

PAYING THE PIPER

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- > Economic momentum is slowing rapidly. The economy will do well to record positive growth this year. We see growth remaining subdued into 2009 as imbalances in the form of inflation and a high current account deficit are purged and households improve their balance sheets. Beyond that, we envisage a moderate upturn as looser financial conditions and better productivity growth come to the fore.

Page 7: Global outlook

- > While liquidity pressure in the financial system has stabilised, growth in key OECD countries is softening. Asia is expected to be impacted to a degree but remain robust. The wildcard for Asia may be the potential social and political aspects to rocketing food inflation.

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- > Tax cuts are finally on the way but they come at the expense of future *Budgets*. The lack of fiscal headroom may force the Government to start focusing on the quality of its spend, rather than the quantity, which will be a welcome step towards improving public sector productivity. But there is ample scope to better utilise the Crown's strong balance sheet for much needed infrastructure investment to lift the economy's growth potential.

Page 9: Inflation

- > Inflation looks set to remain high and persistent in the near-term. While there appears to be a structural element to recent price increases, we expect a very weak domestic economy to suppress prices in the contestable areas, leading to headline inflation returning to the RBNZ's target band by 2009. The transmission from a weak economy to the labour market is critical.

Page 10: Exchange rate

- > We've been saying it for some time, but a lower currency is an inevitable part of the rebalancing process for the NZ economy. The main release valve so far has been, and looks to continue to be, a lower NZD/AUD.

Page 12: Interest rates

- > We expect the OCR to fall from late in the year. Facing conflicting growth and inflation messages, we expect the RBNZ to err towards caution, waiting until a key driver of medium-term inflation – the unemployment rate – delivers an unequivocal dampening inflation message. Internationally, central banks are becoming more attuned to inflation risks, and it now looks like the RBA may have to deliver more bitter medicine.

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KEY ECONOMIC FORECASTS

Calendar years	2006	2007	2008(f)	2009(f)	2010(f)	2011(f)	2012(f)
NZ Economy (annual average % change)							
Real GDP	1.5	3.1	0.9	1.3	2.1	3.5	3.0
Employment	2.1	1.8	-0.6	0.3	1.1	1.5	1.5
Unemployment Rate (Dec qtr)	3.8	3.4	4.2	4.8	5.0	5.1	5.0
Terms of Trade	-2.9	6.4	5.5	-2.6	-1.4	0.4	0.6
Global Growth (annual average % change)							
US	2.9	2.2	0.7	0.8	2.2	2.6	2.4
Australia	2.8	3.9	2.5	2.4	2.8	3.3	3.2
Japan	2.4	2.0	1.0	0.9	1.7	1.8	1.6
China	10.7	11.6	9.7	9.0	9.9	9.7	9.1
Trading Partner Growth	3.7	3.9	2.7	2.5	3.3	3.5	3.3
NZ Inflation (annual % change)							
CPI Inflation	2.6	3.2	4.0	2.7	2.4	2.3	2.2
Non-tradable Inflation	3.8	3.5	4.2	3.1	2.8	3.2	3.3
Tradable Inflation	1.2	2.8	3.3	2.2	1.6	0.7	1.0
NZ Financial Markets (December quarter averages)							
TWI	67.1	71.0	66.5	59.6	61.5	64.9	65.5
NZD/USD	0.67	0.76	0.76	0.63	0.62	0.64	0.65
NZD/AUD	0.87	0.86	0.73	0.72	0.77	0.85	0.86
Official Cash Rate	7.3	8.3	8.2	6.2	6.0	6.5	6.5
90-day bank bill rate	7.6	8.8	8.3	6.3	6.2	6.7	6.7
10-year bond rate	5.8	6.4	5.9	5.4	6.4	6.9	6.8
Fiscal and External Balance							
Current Account Balance (\$m)	-14,000	-13,800	-11,400	-11,200	-12,100	-11,700	-10,600
as % of GDP	-8.6	-7.9	-6.2	-5.9	-6.2	-5.7	-4.9
Govt. Operating Balance (\$m)*	9,500	8,000	2,500	2,800	2,800	2,500	2,600
as % of GDP	6.1	4.8	1.4	1.5	1.5	1.2	1.2

Forecasts and text finalised 28 May 2008.

* June years

Key forecast assumptions:

- > Dubai oil prices remain above US\$120 per barrel in the near-term before gradually declining towards US\$90 per barrel.
- > The current volatile global financial market environment and US weakness does not trigger a substantial global slowdown.
- > Net migration remains subdued for another 18 months, before increasing to around 10,000 over 2009.
- > Current cyclical potential growth is around 2 to 2½ percent, but longer-term potential is still around 3 percent.
- > The neutral real interest rate is just under 4 percent.
- > Inflation expectations start to drift lower from current elevated levels.

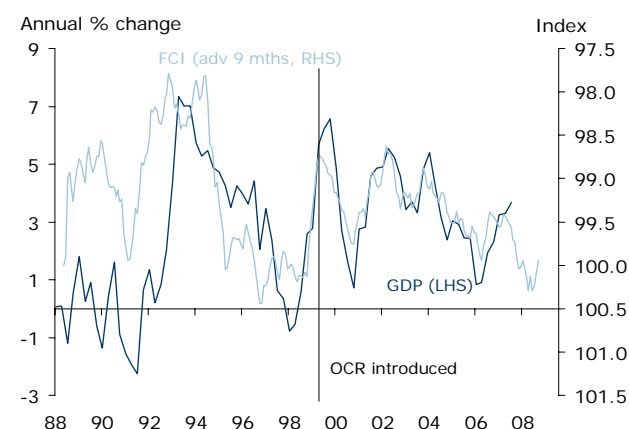
NZ ECONOMIC OUTLOOK

Economic momentum is slowing rapidly. The economy will do well to record positive growth this year. We see growth remaining subdued into 2009 as imbalances in the form of inflation and a high current account deficit are purged and households improve their balance sheets. Beyond that, we envisage a moderate upturn as looser financial conditions and better productivity growth come to the fore.

The NZ economy is going through a classic end to the business cycle.

Momentum within the economy has come to an abrupt end in early 2008. Economic activity ended 2007 on a strong note, but all indications are that the economy is now moving backwards. Financial conditions remain very tight and business and consumer confidence – key leading gauges – have tumbled. The housing market remains very weak with house sales down over 50 percent from a year ago and house prices falling. Price increases for core staples are seeing households' discretionary incomes siphoned away. Net migration inflows have softened and previous drought-like conditions over much of the country (although no longer evident) will weigh on agricultural production over the first half of this year.

GDP vs Financial Conditions Index



Sources: ANZ National, Statistics NZ

While disconcerting in some regard, what we are seeing is a classic end to the business cycle, where excesses are purged, following a long period of strong, but "borrowed" growth.

There are still some areas of support for the economy, but they appear to be giving way. A still low unemployment rate, a record high dairy payout (with Fonterra revising up their final 2007/08 season payout to \$7.30/kg ms and talk of more to come), lower corporate tax rates and personal tax cuts from 1 October this year are positives providing support to the economy. But these are being dwarfed by headwinds. The labour market is showing early signs of turning, with the unemployment rate rising in Q1 and forward employment gauges weak. In addition, a rapidly slowing economy means there is now limited headroom for the Government to pump-

prime the economy without sending the fiscal position into deficit.

Growth in early 2008 is weak, and we expect more of the same through the year. All the partial indicators are pointing towards a contraction in March quarter GDP, and prospects for the June quarter look no better. A growth adjustment was inevitable given the imbalances built up in the economy after years of strong growth, and the fact that the RBNZ had been trying to engineer one for some time. Rampant inflationary pressures, a high current account deficit, capacity constraints, labour shortages and high household indebtedness could not continue indefinitely. But the adjustment is occurring at a time when the global credit cycle has turned and global growth looks to have peaked.

The re-pricing of risk and altered credit environment will have a material impact on economic activity. When we weigh up two contrasting shocks, one a terms of trade boost from rising dairy prices, and the other the most difficult international credit environment in 50 years (though settling of late), the "net" effect is expressed through the current account deficit. It stands at just under 8 percent of GDP and there is no doubt in our minds the credit effect will be far stronger.

Cheap and abundant credit resided at the heart of the previous upturn, the so-called credit channel of monetary policy. Cheap money (or ample liquidity) fuelled asset price growth, spending, profits, the ability to leverage, further asset price growth, and on it goes. Now that the credit cycle has turned, the risk is that the reverse unfolds; falling asset values, less credit, falling profits, rising unemployment etc. We are already seeing this play out in the US. Given the powerful force the credit accelerator played in supporting NZ growth prospects over the past few years, we are taking a circumspect stance over how it will impact in reverse.

We have already seen the price of credit force up retail interest rates despite the Official Cash Rate (OCR) remaining unchanged. Lending standards have also been tightened and the liquidity pressures facing the finance company sector mean credit is being curtailed to certain pockets of the economy. While this is not necessarily a negative development, and indeed it can be viewed as a prudent one in the current environment, it nonetheless reinforces the impact that the turn in the credit cycle is having.

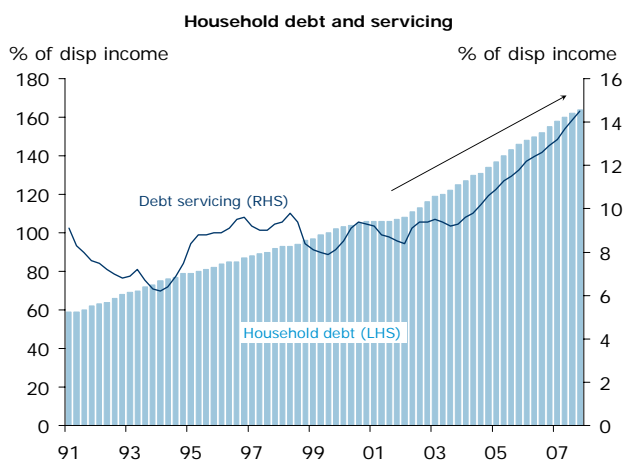
Good business will still get done. Financial institutions are still open for business. Investors should be adequately compensated for risk. Higher deposit rates are assisting the inevitable rebalancing of growth away from spenders towards savers. Yet, it is equally clear from our travels around the country that credit is being withdrawn from some pockets, and to a credit-addicted NZ consumer or property developer, the danger is that it turns into a case of cold turkey.

The soup-bowl versus the martini glass

While 2008 looks soft, how 2009 fares is more important in our view. It is the rate of growth expressed over a number of years that is ultimately more important than that expressed over one. Will this slowdown be in the form of a martini glass (or the "V" type scenario), where we go in fast but come out just as fast on the other side? Or will it take the form of the more protracted soup-bowl (or "U" type scenario), where growth remains subdued for longer? Although the depth of any slowdown will always be a concern, it is the timing of the recovery that is critical.

We are erring more towards a period of subdued below trend growth. We are forecasting growth of 0.9 percent in 2008 and 1.3 percent in 2009, recovering to 2.1 percent in 2010.

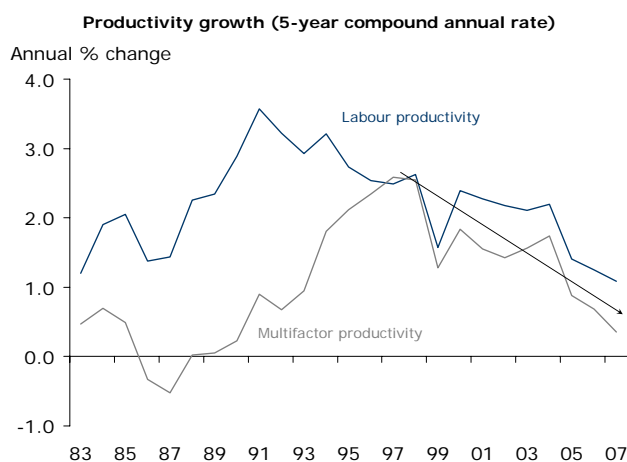
> **The current slowdown and consolidation will be dominated by household de-leveraging.** It is easy to draw comparisons between the 1997/98 slowdown and now. Financial conditions are tight, a lack of rain hurt rural areas, and a global "event" has struck. However, the major difference is that the 1997/98 recession was largely corporate led. The economy slowed quickly, but recovered just as fast. Businesses were able to restore balance sheets by cutting investment, inventories, employment and costs to improve cashflow. The RBNZ kept consumer wallets open. Household consumption did slow, but troughed at 2 percent – hardly an adjustment at all. Households are currently facing a nasty cocktail of high debt (one of the highest debt servicing burdens across the OECD), a negative savings rate, a housing-centric balance sheet, and falling house prices. It screams of a long overdue period of consolidation. To do this households really only have one lever to pull, namely reduce spending. Restoring household balance sheet health will take time. Don't think comparisons with 1997/98, think more along the lines of 1991/92. And the \$12-\$28 a week from tax cuts on 1 October pales in comparison to the rising cost for core staples.



Sources: ANZ National, RBNZ

> **Productivity growth remains poor, restricting the ability of the supply side of the economy**

to help cushion the adjustment. Indeed, it is one of the reasons why inflation has remained sticky for so long, preventing the RBNZ from easing interest rates as an insurance option. Average labour productivity growth since 2000 is half the historical growth rate, and well down from the 2.6 percent achieved over the 1990s. While part of it may be cyclical, a large part could be put down to structural issues that have been allowed to accumulate over the years (e.g. increased regulation). This is a major reason why our view of the near-term potential growth rate of the economy has been revised down to between 2 and 2½ percent. Addressing this aspect is important for the economy to return towards its long-run potential growth rate of 3 percent.



Sources: ANZ National, Statistics NZ

> **The monetary policy transmission lags look set to work in reverse.** The large increase in the proportion of fixed rate mortgages over the last few years has frustrated the RBNZ's efforts to slow the economy by muting the OCR impact on households. The longer monetary policy transmission lag is set to work in the other direction when the easing cycle eventually begins, as only 13 percent of mortgages are now on floating rates (compared to 36 percent at the last easing cycle in 2003). The turn in the credit cycle also means that fixed rate mortgages are unlikely to fall by the same magnitude as any fall in the OCR. After struggling to gain policy traction when tightening policy, there is a real risk the potency of monetary policy will be even more diluted on the other side.

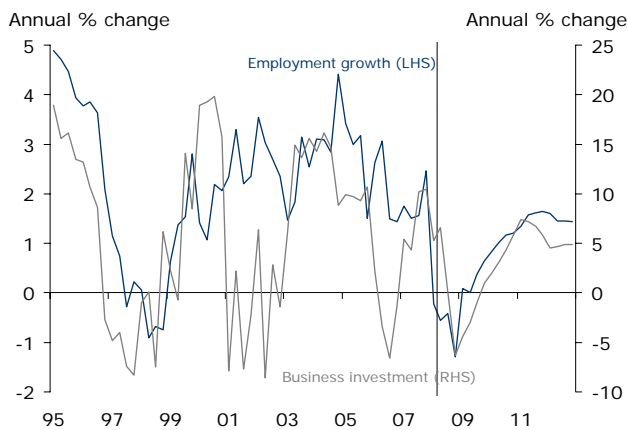
Household spending set to weigh on growth. We expect private consumption growth to slow from 4.3 percent in 2007 to just 0.8 percent over 2008 and stay subdued at 1.1 percent in 2009. Tax cuts will only provide some offset to the higher cost of living pressures that are eroding households' disposable incomes. Residential investment is set to go through a large cycle, with an 11.5 percent drop expected in 2008 and a further 10 percent fall forecast for 2009. A key driver of the residential investment cycle is an expected 10 percent fall in nominal house prices over this year followed by two years of flat growth, which

should go some way towards restoring housing affordability ratios to more reasonable levels. Section prices look set to go through a larger adjustment.

The corporate sector will not be immune, though they are better placed to weather the slowdown.

Profitability is already under pressure and top-line revenue growth will be a hard ask this year. Cost increases will continue to put margins under pressure. Businesses heavily leveraged to the housing and spending side of the economy will be most exposed. However, on the whole, the corporate sector is better placed to ride through the slowdown having built up strong balance sheets over the past few years. But we expect businesses to go on a hiring and investment strike over this year and part of next year as the drive to improve cashflows mean capex plans are shelved and staffing levels come under review. We forecast the unemployment rate to rise above 4 percent by the end of this year and eventually head towards 5 percent. Although this is far higher than the current 3.6 percent unemployment rate, it is still low by historical standards.

Employment and business investment growth



Sources: ANZ National, Statistics NZ

Export orientated businesses will ultimately benefit as rebalancing takes hold.

Poor (eventually) performance from the domestic economy will lower inflation, interest rates, and lead to a sharp adjustment in the currency. Exporters – and particularly commodity exporters – will be the main winners. This is part of the much needed rebalancing of the economy as the growth driver switches from the domestic sector towards the external sector. However, given the lags between when a lower currency starts to filter through into improved export performance, it will not be until the latter part of 2009 before export growth starts to pick-up. The gap in between will be a period of grumpy growth. We will all be grumpy because there simply will not be much growth as the baton change from the domestic economy to the export sector takes time. Infrastructure investment will fill a void but is of insufficient mass to offset the residential property market in particular. Moreover, we are already seeing margins in stronger sectors, such as infrastructure, cannibalised as resources shift from weaker pockets.

Risks are all pointed one way

Financial markets remain on edge, despite recent signs of stabilisation.

Aggressive interest rate cuts from the US Federal Reserve, co-ordinated central bank actions in terms of offering additional liquidity and the bailout of US investment bank Bear Stearns look to have stabilised financial markets of late. However, sentiment remains precarious, credit and swap spreads remain wide, and inter-bank lending rates are still elevated by historical standards. In addition, surging food and oil prices pose a new threat to global economic prospects.

How the global economy performs remains a key issue.

Evidence is mounting that the US slowdown and the turn in the credit cycle is starting to filter through into UK and Europe. The UK housing market is retreating, European PMI surveys are trending lower, and the Japanese economy continues to struggle. Where the uncertainty resides is how emerging market economies, which remain strong for now, will be affected. We have shaved our expectations for the region as a very weak US economy impacts, but overall still have the region performing strongly. A key risk we foresee at present is the political element from rising food prices, which is seeing riots and unrest around the globe. Protectionist responses are feared, and a danger is that economics gets sacrificed for political reality. We have our fingers crossed that common sense, as opposed to political expediency, prevails.

It's all part of rebalancing

Economic adjustments – what NZ is facing – are never pretty, but we should not lose track of the big picture.

NZ's long-term economic prospects remain sound given a favourable longer-term outlook for soft commodity prices. Of course, let us not forget the recent signing of the free trade agreement with China. While small in scale at present in terms of trade benefits, which tend to be slow to diffuse anyway as resources reallocate, the agreement is a powerful signal in terms of looking to where NZ's future resides. Watch for the tourism sector to be the major benefactor as most-favoured-nation status impacts perception and service flows far quicker than a reduction in tariffs on goods.

Rebalancing will bring opportunity.

The export sector will be the major winners, while domestic-based businesses the relative underperformers over the coming years, reversing the trend of late. Subdued growth will help alleviate the capacity pressures and imbalances that are holding the economy back at present. Certainly, asset prices are already adjusting. Those that have been patient and cautious late in the cycle will invariably find opportunities that arise. A massive amount of consolidation is required across numerous industries, and we suspect leaner times will act as a catalyst. Businesses and policymakers will be forced to focus on the key issues, that being productivity and efficiency. If we start seeing strong sustained signs of both, we will pencil in an earlier recovery in the cycle.

NEW ZEALAND NATIONAL ACCOUNTS FORECAST

Calendar years	2006	2007	2008(f)	2009(f)	2010(f)	2011(f)	2012(f)
Total Consumption	3.0	4.3	1.5	1.7	2.1	2.8	2.7
Private Consumption	2.4	4.3	0.8	1.1	1.8	2.7	2.6
Public Consumption	5.0	4.0	4.0	3.7	3.3	3.1	3.0
Total Investment	-1.1	4.5	-1.1	-2.1	3.5	6.3	3.7
Residential investment	-3.1	4.3	-11.5	-10.0	-0.9	2.0	3.3
Other investment	-0.6	4.6	1.5	-0.4	4.4	7.1	3.8
Stockbuilding¹	-0.9	0.5	0.2	-0.2	0.1	0.0	0.0
Gross National Expenditure	1.0	5.0	1.3	0.7	2.5	3.6	3.0
Total Exports	1.8	3.5	-0.2	6.6	6.1	6.6	6.0
Goods	3.2	5.2	-0.4	7.0	5.5	4.4	4.8
Services	-1.8	-0.6	-0.9	5.2	8.4	14.0	9.8
Total Imports	-2.7	8.8	1.3	3.8	6.4	6.6	5.5
Goods	-2.0	9.1	0.9	4.9	7.6	6.9	6.0
Services	-5.0	7.8	0.7	-0.2	2.2	5.2	3.7
Expenditure on GDP	2.3	3.4	0.5	1.4	2.2	3.6	3.1
GDP (production based)	1.5	3.1	0.9	1.3	2.1	3.5	3.0

¹ Percentage point contribution to growth

GLOBAL OUTLOOK

While liquidity pressure in the financial system has stabilised, growth in key OECD countries is softening. Asia is expected to be impacted to a degree but remain robust. The wildcard for Asia may be the potential social and political aspects to rocketing food inflation.

Catching the US cold

The US economy looks to be in recession. The housing market is in the doldrums and yet to find a nadir, consumer sentiment is at multi-decade lows and retail spending is soft. The unemployment rate is trending higher. Just like NZ, the US consumer looks to be entering a much awaited period of balance sheet repair and therefore the key issue is not over the extent of the slowdown this year, but how long it will take for an eventual recovery to take hold.

Global credit sentiment has improved, but remains fragile. Financial markets have taken kindly to the aggressive actions taken by the US Federal Reserve. Equity markets have stabilised and credit and swap spreads have narrowed, albeit off panic driven extremes. Derivative losses continue to be disclosed, and we have seen capital raisings in some instances. The missing link to a sustained improvement is the continued elevation in short-term money market or LIBOR rates over cash. Such elevation is explicitly telling us a degree of caution remains, and the market would like to see further disclosures of credit losses before confidence can be fully restored and cash put to work.

The real effects of the credit market turbulence are only now starting to be felt. Financial institutions in the US and Europe are tightening lending standards – a natural by-product of a turn in the credit cycle. Ultimately, de-leveraging in the financial system must be matched by the real side of economies, which is the next leg of the cycle. The US economy is weak and evidence is mounting that this weakness is beginning to spill over into other OECD countries. The UK is slowing, with house prices moving backwards. This has seen the Bank of England (BoE) step in with interest rate cuts. In Europe, indicators such as the PMI and confidence gauges also suggest slower growth ahead.

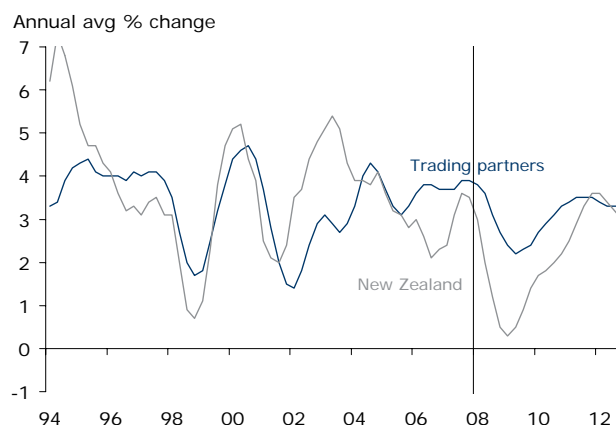
However, to date the key Asian emerging market economies and commodity prices have remained strong. Commodity prices have remained elevated

and the Baltic Dry Freight Index has recovered from its January lows to hit a new high. Oil prices too continue to hit new highs, partly in relation to supply constraints, but also a reflection of emerging market demand. We have shaved our estimates for growth across the Asian region, by up to 2 percentage points in some cases, as the US slowdown broadens. However, this still leaves the region performing at a gallop as opposed to a canter.

Inflation is becoming a wider global issue. Oil prices and commodity prices in general (both hard and soft) continue to firm. Annualised inflation rates across pockets of Asia are now double digit. Inflation expectations are rising around the globe. Navigating current credit related malaise may only be deflecting attention from a stronger underlying inflationary problem. Weaker growth across the G7 will certainly dampen the flow through. However, there seems to be an inevitability about momentum across emerging markets slowing if commodity-related inflation pressure is to truly recede. The wildcard is the potential social and political aspects to rocketing food inflation. The past month or so has seen a noticeable uplift in protests and riots in relation to higher food costs and core staples in some areas. Protectionist responses are feared. Nothing concrete can be said at present, but developments need to be closely watched.

NZ's trading partner growth is expected to slow. We have pencilled in growth easing from 3.9 percent in 2007 to between 2½ and 2¾ percent over 2008 and 2009 before recovering thereafter. The risk profile still looks to have a clear downward bias.

NZ and Trading Partner Growth



Sources: ANZ National, Statistics NZ, Bloomberg

GLOBAL ECONOMIC GROWTH FORECAST

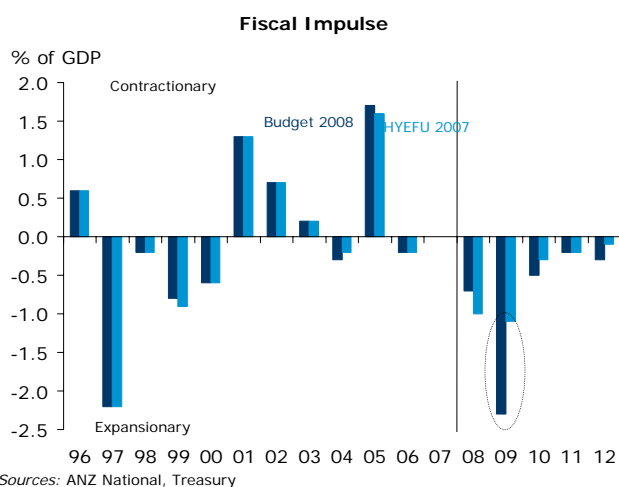
Calendar years	2006	2007	2008(f)	2009(f)	2010(f)	2011(f)	2012(f)
United States	2.9	2.2	0.7	0.8	2.2	2.6	2.4
Australia	2.8	3.9	2.5	2.4	2.8	3.3	3.2
Japan	2.4	2.0	1.0	0.9	1.7	1.8	1.6
Euro Zone	2.9	2.6	1.8	1.3	2.3	2.3	2.0
China	10.7	11.6	9.7	9.0	9.9	9.7	9.1
Trading Partner Growth	3.7	3.9	2.7	2.5	3.3	3.5	3.3

FISCAL POLICY

Tax cuts are finally on the way but they come at the expense of future *Budgets*. The lack of fiscal headroom may force the Government to start focusing on the quality of its spend, rather than the quantity, which will be a welcome step towards improving public sector productivity. But there is ample scope to better utilise the Crown's strong balance sheet for much needed infrastructure investment to lift the economy's growth potential.

Taxing times

Tax policy is once again shaping up to be a key election issue this year. The Government has completely run down the strong operating surplus it has built up over the years to deliver a \$10.6b tax cut package (over four years). It has even borrowed from future *Budgets* to pay for the tax cuts, leaving little room for future Governments irrespective of who gets elected. This coming election looks to be fought over who can design and deliver a better tax system. To be fair, a shift to more tax based policy initiatives is welcome and has the potential to deliver greater supply side benefits to the economy via raising the returns to work. But the threshold adjustments do not fully compensate for the rise in inflation since 2000, and we are competing in a global world for staff, with tax rates strongly impacting on take home incomes.



The fiscal stimulus in 2008/09 is the largest since 1996/97. However, we doubt it will be sufficient to offset the headwinds that are hitting the

economy. We note that the tax cuts of 1997 failed to avert a recession in 1998. Ultimately, it is far better for fiscal policy to smooth through the economic cycle, rather than swing from a large contractionary force to the other extreme from one year to the next. This is where automatic inflation adjustment to tax thresholds would help.

The fiscal accounts now look vulnerable to an unexpected downturn. The fiscal buffer is no more. Given the current uncertain economic environment, and the fact that we believe Treasury's economic and tax forecasts are on the optimistic side, this is a very risky fiscal strategy to run. We will be closely monitoring the tax take over coming months. Past experience has shown that the tax take can deteriorate very quickly.

However, there is ample scope to utilise the Crown's strong balance sheet for much needed infrastructure investment. There tends to be limited scope for improving an economy's efficiency and productivity through operating spend. It is in the area of infrastructure where large returns can be gained by putting it in the right areas. To the Government's credit, much has been done in the past few years. But more is needed to catch-up to the infrastructure deficits over prior decades. And it is not just in roading where further investment is needed, but in many other areas ranging from storm-water and sewerage upgrades at the local authority level to new electricity generating and transmission plants. Ideally, such investment should be funded from debt given that the benefits will accrue over many years. With the Crown's debt levels at such a low level, there is ample scope for putting it to greater use.

Another issue that tends to be overlooked is the quality of spend, as opposed to the quantity. When times are good and the tax take has been rolling in, it has been easy for successive *Budgets* to increase baseline spending. With only \$1.8b earmarked for future *Budgets*, the focus will start to shift towards the composition of current spending. This is not a bad thing and is long overdue, as the growth in the public sector has tended to outstrip the private sector in recent years. With future spending parameters set very tightly, increases in spending will need to be re-prioritised from other areas if the Government wants to avoid running into operating deficits. This could be the first step towards improving overall public sector productivity, which will ultimately be good for the economy.

FISCAL FORECAST

June years	2006	2007	2008(f)	2009(f)	2010(f)	2011(f)	2012(f)
Operating Balance (\$m)	9,500	8,000	2,500	2,800	2,800	2,500	2,600
- as % of GDP	6.1	4.8	1.4	1.5	1.5	1.2	1.2
Net Crown debt (\$m)	7,700	4,400	2,000	4,300	6,500	9,000	12,000
- as % of GDP	4.9	2.6	1.1	2.3	3.4	4.5	5.7
Bond Tender Programme (\$m)	2,400	2,300	2,400	3,300	3,500	3,500	3,500

INFLATION

Inflation looks set to remain high and persistent in the near-term. While there appears to be a structural element to recent price increases, we expect a very weak domestic economy to suppress prices in the contestable areas, leading to headline inflation returning to the RBNZ's target band by 2009. The transmission from a weak economy to the labour market is critical.

Stubbornly high

Near-term inflation pressures continue to build.

Petrol and food remain dominant features, though higher energy prices, local authority rates and rents are also adding to it. Given the continued rise in global oil and agricultural prices, petrol and food prices are expected to keep making strong contributions to inflation. NZ is not alone in this regard. A structural shift higher in commodity prices is a global theme that is manifesting itself in higher headline inflation rates in other countries.

Capacity constraints and cost-push pressures are evident.

Capacity utilisation is at record levels, suggesting near-term non-tradable inflation could accelerate. In addition, firms' bottom lines are being eroded from higher input costs, and they are seeking to recover lost margins by raising prices. All these portend of an environment where inflation keeps nudging higher and higher. However, it remains to be seen whether putting through price increases in a deteriorating economic environment is plausible. Certainly, in non-contestable areas, we foresee further price increases. But it is in the contestable areas (housing, services and retail-related) where we expect pricing pressures to ease, or even head backwards.

Some prices are reacting to softer demand and more are likely to follow.

Already, we have seen aggressive discounting across the board in the retail sector given falling sales outside of food and petrol. With the retail environment expected to remain challenging, retail prices will act as a deflationary force, even when the currency starts to fall sharply. And with the housing market correction underway, we expect construction costs and other housing-related inflation to ease over the second half of this year.

Inflation is forecast to remain above the RBNZ's target band in 2008, before receding in 2009.

The inflation pressures from petrol, food and energy currently in the system mean headline inflation will surpass 4 percent later in the year. We forecast inflation to return towards the target band over the second half of 2009, as the sharp slowdown in domestic demand not only leads to an easing in non-tradable inflation, but also to a more muted exchange rate pass-through into tradable inflation. We call it margin liposuction.

A turn in the labour market remains central to getting inflation lower. We continue to believe that demand-pull dominates the inflation dynamic as opposed to cost-push forces. If not, then we need a new monetary policy framework! Crucial to our

inflation forecast is a weakening in the labour market, leading to more restrained wage bargaining and easing core inflation. Weak growth by itself is a necessary, but not sufficient, condition to dampen medium-term pressure on inflation. We see a gradual rise in the unemployment rate to 5 percent. While historically still low (and supported by aging population dynamics), the key is the change, which is expected to materially dent the generation that has become conditioned to only a tight labour market.

Non-tradable inflation and unemployment rate



Sources: ANZ National, Statistics NZ

Global commodity prices are a major swing factor.

Incremental inflation pressure from this juncture is largely on the back of a huge run-up in commodity prices. If emerging markets remain strong, further gains and inflationary pressure is likely. However, as noted on page 7, the wildcard at present is how social and political aspects to higher energy and food related inflation unfold, and the downstream implications for the economic performance of emerging market economies.

CPI FORECAST

Quarter	Qtr % chg	Ann % chg
Dec-07	1.2	3.2
Mar-08	0.7	3.4
Jun-08 (f)	1.2	3.6
Sep-08 (f)	1.0	4.2
Dec-08 (f)	0.9	4.0
Mar-09 (f)	0.5	3.7
Jun-09 (f)	0.7	3.2
Sep-09 (f)	0.7	2.9
Dec-09 (f)	0.7	2.7
Mar-10 (f)	0.5	2.8
Jun-10 (f)	0.6	2.7
Sep-10 (f)	0.6	2.5
Dec-10 (f)	0.6	2.4
Mar-11 (f)	0.4	2.3
Jun-11 (f)	0.7	2.4
Sep-11 (f)	0.6	2.4
Dec-11 (f)	0.5	2.3
Mar-12 (f)	0.4	2.3
Jun-12 (f)	0.6	2.2
Sep-12 (f)	0.6	2.2
Dec-12 (f)	0.6	2.2

EXCHANGE RATE

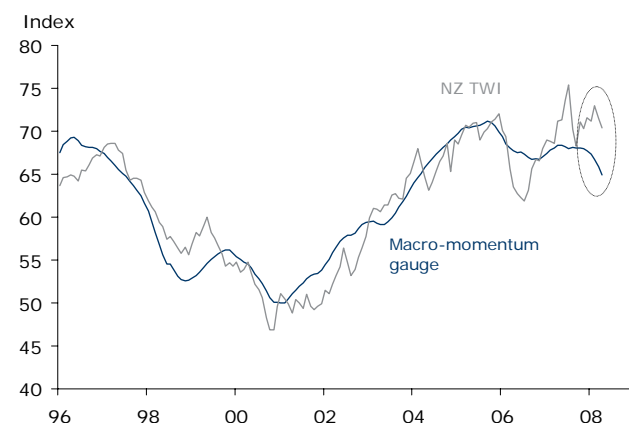
We've been saying it for some time, but a lower currency is an inevitable part of the rebalancing process for the NZ economy. The main release valve so far has been, and looks to continue to be, a lower NZD/AUD.

Looking at the big picture

There is an inevitability about the endgame for the NZD given the sizeable external imbalance in the form of the current account deficit, and re-rated credit risk around the globe. While we can certainly entertain notions of a structural uplift in fair value for the NZD based on stronger commodity prices, the magnitude of this has been compromised by weak productivity growth vis-à-vis our major trading partners. We also must not forget that this good news commodity price story has already been capitalised into farm values and dairy prices look to be easing off their peaks. With NZ being a net importer of oil and other hard commodities, it is the full terms of trade story as opposed to purely higher export commodity prices that must be taken into account.

Yield remains supportive for now, and improving risk appetites on the back of recovering equity markets are also providing a base. The AUD has found another leg of support given surging commodity prices. The AUD now looks set to once again test parity against the greenback on the expectation the RBA has to tweak the interest rate lever once again. This sort of dynamic is frustrating for NZD/USD quoted exporters as it keeps that rate higher, but also opportunistic for those exporting to Australia with happier days for the NZD/AUD.

Currency macro-momentum gauge



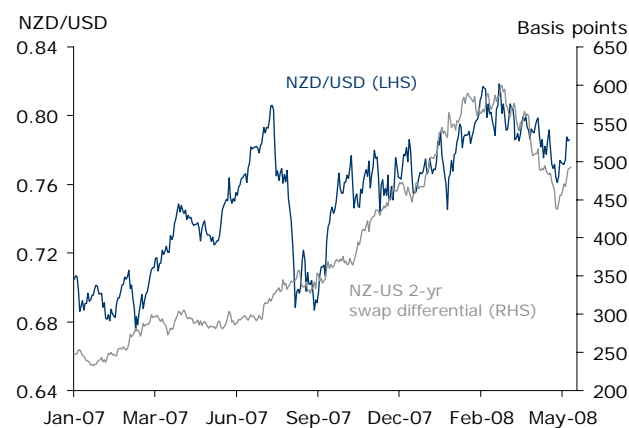
Sources: ANZ National, Bloomberg

But domestic headwinds are growing fierce. Just like a company's share price falls when profitability deteriorates, the NZD will not stay high in a weak growth environment. Evidence is mounting that the economy has ground to a halt and the NZD will remain vulnerable to moves lower. The trend in the domestic dataflow has undeniably turned negative and the NZD will remain vulnerable to a 'trend is your friend' bias. History tells us that these moves can potentially be aggressive. But in order to see a sustained run, the

RBZ will need to deliver on the interest rate cut front. Our strategic forecasts incorporate a relatively benign move lower in the NZD/USD over the second half of this year. However, tactically we see the potential for a sharper fall below 0.70, followed by a bounce and then further sustained falls playing out. Of course the timing of such a move remains the big uncertainty and a stronger AUD is a sticking point. Anecdotally, we've never seen so many enquiries about the NZ economy. Powder is being kept dry for now, with most prepared to watch and wait.

Firming expectations towards the RBZ cutting rates remain key. Timing on this remains H2 2008, with the currency market set to pre-empt by 8 weeks, so we are not too far away from a major move. When an easing cycle starts, it is the shape of the curve (expectations) that tends to matter more than the yield gap itself.

NZD vs US-NZ 2-year swap differential



Sources: ANZ National, Bloomberg

There are a few wider global issues we are grappling with. The USD remains suspect and it's easy to favour the AUD in the current stratospheric commodity price environment, particularly with a further hike from the RBA on the cards. At the same time, momentum across the Euro-zone is waning so we find it hard to be bullish the EUR/USD at current levels, which means we become mild USD bulls by default. We are only early into the process where de-leveraging across the financial sector flows into real economies, so it's hard to see volatility settling. Earnings will come under the spotlight in a weak US consumer environment, as will the resilience of Asia. Inflation is not growth, nor equity friendly, and it is emerging markets that are most at risk given that a larger proportion of low income household expenditure goes into food and the like. We've already seen protectionist responses in some instances.

Rolling all this together into a sensible set of currency forecasts is easier said than done. We see a lot of tension within our core currency forecasts. How far does the NZD ride in kanga's pouch versus the USD, or do we allow it to test historical lows vis-à-vis the AUD? It is hard to buy into a much stronger NZD/USD given the domestic picture and pending talk of stagflation. A nasty term if you have a huge current account deficit. But if the AUD breaks parity,

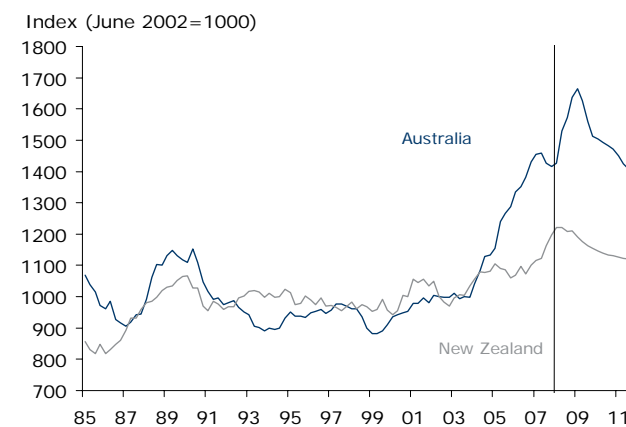
NZD/AUD could move a long way. Of course we've seen such tension and uncertainty before and history tells us that this is typically when we are about to see a major move.

We've pencilled in some stickiness for the NZD/USD but still a receding track. Each year the endgame seems to be pushed out, but like 2000 and 2001 – the last time the currency turned – we suspect all will be surprised at a) the timing of the move and b) the extent. A lower NZD is a key prerequisite for the economy to go through a much needed rebalancing and it is often convenient to forget that most trade is still expressed in US dollars. Hence this rate needs to bear a fair bit of the adjustment. If the USD is considered vertically challenged with a 5 percent current account deficit, and falling interest rates, we struggle to see the NZD trading better given our 8 percent deficit and prospect for rate relief from the RBNZ this year.

We foresee the NZD/AUD as the major release valve that weakness in the NZ macro-economy is expressed through over the coming months. While there is a lot of talk about the cross being crowded across the speculative community, we nonetheless find it difficult to go past the material divergence that has opened up between the two nation's terms of trade. Historical benchmarks or ranges – the most often talked about being the 1992 low of 72 cents - may well be tested. Certainly, the business cycle in NZ is closer to 1991/92 than 1997/98.

The NZD has already fallen around 8 percent against the AUD since its December 2007 peak and we expect it to continue to head south of 0.80. It is not just fundamentals, such as stronger productivity growth and booming terms of trade, that reinforce this view, but cyclical factors are also contributing. The Australian economy is in a much stronger position at present and intense inflationary pressures see the RBA likely to lift interest rates again. Indeed the 2-year swap differential has closed to around 20 basis points, and may well invert given prospects for the two nations and monetary policy over the coming year.

Terms of trade comparison



Sources: ANZ National, Bloomberg

NEW ZEALAND DOLLAR FORECAST (average for the quarter)

Quarter	NZD/USD	NZD/AUD	NZD/JPY	NZD/GBP	NZD/EUR	NZ TWI
Dec-05	0.69	0.93	81.4	0.40	0.58	71.5
Dec-06	0.67	0.87	79.2	0.35	0.52	67.1
Dec-07	0.76	0.86	86.4	0.37	0.53	71.0
Mar-08	0.79	0.87	83.3	0.40	0.53	71.9
Jun-08 (f)	0.79	0.83	81.6	0.40	0.50	70.0
Sep-08 (f)	0.78	0.76	80.5	0.39	0.50	68.1
Dec-08 (f)	0.76	0.73	78.7	0.39	0.49	66.5
Mar-09 (f)	0.73	0.72	76.4	0.38	0.47	64.6
Jun-09 (f)	0.69	0.72	74.2	0.37	0.46	62.6
Sep-09 (f)	0.65	0.72	71.4	0.35	0.45	60.4
Dec-09 (f)	0.63	0.72	69.7	0.35	0.45	59.6
Mar-10 (f)	0.62	0.73	69.4	0.35	0.45	59.7
Jun-10 (f)	0.62	0.74	70.3	0.35	0.46	60.2
Sep-10 (f)	0.62	0.76	71.1	0.35	0.47	60.9
Dec-10 (f)	0.62	0.77	70.9	0.35	0.48	61.5
Mar-11 (f)	0.62	0.78	69.9	0.36	0.50	62.1
Jun-11 (f)	0.62	0.80	68.6	0.35	0.52	62.7
Sep-11 (f)	0.63	0.83	68.1	0.36	0.54	63.9
Dec-11 (f)	0.64	0.85	67.3	0.36	0.55	64.9
Mar-12 (f)	0.64	0.85	67.8	0.36	0.54	64.9
Jun-12 (f)	0.65	0.85	67.9	0.36	0.55	65.3
Sep-12 (f)	0.65	0.86	68.0	0.36	0.55	65.5
Dec-12 (f)	0.65	0.86	68.0	0.36	0.55	65.5

INTEREST RATES

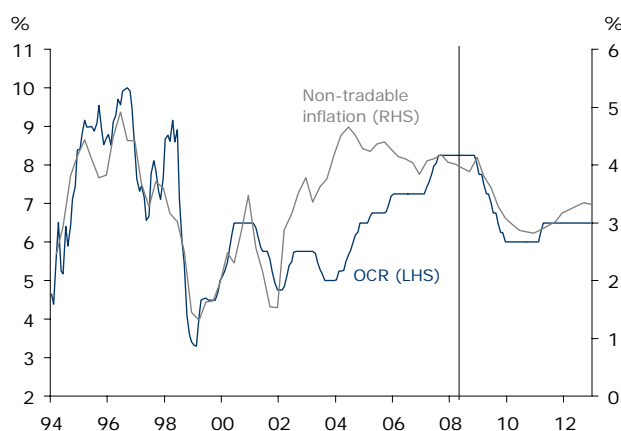
We expect the OCR to fall from late in the year. Facing conflicting growth and inflation messages, we expect the RBNZ to err towards caution, waiting until a key driver of medium term inflation – the unemployment rate – delivers an unequivocal dampening inflation message. Internationally, central banks are becoming more attuned to inflation risks, and it now looks like the RBA may have to deliver more bitter medicine.

The case for rate cuts is building

With the economy now stagnant – at best, attention has quickly turned to the RBNZ cutting interest rates, and ultimately lowering rates a long way. The rationale behind a H2 2008 start to the easing cycle is relatively simple. By that stage the economic slowdown or cold shower is so well entrenched the RBNZ has confidence that medium-term pressure on inflation will dissipate. Poor second quarter employment figures and a further rise in the unemployment rate remain key.

Inflation remains a sticking point. Will the RBNZ actually cut the OCR when inflation is above 4 percent? Well, they hiked in 2007 when near-term inflation was forecast to head towards 1.5 percent! While near-term inflation concerns dominate, the policy focus is on the inflation outlook for 2009 and 2010. There is nothing that the RBNZ can do about inflation this year, given that much of it is generated from areas outside of their control, and also the lags with which monetary policy works. It is how activity is shaping up over the course of this year and next that will have the biggest impact on inflation next year. In this regard, a deteriorating growth outlook is pointing to easing medium-term inflation pressures ahead. But in the near-term it is also a case of talking tough to ensure the near-term blip in the headline inflation rate does not become ingrained into second round effects.

OCR and non-tradable inflation



Sources: ANZ National, Statistics NZ, RBNZ

Hence timing remains a tad uncertain, and we continue to debate the merits of a September versus December cut. We remain unequivocal in our economic view and this suggests an earlier move. Indeed, based on what we are seeing on the credit front, we suspect history will show the RBNZ is already

late. Yet it is becoming painful to see progressive rises in oil prices – a one-off for sure but also coming on the heels of a high inflation rate for some time, which has manifested in elevated inflation expectations. This simply adds stickiness to the inflation outlook and requires an even weaker growth prognosis as an offset. We certainly think we are at that juncture, but the RBNZ, who will be noting tax cuts and still rising commodity prices, are likely to be more cautious.

Rates move steadily lower from late in the year.

Ending up once again behind the curve, monetary policy then ends up having to do a lot of work, with the credit channel and a large portion of borrowers on fixed lending rates dampening the reflationary impact of monetary policy. Conventional wisdom is that the first stop for monetary policy would be somewhere in the neutral region of six percent. In playing catch-up, and going by history, there would be a fair chance of rates moving below that.

Yet we are a tad queasy about some of the scenarios being painted for monetary policy. The economy is literally being crunched in response to inflation pressure. Yet, equally, given a global cost shock, manifesting via a terms of trade boost, rates should stay higher for longer. The RBNZ actually needs a higher currency to mitigate global commodity forces and there is a real danger the currency goes into free-fall once the easing cycle starts generating a nasty inflation spiral, which nations such as Iceland can attest to. Bottom line is that monetary policy is going to take on pygmy-type qualities over the coming year: nothing stands tall, nor looks very attractive.

The name of the game may well be stabilisation first and reflation second. We can easily envisage a scenario where, in a similar fashion to the BoE, the RBNZ delivers two or three 25bps stabilisation (as opposed to reflationary) cuts over the coming four months. Policy is then paused for six months, conditions assessed, and if warranted the rate lever is pulled again, or not. The currency would be expected to still fall, but likely to settle around the low 70's level versus the greenback as opposed to something far lower under the alternative. But the big picture would be one of moving earlier but delivering less in total magnitude. Monetary policy theorists would have kittens over such a scenario as its trying to do too much with one instrument. But these are hardly times where the textbook (which is not exactly prescriptive in terms of how policymakers should respond to credit shocks) is going to give strong guidance.

The macro environment needs to be stabilised in order for the credit wheels to keep turning. The role the credit channel of monetary policy is, and will play, is still not sufficiently understood. Credit is the lifeblood of an economy. The May Financial Stability Report noted banks taking "a more cautious approach to lending." Credit availability is both a function of liquidity (which the RBNZ has clearly signalled it will underpin via changes to their liquidity management arrangements) and confidence in the economic environment. The credit accelerator works via asset prices moving up, driving spending, profits, jobs, more

credit, higher asset prices, and so on. The danger is that a credit decelerator takes hold where falling asset prices reduce spending, profits, leading to layoffs, reduced credit, falling asset prices....and the inward spiral is in motion. Both spirals are heavily behavioural. Credit is usually readily available in the good times, but tightened in others. It is fine telling financial institutions to be prudent in their lending, but not to stop. But you can't have your cake and eat it too, expecting such a dynamic at a time the economy is weakening rapidly. The bottom line is that the turn in the economic cycle has been too aggressive. This risks being exacerbated by the credit channel of monetary policy, particularly if credit growth to the business sector is strongly impacted. In such an instance, it is appropriate for any central bank to take on a more pragmatic approach to policy. But remember, we are talking stabilisation in such instance and not reflation.

While mindful of the possibility of earlier, but less aggressive, rate cuts, we have pencilled in a December easing cycle which takes the OCR down to 6.00 percent by early 2010. From a forecasting perspective, this is a relatively "safe" trajectory to present given the inflation picture and tax cut stimulus coming into force from 1 October. But we will continue to keep a close eye on how lending to the business sector fares, and for any signs of whether the credit channel of monetary policy is turning into a strong decelerating spiral.

Fed easing cycle close to an end, but others may have more work to do

The US Federal Reserve's aggressive easing cycle may be near its end. The market is increasingly of the view that the Fed is done and may in fact start hiking rates by year's end! The latter looks a stretch given the soup-bowl adjustment the US consumer and economy is facing, and we suspect the Fed will in fact be forced to cut once again as the of the economic data fails to stabilise. Indeed, four months of weak job growth would be the shortest employment cycle on record. Hence, while US rates have backed up of late in response to inflation concerns, risk return still points lower or stabilisation at this juncture.

The growth and inflation dilemma is also a concern to other central banks. The BoE has delivered three rate cuts to date, but concerns about inflation mean the hurdle to further rate cuts is high. The European Central Bank (ECB) remains firmly on inflation watch.

The risks to rates remain to the upside in Australia. Despite signs that the Australian economy is responding to recent interest rate hikes, the RBA is facing three issues. First, will growth slow sufficiently to dampen inflation? Sub-2 percent at this juncture in 2009 looks a way off. Second, core inflation (which has risen beyond 4 percent) is clearly problematic. Third, inflationary expectations are rising, and with that comes the risk we see second round and wage bargaining associated spillover. The May minutes of the RBA board meeting revealed that a rate hike was discussed at considerable length. This implies the hurdle to a hike is not that high. Anyway, it is a case of Australian interest rates staying higher for longer.

INTEREST RATE FORECAST (average for the quarter)

Quarter	OCR	90-day	2-year swap	5-year swap	10-year bond	US 10-year bond	AU 10-year bond
Dec-05	7.0	7.5	7.2	6.9	5.9	4.5	5.4
Dec-06	7.3	7.6	7.5	7.1	5.8	4.6	5.7
Dec-07	8.3	8.8	8.6	8.1	6.4	4.3	6.1
Mar-08	8.3	8.8	8.6	8.1	6.4	4.0	6.1
Jun-08 (f)	8.3	8.8	8.1	7.6	6.5	4.0	6.3
Sep-08 (f)	8.3	8.7	8.1	7.5	6.6	4.2	6.3
Dec-08 (f)	8.2	8.3	7.9	7.5	6.4	4.1	6.2
Mar-09 (f)	7.7	7.8	7.6	7.3	6.1	3.9	6.0
Jun-09 (f)	7.2	7.3	7.2	7.0	5.9	3.9	5.9
Sep-09 (f)	6.7	6.7	6.8	6.7	5.7	3.9	5.6
Dec-09 (f)	6.2	6.3	6.5	6.4	5.4	3.9	5.3
Mar-10 (f)	6.0	6.2	6.5	6.5	5.7	4.3	5.4
Jun-10 (f)	6.0	6.2	6.6	6.8	6.1	4.9	5.4
Sep-10 (f)	6.0	6.2	6.6	7.0	6.4	5.4	5.7
Dec-10 (f)	6.0	6.2	6.7	7.3	6.8	5.9	6.2
Mar-11 (f)	6.1	6.5	6.9	7.5	7.1	6.2	6.7
Jun-11 (f)	6.5	6.7	7.0	7.5	7.0	6.1	6.9
Sep-11 (f)	6.5	6.7	7.0	7.5	6.9	6.0	7.0
Dec-11 (f)	6.5	6.7	7.0	7.5	7.0	5.9	7.0
Mar-12 (f)	6.5	6.7	7.0	7.2	6.6	5.5	6.7
Jun-12 (f)	6.5	6.7	7.0	7.4	6.9	5.8	7.0
Sep-12 (f)	6.5	6.7	7.0	7.4	6.9	5.8	7.0
Dec-12 (f)	6.5	6.7	7.0	7.4	6.9	5.8	7.0

ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Real Gross Domestic Product												
Total GDP, QPC	1.2	0.9	0.5	1.0	-0.3	-0.3	0.2	0.3	0.3	0.5	0.5	0.5
Total GDP, APC	2.3	3.2	3.3	3.7	2.1	0.9	0.6	-0.1	0.5	1.3	1.6	1.8
Total GDP, AAPC	1.5	2.1	2.7	3.1	3.1	2.5	1.8	0.9	0.5	0.6	0.8	1.3
Real GDP Components												
Private Consumption, QPC	2.1	0.5	0.4	0.5	-0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.4
Private Consumption, AAPC	2.7	3.5	4.1	4.3	3.5	2.5	1.5	0.8	0.7	0.8	0.9	1.1
Public Consumption, QPC	0.5	1.2	2.1	0.4	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.8
Public Consumption, AAPC	4.6	4.3	4.1	4.0	4.3	4.6	4.4	4.4	4.2	3.9	3.9	3.7
Residential Investment, QPC	-0.1	3.2	1.9	-1.6	-5.0	-6.0	-4.0	-4.0	-2.0	-1.5	-1.0	-0.5
Residential Investment, AAPC	-2.7	1.6	3.4	4.3	4.2	-0.6	-6.3	-11.5	-14.7	-15.0	-13.2	-10.0
Other Investment, QPC	4.1	-1.6	0.0	6.1	-1.2	-0.9	-0.8	-0.9	0.3	0.3	0.7	0.6
Other Investment, AAPC	-1.9	0.1	1.7	4.6	4.8	4.7	4.7	1.5	0.1	-1.1	-1.7	-0.4
Gross National Expenditure, QPC	1.3	1.8	0.3	0.6	-1.2	-0.9	-0.8	-0.9	0.3	0.3	0.7	0.6
Gross National Expenditure, AAPC	1.0	2.9	4.7	5.0	5.0	3.6	2.3	1.3	0.6	0.3	0.3	0.7
Exports, QPC	2.6	-0.8	-0.1	5.4	-3.4	-1.9	0.9	2.7	1.9	1.6	1.8	1.7
Exports, AAPC	3.1	3.5	2.2	3.5	2.4	1.7	2.1	-0.2	0.5	2.4	4.3	6.6
Imports, QPC	4.2	2.6	0.7	4.3	-1.9	-1.8	0.3	0.7	1.3	1.4	1.5	1.5
Imports, AAPC	-1.6	1.9	5.5	8.8	9.1	7.0	5.0	1.3	0.0	0.6	1.6	3.8
Prices												
Headline CPI, QPC	0.5	1.0	0.5	1.2	0.7	1.2	1.0	0.9	0.5	0.7	0.7	0.7
Headline CPI, APC	2.5	2.0	1.8	3.2	3.4	3.6	4.2	4.0	3.7	3.2	2.9	2.7
Non-tradable CPI, QPC	1.2	1.1	0.6	0.7	1.1	1.0	1.0	0.9	0.8	0.8	0.7	0.7
Non-tradable CPI, APC	4.1	4.1	3.7	3.5	3.5	3.5	3.9	4.2	3.8	3.6	3.3	3.1
Tradable CPI, QPC	-0.4	0.9	0.5	1.8	0.2	1.4	1.0	0.8	0.2	0.6	0.8	0.7
Tradable CPI, APC	0.9	-0.5	-0.3	2.8	3.4	3.9	4.4	3.3	3.3	2.5	2.3	2.2
External Accounts												
Annual Balance on Goods, % of GDP	-1.7	-1.8	-1.8	-1.3	-0.9	-0.5	-0.1	-0.2	-0.1	0.0	0.0	-0.2
Annual Balance on Services, % of GDP	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Annual Balance on Invisibles, % of GDP	-6.8	-6.7	-6.8	-6.8	-6.7	-6.6	-6.5	-6.3	-6.2	-6.1	-6.0	-6.0
Annual Current Account Balance, % of GDP	-8.2	-8.1	-8.3	-7.9	-7.5	-6.9	-6.5	-6.2	-6.1	-5.9	-5.9	-5.9
Net International Invt Position, % of GDP	-86.9	-88.5	-88.1	-87.3	-86.7	-86.5	-86.3	-86.4	-86.5	-86.8	-87.1	-87.4
Terms of Trade (SNA basis)												
Export Prices, QPC	-0.5	-1.6	2.3	8.3	0.9	3.2	2.2	2.1	1.4	1.8	1.4	-0.1
Export Prices, APC	2.2	-3.2	-1.8	8.5	9.9	15.4	15.3	8.7	9.3	7.8	6.8	4.5
Import Prices, QPC	-1.9	-2.8	-1.1	4.0	0.0	3.5	2.9	2.0	2.6	2.8	2.2	0.1
Import Prices, APC	0.7	-8.2	-9.2	-1.9	0.0	6.4	10.7	8.6	11.4	10.7	10.0	7.8
Terms of Trade, QPC	1.5	1.2	3.4	4.2	0.8	-0.2	-0.6	0.1	-1.2	-1.0	-0.8	-0.2
Terms of Trade, APC	1.5	5.4	8.2	10.6	9.9	8.4	4.1	0.1	-1.9	-2.7	-2.8	-3.1
Labour Market												
Employment, QPC	1.4	0.5	-0.3	0.9	-1.3	0.2	-0.2	0.0	0.1	0.1	0.2	0.3
Employment, APC	1.8	1.5	1.6	2.5	-0.2	-0.6	-0.4	-1.3	0.1	0.0	0.4	0.7
Labour Force, QPC	1.3	0.4	-0.4	0.8	-1.1	0.3	0.0	0.2	0.2	0.3	0.4	0.4
Labour Force, APC	1.6	1.5	1.3	2.1	-0.3	-0.4	0.0	-0.5	0.8	0.8	1.2	1.3
Unemployment Rate, sa	3.7	3.6	3.5	3.4	3.6	3.8	4.0	4.2	4.3	4.5	4.7	4.8
Participation Rate, sa	68.6	68.8	68.3	68.6	67.7	67.7	67.6	67.6	67.6	67.6	67.6	67.6
Private Sector Wages (apc)	5.5	4.2	3.7	4.0	4.4	4.9	4.8	4.7	4.7	4.2	4.0	4.1
Public Sector Wages (apc)	1.9	4.6	4.9	5.0	5.4	5.4	5.3	4.8	3.6	4.1	4.1	4.1

Forecast in bold

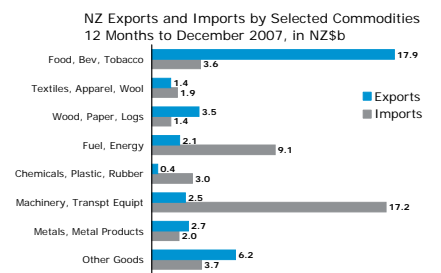
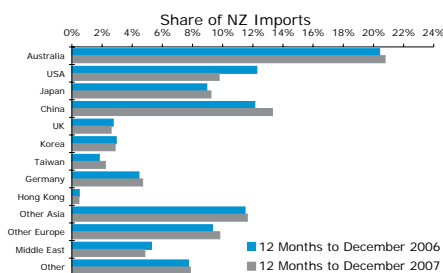
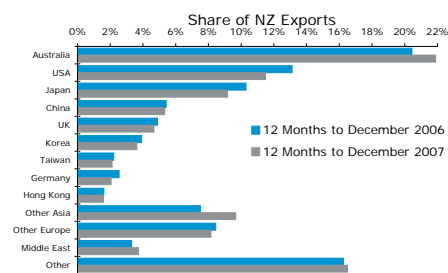
QPC – quarterly percent change

APC – annual percent change

AAPC – annual average percent change

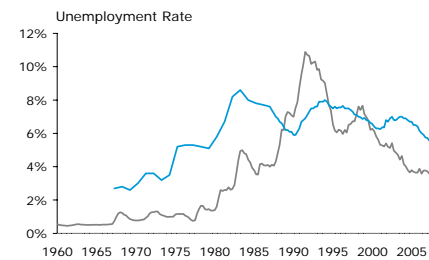
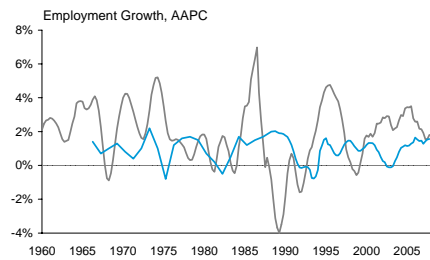
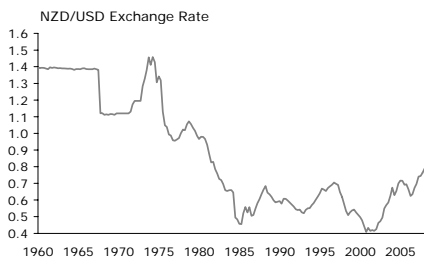
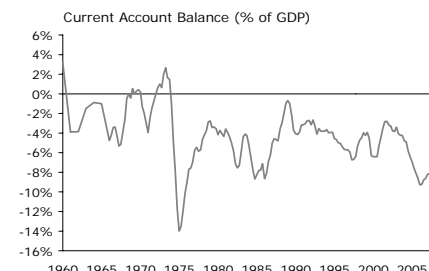
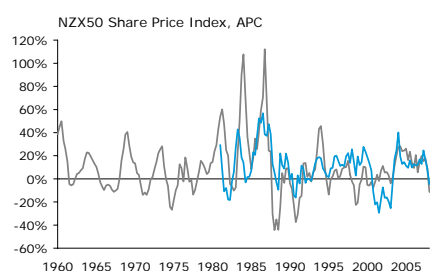
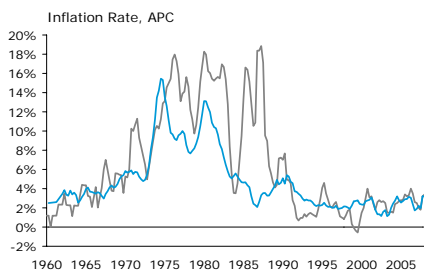
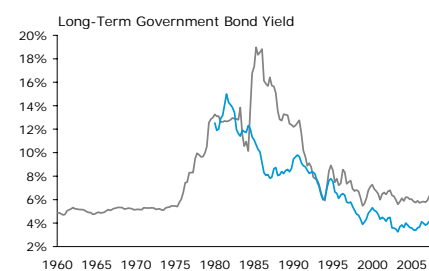
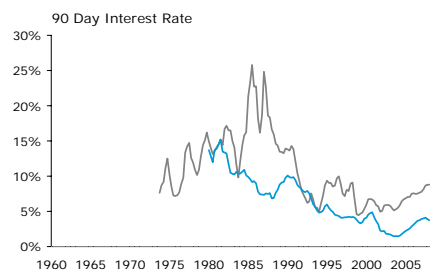
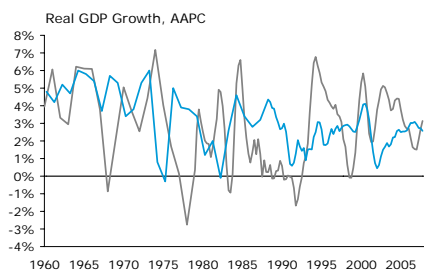
sa – seasonally adjusted

NEW ZEALAND KEY ECONOMIC INDICATORS



New Zealand Compared to Main Trading Partners (latest available figures)

	NZ	Aust	USA	Japan	UK	China	Gmany	SKorea	Taiwan	Malaysia	H/kong	S/pore	Indonesia
Population, in millions	4.1	20.5	302.8	127.9	60.5	1320.9	82.6	48.1	22.9	26.1	7.1	4.6	228.9
Area in 1,000 km2	271	7713	9373	378	244	9561	357	92	36	330	1	1	1905
Inhabitants per km2	15.0	2.7	32.3	338.5	247.8	138.2	231.7	521.1	636.1	79.1	7130.0	4600.0	120.1
GDP, in billion NZ\$	174.6	1250.5	17273	6267.2	3460.9	4349.7	4490.9	1079.6	416.2	251.2	258.6	189.2	538.9
Change in real terms (%)	3.1	3.9	2.5	2.0	2.8	10.6	1.8	5.7	6.4	7.3	6.7	7.2	6.3
Nominal GDP per capita in NZ\$	42,995	61,002	57,046	49,001	57,206	3,293	54,342	22,468	18,173	9,620	36,266	41,136	2,355
NZ exports to ..., in million NZ\$ (FOB)	n/a	8021	4211	3364	1714	1955	754	1330	772	446	584	427	516
Share of NZ Exports (%)	n/a	21.9	11.5	9.2	4.7	5.3	2.1	3.6	2.1	1.2	1.6	1.2	1.4
NZ imports to ..., in million NZ\$ (VFD)	n/a	8195	3853	3638	1024	5248	1853	1130	874	711	185	1409	450
Share of NZ Imports (%)	n/a	20.8	9.8	9.2	2.6	13.3	4.7	2.9	2.2	1.8	0.5	3.6	1.1
Current Account balance as a % of GDP	-7.9	-6.1	-4.7	4.7	-4.2	10.6	6.2	0.9	5.1	13.8	8.8	23.5	2.1



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