at the hands of a sharp (albeit temporary) fall in the Dow reinforces how we are still in an environment where yield only matters while risk appetites remain sturdy. Expect volatility to continue in such an environment.

Today's NZ CPI data is the key domestic release this week. Recent pricing activity (notably the reaction to last week's retail sales data) suggests that the market is nervous about a strong result increasing the likelihood of another rate hike from the Reserve Bank. Any strength in the result (particularly on the non-tradable inflation side) is likely to see the interest rate market move towards another hike which, and in the current environment, would put upward pressure on the NZD. A result on (or below) expectations, on the other hand, will help to alleviate some of the nervousness, but would likely result in a more muted response.

Internationally, US CPI and housing starts data for September and the Fed's Beige Book (all due on Thursday morning NZDT) will be a major focus. Market participants are expecting further weakness in the housing data and a modest (0.2 percent) increase in consumer prices. Any signs in this data or the Beige book that suggest further rate cuts from the Fed are likely will exert further downward pressure on the USD, and boost the NZD by default. But CPI pressures must be building.

The NZD/USD remains in its well established up channel. The squeeze higher sees it trading around resistance of 0.7770, with support rising to 0.7680. Target and resistance this week is 0.7840. The NZD/AUD has consolidated over the past week, and is trading within a relatively narrow range. Daily topside resistance at 0.8630 (38.2 percent Fibonacci retracement level) is likely to continue to cap. This level is important, and any break will signal a new base in this cross.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Growth differentials favouring AUD.
Yield	↔/↑	Swap spreads remain supportive for NZD.
Commodities	↔/↓	Still supportive of both, but metals on a bender.
Partial indicators	↓	Better across the Tasman.
Technicals	↔	0.8630 to cap.
Sentiment	↓	AUD data is better.
Other	↔	CPI data today is massive.
On balance	↔/↓	0.8460-0.8630 range still, any break will be important.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	US data is weak as well.
Yield	↑	OCR high for longer, potential tightening in NZ.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↔	Volatility measures down, market remains "calm".
Partial indicators	↔	NZ CPI today is key.
Technicals	↑	Trend in place. Break of 0.7670 last week opened topside.
AUD	↑	Fundamentals solid across the Tasman. AUD doing well.
Sentiment	↔	US data ok, so consolidation likely.
Other	↓	Big maturity month for Uridashi and Eurokiwi, but no selling noted.
On balance	↑/↔	Support 0.7670, target 0.7840.

NZD FAIR VALUE

We attempt to model fair value for the NZD based on an array of approaches. We remain comfortable calling fair value for the NZD/USD around 65 cents based on structural approaches, although cyclical-based models suggest an array of possible outcomes over the coming months.

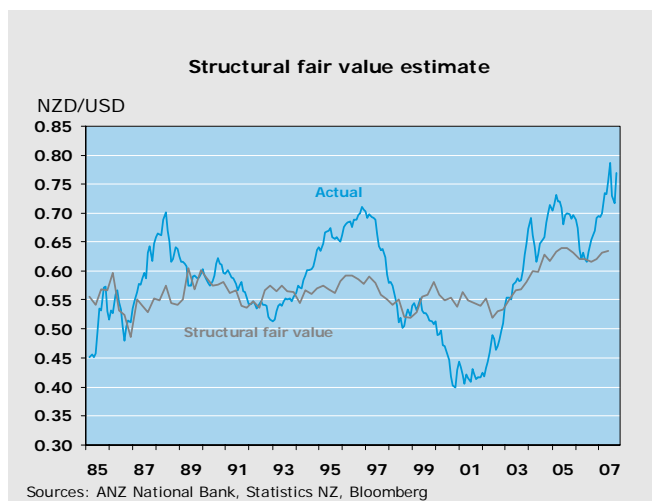
There is a lot of talk about where fair value for the NZD resides. The rise in the NZD over the past few years has some raising the prospect that fair value could be above 70 cents against the USD. We present several different modelling approaches to estimate fair value. We use different methods because there is no one model that is 'correct' all the time. In the world of FX, the themes that drive the currency change from time to time.

Structural Model

Over the long-run, the currency should reflect an economy's long-term economic prospects. Our structural model incorporates terms of trade, inflation, productivity and wage differentials as well as economic volatility over the economic cycle. Our structural estimate is an average of four specifications using such inputs.

While strong terms of trade have raised our structural fair value estimate, the magnitude has been capped by weak productivity growth. Our modelling suggests structural fair value at around 65 cents against the USD.

This is the sort of model that clients should be using when setting budgets in a strategic context looking at the long-term nature of the investment decision. However, note that the NZD can deviate from the structural fair value for long periods of time.



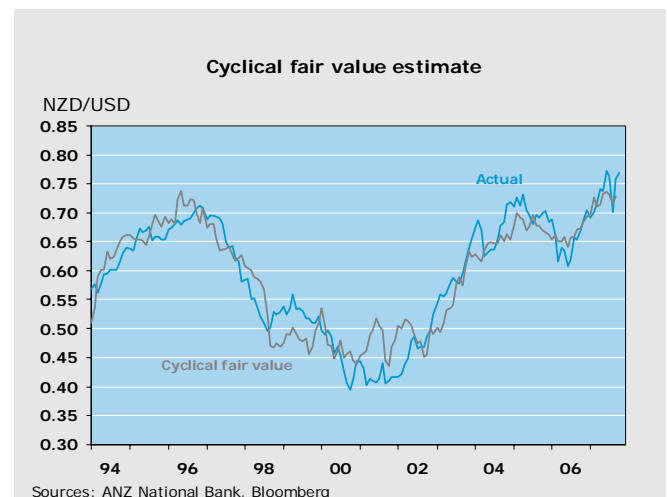
Cyclical Model

While the structural model provides a 'fundamental' anchor for where the NZD should ultimately revert

towards, over the shorter-term other factors drive the currency. Our cyclical fair value model attempts to capture short-term movements by incorporating real commodity prices, the NZ-US interest rate differential, risk aversion and economic volatility – all those typical day-to-day barometers that are tracked.

Our cyclical model suggests fair value currently sits at around 72 cents. A wide yield differential and high commodity prices are offering support. It should be noted that parameter estimates tend to be unstable depending on the time period such equations are estimated over. Hence, such models really only offer a guide as to where the currency should be, based on what is important at the time. Cyclical influences tend to wax and wane as the market reassesses what is important.

Incorporating the USD into our cyclical model (using the USD index) suggests that fair value is higher at 74 cents. This is the effect of the USD weakness theme that is permeating through currency markets at present. To get the NZD fair value up to 80 cents based on our model would require another 10 to 15 percent decline in the USD index, all else being equal.



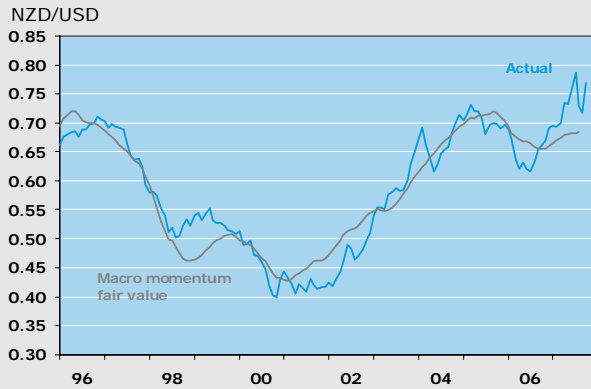
Macro Momentum Model

Economic momentum also plays a key part in short-term currency direction. We attempt to capture this through our macro momentum gauge, which uses key partial NZ economic data which tends to be market sensitive.

Our macro momentum gauge suggests that the level of the NZD should be around 68 cents against the USD. Weakening data on the domestic economy is pointing towards a lower level of the NZD.

We are biased towards macro-momentum based gauges over a 3 to 6 month horizon. They are a half-way house between cyclical and structural approaches.

Macro momentum fair value estimate



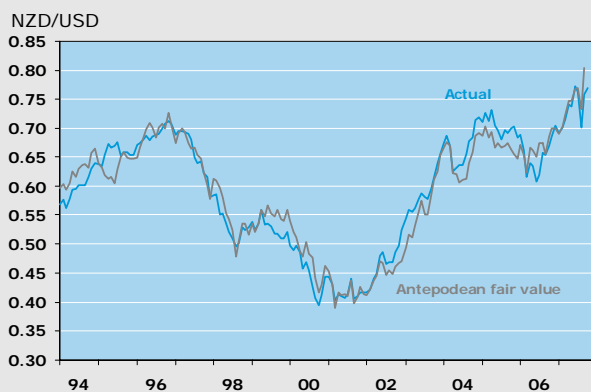
Sources: ANZ National Bank, Statistics NZ, Bloomberg

Antipodean Model

We know the NZD is strongly influenced by the trajectory of the AUD over the near-term – the “ride in kanga’s pouch” effect. This effect occurs because both the NZD and AUD tend to be viewed as a single block commodity currency, hence the high correlation between the two.

Modelling the NZD/USD as a function of the AUD/USD and the NZ-AU interest rate differential shows that fair value could be as high as 80 cents. This is another model we consider highly cyclical in nature and one that does not really provide a ‘pure’ fair value estimate. Its main value resides in providing an alternative short-term range as to where the NZD could head given movements in the AUD.

Antipodean fair value estimate



Sources: ANZ National Bank, Bloomberg

The upshot

Over the long-run, we expect the NZD to revert back to its structural long-term fair value of around 65 cents. If commodity prices continue to rise (relative to import prices), our fair value estimate will be higher, provided productivity growth does not deteriorate further. The latter factor is often overlooked by participants. A deterioration in productivity growth relative to our trading partners has been a key factor capping the upside movement in fair value.

We do not buy into the argument that fair value is now north of 70 cents. Such estimates are based on cyclical as opposed to structural model inputs. Some of the inputs into the cyclical models are just as volatile and difficult to predict as the currency itself (e.g. commodity prices). However, the NZD looks a tad extended even allowing for strong cyclical forces such as commodity prices and yield.

Model	NZD/USD fair value estimate
Structural	0.65
Cyclical	0.72
Cyclical incorporating USD	0.74
Macro momentum	0.68
Antipodean	0.80

Macro-momentum suggests pushes lower. However, a strong AUD portends of upside prodding. Collectively, our models suggest a trading range of around 68 to 80 cents over the near-term.

Over the longer-term we continue to expect the rubber band to become taut and drag the kiwi lower (just as it was dragged higher over 2002 to 2004). For those that question whether fair value for the NZD/USD does indeed have a six in front of it, cast your mind back to 2001. The consensus said that fair value had dropped below 50 cents, and the kiwi was never expected to reach 55 cents again. Hmm. Fair value estimates tend to miraculously “move” with the actual level of the currency as everyone gets caught tracking cyclical as opposed to structural forces. Eventually, it is the latter that dominates.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
15 Oct	NZ	Consumers Price Index (3Q) – qoq	0.8%	1.0%	10:45
		Consumers Price Index (3Q) – yoy	2.1%	2.0%	10:45
		Business NZ Performance of Services Index	-	-	12:00
	UK	Rightmove House Prices (Oct) – yoy	-	9.6%	12:01
		DCLG House Prices (Aug) – yoy	11.4%	12.4%	21:30
	JN	Industrial Production (Aug F) – mom	3.4%	3.4%	17:30
		Capacity Utilisation (Aug F)	-	104.4	17:30
16 Oct	US	Empire Manufacturing (Oct)	13.1	14.7	01:30
		Fed's Bernanke Speaks to Economic Club of New York Dinner	-	-	12:00
	NZ	Non-Resident Bond Holdings (Sep)	-	73.0%	15:00
	GE	Consumer Price Index (Sep F) – yoy	0.2%	2.5%	19:00
		ZEW Survey (Economic Sentiment) (Oct)	-22.3	-18.1	22:00
		ZEW Survey (Current Situation) (Oct)	70.0	74.4	22:00
	UK	CPI (Sep) – mom	0.3%	0.4%	21:30
		CPI – Core (Sep) – yoy	1.8%	1.8%	21:30
		Retail Price Index (Sep) – mom	0.4%	0.6%	21:30
		RPI Ex Mortgage Interest Payments (Sep) – yoy	2.8%	2.7%	21:30
	EU	Euro-Zone CPI (Sep) – mom	0.4%	0.1%	22:00
		Euro-Zone CPI – Core (Sep) – yoy	1.9%	1.9%	22:00
17 Oct	US	Net Long-Term TIC Flows (Aug)	\$60.0B	\$19.2B	02:00
		Total Net TIC Flows (Aug)	\$70.0B	\$103.8B	02:00
		Industrial Production (Sep)	0.1%	0.2%	02:15
		Capacity Utilisation (Sep)	82.1%	82.2%	02:15
		NAHB Housing Market Index (Oct)	19	20	06:00
	JN	Tertiary Industry Index (Aug) – mom	1.0%	-0.5%	12:50
		Coincident Index (Aug F)	85.0%	83.3%	18:00
		Leading Economic Index (Aug F)	27.3%	30.0%	18:00
		Machine Tool Orders (Sep F) – yoy	-	15.9%	19:00
	AU	Westpac Leading Index (Aug F) – mom	-	0.2%	13:30
	EU	ECB Council Member Liikanen Speaks in Helsinki	-	-	20:00
	UK	BoE Minutes	-	-	21:30
		Claimant Count Rate (Sep)	2.6%	2.6%	21:30
		Jobless Claims Change (Sep)	-4.0k	-4.2k	21:30
		Avg Earnings inc Bonus (Aug) – 3m/yoy	3.6%	3.5%	21:30
		ILO Unemployment Rate (Aug) – 3mths	5.4%	5.4%	21:30
		Manufacturing Unit Wage Cost (Aug) – 3m/yoy	-	0.8%	21:30
18 Oct	US	Consumer Price Index (Sep) – mom	0.2%	-0.1%	01:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
18 Oct cont.	US	CPI Ex Food & Energy (Sep) – mom	0.2%	0.2%	01:30
	US	Housing Starts (Sep)	1,283k	1,331k	01:30
		Building Permits (Sep)	1,290k	1,322k	01:30
		Fed's Beige Book	-	-	07:00
		Fed's Dudley Speaks on Central Banking at Philadelphia Fed	-	-	10:30
	AU	RBA Monthly Bulletin	-	-	14:30
		RBA Foreign Exchange Transactions (Sep)	-	A\$269m	14:30
		Preliminary BoP Imports (Sep) – mom	-	7.0%	14:30
	UK	Retail Sales (Sep) – mom	0.1%	0.6%	21:30
		Public Finances (PSNCR) (Sep)	12.5B	5.0B	21:30
		Public Sector Net Borrowing (Sep)	6.1B	9.1B	21:30
		M4 Money Supply (Sep P) – mom	0.9%	1.2%	21:30
		M4 Sterling Lending (Sep P)	18.0B	25.7B	21:30
		BSA Mortgage Approvals (Sep)	-	£3,926m	21:30
	EU	Euro-Zone Trade Balance (Aug) – s.a.	0.2B	-0.6B	22:00
		Construction Output (Aug) – mom	-	0.0%	22:00
19 Oct	US	Initial Jobless Claims (Oct 14)	313k	308k	01:30
		Continuing Claims (Oct 7)	2530k	2521k	01:30
		Leading Indicators (Sep)	0.3%	-0.6%	03:00
		Fed's Plosser Speaks at St. Louis Fed Economic Conference	-	-	05:00
		Philadelphia Fed	7.0	10.9	05:00
		Fed's Bernanke Speaks at Trichet Event	-	-	10:30
	EU	ECB's Trichet Speaking in Washington	-	-	10:00
	NZ	Visitor Arrivals (Sep) – mom	-	3.8%	10:45
		External Migration (Sep) – 12 mth total	-	8,730	10:45
		Credit Card Spending (Sep) – yoy	-	8.4%	15:00
	JN	All Industry Activity Index (Aug)	1.1%	-0.4%	12:50
	AU	New Motor Vehicle Sales (Sep) – mom	-1.0%	14:30	14:30
		Import Price Index (3Q) – qoq	-1.0%	0.1%	14:30
		Export Price Index (3Q) – qoq	-0.5%	0.3%	14:30
	GE	Producer Prices (Sep) – mom	0.4%	0.1%	19:00
	UK	GDP (3Q A) – qoq	0.7%	0.8%	21:30
		GDP (3Q A) – yoy	3.1%	3.1%	21:30
		UK Index of Services (Aug) – 3mth/3mth	0.9%	1.0%	21:30
20 Oct	US	Fed's Bernanke, Poole Speak at St. Louis Fed Economic Conference	-	-	03:00

Key: AU: Australia, EU: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The economic slowdown that is currently developing looks to be relatively narrowly based. For the Reserve Bank to be more comfortable, they will want to see housing market weakness diffuse into other parts of the economy and, in particular, into easing inflationary pressures. The September quarter CPI release this morning will be closely watched, especially the non-tradable inflation print, for any signs that domestic inflationary pressures are beginning to ease or whether they remain uncomfortably elevated.

Date	Data/Event	Economic Signal	Comment
Mon 15 Oct (10.45)	Consumers Price Index (Sep qtr)	Non-tradable still high	We expect the headline CPI to increase by 0.8 percent in the quarter keeping the annual inflation rate at 2.1 percent. The worry for the RBNZ is that non-tradable inflation remains elevated at above 1.0 percent in the quarter. The risk profile surrounding non-tradable inflation appears skewed to the upside.
Fri 19 Oct (10.45)	External Migration (Sep)	Easing	Migration has trended lower over recent months. However, we expect some consolidation around current levels.
Fri 19 Oct (15.00)	Credit Card Spending (Sep)	Rebound	After two consecutive monthly falls, we expect a small rebound in credit card spending in September.
Thu 25 Oct (09.00)	RBNZ <i>OCR Review</i>	On hold	The June quarter GDP figures are likely to skew the tenor towards a more hawkish line.
Mon 29 Oct (10.45)	Overseas Merchandise Trade (Sep)	Imbalanced	Another large monthly trade balance is expected. Export volumes continue to be subdued by a high currency, while higher global oil prices will add to the import bill, though this will be offset somewhat by oil exports from Tui.
Tue 30 Oct (10.45)	Building Consents (Sep)	Slowing	Monthly consent issuance remains volatile. However, we expect the recent easing trend in net migration to begin to filter into lower consent issuance numbers.
Tue 30 Oct (15.00)	Credit Growth (Sep)	Easing	Given weak housing data, we can expect this to manifest through household lending. We will be looking closely at business lending, which showed a massive surge in August.
Wed 31 Oct (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Mon 5 Nov (10.45)	QES and LCI Surveys (Sep qtr)	Solid	Firms continue to report difficulty in finding both skilled and unskilled labour. This will ensure that wage inflation remains elevated for some time.
Tue 6 Nov (15.00)	ANZ Commodity Price Index (October)	-	-
Thu 8 Nov (10.45)	Household Labour Force Survey (Sep qtr)	Still tight	Given the solid growth over the first part of the year, along with still elevated employment intentions, we expect modest employment growth in the quarter and the unemployment rate to remain near record low levels.
On Balance		Slowing	All about inflation from here.

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SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	-0.1	0.3	0.3	0.4	0.4	0.6
GDP (% yoy)	1.0	2.1	2.5	3.2	2.7	2.2	1.2	0.9	1.4	1.7
CPI (% qoq)	0.7	-0.2	0.5	1.0	0.8	0.7	0.5	0.8	0.8	0.8
CPI (% yoy)	3.5	2.6	2.5	2.0	2.1	3.0	3.0	2.7	2.7	2.8
Employment (% qoq)	-0.4	0.1	1.2	0.7	0.1	0.1	0.2	0.2	0.2	0.2
Employment (% yoy)	1.5	1.4	1.7	1.5	2.0	2.0	1.0	0.6	0.6	0.7
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.7	3.8	3.9	4.0	4.1	4.2
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	-7.9	-7.5	-7.0	-6.5	-6.7	-6.8
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	5.5	2.0	0.8	0.1	0.0	-0.4
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	10.5	10.0	9.2	8.6	3.0	0.5

Figures in bold are forecasts. qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY ECONOMIC INDICATORS

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Retail Sales (% mom)	0.8	0.4	2.3	0.9	-1.3	1.0	-0.4	0.1	0.2	..
Retail Sales (% yoy)	3.6	6.9	6.4	7.4	7.4	6.7	4.8	5.7	6.3	..
Credit Card Billings (% mom)	2.8	-1.1	1.5	1.0	-0.8	0.5	2.1	-0.1	-0.3	..
Credit Card Billings (% yoy)	10.0	6.8	8.2	7.4	7.8	5.7	9.3	7.9	8.4	..
Car Registrations (% mom)	-3.7	13.3	-9.5	0.6	-1.3	6.0	-4.6	7.2	1.3	-7.2
Car Registrations (% yoy)	-17.8	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1
Building Consents (% mom)	-4.2	4.9	6.6	-1.5	1.2	4.7	13.7	-15.5	5.8	..
Building Consents (% yoy)	-20.7	-5.5	-8.5	2.8	9.9	2.2	33.2	-4.1	-0.5	..
REINZ House Price (% yoy)	11.9	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9	12.3
Household Lending Growth (% mom)	1.0	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.9	..
Household Lending Growth (% yoy)	12.9	13.0	13.1	13.3	13.6	13.6	13.6	13.6	13.5	..
Roy Morgan Consumer Confidence	128.0	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3
NBNZ Business Confidence	-7.7	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5
NBNZ Own Activity Outlook	24.0	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2
Trade Balance (\$m)	-346	-825	-127	60	-215	8	-518	-813	-945	..
Trade Balance (\$m annual)	-6082	-6013	-5767	-5776	-6024	-5900	-6226	-6345	-6339	..
ANZ World Commodity Price Index (% mom)	3.8	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4
ANZ World Commodity Price Index (% yoy)	9.4	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7
Net Migration (sa)	1020	400	530	620	220	400	590	470	750	..
Net Migration (annual)	14609	14116	13151	12081	11222	10682	10078	8966	8730	..

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul 07	Aug 07	15 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.786	0.729	0.776	0.740	0.720	0.710	0.700	0.680	0.660	0.630
NZD/AUD	0.907	0.877	0.858	0.841	0.800	0.772	0.761	0.756	0.759	0.759
NZD/EUR	0.573	0.535	0.548	0.517	0.500	0.504	0.507	0.500	0.493	0.485
NZD/JPY	95.6	85.3	91.2	85.8	82.8	80.2	78.4	74.8	72.6	70.6
NZD/GBP	0.386	0.362	0.381	0.366	0.358	0.355	0.355	0.347	0.340	0.328
NZ\$ TWI	75.4	70.2	72.9	69.5	67.2	66.2	65.6	64.0	62.8	61.2
NZ interest rates	Jul 07	Aug 07	15 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.18	8.35	8.25	8.25	8.25	8.25	8.00	7.50	7.00	6.75
90 day bill	8.44	8.72	8.67	8.70	8.70	8.60	8.00	7.50	7.00	7.00
10 year bond	6.79	6.40	6.50	6.50	6.60	6.60	6.70	6.70	6.70	6.70
International	Jul 07	Aug 07	15 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	5.25	5.25	4.75	4.50	4.50	4.50	4.50	4.50	5.50	5.75
US 3-mth	5.36	5.62	5.22	4.80	4.70	4.65	4.65	4.65	5.75	6.10
AU cash	6.25	6.50	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.62	6.89	6.86	6.80	6.90	6.90	6.90	6.90	6.90	6.90

KEY RATES

	12 Sep	8 Oct	9 Oct	10 Oct	11 Oct	12 Oct
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.75	8.58	8.58	8.60	8.60	8.58
90 day bank bill	8.85	8.74	8.74	8.73	8.70	8.67
NZGB 07/09	6.80	7.01	7.00	7.00	7.00	7.05
NZGB 11/11	6.40	6.74	6.76	6.78	6.82	6.89
NZGB 04/13	6.32	6.65	6.70	6.72	6.77	6.82
NZGB 12/17	6.03	6.31	6.37	6.39	6.41	6.46
1 year swap	8.58	8.73	8.74	8.73	8.72	8.74
2 year swap	8.17	8.49	8.49	8.48	8.50	8.54
5 year swap	7.69	7.99	8.02	8.01	8.04	8.09
RBNZ TWI	67.4	71.9	71.8	71.7	71.8	72.3
NZD/USD	0.7060	0.7658	0.7615	0.7623	0.7643	0.7705
NZD/AUD	0.8456	0.8490	0.8533	0.8491	0.8505	0.8555
NZD/JPY	80.70	89.71	89.29	89.34	89.59	90.39
NZD/GBP	0.3476	0.3750	0.3745	0.3739	0.3747	0.3791
NZD/EUR	0.5100	0.5418	0.5432	0.5406	0.5400	0.5429
AUD/USD	0.8349	0.9020	0.8924	0.8978	0.8987	0.9006
EUR/USD	1.3843	1.4135	1.4019	1.4102	1.4154	1.4192
USD/JPY	114.30	117.15	117.25	117.20	117.22	117.31
GBP/USD	2.0312	2.0421	2.0333	2.0389	2.0397	2.0324
Oil	78.16	81.20	78.97	80.23	81.30	83.05
Gold	712.70	741.00	730.65	739.45	743.40	748.05
Electricity Price Index	6.11	3.84	3.89	3.84	3.77	3.80

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