

NEW ZEALAND ECONOMICS MARKET FOCUS

25 July 2011

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A JOB TO DO

ECONOMIC OVERVIEW

A 2.5 percent OCR is on borrowed time given strengthening growth and rising inflation nuances, despite obvious fragilities overseas and a turbo-charged NZD. We expect the tenor of NZ data to retain a robust tone this week, and look toward a continuation for months to come given support from various areas. A key implication here is that we struggle to see a local specific catalyst to turn the NZD. Ultimately, undermined export performance will do the job, and commodity prices have turned lower, but this will take some time to be apparent in the local activity data.

JULY OCR PREVIEW

We expect the RBNZ to leave the OCR unchanged at 2.5 percent this Thursday, but to make it clear that the OCR at this level is on borrowed time. Global uncertainty and a high flying NZ dollar are working in the other direction, but we think a strong Q2 labour market print and elevated Q3 inflation expectations will seal a deal on September. We not calling a massive tightening in policy from here, merely that there needs to be some tweaking.

A CLOSER LOOK AT INDIA

Amongst the hurly-burly of global uncertainty, we examine the upside a free trade agreement between New Zealand and India will bring. Our simple estimates suggest a bilateral FTA to could provide a one-off boost to NZ exports of around \$2.3bn (1.2 percent of GDP), with agriculture one of the major beneficiaries. Given its demographic advantages India looks set to become a bigger player on the world stage, but its low income levels suggest it will be some time before India becomes as influential as China.

INTEREST RATE STRATEGY

This week's OCR Review is clearly the main local event for the interest rate market. Expect nervousness ahead of the event to continue to weigh on the market, and to intensify if mortgage related paying picks up. But with the NZD at these levels, and still the darling of the global markets, some caution is required. Indeed, we must be careful not to confuse the need for timely removal of monetary stimulus with an extended tightening cycle. Looking offshore, markets remain dominated by two familiar themes – the US debt ceiling and Greek bailout.

CURRENCY STRATEGY

A frosty start to the week as relations between US political parties may cause more volatility than many would like. On the local front there is enough to keep many busy with Thursday's OCR Review being the highlight. The Governor will likely make mention about the NZD's lofty level, but any effect it may have will be short-lived. If the OCR is heading higher over the coming months, then it is reasonable to assume that the NZD will be heading the same way as well. Across the Tasman the Q2 PPI and CPI releases should ensure that gains in the NZDAUD cross are limited.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

SNZ Overseas Merchandise Trade – June

(Tuesday, July 26, 10:45am). A monthly trade surplus of \$480m is expected, with the annual trade surplus set to widen to \$1.3bn.

National Bank Business Outlook - July

(Wednesday, July 27, 1:00pm).

RBNZ July OCR Review – July (Thursday, July 28, 9:00am). We expect the OCR to be held at 2.5 percent. See our preview on page 5.

SNZ Building Consents – June (Friday, July 29, 10:45am). We expect a 4 percent increase in residential consent issuance. Non-residential consent values of around \$300m are expected.

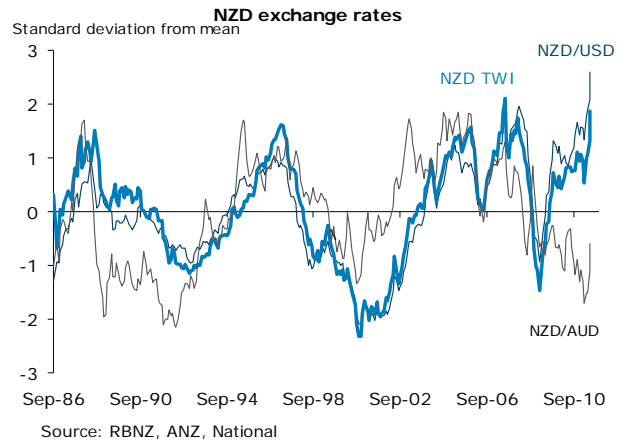
RBNZ Credit Aggregates – June (Friday, July 29, 3:00pm). Low annual rates of business and household credit growth are expected, with agricultural credit easing as farmers start to repay debt.

WHAT'S THE VIEW?

It's become pretty clear an OCR of 2.5 percent is on borrowed time. The local activity data has been on an improving trajectory. This has followed the upbeat messages we had been hearing from our internal anecdotes and from confidence gauges. Core inflation sits above 2 percent. The March 50 basis point insurance cut looks like it should be removed. Of course such decisions are never easy when you are faced with the realities of a fickle global environment, and a turbo-charged NZ dollar.

Obviously the NZD is a key focal point (or should we say a key sensitivity) so we'll offer some comments. **Up till 3 weeks ago, the NZ dollar was entirely globally driven. The past few weeks has seen a local element emerge as the economy has been repriced** (i.e. upgraded growth wise) and this has occurred against a backdrop of downgrades

elsewhere. Since then, the NZD has gained between 3 to 7 percent against all of the NZD TWI bilaterals.



Ultimately, a higher NZ dollar will throttle the recovery and rebalancing process and we are in no doubt that eventually the fundamentals will win out. As a rough rule of thumb each 1 percent rise in the TWI lowers export volumes by 0.3 percent after 18 months (about 0.1 percent off GDP). The impact on export incomes will be larger still and will occur more quickly, with a substantial economy-wide impact once the flow-on effects are taken into account. Remember, the past two months has seen soft commodity prices start to retreat as well. The massive clean out for cotton implies prices for substitutes (including wool) could correct lower as quickly as they have moved up (USD wool prices have risen 16 percent in 2 months). With the TWI up nearly 6 percent in 4 weeks, we are talking a sizeable hit to growth.

However, we struggle to present a tangible local catalyst for a correction (beyond a technical pullback) over the coming months.

We can see an array of global ones, but nothing concrete of a local persuasion.

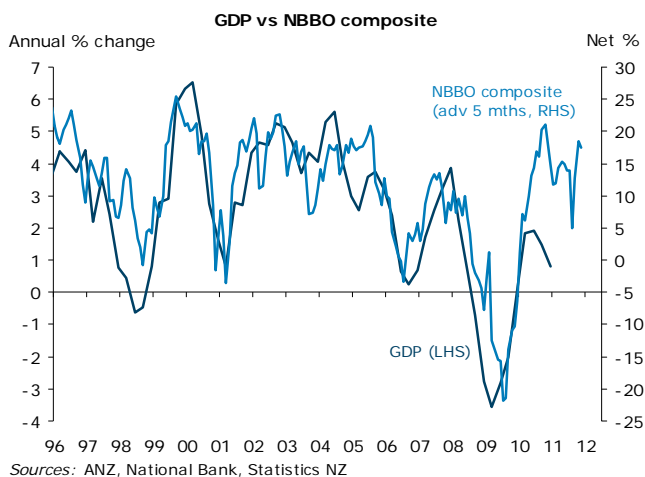
- While commodity prices have turned lower, the level remains incredibly supportive.
- There are obvious lags between the currency and growth. These differ by export type, but generally range from 9 to 18 months.
- The NZ data is expected to remain robust over the coming months with non-financial metrics at play. Lacking signs of stress in the data, "trends" tend to remain "friends". Regular readers will be aware that we often refer to our financial conditions measure as a key lead indicator. It's flagging 4 percent growth. Recently, conditions have tightened via the TWI knocking 0.5 percent off prospects. However, we need to remember

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that over the coming months NZ stands to benefit from growth impetus from earthquake related construction and the Rugby World Cup. These are not related to financial conditions, hence we suspect our gauge may be undercooking prospects in H2 2011.

All this makes the RBNZ's job particularly prickly. It was only in April that they referred to the elevated currency as being unwelcome. It's now 8.6 percent higher! **Yet sometimes when you have a job to do, you just need to get it done.** Taking the OCR back to where it was before the March insurance cut is taking it from incredibly low to very low levels. Arguably, holding out the allure of higher interest rates via the inevitable tightening bias could do more currency collateral damage (by keeping the uptrend more intact for longer) than getting the job done and then sitting back for a few months and going back into data-watch mode.

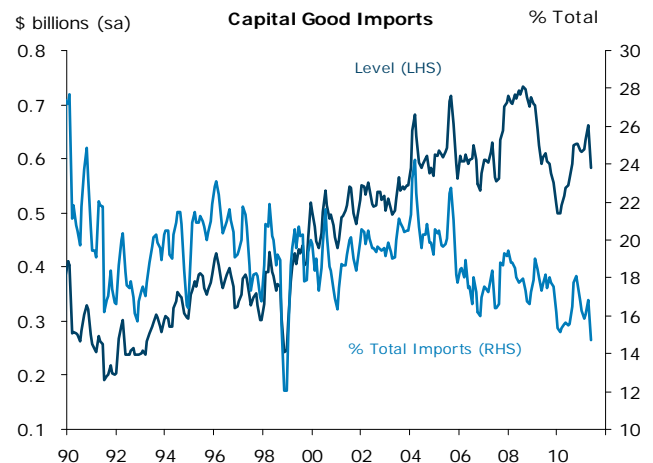
For some months we've been warning that the NZ interest rate curve has been under-pricing the risk of 2011 movements in rates but we remain more certain over where interest rates will eventually settle. An OCR around 4.5 percent seemed, and still appears the likely endgame. This remains the spirit of our view. The market is now front-running prospects for a rate hike (with a 25 basis point hike fully priced in by October, with a 60 percent chance of this occurring by September). **We think the RBNZ needs a reason not to hike in the coming months (i.e. September) and abstracting from global events, we can't see one.** This is not to be confused with us becoming growth bulls or inflation hawks. **Rather, a 2.5 percent OCR is simply too low, considering growth momentum, inflation and obvious risks.**



Turning to the week ahead, Wednesday's National Bank Business Outlook will provide an update on the

business mood. We can't comment of course but suffice to say that we think little has transpired over the month to alter the spirit of prior months reads. The million dollar question remains whether the aura of business "confidence" will transpire into reality. After Q1's strength in GDP, we struggle to see how this could be answered in the negative. While business confidence provided a false reading in mid 2010, it's been "on the money" in 2011.

Thursday sees the July OCR Review, which is the major domestic focus this week. **While we expect the RBNZ will hold the OCR unchanged at 2.5 percent, we expect the RBNZ will make it clear that an OCR at this level is on borrowed time.** With the emergency having passed and the economy on a sounder footing, there are grounds to start removing the insurance cuts on Thursday. Signs of strengthening in the labour market and the likelihood of inflation expectations being more persistently high than assumed (or hoped) also bolster the rate hike view. The odds of a rate rise before December are clearly increasing. **It may sound like blasphemy but we wouldn't rule out a rate hike on Thursday, though external developments are nonetheless encouraging a patient approach.**

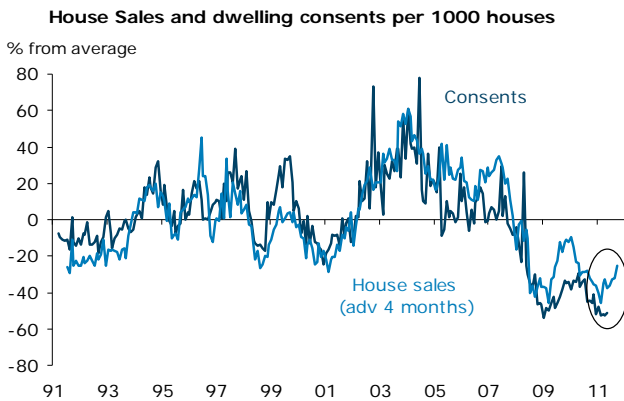


The June Merchandise Trade data is expected to confirm another fairly sizeable monthly trade surplus. Ex-oil imports are starting to trend higher, which is suggestive of an improving domestic demand environment. Capital imports dipped last month but we suspect the elevated NZD/USD and robust readings for business sentiment should deliver a stronger reading for June.

We expect further signs of recovery to be evident in the June consent figures. Such a rebound will be off lows which we are mindful of, but despite this it will no doubt give people more reason

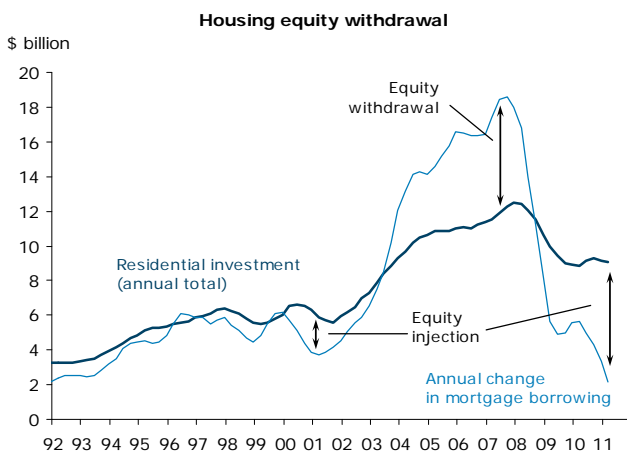
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to cheer prospects for the economy. **Given how low issuance is in relation to the size of the housing stock and the pick-up in housing turnover seen earlier in the year, there is clearly scope (and sufficient capacity) for a ramping up of residential activity.**



Sources: ANZ, National Bank, REINZ, Statistics NZ

RBNZ credit aggregates are expected to confirm the deleveraging dynamic going forward. The key driver of domestic spending looks set to remain the labour market. Our estimates of housing equity withdrawal suggest that in the March 2011 year approximately \$7b in equity was injected back into the housing stock. Not the ATM it was during the bubble years and part of the reason we got into this pickle in the first place. While small increases are expected for household and business credit, a further small decline is expected for agricultural credit as farmers use the high payout cheques to pay down debt.



Sources: ANZ, National Bank, Statistics NZ, RBNZ

RECENT LOCAL DATA

Consumers Price Index – 2011Q2. The CPI rose 1.0 percent, taking the annual rate of CPI inflation to 5.3 percent.

GlobalDairyTrade auction. USD dairy prices fell 5.1 percent to an average of \$3,796/tonne. Whole milk powder prices fell 4 percent.

SNZ Overseas Migration – June. There was a net permanent and long-term net migration outflow of 340 persons, with annual net immigration slowing to 3,867 persons. Overseas visitor arrivals fell 5.1 percent s.a. and were 9 percent lower than 12 months earlier.

RBNZ Credit Card Billings – June. Total billings in New Zealand rose a seasonally adjusted 0.4 percent (4.5 percent y/y). Spending on domestic cards rose 0.5 percent, while a 0.4 percent fall was reported for spending on overseas cards.

JULY OCR PREVIEW

SUMMARY

We expect the RBNZ to leave the OCR unchanged at 2.5 percent this Thursday, but to make it clear that the OCR at this level is on borrowed time. Global uncertainty and a high flying NZ dollar are working in the other direction, but we think a strong Q2 labour market print and elevated Q3 inflation expectations will seal a deal on September. We not calling a massive tightening in policy from here, merely that there needs to be some tweaking.

INSURANCE NO LONGER NEEDED

When the RBNZ reduced the OCR by 50bps to 2.5 percent at the March MPS, they made it clear that “lowering the OCR should be regarded as an insurance measure, designed to help offset the negative economic effects of the earthquake” and that “monetary policy is acting preemptively to mitigate the broader economic impact of the earthquake.” But the RBNZ also made it clear then that thanks to the large proportion of borrowers on floating rates, “the Bank can ease policy knowing that the resultant reduction in effective interest rates can be reversed quite quickly once the economy begins to recover”.

Recent data has made clear that not only did the economy suffer only superficial impacts from the earthquake¹ at a nationwide level, but that there is less spare capacity in the economy than what the RBNZ had assumed. This is not to say that the 50bp cut in March was a mistake. We believe that the aggressive response by policymakers to the earthquake was instrumental in ensuring that confidence was able to rebound quickly and the recovery in the rest of the country could continue uninterrupted. In that regard, the March insurance rate cut can be seen as a success.

With the economic recovery gaining momentum and inflation surprising on the upside in Q2, it is clear that the insurance is no longer needed.

Indeed, based purely on the domestic picture alone, we would argue that the 50bp rate cut should be removed soon. After all, the economy was starting to pick up (albeit off a low base) at the end of last year, and managed to post an above trend growth rate of 0.8 percent in Q1 this year despite the earthquake. In addition:

- **Spare resources in the economy are starting to be utilised.** Some of the indicators of resource pressures from the NZIER’s QSBO

indicate that they are close to or at their historical averages.

- **The labour market is improving.** The number of people on the unemployment benefit continues to fall, the ANZ Job Ads series has risen for five consecutive months, and firms report that it is getting more difficult to find both skilled and unskilled labour.
- **Underlying inflation is already near the top of the target band.** The headline inflation rate of 5.3 percent is boosted by various one-offs such as the GST increase and various tax rises. Stripping them all out still leave underlying inflation at 2.8 percent.

Of course, the global situation warrants a still patient approach. Growth in emerging Asia remains robust. But the European debt crisis is still playing out, and the focus has now turned to the US fiscal situation. The non-mining sectors of the Australian economy are softening under the weight of tighter financial conditions.

Then there is the NZ dollar to contend with. Further gains in the currency are likely if divergences in economic prospects between NZ and other economies become more apparent. There is a danger that financial markets front-run the NZ expansion story too early, thereby choking it off by tightening financial conditions prematurely.

But in the end, we are not advocating a move to tight policy, merely a removal of the insurance cuts. A 2.5 percent OCR is simply inconsistent with an economy in expansion mode with underlying inflation at 2.3 percent (RBNZ’s estimates), and inflation expectations running at 3 percent.

While we do not expect the Governor to hike rates this Thursday (though we wouldn’t rule it out!), we do expect the tone of the press release to be firm, making clear we’ve moved beyond the need for such insurance and putting everything on the table. A strong Q2 labour market print and Q3 inflation expectations still remaining elevated will seal a deal on a September hike, subject to global developments. In regard to the latter, the nuances the Governor receives at the annual Jackson Hole meeting of Central Bankers in August will be key.

FINANCIAL MARKET IMPLICATIONS

Market pricing has more than fully priced in a 25bp hike by December. We still think markets are under pricing the possibility of an earlier move than that.

¹ This is not to downplay the significant effects the earthquake had on the people of Christchurch.

A CLOSER LOOK AT INDIA

SUMMARY

Amongst the hurly-burly of global uncertainty, we examine the upside a free trade agreement between New Zealand and India will bring. Our simple estimates suggest a bilateral FTA could provide a one-off boost to NZ exports of around \$2.3bn (1.2 percent of GDP), with agriculture one of the major beneficiaries. Given its demographic advantages India looks set to become a bigger player on the world stage, but its low income levels suggest it will be some time before India becomes as influential as China.

BACKGROUND

In April we detailed the progress NZ was making in regard to bilateral trade agreements, as distinct from multilateral progress, which is being stymied by the obvious political dynamics. The former represented a huge source of upside for the NZ Economy. **While there is much panned about the key challenges the NZ economy faces (rebalancing, deleveraging, seismic events) we see another shock emerging at the same time, namely a huge income shock**, built around a) the emergence of Asia as a powerhouse, b) the consequential rise in commodity prices and c) rising connectivity between NZ and the Asian region with trade agreements a key platform.

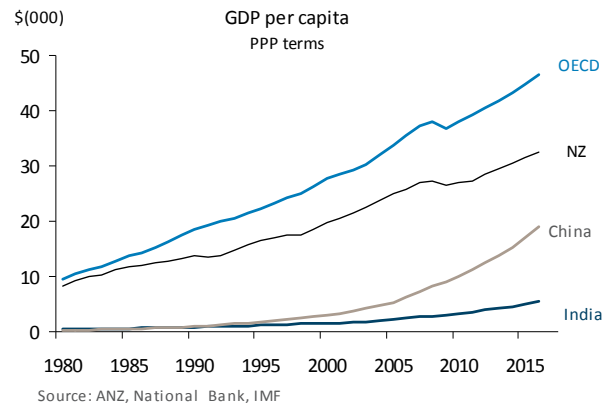
This note looks at some key metrics in regard to India, and attempts to map out some potential connections.

SOME KEY METRICS ON INDIA

India is a sleeping Giant. With nearly 1.2 billion people it is the second most populous country, the fourth largest global economy in terms of purchasing power parity (5.6 percent of world GDP), and the 10th largest in terms of nominal GDP (2.5 percent of nominal USD GDP). The structure of the Indian economy is predominantly services based, with agriculture, mining and manufacturing accounting for barely one quarter of GDP.

Some key metrics	New Zealand	India
Surface area (million km ²)	0.27	3.29
Population (million, 2010 estimates)	4.25	1,173
Income inequality (UN Gini coefficient)	36.2	37
Human Development Index (2010)	0.91 (3 rd)	0.52 (122 nd)
GDP (USD current prices, 2010)	184	1,651
GDP per-capita (PPP, 2010, International \$)	30,765	3,383
Export values (% GDP, 2010)	28	21
Import values (% GDP, 2010)	27	27
Merchandise Trade (\$b USD)	62	584

Sources: World Bank, UN, IMF, MFAT, ANZ, National Bank



Despite achieving average annual growth of around 6 percent since 1980, India is poor, with more than one third of the Indian population living below the poverty line (roughly US \$1 per day). Average USD per-capita incomes (US \$1,400 for 2011) are about 1/25th of New Zealand's. On a USD basis, per capita incomes in India were on par with China up until the early 1990s. A long period of outperformance has seen Chinese per-capita incomes now well above their Indian counterparts.

Measures of income inequality place India about middle of the pack - below China and the US, on par with NZ, but below Sweden². Of the 250 million Indian households, around 3 million have average household incomes of at least US \$38,000, with another 12 million households having annual household incomes above US \$12,500.

TRADE PATTERNS

Merchandise trade

Previously a closed economy, successive moves to liberalise trade and lower tariffs over the last 15 or so years (India has been a WTO member since 1995) have seen India rapidly expand, with **India now accounting for around 2 percent of global trade**. India's total merchandise trade (exports and imports) reached US \$583bn in 2010 (about 35 percent of GDP). By comparison, this trade portion was only 14 percent of GDP in 1975.

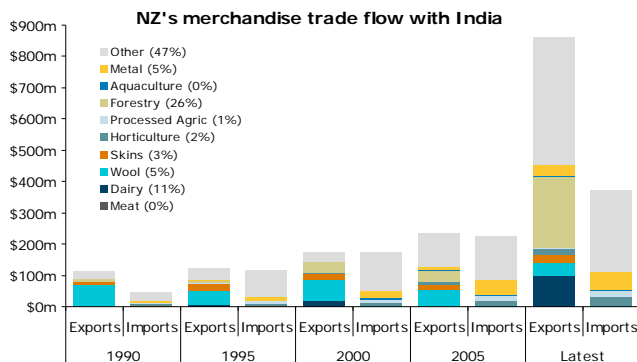
India's major merchandise exports are mineral fuels, jewelry, clothing and manufacturing. Its major export destinations are the EU and US (which account for

²There are various metrics for categorising economies by their stage of development, but each has its own pitfalls. According to the UN Human Development Index (HDI), which combines life expectancy, literacy, education and standards of living, India is of medium development (122nd), versus China (91st) and New Zealand (3rd).

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about 40 percent of total exports), although of late India has been sending an increasing portion of exports to oil rich or rapidly developing economies (such as the United Arab Emirates and China). **New Zealand's bilateral trade with India accounts for a small portion of Indian trade (about 0.2 percent of imports and 0.1 percent of exports).** Relative to the mid 1970s, the share of Indian exports to New Zealand has been declining, whereas the import share has been increasing.

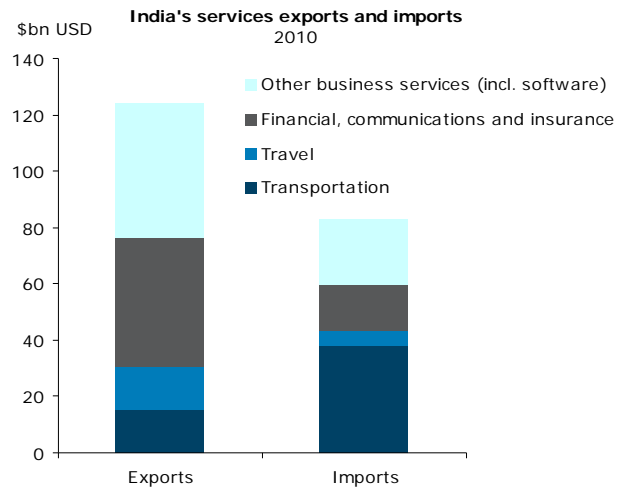
By virtue of its size, India is our 7th largest trading partner, accounting for \$864m of exports (1.9 percent of merchandise exports) with \$372m in imports (0.8 percent of merchandise imports) in the May 2011 year. With nearly 1.2bn mouths to feed, and New Zealand being a food exporter, the natural area to target will be food. However, agriculture constitutes less than one quarter of our exports to India. Coal exports (categorised as 'Other' in the chart) have led the increase in New Zealand trade with India in recent years, with forestry also a major growth sector; both now account for nearly three quarters of total merchandise exports. Dairy and wool are the two major agricultural exports, with the latter (an input into Indian carpets), declining in relative importance.



Sources: ANZ, National Bank, Statistics NZ

Services trade

India's trade in services is much smaller than goods (around one quarter of total trade) but is rapidly growing. By virtue of its low cost base India is a growing hub for software development and lower value added financial services. The Indian outbound travel market has expanded steadily in recent years, rising from 4 million persons at the start of the millennium to above 10 million in 2010. The Indian film industry is multi-lingual and is the world's largest in terms of ticket sales and number of films produced, though much smaller than the US in terms of revenue.



Sources: UN, ANZ, National Bank

There has been steady growth in New Zealand's services trade with India, most notably in tourism and education. India is one of New Zealand's fastest growing education markets, now our fourth largest (after China, South Korea, and Japan), with around 10,000 Indian students in New Zealand. India is our 10th largest market for overseas visitors, with around 29,300 visitors in the June 2011 year (around 1.2 percent of total overseas visitor arrivals). In 2000 this share was 0.4 percent.³

Trade liberalisation

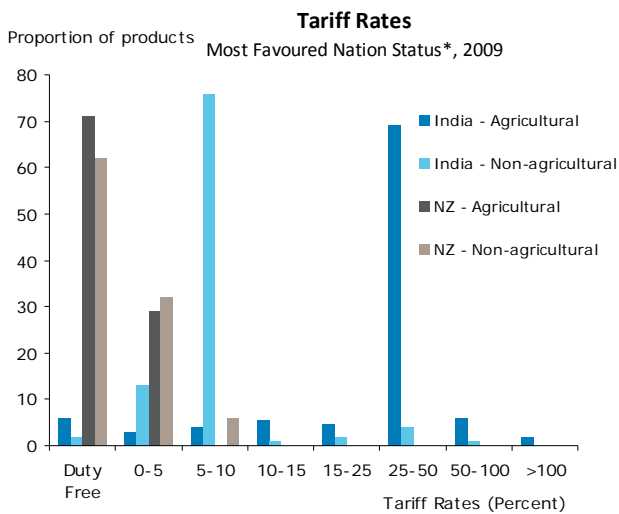
A past impediment to greater trade has been protectionism, with high tariff rates and a multitude of non-tariff barriers (including quarantine restrictions) limiting market access to India. Over the last 15 years, however, India's average applied tariff rate has reduced in line with its tariff policy and WTO commitments.

There have also been increased bilateral efforts to bolster the trade and economic relationship, with a number of treaties in force between New Zealand and India. In 2007 New Zealand and India agreed to undertake a joint study into the benefits of a free trade agreement, with the 2009 study⁴ finding considerable potential to substantially develop the trade and economic relationship. Formal negotiations towards an FTA commenced at the start of 2010, and with four rounds of negotiations completed the target date for completing negotiations is March 2012. While there remains a large amount still to be done, both countries remain committed to meet this target.

³ Average spend per Indian tourist (\$3,200 in 2008) were slightly above the nationwide average of \$3,000.

⁴ See www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/India/index.php

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India's average tariff rate is around 12 percent but tariffs differ markedly across sectors, with considerably higher tariffs on agricultural products. As an example, the average tariff rate on dairy products is around 34 percent, for animal products it is 33 percent and for fruit and vegetables 30 percent. Maximum tariff rates range from 60 to 150 percent for a range of foodstuffs. Free-trade negotiations with India are at an early stage, but there will be considerable emphasis by New Zealand negotiators on reducing tariff rates for trade in agricultural goods. By contrast, the maximum tariff rate on coal is only 5 percent.

Under the General Agreement on Trade in Services (GATS), there have been multilateral negotiations to lower barriers on services. Generally, tariffs on services are low in India. On the bilateral front it is worth noting:

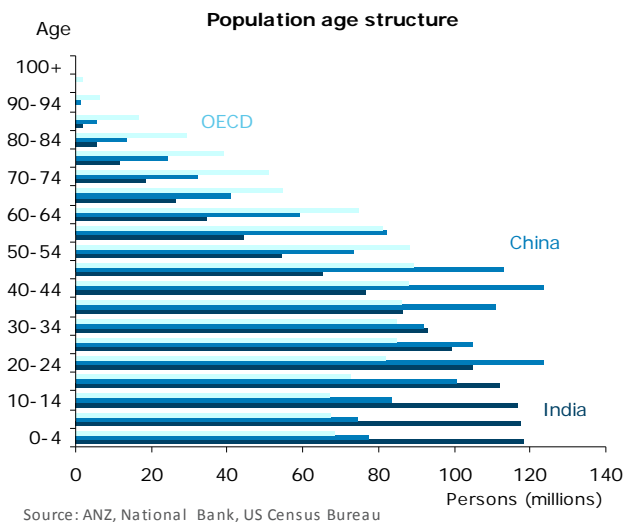
- A bilateral Film Co-Production Agreement has just been signed that will encourage more cooperation between the New Zealand and Indian film industries and, it is hoped, greater tourism flows from India.
- Despite a bilateral Air Services Agreement being in place, there is no direct air link between India and New Zealand. The majority of travellers transit through Singapore, Kuala Lumpur and Hong Kong.
- There is also considerable scope for growth in services exports that are complementary to our comparative advantage, including building, environmental services, and services incidental to agriculture and forestry.

WHERE IS INDIA HEADED?

India represents a huge potential market for NZ, and a successful and comprehensive FTA deal could see exports to that country boosted. There is a long way to go before India becomes as important a market to NZ as China, but the potential is certainly there considering demographic advantages.

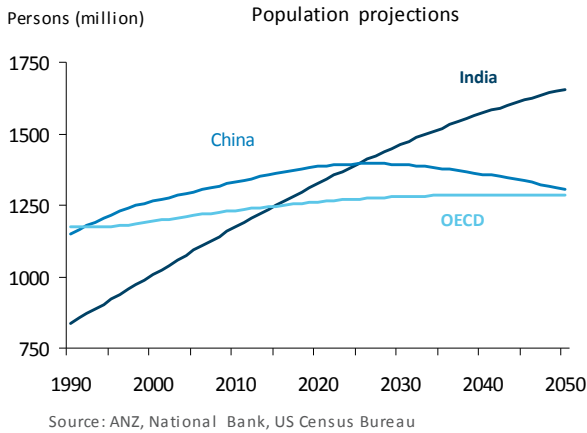
Demographics

India has a young and rapidly growing population. Population growth has slowing from the 2 percent plus annual rate in the 1970s and 1980s to around 1.4 percent now. This is still well ahead of growth rates for OECD economies and China. The Indian population age structure is also very young: in 2011 about 30 percent of the Indian population was aged under 15 and two thirds under 35. There is also a shift towards greater urbanisation, with nearly one third of the Indian population now living in cities. This proportion is expected to trend higher.



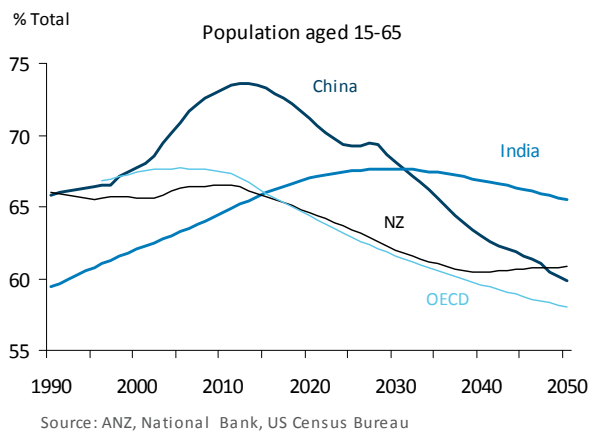
The Indian population is set to rise from around 1.12bn persons in 2011, to 1.46bn persons in 2030 and 1.66bn by 2050. By 2015 it will overtake the OECD (as currently defined) and by 2025 it will overtake China in terms of population. By 2050, the Indian population is projected to have 350 million more persons than either China, or the OECD.

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As well as having more people, the Indian population age structure is set to become more favourable from a labour supply and income generation point of view, with a rising proportion (until 2030 at least) in the key 15 to 65 age group.

Before we get too ahead of ourselves, we should note India's low starting point. It will not be until about 2028 that Indian per-capita incomes reach those of China at present. On a whole economy basis, Indian GDP will not surpass current Chinese GDP until 2024. Moreover, infrastructure demands are immense, and significant development would be needed to maintain high growth rates in GDP per-capita.



WHAT ARE THE PROSPECTS FOR OUR EXPORTS TO INDIA?

Trade liberalisation could yield significant benefits

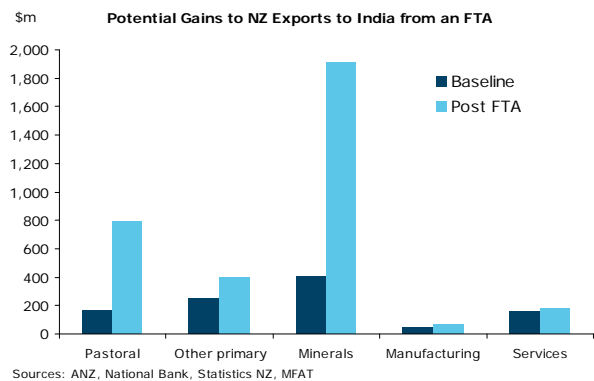
There is great potential for exports to diversify, particularly through the free trade agreement currently under negotiation which aims not only to eliminate tariffs but address a range of non-tariff barriers. Viewing the growth in New Zealand's merchandise

exports shows the strongest growth has come from economies with either few trade barriers (such as Australia) and/or those experiencing rapid growth (such as China). India could potentially have both.



What would the scale of the benefits be? This would crucially depend on the extent to which lower final prices for Indian consumers would boost the demand for New Zealand goods and Services. There would also be potential gains via the FTA in fostering greater trade facilitation between the two countries.

With higher tariff rates for agricultural goods there are sizeable one-offs gains from an FTA with India. Proportionate gains, while significant, are not as large for manufacturing, seafood and forestry exports given the lower tariff structure currently in place. Gains for our services exports are lower still (perhaps 15 percent). While tariffs on coal are low, there are assumed to be significant trade facilitation benefits from a FTA with India.



Applying MFAT estimates⁵ to the NZ export basket yields a **static one-off gain of around \$2.3bn from a FTA with India, around 1.2 percent of GDP and**

⁵ See www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/India/index.php

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more than three times the current estimated value of our exports to India.

Considering New Zealand's lower tariff structure, the static one-off gains for Indian merchandise exports would be quite limited from an FTA. MFAT estimates suggest this would translate into a 15 percent increase in merchandise imports from India (an additional \$50m or so). Greater trade facilitation and closer trade links could potentially provide a much larger boost to Indian services exports.

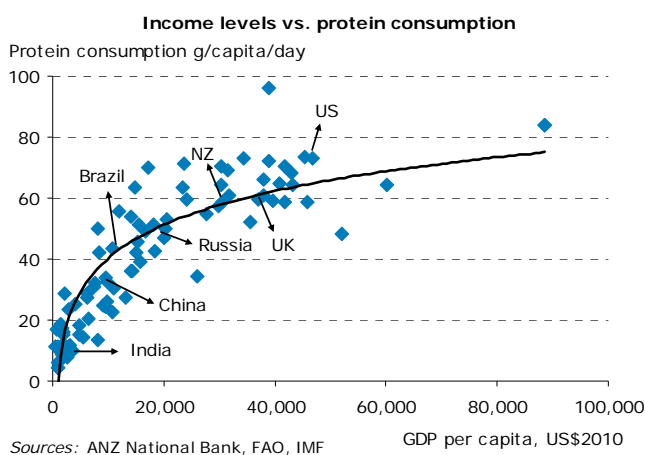
The longer term potential of the Indian market

Considering the growth potential of the Indian economy, it would be useful to examine its potential for New Zealand exports. Extrapolating forward export values by projections for Indian GDP implies Indian exports would rise from around \$1bn in current dollar terms in 2011 to around \$2.3bn by 2020, over \$4bn by 2030 and \$7bn by 2040. It will not be until 2035 that the value of exports to India exceeds (in current dollar terms) the current value of exports to China today (2030 if take account of the benefits of an India-NZ FTA).

Here we closely examine the longer term potential of protein exports (dairy, lamb and seafood) and the longer-term potential of Indian tourism flows to New Zealand.

Protein

There is a positive relationship between per-capita protein consumption and incomes (a similar relationship also exists for fat consumption).



Given cultural beliefs it seems likely that increased demand for protein will come by other sources. Dairy and seafood are two sectors that stand to benefit. How much could this benefit be?

Building blocks of human nutrition				
Country	Daily calories consumed (kcal)	Percentage of daily energy from:		
		Fats	Protein	Carbohydrates & other
USA	3,748	37.9%	12.1%	50.0%
European Union	3,466	37.3%	12.2%	50.5%
New Zealand	3,159	34.6%	11.9%	53.5%
China	2,981	27.7%	11.9%	60.4%
India	2,352	18.5%	9.8%	71.7%
Global Average	2,749	26.1%	11.1%	62.8%

Sources: ANZ, National Bank, FAO

To get a feel for how much further protein and fat demand could grow in India in the next 10 years, we have applied income growth figures from the last 10 years to both the protein and fat demand curves. These forecasts have then been applied to population forecasts for India to show the total potential change in protein and fat demand over the next 10 years. The results are in the table below.

	Units	India
Average real GDP growth last 10 years		7.5
Current Protein Consumption	grams/capita/day	10.2
Forecast Protein Consumption in 10 years	grams/capita/day	15.1
Annual change Protein Consumption	kilograms/capita/year	0.2
Current Population	million head	1,216
Forecast Population in 10 years	million head	1,411
Current Protein Demand	tonnes protein	4,527,168
Protein Demand in 10 years	tonnes protein	7,786,101
% Change in Protein Demand		72%
	Units	India
Current Fat Consumption	grams/capita/day	48.4
Forecast Fat Consumption in 10 years	grams/capita/day	63.3
Annual change Fat Consumption	kilograms/capita/year	0.5
Current Fat Demand	tonnes fat	21,464,102
Fat Demand in 10 years	tonnes fat	32,575,824
% Change in Fat Demand		52%

Sources: ANZ National Bank, FAO, IMF

The results suggest protein demand looks set to outpace fat demand from current levels. But from an absolute perspective, a larger amount of fat will be demanded given higher Indian fat consumption per capita. Over the 10-year period protein demand is projected to increase to 3.2 million tonnes, or 72 percent from current levels. Annual demand for fats would increase to 11.1 million tonnes or 52 percent from current levels.

While it is difficult to forecast the mix of products that might fill this gap, converting the figures to milksolid (MS) equivalents provide an idea of how many cows would be needed to meet this.⁶ In order to meet protein demand of 3.2 million tonnes you would need 7.6 billion kilograms of MS, five times what New Zealand currently produces. Doing the same calculations for fat demand of 11.1 million tonnes of fat, you would need 19.4 billion kilograms of MS, 12.5 times what New Zealand currently produces. In

⁶ Converting the fat and protein demand directly back to MS equivalents is a difficult exercise given the differing quantities of protein and fat in milksolids.

A CLOSER LOOK AT INDIA

current market prices, this translates into \$51bn and \$131bn worth of dairy exports. At current international dairy prices this of course translates into some very big numbers, which are equivalent to between 88 and 227 percent of our total annual exports, and between 26 and 67 percent of our annual nationwide GDP.

Of course New Zealand does not have the resources to fill this and some of this higher demand will be met by higher domestic production in India and accessing other markets than NZ. It does, however, present a number of opportunities for New Zealand. One would be to focus on the speciality/boutique food market segments to extract as much value added as possible. Another would be to leverage more fully off our comparative advantage and boost the returns from our intellectual property and expertise in food production systems and food processing and manufacturing. The opportunities seem boundless and we would have first mover opportunity. Remember the figures are for the next 10 years also, not out to 2030 when things are forecast to really get going!

Tourism

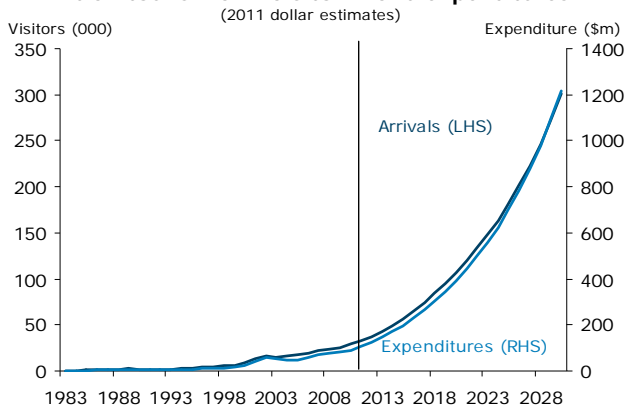
With growth in tourism numbers from India having averaged 18 percent per annum since the early 1980s, the longer term potential of this market is huge. Extrapolating forward tourism flows by also taking into account population and income projections suggests the number of Indian visitor arrivals will increase tenfold to around 300,000 visitors by 2030. In current dollar terms, total expenditures of tourists would increase from just under \$100m in 2011, to around \$1.2bn by 2030 (\$1.0bn assuming no change in spend per visitor). By comparison, annual visitor numbers from Australia and the UK are currently 1.1 million and 616 thousand respectively in the June 2011 year, with Chinese visitor arrival numbers at 134,000 persons.

THE UPSHOT

India represents a huge potential market for NZ, and a successful and comprehensive FTA deal could boost exports to India. One-off gains to exports could amount to around 1.2 percent of GDP. These will take a long time to cumulate though the China experience suggests the upside should never be understated.

Given its demographic advantages India looks set to become a bigger player on the world stage, but its low income levels suggest it will be some time before India becomes as influential as implied by its population size. Such dynamics need to be respected as do infrastructure challenges. However, amongst all the doom and gloom around the globe, we thought it appropriate to point out some upside global potential for NZ.Inc, which increasing connectivity with populous nations is bringing.

Indian tourism arrivals to NZ and expenditures



Sources: ANZ, National Bank, IMF

INTEREST RATE STRATEGY

SUMMARY

This week's OCR Review is clearly the main local event for the interest rate market. Expect nervousness ahead of the event to continue to weigh on the market, and to intensify if mortgage related paying picks up. But with the NZD at these levels, and still the darling of the global markets, some caution is required. Indeed, we must be careful not to confuse the need for timely removal of monetary stimulus with an extended tightening cycle. Looking offshore, markets remain dominated by two familiar themes – the US debt ceiling and Greek bailout.

MARKET THEMES

- A hike this week is unlikely but not impossible. But we are drawn to a September start to the cycle.
- The market has reacted by pushing up key interest rates like the 2 year. But it looks to have priced in an over-extended cycle, with not enough risk of a September hike priced in.
- Although progress on the US debt ceiling and the Greek bailout were both met with relief initially, doubt has crept in after deeper reflection.

REVIEW AND OUTLOOK

Thursday's OCR Review is the must-see event this week, with the Bank's view on the impact of the strong NZD that will be of most interest. But **while a strong kiwi will affect how high the OCR needs to go over the cycle, it shouldn't sway near term decisions**, especially with the OCR at very stimulatory levels. We're increasingly drawn to the appeal of a September hike, and in fact, if the data remains upbeat, **we characterise the RBNZ as needing a reason not to hike when September rolls around**. We can see not-to-hike candidates, but they are risks as opposed to certainties.

Yet this is not how the market has reacted. Indeed, **what we have seen has been "steepening" of the rate hike trajectory and a higher terminal OCR. As such, we believe the market has "under-priced" odds of a September hike, and "over-priced" the extent of the cycle**. Of course, this partly reflects the market's collective fear that **mortgage fixing could lead to mass paying, and an inevitable overshoot**. We've seen this before, and there has been plenty of coverage about rates moving higher in the media.

While the short end is busying itself with the nuances of RBNZ policy, **the long end has been subjected to immense volatility from offshore** (although the transmission to our market has been fairly orderly). At issue are the Greek bailout ("restructure") and the US debt ceiling. Progress has been made on both issues, at least to the extent that the immediate crises have been dealt with. **But upon deeper consideration, markets**

are realising that the problem hasn't gone away, and that what's needed is many years of fiscal consolidation. With the USD and EUR on the skids and NZ has become something of a safe haven. **This is supporting long end interest rates and the NZD**.

PREFERRED BORROWING STRATEGIES

As we highlighted in Thursday's Borrower's Strategy, we believe now is the time for action. Although there is considerable global uncertainty, the domestic picture is shaping up well. Rates have moved a little higher in the past few days, but there is still some value. But it's mainly at the short end, and at this juncture our preference is to avoid the temptation of rushing to fix for long terms. We are in a "new normal" environment and it is simply not credible to suggest that the OCR is headed back to historic norms. While market sentiment has clearly shifted towards rate hikes occurring earlier, we would urge readers not to confuse this with a call for more rate hikes. As such, our preference is to add to hedges in the 2-3 year part of the curve, which are in our view, under-pricing scope for rate rises. But we would urge against jumping in "boots and all". This is largely because the global liquidity situation remains volatile. Global uncertainty could lift margins and delay rate hikes, and render traditional swap hedges ineffective. This must be acknowledged.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↑	Expect nervousness ahead of Thursday to remain high.
NZ data	↑	Almost all recent data strong.
Fed Funds / front end	↓	Fed looks to be on hold for the foreseeable future.
RBA	↔/↓	This week's CPI critical.
US 10 year	↔/↓	Rallying in fiscal consolidation.
NZ swap curve	↔/↓	More flattening likely, but the bulk of the move is done.
Flow	↑	Mortgage paying potential.
Technicals	↔/↑	3.50% now the base for 2yr.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Jul-11	+1	+4
Thu 15-Sep-11	+9	+15
Thu 27-Oct-11	+20	+28
Thu 8-Dec-11	+32	+52
Thu 26-Jan-12	+45	+62
Thu 8-Mar-12	+58	+78
Thu 26-Apr-12	+66	+86

TRADING THEMES WE FAVOUR AT PRESENT

Broadly speaking we still like flatteners and prefer to be short the short end into the OCR Review, keeping a close eye on fixed mortgage rates. But the market has "over-priced" the extent of the cycle, and there is appeal in being long 2yr/2yrs forward. Losses will be limited as long as sell-offs result in a flattening, but it will perform well in a pullback, and has positive R+C.

CURRENCY STRATEGY

SUMMARY

A frosty start to the week as relations between US political parties may cause more volatility than many would like. On the local front there is enough to keep many busy with Thursday's OCR Review being the highlight. The Governor will likely make mention about the NZD's lofty level, but any effect it may have will be short-lived. If the OCR is heading higher over the coming months, then it is reasonable to assume that the NZD will be heading the same way as well. Across the Tasman the Q2 PPI and CPI releases should ensure that gains in the NZDAUD cross are limited.

MARKET THEMES

- US deficit and debt ceiling negotiations keep markets on edge as proposals will be measured against rating agencies' yardsticks.
- Locally anticipation of the RBNZ's OCR Review is building – perhaps a clear buy the rumour, sell the fact story.
- Australian Q2 PPI & CPI data may temper market pricing of interest rate cuts in Australia.

REVIEW AND OUTLOOK

Very little by way of corrective moves for the NZD last week as the reversal of recent EUR weakness left only one road for the NZD to travel. There were very little opportunities for exporters during the past week as a "risk on" scenario played out and the NZD kept pace with the moves of the EUR. The brief visit above 0.80AUD, off the back of markets pricing cuts in the Australian cash rate, found plenty of willing NZD sellers to ensure that this cross marginally reversed.

The US question still has not been answered. Despite plenty of discussions over the weekend, which continues in the US, there has been no agreement and no package delivered to the market. Asian markets are likely to suitably mark the USD lower early this week until such time as there is a package that will be passed. Credit rating agencies are unlikely to be kind to the current AAA rating for the US should cuts to spending not measure up.

European package unfolding. Despite details being revealed around the Greek package, there will be a lag before these measures can be passed by European parliaments. This is likely to ensure that uncertainty bubbles along beneath the surface while other factors take the headlines this week.

Significant headwinds for the NZD. Commodity prices are still elevated but dairy prices have been

declining. Translated back to NZD terms the falls will have been magnified. So far, currency markets have not paid too much attention to this, but at some stage the focus will turn to the divergence in the NZD and commodity prices.

Technically speaking, the NZD continues to find resistance around 0.6050 (vs EUR) and 0.8020 (vs AUD) and should also struggle against the USD around the 0.8749 projection level identified back in mid May.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↑	Yield convergence favouring AUD less.
Commodities	↑	Wary of cracks appearing here
Partial indicators	↔/↑	NZ Q1 GDP strong.
Technicals	↔	Resistance at 0.8020
Sentiment	↔	Risk off.
Other	↔	OCR, AU CPI but external factors to provide direction.
On balance	↔/↑	Further consolidation required

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	RBNZ to be more hawkish.
Commodities	↔	Starting to be wary of turns in key NZ related commodities
Risk aversion	↔	Mixed signals.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↓	Bearish divergence.
AUD	↔	AUD at resistance.
Sentiment	↔	Underlying positive however cracks appearing.
Other	↔	Beyond OCR review, external factors to drive NZD this week.
On balance	↔	Cracks may not be wide enough to open a chasm for the NZD to fall into.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Jul	AU	Producer Price Index (QoQ) - 2Q	0.5%	1.2%	13:30
	AU	Producer Price Index (YoY) - 2Q	3.1%	2.9%	13:30
	CH	Leading Index - JUN	-	101.98	UNCONFIRMED
	UK	Nat'wide House prices sa (MoM) - JUL	-0.2%	0.0%	UNCONFIRMED
	UK	Nat'wide House prices nsa(YoY) - JUL	-0.8%	-1.1%	UNCONFIRMED
26-Jul	US	Chicago Fed Nat Activity Index - JUN	-0.4	-0.37	00:30
	US	Dallas Fed Manf. Activity - JUL	-5.2	-17.5	02:30
	NZ	Trade Balance - JUN	400M	605M	10:45
	NZ	Trade Balance 12 Mth YTD - JUN	1289	1067	10:45
	NZ	Exports - JUN	4.30B	4.63B	10:45
	NZ	Imports - JUN	3.80B	4.02B	10:45
	AU	Conference Board Leading Index - MAY	-	0.1%	12:00
	GE	GfK Consumer Confidence Survey - AUG	5.6	5.7	18:00
	UK	GDP (QoQ) - 2Q A	0.2%	0.5%	20:30
	UK	GDP (YoY) - 2Q A	0.8%	1.6%	20:30
	UK	Index of Services (MoM) - MAY	0.8%	-1.2%	20:30
	UK	Index of Services (3mth/3mth) - MAY	0.9%	0.9%	20:30
27-Jul	US	Consumer Confidence - JUL	56.0	58.5	02:00
	US	Richmond Fed Manufact. Index - JUL	5	3	02:00
	US	New Home Sales - JUN	322K	319K	02:00
	US	New Home Sales MoM - JUN	0.8%	-2.1%	02:00
	NZ	NBNZ Activity Outlook - JUL	-	38.7	13:00
	NZ	NBNZ Business Confidence - JUL	-	46.5	13:00
	AU	Consumer Prices (QoQ) - 2Q	0.7%	1.6%	13:30
	AU	Consumer Prices (YoY) - 2Q	3.4%	3.3%	13:30
	AU	RBA Trimmed Mean (QoQ) - 2Q	0.7%	0.9%	13:30
	AU	RBA Trimmed Mean (YoY) - 2Q	2.5%	2.3%	13:30
	AU	RBA Weighted Median (QoQ) - 2Q	0.7%	0.8%	13:30
	AU	RBA Weighted Median (YoY) - 2Q	2.5%	2.2%	13:30
	CH	Industrial Profits YTD YoY - JUN	-	27.9%	14:00
	GE	Import Price Index (MoM) - JUN	-0.2%	-0.6%	18:00
	GE	Import Price Index (YoY) - JUN	7.0%	8.1%	18:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - JUN	2.3%	2.2%	20:00
	EC	Euro-Zone M3 s.a. (YoY) - JUN	2.3%	2.4%	20:00
	UK	CBI Trends Total Orders - JUL	-3	1	22:00
	UK	CBI Trends Selling Prices - JUL	27	27	22:00
	UK	CBI Business Optimism - JUL	10	9	22:00
	GE	Consumer Price Index (MoM) - JUL P	0.3%	0.1%	UNCONFIRMED
	GE	Consumer Price Index (YoY) - JUL P	2.3%	2.3%	UNCONFIRMED
28-Jul	US	Durable Goods Orders - JUN	0.3%	1.9%	00:30
	US	Durables Ex Transportation - JUN	0.5%	0.6%	00:30
	US	Cap Goods Orders Nondef Ex Air - JUN	0.9%	1.6%	00:30
	US	Cap Goods Ship Nondef Ex Air - JUN	-	1.4%	00:30
	US	Fed's Beige Book	-	-	06:00
	NZ	RBNZ Official Cash Rate - JUL	2.50%	2.50%	09:00
	JN	Retail Trade YoY - JUN	-0.5%	-1.3%	11:50
	JN	Retail Trade MoM SA - JUN	1.5%	2.4%	11:50

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
28-Jul	JN	Large Retailers' Sales - JUN	-0.4%	-2.4%	11:50
	GE	Unemployment Change (000's) - JUL	-15K	-8K	19:55
	GE	Unemployment Rate (s.a) - JUL	7.0%	7.0%	19:55
	EC	Business Climate Indicator - JUL	0.83	0.92	21:00
	EC	Euro-Zone Consumer Confidence - JUL F	-11.4	-11.4	21:00
	EC	Euro-Zone Economic Confidence - JUL	104.0	105.1	21:00
	EC	Euro-Zone Indust. Confidence - JUL	1.8	3.2	21:00
	EC	Euro-zone Services Confidence - JUL	9.2	9.9	21:00
	UK	CBI Reported Sales - JUL	2	-2	22:00
29-Jul	US	Initial Jobless Claims - 23 JUL	410K	418K	00:30
	US	Continuing Claims - 16 JUL	3700K	3698K	00:30
	US	Pending Home Sales MoM - JUN	-2.0%	8.2%	02:00
	US	Pending Home Sales YoY - JUN	14.4%	15.5%	02:00
	NZ	Building Permits MoM - JUN	3.0%	2.2%	10:45
	UK	GfK Consumer Confidence Survey - JUL	-26	-25	11:01
	JN	Overall Hhold Spending (YoY) - JUN	-2.3%	-1.9%	11:30
	JN	Jobless Rate - JUN	4.6%	4.5%	11:30
	JN	Natl CPI YoY - JUN	0.2%	0.3%	11:30
	JN	Natl CPI Ex Food, Energy YoY - JUN	0.1%	0.1%	11:30
	JN	Industrial Production (MoM) - JUN P	4.5%	6.2%	11:50
	JN	Industrial Production YOY% - JUN P	-1.2%	-5.5%	11:50
	AU	Private Sector Credit MoM% - JUN	0.4%	0.3%	13:30
	AU	Private Sector Credit YoY% - JUN	3.2%	3.1%	13:30
	CH	MNI Business Condition Survey - JUL	- -	- -	13:35
	NZ	Money Supply M3 YoY - JUN	- -	5.7%	15:00
	JN	Construction Orders (YoY) - JUN	- -	25.5%	17:00
	JN	Annualized Housing Starts - JUN	0.809M	0.815M	17:00
	JN	Housing Starts (YoY) - JUN	4.6%	6.4%	17:00
	GE	Retail Sales (MoM) - JUN	1.7%	-2.8%	18:00
	GE	Retail Sales (YoY) - JUN	-1.6%	2.2%	18:00
	UK	Net Consumer Credit - JUN	0.3B	0.2B	20:30
	UK	Net Lending Sec. on Dwellings - JUN	1.0B	1.1B	20:30
	UK	Mortgage Approvals - JUN	46.0K	45.9K	20:30
	UK	M4 Money Supply (MoM) - JUN	- -	0.1%	20:30
	UK	M4 Money Supply (YoY) - JUN	- -	-0.2%	20:30
	EC	Euro-Zone CPI Estimate (YoY) - JUL	2.7%	2.7%	21:00
30-Jul	US	Employment Cost Index - 2Q	0.5%	0.6%	00:30
	US	GDP QoQ (Annualized) - 2Q A	1.8%	1.9%	00:30
	US	Personal Consumption - 2Q A	0.8%	2.2%	00:30
	US	GDP Price Index - 2Q A	2.0%	2.0%	00:30
	US	Core PCE QoQ - 2Q A	2.3%	1.6%	00:30
	US	Chicago Purchasing Manager - JUL	60.0	61.1	01:45
	US	U. of Michigan Confidence - JUL F	64.0	63.8	01:55
	US	NAPM-Milwaukee - JUL	56.9	59.3	02:00

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

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency.

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Stronger than expected inflation and activity data over the past few weeks have been a catalyst towards bringing forward market pricing of the first RBNZ hike. We expect the RBNZ to leave the OCR unchanged at 2.5 percent this Thursday, but to make it clear that the OCR at this level is on borrowed time. Despite the global scene looking more uncertain and downside risks predominating, domestic data over the next few months should show continued improvement. Global ructions, the strong NZD and uncertainties over the pace of earthquake reconstruction suggest a bumpy road ahead.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 26 July (10:45am)	Overseas Merchandise Trade – June	Another surplus	We expect a monthly surplus of \$480m, with the annual surplus to widen to \$1.3bn.
Wed 27 July (1:00pm)	National Bank Business Outlook – July	- -	- -
Thur 28 July (9:00am)	RBNZ OCR Review	Borrowed time	We expect the OCR to be maintained at 2.5 percent. The RBNZ is expected to tighten before the end of the year.
Fri 29 July (10:45am)	Building Consents – June	Climbing	We expect a 4 percent increase in residential consent numbers.
Fri 29 July (3:00pm)	RBNZ Credit Aggregates -June	Flat	Low annual rates of credit growth expected, with business credit climbing and agricultural credit easing.
Mon 1 Aug (1:00pm)	ANZ Commodity Price Index	- -	- -
Tue 2 Aug (10:45)	Labour Cost Index – Q2	Growing	We expect private sector salary and wage rates to rise 0.5 percent (2.1 percent y/y).
Tue 2 Aug (10:45)	Quarterly Employment Survey – Q2	Tightening	Private sector hourly earnings should rise 0.2 percent (2.1 percent y/y). Filled jobs and paid hours should rise 0.2 percent.
Wed 3 Aug (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Stabilise	We expect overall dairy prices to stabilise following recent declines, with offsetting movements amongst the components.
Thur 4 Aug (10:45)	Household labour Force Survey – Q2	Firming	A 0.2 percent increase in employment is expected, with the unemployment rate to fall to around 6.4 percent.
Tue 9 Aug (10:45)	Electronic Card Transactions - July	Up	Firming incomes will underpin a 0.5 percent increase in retail ECT spending.
Thur 11 Aug (10:00am)	REINZ Report - Jul	Improving	A 2 to 3 percent lift in sales is forecast. Prices to be underpinned by low listings.
Thur 11 Aug (10:30pm)	BNZ Business NZ Manufacturing PMI	Holding	A reading in the low 50's is anticipated.
Thur 11 Aug (1:00pm)	ANZ Roy Morgan Consumer Confidence	- -	- -
Tue 16 Aug (10:45am)	Producer Price & Capital Goods Price Indexes – Q2	Rising	We expect a 1.2 percent increase in input prices, with output prices rising 0.8 percent. Profitability under pressure. Capital goods prices should rise 0.2 percent, with offsetting movements.
Wed 3 Aug (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Stabilise	We expect overall dairy prices to stabilise.
Fri 19 Aug (10:45am)	International Travel and Migration - July	Down	A net PLT outflow of 300 persons is expected. Volcanic ash disruptions should contribute to a further fall in visitor arrivals.
On Balance		On the up	Soft leading gauges and less uncertainty over the future of Christchurch point towards a better Q2 and beyond.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.5	0.8	0.7	1.5	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	1.1	1.4	1.9	3.5	4.9	4.8	5.0	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	0.2	0.4	0.6	0.7	0.5	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	2.2	1.6	2.6	1.9	2.2	2.3	2.1	1.8
Unemployment Rate (% sa)	6.7	6.6	6.4	6.0	5.9	5.5	5.4	5.2	5.2	5.2
Current Account (% GDP)	-4.1	-4.2	-4.2	-4.2	-3.6	-4.0	-4.2	-4.6	-4.9	-5.0
Terms of Trade (% qoq)	0.8	0.9	2.9	3.1	1.0	-0.8	-0.9	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.8	7.8	7.9	8.0	6.2	2.3	-1.6	-3.2	-3.3

	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11
Retail ECT (% mom)	0.9	1.0	-0.8	2.4	-0.2	1.4	1.4	-0.7	1.2	..
Retail ECT (% yoy)	4.8	6.3	4.4	5.7	6.2	6.6	10.0	6.8	9.0	..
Credit Card Billings (% mom)	0.7	0.1	-1.7	3.9	-0.5	-1.2	1.8	0.4	0.4	..
Credit Card Billings (% yoy)	5.1	4.3	2.4	6.2	5.9	2.1	6.6	5.5	4.5	..
Car registrations (% mom)	-3.9	13.0	-8.5	0.9	-1.7	-0.2	-5.6	3.3	-2.3	..
Car registrations (% yoy)	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5	..
Building consents (% mom)	-1.8	8.5	-18.8	9.2	-9.6	2.5	-1.2	2.3	..	..
Building consents (% yoy)	-17.5	-8.9	-26.4	-14.9	-28.9	-26.2	-32.2	-22.0	..	..
REINZ House Price Index (% yoy)	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	..
Household Lending Growth (% mom)	0.0	0.0	0.0	0.1	0.1	-0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	2.0	1.8	1.6	1.6	1.5	1.2	1.2	1.2	..	..
ANZ Roy Morgan Consumer Confidence	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3	112.5	109.4
NBNZ Business Confidence	23.7	33.2	29.5	..	34.5	-8.7	14.2	38.3	46.5	..
NBNZ Own Activity Outlook	30.5	35.3	34.5	..	36.6	14.7	29.5	39.7	38.7	..
Trade Balance (\$m)	-220	-177	-218	9	184	586	1148	605	..	..
Trade Balance (\$m ann)	1259	1363	1172	909	765	744	1232	1067	..	..
ANZ World Commodity Price Index (% mom)	3.0	2.1	1.6	4.3	2.7	4.7	1.6	0.4	-1.2	..
ANZ World Commodity Price Index (% yoy)	23.1	13.1	12.1	16.3	20.3	23.5	19.8	19.6	20.6	..
Net migration (sa)	420	580	700	410	430	-540	-140	-340	-340	..
Net migration (annual)	12610	11519	10451	8689	8249	6554	5508	4625	3867	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	May-11	Jun-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZD/USD	0.824	0.829	0.863	0.80	0.81	0.79	0.77	0.75	0.73	0.73
NZD/AUD	0.772	0.773	0.798	0.74	0.75	0.75	0.75	0.74	0.74	0.74
NZD/EUR	0.572	0.572	0.601	0.58	0.60	0.59	0.57	0.55	0.53	0.54
NZD/JPY	67.16	66.80	67.68	68.0	70.5	70.3	70.1	69.8	69.4	70.1
NZD/GBP	0.501	0.517	0.529	0.50	0.52	0.51	0.49	0.47	0.46	0.46
NZ\$ TWI	70.9	71.2	73.9	70.4	71.8	70.9	69.4	67.8	66.4	66.8
INTEREST RATES	May-11	Jun-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00	4.25
NZ 90 day bill	2.69	2.67	2.75	2.70	3.10	3.70	3.80	4.20	4.30	4.80
NZ 10-yr bond	5.11	5.07	5.09	5.20	5.50	5.70	6.00	6.20	6.10	6.20
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00	2.50
US 3-mth	0.25	0.25	0.25	0.35	0.35	0.85	1.60	2.10	2.10	2.60
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.25	5.25	5.50
AU 3-mth	5.02	5.03	4.97	5.00	5.00	5.20	5.20	5.50	5.50	5.70

	22 Jun	18 Jul	19 Jul	20 Jul	21 Jul	22 Jul
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.64	2.67	2.67	2.70	2.70	2.74
NZGB 04/13	3.18	3.30	3.36	3.40	3.40	3.44
NZGB 04/15	3.95	4.02	4.05	4.09	4.08	4.12
NZGB 03/19	4.81	4.82	4.84	4.87	4.89	4.93
NZGB 05/21	5.01	5.01	5.03	5.05	5.07	5.12
2 year swap	3.33	3.49	3.51	3.58	3.63	3.69
5 year swap	4.30	4.42	4.41	4.46	4.52	4.58
RBNZ TWI	70.2	73.1	73.3	73.7	73.8	73.7
NZD/USD	0.8123	0.8431	0.8463	0.8543	0.8568	0.8611
NZD/AUD	0.7676	0.7952	0.7971	0.7968	0.7993	0.7945
NZD/JPY	65.20	66.62	66.92	67.64	67.43	67.71
NZD/GBP	0.5009	0.5237	0.5264	0.5297	0.5304	0.5283
NZD/EUR	0.5654	0.5990	0.5997	0.6034	0.6010	0.5987
AUD/USD	1.0582	1.0603	1.0617	1.0722	1.0719	1.0838
EUR/USD	1.4368	1.4076	1.4112	1.4158	1.4256	1.4383
USD/JPY	80.26	79.02	79.07	79.18	78.70	78.63
GBP/USD	1.6218	1.6100	1.6076	1.6127	1.6153	1.6298
Oil (US\$/bbl)	94.96	97.24	95.94	97.49	98.11	98.96
Gold (US\$/oz)	1549.10	1597.15	1604.30	1591.35	1601.85	1588.85
Electricity (Haywards)	3.16	3.73	4.30	5.75	7.16	1.92
Baltic Dry Freight Index	1406	1340	1330	1328	1325	1323
Milk futures (USD)	162	154	154	154	155	155

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