

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

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INSIDE

Economic Overview	2
More thoughts on the Canterbury Earthquake	5
September MPS Preview	9
Interest Rate Strategy	12
Currency Strategy	13
Data Event Calendar	14
Data Watch	16
Key Forecasts	17

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AFTERSHOCKS

ECONOMIC OVERVIEW

This week the September *Monetary Policy Statement* takes centre stage. Weakening confidence, global concerns and earthquake ructions should ensure that the RBNZ remains on the sidelines. This, however, is only a temporary respite. We expect the RBNZ to continue removing policy stimulus from early next year. The flipside to caution now, in recognition of current uncertainties, is a preparedness to act decisively later (read: we think there is a strong probability of a 50bp hike at some stage in 2011).

MORE THOUGHTS ON THE CANTERBURY EARTHQUAKE

Late last week, we visited Christchurch to assess the earthquake impact for ourselves. While the damage bill is expected to be substantial, we were pleasantly surprised to see that the majority of Christchurch was operational. Dislocation in pockets is obvious, but a huge proportion of the population is getting on with business. We would never downplay the distress and trauma that people have been through. But if news reports continue to paint an overly negative bias, the greater the potential negative impact on areas such as tourism in 2011. Balance needs to be struck and responsible heads need to be at the fore. Back of the envelope estimates suggests an immediate negative impact on GDP of -0.6 percent in Q3 and -0.3 percent in Q4. Much has been made of the supportive impact of reconstruction activity over 2011 and 2012. While this will undoubtedly support activity in the region, we suspect the hit to household balance sheets from the quake, higher costs of insurance and displacement effects from other areas will partly mitigate the aggregate economic flow-on.

SEPTEMBER MPS PREVIEW

We expect the RBNZ to leave the OCR unchanged at 3 percent. The patchiness of the domestic and global economy, not to mention the need to provide further support in the aftermath of the Canterbury earthquake, are expected to keep the OCR at 3 percent over the remainder of 2010. There will be a greater than usual degree of uncertainty in the RBNZ's economic projections and their 90-day profile. We expect this message to be emphasised in the OCR assessment, with the RBNZ committing to stimulatory policy for longer relative to their June assessment. But such support in the near-term in light of economic developments likely comes with a sting in its tail. At some stage the RBNZ will likely end up having to move more decisively. The RBNZ may shy away from highlighting this on Thursday given the obvious uncertainties (including of the seismic variety), but we must not lose sight of the fact that the medium-term outlook for rates is still up.

INTEREST RATE STRATEGY

Most commentators (including ourselves) expect the RBNZ to leave the OCR unchanged on Thursday. A pause is unusual early in the cycle, but with the economy losing momentum, some seismic anomalies and core inflation tame, there is simply no urgency to raise rates. Furthermore, a pause will allow the RBNZ to assess the impact of weakening business confidence, global uncertainty, and the effects of the Canterbury earthquake. This is now largely priced in – so much so that we believe the market is now under-pricing a resumption to the tightening cycle in 2011. The big question is: what's next?

CURRENCY STRATEGY

As expected, the NZD felt no ill effects from last week's Canterbury earthquake. Data from China during the weekend gives the market another reason to be positive about the "new world" currencies. New Basel III rules likely to put pressure on European banks, which will weigh on the euro, although they have 8 years to get in line.

ECONOMIC OVERVIEW

SUMMARY

Last week's data confirmed our assessment that the Q2 GDP outturn, due for release next week, will show modest improvement with stark divergences across sectors. This week the September *Monetary Policy Statement* takes centre stage. Weakening confidence, global concerns and earthquake ructions should ensure that the RBNZ remains on the sidelines. This, however, is only a temporary respite. We expect the RBNZ to continue removing policy stimulus from early next year. The flipside to caution now, in recognition of current uncertainties, is a preparedness to act decisively later (read: we think there is a strong probability of a 50bp hike at some stage in 2011). Other data this week will show that the housing market remains moribund, and that consumers are not rushing to beat the coming GST increase.

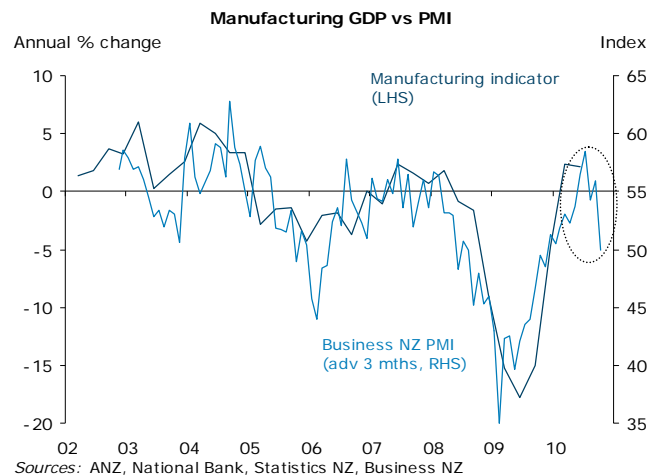
THIS WEEK'S EVENTS

- **REINZ Housing Market Statistics – August 2010** (Tuesday 14th September, 10:00am). The stand-off between buyers and sellers is likely to continue, and we expect only a 2 percent increase in monthly sales volumes. Prices are expected to remain flat to falling, with days to sell rising.
- **SNZ Retail Trade Survey – July 2010** (Tuesday 14th September, 10:45am). Retail indicators suggest a slower month following a strong June. We forecast a flat monthly outturn for total retail sales, with core retail spending (excluding vehicle and fuel) expected to register a 0.2 percent monthly increase.
- **SNZ Electronic Card Transactions – August** (Tuesday 14th September, 10:45am). Stronger July core ECT spending suggests retailing is finding its feet, although the weakness in fuel retailing is suspicious. We expect a 1 percent increase in core retail ECT. We are still waiting for a tangible Rugby World Cup ticket sales effect to show through.
- **RBNZ Monetary Policy Statement – September 2010** (Thursday 16th September, 9:00am). We expect the OCR to be held at 3 percent. The Canterbury earthquake is likely to have put paid to any chance of a rate hike this meeting. However, the RBNZ are likely to acknowledge there is unfinished business to do with the set OCR to move higher in 2011. See our Preview on page 9.

WHAT'S THE VIEW?

Last week, we noted that the domestic economic data was likely to show stark divergences. While recent economic releases certainly suggest that this is the case, the data is still throwing up some surprises when we look at the magnitude of the movements.

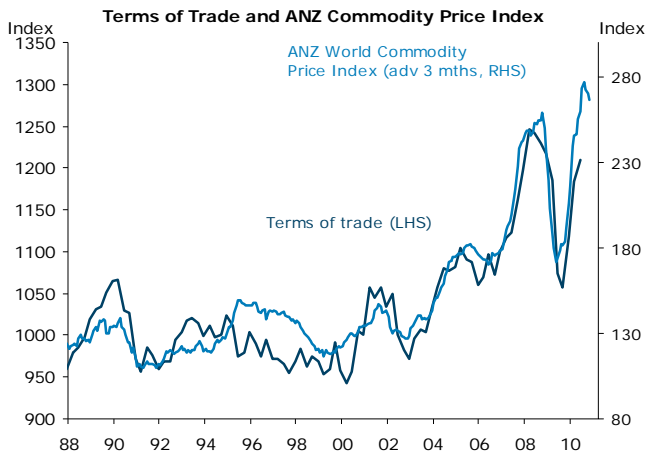
- **Manufacturing (excluding primary) production has weakened earlier than expected**, with our estimates pointing to a 2.5 percent quarterly contraction in Q2 manufacturing GDP – enough to shave 0.2 percentage points off Q2 GDP growth. Such softness was inevitable at some stage after the inventory rebuild had run its course, but to see this sort of pullback in Q2 was somewhat perplexing. Remember, in the July OCR *Review*, the RBNZ noted elevated manufacturing confidence as one of the reasons for their forecast of respectable near-term GDP growth. Recent declines in the manufacturing PMI suggest further near-term weakness.



- **Building work put in place surged in Q2 and will help allay fears of a soft Q2 GDP read.** The 8.2 percent increase in the volume of total building work was driven by a strong 10.8 percent surge in residential building activity. While the magnitude of the movement looks at odds with dwelling consent data itself, we take the result at face value.
- **The overseas trade indices for Q2 suggest that high commodity prices are continuing to provide economic support, although net exports will be a drag on Q2 GDP.** The import mix showed a surge in transport and other durable good investment, which could be an indication that retailers are stocking up in anticipation of a pre-GST rise surge. **Of some concern was the 6.4 percent fall in ex-transport capital good**

ECONOMIC OVERVIEW

imports. With these capital good imports about one quarter below pre-recession levels, it is a worrying sign in terms of supply-side capacity.



Sources: ANZ, National Bank, Statistics NZ

As a result of last week's data, we have firmed up our Q2 estimate for GDP. It remains at 0.7 percent, which is broadly consistent with the "respectable" near-term expectation for GDP growth outlined in the July OCR *Review*. Relative to the supply side capacity of the economy (which we currently put at 0.5 percent per quarter), growth over the June quarter removed some idle capacity. However, we are now in September, so it seems a little peculiar to be focusing on history, especially given recent events, and particularly with anecdotes and confidence pointing to a clear softening over July and August (from hardly stellar growth rates in the first place). And of course, September has thrown up some seismic wobbles. So even if we start with a relatively robust figure of 0.5 percent as a base, there is a chance that the earthquake impact could see Q3 GDP coming in close to flat.

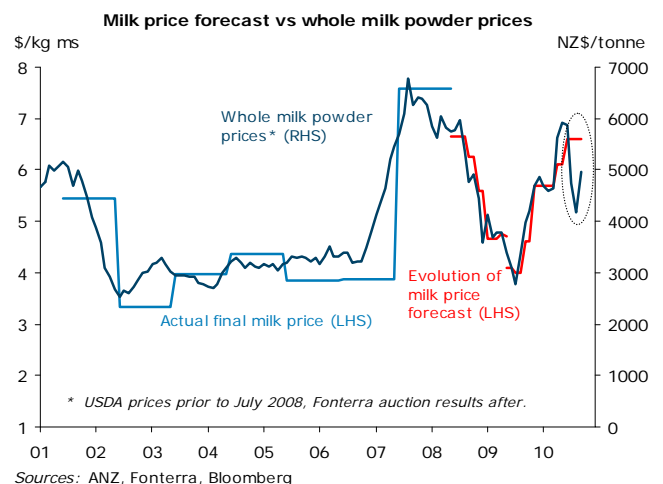
The key event this week is Thursday's RBNZ *Monetary Policy Statement*. Given recent developments, a rate hike is off the table. Nevertheless, with an OCR at 3 percent, there is unfinished business. It will be interesting to see how much time the RBNZ feels is needed before policy stimulus starts to be removed again. Global concerns aside, 2011 is shaping up to be a better year and we expect the RBNZ to be more active. **The flipside to caution now, in recognition of current uncertainties, is a preparedness to act decisively later (read: we think there is a strong probability of a 50bps hike at some stage in 2011).**

One of the complications facing the RBNZ will be that subsequent data readings are likely to be distorted by earthquake impacts. As such,

interpreting the figures will be extremely difficult. This will be even more problematic for traditional leading indicators (e.g. readings of business and consumer confidence) given that nationwide sentiment is also likely to be affected by developments in Canterbury. This is likely to be one of several ongoing challenges facing the RBNZ.

Last Friday, we visited Christchurch to assess the damage first hand. Just sitting in what some people consider to be an economist's ivory tower just didn't seem responsible considering the nature of the questions we were being asked. If anything, we were positively surprised at how "open for business" Christchurch was, even though there has clearly been widespread property damage. **At this stage, we still believe that anyone who can give a precise estimate of the economic impact is pulling your chain. Nonetheless, we have attempted to do precisely that, but by looking at some of the contrasting influences and dynamics at play (see page 5).** The idea is not to get bogged down by the numbers themselves, but to think about the interactions of contrasting and wide ranging forces. In spirit, this is similar to the thoughts we summarised last week.

Turning to what else is ahead this week, **the globalDairyTrade online auction results will be out just prior to the release of the September Monetary Policy Statement.** It was pleasing to see a rebound in whole milk powder prices in the early September event. We anticipate this week's event will show a further gain of around 5 percent, taking the average price to approximately US\$3,800 per tonne. This should give Fonterra's milk price payout forecast of \$6.60/kg ms for the 2010/11 season (a figure that lacked backbone a few weeks ago) further spine. Full credit to Fonterra for holding the line on that one.

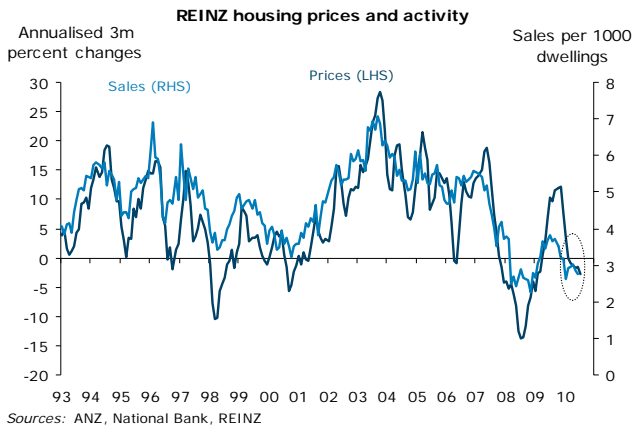


* USDA prices prior to July 2008, Fonterra auction results after.

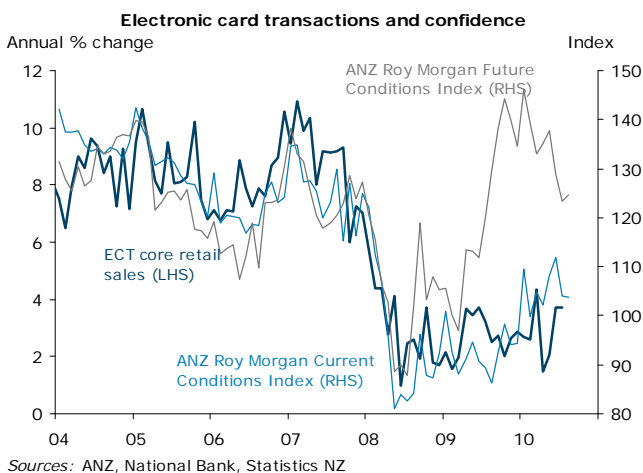
Sources: ANZ, Fonterra, Bloomberg

ECONOMIC OVERVIEW

Indicators suggest that the momentum evident in retail spending in June is unlikely to continue in July. We expect a flat monthly outturn for total retail sales, with core retail sales forecast to increase by around 0.2 percent.



Housing market data for August is expected to paint a picture of a market in limbo. We envisage that sales volumes will increase by around 2 percent, but considering that it is around one-third below historical averages, this is not a strong result by any means. Prices are expected to track sideways. With the number of property listings remaining high, it is a buyers' market. However, sellers are choosing to hold out until better times and prices arrive.



Electronic Card Transaction (ECT) data for August is anticipated to show not much improvement in retail values. Paymark data for August did not hint at much improvement, with the value of electronic card transactions up a little on a year earlier. Last month, we were on the lookout for evidence of a Rugby World Cup ticket sales impact on ECT spending, which failed to materialise. Chances are that this will surface in the August data. While

nominal retail spending is anticipated to be flat, we expect that continued retail discounting is likely to result in an improvement in volumes.

RECENT LOCAL DATA

- **SNZ Wholesale Trade Survey – Q2.** Nominal wholesale sales rose by a seasonally adjusted 2.2 percent in the June quarter. Stronger primary food manufacturing sales (up 8.4 percent), machinery and equipment (up 14.8 percent) and unprocessed primary food sales (up 6.7 percent) contributed to the increase. Led by an 11 percent fall in unprocessed primary products, the value of wholesale inventories fell by 1.8 percent, to be 4.2 percent lower than a year ago.
- **SNZ Economic Survey of Manufacturing – Q2.** Manufacturing volumes declined by 1.8 percent in the quarter, to be down 3.6 percent from a year ago. Ex-meat and dairy volumes fell by 3.6 percent (+0.8 percent y/y). The volume of manufacturing stocks declined by 12.5 percent from a year ago, largely reflecting a decline in meat and dairy product manufacturing stocks.
- **SNZ Value of Work Put in Place – Q2.** The volume of building work put in place increased by 8.2 percent in Q2 (+6.5 percent y/y), following an upwardly revised 2.5 percent rise in Q1. Residential work put in place volumes surged by 10.8 percent in Q2 (17.9 percent y/y), with non-residential volumes rising by 5.2 percent (-4.8 percent y/y).
- **SNZ Overseas Trade Indexes – Q2.** A 3.8 percent increase in export prices underpinned a 2.1 percent increase in the terms of trade. Import volumes rose by a seasonally adjusted 1.0 percent, whereas export volumes increased by 0.3 percent.

MORE THOUGHTS ON THE CANTERBURY EARTHQUAKE

SUMMARY

Late last week, we visited Christchurch to assess the earthquake impact for ourselves. While the damage bill is expected to be substantial, we were pleasantly surprised to see that the majority of Christchurch was operational. Dislocation in pockets is obvious, but a huge proportion of the population is getting on with business. We would never downplay the distress and trauma that people have been through. But if news reports continue to paint an overly negative bias, the greater the potential negative impact on areas such as tourism in 2011. Balance needs to be struck and responsible heads need to be at the fore. Back of the envelope estimates suggests an immediate negative impact on GDP of -0.6 percent in Q3 and -0.3 percent in Q4. Much has been made of the supportive impact of reconstruction activity over 2011 and 2012. While this will undoubtedly support activity in the region, we suspect the hit to household balance sheets from the quake, higher costs of insurance and displacement effects from other areas will partly mitigate the aggregate economic flow-on.

SOME KEY METRICS

The Canterbury region is an important part of the New Zealand economy, accounting from between 8 and 20 percent of various activity measures.

Recent estimates for key metrics	Canterbury region	% of NZ
Regional GDP (\$b)	27	15
Population (000)	566	13
Number business enterprises (000)	65	13
Retail sales (\$b)	8.5	13
Employment (000)	334	15
House Sales	9400	15
Expenditure by international visitors (\$b)	0.9	16
Expenditure by domestic visitors (\$b)	1.4	16
Visitor guest nights (m)	5.1	16
Overseas visitor guest nights (m)	2.5	19
Value of Cargo trade (\$b)	8.2	10
Passenger movements at Christchurch Airport (000)	1614	18

Sources: ANZ, Tourism Research Council, NZIER, Statistics NZ, REINZ

OUR IMPRESSIONS ON THE SCENE

We visited Christchurch last Friday to make a first hand assessment of the damage. It seemed imprudent to talk authoritatively about the implications of the earthquake without visiting the area and talking to local people and businesses. **Our initial reaction (and this extended throughout the day) was that the city had held up well.** This

is not to downplay what has obviously been a traumatic emotional and financial time for many people and their families. But big portions of Christchurch were operational.

To be sure, significant devastation was evident in some suburbs, but in others, many houses appear to have escaped with little more than a toppled chimney. We also got the feeling that while the damage was widespread, most dwellings were still habitable. Despite clear evidence of damage in the suburbs, many businesses were open – and that's a key ingredient to "moving on". Yes, there were collapsed premises on street corners in some suburbs, and reasonable damage in the central city, but what stuck us was the stoic attitude most local business people were taking. Kiwi ingenuity was in abundance with firms relocating to vacant premises and getting on with the job. Real estate agents report that enquiries for retail and office space have surged. We suspect many moves will take place quickly given vacancy rates prior to the earthquake.

To be fair, we hit the ground 6 days after the event itself, but after visiting a number of people and industries, **we were surprised at how quickly many had returned to business as usual.** Obviously, this was not universal, but the key point was that dislocation was well in the minority. Manufacturing for instance looks to have come through pretty well unscathed.

While we recognise the trauma and distress that people in the region have been through, **we were concerned that if an overly negative spin was placed in reporting on the earthquake impact, it could scupper confidence and the recovery in the region.** Tourism bookings, both offshore and domestic, are made in advance. While tourists are obviously circumventing Christchurch at the moment, the real test will come six months out. As one person we spoke to noted: if you looked at the media coverage, you get an impression of Hiroshima, whereas nothing could be further from the truth. Balance needs to be struck and responsible heads need to be at the fore.

Vital infrastructure has held up well.

Christchurch Airport and Lyttleton Port are open and operational, electricity supplies are stable for most of the region, with major routes outside of the CBD open. Indeed, the operators and designers of the backup continuity plan for the city and anyone that has anything to do with the maintenance or restoration of key infrastructure deserves a medal for their efforts. Christchurch may well become a global blueprint for other cities around the globe in regard to crisis management.

MORE THOUGHTS ON THE CANTERBURY EARTHQUAKE

However, there is still considerable disruption.

Christchurch and surrounding areas remain in a state of emergency. While thankfully there was no immediate loss of life, the human costs of the quake are becoming apparent with heightened stress levels and inadequate sanitation contributing to health related issues. After being closed for last week, most schools are due to reopen today. This is a key issue. Families come first, and until schools are completely reopened, a fair proportion of the workforce will simply not be returning to work. As of today, it looks like 8 schools are still shut, but the majority will have returned to business as usual. With that, we suspect, will be more of the workforce returning to business as usual as well.

WHAT IS THE SCALE OF THE DAMAGE?

Updated estimates of the extent of damages have been revised up to \$4 billion, which is around 0.6 percent of the country's net capital stock. Prior to visiting Christchurch, we suspected this could be on the light side. After visiting and eying the landscape, it seems pretty realistic to us, although the reality is that it is impossible to tell what the degree of indirect damage (repair as opposed to rebuild) will finally be. By 8am this morning the number of claims received by the Earthquake Commission (EQC) totalled 47,400 with 82 percent from Christchurch City. But this is forecast to grow to 100,000. Estimates suggest anything from 2,000 to 4,000 homes will need to be demolished so a fair degree of the claims seem likely to be of the repair variety. Taking a mid-point of 3,000 and assuming an average rebuilding cost of \$200-250k per unit (the majority of the affected suburbs are of below average values), you get to \$600-750 million straight away. On top of that you have core infrastructure, commercial property, broader repair jobs, home and contents insurance, and potential land reimbursement for those suburbs that are too unstable to support reconstruction as well.

Or looking at things from a different angle, recent accounts suggest that around 100,000 of the 160,000 dwellings in the quake zone have suffered more than just light damage. We conservatively estimate the value of the Canterbury dwelling stock as being around \$70bn. Assuming the average claim of around \$20,000 per dwelling (a conservative estimate given building costs) this will translate into \$2bn of residential building work. This will partly be funded by EQC, which has up to \$2.5bn of reinsurance cover. Non-residential construction and infrastructure work could easily be worth \$1bn to \$2bn.

The insured losses are not the full costs. Many firms and households do not have comprehensive insurance cover that will fully compensate them for damages, or loss of earnings. Moreover, much of the local and central government infrastructure is not insured.

WHAT ARE THE POTENTIAL IMPACTS ON ECONOMIC ACTIVITY?

From the outset we have to acknowledge that anyone who can give a precise estimate of the earthquake impact is likely to be pulling your chain. There are simply too many uncertainties, not to mention the unquantifiable impact on the psyche and confidence. Nonetheless, it is our job to do precisely that. So what follows are some broad thoughts. Rather than focusing on the numbers themselves, we would encourage readers to focus on some of the channels the economic impact will likely manifest.

- **From the outset we need to acknowledge that there has been a material pool of capital lost.** A lot of this is insured and attention is naturally focused on the rebuild associated with the destroyed capital – the positives. But we need to remember the starting position: NZ is a nation that is too heavily indebted, and having a pool of that capital that debt was linked to is hardly something to write home about. Certainly, the Government balance sheet including EQC will kick in here, but we can't go past the obvious: a huge pool of capital has been destroyed and it will take time to be replaced.
- **There will be an immediate negative impact on September quarter economic activity.** The Canterbury region accounts for 15 percent of national GDP and the impacted area is around 10 percent of GDP, so there will be a nationwide impact. Any estimate requires some heroic assumptions, so here are ours. We assume the quake contributed to a 40 percent loss of economic activity in the affected area in the week following the event, with losses diminishing to 20 percent in week two and 10 percent in weeks 3 and 4. We suspect this broadly mirrors what is happening on the work front. This gives us an initial impact of -0.6 percent of GDP in the September quarter. Confidence and the shock and awe factor likely inflate this, but offsetting it has been the immediate reconstruction response. So net-on-net we're left with around -0.6 percent. Considering droughts or electricity crisis in the past have had substantial impacts on activity, -0.6 may seem light, but remember, this is only the

MORE THOUGHTS ON THE CANTERBURY EARTHQUAKE

September quarter, and only the month of September was impacted.

- **We expect a further negative impact in the December quarter.** Assuming the displacement effect is gradually whittled from 10 percent to 2 percent over October and stays there for November and December (there is going to be a certain portion of the population and businesses impacted for some time) gives another -0.3 percent. Reconstruction related activity could offset this but we suspect this will take time to really kick-in.
- **The first major wildcard is the impact on confidence.** There will be the obvious temporary displacement impacts on tourism activity and retailing but the wildcard is the impact on the psyche. We certainly saw a lot of positivity (if you could call it that) on our trip to the region, but whether this is of true substance remains to be seen. We doubt people are going to be in a hurry to spend a lot over the coming months until they are aware exactly where they stand financially in the wash-up. This is a process that could take months, and will mitigate the optimism being shown in the construction sector. Suffice to say that the likes of the RBNZ has a role to play here in terms of demonstrating leadership and pragmatism in its decision making.
- **The second major wildcard is the impact on land and asset values.** We envisage that property transaction costs will rise (i.e. seismic tests required for insurance purposes) and we doubt buyers will be jumping at the gun after recent events. Stronger demand for residential rental accommodation is likely to underpin dwelling rents in the region and property values for residential rentals, whereas earthquake damage has effectively reduced the supply of inhabitable dwellings in the region. Conventional valuation metrics suggest that while property prices are still overvalued, property values will be supported by the high cost of replacing a dwelling and risks of a growing dwelling shortage in the quake aftermath. Our inklings remain more with the former.
- **The earthquake could be the proverbial straw that leads to a number of business closures.** The first important point here is the opening position. Small and Medium sized Enterprises (SME) have huge exposure to retailing and housing, sectors that are a far cry from being economic cheerleaders. July and August were tough months. The second important point is that most don't tend to have disruption insurance, and are less inclined to have more broad insurance cover. According to estimates from the Ministry of Economic Development (MED), Canterbury has a higher proportion of SMEs than the national average – early 2009 figures place the number of enterprises employing zero to 19 people at just over 59,000 in the Canterbury region alone (just over 90 percent of the total number of businesses in the region and around 40 percent of total employment). About half of these firms have been in operation for less than five years. For sure, a lot of businesses will be seeing rebuilding related activity as an opportunity, but the challenge is whether the balance sheet can stretch that far. According to our contacts, there are going to be some issues here.
- **We are closely watching the tourism sector.** Forty-five thousand offshore tourists come through Christchurch international airport each month. There will be the obvious displacement effects as a number of tourists simply by-pass Christchurch. But tourism – both local (think the convention and conference market) and global, are both typically booked six months in advance. So the real test will come in Q1 2011.
- **Insurance impacts.** New Zealand insurance claims will be funded by global reinsurers overseas. While the damage done by the earthquake was substantial and is likely to have been one of the biggest insurance events in our history, it pales in comparison to major disasters overseas. Reinsurance companies typically set premiums on a global basis, making adjustments for local events. Given that earthquake risk applies nationwide, the likelihood is that nationwide premiums will rise as a result. As an illustration, assuming that the costs of home and contents insurance increase by 10 percent (which some would deem conservative given increases in insurance premiums of late), the additional cost to households is approximately \$180m per annum or 0.2 percent of household consumption. Higher insurance costs will also filter through into higher rents and will add to business cost structures.
- **Of course all this needs to be read against the obvious boom to construction and durable related spending.** As noted earlier, \$4 billion seems about right, which spread over two years is broadly an economic impulse of around 1 percent of GDP per annum. We expect that the work will be spread over at least two years, with non-residential work getting the higher priority. Although there is some spare capacity in the industry and building regulations are likely to be

MORE THOUGHTS ON THE CANTERBURY EARTHQUAKE

relaxed, overseas experience suggests it is likely to take a number of years.

As a rough guide, we have pulled together the table below. The numbers themselves are largely meaningless in our eyes. The key point is to illustrate some of the broader channels that will manifest. While our analysis has centred on the Canterbury region, we also need to bear in mind that displacement and dislocation in some regions can also typically lead to a substitution effect in others. The earthquake is likely to have had an impact on business and consumer confidence, with greater caution in households and business spending likely to weigh on economic activity.

Illustrative 2-year impacts	
	% GDP
Tourism	-0.1pa
Asset values / wealth effect	-0.1pa
Higher premiums	-0.1pa
Q3 and Q4 disruption	-0.9%
Confidence	-??
SME dislocation	-0.1
Rebuilding / durable upswing	+2.0
Aggregate net impact	+0.5

* 2010 impact only. Aggregate impact does not sum due to rounding.

Sources: ANZ, National Bank, NZIER, Statistics NZ

SEPTEMBER MONETARY POLICY STATEMENT PREVIEW

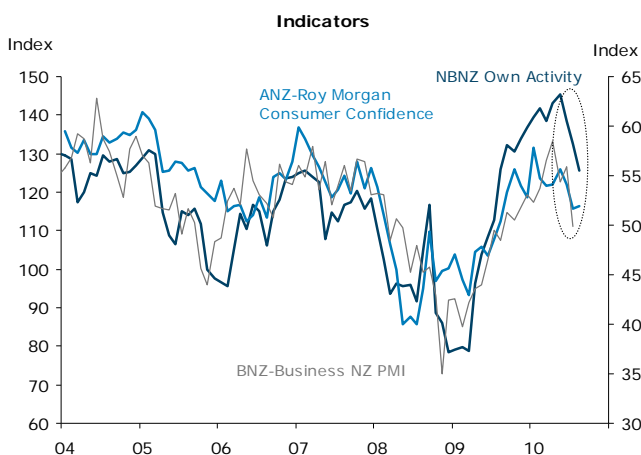
SUMMARY

We expect the RBNZ to leave the OCR unchanged at 3 percent. The patchiness of the domestic and global economy, not to mention the need to provide further support in the aftermath of the Canterbury earthquake, are expected to keep the OCR at 3 percent over the remainder of 2010. There will be a greater than usual degree of uncertainty in the RBNZ's economic projections and their 90-day profile. We expect this message to be emphasised in the OCR assessment, with the RBNZ committing to stimulatory policy for longer relative to their June assessment. But such support in the near-term in light of economic developments likely comes with a sting in its tail. At some stage the RBNZ will likely end up having to move more decisively. The RBNZ may shy away from highlighting this on Thursday given the obvious uncertainties (including of the seismic variety), but we must not lose sight of the fact that the medium-term outlook for rates is still up.

WEAKER UNDERLYING PACE OF GROWTH, AND AN EARTHQUAKE TO BOOT

It has been apparent that momentum in the economy has been easing in recent months.

Soft leading indicators, including business and consumer confidence, are consistent with modest growth. The fall in the unemployment rate from its December 2009 peak was not as large as initially thought, and employment intentions have been easing. The underlying quarterly pace of the economy is around $\frac{1}{2}$ to $\frac{3}{4}$ percent at present, as opposed to the 1 percent the RBNZ forecast in their June *Monetary Policy Statement*. The softer outlook was acknowledged at the July OCR *Review*, and the latest speech by the Governor explicitly noted that the recovery was not a fast or robust one compared to the past.



Sources: ANZ, National Bank, Business NZ

If this wasn't enough, the second largest finance company in NZ (though small as a proportion of total financial system assets) has been put in receivership. **This, alongside ongoing uncertainty in the global economy, was sufficient cause to see the RBNZ pause in September.**

In our view, the Canterbury earthquake has not only cemented a pause, but we suspect the RBNZ may well now be on hold until Q1 next year. There are three reasons for seeing the RBNZ stay at the sidelines till next year:

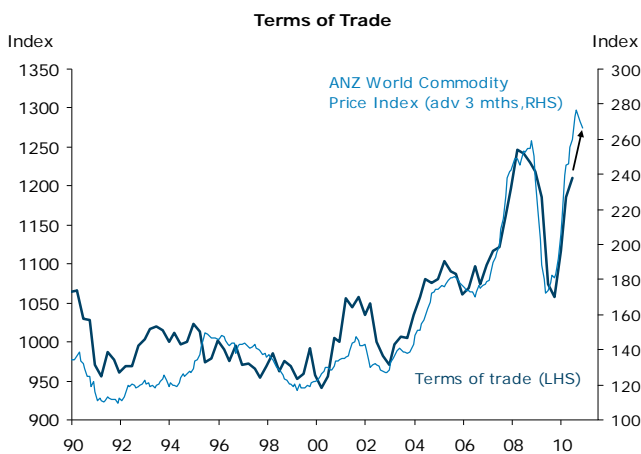
- **Help support confidence.** How policymakers respond is important in restoring confidence in the near-term, which will most likely be hit by the earthquake. The economy was already slowing, and the nation's balance sheet will be negatively impacted by the earthquake.
- **Waiting until a clearer picture emerges.** There will undoubtedly be a negative impact on Q3 and Q4 GDP, though the extent of it will not be obvious for some time. The speed of the reconstruction and how much of business and other activity can return to normal is unclear, with aftershocks creating even more uncertainty. On top of likely behavioural changes associated with the GST increase and tax cuts on 1 October, which will result in very volatile data over the coming months, a clearer picture of the true state of the economy will only start to become apparent early next year. As a general rule in central banking, when in doubt, do no harm.
- **Invoke section 3 of the Policy Targets Agreement (PTA)**, which outlines events that would result in a temporary impact but which will cause actual CPI inflation to vary around the medium-term trend of inflation. Changes in indirect taxes and a natural disaster affecting a major part of the economy are two explicit examples cited, and the RBNZ will look through the temporary inflation impact of both the GST increase and the Canterbury earthquake. In the case of the GST impact, the RBNZ was already focusing on an inflation ex-policy changes measure. It could be that an ex-Canterbury inflation measure would need to be created and monitored.

Of course, **providing support in the near-term in light of economic developments likely comes with a sting in its tail.** At some stage the RBNZ will likely end up having to move more decisively. This is of course subject to the obvious uncertainties clearing somewhat. And while we certainly expect volatility to remain, it is hard to see the current batch

SEPTEMBER MONETARY POLICY STATEMENT PREVIEW

of dislocation extending well into 2011.

In this regard, it is important to recognise that it is not all one way traffic. There are some positives to point to. The Australian economy continues to show strength and emerging economies are playing an increasingly influential role in New Zealand's export performance. While growth is set to slow in the second half of the year, the pace of growth in the Asian economies and Australia is still expected to be robust. In addition, commodity export prices remain at historically high levels. The jump in whole milk powder prices in the early September *globalDairyTrade* online auction and Fonterra's bullish assessment suggest commodity prices are set to stay elevated for a while. These point to New Zealand's terms of trade exceeding the March 2008 peak by the end of this year, which will provide an income boost to the economy.



RBNZ FORECASTS MORE UNCERTAIN THAT USUAL

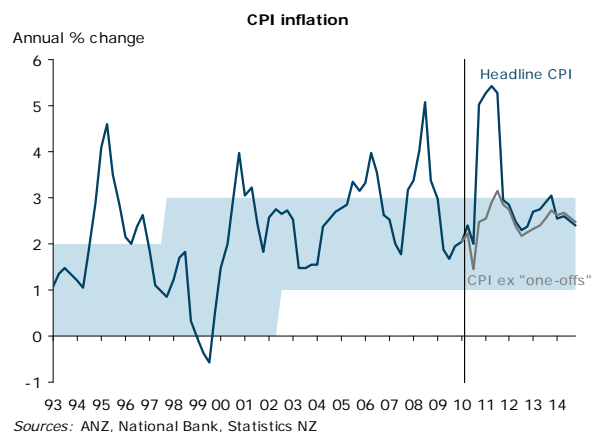
It was already clear from the July OCR assessment that the RBNZ was going to downgrade their economic forecasts and present a more moderate 90-day profile relative to the June *Statement*. Incorporating the earthquake impact will see even larger downward revisions to the near-term growth forecasts, but a likely upward revision to forecasts for economic activity over calendar 2011 and 2012. We expect the 90-day profile to be flat for the rest of this year, and rise gradually from Q1 next year, but at a more measured pace relative to June.

However, **given the difficulty in accurately quantifying the impact of the earthquake, not to mention the ongoing uncertainty in the global economy, the forecasts will contain a higher degree of uncertainty that usual. It should be the broad spirit that will be important, in terms**

of determining at what point the RBNZ will feel sufficiently confident to resume further removal of policy stimulus.

The short-term inflation outlook remains challenging. Government related one-offs, most notably the Emissions Trading Scheme related charges (from July), and the October 1 rise in GST to 15 percent, are expected to temporarily add to inflation. Despite signs of moderating activity, annual inflation is still set to rise above 5 percent by mid-2011.

The RBNZ will continue to emphasise the need to prevent second round inflation impacts, particularly in the area of construction costs. The earthquake provides the RBNZ with the necessary flexibility to look through short-term inflation volatility but they are likely to remain concerned over limiting potential second round effects onto wages and prices throughout the economy – themes the governor chose to reinforce in his latest speech. The moderation in the 2-year ahead forecast for CPI inflation in the September RBNZ survey (to 2.6 percent), provides them with some wiggle room but they will remain mindful of the inflation risks. We expect the *Statement* will continue to have some clearly directed wording towards ensuring that first round price increases do not seep into wage and price setting behaviour, and that the increase in construction activity in the Canterbury region do not result in creeping construction costs in other parts of the country.



PROVIDING SUPPORT BUT KEEPING MINDFUL OF THE INFLATION RISKS

We see the RBNZ designing a statement that **leaves itself maximum flexibility over the path of the OCR.** We expect the RBNZ to deliver a relatively sober near-term activity assessment, which will give way to a strong cyclical recovery in 2011. This will remain conditional on the foreshadowed

SEPTEMBER MONETARY POLICY STATEMENT PREVIEW

global recovery eventuating, and on export commodity prices providing continued support. Of course, some strongly worded phrases towards the inflation trajectory will be necessary to show they remain mindful of the inflation risks.

We expect the RBNZ's published 90-day profile to be considerably more gradual than the June Statement. The July OCR noted that the pace and extent of future OCR increases was likely to be more moderate than was projected in the June Statement. If anything, recent events are likely to translate into a later start of the tightening cycle. The endpoint for the 90-day track is expected to settle below 6 percent from mid-2012. This is considerably lower than previous tightening cycles, which is intended to show that financial conditions are expected to remain tighter than implied by the level of the OCR and that the neutral OCR is potentially lower. But it will be higher than where current market pricing implies.

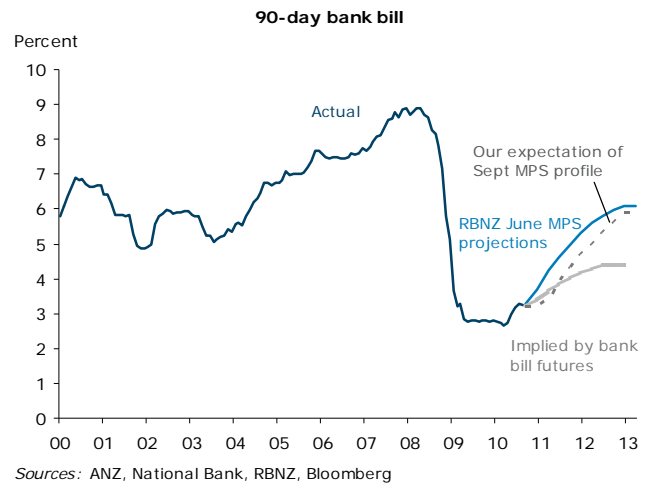
We expect the tightening cycle to resume in 2011. The economy certainly needs monetary policy to remain supportive, but a 3 percent OCR is still extraordinarily low. Moreover, there are inflation risks to be mindful of, the yield curve is now flatter and in a few months time the global and local picture could look far better. **Pausing may be the path of least regret at present, but it does not come risk-free. By exercising a more patient stance in the near-term, we remain attuned to the possibility that the tightening cycle in 2011 may have to be more aggressive than flagged in the June Statement.**

FINANCIAL MARKET IMPLICATIONS

We suspect the RBNZ will try to deliver a statement that generates minimal market reaction. **The challenge for the RBNZ remains how to continue moving policy interest rates towards less stimulatory settings without derailing the economic recovery.** This will be a difficult balancing act to achieve considering the structural forces (e.g. deleveraging, tax and regulatory changes) that are occurring at the same time as cyclical influences and one-offs like the earthquake. We expect that the RBNZ will talk up the strength of the economy in 2011, with the gradual removal of policy stimulus the prudent course of action. However, given considerable uncertainties over the supply-side performance of the economy there is the risk that capacity constraints could prove more influential sooner than the RBNZ assume. This could see more aggressive policy tightening from next year.

Though we expect a more gradual 90-day profile compared to June, the reality is that it

will show a higher path for rates relative to what is currently priced in by the market. In this respect, the risk is that the market gets a bit of a wake-up call from the RBNZ's 90-day bill track. It is certainly difficult to see the RBNZ condoning a 4.4 peak in the 3-mth bill rates as market pricing implies.



OUR EXPECTATION OF RBNZ PROJECTIONS (JUNE 2010 MPS IN BRACKETS)

	90-DAY	TWI	CPI (ANN % CHG)	GDP (ANN AVE % CHG)
Q3 2010	3.2 (3.3)	67.0 (66.0)		
Q4	3.2 (3.7)	66.2 (65.4)		
Q1 2011	3.4 (4.2)	65.4 (64.9)	4.7 (4.8)	2.4 (3.5)
Q2	3.9 (4.6)	64.7 (64.4)		
Q3	4.3 (5.0)	64.0 (63.8)		
Q4	4.7 (5.3)	63.3 (63.3)		
Q1 2012	5.0 (5.6)	62.6 (62.9)	2.7 (2.8)	4.0 (3.6)
Q2	5.3 (5.8)	62.2 (62.3)		
Q3	5.6 (6.0)	61.8 (62.0)		
Q4	5.9 (6.1)	61.4 (61.7)		
Q1 2013	5.9 (6.1)	61.0 (61.2)	2.8 (2.7)	2.3 (2.0)

INTEREST RATE STRATEGY

SUMMARY

Most commentators (including ourselves) expect the RBNZ to leave the OCR unchanged on Thursday. A pause is unusual early in the cycle, but with the economy losing momentum, some seismic anomalies and core inflation tame, there is simply no urgency to raise rates. Furthermore, a pause will allow the RBNZ to assess the impact of weakening business confidence, global uncertainty, and the effects of the Canterbury earthquake. This is now largely priced in – so much so that we believe the market is now under-pricing a resumption to the tightening cycle in 2011. The big question is; what's next?

MARKET THEMES

- We had already been of the view that the RBNZ would pause before the earthquake. This is now the consensus. But while a pause is on the cards, has the market gone too far? We suspect so.
- Upbeat Chinese data and a rebound in US equity markets have put the US bond market on the back foot. The pertinent question – is this a correction, or the start of a new up-trend?
- Pay side pressure has been evident in the swap market. The risk is it becomes self-fulfilling, adding short term upward pressure on rates.

REVIEW AND OUTLOOK

We expect the RBNZ to leave the OCR on hold on Thursday. But as we note in more detail on page 9, once near-term uncertainty subsides, at some stage (sooner rather than later), the RBNZ will need to act decisively. With what's priced in so sanguine, the risk is the market gets a bit of a wake-up call from the RBNZ's 90-day bill track. It is certainly difficult to see the RBNZ condoning a 4.4 peak in the 3-mth bill rates as market pricing implies. In that regard, we see upside risks emanating from the MPS.

US 10yr Treasury yields are around 10bps higher than they were a week ago, at close to 2.8 percent. This is nearly 40bps off the intraday low two weeks ago, representing a significant correction. But is it a game-changer? Is this the start of a new trend? It could be, but we don't think it is. The market always looked a little stretched – having rallied from just under 3 percent to just above 2.4 percent in the space of just 3 weeks. Comments from Fed officials also suggest that the hurdle for QE or some other unconventional form of easing remains high. But the fact remains that the US jobs market remains weak, and inflation continues to fall. Indeed, the unemployment rate has been above 9 percent for 16 months, and headline inflation is at a 48 year low. This may not be enough to prompt more Fed action,

but it will be some time before US rates need to rise, and this should keep a lid on yields.

With US rates set to remain low for a while yet, and possibly at the top of a corrective phase, we don't expect more upward pressure on rates from the US. However, **Australian interest rates will have an impact on NZ rates.** At this stage the RBA remain in pause mode – but if they do start raising rates later in the year (and our Australian colleagues have 50bps of hikes by year end), that will hone the NZ market's attention to the potential for OCR rises here. Flow will also have an impact. **Pay side pressure has been evident, and it has the potential to be self-fulfilling** in the near term – especially as it makes sense to be adding to hedges at these levels, as we note below.

PREFERRED BORROWING STRATEGIES

Paying on dips remains a valid strategy – and those who have done so will be pleased they did. As we have long argued, rates have been held artificially low by global events, so it makes sense to cash in on that distortion. Expect more volatility from here on in, if as we suspect, the correction in US rates is close to completion, which will add to downward pressure. However, a higher RBNZ bill track may rattle what appears to be a complacent market.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	No change this week but bill track could rattle market.
NZ data	↔	Lacklustre theme continues.
Fed Funds / front end	↔	Expectations of QE have faded, but still a possibility.
RBA	↔/↑	More data surprises.
US 10 year	↔/↓	Correction looks complete.
NZ swap curve	↔/↓	Short end biased higher on MPS, long end biased lower.
Flow	↔/↑	Pay side flow dominating.
Technicals	↔/↑	Momentum up short term.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 16-Sep-10	+5	+3
Thu 28-Oct-10	+10	+8
Thu 9-Dec-10	+16	+14
Thu 27-Jan-11	+24	+25
Thu 10-Mar-11	+36	+38
Thu 28-Apr-11	+43	+47
Thu 9-Jun-11	+47	+56

TRADING THEMES WE FAVOUR AT PRESENT

Look to instigate flatteners and outright shorts in 12mth OIS ahead of the MPS. We just can't see the RBNZ bill track affirming the complacency evident in market pricing.

CURRENCY STRATEGY

SUMMARY

As expected, the NZD felt no ill effects from last week's Canterbury earthquake. Data from China during the weekend gives the market another reason to be positive about the "new world" currencies. New Basel III rules likely to put pressure on European banks, which will weigh on the euro, although they have 8 years to get in line.

MARKET THEMES

- Market wants reasons to buy NZD and AUD. Strong China data delivers another reason.
- NZD/AUD cross support at 0.7800 held again. Broader range still 0.7800 - 0.8050.
- We sense a shift from "risk on/risk off" to "new world/old world" currency trade themes.
- EUR and GBP lagging will give NZD strength on crosses. Expect NZ TWI to test 68.75 this week (currently 67.88).

REVIEW AND OUTLOOK

The NZD suffered no ill effects following the Canterbury earthquake. Now, the data flow from offshore is providing the currency with support. A raft of data from China on Saturday has provided a reason for market participants to be favourable of commodity currencies, including the NZD. It is perhaps timely to remind ourselves not to get too bullish as we approach the top of the broad trading range we have been in for the last 9 months, given the number of times we have been disappointed expecting a break of either side of that range. RBNZ *Monetary Policy Statement* announcement on Thursday may provide a dip. We see the weekly trading range at 0.7240 to 0.7440.

In Australia, the election result (finally!) and the RBA cash rate announcement brought some stability back to AUD. Stronger employment data in Australia last week combined with strong Chinese data released during the weekend continue to give the AUD a positive bias. Range for this week is 0.9220 to 0.9400. On NZD/AUD there seems little to cause a dramatic shift in that currency pair so we continue to expect the familiar range of 0.7800 to 0.8000 to hold.

A shift in market themes from "risk on/risk off" to "new world/old world" will see EUR and GBP slip on the crosses. The release of the new Basel III rules shows that European banks need large increases in capital to reach minimum requirements. While they have some 8 years to achieve this, we can expect the news to undermine the EUR during this week.

On JPY some verbal intervention has continued but expectations of action remain low. JPY activity seems quiet but the strengthening trend remains. Key support in USD/JPY is at 82.90. The subdued nature of JPY trading, combined with the positive bias to NZD, should see NZD/JPY trade towards 63.50.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔	Not that far off fair value.
Yield	↔	RBNZ on hold. RBA too "for the time being."
Commodities	↔	Soft commodities performing better, lending support to NZD.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↔	Support at 0.7800, resistance at 0.8000.
Sentiment	↔	Equities and China still influential.
Other	↑	Earthquake insurance flows to support NZD.
On balance	↔	Range trade 0.78-0.82.
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	↑	FOMC to hold long end down.
Commodities	↔/↑	Remain supportive overall.
Risk aversion	↑	Positive global data supporting risk-taking.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔	Support at 0.7240. Resistance at 0.7350.
AUD	↑	Australian economic data to lift.
Sentiment	↑	"New world/old world" theme shifting NZD sentiment toward Australia/Asia.
Other	↔/↑	Earthquake insurance flows to support NZD.
On balance	↔/↑	Remains overall supported sub 0.70.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Sep	US	Monthly Budget Statement - AUG	-\$95.0B	-\$103.6B	06:00
	NZ	REINZ Housing Price Index MoM% - AUG	- -	-1.2%	10:00
	NZ	REINZ House Sales YoY% - AUG	- -	-26.7%	10:00
	NZ	Retail Sales (MoM) - JUL	0.00%	0.9%	10:45
	NZ	NZ Card Spending (MoM) - AUG	- -	-10.0%	10:45
	NZ	Retail Sales Ex-Auto (MoM) - JUL	0.10%	1.5%	10:45
	UK	RICS House Price Balance - AUG	-12%	-8.0%	11:01
	UK	Nationwide Consumer Confidence - AUG	60	56	11:01
	AU	NAB Business Confidence - AUG	- -	2	13:30
	AU	NAB Business Conditions - AUG	- -	5	13:30
	NZ	Non Resident Bond Holdings - AUG	- -	62.8%	15:00
	JN	Industrial Production (MoM) - JUL F	- -	0.3%	16:30
	JN	Capacity Utilization (MoM) - JUL F	- -	- -	16:30
	UK	DCLG UK House Prices (YoY) - JUL	8.40%	9.9%	20:30
	UK	CPI (MoM) - AUG	0.30%	-0.2%	20:30
	UK	CPI (YoY) - AUG	3.00%	3.1%	20:30
	UK	Core CPI YOY - AUG	2.50%	2.6%	20:30
	EC	Euro-Zone Labour Costs (YoY) - 2Q	- -	2.1%	21:00
	EC	ZEW Survey (Econ. Sentiment) - SEP	14.5	15.8	21:00
	EC	Euro-Zone Ind. Prod. sa (MoM) - JUL	0.10%	-0.10%	21:00
	GE	ZEW Survey (Econ. Sentiment) - SEP	10	14	21:00
	GE	Zew Survey (Current Situation) - SEP	50	44.3	21:00
15-Sep	US	Advance Retail Sales - AUG	0.30%	0.4%	00:30
	US	Retail Sales Ex Auto & Gas - AUG	0.40%	-0.1%	00:30
	US	IBD/TIPP Economic Optimism - SEP	44	43.6	02:00
	US	Business Inventories - JUL	0.60%	0.3%	02:00
	AU	Westpac Consumer Confidence - SEP	- -	5.4%	12:30
	AU	DEWR Skilled Vacancies MoM - SEP	- -	-0.3%	13:00
	AU	Dwelling Starts - 2Q	4.50%	4.0%	13:30
	UK	Claimant Count Rate - AUG	4.50%	4.5%	20:30
	UK	Jobless Claims Change - AUG	-3.0K	-3.8K	20:30
	UK	Average Weekly Earnings 3M/YoY - JUL	1.70%	1.3%	20:30
	UK	ILO Unemployment Rate (3mths) - JUL	7.80%	7.8%	20:30
	EC	Euro-Zone CPI (MoM) - AUG	0.20%	-0.3%	21:00
	EC	Euro-Zone CPI (YoY) - AUG F	1.60%	1.6%	21:00
	EC	Euro-Zone CPI - Core (YoY) - AUG	0.90%	1.0%	21:00
	EC	Eurozone Employment (QoQ) - 2Q	- -	0.0%	21:00
	EC	Eurozone Employment (YoY) - 2Q	- -	-1.2%	21:00
16-Sep	US	Import Price Index (MoM) - AUG	0.20%	0.2%	00:30
	US	Import Price Index (YoY) - AUG	3.70%	4.9%	00:30
	US	Empire Manufacturing - SEP	8	7.1	00:30
	US	Industrial Production - AUG	0.20%	1.0%	01:15
	US	Capacity Utilization - AUG	75.00%	74.8%	01:15
	NZ	RBNZ Official Cash Rate - SEP	3.00%	3.00%	09:00
	NZ	Business NZ PMI - AUG	- -	49.9	10:30
	AU	Consumer Inflation Expectation - SEP	- -	2.8%	13:00
	AU	Westpac ACCI 3rd Qtr Industrial Survey - Q3	- -	- -	13:00
	UK	Retail Sales (MoM) - AUG	0.30%	1.1%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Sep	UK	Retail Sales Ex Auto Fuel (MoM) - AUG	0.20%	0.9%	20:30
	EC	Euro-Zone Trade Balance sa - JUL	-0.5B	-1.6B	21:00
	UK	CBI Trends Total Orders - SEP	- -	-14	22:00
17-Sep	US	Producer Price Index (MoM) - AUG	0.30%	0.2%	00:30
	US	PPI Ex Food & Energy (MoM) - AUG	0.10%	0.3%	00:30
	US	Producer Price Index (YoY) - AUG	3.00%	4.2%	00:30
	US	PPI Ex Food & Energy (YoY) - AUG	1.30%	1.5%	00:30
	US	Initial Jobless Claims - 11 SEP	458K	451K	00:30
	US	Continuing Claims - 4 SEP	4468K	4478K	00:30
	US	Current Account Balance - 2Q	-\$125.0B	-\$109.0B	00:30
	US	Net Long-term TIC Flows - JUL	\$42.0B	\$44.4B	01:00
	US	Total Net TIC Flows - JUL	- -	-\$6.7B	01:00
	US	Philadelphia Fed Index - SEP	0	-7.7	02:00
	GE	Producer Prices (MoM) - AUG	0.30%	0.5%	18:00
	GE	Producer Prices (YoY) - AUG	3.50%	3.7%	18:00
	EC	Euro-Zone Current Account nsa - JUL	- -	1.0B	20:00
	EC	Construction Output SA MoM - JUL	- -	2.7%	21:00
18-Sep	US	Consumer Price Index (MoM) - AUG	0.30%	0.3%	00:30
	US	CPI Ex Food & Energy (MoM) - AUG	0.10%	0.1%	00:30
	US	Consumer Price Index (YoY) - AUG	1.10%	1.2%	00:30
	US	CPI Ex Food & Energy (YoY) - AUG	1.00%	0.9%	00:30
	US	U. of Michigan Confidence - SEP P	70	68.9	01:55

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.

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Interpreting the Q3 and Q4 data outturns will be particularly challenging given the influence of the earthquake. Published partial indicators for Q2 GDP suggest the pace is likely to be respectable but with strong divergences as shown by the surge in building work but slump in manufacturing activity. As a result of earthquake disruptions, we expect a weaker Q3 and Q4 print for GDP. We will continue to closely watch the soft gauges for signs of direction but remain mindful of the earthquake impact on sentiment. We expect reconstruction work will provide support for a broad based rebound in economic activity from 2011.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 14 Sep (10:00am)	REINZ Housing Market Statistics – Aug	Flat	The stand-off between buyers and sellers is likely to continue, with only a small increase in sales volumes expected to eventuate. Prices are expected to remain flat to falling.
Tue 14 Sep (10:45am)	SNZ Electronic Card Transactions - Aug	Rising	Stronger July core spending suggests retailing is finding its feet, although households remain cautious. The weakness in fuel retailing in July was suspicious, which could rebound in August. Still waiting for a tangible Rugby World Cup ticket sales effect.
Tue 14 Sep (10:45am)	Retail Trade Survey – Jul	Flat	The June report highlighted more vigour. Retail indicators suggest the possibility of a slight pullback in July. The spirit remains of a strengthening trend in retail spending till October, followed by a period of consolidation.
Thur 16 Sep (early am)	globalDairyTrade online auction	Moving higher	We expect a 5 percent increase in whole milk powder prices to around US\$3,800 per tonne.
Tue 21 Sep (10:45am)	International Travel and Migration - Aug	Up	Last month's 1,000 net inflow was a welcome development. We expect a similarly sized inflow but risks of a pick-up in departures (after last month's fall) point to a smaller net inflow.
Tue 21 Sep (10:45am)	RBNZ Credit Card Billings - Aug	Improving	We expect a 1 percent increase in billings, partly reversing the 1.2 percent decline in July. Retail spending is still not off to the races.
Wed 22 Sep (10:45am)	Balance of Payments – Q2	Back to usual	Despite a large trade surplus we expect a large investment income deficit to deliver a quarterly deficit. The annual deficit is expected to climb to 3.5 percent of GDP.
Fri 24 Sep (10:45am)	Gross Domestic Product – Q2	Respectable	We expect a 0.7 percent increase. Lower manufacturing sector production to be offset by firming construction work.
Wed 29 Sep (10:45am)	Overseas Merchandise Trade - Aug	In the red	We expect a monthly deficit of \$400m. Seasonal factors, a higher NZD/USD, and lower commodity prices should weigh on export values. The annual trade surplus should climb to \$900m.
Wed 29 Sep (3:00pm)	RBNZ Credit Aggregates - Aug	Subdued	Deleveraging is ongoing with the subdued housing market likely to keep housing credit growth low.
Thur 30 Sep (10:45am)	Building Consents - Aug	Rising	Some reversal of the July fall in ex-apartment consents is expected. The key will be whether non-residential consents maintain recent vigour.
On Balance			August data mixed but activity and confidence data for Q3 and Q4 will be subdued.

ECONOMIC FORECASTS AND INDICATORS

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.3	0.9	0.6	0.7	0.2	0.3	1.2	1.4	1.6	0.5
GDP (% yoy)	-1.5	0.5	1.9	2.5	2.4	1.8	2.4	3.1	4.6	4.8
CPI (% qoq)	1.3	-0.2	0.4	0.3	1.1	2.8	0.6	1.0	0.8	0.5
CPI (% yoy)	1.7	2.0	2.0	1.8	1.6	4.6	4.8	5.6	5.3	3.0
Employment (% qoq)	-0.8	0.0	1.0	-0.3	0.5	0.4	0.6	0.7	0.6	0.4
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	1.3	1.6	1.2	2.2	2.3	2.3
Unemployment Rate (% sa)	6.5	7.1	6.0	6.8	6.6	6.4	6.1	5.7	5.5	5.4
Current Account (% GDP)	-3.2	-2.9	-2.4	-3.5	-4.5	-3.7	-4.0	-3.8	-3.6	-3.6
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	3.0	1.0	-0.5	-0.7	0.0	-1.0
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	17.9	12.5	5.6	2.7	-0.2	-2.1

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Retail Sales (% mom)	0.7	-0.5	0.7	-0.6	0.5	-0.3	0.4	0.9
Retail Sales (% yoy)	2.4	2.0	2.3	2.4	4.4	2.7	1.9	3.4
Credit Card Billings (% mom)	0.8	-1.2	1.6	-0.2	0.8	-1.7	1.9	1.0	-1.2	..
Credit Card Billings (% yoy)	1.6	1.9	2.6	1.1	5.2	0.8	3.4	4.4	2.7	..
Car Registrations (% mom)	2.3	6.8	-0.6	0.4	5.2	2.9	-3.8	5.6	-6.4	-0.2
Car Registrations (% yoy)	2.4	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0	19.0
Building Consents (% mom)	0.8	-3.7	-2.7	6.1	-0.3	8.5	-9.2	3.3	3.2	..
Building Consents (% yoy)	20.3	22.7	35.4	29.9	33.3	32.0	11.1	27.9	26.5	..
REINZ House Price (% yoy)	5.2	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6	..
Household Lending Growth (% mom)	0.0	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	..
Household Lending Growth (% yoy)	2.7	2.7	2.7	2.7	2.8	2.7	2.5	2.5	2.3	..
ANZ-Roy Morgan Consumer Confidence	121.5	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3
NBNZ Business Confidence	43.4	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9	16.4
NBNZ Own Activity Outlook	33.7	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4	25.7
Trade Balance (\$m)	-280	-26	271	328	608	660	765	214	-186	..
Trade Balance (\$m annual)	-863	-549	-176	-330	-160	178	37	581	573	..
ANZ World Commodity Price Index (% mom)	11.0	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4
ANZ World Commodity Price Index (% yoy)	17.8	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.3	38.6
Net Migration (sa)	1750	1690	1840	1000	950	760	300	140	970	..
Net Migration (annual)	20021	21253	22588	21618	20973	19954	17967	16504	15221	..

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	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.726	0.699	0.731	0.710	0.720	0.730	0.730	0.720	0.710	0.700
NZD/AUD	0.802	0.785	0.787	0.789	0.783	0.777	0.777	0.783	0.789	0.795
NZD/EUR	0.556	0.551	0.575	0.592	0.600	0.608	0.608	0.610	0.602	0.583
NZD/JPY	62.78	58.86	61.64	58.22	62.64	64.97	67.16	67.68	69.58	70.00
NZD/GBP	0.463	0.455	0.476	0.458	0.459	0.465	0.474	0.462	0.449	0.432
NZ\$ TWI	67.5	65.5	67.9	67.1	68.3	69.2	69.6	69.4	69.2	68.3
INTEREST RATES	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	4.00	4.50	5.00	5.50	5.50
NZ 90 day bill	3.27	3.21	3.20	3.30	3.70	4.40	4.90	5.40	5.80	5.80
NZ 10-yr bond	5.33	5.13	5.43	5.50	5.60	5.80	6.20	6.20	6.10	6.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.45	0.30	0.29	0.35	0.35	0.35	0.60	0.85	1.35	1.85
AU Cash Rate	4.50	4.50	4.50	5.00	5.25	5.50	5.75	6.00	6.00	6.00
AU 3-mth	4.78	4.75	4.79	5.30	5.60	6.00	6.00	6.20	6.10	6.10

	10 Aug	6 Sep	7 Sep	8 Sep	9 Sep	10 Sep
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.29	3.20	3.19	3.20	3.20	3.19
NZGB 11/11	3.66	3.72	3.75	3.73	3.74	3.77
NZGB 04/13	4.16	4.16	4.19	4.18	4.18	4.21
NZGB 12/17	5.07	5.11	5.13	5.11	5.11	5.12
NZGB 05/21	5.38	5.42	5.43	5.40	5.40	5.41
2 year swap	3.97	3.84	3.88	3.84	3.87	3.88
5 year swap	4.54	4.50	4.50	4.45	4.47	4.49
RBNZ TWI	66.9	67.0	67.2	66.8	67.1	67.3
NZD/USD	0.7236	0.7228	0.7243	0.7175	0.7219	0.7236
NZD/AUD	0.7937	0.7879	0.7897	0.7864	0.7839	0.7853
NZD/JPY	62.10	60.98	60.96	59.85	60.46	60.84
NZD/GBP	0.4578	0.4670	0.4708	0.4667	0.4672	0.4697
NZD/EUR	0.5503	0.5604	0.5652	0.5649	0.5682	0.5711
AUD/USD	0.9117	0.9174	0.9172	0.9124	0.9209	0.9214
EUR/USD	1.3148	1.2899	1.2814	1.2702	1.2705	1.2671
USD/JPY	85.82	84.36	84.17	83.41	83.75	84.08
GBP/USD	1.5807	1.5477	1.5386	1.5374	1.5452	1.5405
Oil (US\$/bbl)	81.46	74.52	74.08	73.98	74.65	74.25
Gold (US\$/oz)	1200.55	1248.55	1249.58	1257.83	1256.70	1247.43
Electricity (Haywards)	8.29	13.98	2.40	2.54	2.09	0.52
Milk futures (US\$/contract)	116	#N/A	120	120	120	120
Baltic Dry Freight Index	2212	2881	2918	2975	2988	2995

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;

IMPORTANT NOTICE

- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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