

GLOBAL WATCH

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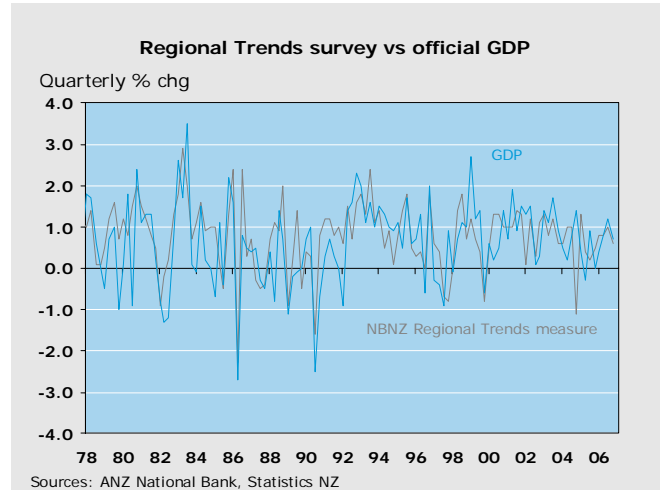
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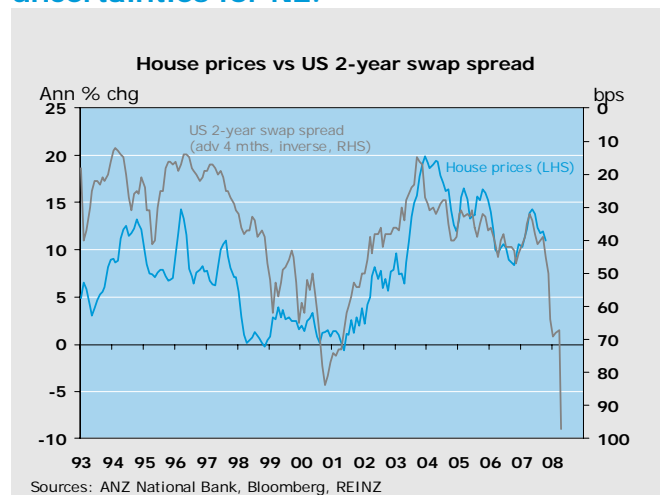
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NBNZ *Regional Trends* estimate shows a reasonable correlation with official GDP.



US swap spreads are at record highs. Credit developments pose big uncertainties for NZ.



ECONOMIC OVERVIEW

Credit and US growth concerns remain the focus for markets. Domestic data including the Reserve Bank's survey of inflation expectations and our *Business Outlook* and *Regional Trends* surveys are expected to be closely watched.

What's ahead...

- NBNZ November *Regional Trends* (Monday 1500 NZDT).
- RBNZ Survey of Expectations (Tuesday 1500 NZDT). Two-year ahead inflation expectations to remain unchanged at 2.6 percent.
- NZ October Building Consents (Thursday 1045 NZDT). Residential building consent issuance is expected to continue to trend lower. Non-residential issuance will be most interesting given last month's surprise easing.
- NZ October Credit Growth (Thursday 1500 NZDT). Lending growth is expected to continue to moderate given a softer housing market.
- NBNZ November *Business Outlook* (Thursday 1500 NZDT).

What's the view

A quiet data week last week, but an interesting one nonetheless. There was limited data on both the domestic and international fronts to provide direction for markets. They continue reacting instead to international credit market concerns and uncertainties surrounding the outlook for the US economy. As noted on page 3, it is the global environment that represents the biggest risk to the New Zealand economy at present. Volatility remains high and sentiment fickle.

Prospects for the US economy and the "decoupling" thesis continue to be actively debated. It's a thesis we are wary of. Last week's data coming out of Europe (industrial new orders and PMI) was once again on the soft side, and UK indicators are also softening, suggesting the slowdown is broadening. All eyes are firmly on Asia and commodity prices. Across commodity gauges there are no clear signs at present. Oil continues to prod US\$100/bbl, gold bounced late in the week, but copper and lumber remain soft. The Baltic Dry Freight index has softened 5 percent from its peak, but after such a huge run-up in the preceding weeks, caution must be taken when making sweeping assessments.

In local events last week, we received the news that Tui oil reserves have been bumped up by 30 percent. This represents a nice potential windfall for the economy at a time when global oil prices are knocking on US\$100 per barrel. However, it is these surging oil prices that also present some concerns. Local petrol prices have ticked up another 5 cents/litre and are now approaching the record levels achieved last year. The Q4 inflation result is now shaping up around 1 percent, with upside risk, courtesy of a 0.4 percentage point

contribution from petrol. Of course higher petrol prices also siphon money out of the economy. The Christmas spending season is shaping up as interesting given significant contrasting forces such as strong incomes, but higher mortgage interest rates, easing house prices removing the wealth effect, and higher food and petrol prices, eating into households' disposable incomes. Credit card data last week showed a paring back of local retail spending in October, although this comes after a large surge the previous month. It also showed a sizeable jump in the interest bearing component of outstanding advances, albeit off a low base. The retailing environment is getting more challenging.

Last week's migration data once again showed softness, with a base now forming below 8,000 per annum. Media attention has honed in on the exodus to Australia – with a net 26,000 leaving for Australia in the year to October 2007. A further loss of people to Australia remains one key risk for NZ over the coming 12-24 months given the diverging growth paths for the two economies – with Australia performing strongly.

Local data this week is expected to be closely watched, despite being largely second-tier in nature. We expect the Reserve Bank's expectations survey to show inflation expectations remaining high, but stable with the indicative 2-year measure at 2.6 percent – a dynamic that is likely to continue to keep the Reserve Bank on its toes. The NBNZ *Business Outlook* survey will be closely perused for momentum and pricing behaviour heading into Christmas. The *Regional Trends* shows a strong correlation with official GDP statistics, but has the advantage of being more timely. Residential building consent figures are expected to continue softening. Our eyes will particularly be drawn to the performance of the non-residential sector given the softer than expected results last month.

On the international front, the focus will continue to centre on global equity markets, which remain under pressure. Global stock markets have effectively given up all the gains they have made since August, and in some cases (Japan) are now actually negative on the year. Data-wise, US GDP, housing data and the Fed's Beige Book will also be important. But the broader picture remains one of looking for clues on the global growth cycle from commodity prices.

Recent data...

- **NZ External Migration (October).** There was a net inflow of 260 people, taking the annual total to 7,517.
- **NZ Credit Card Billings (October).** Total billings on NZ cards fell 0.5 percent after a 2.7 percent increase in September
- **Roy Morgan Consumer Confidence (mid-November).** The index declined from 122.7 to 121.0.

GLOBAL PALPITATIONS

Global developments represent the critical leg of vulnerability to the NZ economy at this juncture. Channels to watch include global growth (particularly Asia), commodity prices, a higher cost of funds, and the availability of funds to highly leveraged sectors.

Global sentiment remains fickle. US credit spreads have now widened to record levels, global equity markets are under pressure, European Sovereign spreads (Italy, Spain, Belgium, Greek) have widened to six-year highs, and commodity prices have started to soften. There are growing signs of spillover into emerging markets.

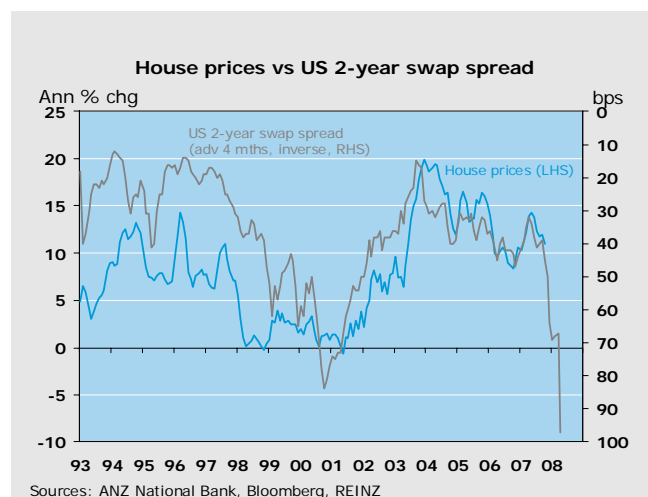
Subprime resides at the heart of recent movements. But the real issue is more widespread. There has been a fundamental turn in the global credit cycle. Risk is being re-priced. Lending to high risk highly leveraged sectors is either being curtailed or massively re-priced. The role of leverage and the so-called credit accelerator in driving the economic cycle up, and potentially down, is being highlighted.

The environment is particularly challenging for policymakers. The global economy is no longer in the Goldilocks era of surfeit labour capacity and emerging market integration (i.e. deflation from China and emerging Europe). Inflation risks are prevalent, and central banks are wary of the 1970's experience in terms of responding to demand-side messages in the face of altered supply-side and cost-push dynamics. Massive growth in complicated derivative related structures have been a positive consequence of globalisation, but is now a potential Achilles heel. Financial systems contain a larger degree of systemic risk given the massive growth of complicated derivative structures and the financial system itself.

Of course it is easy to talk yourself into despair. In the current environment it pays not to talk to too many at the credit and derivative-end of the market alone! If you ignore all the positives, the end result is going to be negative. Growth in China and India remains strong, the US Fed is still predicting a relatively benign landing for the US economy. There is a truckload of cash within the financial system, and equally a lot of people waiting for that buy opportunity. The Baltic Dry Freight index remains elevated (although easing 5 percent), yield curves are actively working to do central banks' role in stabilising conditions, and the mammoth US current account deficit has begun to improve – thanks in part to the weaker USD.

Yet the fundamental story at present is about re-rating expected returns relative to risk. As we have noted previously, the so-called credit accelerator has been such a source of demand side growth on the way up. We are cautious how events will unfold in an altered environment, where appetites change from being risk seeking to more neutral,

particularly in some leveraged pockets around the globe. Developments in US credit markets appear a country mile from NZ. However, the US 2 year swap spread – as a proxy for risk appetites – has shown an eerily strong correlation with NZ house prices. A potentially spurious correlation for sure, although when you consider what a swap spread represents (credit risk, risk appetites) the relationship has a reasonable economic rationale.

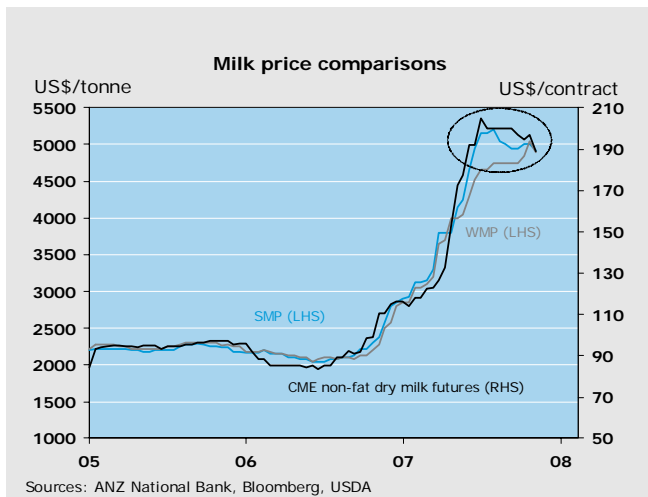
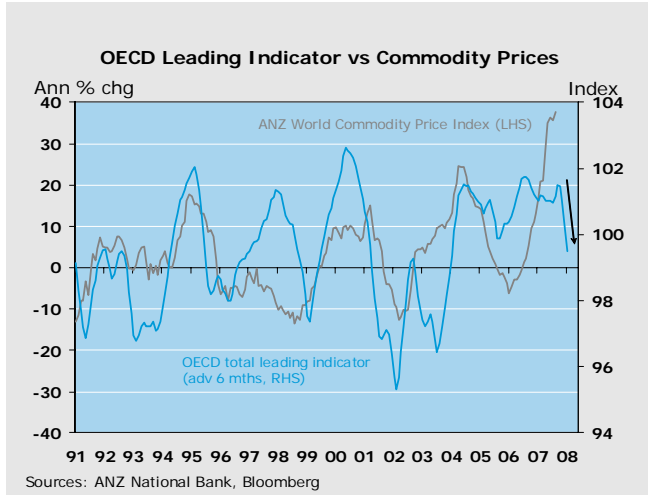


For New Zealand, the story is all about vulnerability. Domestic conditions (the currency, interest rates, fiscal policy, migration, weather, house prices) have been cyclical drivers of the economy, but never the big trigger of a major turn. Major turns in the cycle have always been linked to an offshore event, and then exacerbated by domestic developments, as the trigger forces some form of “tipping” point.

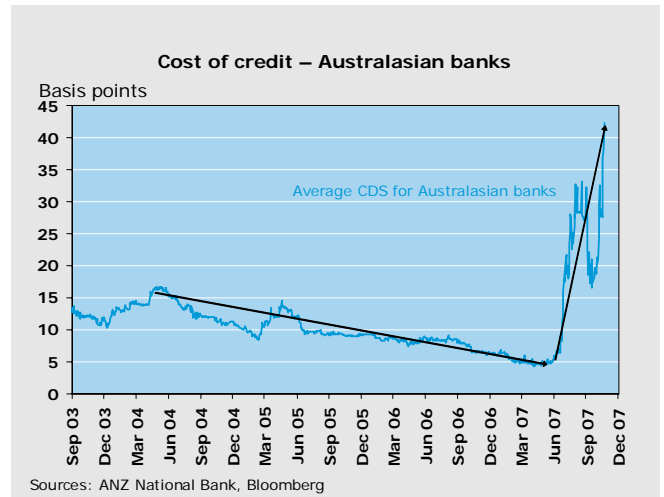
For New Zealand, there are three main channels to watch.

- Global growth.** The US economy is weak, although the jury is still out on whether it will experience an outright recession. Consensus forecasts (a hugely lagging indicator) for the US over 2008 have fallen from 2.8 percent in July to 2.4 percent in October. This month's survey is likely to show a further fall. A decoupling theme (the global economy can remain strong with a weak US economy) was dominating four weeks ago. Now it is being tested and more actively debated. A number of investment banks are taking very circumspect approaches. Those at the forefront of credit markets are decidedly bearish. Growth in Europe and Japan is slowing. Emerging market Europe looks distinctly like Thailand & Co. in 1996 (high leverage, high foreign debt, and huge current account deficits). Yes, the global economy has good momentum up to the end of June, China remains strong, but that was then, and indicators do come with a lag. Typically, a one-percent change in global growth has been associated with a 0.8 percent change in New Zealand growth, depending on the interaction of shock absorbers and path of commodity

prices. The latter is another key area to watch at present. Copper and lumber prices – global bell-wethers – are falling. Milk futures – which show a reasonable relationship to whole milk powder prices - have similarly eased back slightly after a huge run-up. However, by-and-large they remain elevated and milk powder prices remain supported.



- A higher cost of funds.** New Zealand, as a net borrower, is heavily reliant on offshore investors to fund a savings shortfall. The issue is not whether the shortfall can be found, rather at what price. While NZ as a nation retains an AA+ grade credit rating, and the banking sector is sound, we are still getting caught up in the rip of altered risk appetites. Re-rated risk appetites and a higher risk premium is a cost that businesses, corporates and borrowers in general will have to face. Realistically we suspect it will take time to filter through. A higher cost of funds internationally is also in turn likely to lead to more aggressive competition for domestic cash, potentially cannibalising funding from non-bank financial institutions.



- The availability of funds to certain pockets.** Current financial stresses across non-bank financial institutions are merely an extension of the global re-pricing of risk that is underway. The sector is small in size (representing 7 percent of financial system assets in NZ), and total investor losses within the sector are minimal from a macro-perspective. But we suspect a more restricted ability to lend (or the massively higher cost of mezzanine related finance if borrowing is being undertaken) will be where the real impact will reside. We view the property market as operating in a ripple type fashion. Relatively small but heavily leveraged and speculative pockets (such as section developments) drag the market up in boom times, but also act in a reciprocal fashion when funding becomes an issue.

The upshot

The Reserve Bank detailed two scenarios in its September *MPS*. One involved higher inflation, necessitating higher interest rates. The other involved credit dislocation and looser monetary conditions. Rather eerily we appear to be heading down both routes, despite the economy having a good base at present. It leaves us scratching our heads over the path for interest rates. Bottom line is that it will be global events that dictate from here. Watch those commodity prices.

THE REGIONAL GAP

There still exists a positive output gap for the economy as a whole (albeit slightly smaller than last quarter) reinforcing the current inflationary dynamic. Capacity pressures are relatively widespread, particularly in rural-aligned regions. This reinforces the view that a sticky and persistent inflationary dynamic will remain for a while yet.

The linkage between excess demand and inflation pressure is well known. As economists, we frequently talk about the “output gap”, noting that when the output gap is positive (i.e. actual economic growth exceeds “potential”), inflation pressures build. The period of strong growth recorded in New Zealand in recent years has seen a positive output gap open up and inflation pressures emerge. The Reserve Bank, seeing these pressures, has tightened monetary policy by raising the Official Cash Rate.

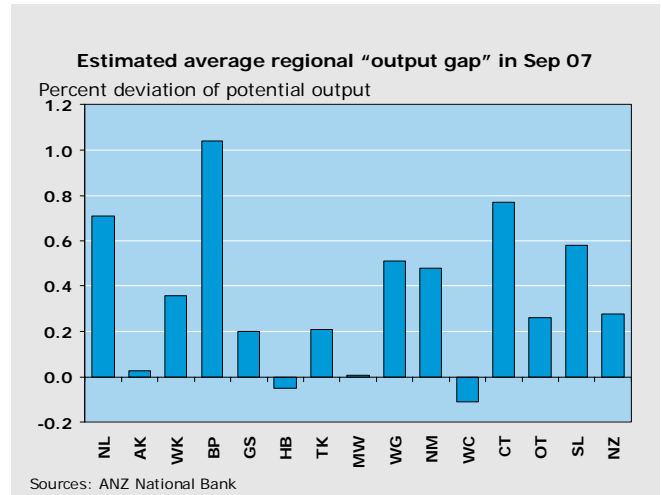
We have updated our regional output gap measures to examine which regions are responsible for the inflation pressures that persist in New Zealand. To refresh readers’ memories, the regional output gaps are estimated using data from the National Bank’s *Regional Trends* and *Business Outlook* Survey, and Statistics New Zealand’s regional unemployment data. The estimates are generated using estimates of the output gap, unemployment gap (utilising Okun’s Law) and a derived capacity utilisation gap from the National Bank business confidence survey.

We chose a broad approach for two reasons. First it minimises some of the error that may surround simple regional activity statistics (which are only partial indicators). Second, the Reserve Bank uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For each input we use a band pass filter to derive the business cycle – a standard statistical technique that is available on modern statistical software. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

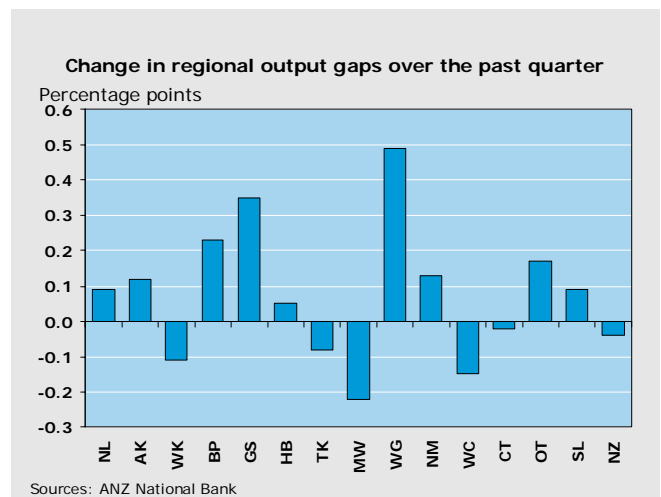
There are 5 key messages from this analysis:

- A positive output gap still exists across the country as a whole, reinforcing the current inflation dynamic.
- Capacity pressure is reasonably widespread with 11 regions showing a positive output gap.
- Rural-aligned regions continue to show the greatest capacity pressure. In particular, Northland, Waikato, Bay of Plenty, Canterbury, Nelson-Marlborough, and Southland are the regions with the largest output gaps at present. We also note Wellington is showing relatively high capacity pressure.

- However, some regions are now detracting from inflationary pressures. The consumption juggernaut of Auckland, plus Manawatu/Wanganui, Hawke’s Bay and West Coast have flat or slightly negative output gaps. Looking at relative housing market strengths, these are also regions that appear to have experienced softness in housing activity. House prices have fallen or have been flat in these regions over the past six months.



- Across the entire economy, capacity pressure eased since last quarter, albeit very marginally. However, the majority of regions (eight) have shown an intensifying of capacity pressure, notably in the Bay of Plenty, Gisborne, and particularly Wellington. A tight labour market remains the key source of capacity pressure.



The upshot

While capacity pressure across the regions in aggregate eased in the September quarter, the broad based nature of such pressure (and notably in rural regions) reinforces that a sticky and persistent inflationary dynamic will remain for a while yet.

INTEREST RATE STRATEGY

More of the same expected this week. Choppy trading with cues from offshore, but ranges to still hold. Bias towards payside early in the week to take rates off bottom of ranges.

Market themes...

- Quiet domestic data calendar plus shortened US trading week meant lack of liquidity.
- Volatile offshore sessions flowed through into local market.
- Expectations for another hike from RBNZ pared back, but market betting on more cuts from the Fed.

Outlook...

The local market was range bound last week. A lack of major domestic data means offshore movements have been dictating direction, with flows also having a major say. On the data front, net migration in October showed a continued slowing in the number of annual inflows, while credit card billings posted a small fall. There was limited market reaction to those releases.

When we eye the data calendar for the rest of this year and into January next year, we see little that will sway the RBNZ from its current 'wait-and-see' stance. The partial data will continue to print mixed, but we expect the bias to be downwards. At this stage, Q3 GDP (due 21 December) is looking soft but Q4 CPI (due 17 January) is looking on the high side given increases in petrol and food prices to date.

Offshore developments continue to weigh on the local market. The market had earlier pared back expectations of another hike from the RBNZ following the lack of any 'smoking gun' in the dataflow over the past few weeks. With sentiment deteriorating towards the US economy and concerns about whether 'decoupling' will hold or not, the OIS curve has further pared back the odds of another hike down to 10 percent. The market is now once again entertaining the thought of an RBNZ rate cut late next year.

For this week, we expect recent ranges to hold but for some payside interest to emerge early in the week, taking the 2-year off from the bottom of its 8.5-8.65 percent trading range. Given increased expectations of further Fed rate cuts, we suspect the NZ-US 10-year bond spread will come under further widening pressure, but we continue to view current levels as outside of the fair value range.

The offshore calendar is heavy with ECB and Fed speakers as well as a raft of US economic data including home sales and preliminary GDP.

Japanese CPI is also due. The US data is likely to keep the market biased towards Fed rate cuts.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	No smoking gun in the data to shift the RBNZ from their wait-and-see stance.
NZ data	↔	Inflation expectations and NBBO survey key data this week.
Fed Funds/front end	↔/↓	Further credit concerns now has market looking for a cut from the Fed in December.
RBA	↔/↑	Market has pared back expectations of further hikes.
US 10 year	↔/↓	Sub-4% possible.
NZ swap spreads	↔/↑	We expect spreads to come under widening pressure this week given current levels.
Flow	↔/↑	Expect payside bias to continue early this week.
Technicals	↔	Short-term at the bottom end of ranges. Lack of major NZ data to provide direction means offshore holds the key.

Borrowing strategies we favour at present

A lack of data over the week saw swap levels drift lower with direction provided via offshore market movements. We still favour fixed rate payers adopting a short borrowing strategy targeting the 2 - 3 year part of the swaps curve. Those looking for a little insurance in case we have seen the high in domestic rates could benefit from using an extendable swap product. Basically speaking, this product allows you to fix your interest expenditure for the first 12 - 18mths with the option to pay fixed for a further year (should interest rates remain elevated). Please contact your local capital markets dealer for details.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 6-Dec-07	0	2
Thu 24-Jan-08	8	5.2
Thu 6-Mar-08	16	8.4
Thu 24-Apr-08	24	11.6
Thu 5-Jun-08	36	-10.4
Thu 24-Jul-08	28	-10.4
Thu 11-Sep-08	28	-50.4

Trading themes we favour at present

Expect payside bias to continue early in the week and swap spreads to widen. Another case of trading the ranges.

CURRENCY STRATEGY

The NZD continues to be torn between yield and risk. We expect more of the same and ranges for now.

Market themes...

- USD to record lows vs euro as nervousness increases.
- While yield-related demand is still evident, risk aversion (and US equity markets) will continue to provide the major source of direction for the NZD.
- AUD under pressure as decoupling debated.

Outlook...

The past week saw the NZD move sideways, albeit with large trading ranges, as the usual suspects of yield, risk aversion, and USD weakness (along with implications of Gulf state currency revaluations) continued to fight for the upper hand. While volatility remained high, volumes dried up in the second half of the week, with markets thinned by holidays in the US and Japan.

Bad news on the US housing front continued to emerge, and there is a growing sense that, despite anti-inflationary rhetoric coming from the Fed, they will be forced to lower interest rates further as the US economy heads into an outright recession. While the jury is still out on whether this will occur, the negative perceptions continue to weigh heavily on the US dollar, pushing it to an all time low against the euro, and its lowest against the yen in 18 months.

While some of the price action of last week can be attributed to a "safe haven"/ "capital preservation" flow ahead of the market holidays, there is no stepping away from the underlying dynamic of nervousness about the US economic outlook, and the extent to which weakness there will flow through into the rest of the global economy. The outlook for the NZD remains tied to whether the global economy can dislocate from US economic weakness, or whether such weakness is a millstone around the neck of global growth. Yield related demand for the NZD continues to provide support and saw the kiwi push to intra-week highs around 0.7670, but was not enough to outweigh the heightened nervousness and risk aversion. Speculative positioning in the NZD continues to be pared back (although not as aggressively as has been the case for the AUD). Once again, we start this week back around the opening levels of last week, with all eyes focussing on US equity markets and risk aversion gauges for a directional guide.

Looking forward, this week's data should provide further insights into the state of the US economy with data on US house sales, durable goods orders,

and provisional GDP data for Q2 all being released, along with the Fed's Beige Book. Don't expect any of this data to provide the USD with a material shot in the arm. Domestic data is limited to today's merchandise trade results and Thursday's National Bank *Business Outlook* and building consents data. As mentioned last week, we will also be keeping a close eye on commodity price developments. The election result in Australia removes uncertainty across the Tasman, and as such, will be supportive for the AUD.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔/↓	Growth differentials favouring AUD. But 0.83 feels about right.
Yield	↔/↓	RBA tightening, RBNZ on hold.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Better across the Tasman. Terms of trade shocks bigger there.
Technicals	↔	Support at 0.8550, resistance at 0.8665.
Sentiment	↓	AUD data is better.
Other	↓	Elections over. Back to fundamentals.
On balance	↔/↓	Sell 0.8670 for 0.8300.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↑	US data is woeful.
Yield	↑	1 year forwards above 300 points is impossible to fight.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↓	Credit concerns are weighing.
Partial indicators	↔	NZ domestic economy is soft, but US is softer.
Technicals	↑	200 day ma at 0.7400 to contain downside.
AUD	↑	Election over. Business as usual.
Sentiment	↔	Neutral in NZ, bearish in US.
Other	↑/↔	USD disliked globally.
On balance	↑	Still yield v risk aversion, but feeling like yield will win.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
26 Nov	NZ	Trade Balance	-550m	-544m	10:45
		Imports	3,616m	3.66B	10:45
		Exports	3,100m	3.13B	10:45
		NBNZ Regional Trends	-	-	15:00
	EU	ECB's Tumpel-Gugerell speaks	-	-	23:15
		ECB's Papademos speaking	-	-	23:30
27 Nov	EU	ECB's Trichet speaks	-	-	05:00
		ECB's Quaden speaks	-	-	06:00
		ECB's Draghi gives speech	-	-	-
	JN	Corporate Service Price (Oct) – yoy	1.5%	1.4%	12:50
		BoJ Governor Fukui to speak at Forum	-	-	13:00
	GE	IFO – Business Climate (Nov)	103.3	103.9	22:00
		IFO – Current Assessment (Nov)	109.2	109.6	22:00
		IFO – Expectations (Nov)	98.0	98.6	22:00
28 Nov	EU	ECB's Liikanen speaks	-	-	03:00
	US	S&P/CS Composite-20 – yoy	-5.0%	-4.4%	03:00
		S&P/CS House Price Index (Sep)	-	197.2	03:00
		S&P/CS House Price Index (Sep) – yoy	-4.1%	-3.2%	03:00
		Consumer Confidence (Nov)	91.0	95.6	04:00
		Richmond Fed Manufacturing Index (Nov)	-2	-5	04:00
		Fed's Plosser speaks on Economic Outlook	-	-	06:20
		Fed's Evans speaks on US Economic Outlook	-	-	07:30
	JN	Large Retailers' Sales (Oct)	-	-2.0%	12:50
		Retail Trade (Oct) – mom	0.7%	-1.5%	12:50
	AU	DEWR Skilled Vacancies (Nov) – mom	-	-0.9%	13:00
		Construction Work Done (3Q)	1.7%	-1.9%	13:30
	GE	GfK Consumer Confidence Survey (Dec)	4.4	4.9%	20:10
	EU	M3 (Oct) 3 mth average	11.5%	11.5%	22:00
29 Nov	US	Fed's Kohn speaks at Council on Foreign Relations in New York	-	-	02:00
		Durable Goods Orders (Oct)	0.0%	1.7%	02:30
		Durables Ex Transportation (Oct)	0.4%	0.3%	02:30
		Existing Home Sales (Oct) – mom	-0.8%	-8.0%	04:00
		Fed's Fisher speaks on Fed, Economy	-	-	07:30
		Fed's Beige Book released	-	-	08:00
	NZ	Building Consents Issued (Oct) – mom	-	-8.3%	10:45
		Total Household Claims (Oct) – mom	-	0.8%	15:00
		NBNZ Business Confidence (Nov)	-	-12.9	15:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
29 Nov cont.	JN	Industrial Production (Oct P) – mom	1.5%	-1.4%	12:50
	AU	Private Capital Expenditure (3Q)	2.0%	6.3%	13:30
	GE	ILO Unemployment Rate (Oct)	8.0%	8.1%	20:00
		Unemployment Change (Nov) – 000s	-30k	-40k	21:55
		Unemployment Rate (Nov) – s.a.	8.7%	8.7%	21:55
		Net Consumer Credit (Oct)	1.1B	1.4B	22:30
		Mortgage Approvals (Oct)	95k	102k	22:30
	30 Nov	US	GDP Annualised (3Q P)	4.9%	3.9%
		Personal Consumption (3Q P)	2.8%	3.0%	02:30
		GDP Price Index (3Q P)	0.8%	0.8%	02:30
		Core PCE (3QP) – qoq	1.8%	1.8%	02:30
		New Home Sales (Oct) – mom	-2.6%	4.8%	04:00
		House Price Index (3Q) – qoq	-0.5%	0.1%	04:00
		Fed Chairman Bernanke speaks at Charlotte Chamber of Commerce Conference	-	-	13:00
JN		Jobless Rate (Oct)	4.0%	4.0%	12:30
		Overall Household Spending (Oct) – yoy	0.5%	3.2%	12:30
		CPI (Oct) – yoy	0.1%	-0.2%	12:30
		CPI Ex-Fresh Food (Nov) – yoy	0.0%	-0.1%	12:30
		CPI Ex-Food & Energy (Nov) – yoy	-0.3%	-0.3%	12:30
		Housing Starts (Oct) – yoy	-36.7%	-44.0%	18:00
AU		Current Account Balance (3Q)	-16,400m	-15,998m	13:30
		Private Sector Credit (Oct) – mom	1.1%	1.2%	13:30
EU		GDP (3Q P) – qoq	0.7%	0.7%	23:00
		Business Climate Indicator (Nov)	0.75	0.87	23:00
		Consumer Confidence (Nov)	-7	-6	23:00
EU		Economic Confidence (Nov)	105.0	105.9	23:00
		Industrial Confidence (Nov)	1	2	23:00
		Services Confidence (Nov)	17	18	23:00
		ECB's Tumpel-Gugerell speaks	-	-	23:30
1 Dec		US	Personal Income (Oct)	0.4%	0.4%
		Personal Spending (Oct)	0.3%	0.3%	02:30
		PCE Deflator (Oct) – yoy	2.8%	2.4%	02:30
		PCE Core (Oct) – mom	0.2%	0.2%	02:30
		Chicago Purchasing Manager (Nov)	50.5	49.7	03:45
		Construction Spending (Oct) – mom	-0.3%	0.3%	04:00
		Fed's Poole speaks on Economy	-	-	06:30
		Fed's Kroszner speaks on Financial Markets	-	-	07:15
	EU	ECB's Smahgi speaking	-	-	21:30

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 data prior to the Reserve Bank's *Monetary Policy Statement* is all second-tier in nature, with the RBNZ's expectation survey and the NBNZ *Business Outlook* survey and *Regional Trends* report the most interesting. We expect the Reserve Bank to remain on hold and keep their watchful stance. Key for them is a reduction in inflationary pressures and on this front there remain a number of concerns.

Date	Data/Event	Economic Signal	Comment
Mon 26 Nov (15.00)	NBNZ <i>Regional Trends</i> (November)	-	-
Tue 27 Nov (15.00)	RBNZ Survey of Expectations	Elevated	Inflation expectations to remain stable but still too elevated for the Reserve Bank's liking.
Thu 29 Nov (10.45)	Building Consents Issued (October)	Soft	Given weakness in housing market activity, we expect a softening trend in residential building consents to continue. Of most interest will be how non-residential issuance is faring.
Thu 30 Nov (15.00)	Credit Growth (October)	Soft	Housing lending growth was soft in September. We expect the same theme to have occurred in October.
Thu 30 Nov (15.00)	NBNZ <i>Business Outlook</i> (November)	-	-
Wed 5 Dec (15.00)	ANZ Commodity Price Index (November)	-	-
Thu 6 Dec (09.00)	RBNZ <i>Monetary Policy Statement</i>	Wait-and-see stance remaining	The OCR to remain on hold. We expect the RBNZ to acknowledge that things have largely panned out as they had expected at their September <i>MPS</i> . Nevertheless, inflation concerns will continue to dominate and the Bank will continue to grant that uncertainty remains high.
Thu 6 Dec (10.45)	Wholesale Trade Survey (Sep qtr)	Soft	Real consumer spending was soft over the quarter. This should also weigh on wholesale trade activity.
Fri 7 Dec (10.45)	Value of Building Work Put in Place (Sep qtr)	Mixed	Lower dwelling consents suggest residential building work will be soft. However, this will be offset by still solid non-residential construction work.
Tue 11 Dec (10.45)	Overseas Trade Indexes (Sep qtr)	Terms of trade up strongly	Surging world dairy prices and a small fall in global oil prices are expected to contribute to a large increase in the terms of trade.
Thu 13 Dec (10.45)	Retail Trade Survey (October)	Moderation	Recent monthly results show that consumer spending is slowly moderating. We expect this trend to continue.
Fri 14 Dec (10.45)	Economic Survey of Manufacturing (Sep qtr)	Resilient	A lower NZD/AUD and still resilient PMI survey suggest manufacturing activity was reasonably solid over the quarter.
Tue 18 Dec (15.00)	NBNZ <i>Business Outlook</i> (Dec)	-	-
On Balance		Sub-trend but respectable	All about inflation from here.

NZ Economics

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SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	0.2	0.3	0.3	0.4	0.4	0.6
GDP (% yoy)	1.0	2.1	2.5	3.2	3.0	2.5	1.5	1.2	1.4	1.7
CPI (% qoq)	0.7	-0.2	0.5	1.0	0.5	0.9	0.5	0.8	0.8	0.8
CPI (% yoy)	3.5	2.6	2.5	2.0	1.8	2.9	2.9	2.6	2.9	2.8
Employment (% qoq)	-0.3	0.0	1.2	0.6	-0.3	0.4	0.4	0.2	0.2	0.2
Employment (% yoy)	1.5	1.4	1.7	1.6	1.5	1.9	1.1	0.7	1.2	1.0
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.5	3.6	3.7	3.8	3.9	4.0
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	-8.2	-7.9	-7.4	-6.9	-6.8	-6.8
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	5.5	2.4	0.2	-0.2	-0.5	-0.3
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	10.5	10.5	9.0	8.1	1.9	-0.8

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

KEY ECONOMIC INDICATORS

	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07
Retail Sales (% mom)	0.4	2.2	0.9	-1.3	1.1	-0.4	0.2	0.3	1.0	..
Retail Sales (% yoy)	6.9	6.4	7.4	7.4	6.7	4.8	5.7	6.3	4.1	..
Credit Card Billings (% mom)	-0.8	1.5	1.0	-1.0	0.8	1.8	0.1	0.2	2.7	-0.5
Credit Card Billings (% yoy)	6.7	8.2	7.2	7.9	5.8	9.0	7.9	8.6	9.4	7.8
Car Registrations (% mom)	13.3	-9.4	0.9	-1.4	6.1	-4.7	7.1	1.2	-7.3	6.8
Car Registrations (% yoy)	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1	4.7
Building Consents (% mom)	4.1	6.9	-1.0	0.7	5.1	12.6	-15.7	5.2	-8.3	..
Building Consents (% yoy)	-6.1	-8.5	3.3	9.2	3.1	32.8	-4.0	-1.2	-13.5	..
REINZ House Price (% yoy)	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9	12.3	8.0
Household Lending Growth (% mom)	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.8	0.8	..
Household Lending Growth (% yoy)	13.0	13.1	13.3	13.5	13.5	13.5	13.5	13.4	13.1	..
Roy Morgan Consumer Confidence	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3	122.0
NBNZ Business Confidence	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5	-12.9
NBNZ Own Activity Outlook	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2	20.3
Trade Balance (\$m)	-825	-127	60	-215	8	-518	-809	-946	-544	..
Trade Balance (\$m annual)	-6013	-5767	-5776	-6024	-5900	-6226	-6342	-6337	-6256	..
ANZ World Commodity Price Index (% mom)	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4	1.8
ANZ World Commodity Price Index (% yoy)	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7	37.8
Net Migration (sa)	390	520	620	220	410	590	470	720	660	260
Net Migration (annual)	14116	13151	12081	11222	10682	10078	8966	8730	8309	7517

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Sep 07	Oct 07	26 Nov 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.717	0.760	0.761	0.770	0.760	0.740	0.710	0.680	0.660	0.640
NZD/AUD	0.849	0.847	0.864	0.819	0.800	0.771	0.763	0.756	0.759	0.762
NZD/EUR	0.516	0.534	0.513	0.531	0.517	0.507	0.500	0.489	0.489	0.485
NZD/JPY	82.6	88.1	82.3	87.8	85.9	82.9	78.1	73.4	72.6	71.7
NZD/GBP	0.355	0.372	0.369	0.374	0.369	0.361	0.351	0.342	0.340	0.333
NZ\$ TWI	68.3	71.1	69.9	70.9	69.5	67.6	65.6	63.4	62.7	61.8
NZ interest rates	Sep 07	Oct 07	26 Nov 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.32	8.30	8.25	8.25	8.25	8.25	8.00	7.50	7.00	6.75
90 day bill	8.82	8.68	8.70	8.60	8.60	8.60	8.00	7.50	7.00	7.00
10 year bond	6.17	6.38	6.28	6.60	6.80	6.70	6.80	6.70	6.70	6.50
International	Sep 07	Oct 07	26 Nov 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.50	5.50	5.75
US 3-mth	5.23	4.89	5.04	4.80	4.50	4.40	4.65	5.00	5.75	6.10
AU cash	6.50	6.50	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25
AU 3-mth	6.89	7.01	7.17	7.00	7.30	7.50	7.50	7.50	7.50	7.40

KEY RATES

	23 Oct	19 Nov	20 Nov	21 Nov	22 Nov	23 Nov
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.55	8.63	8.64	8.61	8.61	8.61
90 day bank bill	8.62	8.71	8.73	8.72	8.72	8.71
NZGB 07/09	6.99	7.41	7.34	7.35	7.32	7.33
NZGB 11/11	6.79	7.11	7.03	7.04	7.01	7.02
NZGB 04/13	6.68	6.89	6.82	6.82	6.78	6.79
NZGB 12/17	6.30	6.39	6.30	6.31	6.24	6.25
1 year swap	8.67	8.80	8.77	8.77	8.72	8.73
2 year swap	8.47	8.64	8.58	8.58	8.52	8.54
5 year swap	7.99	8.13	8.07	8.08	8.03	8.05
RBNZ TWI	70.2	70.0	69.4	70.0	69.4	69.3
NZD/USD	0.7504	0.7592	0.7509	0.7616	0.7546	0.7561
NZD/AUD	0.8437	0.8484	0.8556	0.8581	0.8639	0.8625
NZD/JPY	85.97	83.98	82.38	83.49	82.19	81.62
NZD/GBP	0.3686	0.3699	0.3666	0.3685	0.3654	0.3646
NZD/EUR	0.5285	0.5179	0.5126	0.5136	0.5075	0.5060
AUD/USD	0.8894	0.8949	0.8776	0.8875	0.8735	0.8766
EUR/USD	1.4200	1.4660	1.4648	1.4829	1.4869	1.4942
USD/JPY	114.57	110.61	109.71	109.63	108.92	107.95
GBP/USD	2.0359	2.0525	2.0485	2.0665	2.0650	2.0737
Oil	87.60	94.81	95.75	99.16	98.57	97.46
Gold	757.10	792.00	773.80	803.60	804.60	809.50
Electricity (Haywards)	2.80	4.20	4.30	4.21	4.16	4.19

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