

NEW ZEALAND ECONOMICS

ANZ MARKET FOCUS

11 April 2011

INSIDE

Economic Overview	2
Inflation Watch	6
Monthly Inflation Gauge	10
Interest Rate Strategy	11
Currency Strategy	12
Data Event Calendar	13
Data Watch	15
Key Forecasts	16

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
 Telephone: +64 4 802 2212
 E-mail: Cameron.Bagrie@anz.com

Khoon Goh
Head of Market Economics and Strategy
 Telephone: +64 4 802 2357
 E-mail: Khoon.Goh@anz.com

David Croy
Senior Interest Rate Strategist
 Telephone: +64 4 576 1022
 E-mail: David.Croy@anz.com

Sharon Zöllner
Senior Economist
 Telephone: +64 4 576 1062
 E-mail: Sharon.Zollner@anz.com

Mark Smith
Economist
 Telephone: +64 4 802 2199
 E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
 Telephone: +64 4 802 2217
 E-mail: Steve.Edwards@anz.com

Con Williams
Rural Economist
 Telephone: +64 4 802 2361
 E-mail: Con.Williams@anz.com

INFLATION WATCH

ECONOMIC OVERVIEW

While confidence is down and earthquake related challenges are material, there looks to be a base of resilience. Last week's QSBO was weak, but not as weak as feared. This gives support to our view that the March fall in confidence was partly a knee-jerk post-quake reaction. April's National Bank Business Outlook reading is shaping up as key. In aggregate, we expect activity data over the next few months to remain murky. The exception here could be the housing market, which looks to be picking up. More upside signals from the pricing side of the economy could also see more questioning whether the level of the OCR is appropriate. Central banks overseas are also set to become increasingly focused on inflation. However, until we see a clear change in tack from the Fed, the NZD/USD is going to remain well above where it should be from a New Zealand fundamentals perspective.

INFLATION WATCH

Based on a simple bottom-up approach, and making some fairly conservative "best case" assumptions, we can see headline inflation heading towards the top of the RBNZ target band by the end of this year. But we emphasise the terms "top of" and "conservative assumptions". This is hardly the place you'd want to be as a central bank, with the economy set to grow at a hefty clip from that point. We're not ardent inflation hawks, but have concerns that the inflationary undercurrent is stronger than generally recognised at present.

MONTHLY INFLATION GAUGE

Our monthly inflation gauge posted a 0.2 percent increase in March, with a quarterly increase of 1.0 percent in the March quarter. Price increases were of the cost-push variety, and more price increases of this kind are in prospect over the next few months. For now, there is little evidence of price increases becoming more generalised. There is the risk, however, that higher headline inflation rates start to filter through into price and wage setting behaviour. Our gauge remains a useful early warning indicator.

INTEREST RATE STRATEGY

Signs of a pick-up in the Auckland housing market and more resilient business confidence outside of quake ravaged Christchurch have certainly put the market in a guarded mood. Now that the ECB are raising rates with the BoE probably not far behind, and "Fedspeak" turning hawkish, the risk of NZ interest rates moving higher is not insignificant. Especially with NZ Q1 inflation data next week set to surprise on the upside. The benchmark 2-year swap yield looks set to grind higher but receiving interest on the back of attractive carry will cap the extent of any rises in yield.

CURRENCY STRATEGY

The NZD has now fully retraced its early February decline. USD weakness and an AUD hitting fresh post-float highs are helping to propel the NZD higher. The USD weakness theme is unlikely to let up this week, though we may see some profit taking on the AUD. With the NZD at key resistance levels, there is a chance that this week will see a pullback. But with commodity prices still rising and domestic data unlikely to print as bad, there could be enough buying support to see the NZD continue to push higher still. A break of key levels could see a test of 0.80 loom large.

ECONOMIC OVERVIEW

SUMMARY

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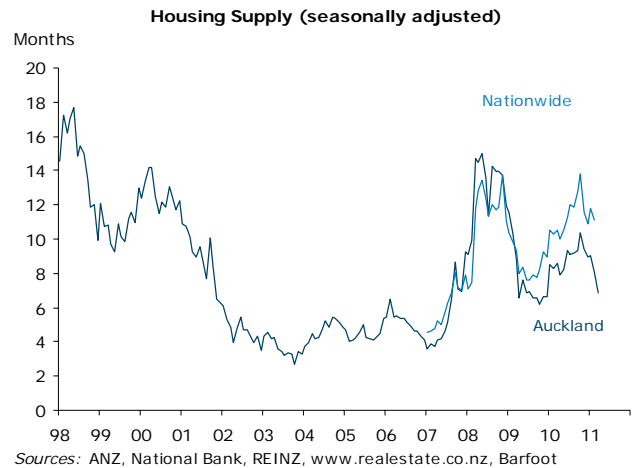
THIS WEEK'S EVENTS

- **SNZ International Travel and Migration – February** (Wednesday, April 13, 10:45am). A lower net PLT monthly inflow of 200 persons is expected. Visitor arrivals are expected to ease by 1 to 2 percent.
- **SNZ Food Price Index – March** (Wednesday, April 13, 10:45am). We expect a 0.7 percent increase in food prices. Food prices are set to move higher over 2011.
- **REINZ housing market report – March** (Thursday, April 14, 10:00am). Sales volumes are expected to rise by 1 percent. Canterbury sales are expected to fall 30 percent, with sales elsewhere rising 5 percent. Signs of stabilisation in pricing should start to emerge, with days to sell easing.
- **BNZ - Business NZ Manufacturing PMI – March** (Thursday, April 14, 10:30am). The resumption of this survey after the earthquake induced cancellation should see weakness on a number of fronts. Forward-looking components should hold up better.

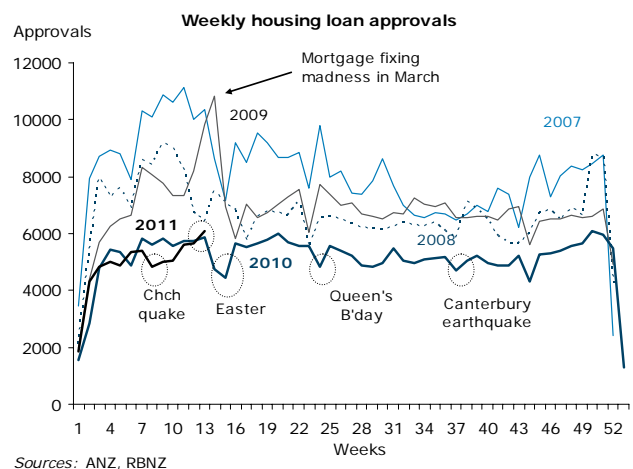
WHAT'S THE VIEW?

The OCR is a blunt instrument. Emergency cuts will help prop the economy up but they are likely to provide stimulus to all interest rate sensitive sectors whether they were the intended target or not. This week's REINZ housing market data will provide a useful litmus test as to whether the housing market is receiving any benefit. While we expect sales

volumes to move sideways, this will largely be the result of a collapse in Canterbury sales. Other regions appear to be holding up pretty well and in fact strengthened in Auckland in particular, if the March Barfoot and Thompson data is anything to go by.



Housing indicators over the coming months are going to be particularly critical as a timely barometer of traction. Mortgage approvals figures suggest the Barfoot figures have substance behind them and will extend into April. Of course some housing demand is likely to be due to intra-regional migration pressures associated with the quake. Yet mortgage approvals started the year on a firmer note than in 2010, suggesting more demand was in the pipeline. Late 2008 and early 2009 showed us that monetary policy works: the housing market responded to OCR cuts. So we have a better preceding pipeline and extra stimulus to boot.

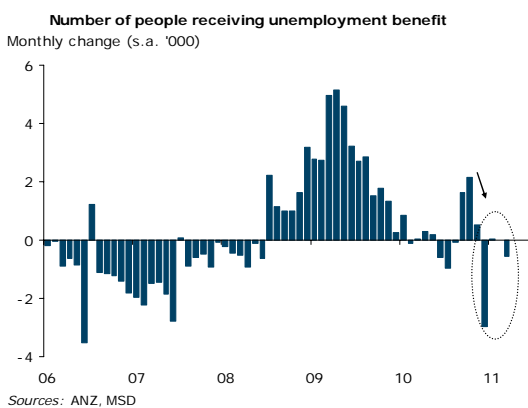


While we expect general deleveraging to stymie the potential for the housing market to rip away, we put two caveats on this. The RBNZ can ill-afford to let the housing market get even the slightest whiff of real momentum given the upside risks to the

ECONOMIC OVERVIEW

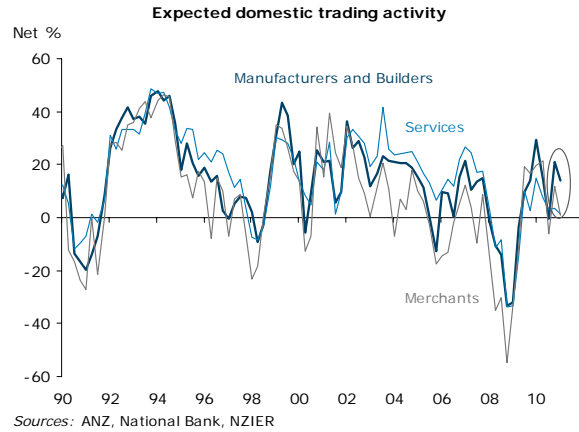
inflation outlook. It is far easier to rebound from a trough and a host of indicators including house sales and building consents are at historically low levels. Mortgage approvals are well below what was the norm over 2008 and 2009. This is where the distinction between growth (a change metric) and levels becomes relevant. Economists and central banks try to rationalise the two, using concepts such as output gaps. The problem is that the supply side is unobservable, with the difficulties in identifying capacity more marked when the structure of the economy is evolving, which is precisely what is happening at present.

This may sound a little left field but we can rationalise the case for an OCR hike earlier than December. Such comments are completely at odds with the consensus view, which is focused on a 2012 start and our December call is already front-running the market! We admit there are some material obstacles against an early move. Data will still be somewhat murky over the next few months, with a negative Q1 GDP reading at the end of June a distinct possibility and the labour market providing mixed signals. Yet when you look at the turn we could see in the housing market (though one month does not signify boom times), the strength in commodity prices and an awkward near-term inflation trajectory, the case can be made. We sense some delicate decisions ahead and feel it appropriate to start warning readers that there is now some symmetric risk surrounding a December hike.

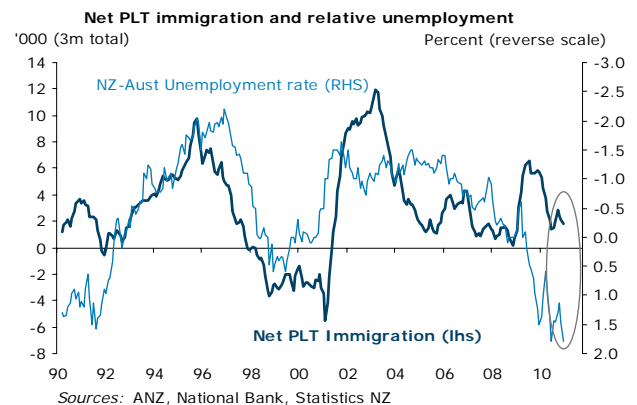


There remains a fair amount of resilience within the economy. WINZ unemployment benefit numbers dropped 3 percent (s.a.) in the March quarter and fell 0.9 percent (s.a.) in the month of March. Of course we know dole queue numbers will probably head up over April and May once the Government's post-quake job package winds down. That is not in dispute. The issue is simply that the economy had better momentum in early 2011 relative to 2010, and that

provides a better platform to absorb quake-related weakness and springboard from.



The March quarter QSBO was weak but still better than expected. Confidence was down but not as much as was reported in the National Bank business confidence survey, and measured skill shortages actually improved. Coverage issues could account for the QSBO / National Bank survey dichotomy (i.e. Canterbury is likely to have been skewed by the low response rate) but we suspect the differences may be more a question of timing. The National Bank survey was taken immediately after the quake, with the QSBO a few weeks later. Such timing trivialities shouldn't really matter, but in times of great uncertainty they can mean the difference between an informed view and a knee-jerk reaction. This is precisely why **April confidence readings from the National Bank Business Outlook survey and ANZ-Roy-Morgan Consumer Confidence will be critical.**

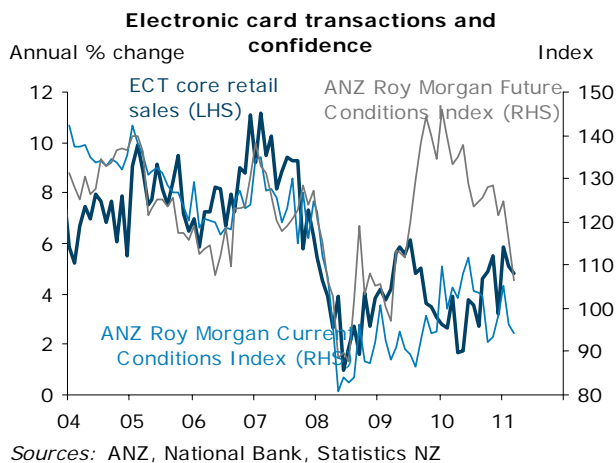


Seismic events will continue to make it difficult to interpret this week's activity data. We are expecting a lower net permanent and long-term migration inflow of around 200 persons for February. Net monthly outflows are quite possible over the next few months, but we do not envisage a mass

ECONOMIC OVERVIEW

exodus to Australia, despite rosier labour market conditions across the ditch. March visitor arrivals numbers are expected to fall, with a lean next few months for the tourism sector before the Rugby World Cup kicks off.

Information on the pricing side of the economy is timelier and easier to interpret. **Thursday sees the release of the March Food Price Index.** We expect a 0.7 percent monthly increase in food prices, driven by higher prices for grocery foods and meat. **Our monthly inflation gauge on page 10 suggests a fairly chunky March quarter rate for non-tradable CPI inflation.** There is a strong cost-push element to price increases in the gauge. **A worrying aspect is the increasing number of sources of price rises** – non-contestable price increases, higher commodity prices, and now limited rental housing capacity in Auckland, if anecdotal reports and the 2.4 percent (s.a.) March increase in rents from the Barfoot and Thomson report is taken at face value. On page 6 we outline these thoughts in more detail. The RBNZ will be particularly nervous if these influences start to have more impact on wage and price setting behaviour. A critical area remains examining the drivers and impact of inflation expectations and this is an area we have been working on.



Higher prices are also having a palpable impact on retail spending. The 8 percent increase in petrol prices and likely increase in March food prices are likely to have been influential behind the 1.3 percent increase in March retail electronic card transaction values. Core retail transaction values were also up, with the 0.9 percent increase largely due to recovering durable and apparel sales after a weak February month. **The 1.4 percent increase in core card transaction spending over the past three months suggests momentum in retailing is picking up.** The March 10 emergency cut to the OCR is likely to assist this going forward.

On Thursday the manufacturing PMI makes a return, after seismic events resulted in the suspension of the February survey. **We expect the March PMI to convey a similar message to the March National Bank Business Outlook,** with the headline reading to fall towards 50. The interruption will make it difficult to make sense of the survey, and we are likely to see some impact on production and employment gauges. However, forward-looking components should continue to paint prospects in a more positive light, particularly for manufacturing exports.

We'll finish this section with some comments on inflation expectations, which is probably the key economic indicator to watch globally at present. Last week saw the beginning of a looming dichotomy between central banks. The ECB backed up its earlier commitment to "act in a firm and timely manner". Despite quite disparate rates of economic performance and lingering sovereign debt concerns, the ECB were worried about the inflation outlook. The second interest rate rise this year by the PBOC and a range of other policy initiatives also demonstrated the resolve of the Chinese authorities to act before developments got out of hand. The RBA do not appear to be in a hurry to raise interest rates, with the FOMC also content to wait on the sidelines. Of course all sit in different stages of the economic cycle, but their responses partly reflected differing weights within their reaction functions (i.e. the weight on growth versus inflation stabilisation). **Critical for all central banks at this juncture will be the evolution of inflation expectations.**

Inflation targeting regimes are based around an assumption that demand shocks will dominate the evolution of inflation. Raising interest rates when the economy is strong, heads off both unsustainable booms and higher inflation. Perfect. **The problem comes when the source of inflation is supply-side driven (oil, food, other commodities), at a time when the economy is weak.** Raising interest rates is not a fun thing to do when the economy is already struggling. Inflation targeting central banks have a mandate to "look through" temporary shocks to inflation, as the economic cost of offsetting them would be too high. This system works fine as long as a) the supply shocks to inflation are indeed temporary, and b) people's inflation expectations also "look through" the shocks, and the inflation target remains credible.

On the first point, an element of the recent increases in food and energy prices may well be permanent, or at least long-lasting. But the direct inflation impulse will fade. The second question is more interesting. If

ECONOMIC OVERVIEW

inflation expectations become “unanchored” and people no longer believe the inflation target will be met, this will affect wage and price setting behaviour throughout the economy. **Once that happens, inflation expectations can become self-fulfilling.**

Our analysis for New Zealand, Australia and the US shows that petrol prices have an impact on inflation expectations above and beyond their impact on the CPI. There is also some evidence that the same is true of food prices. These are two key areas of inflation pressure at present. The sensitivity of inflation expectations wouldn't matter too much if expectations fell from their peaks as quickly as petrol and food prices do, but inflation expectations are also inherently persistent. **Our research also finds that inflation expectations do matter for inflation; they're not just of academic interest.** It is difficult to glean a precise estimate of their importance from the data, as expectations survey data do not typically include a period when inflation expectations rose sharply. We may be about to get one. Central banks around the world may have their work cut out for them.

This may seem odd to be rounding out the NZ section with global central bank musings but as we noted in prior weeks we suspect it'll be critical for the evolution of the commodity price cycle. Yes, commodity prices have shifted to a higher structural plane and the secular trend is now up. But we do not believe for a minute that ample global liquidity and very low policy interest rates have not played a role. The next “test” for the global recovery is approaching, namely how authorities implement exit strategies for fiscal and monetary policy. Insofar as the US is concerned, successfully removing policy stimulus, whilst ensuring the economic patient survives, is critical to reversing the current trend in the NZD/USD. This will have wide-reaching implications for the New Zealand economy.

RECENT LOCAL DATA

- **SNZ Electronic Card Transactions – March.** The value of Retail Card transactions rose a seasonally adjusted 1.3 percent. Core retail values rose 0.9 percent (s.a.).
- **ANZ Commodity Price Index – March.** The index rose 4.7 percent (+30 percent y/y) to an all-time high. Fourteen commodity prices rose and three were unchanged. The NZD index rose 8.1 percent (+24 percent y/y).
- **NZIER QSBO – March 2011 quarter.** Headline confidence fell 10 points to -11. Actual and expected domestic trading activity declined 4 and 7 points respectively, to -5 and +5. Capacity

utilisation rose but pricing intentions (down to +22), and expected profitability (to -22) eased. Firms reported that it was slightly harder to find both skilled and unskilled labour.

- **globalDairyTrade auction.** Whole milk powder prices fell 5.6 percent, to US \$3,878 per tonne. In NZD terms, prices fell 10 percent.

INFLATION WATCH

SUMMARY

Based on a simple bottom-up approach, and making some fairly conservative “best case” assumptions, we can see headline inflation heading towards the top of the RBNZ target band by the end of this year. But we emphasise the terms “top of” and “conservative assumptions”. This is hardly the place you’d want to be as a central bank, with the economy set to grow at a hefty clip from that point. We’re not ardent inflation hawks, but have concerns that the pending inflationary undercurrent is stronger than generally recognised at present.

BOTTOMS UP

We have previously noted that we thought the RBNZ was too sanguine in their view of inflation in their March *Monetary Policy Statement* projections. Indeed, the word inflation did not feature once in the March policy assessment, which was perhaps appropriate given that the RBNZ’s focus then was on limiting the negative impact from the Christchurch earthquake. Despite acknowledging short-term price increases as a result of the earthquake, the RBNZ still had headline CPI inflation forecasts averaging 2¼ to 2½ percent over the next few years.

Based on the traditional output gap framework for forecasting inflation, it is easy to see how the RBNZ obtained their benign inflation profile. The starting position for the economy was weaker with a still-substantial negative output gap. That gap would have widened in the near term as a result of the earthquake, resulting in weaker medium-term inflationary pressure. By assuming inflation expectations remain well anchored, inflation would stay well behaved, even as the economy picks up as earthquake reconstruction starts. We expect both assumptions to be challenged over the coming months. First, NZ inflation expectations trends are influenced by fuel prices, so the RBNZ’s two-year measure will undoubtedly rise this quarter. Second, we harbour some concerns about the economy’s supply-side potential. The upshot of both factors is an inflation shot across the bow, though not for a quarter or so yet. More on this down the track.

An alternative approach is to focus on the bottom up, and we can easily see inflation at the top of the RBNZ target band by the end of this year. Table 1 at the end of this article on page 9, breaks down headline CPI inflation into a few major components, which we categorise for ease of analysis, to better identify where sources of price pressures could emerge. The four components are:

- **Commodity price sensitive.** This is fairly intuitive. It is the prices of items that are highly influenced by global commodity price fluctuations, and for which there is a fairly substantial pass-through. Petrol and food prices are obvious examples. The CPI weight of these components is the largest of the four at 37 percent. Over the past decade, this component contributed half of the average annual inflation rate.
- **Housing related.** This used to be a big bugbear for the RBNZ when the housing market was running hot, as it contributed a great deal of upside pressure on non-tradable inflation. Since the housing market downturn, inflation from this source has been a non-issue, given weak construction costs and rents that have not been doing much.
- **Retail related.** This has been the big source of recent downside pressure on the CPI. Retail sector deflation has been occurring over the past decade, and was especially large in 2010, when prices fell by around 3 percent. This helped shave 0.5ppts off CPI inflation last year. Little wonder then that retailers have been struggling.
- **Labour market sensitive.** This component has high labour input costs and is expected to be highly correlated with wages. The complication for the RBNZ is that price setting for a decent chunk of this component are dominated by the Government (health services, education, local authority rates), and are not as sensitive to the business cycle. Average wage increases in government dominated sectors averaged 4.4 percent p.a. over the past decade, with last year’s increase at around 4.5 percent. In contrast, private sector services had price increases of 2.7 percent p.a. on average over the past decade, but only a 1 percent increase last year. The weight on this component is large, at 28 percent.

In Table 1, we have pencilled in some conservative estimates of likely price increases in 2011 based on some key drivers. They are not forecasts *per se*, rather just a rough indication of where inflation could end up by the end of this year.

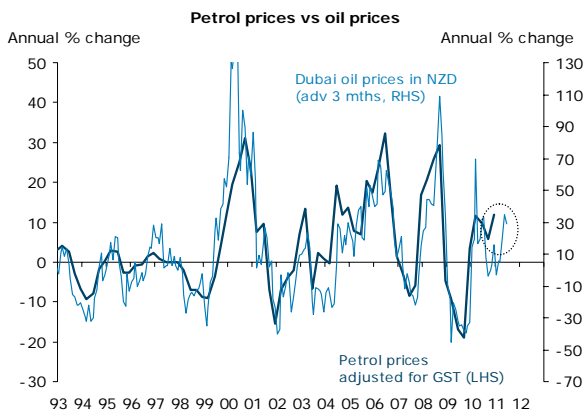
COMMODITIES – THE ONLY WAY IS UP

Global food prices continue to rise strongly, and based on the past strong correlation with NZ food price inflation, point to 6 percent food inflation by the end of this year. Alcohol and tobacco prices have a weaker positive correlation with commodity prices, but prices will go up on account of the indexation of

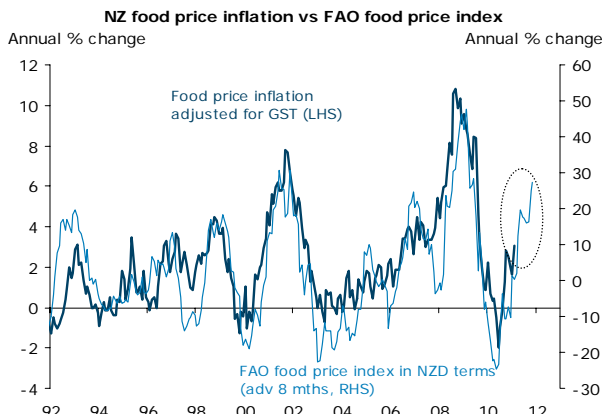
INFLATION WATCH

excise taxes to past CPI movements. We think a 5 percent increase over this year is a reasonable estimate.

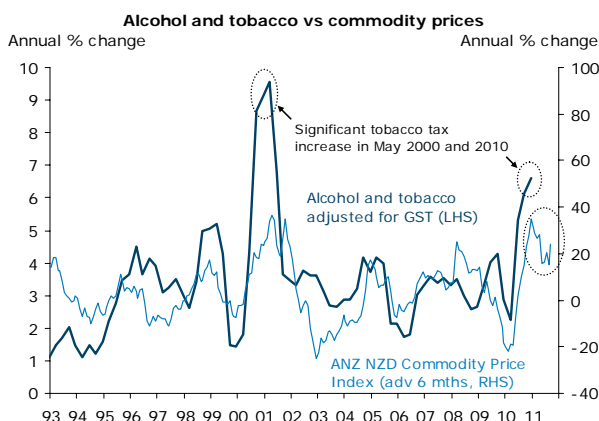
Petrol and transport services and supplies prices are highly correlated with oil prices, which should come as no surprise. Given the highly volatile nature of oil prices (not to mention the NZD), we have conservatively assumed petrol and transport services and supplies price inflation will be flat by the end of this year. This assumes some payback after past increases and is a fairly heroic assumption.



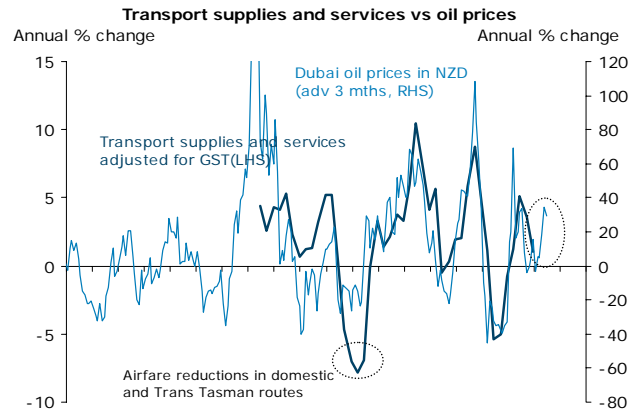
Sources: ANZ, National Bank, Statistics NZ, Bloomberg



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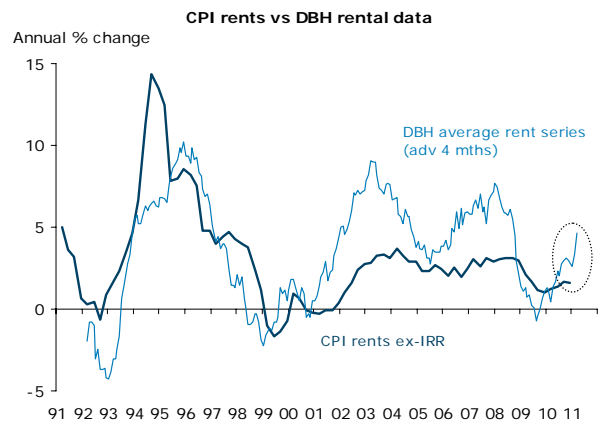
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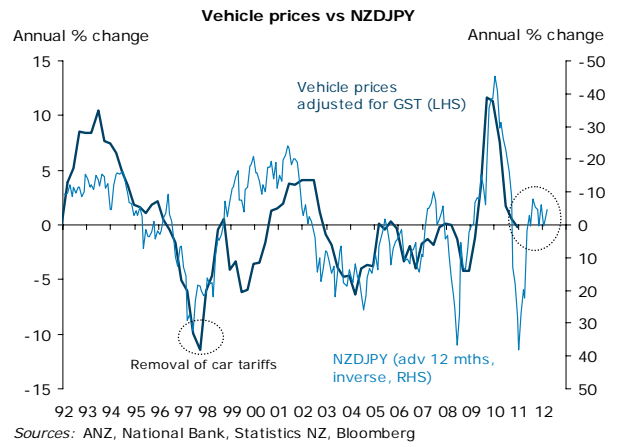
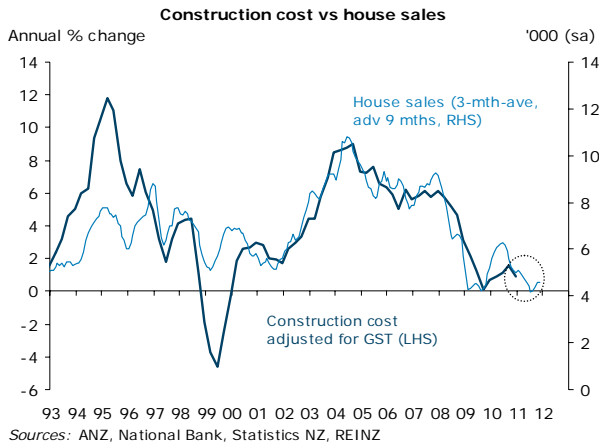
HOUSING – RENTS MAKING A COMEBACK

Construction costs have been well behaved, but we know that this is set to change as the construction sector goes from famine to feast over the course of 2011, as the Christchurch rebuilding gets under way. We have pencilled in a 4 percent increase for this year, which looks aggressive given the low levels of house sales. But this is still plausible given the resource requirements of the Christchurch rebuild. **Rents have been rising of late, and fairly quickly as well, based on the Department of Building and Housing's bond data.** Note that the bond data captures new rental agreements, whereas the rent data in the CPI is based on a survey of landlords, and includes state rentals administered by Housing NZ. Given that most renters have 6 or 12 month contracts, and landlords often wait for a change in tenant to raise rents, there is a lag between the two. Even then, the correlation is not great, but there is no doubting the direction. We have assumed a 2.5 percent increase for now.



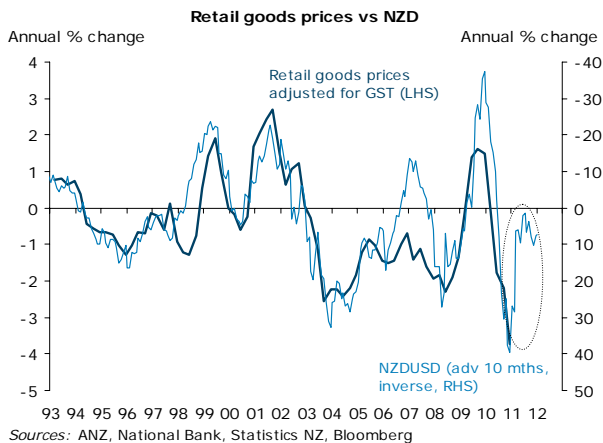
Sources: ANZ, National Bank, Statistics NZ, DBH

INFLATION WATCH



RETAIL – DEFLATED BUT FOR HOW MUCH LONGER?

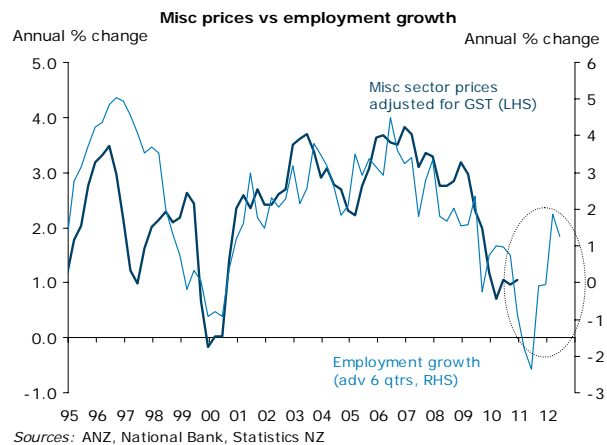
There is a strong currency pass-through into retail prices. Retail margins can act as a buffer and mitigate the final impact on retail prices. Of late, the competitive nature of the industry has seen retailers absorbing higher import costs into their margins rather than passing them on. The big question is how much further margin contraction retailers can bear. Based on where the currency is, we can expect retail goods price falls of 1 percent for this year. Car prices, on the other hand, are unlikely to fall due to possible supply disruptions from the Japan earthquake and tsunami. We have assumed unchanged car prices for this year.



LABOUR MARKET SENSITIVE – COST PUSH PLUS?

As mentioned above, the government-dominated sectors have averaged 4.4 percent price increases per annum over the past decade, and it is difficult to see that changing any time soon. User charges are likely to be utilised more aggressively by the government in order to reduce fiscal deficits, so the risk is for higher price increases. We have pencilled in a 4.5 percent rise this year.

As for the provision of private sector services, the weak labour market is keeping a lid on price increases. An improving employment outlook suggests this is likely to be temporary, with a pick-up later this year. With insurance premiums set to rise strongly this year (insurance has a 1.8 percent weight in the CPI), this is another upside factor. For now, we have pencilled in a 2.5 percent increase for 2011.



INFLATION WATCH

PUTTING IT TOGETHER – IT ALL ADDS UP

Adding it all up gives us an estimate of 2.8 percent inflation for 2011, and this is based on some conservative estimates. The risks clearly lie on the upside. The only obvious source of downside risk is the impact on retail prices if the currency continues to appreciate. But there are upside risks for the retail sector too. We doubt how much more retailers can reduce their margins. And we have recognised a new dynamic too: wage costs in China are rising strongly. We are already hearing anecdotes of firms having to pay more for goods coming out of China.

The point of this exercise is to provide a simple way of thinking about the major contributors of inflation and their drivers from a bottom-up perspective. This makes it easy to track and identify where potential pressure points will emerge, but

Importantly also allows us to do some rough scenario analyses to see where inflation could head to if one or more of the key drivers change. We see inflation (ex-GST) heading towards the top of the RBNZ's target band by the end of this year as a best-case scenario.

Looking forward, there will not be as much headroom as implied by the RBNZ's March MPS inflation forecast. Of course, the RBNZ will look through price increases that are due to the Christchurch earthquake. But that could start to get tricky if price increases become more generalised. Less inflation headroom may see the RBNZ become more wary about leaving it too late to start raising the OCR. Key will be how inflation expectations evolve, something we are doing a bit of work on and will report in due course.

Table 1 – Bottom-Up Look at Headline CPI Inflation (excluding GST increase)

CPI Annual % Change (ex-GST)	CPI Weight	Average last decade	2010 (actual)	ppt. contrib.	2011 (est)	ppt. contrib.
Commodity Price Sensitive	36.8	3.7	4.3	1.6	3.8	1.4
Food prices	17.8	3.2	2.4	0.4	6.0	1.1
Alcohol and tobacco	6.8	4.0	6.6	0.4	5.0	0.3
Petrol	5.5	6.8	11.8	0.6	0.0	0.0
Transport services	6.7	1.9	1.1	0.1	0.0	0.0
Housing Related	17.4	3.5	1.8	0.3	3.6	0.6
Rents	7.9	2.0	1.6	0.1	2.5	0.2
Construction costs	5.5	4.3	0.9	0.1	4.0	0.2
Energy	4.1	5.3	3.3	0.1	5.0	0.2
Retail Related	18.2	-0.6	-2.9	-0.5	-0.8	-0.1
Retail goods excl cars	14.2	-0.8	-3.7	-0.5	-1.0	-0.1
Car prices	4.0	0.1	-0.2	0.0	0.0	0.0
Labour Market Sensitive	27.6	3.3	2.2	0.6	3.2	0.9
Government dominated sectors	9.6	4.4	4.5	0.4	4.5	0.4
Private sector services	18.1	2.7	1.0	0.2	2.5	0.5
TOTAL	100.0	2.6	2.0	2.0	2.8	2.8

MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge posted a 0.2 percent increase in March, with a quarterly increase of 1.0 percent in the March quarter. There were few price changes, with those price movements generally offsetting. Price increases were of the cost-push variety, and more price increases of this kind are in prospect over the next few months. For now, there is little evidence of price increases becoming more generalised. There is the risk, however, that higher headline inflation rates start to filter through into price and wage setting behaviour. Our gauge remains a useful early warning indicator.

RETURN TO NORMAL?

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of the broad direction of domestic inflationary trends.

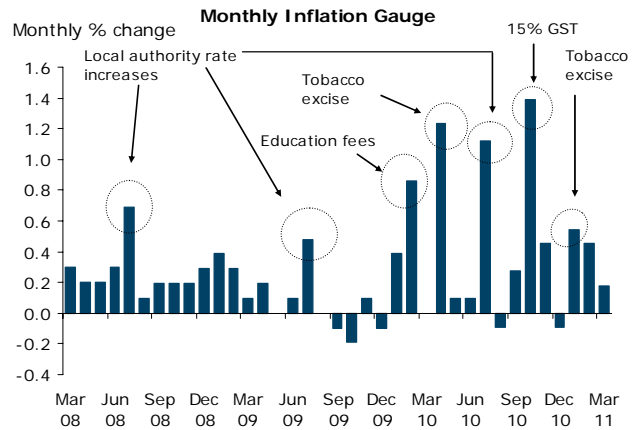
The 0.2 percent monthly increase in March increase was the lowest this year. There were few price movements reported in the gauge. Price movements that did occur were generally offsetting, with prices increasing in two of the eight groups but falling in two. A 5 percent increase in domestic airfares and higher rail and sea transport fares pushed up prices in the transport group. Housing prices were also higher, given a 1.2 percent increase in electricity prices and increases in construction costs and rents. A 5 percent fall for beer prices (reversing the February increase) was only partly offset by higher prices for wine and spirits. Lower prices for holiday park accommodation and gym fees also featured.

However, there are some price increases in the pipeline. These are of the cost-push variety and have little to do with demand within the economy. Announced increases to electricity prices in April should filter through. High oil prices may start to be more apparent in final consumer prices, with retail margins already wafer thin in some areas. As a result of the Canterbury earthquakes, dwelling rents and construction costs look set to rise. Local authority rates are also looking vulnerable. Insurance premiums will eventually move higher, and could either come in one hit or more gradually. Either way, consumer prices will be higher as a result.

The gauge has proved to be a useful bellwether of inflationary trends. The 1.0 percent in March

quarter non-tradable CPI inflation implied by the gauge is consistent with our 1.1 percent pick for March quarter CPI inflation.

While higher prices from the gauge are more of the cost-push variety, there is the risk of generalised inflationary pressures emerging if these one-offs start to affect wage and price setting behaviour. **We will be closely watching our Gauge for signs of a more generalised spill-over in pricing behaviour.**



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb 08	1000	0.0		
Mar 08	1003	0.3		1.1
Apr 08	1005	0.2		
May 08	1007	0.2		
Jun 08	1010	0.3	0.6	0.9
Jul 08	1017	0.7		
Aug 08	1018	0.1		
Sep 08	1020	0.2	1.1	1.3
Oct 08	1022	0.2		
Nov 08	1024	0.2		
Dec 08	1027	0.3	0.6	0.8
Jan 09	1031	0.4		
Feb 09	1034	0.3		
Mar 09	1035	0.1	0.9	0.7
Apr 09	1037	0.2		
May 09	1037	0.0		
Jun 09	1038	0.1	0.4	0.5
Jul 09	1043	0.5		
Aug 09	1043	0.0		
Sep 09	1042	-0.1	0.5	1.0
Oct 09	1040	-0.2		
Nov 09	1041	0.1		
Dec 09	1040	-0.1	-0.2	0.1
Jan 10	1044	0.4		
Feb 10	1053	0.9		
Mar 10	1053	0.0	0.9	0.5
Apr 10	1066	1.2		
May 10	1067	0.1		
Jun 10	1068	0.1	1.6	0.6
Jul 10	1080	1.1		
Aug 10	1079	-0.1		
Sep 10	1082	0.3	1.2	1.2
Oct 10	1097	1.4		
Nov 10	1102	0.5		
Dec 10	1101	-0.1	1.8	2.2
Jan 11	1107	0.5		
Feb 11	1112	0.5		
Mar 11	1114	0.2	1.0	



INTEREST RATE STRATEGY

SUMMARY

Signs of a pick-up in the Auckland housing market and more resilient business confidence outside of quake ravaged Christchurch have certainly put the market in a guarded mood. Now that the ECB are raising rates with the BoE probably not far behind, and “Fedspeak” turning hawkish, the risk of NZ interest rates moving higher is not insignificant. Especially with NZ Q1 inflation data next week set to surprise on the upside. The benchmark 2-year swap yield looks set to grind higher but receiving interest on the back of attractive carry will cap the extent of any rises in yield.

MARKET THEMES

- The OCR debate has moved on. It is no longer a question of “if”, but “when” the RBNZ will hike.
- Inflation expectations are critical to the debate, and with other central banks like the ECB tackling the issue head-on, the focus will turn on NZ.
- Much has been made about Crown finances in the wake of the AMI bailout. But demand for NZGS remains firm, and we don't expect the government to have any trouble raising debt.

REVIEW AND OUTLOOK

Last week was dominated by three main themes. The first was **better than expected data**, with better than expected experienced activity numbers in the NZIER survey, and signs of a pick-up in Barfoot and Thompson housing data for Auckland. Next was the **Government's “standby” bailout of AMI**, which has attracted the attention of the bears. But as we have long noted, demand for NZGS remains strong at the weekly tenders. While supply is undoubtedly having an impact on bond yields, New Zealand is seen by some investors as a virtual safe haven, particularly when compared to the so called “peripheral” European sovereigns. Finally, it was the **ECB's turn in the limelight, delivering a 25bp hike**. Frankfurt is a long way from Auckland, but when we look at the ECB's attitude to inflation, we can see parallels here in New Zealand. They have us standing on guard, cautious of a potential swing in the debate about exactly when it may be appropriate for the RBNZ to normalise monetary policy.

Turning more specifically to market movements – **the steepening of the yield curve** has been one of the hallmarks of the post rate cut period. In our view this **looks overdone**. Rising global bond yields may give it a little more longevity, but **as the potential for late 2011 hikes gets fully priced in, we expect the curve to start to flatten**.

PREFERRED BORROWING STRATEGIES

Although the floating rate is unusually low and we continue to favour above-normal exposure to it, we wonder whether the sun is starting to set on this as a lifestyle choice. We have long known that key short term rates like the 2yr are below the level implied by even the RBNZ's tame 90 day bill projections. However, our feeling has been that they are not sufficiently low to be of good value, particularly given other uncertainties, and strains on cashflow. However, we suspect the market has been mildly rattled by recent data that has tended to indicate that areas outside Christchurch have been surprisingly resilient. The debate with regards to the OCR has certainly moved to “when” rather than “if” the RBNZ's next move is a hike. But it is the long end that is set for much greater adjustment, particularly if global rates continue to rise. But the yield curve remains steep, leaving the mid part of the curve as the happy middle ground for hedging.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔/↑	Rate hike some time away, but risk is it'll be sooner.
NZ data	↔/↑	Will REINZ housing data reflect strong Barfoot data?
Fed Funds / front end	↑	Fed rhetoric mixed, but more on the hawkish side.
RBA	↔/↑	Seem comfortable now, but can't rule out more hikes.
US 10 year	↔/↑	Yields continue to rise, data continues to improve.
NZ swap curve	↔/↑	Curves have steepened too far. Time to unwind.
Flow	↔	Has been light, will pick up as market debates hikes.
Technicals	↔	2yr/5yr overdone +12bps.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Apr-11	0	-2
Thu 9-Jun-11	0	+1
Thu 28-Jul-11	-2	-1
Thu 15-Sep-11	-1	+2
Thu 27-Oct-11	+4	+9
Thu 8-Dec-11	+13	+16
Thu 26-Jan-12	+29	+28

TRADING THEMES WE FAVOUR AT PRESENT

Having favoured steepeners from their lows to current levels, we now favour taking profit. Roll and carry remain on some steepeners and remains persuasive. However, levels have become over-stretched and we believe incoming data will see the market debate the possibility of an earlier normalisation of monetary policy relative to what is priced in. With less than one hike priced in by December, upside risks would seem to dominate. Consider paying 6mth OIS, which has almost nothing priced in.

CURRENCY STRATEGY

SUMMARY

The NZD has now fully retraced its early February decline. USD weakness and an AUD hitting fresh post-float highs are helping to propel the NZD higher. The USD weakness theme is unlikely to let up this week, though we may see some profit taking on the AUD. With the NZD at key resistance levels, there is a chance that this week will see a pullback. But with commodity prices still rising and domestic data unlikely to print as bad, there could be enough buying support to see the NZD continue to push higher still. A break of key levels could see a test of 0.80 loom large.

MARKET THEMES

- USD weakness theme still dominant.
- AUD hit fresh post-float highs.
- ECB hikes despite Portugal requesting a bail-out.
- NZD reaching key technical resistance levels. May see corrective pullback but buying support on dips will limit how far NZD corrects.

REVIEW AND OUTLOOK

The full retracement from the early February to mid-March fall in the NZD occurred sooner than we had expected. We mentioned last week that a move towards 0.78 was on the cards, but did not expect it to happen with such relative ease by mid-week. The fact that the NZIER QSBO survey showed some resilience in business confidence outside of Christchurch did help. And NZ's commodity prices, as measured by the ANZ Commodity Price Index, rose 4.7 percent in March to a new record high. In addition, Auckland housing market data suggests a pick-up in activity. After faring well in the face of earlier weak data, the NZD will no doubt fare well on any "positive" data. The key upcoming one to watch is next week's Q1 CPI data, which is set to print stronger than what the RBNZ had forecast. **With inflation becoming a topical issue globally, a strong CPI print could be the catalyst for pushing the NZD further still.**

Last week's theme of AUD strength and generalised USD weakness which we mentioned are still relevant. The AUD hit fresh post-float highs and is well entrenched above 1.05 at present. Speculative positioning is at a record net long in AUD, so a risk of a corrective pullback remains. But with carry still very much in the AUD's favour, and commodity prices still moving up, partly on USD weakness, commodity currencies generally still remain in favour. The US government have just managed to avoid a shutdown after a last minute deal, but this is unlikely to halt the USD's decline. It

seems only the JPY is losing ground to the USD amongst the major currencies.

The ECB delivered a rate hike last week despite Portugal seeking aid from the EU. Although back-to-back moves look unlikely, ECB President Trichet made it clear further hikes are on the cards. The EUR will remain supported on yield expectations, with the key 1.45 level well within reach. And while the BoE did not change policy last week, strong inflation numbers mean it is only a matter of time before they follow in the ECB's footsteps. The GBP has been supported on such expectations.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↓	NZ rates to stay below AU's for a while.
Commodities	↔	Commodity prices continue to soar.
Partial indicators	↓	NZ business confidence not that bad outside of Christchurch.
Technicals	↔	Support remains at 0.7300.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade continue to support.
On balance	↔	Are 20 year lows really justified?

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield differentials suggest NZD should be lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔/↑	VIX is low and risk is on.
Partial indicators	↔	Could have been worse. Inflation one to watch.
Technicals	↑	Full retracement done. 0.7850 key topside level.
AUD	↑	Post-float high.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade support.
On balance	↑	Reinsurance and export demand, strong AUD and weak USD keeping NZD up.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
11-Apr	JN	Machine Orders (MoM) - FEB	-0.90%	4.20%	11:50
	JN	Machine Orders YOY% - FEB	9.00%	5.90%	11:50
	CH	Foreign Exchange Reserves - MAR	\$2980.0B	- -	- -
	CH	New Yuan Loans - MAR	600.0B	535.6B	- -
	CH	Money Supply - M0 (YoY) - MAR	14.90%	10.30%	- -
	CH	Money Supply - M1 (YoY) - MAR	14.90%	14.50%	- -
	CH	Money Supply - M2 (YoY) - MAR	15.40%	15.70%	- -
12-Apr	UK	BRC Sales Like-For-Like YoY - MAR	- -	-0.40%	11:01
	UK	RICS House Price Balance - MAR	-	-26.00%	11:01
	JN	Japan Money Stock M2 YoY - MAR	2.50%	2.40%	11:50
	JN	Japan Money Stock M3 YoY - MAR	1.90%	1.80%	11:50
	JN	Bank Lending Banks Adjust YoY - MAR	- -	-1.70%	11:50
	JN	Bank Lending Ex-Trusts YoY - MAR	- -	-2.00%	11:50
	JN	Bank Lending incl Trusts YoY - MAR	- -	-1.80%	11:50
	NZ	QV House Prices YoY - MAR	- -	-1.70%	12:00
	AU	NAB Business Conditions - MAR	- -	-2	13:30
	AU	NAB Business Confidence - MAR	- -	14	13:30
	GE	Consumer Price Index (MoM) - MAR F	0.50%	0.50%	18:00
	GE	CPI - EU Harmonised (MoM) - MAR F	0.50%	0.50%	18:00
	JN	Machine Tool Orders (YoY) - MAR P	- -	73.90%	18:00
	UK	DCLG UK House Prices (YoY) - FEB	0.10%	0.50%	20:30
	UK	Visible Trade Balance GBP/Mn - FEB	-£8000	-£7057	20:30
	UK	Trade Balance Non EU GBP/Mn - FEB	-£4900	-£4173	20:30
	UK	Total Trade Balance (GBP/Mln) - FEB	-£3950	-£2950	20:30
	UK	CPI (MoM) - MAR	0.60%	0.70%	20:30
	UK	Core CPI YOY - MAR	3.30%	3.40%	20:30
	UK	RPI (MoM) - MAR	0.60%	1.00%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - MAR	5.50%	5.50%	20:30
	GE	Zew Survey (Current Situation) - APR	85	85	21:00
	EC	ZEW Survey (Econ. Sentiment) - APR	- -	31	21:00
	GE	ZEW Survey (Econ. Sentiment) - APR	11	14	21:00
	US	NFIB Small Business Optimism - MAR	95	95	23:30
13-Apr	US	Import Price Index (MoM) - MAR	2.20%	1.40%	00:30
	US	Trade Balance - FEB	-	-\$46.3B	00:30
	US	IBD/TIPP Economic Optimism - APR	45	43	02:00
	US	Monthly Budget Statement - MAR	-\$189B	- -	06:00
	NZ	Food Prices (MoM) - MAR	- -	0.10%	10:45
	NZ	New Zealand Net Migration SA - FEB	- -	450	10:45
	JN	Domestic CGPI (MoM) - MAR	0.40%	0.20%	11:50
	AU	Westpac Consumer Confidence s.a. (MoM) - APR	- -	-2.40%	12:30
	AU	DEWR Skilled Vacancies MoM - APR	- -	0.60%	13:00
	GE	Wholesale Price Index (MoM) - MAR	1.20%	1.40%	18:00
	UK	Claimant Count Rate - MAR	4.50%	4.50%	20:30
	UK	Jobless Claims Change - MAR	-3.0K	-10.2K	20:30
	UK	Average Weekly Earnings 3M/YoY - FEB	2.60%	2.30%	20:30
13-Apr	UK	Weekly Earnings exBonus 3M/YoY - FEB	2.20%	2.20%	20:30
	UK	ILO Unemployment Rate (3mths) - FEB	8.00%	8.00%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
13-Apr	UK	Weekly Earnings exBonus 3M/YoY - FEB	2.20%	2.20%	20:30
	UK	ILO Unemployment Rate (3mths) - FEB	8.00%	8.00%	20:30
	EC	Euro-Zone Ind. Prod. sa (MoM) - FEB	0.80%	0.30%	21:00
14-Apr	US	Advance Retail Sales - MAR	0.50%	1.00%	00:30
	US	Retail Sales Less Autos - MAR	0.70%	0.70%	00:30
	US	Retail Sales Ex Auto & Gas - MAR	0.40%	0.60%	00:30
	US	Business Inventories - FEB	0.80%	0.90%	02:00
	US	JOLTs Job Openings - FEB	- -	2760	02:00
	US	Fed's Beige Book	- -	- -	06:00
	NZ	REINZ Housing Price Index MoM - MAR	- -	2.30%	- -
	NZ	REINZ House Sales YoY - MAR	- -	-10.50%	- -
	NZ	Business NZ PMI - MAR	- -	51	10:30
	UK	Nationwide Consumer Confidence - MAR	40	38	11:01
	AU	New Motor Vehicle Sales YoY - MAR	- -	-1.50%	13:30
	NZ	Non Resident Bond Holdings - MAR	- -	63.10%	15:00
	JN	Tokyo Condominium Sales (YoY) - MAR	- -	24.90%	16:00
15-Apr	US	Initial Jobless Claims - April 9	380K	382K	00:30
	US	Continuing Claims - April 2	3703K	3723K	00:30
	US	Producer Price Index (MoM) - MAR	1.00%	1.60%	00:30
	US	PPI Ex Food & Energy (MoM) - MAR	0.20%	0.20%	00:30
	CH	Real GDP YoY - 1Q	9.40%	9.80%	14:00
	CH	Consumer Price Index (YoY) - MAR	5.20%	4.90%	14:00
	CH	Producer Price Index (YoY) - MAR	7.20%	7.20%	14:00
	CH	Industrial Production (YoY) - MAR	14.00 %	14.90%	14:00
	CH	Retail Sales (YoY) - MAR	16.50 %	11.60%	14:00
	CH	Fixed Assets Inv Excl. Rural YTD YoY - MAR	24.80 %	24.90%	14:00
	JN	Industrial Production (MoM) - FEB F	- -	0.40%	16:30
	JN	Capacity Utilization (MoM) - FEB	- -	3.60%	16:30
	EC	Euro-Zone CPI - Core (YoY) - MAR	1.10%	1.00%	21:00
	EC	Euro-Zone CPI (MoM) - MAR	1.30%	0.40%	21:00
	EC	Euro-Zone CPI (YoY) - MAR	2.60%	2.60%	21:00
	EC	Euro-Zone Trade Balance - FEB	-4.0B	-14.8B	21:00
16-Apr	US	Consumer Price Index (MoM) - MAR	0.50%	0.50%	00:30
	US	CPI Ex Food & Energy (MoM) - MAR	0.20%	0.20%	00:30
	US	Empire Manufacturing - APR	17.0	17.5	00:30
	US	Total Net TIC Flows - FEB	- -	\$32.5B	01:00
	US	Net Long-term TIC Flows - FEB	- -	\$51.5B	01:00
	US	Industrial Production - MAR	0.50%	-0.10%	01:15
	US	Capacity Utilization - MAR	77.40 %	76.30%	01:15
	US	U. of Michigan Confidence - APR P	69.0	67.5	01:55

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Last week's NZIER QSBO showed an immediate impact of seismic events, but the fall in confidence was not as dramatic as it could have been. Interpreting this week's data will be difficult. The economic data over the coming months will be noisy and interpreting it will be challenging. We continue to be alert for signs of rebuilding activity picking up. Upcoming confidence readings will be closely watched for signs of stabilisation.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed Apr 13 (10:45am)	External Migration – Feb	Down	A lower net PLT monthly inflow of 200 persons is expected. Visitor arrivals to fall 1 to 2 percent but this will not be quake related.
Wed Apr 13 (10:45am)	Food Price Index – March	Up	We expect a 0.7 percent increase in food prices. Stronger rises over 2011 are in prospect.
Thur Apr 14 (10:30am)	BNZ – Business NZ PMI – March	Down	The resumption of this survey after the earthquake induced cancellation should see weakness on a number of fronts.
Thur Apr 14 (10:45am)	REINZ housing market data – March	Location, location	We are looking for nationwide sales volumes to rise 1 percent despite a large fall in Canterbury sales. Sign of stabilisation in prices likely.
Mon Apr 18 (10:45am)	Consumers Price Index – 2011Q1	Up	We expect a 1.1 percent quarterly increase. Higher petrol prices are expected to contribute 0.5 percentage points.
Wed Apr 20 (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate at around the US \$3,800-3,900 tonne level.
Thur Apr 21 (10:45am)	External Migration – March	Quake impacts	No additional net immigration is envisaged, with risks of a monthly net outflow. Visitor arrivals should remain weak.
Thur Apr 21 (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Wed Apr 27 (3:00pm)	National Bank Business Outlook - Apr	- -	- -
Thur Apr 28 (9:00am)	April OCR Review	On hold	The RBNZ will want to give March MPS insurance cuts time to work. We expect the RBNZ to remain on hold until December.
Thur Apr 29 (3:00pm)	RBNZ Credit Aggregates - March	Crawling	Ongoing deleveraging. We will closely monitor business credit levels to see if the quake will set back investment plans.
Fri Apr 29 (10:45am)	Overseas Merchandise Trade- March	Seasonal	We expect a monthly surplus of about \$500m. The annual trade surplus should widen to \$800m.
Fri Apr 29 (10:45am)	Building Consents - Feb	Holding	Residential consent numbers should hold at weak levels of 1,000 consents. A strong Q3 pick-up looms from rebuilding.
Mon 2 May (3:00pm)	ANZ Commodity Price Index – April	- -	- -
Tue 3 May (10:45am)	Labour Cost Index – 2011Q1	Firming	Private sector LCI wages should rise 0.6 percent (2.2 percent y/y). Larger increases are expected in the unadjusted LCI.
Tue 3 May (10:45am)	Quarterly Employment Survey – 2011Q1	Tightening	Private ordinary time average earnings growth to accelerate to 2.7 percent y/y. Filled jobs and paid hours to rise 1 percent.
Wed 4 May (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate at around the US \$3,800-3,900 tonne level.
Wed 4 May (10:45am)	Building Consents – March	Flat	Dwelling consent numbers should remain broadly unchanged. Large falls in Canterbury to be offset elsewhere.
Thur 5 May (10:45am)	HLFS – 2011Q1	See-saw	We expect a 0.9 percent increase in employment, with the unemployment rate set to decline to 6.5 percent.
On Balance		Mixed	A real economy and pricing side dichotomy looks set to emerge.

KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	-0.4	0.1	1.4	1.8	0.7	0.9	0.9
GDP (% yoy)	1.9	1.5	0.8	-0.3	-0.3	1.3	2.9	4.1	4.9	4.4
CPI (% qoq)	0.2	1.1	2.3	1.1	1.0	0.8	0.7	0.6	0.8	0.7
CPI (% yoy)	1.7	1.5	4.0	4.8	5.7	5.4	3.7	3.1	2.8	2.7
Employment (% qoq)	-0.3	1.1	-0.5	0.9	0.2	0.5	0.5	0.5	0.4	0.5
Employment (% yoy)	0.0	1.9	1.3	1.2	1.7	1.1	2.1	1.7	1.9	1.9
Unemployment Rate (% sa)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Current Account (% GDP)	-3.0	-2.2	-2.2	0.5	0.2	-1.2	-1.2	-4.2	-4.8	-4.8
Terms of Trade (% qoq)	2.0	3.0	0.6	2.5	1.5	1.5	0.5	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.7	17.9	12.2	8.3	7.8	6.3	6.1	2.8	0.5	-1.8

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11
Retail ECT (% mom)	0.4	0.3	-0.7	2.3	0.9	1.0	-0.9	2.4	-0.2	1.3
Retail ECT (% yoy)	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6
Credit Card Billings (% mom)	1.2	-1.2	0.7	1.0	0.6	0.0	-1.7	3.4	-0.3	..
Credit Card Billings (% yoy)	4.5	2.6	2.2	4.2	4.7	3.8	2.1	5.5	5.3	..
Car registrations (% mom)	5.6	-6.4	0.0	2.6	-3.8	13.5	-8.6	1.0	-1.1	-0.2
Car registrations (% yoy)	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0
Building consents (% mom)	1.5	3.3	-17.6	0.9	-1.9	8.0	-18.4	9.1	-9.7	..
Building consents (% yoy)	27.1	25.1	-3.1	-9.5	-17.4	-9.1	-26.5	-14.8	-28.9	..
REINZ House Price Index (% yoy)	4.2	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	..
Household Lending Growth (% mom)	0.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	..
Household Lending Growth (% yoy)	2.6	2.5	2.3	2.3	2.0	1.8	1.6	1.6	1.5	..
ANZ Roy Morgan Consumer Confidence	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4
NBNZ Business Confidence	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7
NBNZ Own Activity Outlook	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7
Trade Balance (\$m)	221	-186	-430	-455	-220	-177	-223	-3	194	..
Trade Balance (\$m ann)	593	585	871	978	1259	1363	1166	893	758	..
ANZ World Commodity Price Index (% mom)	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.7
ANZ World Commodity Price Index (% yoy)	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6
Net migration (sa)	200	930	870	1010	510	600	720	450
Net migration (annual)	16504	15221	14507	13914	12610	11519	10451	8689

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.752	0.762	0.782	0.74	0.75	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.739	0.737	0.740	0.73	0.71	0.73	0.73	0.72	0.72	0.73
NZD/EUR	0.545	0.538	0.540	0.53	0.55	0.56	0.56	0.54	0.53	0.52
NZD/JPY	61.53	63.31	66.55	62.9	64.5	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.463	0.475	0.477	0.46	0.47	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.4	66.7	67.9	65.6	66.4	67.3	67.0	65.7	64.9	64.4
INTEREST RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.86	2.63	2.63	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.54	5.66	5.78	5.70	6.00	6.10	6.20	6.10	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00
US 3-mth	0.31	0.30	0.29	0.35	0.35	0.35	0.35	0.85	1.60	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.97	4.93	4.92	5.00	5.30	5.50	5.60	5.90	6.00	6.00

	8 Mar	4 Apr	5 Apr	6 Apr	7 Apr	8 Apr
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.81	2.63	2.63	2.64	2.64	2.65
NZGB 11/11	3.56	3.43	3.43	3.45	3.48	3.47
NZGB 04/13	4.41	4.37	4.37	4.41	4.45	4.45
NZGB 12/17	5.42	5.46	5.46	5.51	5.57	5.58
NZGB 05/21	5.64	5.65	5.65	5.68	5.73	5.75
2 year swap	3.36	3.30	3.29	3.31	3.31	3.32
5 year swap	4.38	4.49	4.48	4.50	4.50	4.53
RBNZ TWI	65.0	67.4	67.4	67.7	67.8	68.1
NZD/USD	0.7374	0.7691	0.7679	0.7723	0.7762	0.7817
NZD/AUD	0.7287	0.7409	0.7435	0.7445	0.7426	0.7427
NZD/JPY	60.67	64.77	64.78	65.90	66.17	66.53
NZD/GBP	0.4554	0.4766	0.4764	0.4728	0.4762	0.4771
NZD/EUR	0.5276	0.5408	0.5412	0.5416	0.5426	0.5429
AUD/USD	1.0119	1.0381	1.0328	1.0374	1.0453	1.0525
EUR/USD	1.3976	1.4222	1.4190	1.4259	1.4304	1.4398
USD/JPY	82.28	84.21	84.36	85.33	85.25	85.11
GBP/USD	1.6192	1.6136	1.6119	1.6334	1.6300	1.6386
Oil (US\$/bbl)	105.37	107.55	108.14	107.82	108.38	109.82
Gold (US\$/oz)	1431.75	1430.35	1437.75	1454.75	1454.45	1466.55
Electricity (Haywards)	3.45	5.90	6.49	5.23	5.52	7.74
Baltic Dry Freight Index	1424	1498	1462	1430	1401	1376
Milk futures (US\$/contract)	160	158	158	158	158	158

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;



IMPORTANT NOTICE

- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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