

HOUSING DIFFUSION

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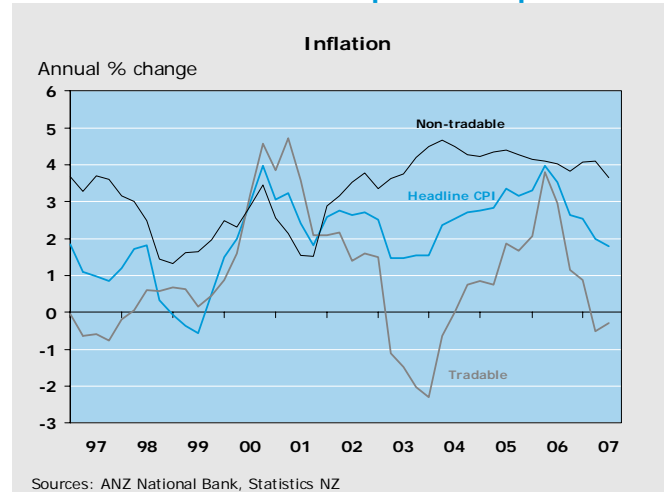
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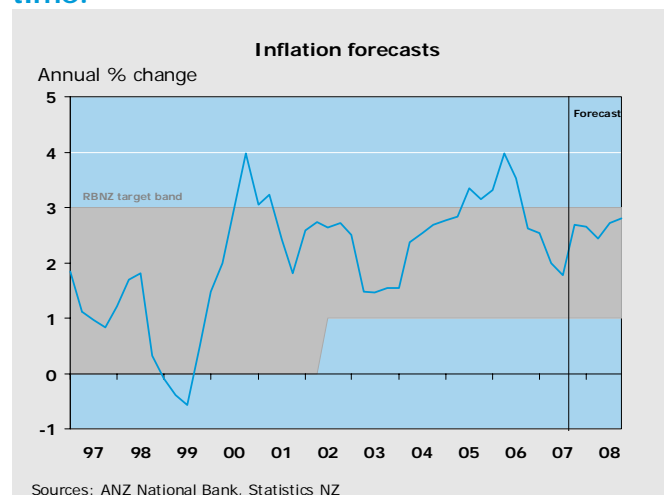
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Some one-offs helped to pull headline inflation lower in the September quarter.



This has given the Reserve Bank some breathing space, although inflation is expected to remain elevated for some time.



ECONOMIC OVERVIEW

This week's inflation figures showed a persistent undercurrent, but a lower headline rate has bought the Reserve Bank some breathing space. Next week's OCR Review is expected to reinforce the need for inflation vigilance, but continue to highlight a considerable layer of uncertainty.

What's ahead...

- **RBNZ OCR Review.** We expect the Reserve Bank to leave the OCR unchanged at 8.25 percent and an on-hold stance. Inflation concerns will be weighed up against signs of a clear easing in domestic demand.

What's the view

It was all about inflation this week, and while most market participants were preparing for bad news on this front (including ourselves), what transpired came as a bit of a surprise. Headline inflation rose 0.5 percent in the September quarter against our, market's and the Reserve Bank's estimates of a 0.8 percent increase. Annual headline inflation eased to 1.8 percent, and is now below the mid-point of the Reserve Bank's target band - the first time this has occurred since March 2004. Ironically, given the increasing pressure that government spending has been placing on monetary policy, it was increased government subsidies in health and early childhood education that resulted in a lower headline CPI print.

But we shouldn't have been surprised. We, along with most other market commentators (we assume), were well aware of the subsidies, but clearly under-estimated their impact. Looking through these one-offs (which we estimate knocked 0.3 percentage points off the headline inflation rate), there was still a worrying inflation undercurrent present. Housing-related inflation is accelerating, despite signs that the housing market has turned. Services inflation – an indicator of cost-push pressure – also remains elevated. It is an inflationary environment that will undoubtedly still concern the Reserve Bank.

Nevertheless, the lower-than-expected headline result has provided the Reserve Bank with some breathing space. Before the release, annual inflation was tipped to tick over 3 percent by the end of this year when the quarterly fall in December 2006 drops out of the annual calculation. However, the lower starting point means that CPI inflation is now expected to hit a still elevated, but more manageable, level of 2.8 percent. It ultimately means that the Reserve Bank can afford to sit back and watch the upcoming data with a little less apprehension.

In saying that, this is ultimately the message we feel the Reserve Bank will portray at their *Review* on Thursday next week. The economic

environment remains one of contrasting forces and uncertainty, and developments since the September *Monetary Policy Statement* have been relatively mixed. GDP growth was stronger, financial market concerns appear to have settled down (although remain jittery), but the housing market is now clearly turning, and then there is of course the softer Q3 CPI release. We feel it is an environment where the Reserve Bank is likely to present a relatively unchanged message and stick with their wait-and-see approach.

The other major development of late has been a sharp rise in international oil prices, courtesy of solid global demand, the pending Northern Hemisphere winter, and of course geopolitical uncertainty/fragility in Northern Iraq. International crude prices have surged to US\$90/bbl, and with the NZ dollar losing ground over the week it's a combination that is set to see petrol prices lifted. For the Reserve Bank, it's another technical one-off that, while having the capacity to look through, just adds to the inflation risk profile. But higher oil prices also carry an economic cost to the nation, as we are a net oil importer to the tune of around 1.5 percent of GDP. While consumers are being supported by strong income growth, the combination of high domestic inflation, rising food costs, local authority rates, electricity, mortgage payments, and now petrol, are seeing the money rifle quickly out the door.

Shifting to other data next week, two indicators are likely to dominate. The first is Australian inflation figures, with the market increasingly looking for successive interest rate hikes in response to strong growth and rising inflation. A line in the sand of around 0.9 percent for the core seems to have been drawn as being sufficient to get the RBA over the line and raising rates in November, irrespective of the election. Prospective rising rates in Australia look set to keep the NZD/AUD under downwards pressure, providing some further much needed relief to exporters, a lot of whom are suffering against the greenback. US housing data also looks also likely to get attention, with this week's permits and housing starts figures portending of further weakness. Brace for more volatility across markets as the wider effects of collapsing housing activity are assessed for the US consumer.

Recent data...

- **NZ CPI (Sep qtr).** Headline CPI rose 0.5 percent, taking annual inflation to 1.8 percent. Non-tradable inflation rose 0.6 percent in the quarter (3.7 percent in annual terms) and tradable inflation rose 0.5 percent (-0.3 annually).
- **NZ External Migration (Sep).** There was a seasonally adjusted net inflow of 720 people in September. This took the 12-month total to 8,309.
- **NZ Credit Card Spending (Sep).** Credit card spending rose 3.1 percent, following a revised 0.4 percent increase in August.

HOUSING DIFFUSION

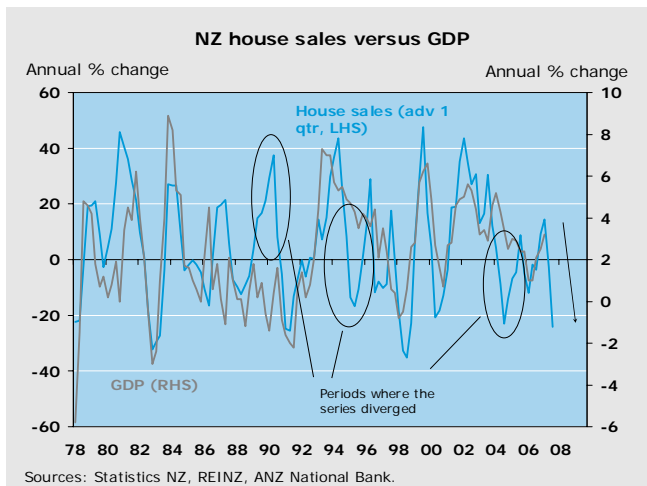
Housing volumes are strongly correlated with the economic cycle with house sales showing a good lead on the economic cycle. However, history has thrown up some exceptions, such as 2004.

Housing is a significant part of the economy.

It makes up approximately three quarters of household wealth. Housing-aligned sectors of the economy – namely construction, finance and business services – have accounted for one third of the growth in GDP over the past five years. Employment has been heavily concentrated in these areas, accounting for close to half of all job growth.

The Reserve Bank is finally having some success slowing housing activity. The four OCR increases this year finally look to be gaining traction. The housing market has now clearly turned and house sales are at their lowest level since 2001. The median number of days to sell a house is increasing, and house price growth has moderated.

The housing cycle is strongly correlated with the economic cycle. Strong housing activity (and house price growth) is typically associated with solid construction activity, as well as increased consumer spending as households benefit from the wealth effects associated with higher house values. The correlation between housing activity and annual GDP growth over the past 30 years is slightly over 0.5.

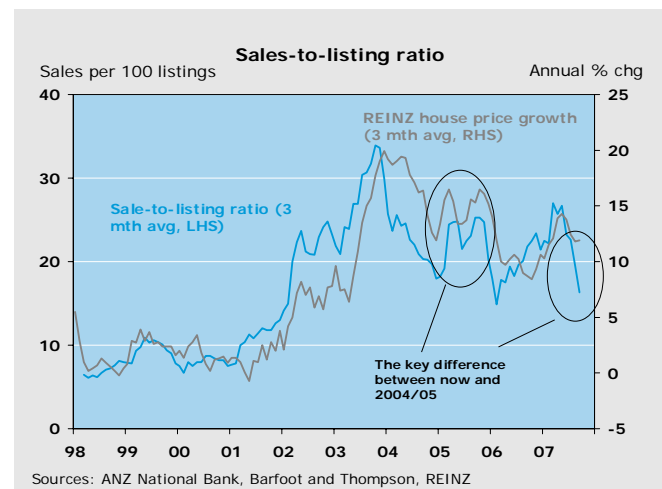


Exceptions to this include the mid 1980's, 1994/95, and 2004/05. Deregulation, financial market reform and a booming property market in general account for the divergence seen in the mid 1980's. The economy was still in investment catch-up mode through 1994/95. We note that house price growth was still elevated over these periods, despite slowing house sales growth, and this would have continued to provide support to consumer spending.

But will this cycle be any different? Some strong support factors clearly still exist. A tight labour market in particular will continue to insulate households from the reduced wealth effects of lower house price growth. Add to this the huge pending stimulus in the form of a record high dairy payout and fiscal largesse, and it is very hard to imagine an economy that is all of a sudden going to collapse. Booming rural land prices will support regional house prices. Migration is weak, but still positive.

However, we also note that:

- **The housing market correction is "due".** The current expansion in house prices (adjusted for inflation) is well into its sixth year, which is easily the longest expansion recorded over the past 37 years (i.e. since 1970). The only continuous run of consistent house price movements over the same period which exceeds that 6 years is the contraction in real house prices through the second half of the 1970s into the early 1980s. (Refer table on the following page).
- **The picture from the supply side looks to be changing.** Barfoot and Thompson data shows the number of available listings has increased recently and the sales-to-listings ratio has fallen sharply. This looks to be a key difference to the 2004/05 period.



- **The lower-end is hurting more.** REINZ data shows that sales have fallen much more in the lower end of the market. Sales of houses worth \$400k or less have fallen 40 percent compared with September 2006. Sales decreases were much less pronounced for the higher brackets, while sales of homes over \$1 million actually increased. The weakness at the lower end could indicate that it is the first-home-buyer and speculative/investment part of the market that has dried up. It also suggests the median house price is softer than what the aggregate figures are portraying.
- **The global environment has changed, and notably credit conditions and risk**

appetites. House price growth has shown an eerily strong relationship with the US 2 year swap spread (a barometer for global credit conditions).

undoubtedly a bit of chicken and egg in terms of which drives what.

The upshot

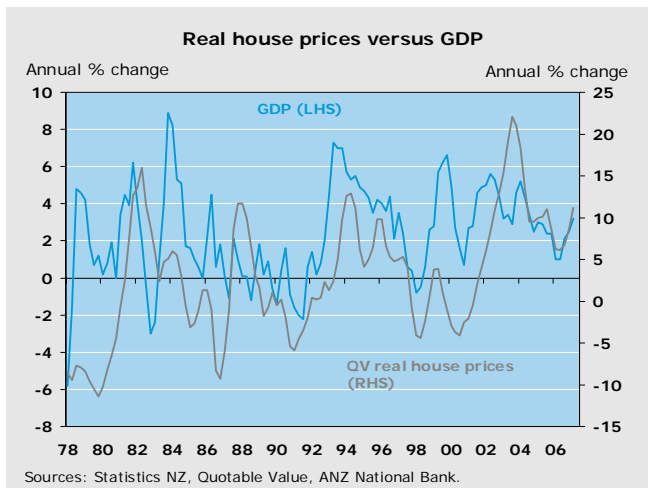
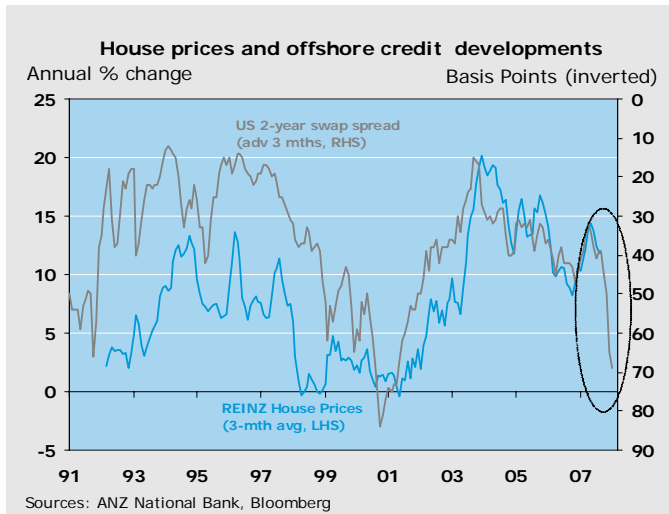
The housing market has been, and we believe remains, the key cyclical barometer of the economy. While we are somewhat surprised by how resilient the remainder of the economy has been (no doubt a sign in part of a tight labour market, and strong dairy and fiscal stimulus), we expect this picture to progressively change over the coming months. Housing (and prices) remains a key dinner party conversation piece.

Typically, you can think of housing market adjustments as going through three stages, very much like dealing with grief: denial, anger and acceptance. We have just started the denial stage.

Demand has fallen, house sales are well down, but people expect things to pick up in the coming months. They tell themselves that house prices are still holding up so things must be fine! Sellers will reject offers that come in below their price expectations. This leads to fewer sales, a rise in the number of days the house remains on the market and an increase in the number of houses listed on the market. But because only the well sought after houses get sold, the statistics will show house prices remaining firm.

Next, the anger stage sets in. Sellers will get frustrated that offers are not coming in thick and fast anywhere near their price range. It has not yet dawned upon them that the market environment has changed, that their price expectations are now unrealistic, and it is them who has to move down to match the market. House sales remain low, the days to sell a house starts to pick up, and house prices start to move lower.

Finally, sellers will move to the acceptance stage. The housing market finally adjusts, and with it, the impact diffuses through to the wider economy.



Throw in a yield curve that has flattened (nowhere to hide on the borrowing front), additional pipeline tightening, stress across some non-bank financial institutions as they get caught in the rip of global risk re-pricing and a central bank that is going for the jugular this time around, and we expect house prices to be in retreat by early 2008. While annual house price growth remains healthy, growth over the past six months has been a meagre 2 percent and the big donut over the past three. The New Zealand economy has never performed well when house prices have fallen, although there is

Cycles in NZ Real House Prices (1971 – 2007)					
Start	Finish	Number of quarters	Real Gain/Loss	Nominal Gain/Loss	Average 90 day bill rate
Jun 71	Mar 75	16	57%	126%	9.9*
Jun 75	Mar 81	24	-40%	37%	11.8
Jun 81	Sep 84	14	30%	85%	14.5
Jun 86	Mar 87	4	-9%	7%	20.1
Jun 87	Sep 88	6	16%	29%	18.8
Jun 90	Mar 92	8	-7%	-2%	11.4
Mar 93	Jun 97	18	37%	50%	7.7
Sep 97	Sep 98	5	-4%	-2%	8.0
Sep 99	Jun 01	8	-5%	0%	5.9
Sep 01	Now	24	78%	104%	6.3

FORECAST SUMMARY

We have recently released our latest set of forecasts. We present a summary of the main points below.

- The economy remains resilient.** GDP growth expanded strongly at an annualised rate of 4 percent over the first half of this year, the labour market remains tight with the unemployment rate at record lows, and business and consumer confidence are holding at robust levels. The economy should continue to draw support from surging commodity prices and pending fiscal largesse over the next 12 months.
 - This is adding to already disconcerting inflationary pressures.** Capacity and resource pressures remain intense, with stronger growth over the first half of the year adding to inflation concerns. Cost-push inflation from a tight labour market, food price inflation and surging global oil prices pose additional upside risks.
 - But evidence is mounting that a slowdown is developing.** The four OCR hikes this year finally look to be gaining traction. The housing market has turned, consumer spending has slowed, and household borrowing has moderated. However, this moderation needs to broaden to the general economy for inflation pressure to subside. Financial conditions are now consistent with growth slowing towards 1½ percent.
 - We expect a more wide-spread deceleration over the next 12-18 months.** Inflationary pressures and imbalances necessitate a further period of sub-trend growth. Economic growth is forecast to ease from 2.8 percent in calendar 2007, to 1.5 percent in 2008 before rebounding thereafter. Strong growth is incompatible with current inflation pressure and the supply-side capacity of the economy.
 - The economy is capacity constrained.** Unemployment sits at a record low, migration gains are moderating with a notable pick-up in departures to Australia, and productivity growth has shown a substantial deterioration. Capital investment has been rather muted considering the traditional accelerator of past profit growth, capacity constraints and relative price signals. Potential growth estimates – the available supply side capacity of the real economy – of around 3 percent look decidedly lofty in such an environment.
 - The economic outlook is one of uncertainty and contrasting forces.** Some pockets remain vulnerable given the build up of leverage. Financial conditions are now extraordinarily tight. Yet, strong commodity
- prices are elongating the economic cycle. Our forecasts are for a relatively benign slowdown, but our bias is skewed towards a sharper (housing-led) correction.
- In particular we remain concerned about how the credit cycle could play out given global uncertainty.** The New Zealand property market has been strongly correlated with global “credit conditions”, and New Zealand is very dependent upon offshore capital to fund a savings shortfall. Despite global credit concerns easing of late, residual concerns continue to linger and the US housing market retrenchment could spark another round of financial market turbulence.
 - The Reserve Bank faces some difficult challenges.** Inflationary pressures are prevalent, but potential vulnerabilities within some leveraged pockets suggest the cycle could unravel quickly. In the current environment, it is imperative that inflation expectations remain well anchored and wage setting behaviour is contained.
 - We expect interest rates to remain restrictive for some time.** While inflation risks remain, a further move up in rates cannot be ruled out. Conversely, the current level of uncertainty warrants caution, and the housing market is slowing, which we expect to dampen inflation. We expect interest rates to remain on hold until late 2008 before falling modestly. The underlying spirit is one of rates being high and restrictive for some time.
 - We have lifted the starting point for the NZD, but still look to a move lower in the kiwi.** We are not buying into the hype that fair value for the NZD/USD is now north of 70 cents. While a strong AUD and weak USD are likely to keep the NZD/USD strong for sometime, the rubber band is taut. Heightened global volatility points to continued wide swings from month-to-month. Divergent business cycles are pointing to continued weakening in the NZD/AUD.
 - Despite a cyclical slowdown over the next 12-18 months, we still remain optimistic about the New Zealand economy over the longer term.** Strong international soft commodity prices, natural resources (potentially oil, but more importantly water), and growing integration with Asia are presenting New Zealand with real opportunities and a chance to push our way up the OECD economic ladder. However, improving productivity growth is a prerequisite to a better sustained economic performance on average over the cycle. A period of soft growth expected over the next 12-18 months may just act as a positive elixir across businesses and policy-makers to get them focused on how productivity can be improved.

INTEREST RATE STRATEGY

OCR Review unlikely to provide much excitement. It's a case of range trading and taking cues from offshore markets.

Market themes...

- Soft Q3 CPI dealt a blow to the bears.
- Any chance of rate hikes now taken out of the OIS curve.
- Global rally on back of weak US data main directional lead for the local market.

Outlook...

The much anticipated Q3 CPI data came in below the consensus range of estimates. One-offs or not, the RBNZ has been given some additional headroom to pause and assess the upcoming dataflow. The reaction in the rates market was large, with the swaps curve off 7-8bps. The OIS market, which had been contemplating the possibility of a further rate hike in the lead-up to the CPI print, quickly took out any chance of a hike.

Given expectations of ongoing soft domestic demand, the market is now back to looking for easings next year. Current market pricing has a 50:50 chance of a rate cut by September with a full rate cut priced in by December. The 2-year swap yield is back to trading within its 8.3-8.5 percent range. With the RBNZ on hold, we see little value in the 2-year above 8.5 percent and would favour receiving near the top of the range given our expectation that the partial data will continue to print soft. As has been the case over the past few weeks, the carry cost from an elevated 90-day rate could prevent the front end swaps from rallying. But recent declines in the 90-day rate indicate the cash squeeze may be abating.

Direction for the local market has been mainly driven by offshore this week, with the rally in US rates flowing through though NZ bonds underperformed, leading to wider NZ-US spreads. With the *OCR Review* unlikely to result in a change in rates or stance from the RBNZ, the local market will largely be range bound and again driven by offshore moves.

AU Q3 CPI next week is shaping up to be a critical release for the RBA, with a strong core print to see the market move to price in a hike in November, election or not. The sharp moves in US bond yields could well continue with September home sales and durable goods orders out during the week, though any rally could be tempered by the already large moves seen this week.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	Softer Q3 CPI has given RBNZ breathing space to wait and assess the data.
NZ data	↔	Housing market slowing but RBNZ needs to see that broaden and translate into easing inflation pressure.
Fed Funds/front end	↔/↓	Continual US housing market retrenchment increasing odds of another Fed rate cut.
RBA	↔/↑	AU Q3 CPI data to determine if RBA goes in November.
US 10 year	↔/↓	Weak US data has seen growth concerns dominate inflation fears for now.
NZ swap spreads	↔/↑	EFP spreads expected to move higher after recent contractions.
Flow	↔/↑	Payside flows ahead of OCR.
Technicals	↔	Curve overall at resistance levels but unlikely to break out.

Borrowing strategies we favour at present

Interest rates eased slightly this week in response to falling international interest rates. This movement has resulted in the 2-3 year rates looking attractive (relative to last week) as they give a reasonable cost saving over floating and also provide certainty as to what your interest expense will be. Those who feel that the economy will stay strong for a reasonable length of time should look at fixing for longer periods.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 25-Oct-07	4	2
Thu 6-Dec-07	7	2
Thu 24-Jan-08	9	0
Thu 6-Mar-08	11	-2
Thu 24-Apr-08	11	-4
Thu 5-Jun-08	3	-8
Thu 24-Jul-08	-21	-28

Trading themes we favour at present

It's a case of range trading. We expect EFP spreads to widen following recent contractions, once again on the back of government bond moves.

OCR REVIEW PREVIEW (due 9:00am 25 October)

We expect the Reserve Bank to leave the OCR unchanged at 8.25 percent. Inflation concerns will be weighed up against signs of a clear easing in domestic demand. The risk looks biased towards a slightly sterner tone.

At the September *Monetary Policy Statement*, the Governor re-iterated his on-hold stance and adopted a wait and see approach. Global financial market turbulence at that time played a key part in monetary policy deliberations then, though the Reserve Bank continued to express concern over inflation pressures.

Developments since the September *Monetary Policy Statement* have been mixed:

- **Global financial markets have settled down** though lingering concerns over the credit market remain. At this stage, there appears to be limited spillover from the US housing market retrenchment into broader US economic weakness. Liquidity pressures offshore have eased in part due to central bank actions.
- **Growth was stronger than expected** over the first half of the year, implying a more positive (inflationary) opening position.
- **Confidence has held up.** The most recent OSBO survey was essentially unchanged from the previous reading despite interest rate hikes, currency volatility and global uncertainty.
- **Commodity prices continue to firm**, and the exuberance from the record dairy payout is no doubt a key factor behind the resilient confidence levels.
- **There has been some more aggressive discounting** within the retail fixed mortgage market.
- **There are clear signs that domestic demand is waning.** Housing market activity is at its lowest level since 2001 and the trend in retail spending has flattened.
- **Financial conditions remain tight** with the recent rebound in the NZD to continue weighing on the export sector.

Amid all the developments – the majority of which look to be erring towards the high inflation scenario detailed in the September *Statement* – the most significant one for the Reserve Bank is the softer than expected Q3 CPI outturn. One-offs relating to increased government subsidies were the main reason for the benign outturn, with the details of the CPI report still showing a clear inflationary undercurrent. Nonetheless, **the Reserve Bank now has some**

much needed breathing space on the inflation front to wait and assess the upcoming dataflow. Specifically, they will want to look for signs that the slowdown in domestic demand is extending, and will start to ease inflation pressure. In this regard, we note that:

- The housing market correction is only just underway, with house prices yet to show material downward pressure. We expect this to occur by the end of the year, which will see a negative wealth effect on consumption.
- There is still further pipeline tightening to come via the effective mortgage rate. This should continue to moderate consumer spending and borrowing over coming months.
- Liquidity (lack of it) remains a key issue for certain pockets of the economy, and the situation is being monitored on a weekly basis.

Indicators	Comment	Risk for rates
Resource pressures	Eased marginally in Q3 but still elevated.	↔/↑
Commodity prices	Commodity prices continue to increase, though at a slower rate.	↑
Confidence	Business and consumer confidence remain resilient.	↔
Housing market	Housing market correction underway.	↓
Global scene	Global growth remains robust but uncertainty over US	??
Consumer spending	Flat over recent months with trend heading down.	↔/↓
Exchange rate	TWI around 4 percent higher than RBNZ projections.	↓
Inflation	Soft Q3 CPI provides much needed headroom but underlying inflation pressure remain.	↔/↑
Bottom line	Time to wait and assess	↔

Hence, we expect the Reserve Bank to leave the OCR unchanged at 8.25 percent at the October *Review* and affirm that the current level of the OCR is consistent with future inflation outcomes remaining within the target band.

In terms of the statement itself, we expect it to be considerably shorter than the September assessment, note the persistence of the current inflationary undercurrent despite the headline rate, and acknowledge weakening housing demand – but also robustness in other pockets of the economy. Expect emphasis once again to be given against price and wage-setting behaviour getting entrenched at a higher level, reinforcing the need for inflation expectations to remain anchored. We would not be surprised to see some comments directed towards the yield curve, implicitly aimed at ensuring the pipeline tightening is achieved. **The latter looks to bias the assessment towards being a tad more hawkish than expressed in September.**

CURRENCY STRATEGY

The kiwi remains caught between yield and risk sentiment. While markets remain edgy sentiment towards the bird will remain fickle.

Market themes...

- Risk appetites deteriorated, and carry currencies fall sharply.
- Aussie inflation and RBNZ *OCR Review* this week.

Outlook...

The past week was a timely reminder that financial markets retain an undercurrent of nervousness, and that when risk aversion flares, appetites for carry-related investments can and will turn on a dime.

The NZD dropped from a high of 0.7770 at the start of the week to rigorously test support around USD0.74 during the week as investor nervousness sparked exiting of the carry trade. A softer than expected NZ CPI result set the tone, before US stocks slumped (led lower by the financial services sector) after a disappointing earnings and outlooks from banks added to concerns that the fallout from the credit squeeze could linger for longer than expected. As Fed Chairman Bernanke said in a speech early in the week, *"conditions in financial markets have shown improvement... but a full recovery of market functioning is likely to take time, and we may well see some setbacks"*. Bernanke also noted that the housing slump may drag on through next year, reinforcing expectations that nervousness and volatility in financial markets will continue for some time.

With this in mind, the G7 meeting this weekend is expected to focus on how to calm uneasy financial markets. The market will also be looking for comment on how the group respond to US dollar weakness – something that is causing frustration for more than just EU policy makers.

Closer to home, the Reserve Bank is expected to continue with its tough line on inflation at this Thursday's Official Cash Rate Review. Given the undercurrent of inflation pressure, they are unlikely to soften their tone at all, and the statement is unlikely to have a material impact on the NZD. And with market participants increasingly expecting a rate hike this year from the RBA, this Wednesday's Australian CPI result will be closely watched. In recent times, the RBA has tended to make their interest rate adjustments at the meeting following a CPI result, and the market will be attuned to any strength in the pricing data. A strong result will increase the likelihood that the RBA will raise rates ahead of the election (not our core view), which will lend support to the AUD, and weigh on the NZD/AUD cross.

From a technical perspective, last week's fall took out NZD support at 0.7545 and leaves the kiwi attempting to further consolidate while the NZD/AUD is edging ever closer to the key 0.8333 (AUD/NZD 1.20), which will be the focus of markets next week.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Growth differentials favouring AUD.
Yield	↔/↑	Swap spreads remain supportive for NZD.
Commodities	↔/↓	Still supportive of both, but metals on a bender.
Partial indicators	↓	Better across the Tasman.
Technicals	↔	0.8630 to cap, support at 0.8333.
Sentiment	↓	AUD data is better.
Other	↔	Credit woes – are they the focus?
On balance	↔/↓	Test lower likely with inflation data across the Tasman.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	US data is weak as well.
Yield	↑	OCR high for longer, potential tightening in NZ.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↔	Volatility measures down, but credit spreads widening.
Partial indicators	↔	NZ domestic economy is soft, but US economy is softer.
Technicals	↔	Consolidation above 0.7300 expected.
AUD	↑	Fundamentals solid across the Tasman. AUD doing well.
Sentiment	↔	Neutral in NZ, bearish in US.
Other	↓	G7 this weekend could mention carry.
On balance	↔	Yield very supportive. Buy dips after G7.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
22 Oct	AU	Producer Price Index (3Q) – qoq	-	1.0%	14:30
		Producer Price Index (3Q) – yoy	-	2.3%	14:30
	JN	Supermarket Sales (Sep) – yoy	-	-0.5%	18:00
		Convenience Store Sales (Sep) – yoy	-	-0.1%	20:00
23 Oct	US	Fed's Kroszner Speaks to Bankers in Washington	-	-	00:30
		Chicago Fed President Evans Speaks on Economic Outlook	-	-	12:00
	EU	Bank of France's Landau Speaks at Conference in New York	-	-	02:00
		ECB's Trichet Speaks in New York	-	-	07:45
		Industrial New Orders (Aug) – mom	-	-4.0%	22:00
24 Oct	US	Richmond Fed Manufacturing Index (Oct)	-	14	03:00
		Fed's Mishkin Speaks on Financial Instability in New York	-	-	21:15
	JN	Merchandise Trade Balance Total (Sep)	¥1,470.0B	¥743.2B	12:50
		Adjusted Merchandise Trade Balance (Sep)	¥899.6B	¥1,144.9B	12:50
	AU	DEWR Skilled Vacancies (Oct) – mom	-	0.1%	14:00
		Consumer Prices (3Q) – qoq	0.9%	1.2%	14:30
		Consumer Prices (3Q) – yoy	2.1%	2.1%	14:30
		RBA Trimmed Mean (3Q) – qoq	-	0.9%	14:30
		RBA Trimmed Mean (3Q) – yoy	-	2.7%	14:30
		RBA Weighted Median (3Q) – qoq	-	0.9%	14:30
		RBA Weighted Median (3Q) – yoy	-	0.9%	14:30
	EU	ECB's Liikanen Speaks in Helsinki	-	-	03:00
		ECB's Gonzalez-Paramo Speaks at a Conference	-	-	20:00
		Euro-Zone Current Account (Aug)	-	1.7B	21:00
		PMI Manufacturing (Oct A)	53.0	53.2	21:00
		PMI Services (Oct A)	55.0	54.2	21:00
		PMI Composite (Oct A)	55.0	54.7	21:00
25 Oct	US	Existing Home Sales (Sep)	5.28m	5.5m	03:00
		Existing Home Sales (Sep) – mom	-4.0%	-4.3%	03:00
	EU	ECB's Trichet, Garganas Speak in Frankfurt	-	-	05:00
		ECB's Draghi Attends Meeting in Milan	-	-	11:00
	NZ	RBNZ Official Cash Rate	8.25%	8.25%	09:00
	JN	Corporate Service Price (Sep) – yoy	1.0%	1.0%	12:50
	GE	IFO – Business Climate (Oct)	103.7	104.2	21:00
		IFO – Current Assessment (Oct)	109.7	109.9	21:00
		IFO – Expectations (Oct)	98.4	98.7	21:00
	UK	BBA Loans for House Purchase (Sep)	-	61,051	21:30
26 Oct	US	Initial Jobless Claims (Oct 21)	315k	337k	01:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)	
26 Oct cont.	US	Continuing Claims (Oct 14)	-	2,534k	01:30	
		Durable Goods Orders (Sep)	1.5%	-4.9%	01:30	
		Durables Ex Transportation (Sep)	0.7%	-1.8%	01:30	
		Fed's Consumer Advisory Council to Discuss Mortgage Rules	-	-	02:00	
		New Home Sales (Sep)	775k	795k	03:00	
		New Home Sales (Sep) – mom	-2.5%	-8.3%	03:00	
		Help Wanted Index (Sep)	23	23	03:00	
		NZ	Tax Receipts for September	-	-	09:00
		JN	National CPI (Sep) – yoy	-0.1%	-0.2%	12:30
		National CPI Ex-Fresh Food (Sep) – yoy	-0.1%	-0.1%	12:30	
	National CPI Ex Food, Energy (Sep) – yoy	-0.3%	-0.2%	12:30		
	Industrial Production (Sep P) – mom	-1.3%	3.5%	12:50		
	AU	Conference Board Leading Index (Aug)	-	0.3%	13:00	
	EU	Euro-Zone M3 s.a. (Sep) – yoy	11.3%	11.6%	21:00	
27 Oct	US	University of Michigan Confidence (Oct F)	82.3	82.0	03:00	

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

Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The Reserve Bank takes centre stage next week. We expect them to leave the OCR unchanged and to maintain a wait-and-see approach although continue to signal concern on the inflation front. Key for them now is evidence that the recent slowing in domestic demand begins to feed into reduced inflationary pressures.

Date	Data/Event	Economic Signal	Comment
Thu 25 Oct (09.00)	RBNZ <i>OCR Review</i>	On hold	We expect the Reserve Bank to leave the OCR unchanged at 8.25 percent and maintain a slight tightening bias. Inflation concerns will be weighed up against signs of clear easing in domestic demand.
Mon 29 Oct (10.45)	Overseas Merchandise Trade (Sep)	Imbalanced	Another large monthly trade deficit is expected. Export volumes continue to be subdued by a high currency, while higher global oil prices will add to the import bill, though this will be offset somewhat by oil exports from Tui.
Tue 30 Oct (10.45)	Building Consents (Sep)	Slowing	Monthly consent issuance remains volatile. However, we expect the recent easing trend in net migration to begin to filter into lower consent issuance numbers.
Tue 30 Oct (15.00)	Credit Growth (Sep)	Easing	Given weak housing data, we can expect this to manifest through household lending. Housing lending is likely to be very weak. We will be looking closely at business lending, which showed a massive surge in August.
Wed 31 Oct (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Mon 5 Nov (10.45)	QES and LCI Surveys (Sep qtr)	Solid	Firms continue to report difficulty in finding both skilled and unskilled labour. This will ensure that wage inflation remains elevated for some time.
Tue 6 Nov (15.00)	ANZ Commodity Price Index (October)	-	-
Thu 8 Nov (10.45)	Household Labour Force Survey (Sep qtr)	Still tight	Given the solid growth over the first part of the year, along with still elevated employment intentions, we expect modest employment growth in the quarter and the unemployment rate to remain near record low levels.
Circa 12 Nov	REINZ Housing Report (Oct)	Soft	Further weakness in housing activity is expected. This is also expected to result in more subdued house price growth, which should see the annual rate of growth begin to reduce.
Wed 14 Nov (10.45)	Capital Goods Price Index (Sep qtr)	Mixed	A lower NZD over the quarter is expected to have lifted plant and machinery equipment prices. Construction costs are still expected to be elevated, although the rate of growth is likely to have slowed in line with the moderation in housing activity.
Wed 14 Nov (10.45)	Producer Price Index (Sep qtr)	Slight improvement in margins	Output prices are expected to increase by slightly more than input prices in the quarter. Higher commodity prices are supporting output prices, while higher oil prices lift input prices.
Thu 15 Nov (10.45)	Retail Trade Survey (Sep)	Month strong, but quarter soft	Strong credit card spending indicates retail sales were solid in September. However, we expect quarterly volume growth will be much more muted.
On Balance		Slowing	All about inflation from here.

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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	0.8	0.5	0.8	0.8	0.8
CPI (% yoy)	3.5	2.6	2.5	2.0	1.8	2.8	2.8	2.5	2.8	2.8
Employment (% qoq)	-0.4	0.1	1.2	0.7	0.1	0.1	0.2	0.2	0.2	0.2
Employment (% yoy)	1.5	1.4	1.7	1.5	2.0	2.0	1.0	0.6	0.6	0.7
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.7	3.8	3.9	4.0	4.1	4.2
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	-7.9	-7.5	-7.0	-6.5	-6.7	-6.8
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	5.5	1.9	0.4	-0.2	-0.5	-0.7
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	10.5	9.8	8.6	7.7	1.6	-0.9

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

KEY ECONOMIC INDICATORS

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Retail Sales (% mom)	0.8	0.4	2.3	0.9	-1.3	1.0	-0.4	0.1	0.2	..
Retail Sales (% yoy)	3.6	6.9	6.4	7.4	7.4	6.7	4.8	5.7	6.3	..
Credit Card Billings (% mom)	2.3	-0.9	1.5	1.0	-1.0	1.0	1.7	0.0	0.4	3.1
Credit Card Billings (% yoy)	9.9	6.7	8.2	7.3	7.8	5.9	9.0	7.9	8.5	9.5
Car Registrations (% mom)	-3.7	13.3	-9.5	0.6	-1.3	6.0	-4.6	7.2	1.3	-7.2
Car Registrations (% yoy)	-17.8	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1
Building Consents (% mom)	-4.2	4.9	6.6	-1.5	1.2	4.7	13.7	-15.5	5.8	..
Building Consents (% yoy)	-20.7	-5.5	-8.5	2.8	9.9	2.2	33.2	-4.1	-0.5	..
REINZ House Price (% yoy)	11.9	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9	12.3
Household Lending Growth (% mom)	1.0	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.9	..
Household Lending Growth (% yoy)	12.9	13.0	13.1	13.3	13.6	13.6	13.6	13.6	13.5	..
Roy Morgan Consumer Confidence	128.0	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3
NBNZ Business Confidence	-7.7	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5
NBNZ Own Activity Outlook	24.0	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2
Trade Balance (\$m)	-346	-825	-127	60	-215	8	-518	-813	-945	..
Trade Balance (\$m annual)	-6082	-6013	-5767	-5776	-6024	-5900	-6226	-6345	-6339	..
ANZ World Commodity Price Index (% mom)	3.8	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4
ANZ World Commodity Price Index (% yoy)	9.4	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7
Net Migration (sa)	1020	380	510	660	200	380	590	480	760	720
Net Migration (annual)	14609	14116	13151	12081	11222	10682	10078	8966	8730	8309

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul 07	Aug 07	19 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.786	0.729	0.776	0.740	0.720	0.710	0.700	0.680	0.660	0.630
NZD/AUD	0.907	0.877	0.858	0.841	0.800	0.772	0.761	0.756	0.759	0.759
NZD/EUR	0.573	0.535	0.548	0.517	0.500	0.504	0.507	0.500	0.493	0.485
NZD/JPY	95.6	85.3	91.2	85.8	82.8	80.2	78.4	74.8	72.6	70.6
NZD/GBP	0.386	0.362	0.381	0.366	0.358	0.355	0.355	0.347	0.340	0.328
NZ\$ TWI	75.4	70.2	72.9	69.5	67.2	66.2	65.6	64.0	62.8	61.2
NZ interest rates	Jul 07	Aug 07	19 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.18	8.35	8.25	8.25	8.25	8.25	8.00	7.50	7.00	6.75
90 day bill	8.44	8.72	8.67	8.70	8.70	8.60	8.00	7.50	7.00	7.00
10 year bond	6.79	6.40	6.50	6.50	6.60	6.60	6.70	6.70	6.70	6.70
International	Jul 07	Aug 07	19 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	5.25	5.25	4.75	4.50	4.50	4.50	4.50	4.50	5.50	5.75
US 3-mth	5.36	5.62	5.22	4.80	4.70	4.65	4.65	4.65	5.75	6.10
AU cash	6.25	6.50	6.50	6.50	6.75	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.62	6.89	6.86	6.80	6.90	6.90	6.90	6.90	6.90	6.90

KEY RATES

	19 Sep	15 Oct	16 Oct	17 Oct	18 Oct	19 Oct
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	-
30 day bank bill	8.65	8.58	8.58	8.58	8.55	-
90 day bank bill	8.75	8.65	8.63	8.63	8.60	-
NZGB 07/09	6.98	7.05	7.13	7.12	7.08	-
NZGB 11/11	6.61	6.90	6.97	6.96	6.89	-
NZGB 04/13	6.53	6.82	6.88	6.88	6.79	-
NZGB 12/17	6.24	6.46	6.52	6.52	6.42	-
1 year swap	8.58	8.71	8.70	8.69	8.67	-
2 year swap	8.26	8.49	8.48	8.46	8.43	-
5 year swap	7.81	8.05	8.04	8.01	7.97	-
RBNZ TWI	69.5	72.5	71.6	70.3	70.5	-
NZD/USD	0.7309	0.7727	0.7623	0.7474	0.7520	-
NZD/AUD	0.8576	0.8548	0.8483	0.8410	0.8420	-
NZD/JPY	84.73	90.82	89.46	87.18	87.59	-
NZD/GBP	0.3632	0.3797	0.3732	0.3679	0.3686	-
NZD/EUR	0.5229	0.5455	0.5368	0.5274	0.5283	-
AUD/USD	0.8523	0.9040	0.8986	0.8887	0.8931	-
EUR/USD	1.3979	1.4165	1.4202	1.4171	1.4234	-
USD/JPY	115.92	117.53	117.35	116.64	116.47	-
GBP/USD	2.0126	2.0352	2.0424	2.0316	2.0404	-
Oil	81.51	83.73	86.19	87.58	87.19	-
Gold	724.35	752.50	758.80	762.90	760.50	-
Electricity Price	4.76	3.23	3.29	3.08	-	-

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