

A HELPING HAND

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- > Data continues to point to an outright contraction in Q1 and early reads suggest Q2 has fared little better. Data this week is expected to cement more of the same. Internationally, central banks are firmly on inflation watch, and equity market sentiment is following suit and key to watch.

Page 4: Economic comment – a helping hand

- > Policymakers should not be afraid to use fiscal policy as a stabilisation instrument. Monetary policy needs mates, particularly in a globalised world and trying to navigate through present shocks. We remain open to ideas as to how fiscal policy could assist, but reassert last week's suggestion that consideration should be given to temporarily lowering the petrol excise tax.

Page 7: Economic comment – vulnerability update

- > Sections and apartments are often talked about as the most vulnerable parts of the property market. We have updated our analysis showing which regions have the most exposure to sections and apartments, relative to other types of sales. The relative rankings remain similar, although 70 percent of the regions have shown an increase in available listings of sections and apartments. This reinforces, to us, that this is an area of the property market where a large part of the correction will occur.

Page 9: Economic comment – global watch

- > With the major exception of consumer confidence, US data again generally surprised on the upside last week. The economy is weak, but appears to be finding a base. European and UK data also came in on the strong side last week, while outturns were mixed in Asia.

Page 10: Interest rate strategy

- > A lack of major local data means offshore moves will dictate this week. But the prospect of a very soft Q1 GDP read at the end of next week means the NZ market should outperform any offshore moves.

Page 11: Currency strategy

- > A lack of comment on FX in the G8 communiqué may see some recent USD strength unwound. However, official concern towards high commodities and increasing US yields are also likely to cushion any fall in the greenback. This week may be a holding week for the kiwi but watch commodities and central bank rhetoric. The big picture and strategic view remains lower.

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ECONOMIC OVERVIEW

Data continues to point to an outright contraction in Q1 and early reads suggest Q2 has fared little better. Data this week is expected to cement more of the same. Internationally, central banks are firmly on inflation watch, and equity market sentiment is following suit and key to watch.

What's ahead?

- > **NZ Q1 Economic Survey of Manufacturing** (Monday 1045 NZST). We expect an outright fall in sales and will be closely looking at stock levels to see how far production contracted.
- > **NZ May Card Transactions** (Thursday 1045 NZST). Same story – more softness.
- > **NZ May External Migration** (Friday 1045 NZST). Monthly net inflows look to have stabilised around 300-400 people.

What's the view?

While the dataflow in NZ over the past week continues to highlight an economy that is not moving forward, and still with high inflation, we are going to change it up slightly and focus on offshore events first up.

The past week (and also the week prior) was notable for the considerable increase in tongue-wagging coming from policymakers around the globe. With credit conditions stabilising (although we'd hasten to add that it is far from resolved, as writedowns are still being disclosed and credit and swap spreads remain far wider than pre mid-2007 levels), inflation is clearly the number one concern at present. The ECB has signalled that they will be increasing interest rates next month. The Bank of Canada surprised the market by keeping interest rates unchanged. US Federal Reserve officials have moved from discussing downside risks to economic growth, to risks of inflation expectations becoming unanchored. And RBA Governor Stevens stated that monetary policy needed to be tight in order to help counter the biggest boost to the economy in more than 50 years in the form of a strong terms of trade. Markets have responded, and with the major exception of NZ, are pricing in interest rate hikes in most major developed nations this year.

Of course, part of the tough rhetoric on inflation stems from the meteoric rise in oil and other commodity prices of late. They have also largely held onto their large gains recorded at the end of last week (the key reason, along with a lower NZD, why local petrol prices rose again last week). Add to that food price increases and it is not surprising that we are seeing surveyed measures of inflation expectations rise. What is alarming though is the extent. Australian 1-year ahead inflation expectations rose to a record high 5.9 percent last week. US inflation is running in excess of 4 percent, and expectations are above 5 percent.

Increasing inflation expectations are worrying. Not only do they risk more inflation down the track through a change in price and wage setting behaviour,

but given the cost-push nature of the current environment, central banks are wary of a repeat of the 1970s experience. This is placing central banks between the proverbial rock and the hard place.

- > Some near-term growth will be sacrificed, which means a tougher environment for earnings. Growth in a number of countries is already softening, and we wonder if the 17 percent fall in the Baltic Dry Freight index late last week is a sign of things to come. (The Baltic Dry Freight index fell around 50 percent between November 2007 and January 2008, but then recovered to a record high in May, so we are very careful making sweeping assessments just yet).
- > Equity market sentiment is critical, as we assess contrasting influences on demand such as credit and emerging market growth, commodity supply and less abundant labour resources on potential growth, and cost-push inflation dynamics.
- > Emerging markets are also key to watch, given their link with commodity demand. Inflation is now a problem in a number of countries. Vietnam in particular needs to be closely perused having an ugly combination of rising inflation and a massive current account deficit.
- > A stronger USD is needed. Sifting between the tea leaves, we can't help but wonder what is behind the tougher (supportive) tone coming out of US policymakers towards the currency. While a weaker greenback supports their export sector, there seems to be growing realisation the destabilising force a weaker US dollar is having on countries with currency pegs, which are seeing inflation rates rocket higher, and ironically it's happening in oil producing countries.
- > Politics and economics could be on a collision course. There has been a lot of unrest around the globe due to rising fuel and food prices. Truck drivers and fisherman in Europe have been blockading ports in response to the price of diesel and we have seen riots in a number of developing countries in response to the price of food.

It reinforces to us a delicate juncture for the global economy as we attempt to navigate two shocks. One, a demand shock (credit), and the other a good old fashioned cost-push inflation shock. Monetary policy is unlikely to please everyone in this environment and there will be further pain down the track. As noted by Fed President Kohn: *"An appropriate monetary policy following a jump in the price of oil will allow, on a temporary basis, both some increase in unemployment and some increase in price inflation."*

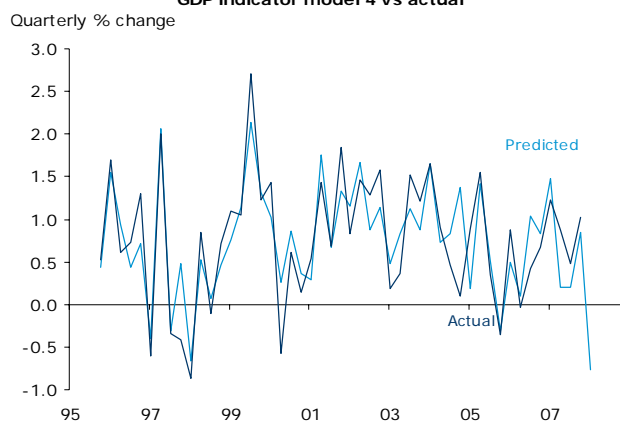
This sort of trade-off continues to make us wonder about the ability of other support mechanisms to assist monetary policy. Given the feedback we received to our suggestion last week of temporarily lowering the petrol excise tax as a means of fiscal policy providing support to monetary policy, we thought we would expand on this idea and provide some more context (refer to page 4).

Moving back to the local data last week, it continues to highlight an economy that is heading backwards, but with inflation. Food prices for May rose 1 percent and are 6.8 percent higher compared to a year ago. In addition, petrol prices rose 12 cents a litre last week to \$2.13/ltr. Food and petrol together look set to contribute 1 percentage points to Q2 CPI. The 4.1 percent increase in the Q1 terms of trade, which took it to its highest level in over 30 years, highlights a key pillar of support for the economy and is a very positive medium-term story for NZ. However, the sharp 6.3 percent drop in real construction activity in the Work Put in Place data, and the 3.5 percent fall in export volumes from the Overseas Trade Indexes report, reinforces the weak growth picture.

We will wait until today's manufacturing survey report before firming up our estimate for Q1 GDP. But at this stage Q1 GDP is looking weaker than the market's -0.2 percent expectation or the RBNZ's -0.3 percent forecast. All four indicator models we run tell us that Q1 GDP could be as weak as -0.8 percent, and even our most optimistic model is picking -0.6 percent. While the market is expecting a negative print, it is not envisaging the kind of weakness our models are suggesting. GDP in Q1 2008 looks similar to Q1 1997 (-0.6 percent) in that falls in exports and retail sales were experienced and there was a combination of a strong print in the previous quarter and an early Easter.

	Q4 pick	Q4 actual	Q1 pick	Correlation
Model 1	1.0		-0.7	0.8059
Model 2	0.7		-0.6	0.7906
Model 3	0.8		-0.7	0.8221
Model 4	0.6		-0.8	0.8330
Average	0.8	1.0	-0.7	

GDP indicator model 4 vs actual



However, looking beyond the March quarter, the data is just as weak. Retail sales for April rose by 1.0 percent following a 1.2 percent fall in March. However, stripping out motor vehicle-related industries, "core" sales fell 0.5 percent and come after a 0.4 percent fall in March. The strength in headline sales was driven by an 8.1 percent surge in motor vehicle sales, with surprising falls – given recent price movements – in petrol and supermarket and grocery store retailing. Abstracting from volatility, we continue

to see a picture of rising spending on staples (price driven) and less spending on discretionary items.

The housing market also remains very weak. The seasonally adjusted number of house sales fell 14 percent in May and the median number of days to sell rose to 47 days. Despite the sharp fall in house sales, house prices remain resilient, staying flat from the previous month at \$345,000 to be 1.4 percent lower from a year ago. However, we suspect this overstates the true picture. There has been a larger drop in house sales at the lower end of the market (<\$400k), which has the effect of keeping median prices up. In addition, the continual rise in the median days to sell – the highest since 2002 – tells us that sellers are still reluctant to adjust their price expectations, yet.

With March quarter GDP now generally cemented in as being negative, the combination of falling core retail spending and weak housing data, on top of weak consumer and business confidence, leaves us biased towards the same occurring for the June quarter. Given this environment, the RBNZ easing as soon as July is a real possibility. While inflation will be a sticking point, and a lot will depend on the Q2 inflation read, we are closely watching credit growth. To say it is slowing (abstracting from the rural sector) is the understatement of the year. Less demand for credit is an ominous sign for a lot less growth.

Looking forward to the data calendar this week, we receive the final piece of the GDP puzzle in the form of the Economic Survey of Manufacturing this morning. Given a weakening trend in the Business NZ-BNZ PMI, as well as the manufacturing component of the NBNZ *Business Outlook* survey, we expect manufacturing activity to have been relatively weak over the quarter. We will be particularly looking at how stock levels are tracking. We also receive May Electronic Card Transactions data (Thursday), which is a useful indicator of retail sales, and also May External Migration data on Friday. The international calendar is relatively quiet this week, with the major releases being CPI data from the UK and PPI data in the US. Minutes released from recent meetings by the RBA, BoE and BoJ will also be of interest.

Recent data...

NZ Value of Building Work Put in Place (March quarter): Total real construction activity contracted by 6.3 percent, with residential and non-residential falling 6.6 percent and 5.9 percent respectively.

NZ Overseas Trade Indexes (March quarter): The terms of trade rose by 4.1 percent. Export volumes fell 3.5 percent and imports 0.9 percent.

REINZ Housing Report (May): House sales fell 14 percent (s.a) and the median days to sell a house rose to 47 days. The median house price was unchanged at \$345,000, but 1.4 percent below a year ago.

NZ Food Prices (May): Food prices rose by 1.0 percent, taking annual growth to 6.8 percent.

NZ Retail Sales (April): Headline retail sales rose by 1.0 percent, while core sales fell by 0.5 percent.

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Policymakers should not be afraid to use fiscal policy as a stabilisation instrument. Monetary policy needs mates, particularly in a globalised world and trying to navigate through present shocks. We remain open to ideas as to how fiscal policy could assist, but reassert last week's suggestion that consideration should be given to temporarily lowering the petrol excise tax.

We floated the idea last week of a temporary cut in the petrol excise tax as a fiscal stabilisation response to the combination of high inflation and a stagnant economy. We were amazed at the response this created – both positive and otherwise. Given the reaction, we feel obliged to further draw out some of our thinking. Like most ideas, the forest typically gets lost amongst the trees in the ensuing debate. We wanted to put the focus back on the wider conceptual issue that our petrol tax idea is attempting to address. So here they are:

Issue 1: Monetary policy needs mates.

Monetary policy has been, and always will be, the primary stabilisation instrument we rely on in terms of keeping output, employment, and inflation around a longer-term sustainable trend. Reduced volatility in these variables, since the onset of inflation targeting, is the primary yardstick from which we can conclude that inflation targeting and the current monetary policy framework has been a success.

	Real GDP (quarterly % change)		CPI (quarterly % change)	
	Average	Std Dev	Average	Std Dev
1970s	0.54	0.84	2.89	1.07
1980s	0.44	1.24	2.75	1.63
1990s	0.69	1.00	0.46	0.48
2000-now	0.80	0.61	0.68	0.38

Yet, moving forward, the global economy is becoming increasingly integrated. Globalisation and the emergence of Asia has brought tremendous benefit to New Zealand. Free flows of capital and technology, migration, lower prices for manufactured goods, higher commodity prices, and the centre of economic gravity is moving closer towards New Zealand. However, there is no free lunch.

Globalisation comes with challenges. We see greater volatility in the currency, capital flows, large migration swings, and commodity prices, including oil. The longer end of the New Zealand yield curve is heavily influenced by offshore developments. More recently we have seen massive swings in the price of credit as the global credit cycle turns. Our heavy reliance on offshore borrowing, as reflected in our large current account deficit, makes New Zealand very susceptible to such movements.

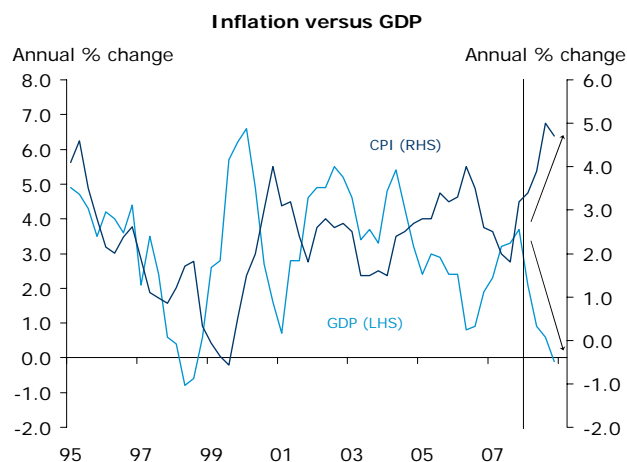
Volatility generated from offshore events makes life extremely difficult for policymakers in New Zealand. This is especially so for monetary policy, which tries to

integrate such forces into a policy response for inflation and the economy. And it has to do this with a relatively blunt instrument in the form of the Official Cash Rate. Remember, monetary policy only has one lever to pull, and it is mathematically impossible for the RBNZ to target more than one variable at once. Hence, we typically tend to ask and expect too much of monetary policy.

In a rapidly integrating world, we need to look wider and to other stabilisation mechanisms, particularly when faced with multiple external shocks. This does not mean that monetary policy needs more levers to pull, rather it needs more friends. Indeed, while we have other stabilisation mechanisms such as a freely floating exchange rate and a flexible labour market – both critical components of New Zealand's economic framework – fiscal policy is typically overlooked. Central government spending is equivalent to a third of GDP. They have the biggest balance sheet in the economy and they control the regulatory framework. Of course, the majority of fiscal policy decisions should be set within a medium-term context. But this should not abstract from fiscal policy's ability to also act as a stabilisation instrument, over and above the role that automatic fiscal stabilisers play.

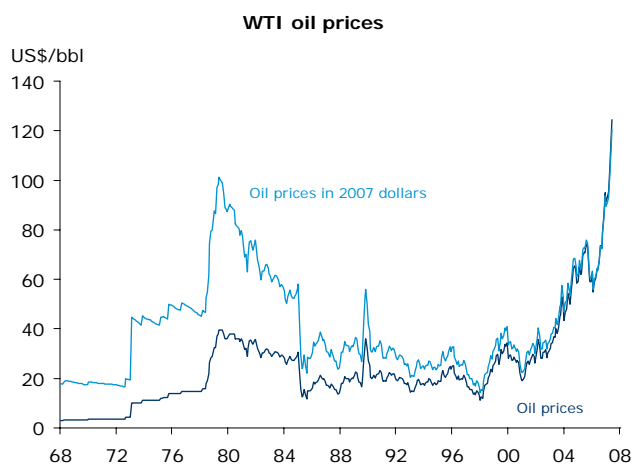
Issue 2: Exceptional times call for exceptional responses.

The New Zealand economy is navigating through three shocks all at once: a housing shock, the worst global credit conditions in 50 years, and a commodity price shock. The latter presents a great opportunity (i.e. surging soft commodity prices), but also poses threats in the form of higher inflation. Plotting a path for the economy and guiding it safely through such a myriad of headwinds is a tall order for monetary policy alone. Particularly given the multitude of other forces impacting at the same time, including sky-rocketing electricity prices due to low lake levels, easing migration flows, global skill shortages across some industries, oil market unease, and equity market gyrations from night to night.



The word "stagflation" has now replaced "recession" in recent financial press. While this mainly relates to the US, there is growing concern that the global economy could be heading back to the 1970s. The RBNZ's June *Monetary Policy Statement* noted that "One of the

reasons we are not projecting even more easings in monetary conditions is because the experience of the 1970s warns us of the danger associated with easing monetary conditions too rapidly in the face of sharp oil price increases." While we are far from revisiting the bad old days of the 1970s in New Zealand (we don't have the same rigidity in the labour market), just the mere possibility means the RBNZ will be more cautious. Interest rates end up being higher for longer, with the consequence that economic activity ends up underperforming and we go through a much more protracted downturn in the economic cycle. Don't get us wrong – we still think the RBNZ will and should be cutting rates. But there will certainly be some unease over how fast they move down given the inflationary backdrop.



We struggle to see why in such instances, fiscal policy should not play a more active stabilisation role. We are encouraged by the Government's tax package announced in this year's *Budget* (albeit surprising us on the upside). This is now looking like a masterstroke given the deteriorating economic picture. Yet the question must be asked. Given the combination of high inflation and zero, if any, growth, are there other steps that fiscal policy could take to help dampen the amplitude of the economic cycle?

Sometimes it is easy to forget that it is both the average rate of growth and volatility (swings) in the economic cycle that determines living standards. The latter especially can be particularly destructive if "good" or relatively safer businesses get impacted by rapid and sudden turns in the business cycle. Businesses and households need certainty to make efficient investment and consumption decisions. Excessive volatility in output (and earnings) mean businesses will be more hesitant to invest or hire, leading to sub-optimal economic outcomes. Hence, policymakers should attempt to raise both the sustainable rate of growth, reduce its volatility, but also be mindful of the first derivative in terms of the speed of change or turn.

Issue 3: Make sure it is targeted, easy to implement and has minimal distortions.

Our idea of temporarily reducing the petrol excise tax is designed to: (a) mitigate the squeeze on household income and (b) put some downward pressure on near-

term inflation or at the very least, limit the rate of increase. Of course we couldn't possibly expect such tinkering to have a major impact. This would not be its primary purpose. It is all about providing assistance at the margin, with the least possible distortionary effect. Whether petrol is \$1.90 per litre or \$2.10 is probably not going to make a big difference. The demand story started to bite above \$1.70. However, it potentially could have an impact on the inflation front.

The RBNZ noted a preparedness to look through an expected temporary spike in headline inflation to 4.7 percent, citing an improved medium-term outlook at their recent *Monetary Policy Statement*. Of course, higher petrol prices are eventually deflationary as they constrain demand. On the face of it, with inflation now looking likely to breach 5 percent given the surge in global oil prices leading to further increases in the local pump price, the same fundamental story should still apply about looking through the near-term spike. Yet it is still a big call to be cutting rates in that environment. The risk is that we see second round effects from rising petrol prices across the economy, and further increases in inflation expectations. It is an outcome that central banks globally are now very concerned about.

We could float a host of other ideas. Cutting or exempting GST on food for example, could achieve the same inflation-growth outcome. But it is easy to discount such a response quickly. The net cost of such a policy would outweigh any temporary stabilisation benefit as inefficiencies and distortions within the tax system creep in. You would need another army of bureaucrats to decide what counts as "food" and what doesn't. Businesses will be loaded with further compliance costs to deal with. What about the idea of exempting the petrol excise tax from GST? Well, isn't the net effect similar to reducing the actual excise tax itself? Besides, you can only reduce the pump price by so much that way. Actually adjusting the petrol excise tax itself provides more flexibility.

A host of other areas could be looked at including regulation, compliance costs, public sector pay movements and employment etc. These are all areas that should be looked at in any case. But they would lack an immediate punch, as it takes too long to implement, and even longer before we see the actual impact. The tax lever has of course already been pulled. But in facing the current trifecta of shocks, more needs to be done.

Bottom line is that any policy reaction not only needs to weigh up the benefits relative to the costs, but must be able to be implemented at short notice with a minimal of distortions.

Of course there are retorts to our suggestion, as we found out almost immediately last week. Lower petrol excise taxes would reduce the amount of money available for transport and infrastructure investment. On the face of it, this is true. However:

- > It was only less than two years ago that revenue from excise, road user charges and the like

exceeded what was ploughed into infrastructure spending, with the excess being diverted to the general tax fund. So there is a precedent in terms of not always needing the revenue to match the spending. Besides, the government does not attempt to balance each major line item or its books (the operating balance) every year anyway.

- > We would see any cut as temporary. And investment decisions such as infrastructure spending should be made within a long-term context anyway, and not be subjected to fluctuations in the excise tax take from year to year.
- > Forget about the flow and focus on the stock. Government spending and taxes are seldom exactly matched from year to year so why should petrol excise taxes exactly match roading investment? The government has, after all, the largest balance sheet and the ability to borrow at the cheapest rate, giving it the ability to smooth through such volatility. Businesses and households can go broke, governments do not (usually!).
- > The government has previously released a Treasury report showing that higher petrol prices are likely to lead to little change in tax revenue in the short-term and an increasing reduction in tax revenue in the longer-term (due to less consumption spending on other goods and higher benefit expenditure from CPI indexation). Surely this logic would also apply the other way, implying any loss in tax revenue from a cut in the excise would not be as great.

Issue 4: Let the market prevail, but be fair.

Movements in global oil prices are beyond our control. There is no doubt that the era of cheap oil is over. But the question remains, how expensive will oil get? There is a host of theories on this one and you may as well throw the dice. Proponents of peak oil would say it is going towards US\$200 to US\$250/bbl. Others say it is a bubble and will be self correcting in time. We are very mindful of history. The last time we saw this sort of debate was when oil prices were sub US\$20/bbl, and the consensus was for it to stay that way.

We believe, like all other asset classes, that there is a cycle. Prices will simply move up until the combination of demand and supply responses cause a price correction. Markets are remarkably efficient. Given the long lags involved in bringing new supply onto the market, this means oil prices will stay high or rise further until demand falls sufficiently. Higher oil prices are also making alternatives more economic and viable without the need for subsidies, which is itself a good thing. Key to watch at present are the geopolitical situation, demand backdrop from emerging markets, whether we see continued reductions in oil subsidies across such markets (five nations have already taken some measures), and of course the flow-on impact of higher oil prices into the political arena.

But what we need to guard against are calls for more heavy-handed interventionist policies. The US Democratic Presidential Candidate has recently floated the idea of a windfall-profit tax on big oil companies. While we have been heartened at the absence of such calls here in New Zealand, we have to be on guard against such proposals. After all, lawmakers have hardly endowed themselves in glory on the intervention front in the past. As soon as ideas are floated, the market tends to correct. Think about the calls last year in New Zealand for ancillary policy instruments to slow the housing market. In the end, interest rates still proved up to the task. Or the calls in 2000 in the US for other means to control a rampant NASDAQ, right before it popped.

To be sure, there is a good economic rationale for putting a "sin tax" on petrol (or externality tax as it is more appropriately known). In its absence, the consumption of petrol will be higher and so will pollution levels. The tax is intended to internalise the externality and safeguard the environment. But we have to be realistic and fair. We would argue that petrol prices at current levels are already high enough to justify a lower externality tax. It is not just the level but also the speed of change that is as important. We need to allow consumers time to adjust their behaviour. Petrol prices have risen by almost 25 percent this year alone and are up over 50 percent since the start of 2006, and it is the lower income households that are hurting more.

In summary

We will leave readers with one final observation. The RBNZ was given the capacity to intervene in the foreign exchange market in March 2004. Research into the pros and cons noted that intervention could not be expected to make a material difference in terms of the trend. But there would certainly be benefits associated with ironing out the peaks and troughs in the currency cycle. Can anyone then, explain to us why altering the petrol excise tax rate at the margins in an attempt to iron out extremes is any different, particularly when there is a potential that the headline inflation rate could push through 5 percent?

Our main intention is to flag the growing importance for monetary policy and fiscal policy to work together. Temporarily reducing the petrol excise tax represents a viable – but not cost free – mechanism whereby fiscal policy could undertake a stabilisation role, in addition to, of course, pending tax cuts. We also need to be mindful of the risks and costs on the other side as the combination of high inflation and no growth hits. We are of course open to other suggestions, but someone needs to kick-start the debate. No response will be perfect, but policy never is.

The challenge to policymakers and their advisers is to be forward looking in their approach. We live in a globalised world. Fiscal policy – in tandem with monetary policy – will need to play a stronger stabilisation role. Monetary policy needs mates. Here's hoping that the spirit of our contribution to the debate is taken in the same way as it is intended.

VULNERABILITY UPDATE

Sections and apartments are often talked about as the most vulnerable parts of the property market. We have updated our analysis showing which regions have the most exposure to sections and apartments, relative to other types of sales. The relative rankings remain similar, although 70 percent of the regions have shown an increase in available listings of sections and apartments. This reinforces, to us, that this is an area of the property market where a large part of the correction will occur.

The section and apartment sectors of the property market – traditionally more speculative areas – are often touted as being the pockets that are the most vulnerable at this stage in the property cycle. Higher interest rates or changes in the credit cycle often mean that these pockets can experience large price swings, relative to other types of property, as demand wanes. They tend to outperform at the top, but also turn more aggressively as the cycle turns.

Relative to previous cycles, New Zealand does not have an excess of housing per se. But certainly across a number of regions there is no shortage of land, and it has been the latter that has underpinned the housing market in general.

The following table and analysis, which was last updated in February, shows the number of sections and apartments for sale, relative to the total number of properties on the market. It is based on data from the Trade Me website (which provided easy access to this type of data). Although it is somewhat of a crude indicator, we feel it is still reasonably effective nonetheless. The table ranks the various regions from highest to lowest and also shows their movement compared with February.

So what does it show?

- > Compared with February, close to 70 percent of regions have shown an increase in section and apartment listings relative to totals. The average increase in this ratio across the regions was just over 9 percent. The median increase was slightly less, at just over 6 percent. Across the country as a whole, the ratio of sections and apartments for sale relative to total properties is 29.1 percent. This is up from 26.8 percent in February.
- > The relative rankings of the regions are reasonably similar to February. The rankings of first three regions remained unchanged. Those regions that had a relatively high proportion of sections and apartments for sale in February, typically still have high proportions now, and vice versa. The biggest movers of note were Selwyn, which jumped 13 places, and Franklin, which jumped 12 places. Southland continued its slide down the rankings and now sits in 31st place, with a ratio of 19.5 percent. This is after it topped the rankings in October 2007 – when we first presented these statistics.

- > As the relative rankings are little changed, a similar composition remains – it's a holiday or retirement destination theme. Queenstown Lakes, Northland, Thames/Coromandel, Tasman and Taupo all sit toward the top end of the rankings, with a high exposure to sections and apartments. This could potentially mean they are more vulnerable, and we have heard anecdotes of some of these regions experiencing large falls in house prices.
- > Auckland City again ranks highly, with a large number of apartments listed. We have heard some horror stories emanating from the Auckland apartment market with properties selling for well under previous sale values. Part of this may be due to the collapse of some property investment companies, but it also likely to be a case of softness in the market.

The upshot

The supply of sections and apartments relative to the total stock of houses for sale continues to increase. This is potentially a sign of unease and is one area where we expect the housing market "correction" to play out. With both types of properties exposed to high interest rates (low yield or high carry cost); likely diminished appetites to lend; credit dislocation in certain pockets; and land-banking – which has the potential to unwind quickly, we expect to hear more anecdotes of these types of properties coming under increased downward price pressure

Number of sections and apartments for sale, relative to total properties for sale					
Rank	Region	Number of apartment and sections as % of total listings, Jun-08	Feb-08 %	% change from Feb-08	Feb-08 rank
1	Queenstown Lakes	52.5	52.1	0.9	1
2	Auckland City	51.2	43.8	16.8	2
3	Northland - Far North	45.5	42.7	6.5	3
4	Central Otago ex Qtwn	42.2	36.1	16.7	7
5	Northland - Whangarei	41.1	33.1	23.9	12
6	Thames/Coromandel	40.6	39.4	3.1	4
7	West Coast	39.7	36.6	8.3	5
8	Selwyn	35.9	26.3	36.4	21
9	Hauraki	35.5	28.9	22.7	16
10	Tasman	35.0	36.5	-4.2	6
11	Hurunui, Hanmer	34.1	32.5	5.2	13
12	Kaikoura	33.3	32.0	4.2	15
13	Taupo	33.2	35.2	-5.9	8
14	Waitaki	32.4	33.8	-4.1	9
15	Marlborough	32.3	33.5	-3.7	10
16	Papakura	30.3	33.2	-8.6	11
17	Wellington City	30.2	28.0	8.0	18
18	Rodney	29.9	32.4	-7.6	14
19	Franklin	28.3	16.7	69.8	31
20	Western BoP	28.1	28.4	-1.2	17
21	Gisbourne	27.2	27.2	0.0	19
22	Tauranga City	26.6	25.4	4.8	23
23	Waitakere	26.6	22.5	18.1	27
24	North Shore City	26.0	23.7	9.4	26
25	Whakatane	25.0	26.8	-6.8	20
26	Upper Hutt	24.8	15.9	56.3	32
27	Nelson City	23.3	26.2	-10.9	22
28	Taranaki	23.3	23.8	-2.1	25
29	Hamilton City	23.2	21.5	7.7	28
30	Waimakariri	21.4	20.3	5.9	30
31	Southland	19.5	24.1	-18.9	24
32	Kapiti Coast	18.6	20.7	-10.3	29
33	Manawatu/Wanganui	17.6	15.2	16.1	33
34	Dunedin City	17.4	15.0	15.9	34
35	Manakau City	16.0	14.0	14.1	36
36	Hawke's Bay	15.0	14.9	0.3	35
37	Christchurch City	12.6	10.8	17.2	37
38	Lower Hutt	10.9	7.8	39.6	40
39	Rotorua	10.6	9.4	13.0	38
40	Timaru	10.3	9.4	10.2	39

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. With the major exception of consumer confidence, US data again generally surprised on the upside last week. The economy is weak, but appears to be finding a base. European and UK data also came in on the strong side last week, while outturns were mixed in Asia.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Pending Home Sales (Apr) – mom	-0.4%	6.3%	-1.0%	Stronger
	Import Price Index (May) – mom	2.5%	2.3%	2.4%	Weaker
	Advance Retail Sales (May) – mom	0.5%	1.0%	0.4%	Stronger
	Retail Sales Less Autos (May) – mom	0.7%	1.2%	1.0%	Stronger
	Business Inventories (Apr)	0.3%	0.5%	0.2%	Stronger
	CPI (Apr) – mom	0.5%	0.6%	0.2%	Stronger
	University of Michigan Confidence (Jun P)	59.0	56.7	59.8	Weaker
Europe	Sentix Investor Confidence (Jun)	3.0	5.2	3.5	Stronger
	Industrial Production (Apr) – mom	0.0%	0.9%	-0.5%	Stronger
	Labour Costs (1Q) – yoy	2.9%	3.3%	2.9%	Stronger
UK	PPI Input (May) – mom	2.6%	3.8%	3.2%	Stronger
	PPI Output (May) – mom	0.8%	1.6%	1.5%	Stronger
	Industrial Production (Apr) – mom	0.0%	0.2%	-0.5%	Stronger
	DCLG House Prices (Apr) – yoy	3.4%	4.9%	5.2%	Stronger
	Claimant Count Rate (May)	2.5%	2.5%	2.5%	In-line
	Jobless Claims Change (May)	8.0k	9.0k	11.2k	Weaker
	ILO Unemployment Rate (Apr) – 3mths	5.2%	5.3%	5.2%	Weaker
Asia Ex-Japan					
<i>China</i>	Producer Price Index (May) – yoy	8.3%	8.2%	8.1%	In-line
	Exports (May) – yoy	20.8%	28.1%	21.9%	Stronger
	Imports (May) – yoy	27.8%	40.0%	26.4%	Stronger
	Consumer Price Index (May) – yoy	8.0%	7.7%	8.5%	Weaker
	M2 Money Supply (May) – yoy	17.0%	18.1%	16.9%	Stronger
	Retail Sales (May) – yoy	21.7%	21.6%	22.0%	In-line
<i>Singapore</i>	Retail Sales (Apr) – yoy	4.8%	7.5%	5.6%	Stronger
<i>Taiwan</i>	Total Exports (May) – yoy	15.0%	20.5%	14.0%	Stronger
	Total Imports (May) – yoy	20.3%	17.6%	17.7%	Weaker
<i>Malaysia</i>	Industrial Production (Apr) – yoy	5.7%	4.3%	3.5%	Weaker
<i>South Korea</i>	Producer Price Index (May) – yoy	-	11.6	9.7%	-
	Unemployment Rate (May)	-	3.2%	3.2%	-
	Bank of Korea 7-Day Repo Rate	5.00%	5.00%	5.00%	In-line
<i>Philippines</i>	Total Exports (Apr P) – yoy	1.8%	4.9%	-6.6%	Stronger
<i>India</i>	Industrial Production (Apr) – yoy	6.5%	7.0%	3.9%	Stronger
Japan	M3 Money Supply (May) – yoy	0.8%	0.7%	0.5%	In-line
	Machine Orders ((Apr) – mom	3.0%	5.5%	-8.3%	Stronger
	BoJ Interest Rate Announcement	0.50%		0.50%	In-line
	Consumer Confidence (May)	35.0	34.1	35.4	Weaker
Australia	Home Loans (Apr)	-2.0%	-3.0%	-5.7%	Weaker
	Employment Change (May)	13.5k	-19.7k	37.5k	Weaker
	Unemployment Rate (May)	4.2%	4.3%	4.3%	Weaker

INTEREST RATE STRATEGY

A lack of major local data means offshore moves will dictate this week. But the prospect of a very soft Q1 GDP read at the end of next week means the NZ market should outperform any offshore moves.

Market themes...

- > NZ economic data continues to print soft but food and petrol prices rise.
- > Inflation becoming a global threat, sending yields higher.
- > Apart from RBNZ, other central banks look to be either on hold or set to raise rates.

Review and outlook...

The NZ rates market was choppy last week as volatility in global rates flowed through into the local market. Despite a very weak core retail sales print suggesting a poor start to Q2 GDP, increasing the likelihood of two consecutive quarters of contraction, swap yields ended the week generally higher, particularly in the front end of the curve. However, the NZ moves paled in comparison to those in the US, where swap yields rose 29-65bps last week on the back of inflation fears and growing expectations that the US Federal Reserve will be hiking interest rates by year's end.

Increasingly hawkish rhetoric from central banks around the world, bar the RBNZ, resulted in a global selloff in rates. It is clear that the focus has now shifted from growth concerns towards inflation in many countries, leading to poor performance in bonds. Following the big moves last week, we can expect a period of consolidation though some volatility is still expected to feature as markets appear to lack any conviction about where things are heading at present. Expect further comments by policymakers to continue to focus on inflation worries.

This week's local rates market will lack any direction from the domestic dataflow, which only has third tier data on offer. Though today's Q1 manufacturing survey report will confirm GDP weakness, and Thursday's May electronic card transaction data will confirm that consumers are shutting up their wallets, offshore moves will dominate. However, we expect the NZ market to outperform global moves, as the prospect of a very weak Q1 GDP print next week will prevent the market from selling off too aggressively.

We continue to look for a September start to the easing cycle. However, given the consistently weak domestic dataflow, we cannot rule out the possibility of a July move. The hurdle is high, and it will require a very weak Q1 GDP print and a surprisingly soft non-tradable CPI print to get the RBNZ across the line. But we were all surprised at how early the labour market turned. Therefore, we should not at all be surprised if non-tradable inflation too starts to turn early. For now, we remain with our core strategy of receiving the belly of the curve. For those seriously contemplating a July rate cut, we suggest buying the September bank

bill futures. Even if the RBNZ does not cut in July, the market should still maintain the September easing profile.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↓	Market looking for September easing but July a real possibility.
NZ data	↓	Last week's core retail data soft, this week's data to be no different.
Fed Funds/front end	↔	All about inflation now.
RBA	↔/↑	Tight policy needed but RBA's Stevens sees no serious wage-price problem.
US 10 year	↔	US bond yields expected to consolidate following recent large moves.
NZ swap curve	↔/↓	Curve bias is still to steepen, but the market will be wary of offshore moves.
Flow	↔/↑	Payside stronger as offshore moves put some pressure on curves to move higher.
Technicals	↔/↓	Technically the picture is primed for a downward move given soft NZ data.

Borrowing strategies we favour at present

The domestic dataflow continue to back a September start to the easing cycle. Hence, we stick to our preferred strategy which is for borrowers to target the 1-year space, which benefits from positive pick-up. If borrowers are still worried about inflation (oil prices) delaying the easing cycle, they can consider borrowing in the 2-year space.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Jul-08	-32	-22
Thu 11-Sep-08	-96	-78
Thu 23-Oct-08	-168	-154
Thu 4-Dec-08	-244	-222
Thu 22-Jan-09	-304	-286
Thu 5-Mar-09	-360	-346
Thu 23-Apr-09	-412	-398

Trading themes we favour at present

Stick with core strategy of receiving the belly of the curve (3-5 year). While not a central view at present, an earlier move in July cannot be ruled out.

CURRENCY STRATEGY

A lack of comment on FX in the G8 communiqué may see some recent USD strength unwound. However, official concern towards high commodities and increasing US yields are also likely to cushion any fall in the greenback. This week may be a holding week for the kiwi but watch commodities and central bank rhetoric. The big picture and strategic view remains lower.

Market themes...

- > Weak local data cements negative Q1 GDP and Q2 looking no better.
- > No mention of FX in G8 communiqué suggests some recent USD strength may be eroded.
- > But US yields are higher and central bank rhetoric remains key to watch.

Review and outlook...

Recent local data out of NZ has all but cemented a negative March quarter GDP result and June quarter data is looking no better. This reinforces the vulnerability of the NZ economy at present and a downward bias and trend for the kiwi.

However, last week was notable for a step up in rhetoric from policymakers around the globe and concern over high commodity prices and inflation expectations. Comments directed at the USD, with US Treasury Secretary Paulson stating he is not ruling out intervention, and US Fed officials stating they are watching the USD closely – which follows on from comments from Fed Chairman Bernanke two weeks prior – saw the USD strengthen. It rose around 3 percent against both the euro and yen last week and contributed to a lower NZD and AUD.

Markets have sat up and listened. US yields have risen strongly and markets are pricing in interest rate hikes for the majority of central banks around the globe (with the RBNZ the key exception). Coordinated intervention in the greenback was a major talking point last week heading into the G8 finance ministers meeting. The fact that the G8 communiqué failed to mention any thing on FX may lead to some disappointment in markets early in the week and could possibly see some recent strength in the USD eroded (it has opened slightly lower on the kiwi open). But with officials concerned over commodity prices and with US yields higher, any move lower in the greenback is likely to be cushioned.

Commodity markets are now key to watch. For one, there is the flow-on negative inflationary impact for equity market sentiment. Second, there is an aura of vulnerability about recent increases. Strictly speaking we are great believers in the view that commodity prices are shifting to a higher plane. Yet we are acutely aware that inflation will not subside unless commodity price pressure eases. And central banks are now consistently taking a firmer tone. Growth will be sacrificed. A firmer USD looks to be needed to dampen global inflation.

All up, currency markets are likely to remain volatile and hostage to these wider global commodity/inflation gyrations for the time being. The key events this week will be any further comments from officials directed at the USD. Other important events will be the release of minutes from recent RBA, BoE and BoJ meetings. Locally, the dataflow is all relatively second-tier in nature and unlikely to get too much action in currency markets. However, we suspect the market is still a tad optimistic on NZ growth for Q1, despite the consensus expecting a small decline.

Technically, major support for NZD/USD at 0.7430 continues to hold and expect this level to contain the NZD this week. Any move to 0.7620/40 will provide the ideal sell-zone for a test lower over the next month. 0.8050 caps the NZD/AUD cross and though we continue to favour further probes lower in this cross, a move to the 0.8120/40 zone is certainly possible and would provide a good selling opportunity for the next leg lower.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	RBA to hike. RBNZ cut.
Commodities	↔	Same picture for both.
Partial indicators	↓	Better across the Tasman.
Technicals	↓	Solid resistance at 0.8140 sell here if you can.
Sentiment	↓	Terms of trade says it all.
Other	↑	Watch market positioning.
On balance	↓	Trend is clear.

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	↔	Yield and commodity story factored.
Yield	↔/↓	Watch central bank rhetoric.
Commodities	↔	The big one to watch.
Risk aversion	↔/↑	Positive sentiment but not borne out in equities.
Partial indicators	↓	NZ data now looking weaker than US.
Technicals	↔/↓	Range with bearish bias.
AUD	↔/↑	RBA to hike again?
Sentiment	↓	Market wants to believe Fed is done.
Other	↔	Inflation all round?
On balance	↔/↓	RBNZ will need to cut to break range.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16 Jun	NZ	Manufacturing Activity (1Q)	-	8.3%	10:45
		Non-Resident Bond Holdings (May)	-	76.0%	15:00
17 Jun	US	Empire Manufacturing (Jun)	-1.5	-3.2	00:30
		Net Long-Term TIC Flows (Apr)	\$63.3B	\$80.4B	01:00
		Total Net TIC Flows (Apr)	\$42.5B	-\$48.2B	01:00
		Fed's Bernanke to speak at Senate Financial Committee Health Summit	-	-	02:00
		NAHB Housing Market Index (Jun)	19	19	05:00
		Fed's Lacker speaks on Economic Outlook in South Carolina	-	-	05:00
	JN	Tertiary Industry Index (Apr) – mom	0.6%	0.3%	11:50
	AU	RBA Minutes from June Meeting	-	-	13:30
	UK	CPI (May) – mom	0.4%	0.8%	20:30
		CPI (May) – yoy	3.2%	3.0%	20:30
		Core CPI (May) – yoy	1.5%	1.4%	20:30
		RPI (May) – yoy	4.2%	4.2%	20:30
	GE	ZEW Survey (Economic Sentiment) (Jun)	-42.5	-41.1	21:00
		ZEW Survey (Current Situation) (Jun)	37.0	38.6	21:00
18 Jun	US	Current Account Balance (1Q)	-\$173.3B	-\$172.9B	00:30
		PPI (May) – mom	1.0%	0.2%	00:30
		PPI Ex Food and Energy (May) – mom	0.2%	0.4%	00:30
		Housing Starts (May)	980k	1,032k	00:30
		Building Permits (May)	960k	982k	00:30
		Industrial Production (May)	0.1%	-0.7%	01:15
		Capacity Utilisation (May)	79.7%	79.7%	01:15
	JN	BoJ Meeting Minutes for April and May meetings	-	-	11:50
	AU	Westpac Leading Index (Apr) – mom	-	0.2%	12:30
		Preliminary BoP Imports (May) – mom	-	-3.0%	13:30
	UK	BoE Minutes	-	-	20:30
19 Jun	US	Fed's Yellen Gives Welcome Remarks at Fed Conference	-	-	03:45
	JN	All Industry Activity Index (Apr) – mom	0.4%	0.5%	11:50
	AU	RBA Foreign Exchange Transactions (May)	-	A\$305m	13:30
	UK	BoE's King makes Speech	-	-	06:30
		Retail Sales (May) – mom	-0.1%	-0.2%	20:30
		Public Finances (PSNCR) (May)	6.5B	-1.0B	20:30
		Public Sector Net Borrowing (May)	9.3B	-0.5B	20:30
		M4 Money Supply (May P) – mom	0.5%	0.6%	20:30
		M4 Sterling Lending (May P)	18.7B	27.9B	20:30
20 Jun	US	Initial Jobless Claims (w/e Jun 15)	375k	384k	00:30

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
20 Jun cont.	US	Continuing Claims (w/e Jun 8)	3,139k	3,139k	00:30
		Philadelphia Fed (Jun)	-10.0	-15.6	02:00
		Leading Indicators (May)	0.0%	0.1%	02:00
		Kohn Testifies on Risk Management at Senate Committee	-	-	06:30
	UK	BoE's Gieve makes speech	-	-	07:00
	NZ	Visitor Arrivals (May)	-	-11.8%	10:45
		Net External Migration (May) – 12 mth total	-	4,666	10:45
	GE	Producer Prices (May) – mom	0.9%	1.1%	18:00

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: The RBNZ have now shifted to an easing bias and interest rates look set to be moved lower later this year. The dataflow over the next four weeks is likely to confirm a very weak economy. However, despite a favourable demand-pull backdrop, close attention needs to be paid to cost-push forces such as the currency and commodity prices.

Date	Data/Event	Economic Signal	Comment
Mon 16 Jun (10.45)	Economic Survey of Manufacturing (Mar qtr)	Softer	The Business NZ manufacturing PMI has begun to trend lower. We expect this to also show up in this survey.
Thu 19 Jun (10.45)	Electronic Card Transactions (May)	Weak	Given cost of living pressures eating into discretionary spending, we expect the underlying trend in retailing to remain soft.
Fri 20 Jun (10.45)	External Migration (May)	Stabilising	Monthly net inflows look to have stabilised around 300-400 people. We expect this to continue for the foreseeable future, although the risks remain to the downside.
Mon 23 Jun (15.00)	Credit Card Spending (May)	Weak	An early Easter this year has lead to significant volatility in recent monthly outturns. However, just like with the ECT data, we expect spending on credit cards to remain weak.
Wed 25 Jun (01.00)	Westpac McDermott Miller Confidence	Weakening	Following continued falls in the monthly Roy Morgan confidence survey, we expect the Westpac survey to post another decline as high cost of living pressures weigh on households.
Thu 26 Jun (10.45)	Balance of Payments (Mar qtr)	Improving	We expect a further improvement in the current account deficit for the quarter on the back of higher dairy prices and oil exports.
Fri 27 Jun (10.45)	Gross Domestic Product (Mar qtr)	Negative	We have a negative print pencilled in for Q1. Private consumption, residential investment and net exports are all expected to detract from growth. At present we are running with -0.3 percent, but our model says it could be -0.7 percent.
Fri 27 Jun (15.00)	Credit Growth (May)	Weak	With the housing market in the doldrums, credit growth will remain weak.
Mon 30 Jun (10.45)	Building Consents (May)	Correction	Given the surprising surge last month, we expect a relatively large downward correction in May.
Mon 30 Jun (15.00)	NBNZ <i>Business Outlook</i> (Jun)	-	-
Thu 3 Jul (15.00)	ANZ Commodity Price Index (Jun)	-	-
Tue 8 Jul (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	Weak	We expect headline confidence and activity gauges to continue to deteriorate, in line with the National Bank <i>Business Outlook</i> . Capacity utilisation is also expected to fall following last quarter's surprising surge. However, pricing intentions should remain elevated.
circa 11 Jul	REINZ Housing Report (Jun)	Weak	Recent data has shown the number of house sales continuing to fall, but prices remaining elevated. Until vendors become more realistic with their price expectations, sales should continue to fall.
On Balance		An economy heading backwards, but with inflation	Growth indicators are awful. But inflation needs to be watched.

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
GDP (% qoq)	1.2	0.9	0.5	1.0	-0.3	-0.3	0.2	0.3	0.3	0.5
GDP (% yoy)	2.3	3.2	3.3	3.7	2.1	0.9	0.6	-0.1	0.5	1.3
CPI (% qoq)	0.5	1.0	0.5	1.2	0.7	1.4	1.2	0.9	0.5	0.7
CPI (% yoy)	2.5	2.0	1.8	3.2	3.4	3.8	4.6	4.3	4.1	3.4
Employment (% qoq)	1.4	0.5	-0.3	0.9	-1.3	0.2	-0.2	0.0	0.1	0.1
Employment (% yoy)	1.8	1.5	1.6	2.5	-0.2	-0.6	-0.4	-1.3	0.1	0.0
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	3.6	3.8	4.0	4.2	4.3	4.5
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	-7.5	-6.9	-6.5	-6.5	-6.5	-6.5
Terms of Trade (% qoq)	1.5	0.4	3.7	2.7	4.1	0.0	-1.0	-0.1	-1.5	-1.2
Terms of Trade (% yoy)	4.5	2.3	8.4	8.5	11.3	10.8	5.8	2.9	-2.6	-3.8

KEY ECONOMIC INDICATORS

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
Retail Sales (% mom)	0.3	1.1	-0.4	1.8	0.0	0.2	-0.6	-1.2	1.0	..
Retail Sales (% yoy)	6.3	4.1	5.8	7.2	5.4	6.3	7.7	-1.0	4.1	..
Credit Card Billings (% mom)	0.9	1.9	-0.4	1.1	0.7	-0.2	0.8	-3.6	4.4	..
Credit Card Billings (% yoy)	8.6	9.3	7.7	9.5	7.6	8.6	8.1	3.3	8.3	..
Car Registrations (% mom)	1.0	-6.7	5.6	-3.6	-2.7	5.3	-4.2	-13.0	12.3	-15.2
Car Registrations (% yoy)	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2	-1.0	-20.6
Building Consents (% mom)	5.9	-10.5	-5.3	0.9	-4.1	3.9	-5.5	-14.4	82.1	..
Building Consents (% yoy)	0.0	-15.5	-16.1	-4.5	-6.5	-5.2	-17.7	-27.1	30.9	..
REINZ House Price (% yoy)	12.9	12.3	8.0	6.7	4.5	4.0	0.7	1.6	-1.1	-1.4
Household Lending Growth (% mom)	0.9	0.8	0.9	0.9	0.7	0.7	0.8	0.5	0.3	..
Household Lending Growth (% yoy)	13.6	13.2	13.0	12.8	12.3	11.9	11.6	10.8	9.9	..
Roy Morgan Consumer Confidence	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7	99.9	89.2
NBNZ Business Confidence	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9	-54.8	-49.7
NBNZ Own Activity Outlook	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4	-3.8	-4.4
Trade Balance (\$m)	-947	-572	-774	-628	39	-311	244	-44	-334	..
Trade Balance (\$m annual)	-6336	-6282	-5883	-5691	-5307	-4793	-4421	-4525	-4645	..
ANZ World Commodity Price Index (% mom)	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0	-0.3	1.0
ANZ World Commodity Price Index (% yoy)	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9	20.7	18.7
Net Migration (sa)	760	650	240	460	30	110	240	500	440	..
Net Migration (annual)	8730	8309	7517	6588	5491	4799	4643	4678	4666	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Apr-08	May-08	16-Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
NZD/USD	0.791	0.778	0.751	0.770	0.750	0.720	0.680	0.640	0.630	0.620
NZD/AUD	0.851	0.819	0.800	0.762	0.721	0.720	0.723	0.719	0.724	0.738
NZD/EUR	0.502	0.500	0.487	0.494	0.484	0.468	0.453	0.441	0.450	0.456
NZD/JPY	81.1	81.1	81.1	80.1	78.0	75.6	73.4	70.4	69.3	69.4
NZD/GBP	0.399	0.395	0.386	0.393	0.389	0.379	0.364	0.346	0.346	0.344
NZ\$ TWI	70.4	69.4	67.8	67.8	65.9	64.0	61.9	59.6	59.6	59.7
NZ interest rates	Apr-08	May-08	16-Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
OCR	8.25	8.25	8.25	8.00	7.50	7.00	6.50	6.00	6.00	6.00
90 day bill	8.87	8.72	8.70	8.20	7.70	7.10	6.60	6.20	6.20	6.20
10 year bond	6.48	6.43	6.45	6.00	5.70	5.60	5.60	5.40	5.30	5.80
International	Apr-08	May-08	16-Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
US Fed funds	2.00	2.00	2.00	1.75	1.50	1.50	1.50	2.00	2.50	3.00
US 3-mth	2.85	2.68	2.81	2.25	2.00	1.75	2.00	2.50	3.00	3.50
AU cash	7.25	7.25	7.25	7.50	7.75	7.75	7.75	7.75	7.25	6.75
AU 3-mth	7.80	7.79	7.85	7.90	8.10	8.10	8.10	7.80	7.20	6.70

KEY RATES

	13 May	9 Jun	10 Jun	11 Jun	12 Jun	13 Jun
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.63	8.68	8.68	8.70	8.70	8.70
NZGB 07/09	6.72	6.93	7.05	7.12	7.05	7.07
NZGB 11/11	6.48	6.59	6.69	6.73	6.65	6.66
NZGB 04/13	6.44	6.45	6.52	6.55	6.48	6.48
NZGB 12/17	6.32	6.40	6.47	6.48	6.42	6.42
2 year swap	7.67	7.78	7.93	8.00	7.88	7.92
5 year swap	7.42	7.47	7.57	7.63	7.52	7.56
RBNZ TWI	68.6	68.2	67.7	67.7	67.8	67.6
NZD/USD	0.7686	0.7682	0.7563	0.7537	0.7539	0.7502
NZD/AUD	0.8127	0.7990	0.7968	0.7977	0.8023	0.7987
NZD/JPY	79.75	80.91	80.74	80.97	80.86	80.90
NZD/GBP	0.3934	0.3901	0.3840	0.3854	0.3850	0.3854
NZD/EUR	0.4948	0.4865	0.4856	0.4868	0.4867	0.4863
AUD/USD	0.9457	0.9615	0.9492	0.9449	0.9397	0.9393
EUR/USD	1.5532	1.5789	1.5574	1.5483	1.5489	1.5427
USD/JPY	103.76	105.32	106.75	107.43	107.25	107.84
GBP/USD	1.9538	1.9691	1.9693	1.9555	1.9584	1.9465
Oil	124.02	138.51	134.44	131.38	136.43	136.91
Gold	877.60	900.80	891.20	870.10	875.45	871.25
Electricity (Haywards)	23.57	33.43	31.84	33.21	27.83	25.46
Milk futures (US\$/contract)	139	144	144	144	144	144
Baltic Dry Freight Index	10354	11534	11409	11105	10142	9646

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