

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

14 March 2011

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ACTING PRE-EMPTIVELY

ECONOMIC OVERVIEW

The messages from the RBNZ were clear enough: we've delivered a 50 basis point insurance cut; we're now in data-watch mode; pending weak data is to be discounted; and the OCR will have to move up a little faster once the rebuild starts in earnest, but this looks a way off and we're not sure when. We concur with the spirit but believe that the rebuild effort will commence earlier than the 2012 timeline the RBNZ sketched out. This leaves us now leaning towards calling a hike in late 2011. Most NZ data over the next few months is to be heavily discounted: weakness is to be expected. That said, this week's *globalDairyTrade* online auction should deliver some much needed good news for NZ.Inc. But most of our attention is firmly on fiscal policy and the speed of the policy response.

LESSONS FROM CHILE

The lessons from the Chile earthquake of February 2010 are that we should not underestimate either the near-term hit to GDP nor the strength and speed of the potential rebound if the Government gets the rebuild process underway quickly, as appears to be the intention. Challenges remain and the earth needs to stop shaking first! But the experience of Chile is that a quick government-centric response can see a quick recovery in activity.

POST QUAKE MIGRATION PATTERNS

Over the next twelve months Christchurch City is likely to experience a net outflow of people, following the February 22 earthquake. It is inevitable that some residents will decide to leave permanently. We estimate that Christchurch could possibly lose up to 4 percent of its population permanently in the first year, via emigration to elsewhere in the country or overseas, and a reduction in immigration if overseas patterns are followed. However, the strength of intra-regional migration into Christchurch over the past decades could easily reverse and we could see larger outflows. The government and business sector response, and attitudes toward residing in Christchurch, will be critical.

INTEREST RATE STRATEGY

Now that last week's 50 basis point RBNZ OCR cut has been digested by the market, the focus now is on how quickly the rebuild will be, and thus on when policy gets normalised. This will be a key judgement for the rates market as it determines the level of rates, especially at the short end. But uncertainty remains high, and in that environment we expect rates to remain subdued, with a downward bias. Long end rates will follow global rates, and the risks there look decidedly to the upside.

CURRENCY STRATEGY

The focus of FX markets will shift to JPY and EUR this week. We expect the former to strengthen on repatriation and reinsurance flows, while the latter will benefit from the expansion of the EFSF. The NZD will be largely range trading now that the RBNZ is on hold for a while after delivering a 50bp cut last week. The risk of a short-squeeze higher in NZD over the near-term is a possibility given market positioning.

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SUMMARY

The messages from the RBNZ were clear enough: we've delivered a 50 basis point insurance cut; we're now in data-watch mode; pending weak data is to be discounted; and the OCR will have to move up a little faster once the rebuild starts in earnest, but this looks a way off and we're not sure when. We concur with the spirit but believe that the rebuild effort will commence earlier than the 2012 timeline the RBNZ sketched out. Moreover, we believe inflation will not turn out to be as benign as the RBNZ makes out. This leaves us now leaning towards calling a hike in late 2011. Most NZ data over the next few months is to be heavily discounted: weakness is to be expected. That said, this week's *globalDairyTrade* online auction should deliver some much needed good news for NZ.Inc. But most of our attention is firmly on fiscal policy and the speed of the policy response. We expect firm steps over the coming weeks.

THIS WEEK'S EVENTS

- **globalDairyTrade online auction** (Wednesday, 16 March 6am). We expect whole milk powder prices to average around US \$4,700/tonne, nearly a 2 percent increase from the early March event.
- **Westpac Consumer Confidence - 2011Q1** (Wednesday, 16 March, 10:00am). We expect a tangible earthquake impact, with overall confidence down. The gap between current and future conditions should widen further.
- **ANZ Roy Morgan Consumer Confidence – March** (Thursday, 17 March, 3:00pm).

With the GDP release still scheduled for the 24th of March, Statistics New Zealand may release the following delayed data:

- **SNZ Wholesale Trade - 2010Q4.** We expect a small increase of perhaps 1 percent in wholesale volumes, underpinned by a sizeable lift in export volumes.
- **SNZ Economic Survey of Manufacturing – 2010Q4.** We expect a 1 percent increase in manufacturing volumes. An upside surprise would help absorb some downside risk of a weak Q4 GDP result.

WHAT'S THE VIEW?

The RBNZ was pretty clear describing last week's cut as an insurance measure. Given the Christchurch earthquake has knocked the economy for six, additional policy support was necessary.

The RBNZ believed that the economy had been picking up prior to the quake, with the March MPS noting that the tone of the January round of business visits had been "surprisingly positive". This is consistent with the anecdotes we had been receiving and ties in with the inflection point view of the economy we had been running over February. The earthquake, however, has changed the landscape.

Costs of the February Christchurch earthquake vary, with the \$15b assumption by the RBNZ in the March MPS contrasting with much higher estimates quoted in the media. At this early stage we do not wish to speculate on the exact magnitude. Suffice to say that is substantial: as well as the human cost the quake destroyed capital stock and NZ.Inc is much worse off as a result.

At this juncture we need to note the distinction between wealth and production. New Zealand's overall wealth has taken a substantial hit. The earthquake is also likely to reinforce the mood of consumer restraint we have been seeing, with the process of household deleveraging still having some way to run. While earthquake rebuilding will boost output in the construction sector, the impact on GDP will depend on how much the rebuilding work will displace output from other regions and sectors. This process will create tensions that usually show up in changes to relative prices, which are a signal of where resources need to shift.

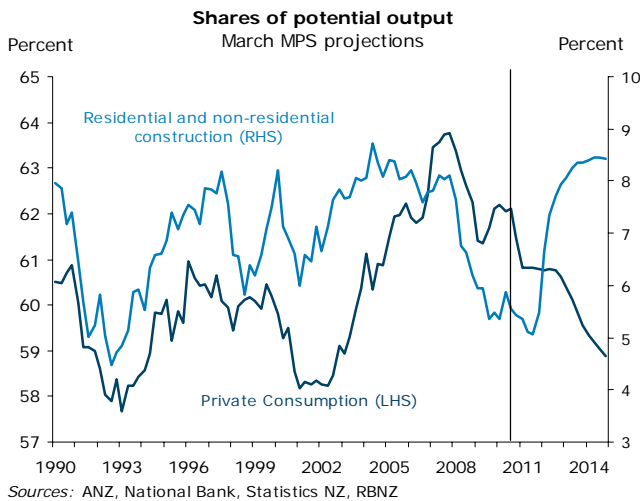
We're at pains to emphasise the dual nature of the shocks the NZ economy is now navigating. The economy needs to rebalance in favour of export-orientated earning over spending and domestic growth, at a time when it now also needs to deploy resources to restore destroyed capital stock that is by-and-large related to the domestic economy. This is a tall order.

Residential and business investment has borne the brunt of the rebalancing process in the New Zealand economy to date. Both have declined sharply as a share of GDP. This is not a sustainable adjustment, as the former is opening up a supply-demand imbalance for the housing stock, and the latter is a damning indictment of where future productivity trends could reside. Non-residential construction and residential investment are both set for a major boost beyond the normal pro-cyclical upswing: both components are set to account for as large a share of output as when the economy was white-hot in 2005-2007 – and this time over 5-10 years! If this work displaces output in other sectors of the economy, imbalances of old may emerge. Certainly, a larger current account deficit (abstracting from favourable one-offs from reinsurance inflows) is

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to be expected, but we are also talking about imbalances in a number of other areas, and higher inflation.

There is going to have to be a sacrificial lamb, and it will be consumption. The economy does not have the supply-side capacity to allow consumer spending to pick up. We cannot envisage consumption joining an investment boom (beyond an insurance-funded durable rebuild for the Christchurch population). This does not mean consumption is out for the count. But if the economy is effectively overweight construction over the next few years, then it will probably be underweight consumption.



Realistically, such trends will not occur easily or immediately, which is why all forecasts including ours and the RBNZ's are so fraught with uncertainty at present – and that uncertainty extends beyond the rebuild process itself.

This is also where the job of policymakers is currently extremely difficult. In responding to one shock via leaning on the Government's balance sheet and delivering an interest rate cut, they must not lose sight of the big picture or inevitable need for the New Zealand economy to rebalance. Interest rate cuts – the insurance policy – will need to be followed by more rapid policy tightening when conditions improve. Fiscal policy needs to be clear on the need to reprioritise spending. More supply-side initiatives, particularly those that help address construction sector bottlenecks, would also be welcome. **Both fiscal policy and monetary policy will be operating in a difficult environment: there will be few easy choices over the coming years.**

Turning back to monetary policy, prior to the March MPS, our core view was that the RBNZ were going to cut by 50 basis points and there was little

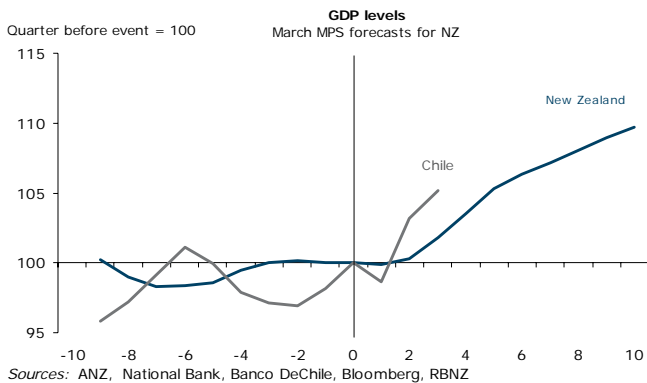
difference in doing it in one move or a couple of 25s. **We see policy as now on hold, and the RBNZ will be in data assessment mode.** We have pencilled in the first OCR hike for December 2011, which is slightly earlier than implied by the RBNZ interest rate projections.

This difference in timing relative to the RBNZ and market reflects two critical judgments on growth and inflation respectively:

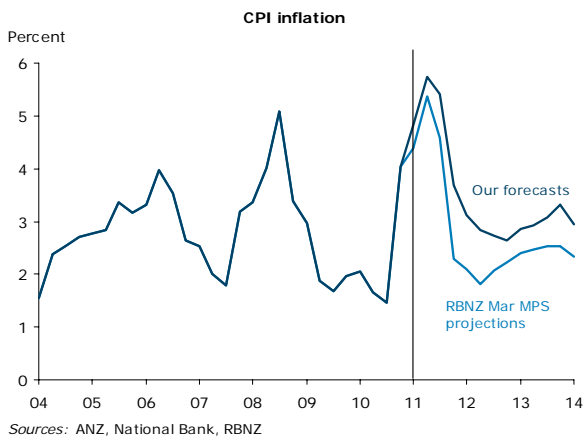
First, the economy has the potential to turn more sharply over 2011 than assumed by the RBNZ. While challenges exist in getting the rebuild up and running and the household psyche has taken a short-term hit, we would like to point out:

- **The economy has a better base from which growth can springboard.** We are not losing sight of some of the positives (loose financial conditions, high commodity prices and 3 years of tepid growth) which imply a lot of pent-up demand.
- **The experience of Chile,** which suffered a large earthquake in early 2010, shows how a timely policy response can see GDP rebound sharply. On page 6 we provide a quick synopsis of the Chilean experience.
- **We suspect we'll see a concerted Government response in key areas.** Time will tell on this one but things seem to be moving quickly behind the scenes and it is an election year after all. We will be placing more weight on information pertaining to the degree and speed of government initiatives to get the rebuild moving. So we'll be eying things like the fast-tracking of consents in new subdivisions and the like. Already we've seen a commitment that all houses will receive a preliminary assessment in eight weeks. The process is far quicker than post September (and it certainly needs to be).
- **Commentators must be careful not to confuse the impact of the earthquake on the capital stock with the effect on GDP.** The former has suffered an outright loss. The latter will suffer from both an initial hit to demand but also destroyed capacity. You can see semblances of the latter via the RBNZ's projections with potential growth in 2011 lowered to 1.6 percent. Because supply-side capacity can only slowly be rebuilt, but demand via restocking and construction can turn immediately, capacity constraints can be hit quickly.

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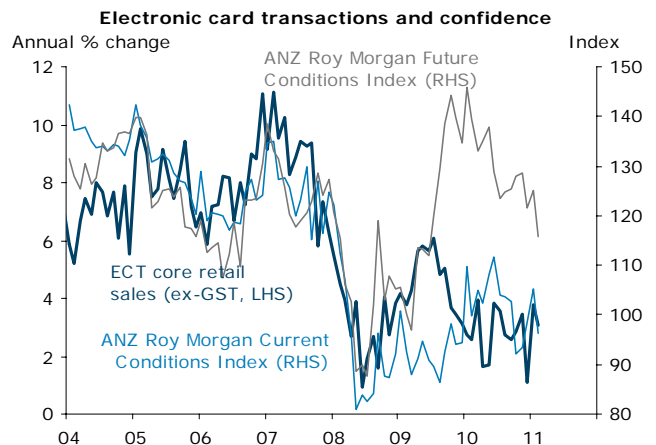


Related to this last point, **the second critical judgement on which we differ from the RBNZ is that we also suspect inflation will prove less benign than the RBNZ has projected.** Right up front we need to say that we are not in the camp that says the inflation genie is set to get out of the bottle. Yet you do not have to look very hard to find evidence of higher commodity prices filtering through into consumer prices, and we're already seeing direct consequences of higher oil prices in travel costs. With the NZD no longer trending up, we wonder how much more retail discounting can continue to counteract price rises from higher commodity prices and inflation from non-contestable pockets of the economy. Some sectors appear to have more pricing power than demand-pull inflation proponents would like. However, for now, such inflation concerns are of secondary importance to the RBNZ, and inflation was not even mentioned in the March MPS policy assessment. This seems appropriate for now, but we suspect that will change around mid-year.



Looking forward we'll be paying particular attention to various surveys of inflation (both household and business) over the coming months. We noted last week their importance and this still remains the case.

In terms of data outturns, disruptions caused by the earthquake will make it difficult to detect the "news" content. The first "read" on the quake was provided by February Electronic Card Transaction data and it was not as weak as feared, although rising fuel prices are likely to have masked a greater fall in volumes. Core spending was a little more subdued and more consistent with the theme of household caution. Registered unemployment beneficiary numbers were down slightly in February, but it is too early to gauge the impact of the quake on labour demand. REINZ housing market data provided mixed messages, with the 7 percent climb in sales numbers outside of the Canterbury/Westland region contrasting with a 28 percent fall in Canterbury/Westland. The increase in the median days to sell to a seasonally adjusted 48 days suggests further downside pressure to house prices over the next few months.

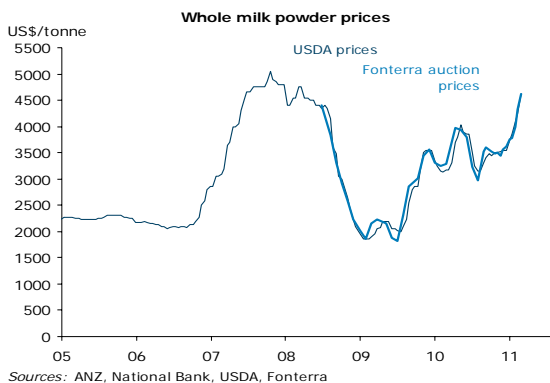


Consumer sentiment should give some guide as to future spending trends. While we release the ANZ-Roy Morgan survey monthly it is actually surveyed fortnightly. The reading for the second half of February (not released) straddled the earthquake. Sampling was obviously a problem for the Christchurch area, but confidence held up well (read: same low level) over the fortnight relative to the prior period. This surprised us somewhat, and we'll be looking at the March reading for a clearer picture, as one of the obvious risks at present is that consumers retreat even further into their shell (though some households will certainly be leaning on their savings at present). **One of the key advantages of the ANZ Roy Morgan survey is that it is released monthly, and will provide timely readings on turning points.**

The *globalDairyTrade* online auction has showed whole milk powder prices rising since

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the end of last year, and we believe this process has further to run. We expect whole milk powder prices to average US \$4,700/tonne in the mid-March event. Rising commodity prices are part of the good news story for NZ.Inc and are an important source of economic support. With all that has happened recently it is easy to forget this. High commodity prices have widespread implications for the medium-term activity and inflation outlook.



Sources: ANZ, National Bank, USDA, Fonterra

Beyond data outturns, our primary attention over the coming weeks will be centred on policy initiatives relating to the earthquake rebuild.

How streamlined and fast will the building consent process become? How are businesses going securing alternate premises? Will we get enough construction workers? We can't emphasize how important the Government's response will be as flagbearers of the recovery process in H2 2011 and H1 2012. **Such nuances and the feedback we get on the ground are going to be the precursor to stabilisation and improvement in the hard data. This looks a long way off, but it's important not to overlook the foundations for growth that will be laid over the coming months.** However, once again we will need to remind people that GDP will be somewhat of a hollow indicator over the coming years, due to the wealth destruction the earthquake entailed.

RECENT LOCAL DATA

- seasonally adjusted 7.1 percent.

 - SNZ Net Migration – January.** Net permanent and long-term immigration eased to a net seasonally adjusted inflow of 450 persons, with the annual net inflow falling to 8,689. Visitor arrival numbers rose a seasonally adjusted 2 percent to be 3.5 percent up on 12 months earlier.
 - RBNZ March 2011 Monetary Policy Statement and OCR announcement.** The RBNZ cut the OCR by 50 basis points to 2.5 percent. Future monetary policy adjustments will be guided by emerging economic data, with current monetary policy accommodation to be removed once the rebuilding phase materialises.
 - SNZ Electronic Card Transactions – February.** The value of retail electronic card transactions declined a seasonally adjusted 0.2 percent, with core (ex-fuel and vehicle related) ECT spending declining a seasonally adjusted 0.6 percent.
 - SNZ Food Price Index – February.** Food prices rose 0.1 percent, with annual food price inflation rising to 5.3 percent.
- REINZ Housing Market data – February.** Sales number rose a seasonally adjusted 3 percent (-10 percent y/y). The REINZ house price index rose a seasonally adjusted 0.9 percent (-0.7 percent y/y), while the median days to sell rose from a seasonally adjusted 43 days to 48.
- SNZ Building Work Put in Place – 2010Q4.** The volume of work put in place increased a seasonally adjusted 1.1 percent, underpinned by a 10.6 percent increase in non-residential volumes. Residential work put in place volumes declined a

LESSONS FROM CHILE

SUMMARY

The lessons from the Chile earthquake of February 2010 are that we should not underestimate either the near-term hit to GDP nor the strength and speed of the potential rebound if the Government gets the rebuild process underway quickly, as appears to be the intention. Challenges remain and the earth needs to stop shaking first! But the experience of Chile is that a quick government-centric response can see a quick recovery in activity.

EVERY NATURAL DISASTER IS DIFFERENT

Each economy is unique, and the starting point and challenges an economy was already grappling with matter hugely. In this short note we examine possible lessons for New Zealand by looking at Chile's experience following their 2010 earthquake.

TOO PESSIMISTIC?

In the two weeks since the second Christchurch earthquake hit, estimates of the damage to the New Zealand economy have generally been revised up. This is partly due to more information coming to light.

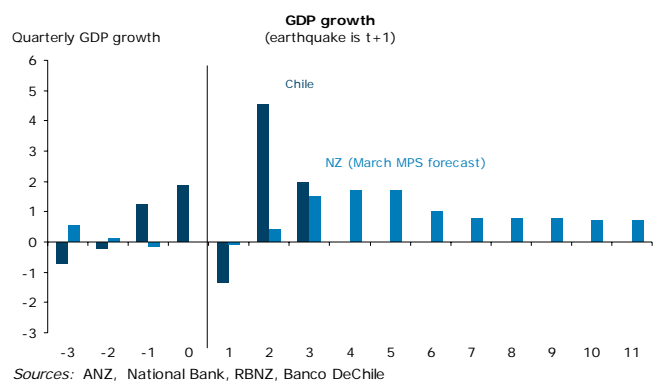
But we may, as a nation, be getting a little too pessimistic in GDP and value-added terms if the experience of Chile is anything to go by.

Chile suffered an 8.8 magnitude earthquake on 27 February 2010, almost exactly one year before the second Christchurch quake.

Infrastructure was seriously damaged (mostly roading), and the total damage bill was around 15 percent of GDP, versus early estimates of around 10 percent of NZ GDP for the Christchurch quake. The peak ground shaking was not as severe as Christchurch but the quake lasted much longer. Numerous large buildings collapsed or were seriously damaged. Around 600 people were killed, multiple cities were affected, and half the country was declared a disaster zone. The president estimated it would take 3-4 years to rebuild. The economy was already in recession and in the thick of the aftermath of the global financial crisis, with the policy interest rate at 0.5 percent. However, the financial system was stable and the fiscal position sound. **Like agriculture in New Zealand, the crucial mining industry was largely unaffected (accounting, like broader agriculture in NZ, for around 16 percent of GDP and half of exports).**

Analysts in both the private and public sectors rushed to revise down their forecasts of 2010 growth by anything from 0.4 to 5.5 percent (growth had been expected to be around 4-5 percent). **But in fact the economy rebounded sharply.** Although

GDP fell 1.3 percent in the March quarter, it rebounded by 4.5 percent in Q2 and 2.0 percent in Q3. Growth was focused in investment in machinery and equipment, an increase in construction activity, a sharp increase in demand for durable goods, and inventory rebuild. **Growth in 2010 was higher than if the quake hadn't happened.** We must stress that this does *not* mean the economy was better off than if the quake hadn't occurred. As in NZ, a huge amount of wealth was destroyed, and the rebuild activity has used up resources that would have been used for other wealth-creating growth otherwise.



A key driver of the rapid rebound was the speed of the Government response. They had a sound fiscal position and implemented an ambitious rebuild programme. To pay for it, they trimmed other expenditure, reallocated spending, temporarily increased taxes, and borrowed more. **One month after the quake, the government was spending \$3m a day on rebuilding, which rose quickly.**

IMPLICATIONS FOR MONETARY POLICY

The central bank of Chile started raising rates less than 4 months after the quake, as they were concerned about inflation pressures (albeit mostly from non-earthquake-related sources). By mid-September interest rates had been raised 200bps to 2.5 percent (now, a year after the quake it is 150bps higher at 4.0 percent). **The RBNZ has been explicit that last week's cuts are temporary insurance that will be removed as soon as the rebuild gets underway.** The RBNZ are currently assuming this will be about a year off. But if, as we suspect, the NZ Government firmly takes the reins on the rebuild process, **we could see a similar sharp turnaround in both economic growth and interest rates play out here.** There are undoubtedly challenges still ahead for this scenario to pan out (i.e. the ground needs to stop shaking first!). **Yet the Chilean experience shows that a sharp policy response can deliver impressive GDP outturns** (though as a nation this does not compensate for the wealth loss).

POST-QUAKE MIGRATION PATTERNS

SUMMARY

Over the next twelve months Christchurch City is likely to experience a net outflow of people, following the February 22 earthquake. It is inevitable that some residents will decide to leave permanently. We estimate that Christchurch could possibly lose up to 4 percent of its population permanently in the first year, via emigration to elsewhere in the country or overseas, and a reduction in immigration if overseas patterns are followed. However, the strength of intra-regional migration into Christchurch over the past decades could easily reverse and we could see larger outflows. The government and business sector response, and attitudes toward residing in Christchurch, will be critical.

WHO WILL LEAVE AND WHERE TO?

Cities can experience population decline (also known as depopulation) for many reasons.

Economics is a common one. People tend to go to where there are jobs and opportunities. Wars, famines and natural disasters are also common reasons for areas to experience depopulation. EM-DAT¹ estimates that the number of people affected by natural disasters has risen from around 50 million a year in the mid-1970s to around 300 million a year over the past decade.

There is a vast international literature on how weather related disasters affect migration². But these tend to focus on developing countries affected by droughts or other disasters. What is less well known is the permanent effect on the population following an event such as an earthquake in a developed economy.

There are reports that as many as 65,000 Christchurch residents have left the city following the February 22 earthquake. This is around 17 percent of the city's population. While it is understandable that many have chosen to go somewhere else, given the damage to homes, the big question is how many will decide not to return at all and what it will do to future migration trends. And for those that decide not to return, where will they choose to settle?

Looking at estimates of the permanent population loss following some recent natural

¹ See www.emdat.be/natural-disasters-trends.

² See Alexeev, A, Good, D. and Reuveny, R (2010) *Weather-Related Disasters and International Migration*, School of Public and Environmental Affairs, Indiana University; and International Organisation for Migration (2007) *Migration, Development and Natural Disasters: Insights from the Indian Ocean Tsunami*, IOM Migration Research Series No.30, for examples.

disasters in developing countries suggest a large variation.

The 1995 Kobe earthquake resulted in 2.5 percent of the population leaving permanently³. There was a far higher proportion that left following Hurricane Katrina and Rita in 2005. However, Florida only lost a very small proportion of its population following hurricanes in 1992 and 2004 (see table below).

% of population permanently leaving following natural disaster	
Hurricane Andrew 1992	0.3
Florida hurricanes in 2004	0.3
Hurricane Katrina and Rita 2005	8.9
Kobe earthquake 1995	2.5

Sources: ANZ, Alexeev et al (2010), Horwich (2000)

These are useful benchmarks, although it is impossible to lump all disasters into the same box. A key differentiating factor with regard to Christchurch has been the extended nature of seismic activity, which will exaggerate the psychological impact on residents. In addition, there will also be changes to the risk profile when businesses think about issues such as locality and where operations reside.

Christchurch City has a population of around 380,000. The potential migration effects will stem from:

- Permanent outward migration to another area in NZ (internal emigration);
- Permanent outward migration overseas, especially to Australia (external emigration);
- Lower inward migration from another area in NZ (internal immigration); and
- Lower inward migration from overseas (external immigration).

Over the past decade, Christchurch City has benefited from net gains in internal migration (i.e. internal immigration less internal emigration) of around 0.3 percent of the population per annum, or around 1,100 persons a year. Net gains from external migration (i.e. external immigration less external emigration) have averaged around 0.4 percent of the population per annum, or equivalent to 1,600 persons a year.

If we assume that the permanent emigration (i.e. outflows) either to another part of NZ or overseas is similar to Kobe, then there will be a loss of 9,500

³ Horwich, G (2000) *Economic Lessons of the Kobe Earthquake*, Economic Development and Cultural Change Vol. 48 No.3.

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people (2.5 percent of the population). In practice, this estimate is likely to be at the conservative end. While there are certainly frictions that will restrict labour mobility (such as selling your house), there are other New Zealand specific factors, such as the higher tendency for New Zealanders to head offshore (especially to Australia), at any given time. The number of permanent departures from New Zealand accounts for between 1½ and 2 percent of the population over the past decade.

Christchurch has also been a net beneficiary of migration from Australia – which goes against the national trend. Migration from England, Japan and Australia dominate the net inflow. Certainly there looks to be immediate risks to immigration from Australia and Japan. And migration research has also showed that NZ has been used at a springboard destination to Australia⁴. What is less clear is the impact on internal and external immigration (i.e. inflows), which account for almost 3½ percent of the population in any given year.

Of the roughly 7,500 external immigrants (i.e. permanent arrivals from overseas) arriving into Christchurch each year, it is possible that we could see a halving of that in the near-term. In fact this seems somewhat optimistic. And while we could also see a rise in internal emigration, the net effect will likely be far less as there will be people coming in to carry out essential work relating to assessing and repairing the earthquake damage.

Christchurch City migration patterns as % of population per annum	
Internal immigration (inflow)	1.4
Internal emigration (outflow)	1.1
Net internal migration	0.3
External immigration (inflow)	2.0
External emigration (outflow)	1.6
Net external migration	0.4

Sources: ANZ, Statistics NZ

Looking at where those who choose to leave permanently will go, we look at data from past Censuses for guidance (refer to the table at the end).

The key takeouts are:

- Christchurch has been a net beneficiary from intra-regional migration in the past, consistently recording net gains. Dunedin is the largest source, followed by Wellington, though there is a

net outflow with the latter. We are likely to see less people from these two cities choosing to settle in Christchurch in the near-term.

- For those choosing to leave Christchurch, most head to Wellington with Central Auckland attracting the second highest share, and Dunedin coming in third. Given past migration patterns imply there will be stronger family connections to those destinations, we can expect a greater proportion of former Christchurch residents heading to Wellington and Auckland. However, relocating from one quake prone area to another does not pass the smell test, so we suspect you can rule out Wellington as a beneficiary.
- On a net basis, the largest gains are likely to be in Dunedin, followed by Invercargill. Areas on the Christchurch periphery – Timaru, Ashburton, Blenheim, Greymouth and part of the wider Canterbury area – have also seen a large big city drift in the past. We will likely see this drift reverse sharply.

Of course, key for those choosing to leave Christchurch permanently will be the availability of work and access to public services such as schools, universities and hospitals. On the face of it then, it would seem that Auckland and Dunedin will see the most migration out from Christchurch – at least for those people who still seek to stay in New Zealand.

IMPLICATIONS

All up, we think it is possible that Christchurch City could see a loss of around 15,000 residents in the first year, equivalent to almost 4 percent of the population. This consists of around 9,500 residents deciding to leave permanently, 4,000 less migrants from overseas than otherwise would be the case in the absence of the earthquake, and 1,500 less internal migrants. Some regions will benefit from having a larger population base, but others such as Auckland, which is already experiencing a shortage of housing (see last week's *Market Focus*), may see existing pressures intensify.

In practice these sorts of estimates seem intuitively light. The nature of Christchurch's seismic events – and extended period of shaking – has changed the situation completely relative to offshore norms.

Of course it is possible to detail more severe scenarios. However, we stop short of doing this at this juncture. A key reason for this is an underlying assumption that the heart of Christchurch's economic infrastructure including the Port, Universities and Airport will remain the dominant players in the South Island. If this proves to be otherwise, then the

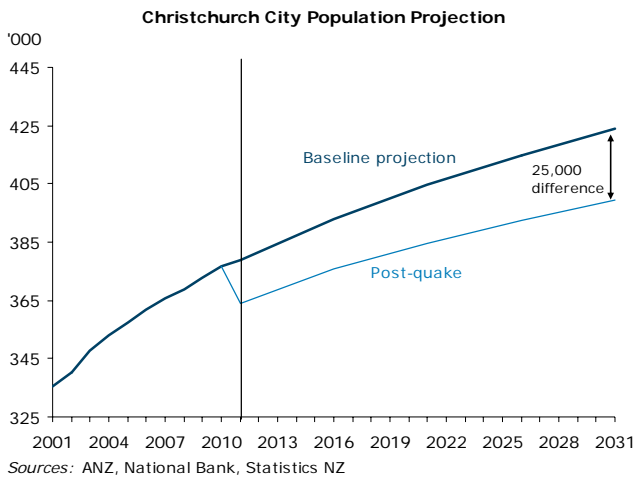
⁴ See Hayden Glass and Wai Kin Choy, 'Brain drain or brain exchange?', New Zealand Treasury, www.treasury.govt.nz/workingpapers/2001/01-22.asp

POST-QUAKE MIGRATION PATTERNS

depopulation fallout is likely to be significantly greater than what we assume.

Then there is the longer term implication of slower population growth than previously projected as a result of the earthquake. If we conservatively assume that the annual population growth rate will be 0.1 percentage points lower than the previous baseline forecast, the population in Christchurch will be around 25,000 lower by 2031. This will have implications for the amount of infrastructure, services and amenities that will be required.

By way of comparison, the population in Kobe fell for the next two years following the 1995 earthquake. It took a decade before the population reached pre-earthquake levels. We should note, however, that this could also partly reflect the low population growth rate in Japan overall. In New Orleans, the population fell by almost a quarter five years following Hurricane Katrina, according to data from the US Census Bureau.



Our estimate is necessarily rough, and should be viewed as indicative only. How quickly this situation can turn around will depend on the government and business sector response, the speed and comprehensiveness of the rebuilding effort, and attitudes toward residing in Christchurch.

POST-QUAKE MIGRATION PATTERNS

Distribution of internal migration into and out of Christchurch City
(average inter-Census change i.e. 5-yearly changes)

	Internal immigration into Christchurch from:		Internal emigration out of Christchurch to:		Net Internal Migration (Persons)
	Persons	% share	Persons	% share	
Whangarei	188	0.8	129	0.7	59
Northern Auckland	956	4.3	960	5.5	-4
Western Auckland	641	2.9	530	3.0	111
Central Auckland	1,515	6.8	1,900	10.8	-385
Southern Auckland	1,032	4.6	878	5.0	154
Hamilton	631	2.8	534	3.0	97
Cambridge	48	0.2	47	0.3	1
Te Awamutu	41	0.2	32	0.2	9
Tauranga	362	1.6	357	2.0	5
Rotorua	289	1.3	203	1.2	86
Gisborne	170	0.8	91	0.5	79
Napier	347	1.6	174	1.0	173
Hastings	275	1.2	180	1.0	95
New Plymouth	288	1.3	161	0.9	127
Wanganui	214	1.0	114	0.6	100
Palmerston North	581	2.6	463	2.6	118
Kapiti	188	0.8	170	1.0	18
Upper Hutt	261	1.2	208	1.2	53
Lower Hutt	676	3.0	513	2.9	163
Porirua	296	1.3	248	1.4	48
Wellington	1,556	7.0	2,208	12.5	-652
Nelson	1,382	6.2	1,115	6.3	267
Dunedin	2,502	11.2	1,579	9.0	923
Invercargill	1,264	5.7	489	2.8	775
Pukekohe	54	0.2	44	0.2	10
Tokoroa	60	0.3	34	0.2	26
Taupo	91	0.4	66	0.4	25
Whakatane	68	0.3	44	0.2	24
Hawera	41	0.2	27	0.2	14
Feilding	83	0.4	39	0.2	44
Levin	89	0.4	49	0.3	40
Masterton	116	0.5	69	0.4	47
Blenheim	964	4.3	687	3.9	277
Greymouth	578	2.6	324	1.8	254
Ashburton	836	3.7	488	2.8	348
Timaru	1,209	5.4	542	3.1	667
Oamaru	461	2.1	205	1.2	256
Gore	210	0.9	74	0.4	136
Rural centre	1,778	8.0	1,639	9.3	139
Total	22,335	100.0	17,611	100.0	4,724

Sources: ANZ, Statistics NZ

INTEREST RATE STRATEGY

SUMMARY

Now that last week's 50 basis point RBNZ OCR cut has been digested by the market, the focus now is on how quickly the rebuild will be, and thus on when policy gets normalised. This will be a key judgement for the rates market as it determines the level of rates, especially at the short end. But uncertainty remains high, and in that environment we expect rates to remain subdued, with a downward bias. Long end rates will follow global rates, and the risks there look decidedly to the upside.

MARKET THEMES

- Last week's 50bps rate cut was pre-emptive, and thus has been delivered in expectation of weak data. The hurdle for a follow up cut is high, with rates to remain stable for some time.
- Monetary policy won't be accommodative for ever, but hikes are some way off, leaving carry very much on the table.
- Middle Eastern concerns have thrown a spanner in the works for the bond market, and all eyes are on oil prices.

REVIEW AND OUTLOOK

Although we were mildly surprised by the RBNZ's decision to cut by 50bps last week (recall we thought 25bps was more likely), it was always a line call and 50bps was always on the table. **But there is a caveat that goes with delivering on more than market expectations – and that's not to assume that there's more in store if data continues to deteriorate.** Last week's cut was pre-emptive, and as such, the hurdle for another is very high indeed.

And while the RBNZ has acknowledged that it will look to remove policy accommodation once the rebuild begins, this is both some time away, and very conditional on how things pan out. And as it will be some time away, **we expect the market to give uncertainty the benefit of the doubt, and by and large, carry dictates positioning from the long side, keeping rates down.**

Direction at the long end of the curve continues to be driven by offshore. This is important, as we know the RBNZ have taken significant comfort from the slope of the yield curve. Indeed, with the curve as steep as it is, and more mortgages than ever on a floating, the RBNZ has effectively wrestled back the power of monetary policy. In that regard, **monetary policy will be negatively correlated to curve slope.**

US 10yr Treasury yields are back at the bottom end of a well-established trading range, having caught a safe-haven bid on Middle Eastern concerns. With the

tempo of data improving steadily (and it's not just confined to activity data, inflation readings are also rising), **does this mean that the US bond market is sleep-walking into a disaster? It could well be.** Although markets are taking significant conform from dovish rhetoric from Fed chair Bernanke, there are a few notable hawks on the FOMC, and as noted, data are improving steadily. We may also see significant repatriation of offshore holdings back to Japan following Friday's devastating earthquake, further pressuring US bonds. **In our view, this has all the hallmarks of an overbought market.**

PREFERRED BORROWING STRATEGIES

Given the heightened level of uncertainty and the prospect of rates being on hold for a long period, we see little point in adding to hedge cover. The opportunity cost of fixing just went up considerably for borrowers, with the 3mth BKBM rate down a little over 50bps since the rate cut. But with the RBNZ explicitly discussing the need to raise rates as quake rebuilding starts, at some stage there will be value in adding to cover. However, two pre-conditions need to be met before doing so. The first is a clearer picture of business prospects, and the second is a clear demonstration of value.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	Pre-emptive cut last weeks means hurdle for more high.
NZ data	↔	Will be messy for a while.
Fed Funds / front end	↔	FOMC unlikely to be market moving. Bernanke relaxed.
RBA	↔	RBA on hold, but Stevens still bullish China etc.
US 10 year	↔	Middle East concerns pull one way, data the other.
NZ swap curve	↔/↑	Curve to remain steep.
Flow	↔/↓	Carry still a motivator.
Technicals	↔	Break of new lows unlikely.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Mar-11	-31	-50 (actual)
Thu 28-Apr-11	-33	-51
Thu 9-Jun-11	-41	-51
Thu 28-Jul-11	-37	-56
Thu 15-Sep-11	-36	-50
Thu 27-Oct-11	-36	-50
Thu 8-Dec-11	-29	-33

TRADING THEMES WE FAVOUR AT PRESENT

We continue to prefer playing the market from the long side, guided by enhanced roll and carry. Steepeners remain appropriate given our disparate short and long end views, with the 2yr-10yr being the preferred points.

CURRENCY STRATEGY

SUMMARY

The focus of FX markets will shift to JPY and EUR this week. We expect the former to strengthen on repatriation and reinsurance flows, while the latter will benefit from the expansion of the EFSF. The NZD will be largely range trading now that the RBNZ is on hold for a while after delivering a 50bp cut last week. The risk of a short-squeeze higher in NZD over the near-term is a possibility given market positioning.

MARKET THEMES

- RBNZ delivers 50bps cut, removing further uncertainty for NZD.
- Japan earthquake unsettles financial markets but Kobe experience suggests JPY strength to come.
- US data was a mixed bag with Michigan confidence survey taking a hit, undermining USD.
- EUR supported by EU Summit agreement.
- Commodity prices lose ground.

REVIEW AND OUTLOOK

The RBNZ delivered a 50bps cut in the OCR but the NZD was incredibly resilient in the face of this. Market participants were convinced a rate cut was in the offing and so were positioned for the outcome, skewing the risk of a short squeeze post the announcement. The Governor has made it clear that forecasting will be very difficult for the next 6-12 months, making monetary policy decision making quite fluid. However with seemingly no more rate cuts to come and NZ's continued strong terms of trade, we can expect to see the NZD well supported on a TWI basis from here.

The earthquake and tsunami in Japan will be the main focus of financial markets this week.

While we in NZ had no modern era natural disaster to compare how financial markets respond, in Japan the Kobe earthquake in 1995 provides at least some sense of a roadmap (although there are differences such as a worse Japanese fiscal position now compared to 1995). The Kobe experience suggests a strong repatriation of funds to Japan both in terms of capital invested offshore and reinsurance flows. Indeed in the 3 months following Kobe the JPY appreciated by 16% against the USD, although perhaps 10% could be attributed to general USD weakness at the time. On balance expect the JPY to be supported but we need to be aware of the risk of FX intervention by the BOJ should the appreciation be too swift.

The EU Summit reached a surprising agreement to allow the EFSF to buy bonds in the primary

market. Greece also gets a reduced rate on its loans. This has been met with market approval, with the EUR 0.5% higher in early trade this morning. This seems a surprising development given the market's propensity to sell USD when similar approaches are announced in the US. However the respective fiscal positions do have Europe in a better starting position for this type of action. In addition, the ECB look set to hike next month while the Fed is still on hold for a while. Look for EUR to test 1.40 and put on further gains.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↔/↓	Yield differential widened with RBNZ cutting 50bps.
Commodities	↔	Soft commodities topping out?
Partial indicators	↓	Post earthquake uncertainty continues.
Technicals	↔	Support at 0.7300.
Sentiment	↓↔	Earthquake has dented NZD sentiment.
Other	↑	Terms of trade continue to support.
On balance	↔	Are 20 year lows really justified?

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	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔	Risk gauges turning higher.
Partial indicators	↔/↓	US data improves while NZ still anaemic.
Technicals	↔	Rangebound between 0.7330 - 0.7530.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Earthquake has dented NZD sentiment.
Other	↑	Terms of trade continue to support.
On balance	↔↑	MPS past us. Terms of trade returns to focus.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Mar	NZ	REINZ Housing Price Index MoM% - FEB	-	-2.60%	10:00
	NZ	REINZ House Sales YoY% - FEB	-	-11.30%	10:00
	JN	Industrial Production (MoM) - JAN F	-	2.40%	17:30
	JN	Industrial Production YOY% - JAN F	-	4.70%	17:30
	JN	Capacity Utilization (MoM) - JAN F	-	3.00%	17:30
	JN	Consumer Confidence - FEB	-	41.1	18:00
	EC	Euro-Zone Ind. Prod. wda (YoY) - JAN	6.50%	8.00%	23:00
	EC	Euro-Zone Ind. Prod. sa (MoM) - JAN	0.30%	-0.10%	23:00
15-Mar	AU	Reserve Bank's Board March Minutes -			13:30
	AU	New Motor Vehicle Sales MoM - FEB	-	-1.90%	13:30
	JN	Machine Tool Orders (YoY) - FEB F	-	73.70%	19:00
	UK	DCLG UK House Prices (YoY) - JAN	2.30%	3.80%	22:30
	EC	Eurozone Employment (QoQ) - 4Q	-	0.00%	23:00
	EC	Eurozone Employment (YoY) - 4Q	-	-0.20%	23:00
	GE	Zew Survey (Current Situation) - MAR	86	85.2	23:00
	EC	ZEW Survey (Econ. Sentiment) - MAR	-	29.5	23:00
	GE	ZEW Survey (Econ. Sentiment) - MAR	16	15.7	23:00
	JN	BOJ Target Rate - MAR	0.10%	0.10%	23:00
16-Mar	US	Empire Manufacturing - MAR	16.1	15.43	01:30
	US	Import Price Index (MoM) - FEB	0.90%	1.50%	01:30
	US	Import Price Index (YoY) - FEB	6.40%	5.30%	01:30
	US	Total Net TIC Flows - JAN	\$35.0B	\$48.2B	02:00
	US	Net Long-term TIC Flows - JAN	\$55.0B	\$65.9B	02:00
	US	FOMC Rate Decision - MAR	0.25%	0.25%	07:15
	NZ	Westpac NZ Consumer Confidence - 1Q	-	108.3	10:00
	AU	Dwelling Starts - 4Q	-1.40%	-13.20%	13:30
	CH	China January Leading Economic Index -			15:00
	UK	Claimant Count Rate - FEB	4.50%	4.50%	22:30
	UK	Jobless Claims Change - FEB	1.3K	2.4K	22:30
	UK	Average Weekly Earnings 3M/YoY - JAN	2.10%	1.80%	22:30
	UK	ILO Unemployment Rate (3mths) - JAN	7.90%	7.90%	22:30
	EC	Euro-Zone CPI - Core (YoY) - FEB	1.10%	1.10%	23:00
	EC	Euro-Zone CPI (MoM) - FEB	0.40%	-0.70%	23:00
	EC	Euro-Zone CPI (YoY) - FEB	2.40%	-	23:00
	EC	Euro-Zone Labour Costs (YoY) - 4Q	1.00%	-	23:00
17-Mar	US	Housing Starts - FEB	570K	596K	01:30
	US	Building Permits - FEB	570K	562K	01:30
	US	Housing Starts MOM% - FEB	-4.40%	14.60%	01:30
	US	Building Permits MOM% - FEB	1.20%	-10.40%	01:30
	US	Producer Price Index (MoM) - FEB	0.70%	0.80%	01:30
	US	PPI Ex Food & Energy (MoM) - FEB	0.20%	0.50%	01:30
	US	Producer Price Index (YoY) - FEB	4.70%	3.60%	01:30
	US	PPI Ex Food & Energy (YoY) - FEB	1.80%	1.60%	01:30
	US	Current Account Balance - 4Q	-\$110B	-\$127.2B	01:30
	NZ	ANZ Consumer Confidence Index - MAR	-	108.1	15:00
	EC	Construction Output SA MoM - JAN	-	-1.80%	23:00
	EC	Construction Output WDA YoY - JAN	-	-12.00%	23:00
18-Mar	US	Consumer Price Index (MoM) - FEB	0.40%	0.40%	01:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-Mar	US	CPI Ex Food & Energy (MoM) - FEB	0.10%	0.20%	01:30
	US	Consumer Price Index (YoY) - FEB	2.00%	1.60%	01:30
	US	CPI Ex Food & Energy (YoY) - FEB	1.00%	1.00%	01:30
	US	Initial Jobless Claims - 12 Mar	390K	397K	01:30
	US	Continuing Claims - 5 Mar	3750K	3771K	01:30
	US	Industrial Production - FEB	0.60%	-0.10%	02:15
	US	Capacity Utilization - FEB	76.50%	76.10%	02:15
	US	Leading Indicators - FEB	1.00%	0.10%	03:00
	US	Philadelphia Fed. - MAR	29.7	35.9	03:00
	UK	Nationwide Consumer Confidence - FEB	47	47	13:01
	JN	Coincident Index CI - JAN F	-	106.2	18:00
	JN	Leading Index CI - JAN F	-	101.9	18:00
	GE	Producer Prices (MoM) - FEB	0.70%	1.20%	20:00
	GE	Producer Prices (YoY) - FEB	6.30%	5.70%	20:00
	EC	ECB Euro-Zone Current Account SA - JAN	-	-13.3B	22:00
	EC	Euro-Zone Trade Balance sa - JAN	-2.5B	-2.3B	23:00

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: The February 22 earthquake was a game changer and is likely to delay the recovery by at least 6 months, if not longer. The RBNZ have come around to a similar conclusion with the March MPS cutting the OCR by 50 basis points. Inflation concerns have been pushed back for now. The economic data over the coming months will be noisy and we will be closely watching upcoming confidence readings.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Delayed	Economic Survey of Manufacturing – Q4	Up	We expect Q4 manufacturing volumes to increase by around 1 percent. Risks look higher and are required if a positive read on Q4 GDP is to be achieved.
Delayed	Wholesale Trade – 2010Q4	Up	Weak retail volumes suggest a flat quarter at best, although the increase in export volumes was encouraging.
Wed 16 Mar (6:00am)	<i>globalDairyTrade</i> online auction	High levels	We expect whole milk powder prices to rise to US\$4,700/tonne.
Wed 16 Mar (10:00am)	Westpac Consumer Confidence – 2010Q1	Earthquake impact	Overall consumer confidence is expected to fall. The gap between current and future conditions should widen further.
Thur 17 Mar (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Mon 21 Mar (10:45am)	Overseas Travel and Migration – Feb	Easing	The trend is weakening and we expect a monthly net PLT inflow of around 200 persons. Visitor arrival numbers to fall.
Mon 21 Mar (3:00pm)	RBNZ Credit Card billings - Feb	Down	Earthquake disruptions to weigh, with the value of billings falling 2 to 3 percent.
Wed 23 Mar (10:45am)	Balance of payments – 2010Q4	Lower	We expect the annual deficit to ease to 2.6 percent of GDP. The positive trade balance will be offset by large invisibles deficit.
Wed 24 Mar (10:45am)	Gross Domestic Product – 2010Q4	Soft	We expect a 0.2 percent increase, with risks to the downside. Large sector divergences will remain, with declining construction activity offset by higher agricultural and services output.
Fri 25 Mar (10:45am)	Overseas Merchandise Trade - Feb	Surplus	We expect a monthly trade surplus of \$180m but for the annual trade surplus to ease to \$700m.
Tue 30 Mar (10:45am)	Building Consents – Feb	Down	We expect a slide in residential consent numbers of at least 2 to 3 percent. Reconstruction work will provide a much needed fill-up for the sector from later this year.
Wed 31 Mar (3:00pm)	National Bank Business Outlook	- -	- -
Wed 31 Mar (3:00pm)	RBNZ Credit Aggregates - Feb	Deleveraging mood	Small increases are expected. We will be closely watching the business sector credit numbers.
Mon Apr 4 (3:00pm)	ANZ Commodity Price Index - March	- -	- -
Tue Apr 5 (10:00am)	NZIER QSBO – Q1	Earthquake hit	Earthquake disruptions will be evident, with a wide gap between expected and actual domestic trading activity. General business confidence should take a hit. Capacity utilisation measures are likely to move higher.
On Balance		Weak H1	Q4 data to be weak. The Christchurch earthquake will result in continuing weakness over the first half of 2011, with the recovery pushed out at least 6 months.

KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	-0.4	0.1	1.4	1.8	0.7	0.9	0.9
GDP (% yoy)	1.8	1.5	0.7	-0.2	-0.3	1.3	2.9	4.1	4.9	4.4
CPI (% qoq)	0.2	1.1	2.3	1.0	1.0	0.8	0.7	0.6	0.8	0.7
CPI (% yoy)	1.7	1.5	4.0	4.6	5.5	5.1	3.4	3.0	2.8	2.7
Employment (% qoq)	-0.3	1.1	-0.5	0.9	0.2	0.5	0.5	0.5	0.4	0.5
Employment (% yoy)	0.0	1.9	1.3	1.2	1.7	1.1	2.1	1.7	1.9	1.9
Unemployment Rate (% sa)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Current Account (% GDP)	-3.0	-3.1	-2.6	-1.6	-1.3	-2.0	-1.5	-2.4	-2.4	-2.5
Terms of Trade (% qoq)	2.0	3.0	0.6	2.5	1.5	1.5	0.5	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.7	17.9	12.2	8.3	7.8	6.3	6.1	2.8	0.5	-1.8

	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Retail ECT (% mom)	0.3	0.5	0.3	-0.7	2.3	0.8	1.0	-0.8	2.4	-0.2
Retail ECT (% yoy)	2.5	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2
Credit Card Billings (% mom)	1.6	1.2	-1.2	0.7	1.0	0.6	0.0	-1.7	3.8	..
Credit Card Billings (% yoy)	3.3	4.5	2.6	2.2	4.2	4.7	3.8	2.1	5.6	..
Car registrations (% mom)	-3.9	5.6	-6.3	0.0	2.5	-3.8	13.7	-8.7	0.8	-1.0
Car registrations (% yoy)	30.5	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8
Building consents (% mom)	-10.0	1.2	3.2	-17.7	0.9	-1.9	8.4	-18.2	9.6	..
Building consents (% yoy)	11.0	27.0	25.2	-3.1	-9.4	-17.5	-9.1	-26.4	-14.6	..
REINZ House Price Index (% yoy)	2.3	4.2	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7..
Household Lending Growth (% mom)	0.2	0.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	..
Household Lending Growth (% yoy)	2.6	2.6	2.5	2.3	2.3	2.0	1.8	1.6	1.6	..
ANZ Roy Morgan Consumer Confidence	126.0	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1
NBNZ Business Confidence	48.2	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5
NBNZ Own Activity Outlook	45.3	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6
Trade Balance (\$m)	770	221	-186	-430	-455	-220	-177	-264	11	..
Trade Balance (\$m ann)	41	593	585	871	978	1259	1363	1125	865	..
ANZ World Commodity Price Index (% mom)	1.2	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7
ANZ World Commodity Price Index (% yoy)	51.8	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9
Net migration (sa)	360	200	930	870	1010	510	600	720	450	..
Net migration (annual)	17967	16504	15221	14507	13914	12610	11519	10451	8689	..

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	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.773	0.752	0.738	0.73	0.75	0.74	0.73	0.72	0.71	0.70
NZD/AUD	0.775	0.739	0.731	0.73	0.74	0.74	0.75	0.74	0.75	0.76
NZD/EUR	0.564	0.545	0.530	0.56	0.59	0.57	0.55	0.54	0.53	0.52
NZD/JPY	63.41	61.53	59.94	63.5	66.0	66.6	65.7	66.2	66.7	66.5
NZD/GBP	0.483	0.463	0.459	0.46	0.48	0.47	0.46	0.45	0.44	0.44
NZ\$ TWI	68.7	66.4	65.1	66.6	68.6	67.7	66.9	65.9	65.3	65.0
INTEREST RATES	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	3.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25
NZ 90 day bill	3.21	2.86	2.65	2.70	2.70	3.10	3.70	3.80	4.20	4.70
NZ 10-yr bond	5.48	5.54	5.52	5.80	6.00	6.20	6.20	6.10	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00
US 3-mth	0.30	0.31	0.31	0.35	0.35	0.35	0.35	0.85	1.60	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.92	4.97	5.00	5.20	5.50	5.70	6.00	6.00	6.00	6.00

	11 Feb	7 Mar	8 Mar	9 Mar	10 Mar	11 Mar
Official Cash Rate	3.00	3.00	3.00	3.00	2.50	2.50
90 day bank bill	3.19	2.82	2.81	2.81	2.66	2.65
NZGB 11/11	3.90	3.53	3.56	3.56	3.51	3.48
NZGB 04/13	4.54	4.38	4.41	4.41	4.36	4.33
NZGB 12/17	5.43	5.38	5.42	5.42	5.40	5.36
NZGB 05/21	5.63	5.59	5.64	5.64	5.63	5.58
2 year swap	3.82	3.32	3.36	3.38	3.28	3.27
5 year swap	4.70	4.33	4.38	4.42	4.38	4.37
RBNZ TWI	67.9	65.0	65.0	65.5	65.1	65.2
NZD/USD	0.7606	0.7381	0.7374	0.7398	0.7361	0.7353
NZD/AUD	0.7602	0.7281	0.7287	0.7343	0.7314	0.7332
NZD/JPY	63.41	60.70	60.67	61.29	60.95	60.90
NZD/GBP	0.4734	0.4542	0.4554	0.4579	0.4545	0.4574
NZD/EUR	0.5597	0.5279	0.5276	0.5326	0.5298	0.5319
AUD/USD	1.0005	1.0137	1.0119	1.0075	1.0064	1.0029
EUR/USD	1.3589	1.3982	1.3976	1.3890	1.3894	1.3825
USD/JPY	83.37	82.24	82.28	82.85	82.80	82.82
GBP/USD	1.6066	1.6250	1.6192	1.6156	1.6196	1.6074
Oil (US\$/bbl)	84.39	104.34	105.37	105.06	104.39	102.73
Gold (US\$/oz)	1356.47	1436.63	1431.75	1426.55	1428.60	1415.45
Electricity (Haywards)	2.89	4.55	3.45	2.67	2.46	2.52
Baltic Dry Freight Index	1178	1382	1424	1472	1538	1562
Milk futures (US\$/contract)	157	160	160	159	157	157

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.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies 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;



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- 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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