CAPACITY PRESSURE INTENSIFIES

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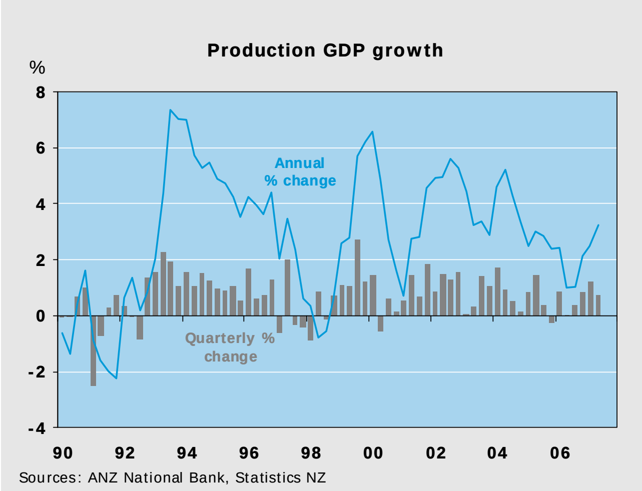
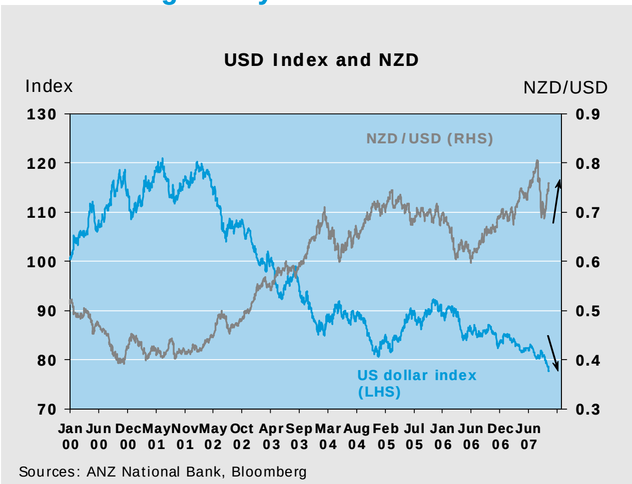
GDP expanded at a faster than expected pace in the June quarter.



Sources: ANZ National Bank, Statistics NZ

The USD is posting record lows, sending the NZD higher by default.



Sources: ANZ National Bank, Bloomberg

ECONOMIC OVERVIEW

Last week's GDP figures flagged greater resource and inflation pressure. Such pressures, in association with other strong inflation nuances, are leading us to reflect on our out-of-consensus March cut call. We'll stick to our guns for now, largely reflecting underlying concerns we have in relation to the credit cycle.

What's ahead…

- September ANZ Commodity Price Index (Thursday 1500 NZDT).

What's the view

Our March 2008 call for the first cut in the OCR is looking tenuous. The theme for the economy remains one of resilience and one where inflationary pressures continue to concern. The stronger than expected June quarter GDP outturn (at 0.7 percent quarterly growth) and upward historical revisions mean economic activity, and therefore pressures on the economy, are more intense that what the Reserve Bank was expecting. It implies further near-term inflation pressure in their forecasting framework (through their output gap calculations). Given their lack of inflation headroom, it will reinforce their wariness.

Throw into this mix, burgeoning food price inflation, surging global oil prices, a still tight labour market, a rural sector that is benefiting from record high dairy prices, and the subsiding fears around the global credit market, and it looks like inflation pressures have the potential to intensify. Also add the fact that consumer and business confidence remain robust and even building consents data last week showed signs of strength. It is a picture that is more consistent with the high inflation, resilient economy and interest rate hikes scenario detailed in the September *Monetary Policy Statement*.

The combination is leading us to reflect heavily on our out-of-consensus call for the OCR to move lower by March next year. For now we'll hold the line. Six months is still a long time in monetary policy cycles, and we do not see much point sitting on the crowded consensus fence calling 'rates on hold till late next year'. The last time we made such an out-of consensus call (although in association with one major investment bank), was for the Reserve Bank to hike in October last year. With hindsight we shouldn't have backed off the hiking theme, despite the no-change decision in October, so we're going to let this out-of-consensus call run a little longer.

The credit cycle, and how it may unfold, is the one issue that continues to dominate our wariness. Although volatility and fears appear to have settled down, markets remain wary. The trouble with this latest episode is that the amount of leverage and complexity of the securities involved makes it very difficult to know who is ultimately holding the positions. It will be some time before this becomes fully clear. The extent of the weakness in the US housing market suggests that it could be quite a protracted process. Domestically, (and encouragingly) there have been no further signs of contagion across finance companies, although time will no doubt tell. The so-called credit accelerator has been such a positive force for the economy over the past five years that we struggle to see the turn in the credit cycle not having an equally significant opposite impact.

Looking forward, the September quarter CPI release in a couple of weeks is shaping up as critical. If non-tradable inflation accelerates from its already current elevated levels, say to quarterly growth of 1.1 or 1.2 percent, the rate cut view will go straight out the door, irrespective of real economic or credit cycle developments.

This week it is very quiet on the local data front and therefore markets will look to offshore for direction. Interest rate decisions from the RBA, BoE and ECB, will be important, although with none expected to change rates, it may be back to watching the performance of global equity markets. US non-farm payrolls data later in the week should also be an important event.

Internationally, the focus remains on the US Fed, with soft data pointing to another movement lower in interest rates, which in turn is buoying the NZ dollar, and forcing us to revise the outlook for the kiwi. Strong data is rewarded with markets moving up as confidence returns. Equities likewise rally on weak data on expectations of lower rates. It seems equities can do no wrong. Liquidity is abundant after all. If there is a cautionary note, it is central bank action does not come risk free. Longer-dated yields have started to drift up on inflation concerns. And New Zealand can testify to how persistent inflation pressure can become.

Recent data…

- **NZ Overseas Merchandise Trade (Aug).** The trade balance recorded a deficit of $945 million, taking the annual deficit to $6,339 million.
- **NZ Building Consents (Aug).** Residential building consents rebounded 5.8 percent, after the 15.5 percent fall in July.
- **Westpac McDermott Miller Consumer Confidence (Sep qtr).** The index rose to 113.5, from 111.4 in June.
- **NBNZ *Business Outlook* (Sep).** Headline business confidence rose in the month. Own activity expectations were largely unchanged, while profit, employment and investment intentions rose slightly.
- **NZ GDP (June qtr).** Production GDP expanded by 0.7 percent, led by service industries. Expenditure GDP grew by 0.8 percent, driven by private consumption, residential investment and inventories.

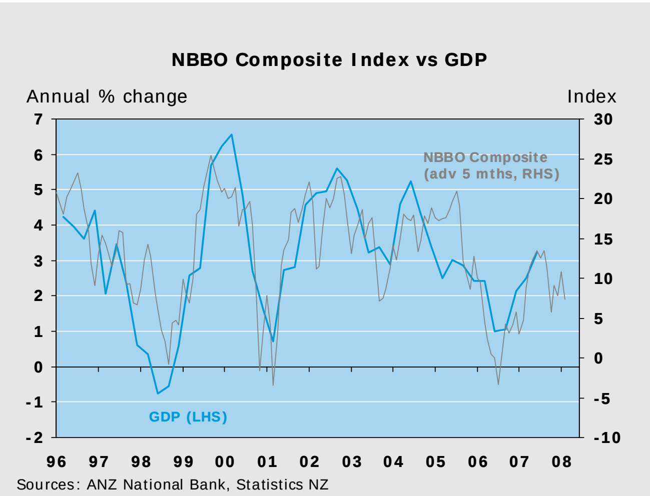
A TALE OF TWO ECONOMIES

Looking at the components of the National Bank *Business Outlook*, we show that manufacturing and retail are the industries with the most accuracy in predicting the GDP cycle.

Recent consumer and business confidence has revealed a divergence between different sectors of the economy. Unsurprisingly, for consumers, most of the optimists are in the dairy intensive regions. For businesses, the agriculture sector shows the strongest increase in optimism. This dichotomy is to be expected given the much publicised record dairy payout forecast for this season.

While dairy is an important part of the economy, the question is whether the dairy boom in itself is sufficient to sustain economic growth in the quarters ahead. Particularly given that domestic demand is starting to soften in the face of higher interest rates. This has important implications for the monetary policy outlook. The Reserve Bank's September *Monetary Policy Statement* implicitly forecast that the dairy boost will sustain GDP growth of close to 3 percent for the next three years, keeping capacity pressures in the economy tight and non-tradable inflation elevated.

To help answer the above question, we dug into the details of our National Bank *Business Outlook* survey. Regular readers will be aware of our NBBO Composite Index, which is a measure made up of the own activity, investment intentions, employment intentions and profit expectations series. The Composite Index provides a good lead on GDP growth as shown below.

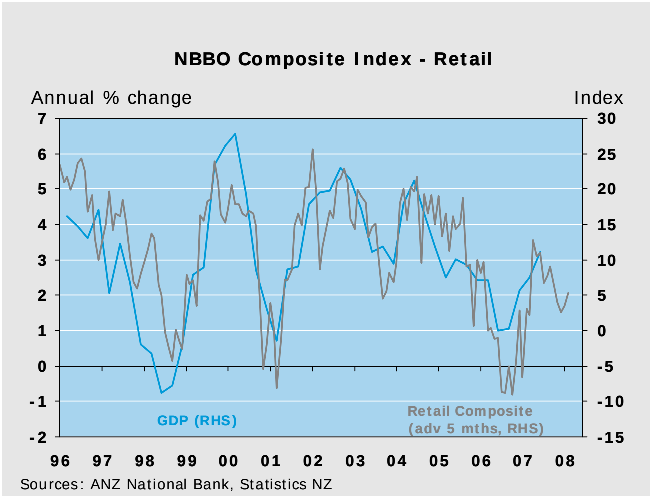


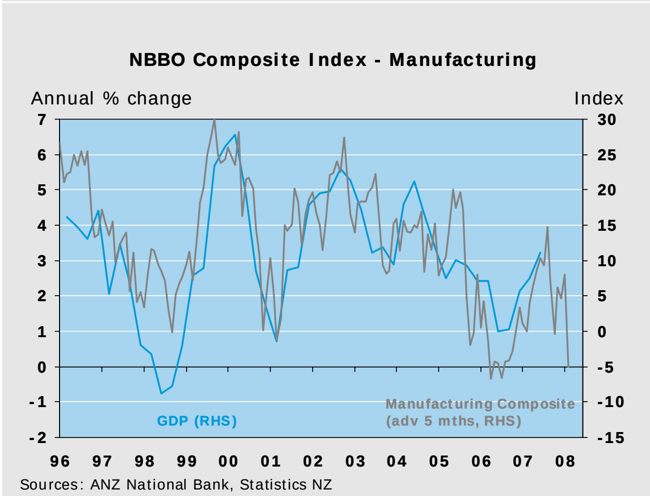
To test whether there are any sectors (particularly agriculture) that dominate the GDP cycle above others, we did the following:

- Firstly, we created Composite Indexes for the subgroups within the NBBO: retail, manufacturing, agriculture, construction and services. This followed the same methodology as our overall Composite Index.
- We looked at simple correlations with the gauges against GDP growth.
- Next, we ran a simple regression of the subgroup Composite Indexes against GDP.

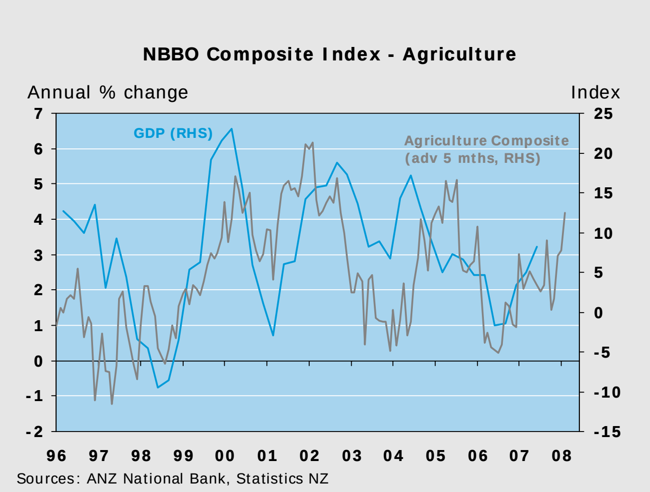
The subgroup Composite Indexes themselves reveal a clear divergence in activity expectations among the different sectors of the economy. Agriculture has been rising strongly over the past few months. This is no surprise given the exuberance surrounding the dairy payout. The Services subgroup Composite Index is lower now compared to earlier in the year, but has been fairly stable over the past few months.

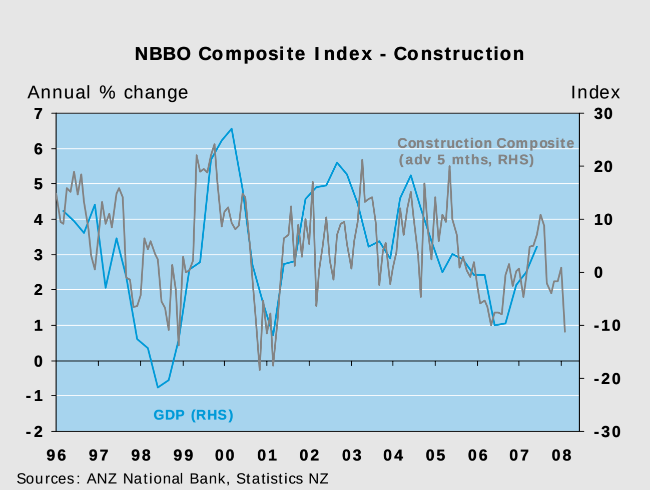
The Retail subgroup Composite Index has declined since early in the year, no doubt affected by the slowdown seen in retail spending and points to further moderation in consumer demand ahead.

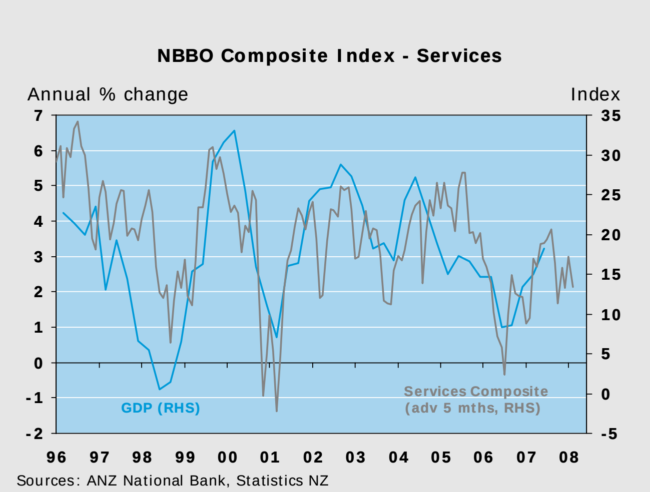




The story is far worse for the Manufacturing and Construction sectors, both showing sharp declines in their Composite Indexes. The currency, despite the decline over August, is no doubt still playing a part in constraining activity in the manufacturing sector. The slowdown currently underway in the housing market and possibly recent difficulties in the finance company sector likely explain the pessimism in the construction subgroup.







When we look at the overall results we note:

- The sectoral measures are all correlated with each other to a degree. This suggests broad economic conditions and ripple effects from other sectors in general, are still very influential when firms assess their own outlook. Individual firm and industry specific factors are of lower significance. At the high end of the correlation are retail and services, while there does not appear to be a very strong correlation between the agriculture and services sectors.

Correlations of Composite Indicies						
	Econ Wide	Retail	Mftg	Agri	Const	Serv
GDP	0.780	0.751	0.760	0.644	0.677	0.646
Econ Wide	-	0.941	0.959	0.731	0.930	0.951
Retail		-	0.883	0.551	0.863	0.918
Mftg			-	0.677	0.914	0.892
Agri				-	0.613	0.541
Const					-	0.886
Serv						-

- All the composite indicators are correlated with GDP growth to some extent, with the correlation coefficient ranging from 0.64 (agriculture) to 0.76 (manufacturing).

- Likewise in regressions with GDP growth against the individual Composite Index subgroups and a time trend, the R-squared showed varying degrees of predictive ability with agriculture the lowest and manufacturing the strongest.

- The economy wide Composite Index had a higher correlation coefficient with GDP growth (0.78), but had slightly lower predictive ability compared to the manufacturing index.

- The manufacturing and retail sectors appear to be more important for growth, with the construction subgroup in the mid-tier and agriculture and services less so.

The conclusion that we draw is that the economic cycle is heavily reliant on the manufacturing and retail sectors, at least as measured by our Composite Indexes. This is not to say that the other sectors are unimportant. There are certainly inter-linkages between the sectors. For example, high farm incomes can provide a boost to the retail and services sectors via farmer spending. And divergences in optimism and activity among the subgroups are common. But in terms of the ability to predict the near-term direction of economic growth, it is the retail and manufacturing Composite Indexes that stand out from the survey.

The upshot

Given the divergence in the outlook for various sectors of the economy, a key judgement is whether the dairy boom is sufficient to drive overall GDP growth on its own. Our analysis suggests not. Manufacturing and retail appear to be the two key sectors that drive the GDP cycle, at least based on our subgroup Composite Indexes.

The fact that the two key sectors that are the more pessimistic subgroups in the NBBO suggests that overall economic growth will slow over the coming 12 months, despite the stimulus to come from the dairy sector.

INTEREST RATE STRATEGY

Lack of data this week means kiwi rates to be dictated by offshore. New financial year should see the 90-day rate fall, easing the front end swaps as the carry cost reduces.

Market themes…

- NZ growth stronger than expected over H1.
- US markets fully priced for another rate cut this month but Fed officials trying to downplay expectations.

Outlook…

NZ economic activity proved to be much stronger than expected over the first half of this year. This is unwelcome news for the RBNZ given the lack of inflation headroom they face, and unsurprisingly swaps traded higher on the back of the GDP data. Although historical, the GDP data will increase the RBNZ's concerns over near-term inflation pressure.

Partial data to date relating to Q3 is showing much softer growth, with retail and housing market activity down, and household borrowing moderating. The RBNZ will need to see ongoing softness in domestic demand indicators. This week is a light week datawise, with only the ANZ Commodity Price Index out. However, the dataflow picks up in the next few weeks with crucial reads on August retail sales, September housing market activity and the all-important Q3 CPI.

October is a very large month for Uridashi rolls - \$3,868m with \$1,184m rolling on the 11th. These flows may see the 2-year swaps trade lower over the next 2 weeks, which will favour biding in the 2 and 3-year and steepen the curves via 2s10s and 2s5s, which both closed on the high side at the end of last week. But the focus for this week will be in the cash market. With the new bank financial year starting, we expect the 90-day rate to come off possibly by 10-15bps. This should see swap yields at the front end ease slightly as the carry cost reduces.

It's a fairly big week for interest rate announcements offshore, with the RBA, ECB and BoE due to announce their latest policy rates this week. All three are widely expected to keep rates unchanged. Comments from ECB President Trichet will be closely watched for any signals that the ECB may contemplate restarting their tightening path. In terms of economic data, the US has the ISM manufacturing index and the non-farm payrolls due at the end of the week. The US interest rate market has almost fully priced in a 25bp cut at the next FOMC meeting at the end of the month. However, Fed officials have been trying to dampen market expectations late last week. More Fed officials are scheduled to speak this week and their rhetoric will be closely watched.

Gauges for NZ interest rates yields		
Gauge	**Direction**	**Comment**
RBNZ	↔	Stronger than expected H1 economic growth to put RBNZ on alert. H2 looking soft so still firmly in data-watch mode.
NZ data	↔	Quiet data week but will pick up next week. Q3 CPI data now key focus.
Fed Funds/front end	↔/↓	Market still expecting another Fed cut this month but Fed officials trying to hose down expectations.
RBA	↔/↑	AU economy still strong suggesting more inflation pressure. Bias still for higher rates.
US 10 year	↔/↑	US bond market still torn between growth and inflation concerns.
NZ swap spreads	↔/↓	Albeit a continued slow grind, we favour swap spreads to narrow off current levels.
Flow	↔/↓	The size of NZD maturities this month favours receive side flows.
Technicals	↔/↓	Market is technically supported at current levels (delicately poised).

Borrowing strategies we favour at present

The Market is now less optimistic of a cut in the OCR in early 2008 following the Q2 GDP data. This is likely to see people enter into 2-3yr swaps over paying the floating rate (which is significantly higher at the moment). For those who think rates are going to fall relatively quickly, it could be a good idea to enter into an interest rate cap to give certainty in what your worst rate will be whilst giving you flexibility to move with the market.

Probability of 25bps increase as implied by market pricing		
OCR dates	**Last week**	**This week**
Thu 25-Oct-07	-4	2
Thu 6-Dec-07	-8	2
Thu 24-Jan-08	-16	-2
Thu 6-Mar-08	-48	-14
Thu 24-Apr-08	-80	-42
Thu 5-Jun-08	-116	-74
Thu 24-Jul-08	-152	-106

Trading themes we favour at present

Whilst the stronger than expected Q2 GDP suggest the curve should flatten, there are some mitigation factors (90-day rate and Uridashi rolls). The bias is for the 2-year swap yields to trade in a slightly higher range.

CURRENCY STRATEGY

The NZD is receiving support from yield-related demand and USD weakness in an environment where risk appetites are re-emerging. There is little on the radar this week to change this.

Market themes…

- US data continues to disappoint, and the USD continues to be punished.
- The return of risk appetites is providing a boost to carry-currencies. NZD supported by this and prospects of local interest rates being held high for longer.

Outlook…

The USD remains under intense pressure, with disappointing US data helping to push the USD index to its lowest level on record. Financial markets are increasingly moving to price in further rate cuts from the Fed. And while this is weighing on the USD, it is also providing a boost to equity markets (which are banking on further rate cuts to provide the shot of adrenalin that will help the US economy avoid a recession). The Dow is back within throwing distance of 14,000 and risk appetites continue to recover.

With risk appetites strengthening, New Zealand's yield advantage has drawn further support for the NZD, and seen it push towards USD0.76 late last week. Local GDP data released last week, which showed the economy growing at a faster pace over the first half of this year than previously thought, suggests that NZ interest rates may remain higher for longer, further reinforcing the yield advantage.

There is little on the radar to suggest a material turnaround in the NZD's fortunes over the week ahead. Interest rate announcements from the RBA, BoE and ECB are not expected to provide any direction, with no change decisions expected. Keep an eye on Eurokiwi and Uridashi news over the next few weeks. October is a big month for maturities (the largest on record, with NZ$3.9b maturing). Recent demand for NZ yield, and further issuance over the past week or so, would normally suggest that a good proportion of these may be rolled in the absence of any further credit/risk disruptions. But with changes to financial regulation laws in Japan, which widen the product coverage of regulations and tighten up compliance standards, there are question marks around the extent to which rollovers will occur.

Nevertheless, as the events of the past two months have made perfectly clear, yield only matters when risk appetites are healthy. While equity markets appear confident that the Fed will do enough to avert any significant macroeconomic consequence from the recent dislocation, it is going to be some time before the full extent of the fallout from the US housing market difficulties is known. Until there is clear evidence that the US housing market has stabilised, markets are likely to remain volatile.

The NZD has now established a well defined uptrend, and has clawed back a significant proportion of the losses from July's highs. Trend-line support is now placed at 0.7520, with further support at 0.74. We see initial resistance at 0.76 and 0.77. Bias is to the topside over the week ahead in the current environment. NZD/AUD range bound 0.8480 to 0.8630, with data on both sides of the Tasman unlikely to provide any surprises.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Growth differentials favouring AUD.
Yield	↔/↑	Swap spreads remain supportive for NZD.
Commodities	↔	Still supportive of both. ANZ Commodity Price index out this week.
Partial indicators	↓	Better across the Tasman.
Technicals	↔	Range bound 0.8480–0.8630.
Sentiment	↓	AUD data is better.
Other	↓	Australian economy is stronger.
On balance	↓/↔	**Still solid resistance at 0.8630.**

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 weak as well.
Yield	↑	Strong inflation nuances supporting NZ yields.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↔	Volatility measures down, market remains "calm".
Partial indicators	↔/↑	US finding it harder going.
Technicals	↔/↑	NZD uptrend re-established.
AUD	↑	Fundamentals solid across the Tasman. AUD doing well.
Sentiment	↔/↑	It's a USD story.
Other	↓	Big maturity month for Uridashi and Eurokiwi.
On balance	↔/↑	**Still a USD story.**

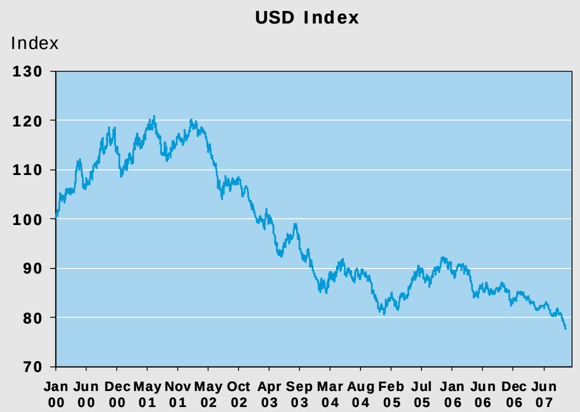
CURRENCY UPDATE

The USD weakness theme prevailing in the FX market has forced us to update our NZD forecasts. Strategically, we remain bearish on the NZD, particularly against the AUD given diverging growth paths over the coming year.

The aggressive easing in monetary policy from the US Federal Reserve two weeks ago represented a new phase in the global credit crisis. We are now seeing a broad policy response to the economic risks posed by problems in the US housing sector and dysfunctional debt capital markets.

There has been a generally positive response to the Fed's actions. Most notable has been a surge in equity markets while credit conditions appear to be easing (in the US anyway) at least modestly. The VIX index has moved back to 17 for the first time since the start of the crisis at the end of July.

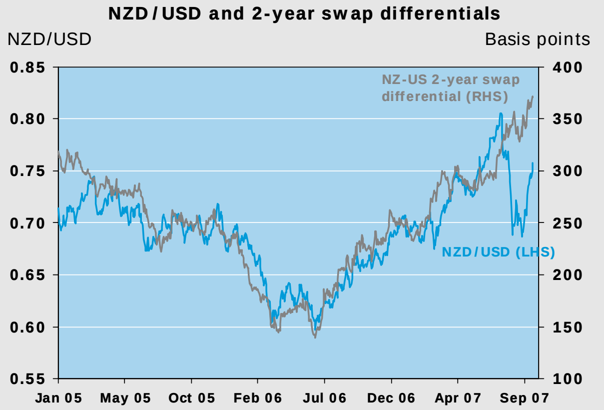
The fate of the USD was not a major consideration for the Fed in cutting the Fed funds rate aggressively. Rate differentials have moved sharply against the USD. The rate cut also represents an acknowledgement of the seriousness of the threat posed by faltering credit markets. With rates on hold or still likely to rise elsewhere, the USD has continued to post new lows against the euro and also on the USD DXY Index.



Sources: ANZ National Bank, Bloomberg

A weaker USD could breed on itself as sovereign funds speed up diversification to avoid further erosion of USD values. Particularly as the US economic dataflow is still printing on the weak side. The upshot of the USD weakness theme has been strength in the NZD by default.

We had expected risk aversion to persist and for the uncertain global growth outlook to continue to weigh heavily on the NZD in light of continued problems in credit markets. We continue to believe that the US subprime and credit crisis is far from being resolved. However, the Fed action and expectations of further rate cuts in the US means that the USD weakness theme is set to prevail for some time. In addition, with credit fears subsiding (for now) and the VIX index down, risk appetites are slowly returning. As a consequence, yield demand is back as the carry trade is again being put on. The widening interest rate differential between NZ and the US (the 2-year swap differential is over 370bps in favour of NZ) has seen the kiwi well bid.



Sources: ANZ National Bank, Bloomberg

Another factor providing support in the near-term to the NZD is AUD strength. The Australian economy continues to perform strongly, and further rate hikes from the RBA look odds on, particularly if the New Zealand experience is followed.

The upshot

For now, we have amended our NZD forecasts in light of the new dynamic in the FX market and expect USD weakness to remain a feature for markets over the coming months. This has pushed up the NZD/USD track, though the overall spirit of the forecasts remains unchanged.

Strategically, we continue to look for ongoing weakness in the NZD/AUD, given diverging growth paths over the coming year.

Yet, given developments in financial markets where the US equity market is close to record highs, the short-term interest rate market is pricing in more rate cuts from the Fed, the US bond market is wary of inflation, and there is so much bad news priced into the USD, something has to give. As we have witnessed twice this year, the NZD can move sharply in a short space of time.

	NZD/USD	NZD/AUD	AUD/NZD
Dec 07	0.72	0.85	1.18
Mar 08	0.70	0.80	1.24
Jun 08	0.66	0.76	1.32
Sep 08	0.65	0.76	1.31
Dec 08	0.64	0.78	1.28
Mar 09	0.62	0.78	1.29
Jun 09	0.60	0.77	1.30
Sep 09	0.58	0.77	1.29
Dec 09	0.58	0.81	1.24

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
Oct 1	EU	ECB's Trichet Speaks in Valletta	-	-	02:30
		ECB's Trichet, EU's Almunia Speak in Malta	-	-	-
		ECB's Trichet Speaks in St. Julian	-	-	19:30
		PMI Manufacturing (Sep)	53.2	53.2	21:00
	JN	Tankan Large Manufacturers Index (3Q)	21	23	12:50
		Tankan Large Manufacturers Outlook (3Q)	20	22	12:50
		Tankan Non-Manufacturing (3Q)	21	22	12:50
		Tankan Non-Manufacturing Outlook (3Q)	21	23	12:50
		Tankan Large All Industry Capex (3Q)	7.5%	7.7%	12:50
		Vehicle Sales (Sep) – yoy	-	-1.9%	18:00
	AU	RBA Commodity Index SDR (Sep) – yoy	-	1.9%	19:30
	GE	PMI Manfufacturing (Sep)	55.0	56.0	20:55
	UK	M4 Money Supply (Aug F) – mom	-	1.2%	21:30
		M4 Sterling Lending (Aug F)	-	23.0B	21:30
		Net Consumer Credit (Aug)	0.9B	1.1B	21:30
Oct 2	US	ISM Manufacturing (Sep)	52.5	52.9	03:00
		ISM Prices Paid (Sep)	62.3	63.0	03:00
	AU	AiG Performance of Manufacturing Index (Sep)	-	52.4	12:30
	JN	Monetary Base (Sep) – yoy	0.1%	0.7%	12:50
	UK	PMI Construction (Sep)	63.0	64.8	21:30
	EU	Euro-Zone PPI (Aug) – mom	0.1%	0.3%	22:00
		Euro-Zone Unemployment Rate (Aug)	6.9%	6.9%	22:00
Oct 3	US	Pending Home Sales (Aug) – mom	-2.1%	-12.2%	03:00
		Fed's Fisher Speaks to Dallas Chamber of Commerce	-	-	06:00
	UK	Nationwide Consumer Confidence (Sep)	90	94	12:01
	AU	RBA Cash Rate Target	6.50%	6.50%	12:30
		Retail Sales (Aug)	0.3%	0.9%	14:30
		Trade Balance (Aug)	-1,400m	-756m	14:30
		Exports (Aug)	-	18,361m	14:30
		Imports (Aug)	-	19,118m	14:30
	GE	PMI Services (Sep)	56.1	59.8	20:55
	EU	PMI Services (Sep F)	54.0	54.0	21:00
		PMI Composite (Sep F)	54.5	54.5	21:00
		Retail Sales (Aug) – mom	0.4%	0.1%	22:00
	UK	Official Reserves Changes (Sep)	-	$344m	21:30
		PMI Services (Sep)	56.8	57.6	21:30
Oct 4	US	Challenger Job Cuts (Sep) – yoy	-	21.7%	00:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
Oct 4 cont.	US	ADP Employment Change (Sep)	58k	38k	01:15
		ISM Non-Manufacturing (Sep)	54.8	55.8	03:00
	AU	AiG Performance of Service Index (Sep)	-	51.6	12:30
		Building Approvals (Aug) – mom	-0.5%	0.4%	14:30
	JN	BoJ Deputy Governor Iwata to Speak at Financial Conference	-	-	15:10
		BoJ Deputy Governor Iwata to Hold Press Conference	-	-	18:00
	NZ	**ANZ Commodity Price Index (Sep)**	**-**	**1.4%**	**15:00**
Oct 5	UK	BoE Announces Interest Rates	5.75%	5.75%	00:00
	EC	ECB Announces Interest Rates	4.00%	4.00%	00:45
		Trichet Speaks at ECB Monthly News Conference	-	-	01:30
	US	Initial Jobless Claims (Sep 30)	310k	298k	01:30
		Continuing Claims (Sep 23	2,550k	2,551k	01:30
		Factory Orders (Aug)	-2.6%	3.7%	03:00
		Fed's Fisher Speaks to Economists in North Carolina	-	-	05:45
	NZ	**Official Tax Receipts (Aug)**	**-**		**09:00**
	JN	Official Reserve Assets (Sep)	-	$932.2B	12:50
		Leading Economic Index (Aug P)	30.0%	72.7%	18:00
		Coincident Index (Aug P)	83.3%	70.0%	18:00
Oct 6	US	Change in Non-Farm Payrolls (Sep)	98k	-4k	01:30
		Unemployment Rate (Sep)	4.7%	4.6%	01:30
		Change in Manufacturing Payrolls (Sep)	-10k	-46k	01:30
		Average Hourly Earnings (Sep) – mom	0.3%	0.3%	01:30
		Fed's Kohn Speaks on Economic Outlook in Philiadelphia	-	-	02:10
		Consumer Credit (Aug)	$9.5B	$7.5B	08:00
		Fed's Warsh Speaks on Financial Markets at Siena College	-	-	12:00

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: Despite recent Q3 indicators such as retail sales and REINZ data pointing to a relatively soft start to the September quarter, the Q2 GDP release last week will have the Reserve Bank on alert. The key release for them now is the September quarter CPI, particularly how non-tradable inflation is tracking. The risk seems to remain to the upside.

Date	Data/Event	Economic Signal	Comment
Thu 4 Oct (15.00)	ANZ Commodity Price Index (Sep)	-	-
Tue 9 Oct (10.00)	NZIER Quarterly Survey of Business Opinion (Sep qtr)	Down	Global uncertainty and softer domestic demand to weigh on confidence, though the NBBO survey suggests domestic trading activity will remain resilient. Indicators of resource pressures to remain elevated.
circa 10 Oct	REINZ housing report (Sep)	Down	The housing market has turned. This report is expected to show further evidence of softness with easing house sales, an increase in the days to sell a house, and slowing house price growth.
Fri 11 Oct (10.45)	Retail Sales (Aug)	Small rebound	After two particularly soft months, we expect a small rebound in retail sales in August. However, the underlying trend will remain one of softness.
Mon 15 Oct (10.45)	Consumers Price Index (Sep qtr)	Non-tradable still high	We expect the headline CPI to increase by 0.7 percent in the quarter keeping the annual inflation rate at 2.0 percent. The worry for the RBNZ is that non-tradable inflation remains elevated at above 1.0 percent in the quarter. The risk profile surrounding non-tradable inflation appears skewed to the upside.
Fri 19 Oct (10.45)	External Migration (Sep)	Easing	The recent softening trend in net migration inflows is expected to continue.
Fri 19 Oct (15.00)	Credit Card Spending (Sep)	Rebound	After two consecutive monthly falls, we expect a small rebound in credit card spending in September.
Thu 25 Oct (09.00)	RBNZ *OCR Review*	On hold	Last week's GDP figures are likely to skew the tenor towards a more hawkish line.
On Balance		**Slowing**	**Strong H1, but soft start to H2.**

NZ Economics

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SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	**-0.1**	**0.3**	**0.3**	**0.4**	**0.4**	**0.6**
GDP (% yoy)	1.0	2.1	2.5	3.2	**2.7**	**2.2**	**1.2**	**0.9**	**1.4**	**1.7**
CPI (% qoq)	0.7	-0.2	0.5	1.0	**0.7**	**0.7**	**0.5**	**0.8**	**0.8**	**0.8**
CPI (% yoy)	3.5	2.6	2.5	2.0	**2.0**	**2.9**	**2.9**	**2.6**	**2.7**	**2.8**
Employment (% qoq)	-0.4	0.1	1.2	0.7	**-0.1**	**0.0**	**0.0**	**0.1**	**0.1**	**0.2**
Employment (% yoy)	1.5	1.4	1.7	1.5	**1.8**	**1.7**	**0.6**	**0.0**	**0.2**	**0.4**
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	**3.7**	**3.8**	**3.9**	**4.0**	**4.2**	**4.3**
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	**-7.9**	**-7.5**	**-7.0**	**-6.5**	**-6.7**	**-6.8**
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	**5.1**	**1.7**	**1.1**	**0.1**	**-0.2**	**-0.6**
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	**10.1**	**9.2**	**8.7**	**8.1**	**2.7**	**0.4**

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

KEY ECONOMIC INDICATORS

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07
Retail Sales (% mom)	-0.1	0.8	0.4	2.2	0.9	-1.2	1.0	-0.4	0.0	..
Retail Sales (% yoy)	4.5	3.6	6.9	6.4	7.4	7.4	6.7	4.8	5.7	..
Credit Card Billings (% mom)	-0.8	2.8	-1.1	1.5	1.0	-0.8	0.5	2.1	-0.1	-0.3
Credit Card Billings (% yoy)	7.8	10.0	6.8	8.2	7.4	7.8	5.7	9.3	7.9	8.4
Car Registrations (% mom)	-1.9	-3.7	13.2	-9.2	0.4	-1.2	5.9	-4.5	7.4	1.9
Car Registrations (% yoy)	-15.3	-17.8	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9
Building Consents (% mom)	-10.9	-4.2	4.9	6.6	-1.5	1.2	4.7	13.7	-15.5	5.8
Building Consents (% yoy)	-0.8	-20.7	-5.5	-8.5	2.8	9.9	2.2	33.2	-4.1	-0.5
REINZ House Price (% yoy)	10.0	11.9	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9
Household Lending Growth (% mom)	1.1	1.0	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.9
Household Lending Growth (% yoy)	13.1	12.9	13.0	13.1	13.3	13.6	13.6	13.6	13.6	13.5
Roy Morgan Consumer Confidence	123.7	128.0	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4
NBNZ Business Confidence	-14.0	-7.7	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8
NBNZ Own Activity Outlook	23.7	24.0	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7
Trade Balance ($m)	-820	-346	-825	-127	60	-215	8	-518	-813	-945
Trade Balance ($m annual)	-6047	-6082	-6013	-5767	-5776	-6024	-5900	-6226	-6345	-6339
ANZ World Commodity Price Index (% mom)	2.1	3.8	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4
ANZ World Commodity Price Index (% yoy)	5.3	9.4	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3
Net Migration (sa)	1840	1020	400	530	620	220	400	590	470	750
Net Migration (annual)	14757	14609	14116	13151	12081	11222	10682	10078	8966	8730

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Jul 07	Aug 07	1 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.786	0.729	0.758	0.720	0.700	0.660	0.650	0.640	0.620	0.600
NZD/AUD	0.907	0.877	0.855	0.847	0.805	0.759	0.765	0.780	0.775	0.769
NZD/EUR	0.573	0.535	0.532	0.526	0.515	0.493	0.492	0.492	0.488	0.484
NZD/JPY	95.6	85.3	87.0	85.0	83.3	79.2	78.0	75.5	73.2	69.6
NZD/GBP	0.386	0.362	0.371	0.362	0.357	0.340	0.339	0.339	0.332	0.326
NZ$ TWI	75.4	70.2	71.0	69.1	67.2	63.8	63.4	63.0	61.7	60.3
NZ interest rates	Jul 07	Aug 07	1 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.18	8.35	8.25	8.25	8.00	7.50	7.50	7.50	7.25	6.75
90 day bill	8.44	8.72	8.79	8.70	8.30	7.90	7.70	7.70	7.30	6.80
10 year bond	6.79	6.40	6.28	6.30	6.40	6.50	6.50	6.70	6.70	6.50
International	Jul 07	Aug 07	1 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	5.25	5.25	4.75	4.50	4.50	4.50	4.50	4.50	5.50	5.75
US 3-mth	5.36	5.62	5.23	4.80	4.70	4.65	4.65	4.65	5.75	6.10
AU cash	6.25	6.50	6.25	6.50	6.75	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.62	6.89	6.89	6.80	6.90	6.90	6.90	6.90	6.90	6.90

KEY RATES

	28 Aug	24 Sep	25 Sep	26 Sep	27 Sep	28 Sep
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.51	8.62	8.64	8.65	8.65	8.68
90 day bank bill	8.56	8.79	8.81	8.90	8.89	8.79
NZGB 07/09	7.43	7.02	7.00	6.96	6.97	6.94
NZGB 11/11	6.94	6.70	6.67	6.63	6.63	6.68
NZGB 04/13	6.80	6.64	6.60	6.55	6.56	6.59
NZGB 12/17	6.45	6.36	6.28	6.22	6.23	6.25
1 year swap	8.47	8.63	8.64	8.65	8.63	8.66
2 year swap	8.24	8.32	8.32	8.34	8.32	8.35
5 year swap	7.84	7.86	7.84	7.85	7.84	7.86
RBNZ TWI	67.9	70.3	69.9	70.0	70.5	71.2
NZD/USD	0.7048	0.7441	0.7402	0.7432	0.7486	0.7572
NZD/AUD	0.8582	0.8581	0.8553	0.8505	0.8528	0.8582
NZD/JPY	81.31	85.65	84.97	85.39	86.47	87.23
NZD/GBP	0.3514	0.3674	0.3676	0.3683	0.3711	0.3743
NZD/EUR	0.5173	0.5274	0.5258	0.5253	0.5292	0.5346
AUD/USD	0.8213	0.8671	0.8654	0.8738	0.8778	0.8823
EUR/USD	1.3625	1.4109	1.4078	1.4148	1.4145	1.4163
USD/JPY	115.36	115.10	114.79	114.89	115.51	115.20
GBP/USD	2.0058	2.0252	2.0138	2.0181	2.0174	2.0230
Oil	71.98	83.38	82.51	81.20	80.31	82.86
Gold	666.70	735.10	729.00	732.70	728.80	736.05
Electricity Price Index	4.98	5.11	5.14	5.20	5.20	5.23

Disclaimer

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