

KEY MACRO THEMES FOR 2008

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- > The global backdrop continues to dominate, with markets on edge. Domestically, the week is busy on the data front. QSBO and CPI will be the major focus and should illustrate the still elevated level of inflationary pressures within the economy. However, we are not expecting them to provide a smoking gun for higher interest rates, particularly given signs of slowing domestic demand and the current tenuous global setting.

Page 4: Economic comment – key macro themes for 2008

- > In this first *Market Focus* edition for 2008, we outline some of the themes that are evolving at present that are key to NZ's economic prospects. While a number are neither black nor white in terms of what may unfold, we need to be cognisant of such issues in formulating the risk profile.

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- > We present a table of global data outturns over the past week given the global economic significance at present. Over the past week the balance between upside and downside surprises looked relatively even, although there were some soft readings out of Europe and the UK. For the key Asian region, we note that Chinese export growth surprised on the downside and although it remains at an elevated level, it has gradually trended lower over the past 12 months – it is a key gauge to watch.

Page 10: Interest rate strategy

- > Heavy local data calendar to bring some focus back on domestic fundamentals. Payside bias to emerge heading into Q4 CPI release, but ranges to hold. Offshore events may end up having a greater influence in the week.

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- > US recessionary fears and expectations of further aggressive Fed interest rate cuts have the USD under pressure. This is pushing the NZD higher by default as interest rate differentials extend. However, global growth concerns continue to limit any major gains.

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ECONOMIC OVERVIEW

The global backdrop continues to dominate, with markets on edge. Domestically, the week is busy on the data front. QSBO and CPI will be the major focus and should illustrate the still elevated level of inflationary pressures within the economy. However, we are not expecting them to provide a smoking gun for higher interest rates, particularly given signs of slowing domestic demand and the current tenuous global setting.

What's ahead?

- > **NZIER Q4 QSBO** (Tuesday 1000 NZDT). Headline confidence and own activity expectations are expected to improve modestly and in line with the National Bank *Business Outlook*. Although easing slightly, resource pressure indicators are expected to remain elevated and indicative of near-term inflationary pressures.
- > **REINZ December Housing Report** (circa 15 January). After small increases over the previous two months, we expect house sales to fall over December. We also expect the themes of increasing days to sell and slowing house price growth to continue.
- > **NZ Q4 CPI** (Thursday 1045 NZDT). Headline inflation is expected to increase by 1.0 percent, taking annual inflation back to the top of the RBNZ's target band. Petrol and food prices make the largest contributions. Non-tradable and core inflation measures will remain elevated.
- > **NZ November Retail Sales** (Friday 1045 NZDT). Sales are expected to rebound modestly in the month after a large fall recorded in October. Higher petrol prices will also add to the spending bill.

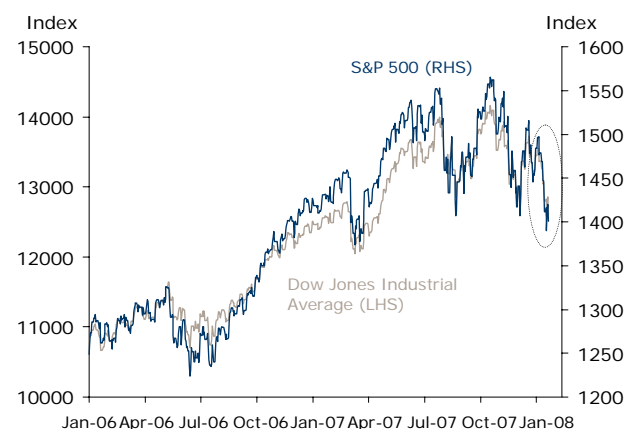
What's the view?

Even on holiday it's been difficult to completely break away from recent developments, and by-and-large the main story remains what is happening around the globe. The US economy now looks like it is in recession going by poor labour market figures, and two real-time bellwethers of "consumerism"; AT&T and American Express noting softness on the spending side of the economy. US equities have got off to their worst start to a year on record. The Dow is down around 11 percent since its record high achieved in October last year. Subprime woes continue to percolate, with speculation of further sizeable writeoffs (US\$15 billion for Merrill Lynch), and Bank of America coming to the rescue of Countrywide, who were seeing delinquency rates go through the roof.

Even expectations of a further aggressive easing in interest rates from the Federal Reserve (backed up by dovish comments by Chairman Bernanke last week) have failed to prop up stocks or sentiment. Moreover, there are growing rumours and innuendo of a potential intra-meeting move. European growth indicators have

also continued to print on the soft side, with confidence falling to a two-year low and annual retail sales growth at the lowest level since 1996 (refer to page 9 for other global data indicators released over the past week).

US stocks off to their worst start to a year on record



Sources: ANZ National, Bloomberg

Meanwhile, commodity prices continue to give us a mixed picture on the global economy. Oil prices briefly hit US\$100/bbl. A number of hard commodities, such as copper, have recovered somewhat, although positioning and reweighting looks to be playing a role. Conversely, lumber prices continue to ease, and the Baltic Dry Freight Index is still tracking down, although from lofty heights.

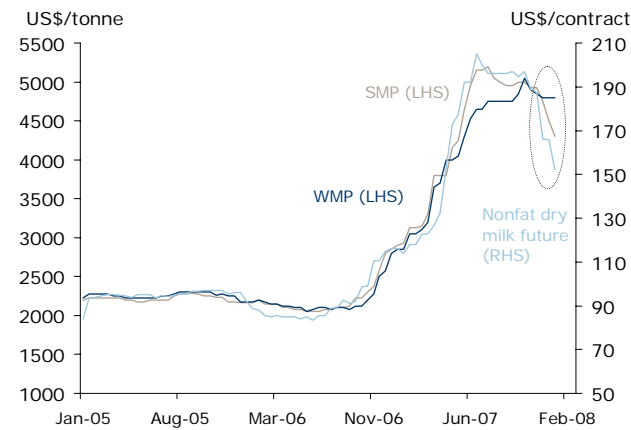
It's a picture that continues to fuel the decoupling / recoupling debate; this debate and the outcome is likely to determine the sort of landing the NZ economy achieves in 2008. Looking at the combination of credit dislocation, a weak prognosis for the US, and moderating growth in the UK, Europe and Japan, the international outlook remains in the balance. China and other emerging markets remain shining stars, but for how long? At present there is simply insufficient information to make a clear assessment. The risk profile looks to have a downward bias, but we've got our fingers, toes, and legs crossed.

New Zealand has not been immune to global developments. Three major banks raised fixed lending rates by 20 basis points last week in response to higher funding costs, a direct consequence of US and global developments. The credit channel of monetary policy – a key source of frustration by working against monetary policy over 2004 to 2007, is now working in the Reserve Bank's favour. For the housing market, which is already clearly weak, it's another cruel twist of the knife. Quotable Value figures still show house prices 10 percent up on a year ago, but prices falling now for two successive months. Brace for more of the same.

Looking at soft commodity prices – another global bellwether area, the picture remains mixed. December's world prices for soft commodities were flat, but was notable for the first reported decline in world dairy prices since August 2006. Of course, we can't read too much into one month's worth of data.

World dairy prices have still doubled in a year, and the overall index is still 35 percent above its previous cyclical peak. However, we also note that US nonfat dry milk futures prices – which have a reasonable but not perfect historical relationship with skim and whole-milk powder prices – are around 20 percent off their peak, and European dairy prices are softening faster than equivalent Oceania prices. Traditionally, a gap between the two has not lasted long. Even a 50 percent fall in world dairy prices (which is the historical pattern when commodity cycles turn but a structural element remains) would still leave them 50 percent above the level seen a year ago. However, land values are capitalising world dairy prices on the expectation of the dairy payout remaining at current levels. Of course this may be the case, but the current environment suggests there is a sizable risk of a less favourable commodity price outcome given the global backdrop, and rising milk production in the US.

Milk price comparisons



Moving to the data this week, it is a very busy and important week. The December quarter NZIER's QSBO and the CPI are both expected to reinforce the near-term inflationary risks still evident within the economy. Headline business confidence is expected to tick-up a tad, although consistent with sub-trend growth. More important gauges of resource pressure such as capacity utilisation and difficulty in finding staff should ease in the quarter but still remain elevated. While steps in the right direction, the picture will remain one of inflationary pressure persisting for some time. The CPI is expected to increase by 1.0 percent in the quarter courtesy of petrol and food price increases, although non-tradable and core measures of inflation will also remain stubbornly sticky. This should see annual inflation back at 3.0 percent – the top of the Reserve Bank's target band – illustrating the lack of inflation headroom the Bank currently face.

Despite reinforcement of the inflationary dynamic within the economy, we are not expecting the Reserve Bank to be pushing the panic buttons. Downside risks to the economy are now more prevalent, the global scene more tenuous and the housing market is very soft. It will simply take time for the disinflationary forces to come through, and in the meantime it's a

question of maintaining a stern line and making sure the pipeline tightening is cemented around the chunky mortgage rollover months in the first part of the year.

In terms of the housing market, the REINZ housing report for December (due mid-week) is again expected to be soft and mirror the recent Barfoot and Thompson report. That is, we are expecting house sales to fall after posting two small consecutive monthly increases. We speculated that the small rebound seen in October and November could be due to fixed mortgage rates falling slightly over that time, which may have encouraged buyers at the margin to jump in. Now that fixed rates have moved higher and are staying above 9 percent, with the popular 2-year rate at around 9.5 percent, buying demand is likely to have tapered off again. We are also expecting the recent trend of longer days to sell a house and moderating house price growth to continue.

The last piece of local data this week is retail sales for November. Spending is likely to have risen reasonably solidly over the month, partly reversing the weakness seen over October. Higher petrol prices explain some of the strength, as does an expected rebound in supermarket and grocery store spending, which has looked surprisingly soft over the past couple of months. However, looking through the monthly volatility, the trend for retail spending is expected to continue pointing lower, as a slowing housing market, increasing costs, and lower confidence continue to weigh.

Recent data...

- > **NZ Overseas Merchandise Trade (November).** A monthly trade deficit of \$646 million was recorded, reducing the annual deficit to \$5,653 million from \$5,827 million in October
- > **ANZ Commodity Price Index (December).** The world price index was flat over the month, with dairy prices falling for the first time since August 2006.
- > **QV House Prices (Dec):** Annual house price growth eased from 11.4 percent in November to 10.0 percent.

KEY MACRO ISSUES FOR 2008

In this first *Market Focus* edition for 2008, we outline some of the themes that are evolving at present that are key to NZ's economic prospects. While a number are neither black nor white in terms of what may unfold, we need to be cognisant of such issues in formulating the risk profile.

1. The credit cycle

Internationally, the past decade has seen a growing segment of literature penned towards the credit channel of monetary policy, in recognition of the role financial intermediaries and their associates play in the economic cycle. Cheap and easy credit is seen as supporting the boom and asset values at the top of the cycle. But of course there is also the reciprocal.

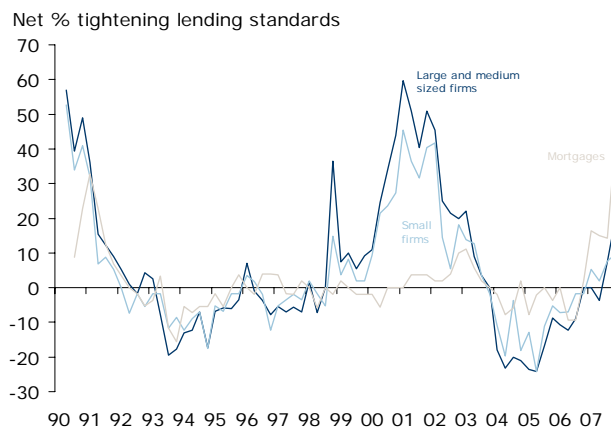
Low interest rates, surging asset values, massive competition across financial intermediaries and exceptional risk appetites led to a literal explosion. Absolute credit growth was huge, as was cross leverage and pyramiding (where leverage was built upon leverage). The credit channel was at work, and markets were developing complicated structures for investors at a rapid clip. It seemed that markets (and investors) could do no wrong, expecting (and being conditioned to expect) superior returns. This was until US subprime woes explicitly woke people up to the fact that higher returns does not come without risks, and outperformance comes with the risk that you may not get your money back!

The turn in the credit cycle, with subprime being the initial catalyst, continues to see risk progressively repriced and returning to more historical norms, albeit with a fair degree of volatility. US lending standards have tightened, and swap and credit spreads have widened, delivering a substantial tightening in financial conditions. Asset prices are under pressure. US house prices have fallen 5 percent from a year ago and the US equity market is down 5 to 8 percent since the start of the year. Despite the Fed trying to shore up sentiment, major uncertainties persist. How extensive are subprime and credit losses, who is holding them, and what is the extent of cross leverage or pyramiding? What will be the impact of tightened lending standards, particularly those that drive more speculative pockets of asset markets which tend to "ripple" across markets?

Traditional credit "events" have been business sector centric, sharp and aggressive leading to "V-shaped" economic outcomes. There is certainly a degree of this at present with recapitalisation of notable US financial institutions underway. However, this business cycle has been notable for the explosion in leverage across the household sector – traditionally the lower beta asset. A key uncertainty at present is how the consumer across western economies fare if asset prices are under pressure and discretionary income is being eaten up by rising costs, which is looking the case at present. Households take much longer to de-leverage and restore balance sheets, such

as was the case in the "U-shaped" global recession of the early 1990's.

US Fed senior loan officer lending survey



Sources: ANZ National, US Federal Reserve

From a central bank perspective, credit resides at the heart of the economic system. Bottom line is that the financial plumbing needs to work, and the Fed has been quick to respond to credit dislocation, seeking to restore confidence. However, confidence will not return to the market until the full extent of losses has been disclosed and cross holdings revealed – a development that continues to take time.

For NZ, there are a number of areas to watch. Firstly, there is the downstream impact on the global growth cycle, particularly whether the transmission of credit dislocation to the real economy remain contained to the US or extend into the broader global economy (refer point 2). Secondly, the credit nature of current dislocation highlights NZ's Achilles heel; a high current account deficit and huge levels of external debt. While the NZ financial system has performed well in the face of fickle global conditions and the banking system is sound, the progressive reassessment of risk is adding directly to wholesale funding costs. This has led to higher lending rates, delivering a further tightening in financial conditions, particularly to the housing market. The higher cost of internal funds is a cost borrowers will progressively have to pay. Finally, what will be the impact of altered credit availability? Unfortunately there is no lending appetite survey in NZ, unlike the US. However, we can safely say that the banking system per se is still functioning and open for business! Not a lot has really changed, although speculative or risky lending is being more closely perused – a prudent step in the current environment. However, liquidity appears to have either been withdrawn or made prohibitively expensive given current distresses across non-bank financial institutions, which had been a key source of funds to speculative pockets.

Implication: The combination of both unknowns and uncertainties means no concrete assessments can be made at present. This portends of continued volatility with wide currency ranges and wild swings. Conceptually, we see the turn in the credit cycle having a material impact given its significance as a driver of the global growth cycle, and portends of

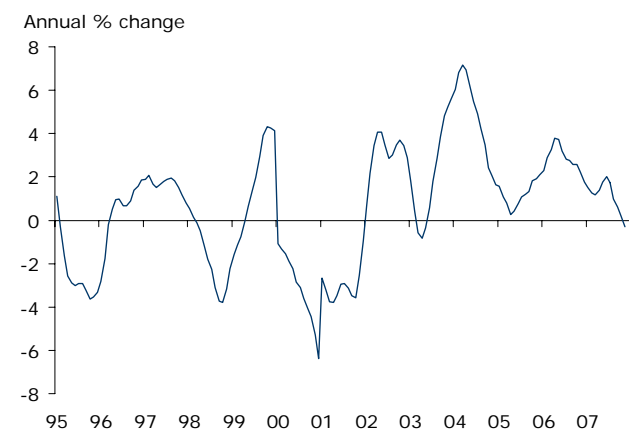
more downside risk internationally than up. NZ appears delicately placed given its credit dependence and stage in the economic cycle.

2. Decoupling versus recoupling

Whether the US economy goes into recession or not is a moot point. Certainly, weakness in housing is pointing towards one at present, particularly with the unemployment rate now on the ascent. The real issue is whether weak economic conditions remain contained to the US or diffuse through to the broader global economy.

Decoupling dominated sentiment in the first half of 2007, but recoupling did the summer rounds as the outlook for the US economy worsened and signs of moderation in Europe, the UK and Japan started to manifest. The OECD lead indicator has been easing for 5 months.

OECD Leading Indicator



Sources: ANZ National, Bloomberg

Markets, like economists, remain divided and are giving no consistent message. Growth in emerging markets remains solid, with China strong. Oil prices are high. Investor sentiment surveys are generally bearish suggesting managers are underweight stocks and waiting for the right buying "opportunity", highlighting how much cash is available to soak up distressed assets. Conversely, global growth commodity barometers are either oscillating (copper) or trending down (lumber). The Baltic Dry Freight index has fallen 28 percent in two months. The AUD, a key cyclical barometer of global growth prospects, has struggled. Is the negative Q4 GDP result for Singapore the sign of things to come?

Facing credit and aggressive action on behalf of the RBNZ, the NZ economy finds itself more reliant on the Asian growth and commodity story in 2008. The stone cold reality is that economic malaise or risk in NZ has always been linked to the global growth cycle (1991 and 1997) and we suspect this cycle will be no different, with commodity prices a key transmission mechanism.

Implication: Asian growth and commodity prices will likely determine the type of alphabet economic cycle NZ goes through (i.e. 'v', 'V', 'u' or 'U'). From a financial market perspective, look for equity markets

to have a huge say on currency movements with financial, as opposed to trade, the primary transmission from the US to the Asian region. If US economic malaise is self-contained (decoupling holds and US equity markets rebound on Fed action), then the kiwi will range trade between 75 and 80 cents for some time and we may well have high interest rates until after the next Rugby World Cup! If decoupling fails and commodity prices ease aggressively, the NZ market will be quick to reprice an earlier easing cycle, and the NZD will find itself sub-70 cents quickly. Whatever the outcome, it is another year of large ranges for the NZD (10 to 14 cent range).

We've pencilled in a halfway house between a soft and hard landing for the economy, but remain very dubious of the decoupling thesis holding given trade and financial linkages. Our NZD/USD forecast is largely flatlined over the coming six months in lieu of international uncertainty, as we gauge how non-Japan Asia and commodity prices evolve.

3. Commodity prices – expecting too much of a good thing?

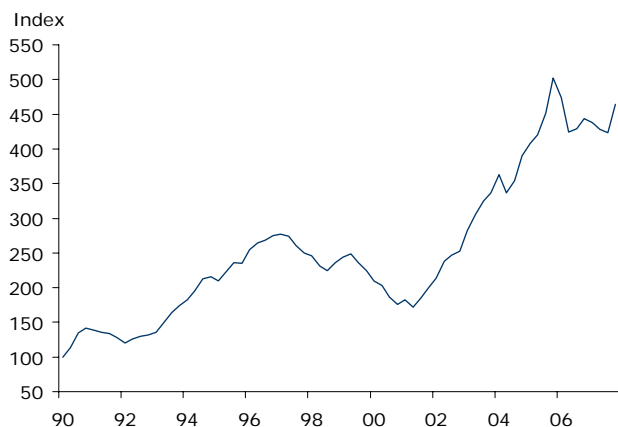
We've been regular scribes noting a positive long-term outlook for soft commodity prices. The combination of growing per capita incomes in Asia, support from biofuels and restricted supply pointed to a reversal of the downward trend in real prices that had been apparent between 1960 and 2000. Just as NZ "transitioned" and suddenly started to feel rich in the mid 1980's and demand surged for upper-end goods, the same dynamic is expected to repeat in Asia, notably towards food staples. NZ is on to a winner. Admittedly it's been a dairy story to date, which is where the main focal point resides, but the broad principle also applies to beef, lamb, venison and co. Long-term we maintain our bullish view.

But, are we banking on too much of a good thing? Rural land values have surged, cows have close to tripled in price, and agri-inflation is rampant. Off a forecast dairy payout of \$6.90/kg ms, the return on assets for a dairy unit is roughly the same as what you get in the bank. And herd like behaviour in the dairy sector is giving the meat industry a caning. Admittedly, people are only responding to the price signals they are receiving. Here's hoping it's not another case of getting out of one at the bottom of the cycle, and into another at the top.

Certainly, structural factors such as those outlined above are providing a lot of support to soft commodity prices, implying they may be less sensitive to a turn in the global (and particularly Asian) growth cycle. However, the turning point looks to have been reached for dairy prices. Traditional commodity booms have been followed by a 50 percent retracement. On net, it would still leave dairy prices 50 percent higher than a year ago, and a phenomenally good story. Yet, looking at the ratio of land prices to commodity prices suggests an exceptional amount of good news has been factored in. International dairy supply – notably in the US – is responding quickly to positive price signals. The dairy sector is moving from being a

source of strength to the economy to an area of potential vulnerability.

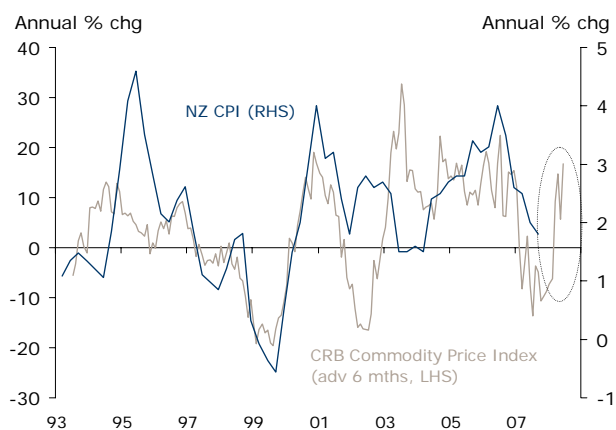
Ratio of rural land values to commodity prices



Sources: ANZ National, REINZ, QV

Looking at the broader commodity message, there are a couple of other areas we are watching. Firstly, the inflationary pipeline. The structural element to this commodity price cycle, and elongated nature of the hard commodity price boom in particular, has cemented a strong inflationary pipeline as businesses battle margin compression. The CRB futures index has steadily marched upwards since 2002. Historically, we tend to focus on the change in prices as the inflationary barometer. However, even a modest retreat in commodity prices would still leave a considerable inflationary pipeline intact via the level. Central banks will remain alert to inflation risks.

CRB Index vs NZ inflation



Sources: ANZ National, Statistics NZ, Global Financial Data

Secondly, there appears to be some inconsistency in the way the commodity theme is being applied internationally. NZ is both a major exporter and importer of commodities. Economically speaking, the aggregate effect of a commodity boom is via the terms of trade, and the net impetus on this front to NZ is certainly positive. However, the 10 percent surge since 2004 is far less than the 30 percent boost Australia has received. The latter suggests the RBA may struggle to tame the consumer for sometime, even if the global economic cycle turns down.

Implication: A key source of medium-term strength for the NZ economy is fast becoming a vulnerability as exuberance and herd like behaviour take over. We're adopting a more bearish stance towards soft commodities given the global backdrop, but within a secular bullish view. Dairy prices are key to watch in 2008, and what payout can be expected for the 2009 season. The gap between Australia's terms of trade boost and NZ's leaves us with a very bearish bent towards the NZD/AUD.

4. Elevated inflation expectations but growth risks mean testing times for monetary policy frameworks and equity markets

Central banks are in a bind. Inflation pressures are intense. The global labour market remains tight. Commodity prices have been high for a considerable period and do not appear to be a flash in the pan even if we see a modest cyclical unwind. Food and oil prices – core staples – are adding to inflation pressure and bringing into question the appropriateness of ex-food and oil core measures that present a more favourable (low) inflation picture. 1990's inflation suppressants (China's emergence and Eastern Europe integration) are no longer as intense. Meeting global emissions targets will not come inflation free. It is not central banks' role to bail investors out of poor decisions. Conversely, growth cracks are emerging, and the financial plumbing needs to work without compromising central banks' inflation focus.

Demand-pull inflation remains the dominant paradigm to our minds, under the caveat that inflation expectations are anchored. Rather disturbingly, inflation expectation surveys across the G7 are both elevated and appear to be trending up. Rhetoric across central banks is notable for the different weights being placed on growth versus inflation within their reaction functions, ranging from the growth friendly Fed, to the more inflation phobic ECB. Certainly, economic pictures are somewhat different although both are facing similar credit and inflation risks. The headline inflation rate in the US is 4.3 percent and they are cutting aggressively, a huge vote of confidence in the framework itself! Yet, such central bank "puts" do not come risk free, and may portend of an inflationary problem down the track.

The combination of credit (point 1) and US economic risks (decoupling versus recouping – point 2) relative to inflation risks leaves us scratching our heads over how this economic cycle will unfold. Certainly we are circumspect over points 1 and 2, which naturally leave us more comfortable than the consensus on the inflation outlook. Yet if the former are successfully navigated, it will be courtesy of liquidity, both existing and central bank injected. There may well be a trade-off. Cut interest rates now and risk inflation moving higher, which can be more costly to contain in future; or bear the cost of slower growth now in order to contain inflation pressure.

If the global economy manages to navigate its way safely out of the current credit mess, we could well be

faced with an inflation problem down the track and a relatively uncomfortable end to the business cycle in 2009 or 2010.

Implication: Surveys of inflation expectations are critical to watch over the coming year. The combination of a sticky inflation picture and easing growth (termed slugflation in some quarters) is likely to present a challenging environment for equities in general. In terms of our own central bank, we see the RBNZ erring on the side of caution. We may well need a global event to kick-start the easing cycle.

5. Can the consumer continue?

Whether it's been consumer spending or the housing market, everyone has been surprised at how elongated the NZ economic cycle has been. Strong consumer spending or housing market activity has in turn kept the circle of spending, profits, jobs, spending, profits, jobs, income, spending....in motion. The combination of tax relief and dairy payout are expected, in some quarters, to keep this circle of success in motion and reaccelerate in 2008. We are dubious.

- The wealth effect in NZ has been massive. Rising house prices has encouraged mortgage equity withdrawal, which was equivalent to 7 percent of household consumption.
- House prices look to be falling already. REINZ data, which shows a flattening in prices since April 2007, mask compositional shifts. A 5 percent fall in house prices will generally translate into consumption growth grinding to a halt.
- We are progressively seeing signs of moderating housing activity filtering into other sectors, notably retailing where the trend has been flat for nine months.
- Housing market activity has been more correlated with measures of credit as opposed to job and income, which to our minds makes the labour market a second order indicator (or likely exaggerator) of the turning point as opposed to the key driver.
- Household balance sheets are under pressure and are long overdue for consolidation.
- There are small signs of growth in a savings culture. KiwiSaver is off to a flier, with the uptake of 381,000 in the first six months of the scheme beating expectations of 276,000 by 1 July 2008. While there will undoubtedly be some substitution and diversion from other savings, it is pointing towards the start of an improvement to the household saving rate.
- Who cares about an extra \$20 a week in tax cuts if you are paying \$5 more for groceries, \$2 more for electricity, \$2 more for local authority rates, \$7 more for petrol and \$20 more for mortgage payments.

The mammoth dairy payout for the current season will see some rural households splurge out, but the majority of NZ households will likely see their

disposable incomes go backwards this year. While the dairy payout for the current season is largely 'guaranteed', a high NZD and recent falls in world dairy prices, if sustained, could see reduced prospects for payouts next season and the straw that breaks the consumers' and housing market's back.

While hardly growth friendly in the near-term given that consumer spending and residential investment represent 67 percent of GDP, there are some positive spin-offs. It's all part of the inevitable rebalancing required to get the economy on a stronger footing. Less spending now and more saving (provided it is channelled into productive use) will implicitly be a positive step for medium-term prospects.

Implication: 2008 is looking like D-day for the NZ consumer. The housing market remains the key area to watch, and we expect falls in house prices in the order of five percent to kick-start the long-awaited de-leveraging and consolidation. Across an array of vulnerability indicators (debt servicing, current account deficit), the NZ consumer looks more exposed relative to US equivalents, with bellwether corporates (AT&T, American Express) flagging that the latter is battering down the hatches. In such an environment, we struggle to see the economy performing strongly. While we don't want to sound too bearish, the reality is that such consolidation is a prerequisite to ensuring inflationary pressures subside.

6. Politics

We couldn't close out our 2008 themes without referring to the political arena, particularly given our own central bank's comments towards fiscal policy. Certainly the 2008 *Budget* is shaping up as a free-for-all, but in the overall scheme of credit dislocation, housing slowdown and global woes, we doubt \$20 per week of tax cuts will do much. It may well be that the real voter "targeted" areas are housing (affordability assistance) and potentially superannuation as voter differentiators. Both would lack economic substance, just like the 2005 pre-election student loan handout. But that's politics, and no initiative is ever wrong, provided everyone understands the trade-offs that are being made. Just like in 2005, we will provide an independent economic analysis of all the major party's policy platforms in an apolitical fashion prior to the election (and we hope to stay clear of page one of the Dominion Post!).

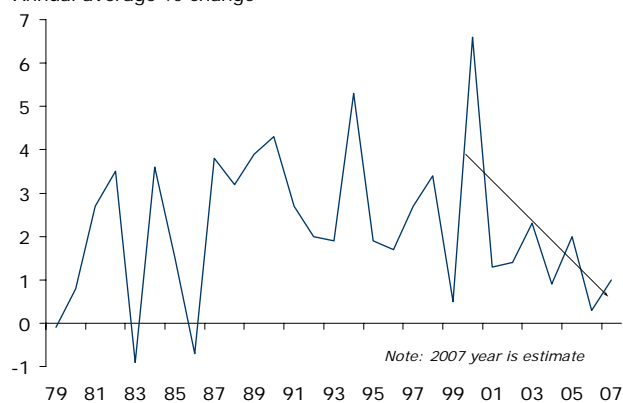
As economic (as opposed to political) soothsayers, suffice to say that we suspect the economic cycle will be working against the incumbents, and on that basis we expect a new broom at the end of the year. Sure there'll be tax cuts, greater use of debt to fund infrastructure, and slower growth in the core government bureaucracy. But in an MMP based environment, it is difficult to envisage material change.

Yet the real challenge for whoever is taking the helm is to arrest the structural decline we have seen in productivity growth. Weak productivity growth is exaggerating inflation pressure. If productivity growth across the measured sector continues to mimic its 2001 to 2007 trends (averaging 1.3 percent), the

benefit of a rising terms of trade and higher commodity prices (abstracting from the cycle) will be an opportunity squandered for the next generation. We'd be a lot more comfortable looking at some of the risks the economy was facing at present if productivity growth was stronger. Recent data, suggesting an improvement albeit off a low base, gives us some hope.

NZ private sector labour productivity growth (March years)

Annual average % change



Sources: ANZ National, Statistics NZ

We'll likewise be watching what happens on the political front internationally. Australia has already (and the US is looking likely to) taken steps to the left, although it is all looking like the central ground these days. The winds of protectionism and regulation are growing stronger, a potential backward step for the global economy. Greater commitment to meeting environmental and emissions objectives will come with an inflation cost. Surging food bills – a core staple for the Joe voter – risk a political response.

Looking at NZ's experience, the policy outcomes have by-and-large been centralist, albeit left of centre. But the move has seen a steady shift in the composition of GDP, with a rising share towards compensation of employees (labour) and a smaller share to capital. Historically, rises in the former have been correlated with higher inflation, and this cycle will be no different. We'll be watching closely whether shifts to the left on the political front also results in some realigning of the composition to growth in the US and Australia, particularly with labour's share sitting at or near lows, and capital at highs.

Implication: Forget the fiscal stance and prospective tax cuts. Improving productivity growth needs to be the prime focal point. The growing burden of regulation – a key bottleneck to investment – needs to be more closely scrutinised. Until we see firm signs of stronger productivity growth, we will not be buying into the hype that fair value for the NZD/USD now has a 7 in front of it.

GLOBAL WATCH

A key theme emanating through our recent commentary has been prospects for the global economy, which we believe represent the most significant risk to the NZ economy at present. With this in mind, we will be presenting a weekly table of data outturns, with a particular emphasis on the Asian region. Over the past week the balance between upside and downside surprises looked relatively even, although there were some soft readings out of Europe and the UK. For the key Asian region, we note that Chinese export growth surprised on the downside and although it remains at an elevated level, it has gradually trended lower over the past 12 months – it is a key gauge to watch.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Pending Home Sales (Nov) - mom	-0.7%	-2.6%	3.7%	Weaker
	Consumer Credit (Nov)	\$8.0B	\$15.4B	\$2.0B	Stronger
	Import Price Index (Nov) – yoy	10.5%	10.9%	12.1%	Stronger
Europe	PPI (Nov) – yoy	4.0%	4.1%	3.3%	Stronger
	Unemployment Rate (Nov)	7.2%	7.2%	7.2%	In-line
	Consumer Confidence (Dec)	-8	-9	-8	Weaker
	Economic Confidence (Dec)	104.3	104.7	104.8	Stronger
	Retail Sales (Nov) – mom	0.5%	-0.5%	-0.7%	Weaker
	ECB Interest Rate Announcement	4.00%	4.00%	4.00%	In-line
	UK	Nationwide Consumer Confidence (Dec)	84	85	86
BoE Interest Rate Announcement		5.50%	5.50%	5.50%	In-line
Industrial Production (Nov) – mom		0.1%	-0.1%	0.5%	Weaker
Manufacturing Production (Nov) – mom		0.1%	-0.1%	0.3%	Weaker
Asia Ex-Japan					
<i>China</i>	Trade Balance (USD) (Dec)	\$24.40B	\$22.69B	\$26.28B	Weaker
	Exports (Dec) – yoy	23.0%	21.7%	22.8%	Weaker
	Imports (Dec) – yoy	25.5%	25.7%	25.3%	In-line
	Money Supply – M2 (Dec) – yoy	18.1%	16.7%	18.5%	Weaker
	Foreign Exchange Reserves (Dec)	US\$1,510B	\$1,528.25B	US\$1,433.6B	In-line
<i>Taiwan</i>	CPI (Dec) – yoy	4.35%	3.34%	4.80%	Weaker
	Total Exports (Dec) – yoy	10.5%	19.8%	11.8%	Stronger
	Total Imports (Dec) – yoy	8.0%	27.5%	2.8%	Stronger
<i>Philippines</i>	CPI (Dec) – yoy	3.5%	3.9%	3.2%	Stronger
	Total Exports (Nov) – yoy	8.5%	-2.0%	10.5%	Weaker
<i>South Korea</i>	Producer Price Index (Dec) – yoy	-	5.1%	4.4%	-
	BoK Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
	Consumer Confidence s.a. (Dec)	-	105.0	104.3	-
<i>India</i>	Industrial Production (Nov) – yoy	7.3%	5.3%	12.0%	Weaker
<i>Malaysia</i>	Exports (Nov) – yoy	4.2%	5.7%	14.2%	Stronger
	Imports (Nov) – yoy	6.0%	3.9%	19.8%	Weaker
	Industrial Production (Nov) – yoy	1.7%	2.7%	4.7%	Stronger
<i>Thailand</i>	Consumer Confidence Economic (Dec)	-	70.4	69.3	-
<i>Indonesia</i>	BoI Reference Rate	8.00%	8.00%	8.00%	In-line
Japan	Leading Economic Index (Nov P)	10.0%	10.0%	18.2%	In-line
	Coincident Index (Nov P)	33.3%	33.3%	70.0%	In-line
	Money supply – M2+CD (Dec) – yoy	2.0%	2.1%	2.0%	In-line
	Eco Watchers Survey: Current (Dec)	38.4	36.6	38.8	Weaker
Australia	Building approvals (Nov) – mom	0.0%	8.9%	-3.6%	Stronger
	Retail sales (Nov) – mom	0.5%	0.8%	0.3%	Stronger

INTEREST RATE STRATEGY

Heavy local data calendar to bring some focus back on domestic fundamentals. Payside bias to emerge heading into Q4 CPI release, but ranges to hold. Offshore events may end up having a greater influence in the week.

Market themes...

- > Focus has been all on the US economy with more analysts calling a recession.
- > Dovish Fed chairman seals the deal for further aggressive easings in the months ahead.

Outlook...

The NZ rates market was heavily influenced by offshore developments last week, with growing fears of a US recession causing volatility in financial markets. US economists have been calling for more aggressive rate cuts from the Fed and Chairman Bernanke's pessimistic assessment of prospects for the US economy in 2008 seem to validate that view. Markets are now expecting a minimum of a 50bps cut from the Fed at the end of this month, and more in the months thereafter.

But easing rates aggressively does come with risks in the form of higher inflation. The bond market has picked up on this, with yields actually rising following Bernanke's speech even as short rates were falling. In other central bank actions, the BoE decided to leave rates unchanged despite further data showing a slowdown in activity, while the ECB also left rates unchanged but maintained their hawkish rhetoric and warned of possible future rate rises. Over in Australia, the dataflow continues to print strong, increasing the odds that the RBA may tighten. However, mortgage rate increases by some of the major retail banks there due to higher funding costs may buy the RBA a bit more time.

This week is a very busy week data-wise with the QSBO, CPI, retail sales and housing market data being the key releases ahead of next week's *OCR Review*. While the market will be wary, particularly over the CPI report, we do not expect any smoking guns. We could see a bit of positioning in the lead-up to the CPI report. A print in line with expectations could see a relief rally in rates as the market shifts its attention towards signs of further weakness in domestic demand. The NZ 2-year swap yield should continue to trade within its 8.5 to 8.65 percent range, with expectations of a strong CPI print keeping it closer to the top of the range. The NZ-US 10-year bond spread and swap spreads will remain under widening pressure due to global moves.

In offshore news there is plenty to keep the markets occupied with inflation reports from the US, UK and Euro, as well as the Fed Beige Book, US retail sales and AU employment data. The start of the latest US earnings reporting season will also kick off next week, which will keep the markets on edge over further writeoffs. Brace yourself for a volatile week.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	On hold for now and closely assessing the dataflow.
NZ data	↔	Inflation at top of the band to offset other soft data.
Fed Funds/front end	↓	Dovish Fed has market geared up for a 50bp cut at the end of the month.
RBA	↔	Increases in retail mortgage rates doing some of the work for the RBA.
US 10 year	↔/↑	Caught in a bind between weak growth and inflation risk.
NZ swap spreads	↔/↑	Fundamentally, swap spreads should narrow from current high levels, but heavy local dataflow means markets unlikely to take it lower this week.
Flow	↔/↑	Payside flows to dominate this week on the back of mortgage flows.
Technicals	↔	The technical picture will become clearer after this week's data is out of the way.

Borrowing strategies we favour at present

Economic data will dictate the path of NZ interest rates this week. We expect rates to remain under pressure until key CPI data is released on Thursday. We continue to favour paying fixed in the 3 to 5 year part of the curve with those fixing 5 years or longer being prepared to shorten duration should market conditions change significantly.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Jan-08	5	6
Thu 6-Mar-08	8	12
Thu 24-Apr-08	8	18
Thu 5-Jun-08	-2	23
Thu 24-Jul-08	-2	23
Thu 11-Sep-08	-34	-1
Thu 23-Oct-08	-34	-1

Trading themes we favour at present

We favour receiving the 2-year swap if it exceeds the top of our trading range of 8.65 percent in the lead-up to the CPI release, targeting a move back to 8.58 percent. We suggest selling some June 08 futures as cover.

CURRENCY STRATEGY

US recessionary fears and expectations of further aggressive Fed interest rate cuts have the USD under pressure. This is pushing the NZD higher by default as interest rate differentials extend. However, global growth concerns continue to limit any major gains.

Market themes...

- > Yield vs global growth concerns; which one will dominate?
- > USD under the pump given recessionary fears.
- > Local inflation nuances reinforced by Q4 QSBO and CPI this week, but housing weakness to also show.

Outlook...

A large yield advantage continues to provide strong support for the NZD. The NZ-US 2-year swap differential has increased to close to 530 basis points over recent weeks as recessionary fears in the US are driving expectations of further aggressive Federal Reserve interest rate cuts. Markets are currently pricing in close to a 90 percent chance the Fed will cut rates by 50 basis points at its meeting at the end of the month and dovish comments by Fed Chairman Bernanke last week have firmed these expectations.

Growth concerns continue to cap to a degree, although the NZD has managed to shrug off weakness in global equities, surging 2 percent in the week, while equities fell the same. This dynamic merely reinforces that by-and-large it remains a USD story, which remains under the pump. Against the AUD, the NZD has remained in the relatively tight 0.8700-0.8820 range since the start of the year. While kiwi has been buoyed against the EUR, CHF and JPY of late, the broad story remains one of ranges as everyone eyes the decoupling / recoupling debate. The NZD looks vulnerable to a reversal if US malaise broadens. Commodity markets continue to give mixed signals on global conditions but it seems in the absence of bad news towards commodities, and the USD remaining weak, the path of least resistance is slow grinds up.

Looking ahead, it is an important data week both locally and offshore this week, with inflation the central focus. The major releases locally will be the December quarter QSBO and CPI (due Tuesday 1000 NZDT and Thursday 1045 NZDT respectively). Both should reinforce the strong inflationary dynamic still present within the economy and the likelihood that interest rates will remain elevated for some time. Conversely, housing figures are expected to come in soft, and net-on-net, we doubt the domestic data-flow will be sufficient to see a material change in the picture for the kiwi. Eyes remain glued to overseas developments, particularly with the December quarter reporting season pending, and US equities looking suspect. Fed rhetoric has firmed expectation for a sizeable 50 basis point cut. Considerable interest will reside in the US CPI reading this week, with last month seeing an up-tick in core inflation. Successive

months of the same could reduce the Fed's flexibility to respond to growth concerns.

The NZD/AUD around 88 cents remains an oddball in our eyes given the divergent economic backdrops. Strong Australian economic data failed to push the cross lower as global wariness remains, with the ASX being caught in the rip of weak equity sentiment, despite commodity prices firming. Any break looks to require a catalyst from the NZ growth side.

Technically the NZD uptrend suggests topside resistance at 0.7890 will be tested. Support now appears at 0.7790 after the NZD burst through this level last week. Further support is seen at the 200 day m.a. - currently 0.7730. In the NZD/AUD, the 0.8750 level is proving to be firm support with only a brief dip below last week. A broad range trade seems likely with the top end coming around 0.8840.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads stabilising. Data to give direction.
Commodities	↓	Gold up, milk down.
Partial indicators	↓	Better across the Tasman. Terms of trade shocks bigger there.
Technicals	↔	Range trade.
Sentiment	↓	AUD data is better.
Other	↔	Data key this week.
On balance	↔	Remains in a range.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↑	US data is woeful and spreads widening.
Yield	↑	Yield differentials at phenomenal levels.
Commodities	↔/↓	Off their highs.
Risk aversion	↓	Credit concerns and equity market jitters are weighing.
Partial indicators	↔	NZ domestic economy is soft, but US is softer.
Technicals	↔/↑	Topside resistance at 0.7890 to be tested.
AUD	↑	Gold prices up.
Sentiment	↔	Mixed messages.
Other	↑/↔	USD disliked globally.
On balance	↔	Still yield v risk aversion v global growth.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
14 Jan	NZ	Building Consents Issued (Nov) – mom	-	-4.8%	10:45
	AU	TD Securities Inflation (Dec) – mom	-	0.3%	12:30
		ANZ Job Advertisements (Dec) – mom	-	0.7%	13:30
	UK	PPI Input (Dec) – mom	0.8%	1.7%	22:30
		PPI Output (Dec) – mom	0.4%	0.5%	22:30
		PPI Output Core (Dec) – mom	0.2%	0.1%	22:30
		DCLG House Prices (Nov) – yoy	10.5%	11.3%	22:30
	EU	Industrial Production (Nov) – mom	-0.8%	0.4%	23:00
15 Jan	NZ	NZIER Business Opinion Survey (4Q)	-	-27	10:00
	UK	RICS House Price Balance (Dec)	-45.0%	-40.6%	13:01
		CPI (Dec) – mom	0.5%	0.3%	22:30
		CPI (Dec) – yoy	2.0%	2.1%	22:30
		Core CPI (Dec) – yoy	1.5%	1.4%	22:30
		RPI Ex Mortgage Interest Payments (Dec) – yoy	3.1%	3.2%	22:30
	GE	ZEW Survey (Econ. Sentiment) (Jan)	-40.0	-37.2	23:00
		ZEW Survey (Current Situation) (Jan)	59.5	63.5	23:00
	EU	ZEW Survey (Econ. Sentiment) (Jan)	-38.0	-35.7	23:00
16 Jan	US	PPI (Dec) – mom	0.2%	3.2%	02:30
		PPI Ex Food and Energy (Dec) – mom	0.2%	0.4%	02:30
		Advance Retail Sales (Dec)	0.0%	1.2%	02:30
		Retail Sales Less Autos (Dec)	-0.1%	1.8%	02:30
		Empire Manufacturing (Jan)	10.0	10.3	02:30
		Business Inventories (Nov)	0.4%	0.1%	04:00
	AU	Westpac Consumer Confidence (Jan)	-	1.8%	12:30
		Home Loans (Nov)	1.0%	-0.7%	13:30
		Investment Lending (Nov)	-	2.9%	13:30
	JN	Machine Orders (Nov) – mom	-4.5%	12.7%	12:50
		Domestic CGPI (Dec) – mom	0.1%	0.2%	12:50
		Current Account Total (Nov)	¥1,860.9B	¥2,229.1B	12:50
	GE	CPI (Dec F) – mom	0.5%	0.5%	20:00
		CPI (Dec F) – yoy	2.8%	2.8%	20:00
	UK	Claimant Count Rate (Dec)	2.5%	2.5%	22:30
		Jobless Claims Change (Dec)	-5.0k	-11.1k	22:30
		Average Earnings inc bonus (Nov) – 3m/yoy	3.9%	4.0%	22:30
		ILO Unemployment Rate (Nov) – 3mths	5.3%	5.3%	22:30
	EU	ECB's Stark speaks in Frankfurt	-	-	21:30
		CPI (Dec) – mom	0.4%	0.5%	23:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
16 Jan cont.	EU	CPI (Dec) – yoy	3.1%	3.1%	23:00
		CPI – Core (Dec) – yoy	1.9%	1.9%	23:00
17 Jan	US	CPI (Dec) – mom	0.2%	0.8%	02:30
		CPI (Dec) – yoy	4.1%	4.3%	02:30
		CPI Ex Food & Energy (Dec) – mom	0.2%	0.3%	02:30
		CPI Ex Food & Energy (Dec) – yoy	2.4%	2.3%	02:30
		Net Long-Term TIC Flows (Nov)	\$60.0B	\$114.0B	03:00
		Total Net TIC Flows (Nov)	\$60.0B	\$97.8B	03:00
		Industrial Production (Dec)	-0.2%	0.3%	03:15
		Capacity Utilisation (Dec)	81.2%	81.5%	03:15
		NAHB Housing Market Index (Jan)	19	19	07:00
		Fed's Beige Book	-	-	08:00
		Trade Balance s.a. (Nov)	3.7B	4.0B	23:00
	NZ	CPI (4Q) – qoq	1.0%	0.5%	10:45
		CPI (4Q) – yoy	3.0%	1.8%	10:45
		Food Prices (Dec) – mom	-	0.4%	10:45
		Employment Change (Dec)	20.0k	52.6k	13:30
		Preliminary BoP Imports (Dec) – mom	-	2.0%	13:30
		Unemployment Rate (Dec)	4.4%	4.5%	13:30
		Participation Rate (Dec)	65.2%	65.3%	13:30
18 Jan	US	Building Permits (Dec)	1,135k	1,162k	02:30
		Housing Starts (Dec)	1,145k	1,187k	02:30
		Fed's Bernanke Testifies on Economic Outlook	-	-	04:00
		Philadelphia Fed (Jan)	-1.0	-5.7	04:00
		Fed's Fisher Speaks in Philadelphia on Global Trade	-	-	06:30
		Fed's Lockhart Speaks on US Economic Outlook in Alabama	-	-	07:15
	EC	ECB's Trichet speaks in Frankfurt	-	-	03:00
	NZ	Retail Sales (Nov) – mom	0.7%	-0.7%	10:45
		Retail Sales Ex-Autos (Nov) – mom	0.5%	-1.1%	10:45
	JN	Tertiary Industry Index (Nov) – mom	-0.4%	1.1%	12:50
		Consumer Confidence Households (Dec)	38.3	39.8	18:00
18 Jan cont.	AU	Import Price Index (4Q) – qoq	-	-0.8%	13:30
		Export Price Index (4Q) – qoq	-	-3.0%	13:30
	UK	Retail Sales (Dec) – mom	0.2%	0.4%	22:30
19 Jan	US	Fed's Lacker speaks on Economic Outlook in Richmond	-	-	02:00
		University of Michigan Confidence (Jan P)	74.5	75.5	04:00
		Leading Indicators (Dec)	-0.1%	-0.4%	04:00

Key: AU: Australia, EU: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States. Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: A busy week, with a large amount of data released prior to the Reserve Bank's *OCR Review* on 24 January. The key releases will be the December quarter QSBO and CPI reports and both should confirm stubbornly persistent inflationary pressures. However, we don't envisage them providing any smoking gun for higher interest rates. Looking further out, labour market data – due early in February – will be next on the watch list.

Date	Data/Event	Economic Signal	Comment
Tue 15 Jan (10.00)	NZIER QSBO (Dec qtr)	Resource pressures still evident	Headline business confidence is expected to tick-up a tad, in line with the National Bank <i>Business Outlook</i> . More important gauges of resource pressure such as capacity utilisation and difficulty in finding staff should ease in the quarter but still remain elevated.
circa 15 Jan	REINZ Housing Report (Dec)	Soft	After small increases over the previous two months, we expect house sales to fall over December. We also expect the theme of increasing days to sell and slowing house price growth to continue.
Thu 17 Jan (10.45)	CPI (Dec qtr)	Persistent	Headline CPI is expected to increase by 1.0 percent, taking annual inflation back to the top of the RBNZ's target band. Petrol and food prices make the largest contributions. Non-tradable and core inflation measures will remain elevated.
Fri 18 Jan (10.45)	Retail Sales (Nov)	Rebound	Sales are expected to rebound in the month after a large fall recorded in October. Higher petrol prices will also add to the spending bill. Nevertheless, a flat trend to remain.
Thu 24 Jan (09.00)	RBNZ <i>OCR Review</i>	On hold	Barring any major surprises from the Q4 CPI data, we do not expect any change in stance from the RBNZ. Inflation concerns will continue to feature, although the Bank will acknowledge signs of slowing domestic demand and uncertainty over the global outlook.
Thu 24 Jan (15.00)	Credit Card Spending (Dec)	Slowing	Monthly volatility is high. Nevertheless, the underlying trend is expected to remain one of softening. The interest-bearing component of outstanding balances is an interesting gauge to monitor.
Wed 30 Jan (10.45)	Building Consents Issued (Dec)	Easing	The easing trend should continue.
Wed 30 Jan (15.00)	Credit Growth (Dec)	Soft	Given that housing market activity remains subdued, credit growth is likely to remain soft.
Thu 31 Jan (10.45)	Overseas Merchandise Trade (Dec)	Gradually improving	High dairy prices and solid production from the Tui oil field continue to provide strong support to exports and are helping to contribute to an improving trade balance. However, high oil prices – adding to the import bill – will slow this improvement.
Mon 4 Feb (10.45)	External Migration (Dec)	Stabilising	We expect annual net migration to stabilise around its current level of 7,000, although the risks appear skewed to the downside.
Tue 5 Feb (10.45)	QES and LCI (Dec qtr)	Elevated wage growth	The labour market remains tight and firms continue to report difficulty in finding staff. Wage measures are likely to remain elevated for some time.
Tue 5 Feb (15.00)	ANZ Commodity Price Index (Jan)	-	-
Thu 7 Feb (10.45)	Household Labour Force Survey (Dec qtr)	Still tight	Last quarter showed falling employment and a fall in the unemployment rate. This quarter may see the reverse. Volatility within the survey makes interpretation difficult. Suffice to say, the market will remain tight.
On Balance		Sub-trend but respectable	Domestic demand easing, but inflationary pressures persist.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
GDP (% qoq)	0.7	1.2	0.8	0.5	0.3	0.3	0.4	0.4	0.6	0.7
GDP (% yoy)	2.0	2.4	3.2	3.3	2.9	1.9	1.5	1.4	1.7	2.1
CPI (% qoq)	-0.2	0.5	1.0	0.5	1.0	0.6	0.8	0.9	0.8	0.4
CPI (% yoy)	2.6	2.5	2.0	1.8	3.0	3.1	2.8	3.2	3.0	2.8
Employment (% qoq)	0.0	1.2	0.6	-0.3	0.4	0.4	0.2	0.2	0.2	0.1
Employment (% yoy)	1.4	1.7	1.6	1.5	1.9	1.1	0.7	1.2	1.0	0.6
Unemployment Rate (% sa)	3.7	3.7	3.6	3.5	3.6	3.7	3.8	3.9	4.0	4.2
Current Account (% GDP)	-8.6	-8.2	-8.1	-8.3	-8.1	-7.6	-7.0	-6.8	-6.8	-6.8
Terms of Trade (% qoq)	2.5	1.5	0.4	3.7	2.5	0.8	0.3	-0.1	-0.2	-0.6
Terms of Trade (% yoy)	3.8	4.5	2.3	8.4	8.4	7.5	7.4	3.5	0.8	-0.6

KEY ECONOMIC INDICATORS

	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Retail Sales (% mom)	0.8	-1.2	1.1	-0.4	0.2	0.2	1.0	-0.7
Retail Sales (% yoy)	7.4	7.4	6.7	4.8	5.7	6.3	4.1	5.5
Credit Card Billings (% mom)	1.0	-1.0	0.8	1.8	0.1	0.3	2.6	-0.5	1.2	..
Credit Card Billings (% yoy)	7.2	7.9	5.8	9.0	7.8	8.6	9.4	7.8	9.5	..
Car Registrations (% mom)	1.2	-1.9	6.8	-4.6	7.0	1.0	-6.8	5.4	-3.9	-2.9
Car Registrations (% yoy)	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1	4.7	2.3	1.4
Building Consents (% mom)	-1.2	0.7	5.2	12.7	-15.9	4.8	-10.1	-4.6	-0.2	..
Building Consents (% yoy)	3.4	9.1	2.8	33.1	-4.1	-1.4	-15.5	-16.0	-4.9	..
REINZ House Price (% yoy)	13.7	14.4	14.8	12.1	10.4	12.9	12.3	8.0	6.7	..
Household Lending Growth (% mom)	1.2	1.1	1.1	1.1	0.9	0.9	0.8	0.9	0.8	..
Household Lending Growth (% yoy)	13.3	13.5	13.5	13.5	13.5	13.4	13.1	12.9	12.7	..
Roy Morgan Consumer Confidence	129.3	128.6	122.1	121.0	121.1	122.4	121.3	122.0	121.9	126.6
NBNZ Business Confidence	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9
NBNZ Own Activity Outlook	24.1	22.5	7.8	14.8	12.4	16.7	17.2	20.3	15.7	18.2
Trade Balance (\$m)	60	-215	8	-518	-808	-947	-573	-717	-646	..
Trade Balance (\$m annual)	-5776	-6024	-5900	-6226	-6340	-6336	-6283	-5827	-5653	..
ANZ World Commodity Price Index (% mom)	2.0	4.9	2.6	6.3	4.6	1.4	0.4	1.8	0.8	0.0
ANZ World Commodity Price Index (% yoy)	17.1	20.9	21.1	29.8	35.1	36.3	35.7	37.8	35.9	30.9
Net Migration (sa)	630	240	430	620	490	740	680	280	530	..
Net Migration (annual)	12081	11222	10682	10078	8966	8730	8309	7517	6588	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Nov 07	Dec 07	14 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
NZD/USD	0.763	0.768	0.783	0.760	0.740	0.710	0.680	0.660	0.640	0.630
NZD/AUD	0.851	0.881	0.878	0.835	0.822	0.807	0.791	0.786	0.780	0.788
NZD/EUR	0.520	0.528	0.529	0.510	0.493	0.486	0.479	0.478	0.478	0.485
NZD/JPY	84.8	86.3	85.1	83.6	79.9	75.3	70.7	69.3	69.1	69.3
NZD/GBP	0.368	0.380	0.399	0.386	0.379	0.368	0.358	0.351	0.344	0.342
NZ\$ TWI	70.3	71.6	72.1	69.7	67.8	65.6	63.5	62.5	61.7	61.7
NZ interest rates	Nov 07	Dec 07	14 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
OCR	8.33	8.40	8.25	8.25	8.25	8.00	7.50	7.00	6.75	6.75
90 day bill	8.74	8.90	8.76	8.70	8.60	8.00	7.50	7.00	7.00	7.00
10 year bond	6.39	6.39	6.29	6.40	6.50	6.70	6.70	6.70	6.70	7.00
International	Nov 07	Dec 07	14 Jan 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
US Fed funds	4.50	4.25	4.25	3.75	3.75	3.75	3.75	4.00	4.50	5.25
US 3-mth	5.13	4.70	4.26	4.50	4.25	4.00	4.25	4.50	5.00	5.50
AU cash	6.75	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25	7.25
AU 3-mth	7.25	7.24	7.14	7.30	7.50	7.50	7.50	7.50	7.40	7.40

KEY RATES

	11 Dec	7 Jan	8 Jan	9 Jan	10 Jan	11 Jan
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.87	8.75	8.75	8.75	8.76	8.77
NZGB 07/09	7.61	7.23	7.24	7.26	7.26	7.30
NZGB 11/11	7.28	7.02	7.02	7.03	7.04	7.07
NZGB 04/13	7.05	6.95	6.94	6.95	6.96	6.99
NZGB 12/17	6.48	6.26	6.26	6.26	6.26	6.29
2 year swap	8.69	8.55	8.57	8.58	8.60	8.63
5 year swap	8.18	8.06	8.08	8.09	8.11	8.15
RBNZ TWI	72.4	70.7	71.4	71.0	71.6	72.2
NZD/USD	0.7833	0.7626	0.7714	0.7678	0.7738	0.7840
NZD/AUD	0.8820	0.8752	0.8781	0.8711	0.8750	0.8752
NZD/JPY	87.55	83.11	84.34	83.72	84.85	85.85
NZD/GBP	0.3827	0.3872	0.3912	0.3890	0.3952	0.3996
NZD/EUR	0.5320	0.5182	0.5243	0.5218	0.5270	0.5298
AUD/USD	0.8881	0.8713	0.8785	0.8814	0.8843	0.8958
EUR/USD	1.4723	1.4716	1.4713	1.4715	1.4682	1.4797
USD/JPY	111.77	108.98	109.34	109.04	109.66	109.50
GBP/USD	2.0466	1.9696	1.9719	1.9739	1.9582	1.9622
Oil	87.72	95.08	95.08	96.43	95.64	93.92
Gold	807.50	862.70	862.70	887.30	879.10	893.40
Electricity (Haywards)	7.76	6.05	5.80	5.78	6.03	6.07
Milk futures (US\$/contract)	166	152	153	153	153	153
Baltic Dry Freight Index	9929	8732	8730	8621	8333	7949

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