ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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GOING TO PLAN

ECONOMIC OVERVIEW

While the tone of data emanating from New Zealand is becomingly somewhat dichotomised, a mixture of good and poor, the underlying core still looks reasonable. We suspect this will be the case for the remainder of the year, so look towards this week's data rollout expecting a similar theme of "reasonableness". Beyond the obvious local "event", our attention remains centred on the global scene. The latest plan out of Europe seems to be to have a plan. While better than no plan at all, we won't see a defining trend across markets or reduced volatility until we see something credible. And even then there will be question marks about the political economy and outlook for nominal GDP in key nations.

EXAMINING THE DIRECT COSTS OF THE RENA GROUNDING

The Government has declared the grounding of the container ship MV Rena on Astrolabe Reef to be New Zealand's worst maritime environmental disaster. The location and timing of the disaster certainly couldn't have been worse. The disaster is a particularly nasty blow for the Bay of Plenty region, which is still working its way through the impact of the devastating PSA kiwifruit virus. We use academic literature to try to assess the direct costs of the cleanup and find that the cost could range from \$14m to \$53m. While this is small in relation to recent disasters, it is the unknown cost of the downstream effects that really worry us.

INTEREST RATE STRATEGY

The swing in global investor sentiment that started a little over a week ago has been sustained, driving yields to the top end of trading ranges. Global yield curves have tended to steepen as a result. What worries us is the lack of substance behind moves. Europe is making progress, but final and lasting resolution is a long way away. Hopes are high that this weekend's Euro debt summit will be decisive – but have markets assumed the best? We suspect they may have. Local data has taken a back seat to global moves, and this looks set to be the pattern for some time to come yet.

CURRENCY STRATEGY

The "risk-on" rally extended last week to levels that look ripe for a short-term stall in momentum. Swings between optimism and pessimism are set to continue as we wait for embattled EU leaders to deliver a decisive package to end the debt crisis. Based on historical precedent, the ability of the populist EU leaders to deliver seems questionable. Until such time as that changes, hi-beta plays such as the NZD will continue to lack clear trending momentum.

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SUMMARY

While the tone of data emanating from New Zealand is becomingly somewhat dichotomised, a mixture of good and poor, the underlying core still looks reasonable. We suspect this will be the case for the remainder of the year, so look towards this week's data rollout to convey a similar theme of "reasonableness". Beyond the obvious local "event", our attention remains centred on the global scene. The latest plan out of Europe seems to be to have a plan. While better than no plan at all, we won't see a defining trend across markets or reduced volatility until we see something credible. And even then there will be question marks about the political economy and outlook for nominal GDP in key nations.

THIS WEEK'S EVENTS

GlobalDairyTrade auction (early am Wednesday, October 19). We expect USD prices to ease 1 percent to around USD $3,400/tonne.

SNZ International Travel and Migration - September (Friday, October 21, 10:45am). A net permanent and long-term inflow of around 300 persons is expected. Overseas visitor arrivals are forecast to increase 4 percent s.a., boosted by visitors for the Rugby World Cup.

RBNZ Credit Card Billings - September (Friday, October 21, 3:00pm). A 1 percent s.a. increase in credit card billings is forecast, underpinned by a surge in spending on overseas cards.

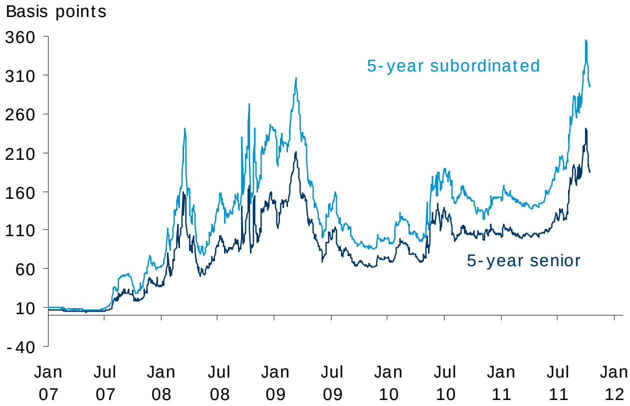
WHAT'S THE VIEW

We'll start this week with some broad comments on the global scene, fiscal policy, the Rugby World Cup and Rena.

First, one week of risk-on action such as a higher NZD does not mean the all clear can be given for the global scene and European situation. Markets seem to be taking confidence from the fact that a plan to have a plan is better than no plan at all. But until we see bold steps across an array of issues (bank recapitalisation, ring-fencing core Europe from the periphery, addressing solvency etc), it's nothing more than buying time. While we are in no doubt a package is pending, whether it will hold together in terms of the political economy (and game theory tells us it won't and we note the growing social unrest in some nations over the week), and secondly, whether nominal GDP will be sufficient to avert debt spiralling up in a nasty fashion, remains to be seen. Sustained improvement in Europe requires fiscal union and this ultimately requires democratically elected sovereigns to play second fiddle to some centralised organisation. Fine in theory but actual implementation doesn't pass the smell test in reality.

When we look at the extreme movement in credit spreads and outright bond yields, **they look more like position-squaring and recoil from extremes, rather than reliable signals of a change in the trend, or confirmation that all is "fine and dandy" so to speak.** As an example, Australian Bank 5-year senior CDS spreads have dropped by around 55 points in the past fortnight. Have things changed that much? We doubt it. Just as the peak reflected extreme pessimism, what we are seeing now looks like excessive optimism.

CDS spreads for "Big four" Australian Banks



Sources: ANZ, National Bank, Bloomberg

We continue to monitor the key transmission mechanisms to New Zealand - the five key C's, which are showing mixed messages. Consumer confidence is holding up. The same for commodity prices. China still looks solid, though inflation (6.1 percent y/y) remains elevated. The currency is doing its normal headless chicken walkabout routine from week to week. Net on net New Zealand still looks ok, but with the obvious risks.

Second, last week's Crown accounts showing a gargantuan 2010/11 fiscal deficit reinforce the important role fiscal policy is going to play over the coming years. Of course, fiscal policy is always important: the government accounts for a third of GDP. However, what we see going forward is a more complicated set of interactions that will materially influence the broader macro economy <u>more</u> than we have been used to. This includes:

- The **process of fiscal consolidation.** Stripping out the one-offs in the 2010/11 accounts, the core numbers were actually better than expected. Some was economic (i.e. tax) but the balance appears to be lower than expected expenditure, a sign of more austerity being implemented quicker. Brace for more: about five plus years of

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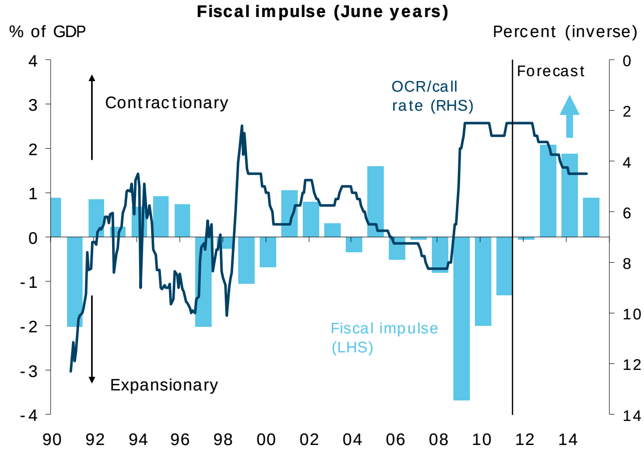
it. We're looking to the Pre-election Update next week and the message will be simple: successive governments are in a fiscal straitjacket.

- With the Canterbury earthquakes effectively wiping out the $6bn Natural Disaster Fund, there is also **a structural imperative to build up the government's balance sheet**. The proposed 200 percent increase in the EQC earthquake levy from next February will cost homeowners roughly $70 per annum. In spite of the proposed increase it would take around 30 years for EQC coverage to reach pre-Christchurch earthquake levels. Such is the reality of rebuilding.
- **The interaction between government and private sector savings.** The historical relationship has been for public sector saving to be countered by household dissaving and the reverse also applies. Breaking this nexus will be one aspect defining whether we're experiencing a structural or cyclical change in aggregate savings behaviour. We favour the former.
- **The "levers" pulled.** More growth delivers higher tax receipts and lessens the need for austerity. Tweaks to the regulatory framework can do a bit, but such changes tend to be slow to accrue. New Zealand has a huge endowment of natural resources including minerals. Of course we don't want such endeavours to exert negative externalities on other parts of the economy. But it seems silly to let natural endowments sit unused. At a minimum we need informed debate on the trade-offs.
- **The interaction with monetary policy.** It's not rocket science. Tighter fiscal policy equates to lower interest rates for longer.

We could carry on listing the entire regulatory framework, tax system, etc. But we presume readers get the message. When the economy is navigating an array of shocks, arguably far more than any time in our recent economic history, the onus is on policymakers to put in place the right incentives to alter behaviour. **Economists (such as ourselves) need to be far more attuned to structural issues, and the potential for policy changes to impact on trend growth and supply-side capacity.** Hence, a lot more of our research is being devoted to secular and structural themes as well as the business cycle.



Sources: ANZ, Treasury

Third, the Rugby World Cup is in full swing and the direct economic impetus looks reasonable but hardly stellar. There are growing anecdotes of huge substitution effects taking place: rugby supporters for traditional tourists, deferred business activity / travel, less weekend non-entertainment related purchasing on game days etc. The Electronic Card Transaction (ECT) data showed a smaller than expected pick-up in September. This doesn't mean the Cup has been an economic disappointment – far from it. Importantly, the ECT data does not include cash transactions (including cash withdrawals from automatic teller machines) and we still expected a solid quarter for Q3 retail trade (and GDP). **October is shaping up to be a boomer spending-wise and of course we need to appreciate that we don't know the counterfactual.** Certainly if New Zealand didn't have the Rugby World Cup at present, the tenor of leading gauges would more likely reflect global developments. Hardly a reassuring thought at present.

Fourth, the Rena oil spill has been another disaster for the New Zealand economy to contend with. Details remain scant and we do not wish to cause unnecessary angst by speculating on the exact costs. We've offered some brief analysis on page 6. The direct cost of containment looks relatively small although we have limited information on what the downstream implications could be. Certainly for the Bay of Plenty region – which is already suffering from the PSA outbreak – Christmas and 2012 is not looking promising. However, from an economy-wide perspective we'd characterise the event as another "niggle factor" the economy could simply do without.

Against this backdrop, **the tone of data emanating out of New Zealand is becoming more dichotomised**. It's still solid, but **doesn't have the**

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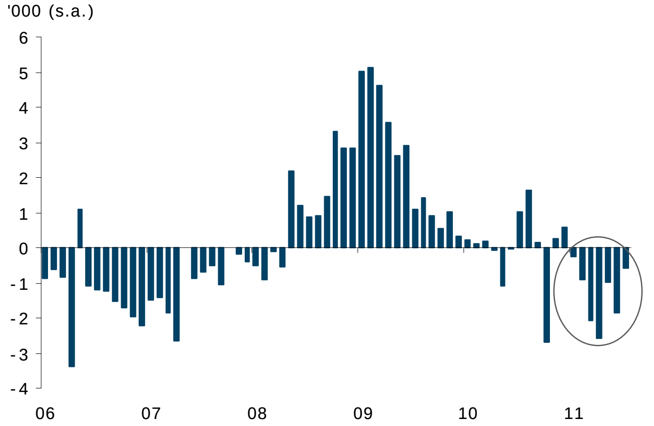
same consistent positive string to it as over May to August (an odd-looking GDP print aside). The dip in the September BNZ-Business NZ-Manufacturing PMI followed the recent slide seen in overseas gauges. ANZ job ads fell in September, but this followed a number of strong months. Encouragingly, the unemployment queue shrank by 600 persons in seasonally adjusted terms in September – the seventh successive month of decline. Housing turnover gave back about three-quarters of the gain seen in August, though further declines in the days to sale and rising house prices suggest the market is continuing to firm.

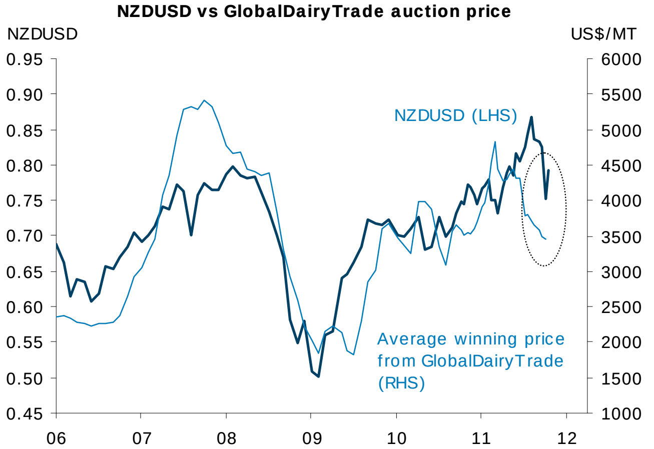
Monthly change in unemployment benefit numbers



Sources: ANZ, National Bank, MSD

Given the myriad of structural, cyclical and one-off influences at present the spirit of our assessment is that patchiness in the data will be a recurrent theme. But for now, New Zealand is certainly holding up better than most, although we are starting to see a better tone to data outturns in the US and there looks to also be signs of this in Australia, whom many seem to have written off.

NZDUSD vs GlobalDairyTrade auction price

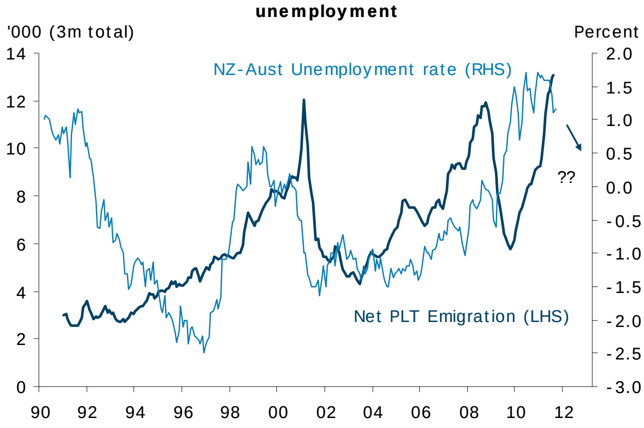


Sources: ANZ, National Bank, GlobalDairyTrade, Bloomberg

Historically high export commodity prices are a key support factor for NZ.Inc. **This week's dairy auction is expected to show resilience in USD dairy prices.** Prices for whole and skim milk powders will probably show small falls, with the possibility of larger falls for dairy products with a higher fat content. However, we would not discount the possibility of a stronger result given more recent USD weakness and improving risk sentiment.

The theme we have been emphasising recently is one of "relative resilience": New Zealand is not immune from a global slowdown but we tend to stack up pretty well by comparison. As such, we expect that this theme will contribute to strengthening net immigration over the next few months, with September migration data expected to show a net permanent and long-term inflow of around 300 persons. Visitor arrivals are expected to show a further strong increase as an estimated 38,000 visitors arrived for the Rugby World Cup. September credit card billings are expected to show a modest RWC-induced boost, largely driven by overseas card spending, although we emphasise these figures won't capture cash spending.

Net PLT departures to Australia and relative unemployment



Sources: ANZ, National Bank, Statistics NZ

The decent showing in Australian employment last week suggests that the Australian picture may not be as dire as depicted by pessimists, and may be a factor keeping the RBA on the sidelines next month. This could well be the case, but we suspect that the RBA (and the RBNZ for that matter) will continue to take direction from what is occurring offshore.

RECENT LOCAL DATA

SNZ Electronic Card Transactions – September. Retail Electronic Card Transaction (ECT) spending increased 0.6 a percent s.a. (+6.8 percent y/y), with core spending up 0.4 percent s.a (+5.8 percent y/y).

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REINZ Housing Market Report – September. Sales volumes declined a seasonally adjusted 3.7 percent (+21.1 percent y/y). The median days to sell eased to 38 days s.a. from 39, with the REINZ house price index up 1.0 percent s.a. (+2.7 percent y/y).

BNZ Business NZ Manufacturing PMI – September. The headline manufacturing PMI eased to 50.8 s.a. from 52.9 s.a. in August.

SNZ Food Price Index – September. Food prices fell 1.0 percent m/m (+4.7 percent y/y).

ANZ Job Ads – September. Job ads fell 3.2 percent m/m s.a. after a flat August. Internet listings fell 3.6 percent m/m s.a., with newspaper ads down 1.6 percent m/m s.a. The ANZ composite job ads series, fell 2.5 percent m/m s.a.

ANZ Consumer Confidence – October. Headline confidence eased fractionally to 112.2 (from 112.6 in September). Future conditions fell 0.3 points (to 117.2), with current conditions down 0.4 points (to 104.8).

EXAMINING THE DIRECT COSTS OF THE RENA GROUNDING

SUMMARY

The Government has declared the grounding of the container ship MV Rena on Astrolabe Reef to be New Zealand's worst maritime environmental disaster. The location and timing of the disaster certainly couldn't have been worse. The disaster is a particularly nasty blow for the Bay of Plenty region, which is still working its way through the impact of the devastating PSA kiwifruit virus. We use academic literature to try to assess the direct costs of the cleanup and find that the cost could range from $14m to $53m. While this is small in relation to recent disasters, it is the unknown cost of the downstream effects that really worry us.

EXAMINING THE DIRECT COSTS

It has been almost two weeks since the MV Rena ran aground at Astrolabe Reef, threatening to spill its cargo of 1,368 containers and fuel oil into the sea. Details of the incident remain sketchy (in terms of how it happened), as do estimates of the potential economic impact. **In this article we try to assess the direct cost of the cleanup,** but from the outset we need to make it clear that we are not experts on shipping, oil spills, or disaster damage. But we can make use of academic literature on the matter, and make an informed estimate of what the costs may be.

We start by assembling the information at hand (and even that's sketchy in places). In our mind, the key facts pertaining to the oil spill are as follows:

- Volume of oil on board: **1,700 tonnes heavy fuel oil and 200 tonnes marine diesel.**
- **Distance from shore: 22km**
- **Immediate shoreline affected: 30km** (Mt Maunganui – Maketu.

New Zealand academic literature on the matter is basically non-existent. International literature is scant, but we did find one useful paper[1]. This paper analyses the cost of spills across the world to determine how factors like the type and amount of oil, proximity to shore and length of coastline affect cleanup costs.

We use these factors to arrive at a range of estimates, which are summarised in the following table. As the table shows, these are examined across three dimensions. **Resulting estimates of cleanup costs for the Rena oil spill vary heavily – from $14m to $53m.** They also depend widely on the assumptions used. For example, we assume the affected coastline is 30km – but it could be much longer – perhaps over 100km. **These figures also assume all of the oil is spilled,** when we know this is unlikely. We know that at least 20 tonnes of oil has been pumped off the ship, and presumably more will be pumped off in the near future. **We do not know what the cost of pumping is,** but we assume it is less than spilling. **We also do not know how much the cost of cleaning up containers will be,** or who might bear that cost (presumably the shipping company's insurers). **It is also unclear how much of the tab will be picked up by the Crown,** with the media reporting that a maximum of $12m might be recoverable under existing laws. This could still leave a significant shortfall for the Government to meet.

ILLUSTRATIVE DIRECT COSTS OF THE RENA OIL SPILL

Cost factor per tonne of oil	US$ per tonne of oil	NZ$ per tonne	Assumed tonnes for Rena	NZ$ cost estimate
By oil type: a) Heavy fuel oil b) Marine Diesel	a) $16,952 b) $2,308	a) $21,190 b) $2,885	a) 1,700 b) 200	$36.6m
By shoreline length (30km)	$5,982	$7,478	1,900	$14.2m
By proximity to shore (30km)	$22,443	$28,053	1,900	$53.3m

Sources: ANZ, National Bank. Etkin et al (2000)

Taking an average of our three estimates delivers an indicative estimate of $34m, which is consistent with the "tens of millions" comment made recently by Transport Minister Steven Joyce. Joyce also noted that the cleanup cost for the 300 tonnes of oil estimated to have been spilt so far stands at around $3.5m. If we extrapolate that across the full 1,900 tonnes oil on board, we get a figure of $22m.

This is, of course, the direct cost. **What really matters is the extent of downstream impacts**. Although **disruption to shipping** has so far been minimal, the situation could become nastier if more containers fall from the ship and drift into shipping lanes, disrupting traffic at New Zealand's largest volume port by volume. **Costs to the environment** are huge. The big unknown is **the impact the spill will have on confidence and tourism**. With the region gearing up for the busy summer tourism season, the resilience of the Bay of Plenty economy (around 5 percent of national GDP) will be sorely tested, coming at a time when the local kiwifruit industry is reeling from the devastating PSA virus. And with the world's media focused on our shores courtesy of the Rugby World Cup, our clean and green image has taken a knock. Only time will tell how big this will be.

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[1] Etkin, D.S, "Worldwide Analysis of Marine Oil Spill Cleanup Cost Factors", June 2000.

INTEREST RATE STRATEGY

SUMMARY

The swing in global investor sentiment that started a little over a week ago has been sustained, driving yields to the top end of trading ranges. Global yield curves have tended to steepen as a result. What worries us is the lack of substance behind moves. Europe is making progress, but final and lasting resolution is a long way away. Hopes are high that this weekend's Euro debt summit will be decisive – but have markets assumed the best? We suspect they may have. Local data has taken a back seat to global moves, and this looks set to be the pattern for some time to come yet.

MARKET THEMES

- Has improved sentiment raised the hurdle too far? We believe it may have. Europe's leaders recognise that there is a problem, but will their yet-to-be announced plan satisfy a bulled-up market?
- Last week's Australian jobs data has thrown the cat among the pigeons. Hopes of a RBA cut have faded, but will no doubt build ahead of CPI data next week.
- Local market sentiment has been mixed. RBNZ rate hike expectations are elevated compared to recent weeks, and the curve has steepened dramatically.

REVIEW AND OUTLOOK

Sentiment has improved vastly over the past ten days, but we worry that markets have moved to price in all the good news, and are vulnerable to negative surprises. G20 politicians and officials in the know are confident that the yet-to-be released European plan will "do the trick". But we've heard this before and been disappointed, and markets are not well positioned for a negative surprise. Debt problems in Europe run deep, and while piecemeal responses buy time, what is needed is a comprehensive and timely shock-and-awe style plan that delivers nominal GDP growth to avert the debt trap, and fiscal consolidation (and potentially fiscal union) in Europe. The hurdle is high.

US data has improved, or at least is showing signs of stabilising. This is encouraging – but like Europe, the issues ahead are political. Disconcertingly, politicians remain divided on President Obama's jobs package. If the politicking around the debt ceiling debate is any guide, the road to bipartisan agreement on budget cuts that were a condition of the ceiling being lifted is set to be long and messy. In our view, this poses downside risks to US bond yields. **Last week's Fed minutes were also dovish, and seem completely out of step with US bond yields, which have risen around half a percentage point since plummeting after Operation Twist was announced - remarkable.**

Local bonds have enjoyed something of a renaissance, with solid demand for NZGS at the weekly tenders. There are still a few hurdles to get through (the PREFU and the election), but price action looks supportive. With the credit ratings downgrade now behind us, **asset swap spreads certainly have a "sell the rumour, buy the fact" feel about them**.

PREFERRED BORROWING STRATEGIES

As we noted in Friday's *Borrower's Strategy*, we continue to take a guarded view and prefer to keep a high degree of exposure to floating rates. Fixed rates are low (even after the move higher over the past ten days), but with the OCR set to remain on hold until mid-2012, and with the global scene at centre stage and still challenging, we see no urgency to add to fixed cover. In that document we also showed that the ex-post average term premium for paying fixed is very high – even for New Zealand, which has often had an inverse yield curve. Although one could argue that the normal checklist of conditions needed to be comfortable fixing is met (e.g. low fixed rates, the tightening cycle about to begin), this is well countered by structural effects (OCR lower for longer, OCR likely to peak at a lower rate) and the slope of the curve. Our preference is to watch and wait.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	Next hike way off. Hard to see more being priced in.
NZ data	↔	Data flow becoming mixed.
Fed Funds / front end	↔/↓	FOMC minutes dovish, point to more stimulus.
RBA	↔/↓	CPI data next week critical.
US 10 year	↔/↓	Yields look toppy.
NZ swap curve	↔/↓	Curve has steepened considerably – too far?
Flow	↔	Volatility has calmed down
Technicals	↔/↑	NZGS 5/21 has broken out of range to topside.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	0	0
Thu 27-Oct-11	+1	+2
Thu 8-Dec-11	+2	+3
Thu 26-Jan-12	+4	+8
Thu 8-Mar-12	+8	+15
Thu 26-Apr-12	+12	+19
Thu 14-Jun-12	+15	+23

TRADING THEMES WE FAVOUR AT PRESENT

Although there is some risk of an extension of the "risk on" sell-off in yields, steepening the curve, our preference is to add to flatteners, looking for fundamental factors to re-assert themselves. Swap spreads look over-extended here. Demand for bonds has been strong at the post-downgrade tenders, and we suspect attractive yields and the need for domestic managers to acquire duration will keep a lid on NZGS yields. As such, our preference is to be long bonds on asset swap, particularly the NZGS 3/19s, which are trading at around flat.

CURRENCY STRATEGY

SUMMARY

The "risk-on" rally extended last week to levels that look ripe for a short-term stall in momentum. Swings between optimism and pessimism are set to continue as we wait for embattled EU leaders to deliver a decisive package to end the debt crisis. Based on historical precedent, the ability of the populist EU leaders to deliver seems questionable. Until such time as that changes, hi-beta plays such as the NZD will continue to lack clear trending momentum.

MARKET THEMES

- Short-term sentiment is positive on optimism that European politicians can deliver a comprehensive plan for Europe's debt crisis by November 3rd.
- Global fears of a double dip recession have eased, with US and Chinese data showing signs of stabilisation, rather than further decline.
- Australian unemployment data surprised, and has seen the market pare back rate cut expectations, lending support to AUD, and NZD by association. But next week's CPI is the real test.
- Global protectionism rears its ugly head again with Sino-US relations strained after the US Senate passed a bill that would enable trade sanctions against China for currency manipulation.

REVIEW AND OUTLOOK

Global data has generally beat expectations, or shown signs of stabilising, mitigating double dip fears. US data has been solid, with jobless claims subdued and retail sales surprising on the strong side. Eurozone production indicators beat expectations, and trade balances are constructive across Europe, US and UK. Chinese trade data did moderate, but this is arguably welcome given fears of overheating, and last week's PMIs improved. **All of this has been positive news for the NZD with investors once again putting money to work and seeking yield**.

There are signs the Australian economy is holding up better than might be implied by a market seeking several rate cuts. Unemployment stabilised in September. Confidence picked up. There are still challenges but such nuances will be viewed positively by the RBA and ease concerns that they will have to cut rates to "support demand" in the next few meetings. The market still has large cuts priced into the Australian rates market so the potential is for AUD to rally as those are removed, dragging NZD with it.

Global protectionism rears its ugly head. The US Senate passed a bill that allows it to put tariffs in place against countries such as China that manipulate their currency. Protectionist policies are attractive from an internal perspective as the damage done by them is long term versus short-term benefits, ideal for myopic politicians. Trade wars and protectionist policies would obviously be negative for small open export oriented economies such as New Zealand.

Beyond these themes market attention will remain fixed over prospects for a sustainable and decisive package for Europe. Better data is circumventing risks of the debt trap. **However, Europe's issues can only be solved by fiscal integration. And asking (requiring) democratically elected sovereigns to play second fiddle to some centralised authority just doesn't pass the smell test.** Hence, we suspect markets are going to end up disappointed when reality meets theory.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value	↔	Close to our fair value estimates.
Yield	↑	NZD Yield curve is positive and AUD inverted.
Commodities	↔/↑	Soft commodities are outperforming hard.
Partial indicators	↔	Data showing signs of slowing in NZD.
Technicals	↔↑	Range bound 0.78250 - 0.8050.
Sentiment	↔	Balanced.
Other	↔	Global sentiment big driver.
On balance	↔↑	**Supported by yield and technicals, but beware of event risk.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Close to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↑	Commodities break topside. Momentum favours higher.
Risk aversion	↔↑	Positive US data & short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US same.
Technicals	↔	Momentum favours topside, but becoming extended.
AUD	↔↑	AUD employment stabilises and risk seeking returns.
Sentiment	↑	EU risks faded until Nov 3rd G20 meeting.
Other	↑	CFTC data shows positioning still pessimistic.
On balance	↔↑	**Double dip fears fade. EU issues on hold.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
17-Oct	NZ	Performance Services Index - SEP	- -	53.2(a)	10:30
	UK	Rightmove House Prices (MoM) - OCT	- -	2.8%(a)	12:01
	UK	Rightmove House Prices (YoY) - OCT	- -	1.2%(a)	12:01
	AU	New Motor Vehicle Sales MoM - SEP	- -	3.3%	13:30
	AU	New Motor Vehicle Sales YoY - SEP	- -	4.4%	13:30
	CH	Actual FDI (YoY) - SEP	- -	11.1%	15-17 Oct
18-Oct	US	Empire Manufacturing - OCT	-4.00	-8.82	01:30
	US	Industrial Production - SEP	0.2%	0.2%	02:15
	US	Capacity Utilization - SEP	77.5%	77.4%	02:15
	AU	RBA Board Minutes - OCT	- -	- -	13:30
	CH	Real GDP YTD (YoY) - 3Q	9.5%	9.6%	15:00
	CH	Real GDP (QoQ) - 3Q	- -	2.2%	15:00
	CH	Real GDP (YoY) - 3Q	9.3%	9.5%	15:00
	CH	Industrial Production YTD YoY - SEP	14.1%	14.2%	15:00
	CH	Industrial Production (YoY) - SEP	13.4%	13.5%	15:00
	CH	Fixed Assets Inv Excl. Rural YTD YoY - SEP	24.8%	25.0%	15:00
	CH	Retail Sales YTD YoY - SEP	16.9%	16.9%	15:00
	CH	Retail Sales (YoY) - SEP	17.0%	17.0%	15:00
	EC	EU 25 New Car Registrations - SEP	- -	7.7%	19:00
	UK	CPI (MoM) - SEP	0.4%	0.6%	21:30
	UK	CPI (YoY) - SEP	4.9%	4.5%	21:30
	UK	Core CPI YOY - SEP	3.2%	3.1%	21:30
	UK	Retail Price Index - SEP	237.6	236.1	21:30
	UK	RPI (MoM) - SEP	0.5%	0.6%	21:30
	UK	RPI (YoY) - SEP	5.4%	5.2%	21:30
	UK	RPI Ex Mort Int. Payments (YoY) - SEP	5.5%	5.3%	21:30
	GE	ZEW Survey (Current Situation) - OCT	40.0	43.6	22:00
	EC	ZEW Survey (Econ. Sentiment) - OCT	- -	-44.6	22:00
	GE	ZEW Survey (Econ. Sentiment) - OCT	-45	-43.3	22:00
19-Oct	US	Producer Price Index (MoM) - SEP	0.2%	0.0%	01:30
	US	PPI Ex Food & Energy (MoM) - SEP	0.1%	0.1%	01:30
	US	Producer Price Index (YoY) - SEP	6.4%	6.5%	01:30
	US	PPI Ex Food & Energy (YoY) - SEP	2.4%	2.5%	01:30
	US	Net Long-term TIC Flows - AUG	- -	$9.5B	02:00
	US	Total Net TIC Flows - AUG	- -	-$51.8B	02:00
	US	NAHB Housing Market Index - OCT	15	14	03:00
	AU	Westpac Leading Index (MoM) - AUG	- -	0.5%	12:30
	AU	DEWR Internet Skilled Vacancies MoM - SEP	- -	-0.6%	13:00
	JN	All Industry Activity Index (MoM) - AUG	-0.4%	0.4%	17:30
	EC	Eurozone Current Account nsa - AUG	- -	-€3.2B	21:00
	EC	ECB Euro-Zone Current Account SA - AUG	- -	-€12.9B	21:00
	UK	Bank of England Minutes - OCT	- -	- -	21:30
	EC	Construction Output SA MoM - AUG	- -	1.4%	22:00
	EC	Construction Output WDA YoY - AUG	- -	1.2%	22:00
20-Oct	US	MBA Mortgage Applications - 14-OCT	- -	1.3%	00:00
	US	Consumer Price Index (MoM) - SEP	0.3%	0.4%	01:30
	US	CPI Ex Food & Energy (MoM) - SEP	0.2%	0.2%	01:30
	US	Consumer Price Index (YoY) - SEP	3.8%	3.8%	01:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
20-Oct	US	CPI Ex Food & Energy (YoY) - SEP	2.1%	2.0%	01:30
	US	Housing Starts - SEP	594K	571K	01:30
	US	Housing Starts MOM% - SEP	3.90%	- -	01:30
	US	Building Permits - SEP	610K	625K	01:30
	US	Building Permits MOM% - SEP	-2.40%	3.20%	01:30
	US	Fed's Beige Book	- -	- -	07:00
	AU	NAB Business Confidence - 3Q	- -	6	13:30
	AU	RBA Foreign Exchange Transactn - SEP	- -	A$367M	13:30
	GE	Producer Prices (MoM) - SEP	0.2%	-0.3%	19:00
	GE	Producer Prices (YoY) - SEP	5.5%	5.5%	19:00
	UK	Retail Sales Ex Auto Fuel(MoM) - SEP	0.2%	-0.1%	21:30
	UK	Retail Sales Ex Auto Fuel(YoY) - SEP	0.6%	-0.1%	21:30
	UK	Retail Sales w/Auto Fuel (MoM) - SEP	0.0%	-0.2%	21:30
	UK	Retail Sales w/Auto Fuel (YoY) - SEP	0.6%	0.0%	21:30
21-Oct	US	Initial Jobless Claims - 15-OCT	400K	404K	01:30
	US	Continuing Claims - 8-OCT	3680K	3670K	01:30
	EC	Eurozone Consumer Confidence - OCT A	-20.1	-19.1	03:00
	US	Leading Indicators - SEP	0.2%	0.3%	03:00
	US	Philadelphia Fed. - OCT	-9.6	-17.5	03:00
	US	Existing Home Sales - SEP	4.93M	5.03M	03:00
	US	Existing Home Sales MoM - SEP	-2.1%	7.7%	03:00
	NZ	Net Migration SA - SEP	- -	200	10:45
	UK	Nationwide Consumer Confidence - SEP	49	48	12:01
	AU	Import price index (QoQ) - 3Q	0.5%	0.8%	13:30
	AU	Export price index (QoQ) - 3Q	3.6%	6.0%	13:30
	CH	MNI Flash Business Sentiment Survey - OCT	- -	- -	14:35
	NZ	Credit Card Spending SA (MoM) - SEP	- -	-1.0%	15:00
	NZ	Credit Card Spending (YoY) - SEP	- -	4.7%	15:00
	GE	IFO - Business Climate - OCT	106.2	107.5	21:00
	GE	IFO - Current Assessment - OCT	116.4	117.9	21:00
	GE	IFO - Expectations - OCT	97	98	21:00
	UK	Public Finances (PSNCR) - SEP	£18.0B	£11.8B	21:30
	UK	PSNB ex Interventions - SEP	£15.0B	£15.9B	21:30
	UK	Public Sector Net Borrowing - SEP	£11.8B	£13.2B	21:30
	EC	Eurozone Govt Debt/GDP Ratio - 2010	- -	85.1%	22:00
	CH	HSBC Flash China Manufacturing PMI - OCT	- -	49.9	22-25 Oct

Key: AU: Australia, EC: Eurozone, 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: Global events remain a key influence. The crown accounts confirmed a weaker fiscal starting point that will provide a test of resolve for fiscal policymakers to move the public finances back into the black. Domestic consumer sentiment readings continue to show resilience, and while retail data suggested a smaller RWC windfall than many retailers had been hoping for, high cash spending should provide a significant offset. The property market took a breather, with the low stock of listings and RWC distractions a likely factor, although we expect clear improvement by the end of the year. We expect the first OCR hike in June 2012, but this is conditional on the global outlook improving. The spirit of our assessment is for a gradual path of policy tightening and a historically low OCR endpoint.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 19 Oct (early am)	GlobalDairyTrade auction	Still high	A 1 percent fall in USD dairy prices is expected.
Fri 21 Oct (10:45am)	International Travel and Migration - Sep	NZ supportive	A net permanent and long-term inflow of 300 persons is expected. Visitor arrivals are expected to surge 4 percent s.a.
Fri 21 Oct (10:45am)	RBNZ Credit Card Statistics – Sep	RWC impact	Card spending is expected to climb 1.0 percent, with spending on overseas issued cards surging.
Tue 25 Oct (10:45am)	Consumers Price Index – 2011Q3	Still high	We expect a 0.8 percent quarterly increase, with the annual rate of headline inflation down to 5 percent. Core inflation looks to set to remain in the 2.5 percent zone over the next year or so.
Tue 25 Oct (2:30pm)	Pre-Election Economic and Fiscal Update	Fiscal straightjacket	Expect the blowtorch to be directed towards expenditure restraint, with the aim of returning to surplus by 2014/15 or 2015/16 at the latest.
Wed 26 Oct (1:00pm)	National Bank Business Outlook – Oct	- -	- -
Thur 27 Oct (9:00am)	RBNZ October OCR Review	On hold	The RBNZ will remain on hold given the weaker global outlook. We don't expect a RBNZ move until mid-2012.
Thur 27Oct (10:45am)	Overseas Merchandise Trade – Sep	Supported	A monthly deficit of $430m is expected, with the annual trade surplus holding up at $1.1bn.
Mon 31 Oct (10:45am)	Building Consents – Sep	Up	A 2 percent climb in residential issuance is expected. Non-residential consent values of $300m are expected.
Tue 1 Nov (10:45am)	Labour Cost Index – 2011Q3	Contained	A 0.5 percent quarterly increase is expected for salary and ordinary time wage rates (2.0 percent y/y).
Tue 1 Nov (1:00pm)	ANZ Commodity Price Index – Oct	- -	- -
Tue 1 Nov (10:45am)	Quarterly Employment Survey – 2011Q3	Firming	Filled jobs and paid hours are expected to rise 0.4 percent. Average hourly earnings should increase 0.6 percent q/q.
Wed 2 Nov (early am)	*GlobalDairyTrade* auction	Holding	We expect USD dairy prices to stabilise at historically high levels.
Thur 3 Nov (10:45am)	Household Labour Force Survey – 2011Q3	Firming	A 0.5 percent in employment is expected (1.5 percent y/y). The unemployment rate is forecast to ease to 6.4 percent.
Wed 9 Nov (10:45am)	Electronic Card Transactions - Oct	Up	We expect a 1.0 percent increase in retail ECT spending. A bigger GDP impact is in store than suggested by the ECT data.
Fri 11th Nov (10:45am)	Food Price Index- Oct	Up	We expect a 0.4 percent monthly increase, underpinned by higher prices for meat and grocery prices.
On Balance		**Local vs global**	**Domestic gauges for H2 should remain positive but global concerns suggest caution for 2012.**

KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	**0.8**	**1.2**	**0.2**	**0.5**	**1.0**	**1.0**	**0.9**	**0.7**
GDP (% yoy)	1.7	1.5	**2.4**	**3.0**	**2.3**	**2.7**	**2.9**	**2.7**	**3.4**	**3.7**
CPI (% qoq)	0.8	1.0	**0.8**	**0.3**	**0.6**	**0.7**	**1.0**	**0.3**	**0.7**	**0.8**
CPI (% yoy)	4.5	5.3	**5.0**	**2.9**	**2.7**	**2.5**	**2.7**	**2.7**	**2.8**	**2.9**
Employment (% qoq)	1.3	0.0	**0.5**	**0.6**	**0.7**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.8	2.0	**1.5**	**2.4**	**1.9**	**2.3**	**2.3**	**2.1**	**1.8**	**1.7**
Unemployment Rate (% sa)	6.5	6.5	**6.4**	**6.1**	**5.8**	**5.6**	**5.5**	**5.5**	**5.4**	**5.4**
Current Account (% GDP)	-3.6	-3.7	**-3.9**	**-3.3**	**-3.5**	**-3.6**	**-4.0**	**-4.4**	**-4.5**	**-4.5**
Terms of Trade (% qoq)	0.8	2.3	**3.0**	**1.0**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.7**
Terms of Trade (% yoy)	6.7	7.0	**7.1**	**7.3**	**5.5**	**2.3**	**-1.4**	**-3.3**	**-3.1**	**-3.0**

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Retail ECT (% mom)	2.5	-0.2	1.6	1.4	-0.7	1.1	0.3	-0.5	0.4	..
Retail ECT (% yoy)	5.7	6.2	6.6	10.0	6.8	9.0	8.0	8.4	7.5	..
Credit Card Billings (% mom)	3.1	-0.2	0.1	1.2	0.5	0.6	0.7	-1.2	..	..
Credit Card Billings (% yoy)	5.8	5.1	2.9	6.2	5.9	5.8	7.9	4.9	..	..
Car registrations (% mom)	1.3	-2.0	0.0	-5.5	3.6	-2.0	-1.0	6.5	-10.8	..
Car registrations (% yoy)	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	..
Building consents (% mom)	9.1	-9.8	2.4	-1.1	3.8	-0.5	14.3	12.5	..	..
Building consents (% yoy)	-14.9	-28.9	-25.9	-32.4	-21.8	-25.2	-15.2	18.1	..	..
REINZ House Price Index (% yoy)	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	..
Household Lending Growth (% mom)	0.1	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.1	..	..
ANZ Roy Morgan Consumer Confidence	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2
NBNZ Business Confidence	..	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	..
NBNZ Own Activity Outlook	..	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4	..
Trade Balance ($m)	9	184	583	1158	550	200	111	-641	..	..
Trade Balance ($m ann)	909	765	741	1238	1019	998	1295	1084	..	..
ANZ World Commodity Price Index (% mom)	4.3	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	-1.3	..
ANZ World Commodity Price Index (% yoy)	16.2	20.3	23.5	19.8	19.6	20.6	22.2	22.0	17.3	..
Net migration (sa)	430	430	-510	-120	-340	-260	-150	210	..	..
Net migration (annual)	8689	8249	6554	5508	4625	3867	2867	2257	..	..

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	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.854	0.767	0.802	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.798	0.784	0.777	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.594	0.566	0.578	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	65.48	58.74	61.84	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.526	0.492	0.507	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ$ TWI	73.0	68.2	70.1	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
NZ 90 day bill	2.99	2.86	2.78	2.80	2.80	3.20	3.50	3.50	3.90	4.00
NZ 10-yr bond	4.52	4.42	4.59	4.40	4.50	4.60	4.80	4.90	5.00	5.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.33	0.37	0.40	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
AU 3-mth	4.87	4.92	4.80	4.90	4.90	4.90	4.90	4.90	4.90	4.90

Forecasts finalised as at 7 October 2011

	14 Sep	10 Oct	11 Oct	12 Oct	13 Oct	14 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.92	2.81	2.79	2.82	2.82	2.81
NZGB 04/13	3.00	2.83	2.87	2.87	2.92	2.90
NZGB 04/15	3.49	3.32	3.36	3.36	3.41	3.40
NZGB 03/19	4.27	4.19	4.23	4.23	4.30	4.30
NZGB 05/21	4.45	4.42	4.46	4.46	4.53	4.54
2 year swap	3.26	3.05	3.09	3.09	3.15	3.13
5 year swap	3.94	3.72	3.78	3.78	3.87	3.87
RBNZ TWI	71.8	68.5	68.9	68.8	69.1	69.0
NZD/USD	0.8171	0.7637	0.7733	0.7728	0.7821	0.7795
NZD/AUD	0.7992	0.7930	0.7902	0.7875	0.7846	0.7860
NZD/JPY	62.87	58.61	59.26	59.30	59.96	59.78
NZD/GBP	0.5187	0.4951	0.4999	0.4956	0.5006	0.5008
NZD/EUR	0.5997	0.5730	0.5758	0.5746	0.5738	0.5724
AUD/USD	1.0224	0.9630	0.9786	0.9813	0.9968	0.9917
EUR/USD	1.3626	1.3327	1.3430	1.3449	1.3629	1.3617
USD/JPY	76.94	76.75	76.63	76.74	76.67	76.69
GBP/USD	1.5754	1.5426	1.5468	1.5594	1.5622	1.5566
Oil (US$/bbl)	90.24	79.39	82.24	82.46	85.14	85.50
Gold (US$/oz)	1833.80	1646.30	1661.35	1651.40	1680.70	1666.85
Electricity (Haywards)	8.31	16.86	17.86	18.86	19.86	20.86
Baltic Dry Freight Index	1927	2032	2106	2127	2155	2173
Milk futures (USD)	147	145	145	144	144	145

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