NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

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INSIDE

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A LENGTHY JOURNEY

ECONOMIC OVERVIEW

Earthquake related ructions, both here and abroad, continue to the pressing themes dominating markets. Last week's *globalDairyTrade* online auction and consumer sentiment data delivered a reality check of sorts. However, such is the environment that we now live in that data for the next few months will be largely irrelevant. We continue to look for anecdotes that signify the execution of a speedy fiscal response. We're taking encouragement from what we are seeing on the progress being made on rebuilding Christchurch, though the challenges are massive. This week's Q4 activity and current account data is likely to take on a more historical feel, given recent events.

REBUILDING CHRISTCHURCH

This article looks at some of the supply side issues in regard to the rebuild effort, an undertaking bigger than Ben Hur. The sheer scale of the work suggests it will be a multi-year undertaking. Assuming three quarters of the work is done over the next five years the value of reconstruction work is equivalent to 1.5 percent of GDP. While there is currently some spare capacity within the construction sector, it will be insufficient to accommodate the reconstruction work without some reprioritisation taking place. Some tough choices lie ahead.

DATA PREVIEW

GDP for Q4 is estimated to return to positive growth, with the economy expected to narrowly avoid a technical recession in H2. The GDP report will show sector divergences, with rebounding primary sector output comparing with declining construction sector activity and mixed readings for the services sector. We are expecting a quarterly current account deficit of $1.9b. Further reinsurance inflows from the September 2010 Canterbury earthquake look set to narrrow the annual current account deficit, which is set to shrink to 1.7 percent of GDP. One-offs from reinsurance inflows are soon likely to push the annual current account into the black for the first time since the 1970s, although the deterioration from 2012 will be sharper.

INTEREST RATE STRATEGY

Headlines dominated price action last week as fears of a nuclear meltdown gripped global markets. Australia swung from pricing in rate hikes to pricing in cuts. NZ went along for the ride too, but calm is slowly returning. The major macro development was the US FOMC meeting, which marked a major shift in focus – not that too many people seem to have noticed. In our view, this poses significant upside risks for NZ's long term interest rates.

CURRENCY STRATEGY

The G-7 agreed to co-ordinated intervention to weaken the yen using both USD and EUR after it reached a new post WWII high on a market focusing on repatriation flows following the Japanese earthquake. NZD and AUD follow the EUR higher with little new news to provide their own direction. Chinese authorities raise reserve ratio requirements another 50 basis points to reinforce the economic slowdown. Libyan situation will see financial markets on edge sending commodities higher.

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SUMMARY

Earthquake related ructions, both here and abroad, continue to the pressing themes dominating markets. Last week's *globalDairyTrade* online auction and consumer sentiment data delivered a reality check of sorts. However, such is the environment that we now live in that data for the next few months will be largely irrelevant. We continue to look for anecdotes that signify the execution of a speedy fiscal response. We're taking encouragement from what we are seeing on the progress being made on rebuilding Christchurch, though the challenges are massive. This week's Q4 activity and current account data is likely to take on a more historical feel, given recent events. We expect the NZ economy to narrowly avoid a technical recession in late 2010, with one-offs set to produce an annual current account surplus in 2011 for the first time since the early 1970s.

THIS WEEK'S EVENTS

- **RBNZ Credit Card Billings – February** (Monday, March 21, 3:00pm). We expect the value of billings to broadly track the 0.2 percent monthly increase in electronic card transactions.
- **SNZ Balance of Payments – 2010Q4** (Wednesday, March 23, 10:45am). We expect a quarterly deficit of $1.9b, with the annual deficit to ease to 1.7 percent of GDP. See our preview on page 11.
- **Gross Domestic Product – 2010Q4** (Thursday. March 24, 10:45am). A 0.2 percent increase is expected. See our preview on page 11.

Other data has been delayed:

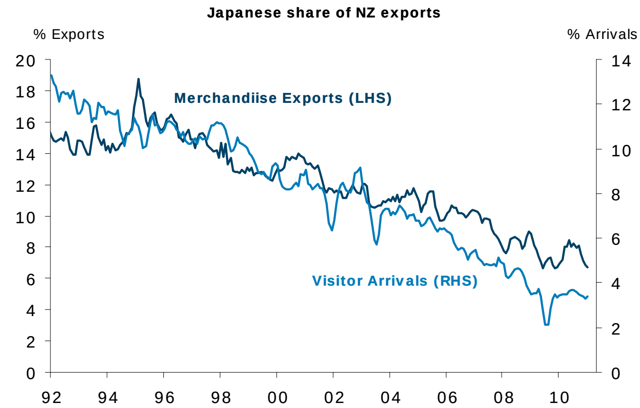
- **SNZ International Travel and Migration – February.** We expect a smaller net permanent and long term inflow of 200 persons, with visitor arrival numbers to fall one to two percent.

WHAT'S THE VIEW?

Our apology to readers if this week's *Market Focus* seems a bit piecemeal. There is simply a huge array of developments and rather than ignore them, they are worth commenting upon. So here we go.

Last week was one for market volatility, with seismic events in Japan the key catalyst. Equity, bond, commodity and currency markets have all been affected, as markets have reappraised risks in a quickly changing environment. The G7 have even stepped in to try and restore some semblance of order.

New Zealand does not look particularly vulnerable to Japan's mire in a direct trade flow sense. Japan is our 4th largest merchandise export market, taking over half our aluminium exports and nearly one-third of our kiwifruit exports. Japan is our 5th largest overseas market for tourism, and we are looking at a further hit to tourism numbers, which were already looking quite weak after the Christchurch earthquake. Student education numbers from Japan (both compulsory and tertiary) are sizeable. But NZ's direct exposure to Japan has been declining for the past two decades. We suspect recent seismic events will not significantly impact the bulk of our exports given that they are soft commodity centric (though the price channel might be pressured, given that we pitch to the higher price bracket) and some areas such as forestry could benefit strongly.



Sources: ANZ, National Bank, Statistics NZ

The key channel we are eying is the indirect one, via the remainder of Asia and Australia. We are mindful of repercussions for growth in the non-Japan economy, given that this region is the major growth engine of the economy at present. Japan is also the world's third largest commodity consumer, and is Australia's second largest export market. The fall in the AUD signifies some caution towards the negative side of Japan's challenges but Australia could actually benefit strongly out of it all. If nuclear related energy production is on the way out (it will be a hard sell politically to continue operating some of the older nuclear power facilities), then coal fire generation will surely be necessary as a replacement, despite the obvious environment concerns of the latter.

We're far from Japanese experts but we'll draw readers to three other observations.

- **The scale of recent shocks will surely exacerbate household caution and the structural change in behaviour.** Households are not only battling economic events; they are

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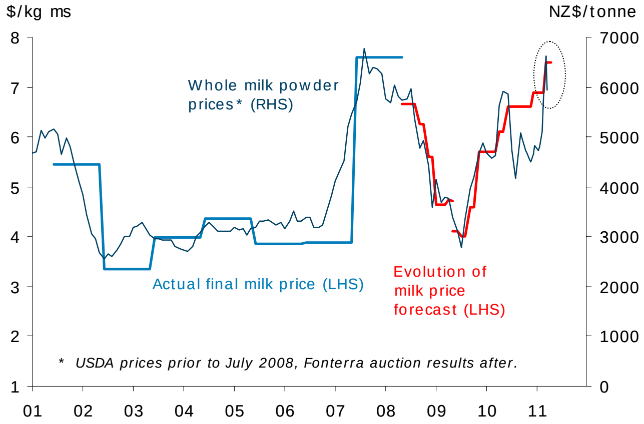
seeing so many one-off events, such as floods and quakes, that they are becoming regular! It's simply not a low volatility environment that fosters financial security, which is a prerequisite to spending that marginal dollar. **This appears to be the common theme worldwide.**

- **The Japanese shock goes beyond capital destruction and will influence their production possibility frontier**. Nuclear energy underpins 30 percent of Japan's energy production. If such usage is progressively scaled back the implications for Japan's production possibility frontier are simple: more input will be required (i.e. more expensive energy) for the same level of output. Hence, the shock Japan is experiencing is likely to be extensive and long-lasting.
- **A strong government balance sheet makes the internal adjustment for the economy far easier, but Japan does not have this.** While Japan has a healthy national balance sheet (a legacy of high private saving, even though household saving of late has been falling), net and gross government debt are amongst the highest in the OECD (around 100 and 200 percent of GDP respectively). Initial estimates suggest the rebuild could add 6 percentage points to gross debt, but these estimates look a bit light as they do not take account of the impact of weaker GDP on tax revenue. Low interest rates make it easier for authorities to fund high debt levels, but we remain uneasy on how sustainable this situation is. No one knows when Japan's fiscal position will become a "crisis" but remember no one talked about subprime either in 2006!

Turning back to NZ, the slide in dairy prices in the mid-March *globalDairyTrade* online auction appears to be partly a consequence of seismic events but was also a reality check on the extent to which prices can continue to increase. There is always some point at which buyer resistance emerges and we shouldn't forget that. Looking at the level however, USD prices remain historically high, having risen by 25 percent in one year and by more than 75 percent over two. A correction was "due" and we've seen one. With much of the production already sold for the current season, implications for the current season's milk price are limited. And let's not forget the Japanese situation is likely to be positive for food prices, and particularly sources of food that are secure and have a strong natural brand. **So we remain optimistic the outlook for food prices in general and the income boost it will deliver to the economy.**

Milk price forecast vs whole milk powder prices



Sources: ANZ, National Bank, Fonterra, Bloomberg

One key for the economy will be when rural chequebooks are opened. Stabilisation and improvement in farm values are a necessary condition to ending the deleveraging dynamic that is keeping chequebooks shut. Suffice to say we think this dynamic has further to run, but if we see current levels of commodity prices extend into the next season, it'll be a different story.

The other key factor at present is when will reconstruction related activity in Christchurch begin. We noted last week that data outturns are going to be irrelevant for another 3 months and that remains the case. The "lead" on the construction recovery needs to come from anecdotes on the ground today. Challenges clearly remain, but there are signs of progress. Late last week the Department of Building and Housing sent a request for proposals to construction companies for up to 2500 modular homes which would likely be placed on public land. We expect such nuances to intensify over the coming weeks.

There is some concern about the pressure seismic events will put on the fiscal position, but we say so what? The Finance Minister acknowledging last week that the fiscal costs of both New Zealand earthquakes would be in the region of $10b, and they'll be using debt to finance this as opposed to fiddling with near-term tax changes (beyond EQC levies). This makes sense to us, despite the obvious challenges this will present to rating agencies. New Zealand's fiscal position is probably the envy of Japan at present. Suffice to say that ensuring net public debt doesn't continue to accelerate beyond the flagged 30 percent of GDP (it's the speed at which debt increases that matter, as well as its actual level) will require some reprioritisation of spending. This point has already

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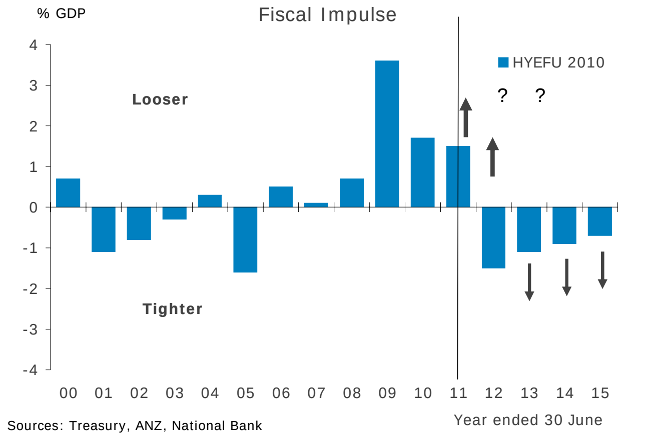
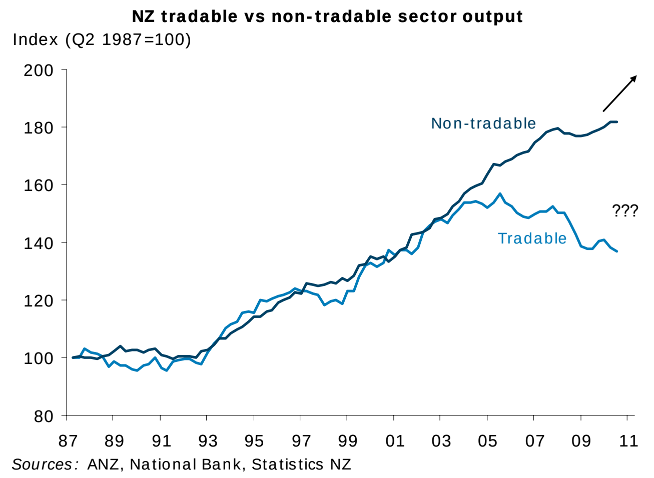
been emphasised at length by the government, so it does not look to be new news at present.



Over the last few weeks a major area of focus has been getting to grips with some of the issues relating to the Christchurch earthquake. On page 6 we examine the Christchurch reconstruction in a little more depth. The key messages are that the scale of reconstruction work is large, will take several years to complete and will have implications for the allocation of resources throughout the economy. There is also the likelihood that the Government will mobilise resources more quickly than most (including the RBNZ) assume. While reconstruction work will add to GDP, it is not the sort of growth we would ideally want, compensating for the loss in productive capital. The reconstruction also raises important issues for the supply-side of the New Zealand economy. This is an area that many tend to overlook but is the ultimate determinant of future living standards. To us, getting the supply-side of the economy operating effectively has just as much (if not more) importance than skillful demand-side management.

Another global development we have noted has been shifts in rhetoric around inflation risks. Fears over deflation have receded and have been replaced by a stepping up of the rhetoric over rising inflation. The ECB have been vocal in signalling their intention to safeguard price stability. US monetary policymakers are also attuned to the inflation risks, with last week's FOMC statement noted pointedly that "it will pay close attention to the evolution of inflation and inflation expectations". The short-term inflation outlook in New Zealand is also looking prickly and could have repercussions for wage and price setting throughout the economy. In this environment **all central banks will resort to surveyed measures of inflation expectations as key gauges.** We flagged the importance of such measures a few weeks ago and behind the scenes we continue to look at both local and global measures to see how sensitive they are to not just inflation itself, but various subcomponents, including food and petrol. These are the regularly moving items we see changing daily that risk influencing the expectations process. We hope to have some further research work done in the coming weeks, for it will provide critical insights into future monetary policy settings.

Looking at the data release calendar this week, considering the February earthquake and the March MPS rate cut, this week's GDP and current account data for Q4 have an even more historical feel to them. Our +0.2 percent Q4 pick for GDP is consistent with economic momentum having stalled in the second half of 2010, with a technical recession narrowly avoided.



We expect a $1.9b quarterly current account deficit for the December quarter. Reinsurance inflows continue to dominate the short-term outlook for the current account and we are likely to see a string of annual surpluses over 2011. **However, with resources set to shift to the non-tradable sector for reconstruction work, the likelihood will be a sharper deterioration in current account deficits beyond then.** This highlights a key challenge ahead: the economy needs to rebalance in favour of export-orientated earning over domestic spending, at a time when it now also needs to deploy resources to restore destroyed capital stock that is by-and-large related to the domestic economy. This is a tall order and will stretch the economy for years.

This week's credit card billings are expected to mimic the 0.2 percent seasonally adjusted increase seen for February retail card transactions. Higher consumer prices for petrol and some restocking of emergency supplies appear to be at least part of the story but it has still been surprising how well retail activity has held up. As the

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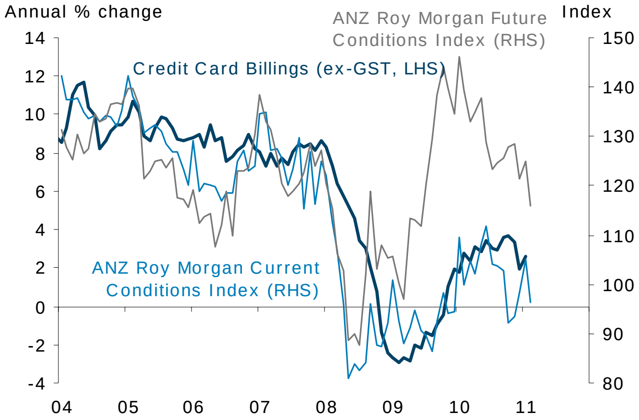
slump in March consumer sentiment implied, we are not out of the woods yet.

Whether or not the dive in confidence will be sustained, will depend on how much progress is made in setting things right. With the economy delicately poised, the last thing we need is for households to retreat back into their shells. Policymakers need to display leadership and set a clear sense of direction.

RBNZ credit card billings and confidence



Sources: ANZ, National Bank, RBNZ

RECENT LOCAL DATA

- ***globalDairyTrade* online auction.** Whole milk power prices fell by 11.4 percent to an average of US $4,105/tonne in the mid-March event. USD prices are 25 percent above the average price from the March 2010 event.
- **ANZ Roy Morgan Consumer Confidence – March.** Headline consumer confidence fell by 7 points to 101.4. Current conditions eased by 2 points from February levels to 94.1, whereas future conditions dropped 10 points to 106.4.
- **Westpac Consumer Confidence – 2011Q1.** Headline consumer confidence fell 10.4 points to 97.9. Present conditions declined 1.1 points to 96.2, with future conditions down 16.5 points to 99.1.

REBUILDING CHRISTCHURCH

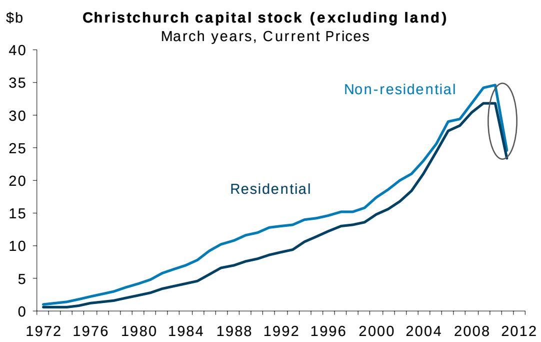
SUMMARY

This article looks at some of the supply side issues in regard to the rebuild effort, an undertaking bigger than *Ben Hur*. The sheer scale of the work suggests it will be a multi-year undertaking. Assuming three quarters of the work is done over the next five years the value of reconstruction work is equivalent to 1.5 percent of GDP. Realistically, such a time scale looks way too short. Our research suggests that while there is currently some spare capacity within the construction sector (and NZ economy more generally), it will be insufficient to accommodate the reconstruction work without some reprioritisation taking place. Some tough choices lie ahead. The reconstruction work will also affect the allocation of resources and could exacerbate looming imbalances in other regions and for the economy as a whole. An immediate policy response centred on supply-side initiatives to support the rebuild process is required.

WE ASSUME FEBRUARY EARTHQUAKE DAMAGE OF $20 BILLION

At this stage it is difficult to accurately quantify the magnitude of damage to property, infrastructure and capital from the recent quake, let alone the non-monetary costs. We assume the total costs to buildings, infrastructure and capital stock from the February earthquake as being in the region of $20b. The scale of damage is of a significantly larger magnitude than the estimated $5b damage from the September 2010 quake. It is also higher than the $15b assumed by the RBNZ in the March MPS.

At $20b, the costs of the February event is equivalent to about 10 percent of the nationwide GDP or 3.5 percent of the national capital stock. These figures are substantial in terms of the nationwide impact, but are colossal in relation to the local economy: the damage bill is equivalent to the size of the Christchurch economy (in value added terms) and is estimated to reduce the Christchurch capital stock by approximately 30 percent.



Sources: ANZ, National Bank, Statistics NZ

Damage to residential property

We assume the damage from the February quake is around $10b for residential dwellings and land, considerably higher than the $3b damage from the September 2010 quake alone, but close to the $9b assumed in the March MPS.

The 2006 Census reports there are 223,000 dwellings in the Canterbury region, of which 145,000 are in Christchurch City. Extrapolating this forward by the number of building consents issued, the number of residential dwellings in Christchurch was approximately 156,000 at the start of the year.

Of the 156,000 dwellings in the Christchurch area, we assume:

- Around 20,000 properties are written-off; the average cost of rebuild is $300,000
- 25,000 properties are significantly damaged; the average repair cost is $75,000
- 25,000 properties have minor damage; average repair cost $20,000; and
- 50,000 residential sections are in need of significant repair; average cost $20,000.

Damage to non-residential property and infrastructure

Total damage for non-residential property and infrastructure is estimated at $10b, compared to the estimated $2b in damage from the September 2010 quake. The devastation to the CBD and infrastructure from last month's earthquake has been substantial. Much of this has occurred in the CBD, with one-third of the building stock needing to be demolished. We have assumed damage of $6b for commercial and industrial buildings, with the cost of repairing infrastructure likely to be at least $4b. This compares with an estimated $6b damage bill for both assumed in the March MPS.

Whether or not the damage is $15b, $20b or $25b, it is too soon to tell. Irrespective of the value, reconstruction poses a massive challenge.

HOW MUCH CONSTRUCTION SECTOR CAPACITY IS THERE?

Construction sector activity typically shows a high degree of cyclicality. A large degree of spare capacity is currently evident: construction sector employment is 15,000 below 2006 peaks, with the volume of building work nearly one quarter below mid 2005 levels.

Using a multivariate approach, we have combined labour market and building activity measures to

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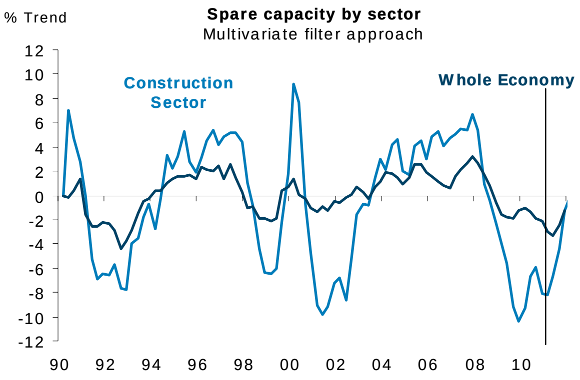
derive construction sector output gap measure. As resources tend to shift into and out of the construction sector depending on demand these estimates are illustrative. They suggest a much larger margin of spare capacity in the construction sector than in other parts of the economy, equivalent to 12,000 construction sector jobs. Alternatively, while the NZ economy has an output gap of around -2 percent, the capacity gap in the construction sector is around 7 percent.

The construction sector currently accounts for 8 percent of employment and about 6 percent of economic output. Hence, with a margin of spare capacity in the economy there is scope to shift resources from other sectors and regions. We estimate that at least another 30,000 employees could be called upon from within the existing labour force. However, the mobility of such resources across regions is far from seamless when you consider family dynamics: many construction workers are in two income households and working on the Christchurch rebuild may involve an element of salary sacrifice from the other partner if suitable work in Christchurch cannot be found. This could place further upward pressure on construction sector wages.



Sources: ANZ, National Bank, Statistics NZ

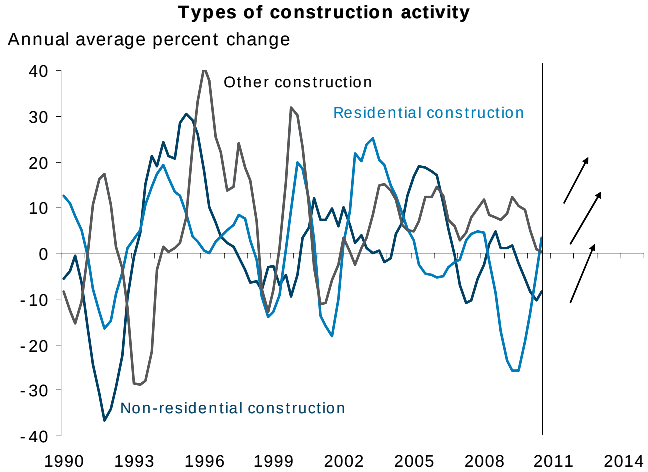
HOW QUICKLY CAN FUTURE WORK BE ACCOMMODATED?

We have assumed that Christchurch will be rebuilt: simple as that. While there is the risk of a permanent population exodus out of Christchurch (as discussed in last week's *Market Focus*), this analysis assumes all the $20b expenditure in construction activity will be for Christchurch.

Over the next few months there will be considerable resources directed towards making Christchurch safe. Unsafe structures will be demolished. Water, sewerage systems, electricity networks and roads will be repaired. Temporary housing brought into meet immediate needs of displaced households. Many households in the region will be doing it rough for quite a while. Behind the scenes we are detecting signs that the government is moving very quickly to move the necessary resources into place. The scale of damage is such that even this initial work could take several months, or perhaps years.

Given the scale of rebuilding required, we see the reconstruction effort as being a multi-year adjustment:

- There have been a number of aftershocks and engineers will need to be confident that it is safe for reconstruction work to begin. Finance for the rebuilding effort will need to be committed. Architects and planners will also need to modify designs to comply with the proposed new building code and resource consents will need to be approved.
- The call on labour resources will be significant. Even spreading the work over a long period will still require a large number of people on the ground. With construction sector workers also in strong demand in Australia, the required numbers will be even more challenging, particularly when you consider the family questions that will arise (i.e. will the whole family relocate to Christchurch?).
- Infrastructure in the Canterbury region has been severely damaged and we sincerely doubt that it will be able to cope with a larger influx of workers straight away.



Sources: ANZ, National Bank, Statistics NZ

Usually cycles for different types of construction occur at different stages of the economic cycle. Residential typically leads and non-residential lags. Such cycles tends to smooth internal pressure on the constructions industry resources wise. Seldom have there been periods in NZ's history when residential, non-residential and other construction have all been

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going hell for leather. For 2012 and many years beyond that, all will be going gangbusters. The challenge will be accommodating these demands at the same time.

RESOURCE REQUIREMENTS

If we assume three quarters of the work is completed within 5 years, the boost would be equivalent to $3b per annum, or 1.5 percent of GDP. The actual impact on GDP will depend on how much activity from sectors and regions is displaced.

A key question at this juncture is, is 5 years feasible? Realistically such a timeframe looks a stretch. Assuming immediate accommodation needs (displaced persons, accommodation for the workforce) take the first year's priority, the build from years 2-5 would need to be seamless.

Construction sector work is labour intensive, and there will be a significant call on labour resources. Estimates from Aon Benfield Analytics (ABA) suggest it will take up to 291 labour days to fully rebuild a house. Obviously a streamlined consent process and simplified design specs for new houses will shorten this, but even if we cut it down by a third we are still talking 200 labour days. Greater economies of scale are available for non-residential construction work but the reparation work will still require considerable labour input.

According to figures provided by Statistics NZ, about $11b of construction work was put in place in 2010 and construction section employment was around 178,000 persons. This equates to about $61,000 of construction work per employee. 2010 was probably the low point in the cycle for the industry but it still provides a benchmark. Assuming that three quarters of the work is completed within 5 years, the $3b of work per annum could require 49,000 employees each year.

To put this into context, this is equivalent to:

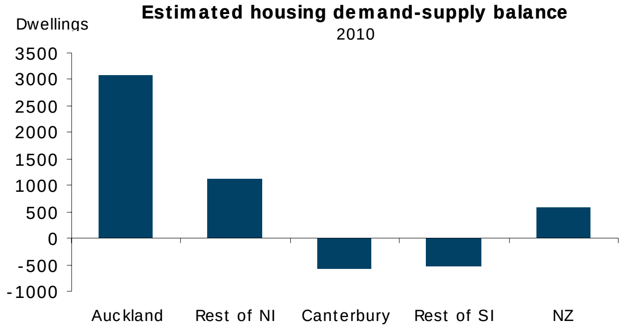
- About 1.5 percent of nationwide GDP or 15 percent of Christchurch GDP.
- Approximately 27 percent of the total value of building work done nationwide, or 1.9 times the amount of work done in the Canterbury region last year.
- Fifteen percent of total employment in the Canterbury region or 10 percent of the working age population in the region.
- 2.2 percent of total employment or 1.4 percent of the nationwide working age population.
- Nearly 28 percent of total nationwide construction sector employment.

This is a huge call on resources for New Zealand, let alone the Canterbury region.

WHERE TO FROM HERE?

The construction effort will involve a considerable shift of resources.

Reconstruction work may provide a good opportunity to improve local infrastructure and make the Canterbury region more quake resistant. **However, the work in Christchurch will see a huge transfer of resources from other regions.** It will be occurring when population growth in other centres will probably outpace that in Christchurch. Recent (pre-quake) population projections from Statistics New Zealand show that by 2031 nearly two-thirds of the 20 percent increase in New Zealand's population will be in the Auckland region, which will have a population of almost two million. Growth in the Auckland, Waikato and the Pay of Plenty regional area is projected to increase by a third, underpinned by internal migration. Post quake intra-regional migration patterns could exacerbate this. **In short, the shift in resources will exacerbate growing demand and supply imbalances in other regions.**



Sources: ANZ, National Bank, Statistics NZ

One area where this will be evident is the housing market. With the earthquake destroying at least 10,000 dwellings, housing shortages will be more acute in Canterbury. Our estimates of regional housing supply and demand imbalances already suggest a looming dwelling shortage in Auckland. Internal migration out of Christchurch is only likely to worsen the situation.

We must not lose sight of the fact the quake is not the only shock the economy is dealing with. Prior to the February earthquake the economy looked to be in the early stages of rebalancing towards the income generating side of the economy. More resources shifting into the construction sector activity

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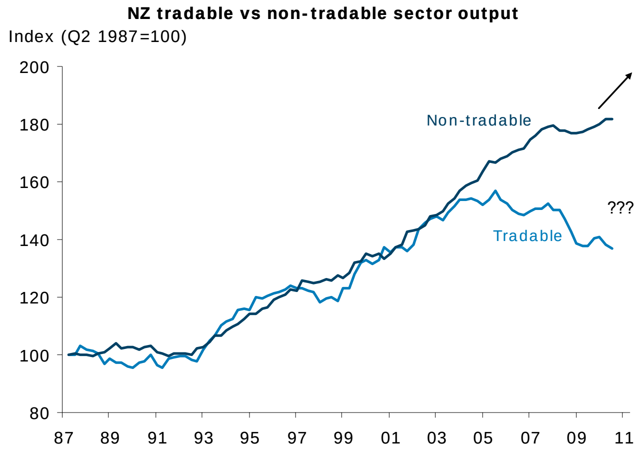
will hamper this and will leave the NZ economy more vulnerable to external shocks. A lower OCR will not help alleviate this and may even make the situation worse by providing stimulus to the spending side of the economy.



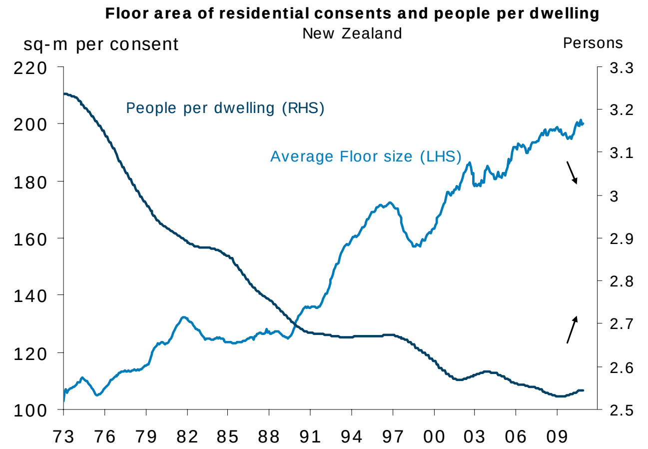
Sources: ANZ, National Bank, Statistics NZ

Housing impacts

Most of the impact will be felt in Christchurch, with many displaced households and some of the rental stock likely to have been damaged. There are also repercussions for other regions given the displacement and temporary migration of many displaced Christchurch residents to other regions. Anecdotally, other South Island centres are experiencing sizeable inflows of Christchurch residents which will add to pressures in those regions.

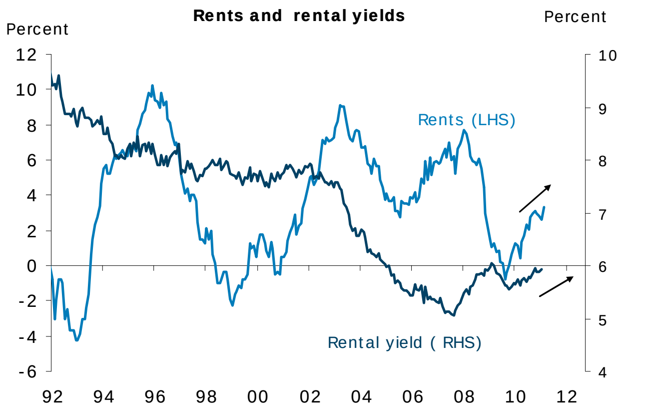
The loss of up to 15 percent of the available dwelling stock in Christchurch will contribute to more overcrowding in the Canterbury region. Assuming most residents stay put in Christchurch, the ratio of people per dwelling would rise from around 2.6 before the earthquake to closer to 3. Temporary housing will meet some of the needs of those without shelter, but the average number of people per dwellings will have to go up. Dwelling sizes are also likely to fall given rising construction costs and pressures on capacity.

The quake has raised housing costs. With the risks of homeownership made more obvious we are likely to see dwelling rents moving higher. With the pressures on construction sector resources, we are also likely to see higher construction costs. Ironically this may underpin property values in other regions, although we suspect most households will be closely looking at revaluating their holdings of housing assets.



Sources: ANZ, National Bank, Statistics NZ

Consumer prices will also move higher as a result of the quake. Every 1 percent increase in rents and construction costs translates into a 0.1 percent increase on consumer prices. We are also likely to see earthquake related cost increases for insurance, EQC premiums, and local authority rates as risks are reassessed and additional costs passed on. **This is not what the RBNZ would be looking for, with annual headline inflation set to approach 6 percent by the middle of this year.**



Sources: ANZ, National Bank, Statistics NZ, REINZ, DBH

Finding the right people – readdressing the NZ technical skills deficit.

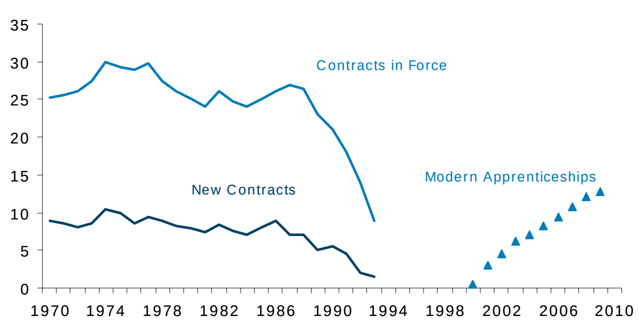
It is not just sheer numbers of people required for a concerted rebuilding effort, the skill set is also important. “Might” is not always “right”, particularly given the strains that the worker inflow will place on the Canterbury infrastructure.

Getting the policy mix right will have far reaching implications. At the top of the list is addressing our technical skills deficit. A succession of reforms from the late 1970s till the 1990s moved more of the onus of industry training to the private sector. Around 30 percent of

REBUILDING CHRISTCHURCH

apprenticeships were generally in the construction sector or engineering. With the New Zealand economy facing difficult times, the upshot was a steady decline in apprenticeship numbers in the 1980s. We suspect a greater focus on other forms of tertiary education also saw the dilution of trades as a preferred career option. While the Labour Government instigated the modern apprenticeship scheme in 2000, there is a vacuum gap to work through. **Fixing this will be a long, hard grind.**

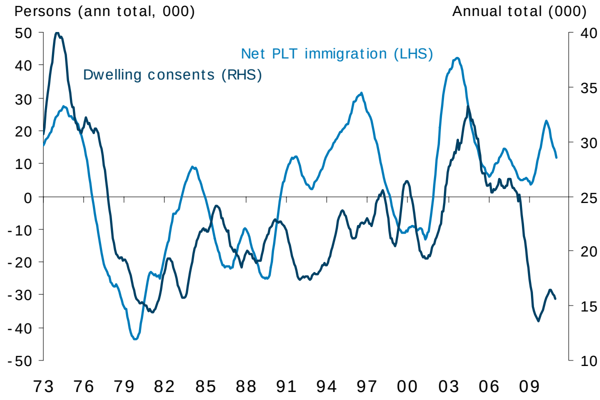
NZ Apprenticeship Contracts



Sources: Labour Department, Tertiary Education Commission, ANZ, National Bank

We also need to bear in mind some simple realities. Migration flows into and out of New Zealand are notoriously cyclical and tend to lead swings in residential construction and economic cycles more generally. Volatility does not tend to be growth enhancing over the long-term and the boom and bust nature of the construction industry may have contributed to more emigration of trades people during the lean times. New Zealand is a small country and there is probably very little that policy can do to mitigate these swings without creating damage to other parts of the economy.

Net PLT migration and dwelling consents



Sources: ANZ, National Bank, Statistics NZ

While we will never be able to fully prevent the loss of skilled workers overseas, a more trades focused immigration policy could help level the playing field. Given the looming pressures on the local construction industry, fast tracking applications from overseas migrants in the construction sector should be given serious consideration. The RBNZ appear to have reached a similar conclusion.

THE UPSHOT

The quake has adversely affected balance sheets and the capital stock, and the economy is worse off as a result. Rebuilding Christchurch is a major priority for our country. The resource requirements are massive and work will need to be spread over a number of years. There are substantial implications for the distribution of resources throughout the economy. For policymakers, re-prioritisation and some tough choices lie ahead.

Thinking looks well advanced in regard to rebuilding Christchurch and the financing of it. Thankfully NZ has strong reinsurance cover but clearly a sizeable proportion of the cost will fall on the Government balance sheet. The Government has flagged preparedness to lean on its own balance sheet as opposed to alter tax rates for the general economy. We think this is a most workable approach.

The reconstruction work poses a formidable challenge for the supply side of the New Zealand economy. Given demand requirements, policymakers will need to place more emphasis on technical skills training. This will not produce immediate results, but could help alleviate capacity pressures as the rebuild process ramps up. The importance of this cannot be understated. **A failure to implement supply-side initiatives will see the economy hitting capacity constraints sooner, see interest rates move up and leave fewer resources to invest in the rebalancing process for the economy.**

REFERENCES

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Murray, Nicky (2001), *A history of apprenticeship in New Zealand*, Masters Thesis, Lincoln University.

DATA PREVIEW

SUMMARY

GDP for Q4 is estimated to return to positve growth, with the economy expected to narrowly avoid a technical recession in H2. The GDP report will show sector divergences, with rebounding primary sector output comparing with declining construction sector activity and mixed readings for the services sector. We are expecting a quarterly current account deficit of $1.9b. Further reinsurance inflows from the September 2010 Canterbury earthquake look set to narrrow the annual current account deficit, which is set to shrink to 1.7 percent of GDP. One-offs from reinsurance inflows are soon likely to push the annual current account into the black for the first time since the 1970s, although the deterioration from 2012 will be sharper.

Current account – December 2010 quarter
(due Wednesday 23 March, 10.45am)

Current Account	ANZ	RBNZ	Market
Quarter	**-$1.9b**	- -	-2.2
Annual	**-$3.2b**	- -	-4.7
% of GDP	**-1.7%**	-2.6%	-2.4%

We are expecting a quarterly current account deficit of approximately $1.9b. Partly on account of the higher terms of trade, we expect a return to a positive quarterly trade surplus of around $500m, when the seasonal norm is usually a deficit. Offsetting this is a move higher in the invisibles deficit, with the transfers balance set to return to a small surplus after being boosted by reinsurance inflows in Q3. We expect a Q4 investment income deficit of around $2.5b. This is slightly lower for this time of the year and reflects our assessment that corporate profitability is only slowly recovering from cyclical lows.

We are also assuming a further $1.3b of reinsurance inflows for the September 2010 quake will be recorded, which will further increase the 2010Q3 transfers surplus and contribute to the annual current account deficit falling to 1.7 percent of GDP. With reinsurance inflows of around $6b set to boost the Q1 transfers surplus, we are set for a period of annual current account surpluses over 2011. This is likely to be short-lived, with greater government borrowing and earthquake reconstruction set to check the rebalancing of the New Zealand economy.

FINANCIAL MARKET IMPLICATIONS

Considering the February earthquake and March MPS OCR cut the market will be paying less attention than usual to historical Q4 data. While a narrower than expected deficit may provide some support to the NZD, we suspect the market will be bracing itself for a more adverse medium-term picture as the impacts of the earthquake rebuild on national saving and investment become more apparent.

GDP – December 2010 quarter
(due Thursday 24 March, 10.45am)

GDP	ANZ	RBNZ	Market
QoQ	**+0.2%**	- -	+0.1%
YoY	**+0.7%**	- -	+0.6%
Ann. Ave.	**+1.4%**	+1.4%	+1.4%

We expect headline production GDP to return to positive growth in Q4, increasing by 0.2 percent. Primary sector output is expected to increase 2 percent, with agriculture, mining, and fishing, and forestry output rebounding from Q3 weakness. Output in goods producing sectors is expected to show contrasts, with weaker hydro-electrical output and residential construction activity being offset by an envisaged recovery in primary and ex-primary manufacturing. Services sector output is also expected to be mixed, with weaker retail activity, lower paid hours and declining residential sales volumes contributing to weakness in personal and community services, whereas higher paid hours should contribute to an increase in finance and insurance activity.

Sector divergences are also expected on the expenditure measure of GDP. The post-GST effect will weigh on durables consumption and non-residential investment activity will be weak. Business investment will be firmer, supported by a surge in transport equipment investment and more non-residential construction. Government consumption and inventory rebuilding will add to growth. However, net exports are set to make another negative quarterly contribution.

FINANCIAL MARKET IMPLICATIONS

Developments have moved considerably since late last year and we expect only a limited market reaction from the Q4 GDP data. With economists picks for Q4 GDP not having the benefit of delayed Q4 manufacturing and wholesale trade data, there are greater than usual margins of error around them. Our slightly more positive Q4 pick relative to the market reflects the risk of some statistical payback after widespread weakness was seen in the Q3 report. The key message, however, is that activity in the first half of 2011 will be weak and the RBNZ are unlikely to raise the OCR until later this year.

INTEREST RATE STRATEGY

SUMMARY

Headlines dominated price action last week as fears of a nuclear meltdown gripped global markets. Australia swung from pricing in rate hikes to pricing in cuts. NZ went along for the ride too, but calm is slowly returning. The major macro development was the US FOMC meeting, which marked a major shift in focus – not that too many people seem to have noticed. In our view, this poses significant upside risks for NZ's long term interest rates.

MARKET THEMES

- The NZ market got caught up in last week's panic buying spree. But a degree of calm is returning, with the 2yr biased mildly higher short term.
- The stand out event for us last week was the US Fed's move to inflation watch mode.
- The risks surrounding GDP data are asymmetric, with strong data more likely to case a stir.

REVIEW AND OUTLOOK

Short end interest rates dived to new lows last week, with the bellwether 2yr swap trading to an all time low of 3.13% at one stage as the market contemplated a nuclear meltdown. **A degree of calm has now returned, and short end rates are now broadly back to levels consistent with the RBNZ's revised 90 day bill track**. We haven't suddenly swung from being rate bulls to rate bears – but for the time being, upward pressure is likely to be dominant. But we have to acknowledge that profit taking and positioning may see recent moves over-extend. Things could get particularly ugly if Thursday's Q4 GDP data surprises to the upside, with the market seemingly in the mood to discount weak data (knowing that the RBNZ cut in anticipation of it), but mildly fearful of strong data.

The long end has always, and will continue to be dominated by global events. In that regard, **we are staggered by how calm the US Bond market's reaction to last week's Federal Reserve (FOMC) statement**. **Although the Fed left its two key policy levers unchanged, it has basically shifted from a seemingly relaxed stance to what inflation watch mode**. Not only have the Fed acknowledged the pick up in the tempo of US data, but in our view it dropped a bomb-shell when it said **"it will pay close attention to the evolution of inflation and inflation expectations".** Two days later, US CPI data printed strong, so go figure. Yet bond yields remain very depressed. Markets appear to be on a collision course. Note too that while for now the RBNZ and Fed are charting different courses, this won't last forever. Ignore inflation at your peril.

PREFERRED BORROWING STRATEGIES

Markets remain volatile, and continue to trade from headline to headline, and to some extent are ignoring the fundamentals, particularly in the US. But while we expect upward pressure on global rates (and again, mainly the US, but to an extent Europe too) to put upward pressure on NZ rates, especially at the long end, we are also cognisant that that BKBM is set to stay low for some time yet to come. In our view this deepens what we have referred to in the past as the "borrower's dilemma". That is, what do you do if you want to take advantage of globally inspired low long end rates, when doing so would deprive you of the ability to enjoy low floating rates (which have just moved lower)? We favour holding off adding to hedges until more clarity emerges, mindful of the need for borrowers to have a better idea of how recent events and the government's response will impact on their own businesses.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	On hold, and not likely to be swayed by data for a while.
NZ data	↔/↑	Better GDP data would cause more of a stir.
Fed Funds / front end	↑	Fed now on inflation watch. Major change in attitude.
RBA	↔	RBA on hold, but market needs to get real. They won't cut as markets expect.
US 10 year	↔/↑	Upside risks from inflation, stability in Libya and Japan.
NZ swap curve	↔/↑	Curve to steepen. RBNZ on hold, UST yields higher.
Flow	↔/↑	Longs taking profit.
Technicals	↔	2yr swap converging on RBNZ bill track.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Apr-11	-1	-1
Thu 9-Jun-11	-1	-3
Thu 28-Jul-11	-6	-7
Thu 15-Sep-11	0	-2
Thu 27-Oct-11	0	-1
Thu 8-Dec-11	+17	+5
Thu 26-Jan-12	+26	+12

TRADING THEMES WE FAVOUR AT PRESENT

Although we expect the RBNZ to remain on hold for some time, and like the roll and carry available at the short end, the move lower last week looks overdone, and we are mindful of a pullback. As such, we prefer to be tactically short the 2 year at these levels, looking for better levels to re-establish longs. Not only are both the Libya and Japan nuclear issues stabilising, but US inflation data adds upside risks. We also believe the market would be more sensitive to better than expected GDP data, discounting weak data.

CURRENCY STRATEGY

SUMMARY

The G-7 agreed to co-ordinated intervention to weaken the yen using both USD and EUR after it reached a new post WWII high on a market focusing on repatriation flows following the Japanese earthquake. NZD and AUD follow the EUR higher with little new news to provide their own direction. Chinese authorities raise reserve ratio requirements another 50 basis points to reinforce the economic slowdown. Libyan situation will see financial markets on edge sending commodities higher.

MARKET THEMES

- G-7 central banks to battle Yen repatriation flows.
- China continues to effect economic slowdown weighing on AUD.
- Libyan conflict will unnerve financial markets.
- US confidence data continues to positively surprise.
- GDP and Current Account data the focus for NZD this week.

REVIEW AND OUTLOOK

Expect highly uncertain international events to overshadow local GDP and C/A data this week for NZD direction. The NZD suffered a dramatic fall last Thursday as large NZDJPY margin account liquidation flows hit the market. This saw the NZD fall 1 cent in a matter of minutes against the USD and the AUD. All this ground was recovered on the announcement of the co-ordinated intervention to weaken the yen. This week we get NZ current account and GDP data to provide some local direction but expect international issues to be more influential leaving us with a highly uncertain week.

The co-ordinated currency intervention by the G-7 central banks should keep yen crosses rangebound this week. The G-7 agreed to co-ordinated intervention to assist the Japanese to weaken the yen following the devastating tsunami. This was after the yen reached a new post WWII high of 76.14 against the USD as markets expect heavy repatriation of investments to Japan to pay for the rebuild. Four European central banks as well as the Fed were seen selling yen but given that the USDJPY has fallen back from 82.00 to 80.50 the central bank action seems a little half-hearted. This gives us a sense of just how weak the USD is at this point and how the US authorities seem happy with the result.

The Libyan situation remains uncertain despite the announcement of a ceasefire this morning. With this in mind expect a very "headline driven" market with a leaning to risk off. This situation remains highly fluid and uncertain and will make for jittery financial markets.

The Chinese authorities have raised the reserve ratio requirement again by 50 basis points which we expect to give a negative bias to the AUD. Despite evidence that a slowdown is occurring it is obvious that the authorities want to be sure that the slowdown is a on a robust footing. The AUD continues to look fully priced and we continue to believe that we may have seen a medium term top in the high 1.02s.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↔/↓	Yields less supportive as NZ growth prospects soften.
Commodities	↔	Soft commodities topping out?
Partial indicators	↓	Post earthquake uncertainty continues.
Technicals	↔	Support .7300.
Sentiment	↓↔	Earthquake has dented NZD sentiment.
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	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔	Risk gauges turning higher.
Partial indicators	↔/↓	US data improves while NZ still anaemic.
Technicals	↔	Rangebound .7170 - .7370.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Earthquake has dented NZD sentiment.
Other	↑	Terms of trade continue to support.
On balance	↔↑	**Terms of trade returns to focus.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
21-Mar	UK	Rightmove House Prices (MoM) - MAR	- -	3.10%	13:01
	UK	Rightmove House Prices (YoY) - MAR	- -	0.30%	13:01
	NZ	Credit Card Spending SA (MoM) - FEB	- -	3.80%	15:00
	NZ	Credit Card Spending (YoY) - FEB	- -	5.60%	15:00
22-Mar	US	Chicago Fed Nat Activity Index - FEB	- -	-0.16	01:30
	US	Existing Home Sales - FEB	5.11M	5.36M	03:00
	US	Existing Home Sales MoM - FEB	-4.70%	2.70%	03:00
	UK	CPI (MoM) - FEB	0.60%	0.10%	22:30
	UK	CPI (YoY) - FEB	4.20%	4.00%	22:30
	UK	Core CPI YOY - FEB	3.10%	3.00%	22:30
	UK	Public Sector Net Borrowing - FEB	7.6B	-5.3B	22:30
23-Mar	UK	CBI Trends Total Orders - MAR	-6	-8	00:00
	US	House Price Index MoM - JAN	-0.20%	-0.30%	03:00
	US	Richmond Fed Manufact. Index - MAR	24	25	03:00
	NZ	Current Account Balance - 4Q	- -	-1.770B	10:45
	NZ	Account Deficit-GDP Ratio - 4Q	- -	-3.10%	10:45
	UK	Bank of England Minutes - FEB			22:30
	UK	BBA Loans for House Purchase - FEB	29350	28932	22:30
	EC	Industrial New Orders NSA (YoY) - JAN	21.40%	18.50%	23:00
	EC	Industrial New Orders SA (MoM) - JAN	1.00%	2.10%	23:00
24-Mar	UK	U.K. Budget - 2011			01:30
	US	New Home Sales - FEB	290K	284K	03:00
	US	New Home Sales MoM - FEB	2.10%	-12.60%	03:00
	EC	Euro-Zone Consumer Confidence - MAR A	-11	- -	04:00
	NZ	GDP QoQ - 4Q	- -	-0.20%	10:45
	NZ	GDP YoY - 4Q	- -	1.50%	10:45
	AU	Conference Board Leading Index - JAN	- -	0.70%	12:00
	JN	Adjusted Merchnds Trade Bal. - FEB	¥676.8 B	¥191.8B	12:50
	JN	Merchnds Trade Exports YoY - FEB	9.1	1.4	12:50
	JN	Merchnds Trade Imports YoY - FEB	4.4	12.4	12:50
	AU	RBA Financial Stability Review - Q1			13:30
	CH	HSBC Flash China Manufacturing PMI - MAR	- -	- -	15:30
	GE	PMI Manufacturing - MAR A	62	62.7	21:30
	GE	PMI Services - MAR A	58.4	58.6	21:30
	EC	PMI Composite - MAR A	57.8	58.2	22:00
	EC	PMI Manufacturing - MAR A	58.3	59	22:00
	EC	PMI Services - MAR A	56.3	56.8	22:00
	UK	Retail Sales Ex Auto Fuel(MoM) - FEB	-0.60%	1.60%	22:30
	UK	Retail Sales Ex Auto Fuel(YoY) - FEB	2.50%	5.30%	22:30
	UK	Retail Sales w/Auto Fuel (MoM) - FEB	-0.60%	1.90%	22:30
	UK	Retail Sales w/Auto Fuel (YoY) - FEB	2.40%	5.30%	22:30
25-Mar	US	Durable Goods Orders - FEB	1.20%	2.70%	01:30
	US	Durables Ex Transportation - FEB	2.00%	-3.60%	01:30
	US	Cap Goods Orders Nondef Ex Air - FEB	3.70%	-6.90%	01:30
	US	Cap Goods Ship Nondef Ex Air - FEB	- -	-2.00%	01:30
	US	Initial Jobless Claims - 19 Mar	383K	385K	01:30
	US	Continuing Claims - 12 Mar	3700K	3706K	01:30
	JN	Natl CPI YoY - FEB	0.00%	0.00%	12:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
25-Mar	JN	Corp Service Price Index (YoY) - FEB	-1.20%	-1.10%	12:50
	CH	MNI Business Condition Survey - MAR	- -	58.21	14:35
	GE	GfK Consumer Confidence Survey - APR	5.8	6	20:00
	GE	Import Price Index (MoM) - FEB	0.90%	1.50%	20:00
	GE	Import Price Index (YoY) - FEB	11.60%	11.80%	20:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - FEB	1.60%	1.70%	22:00
	EC	Euro-Zone M3 s.a. (YoY) - FEB	1.70%	1.50%	22:00
	GE	IFO - Business Climate - MAR	110.5	111.2	22:00
	GE	IFO - Current Assessment - MAR	114.6	114.7	22:00
	GE	IFO - Expectations - MAR	106.8	107.9	22:00
26-Mar	US	GDP QoQ (Annualized) - 4Q T	3.00%	2.80%	01:30
	US	GDP Price Index - 4Q T	0.40%	0.40%	01:30
	US	Personal Consumption - 4Q T	4.10%	4.10%	01:30
	US	U. of Michigan Confidence - MAR F	68	68.2	02:55

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: The February 22 earthquake was a game changer and is likely to delay the recovery by at least 6 months, if not longer. The RBNZ concur and cut the OCR by 50 basis points in the March MPS. Last week we saw post-quake consumer sentiment gauges slide, with the uptrend in dairy commodity prices coming to a sudden halt. This week's Q4 data will have a more historical than usual feel to it, but should confirm NZ just escaped a technical recession in 2010H2. The economic data over the coming months will be noisy and we continue to watch upcoming confidence readings.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Delayed	Overseas Travel and Migration – Feb	Easing	The trend is weakening and we expect a monthly net PLT inflow of around 200 persons. Visitor arrival numbers to fall.
Mon 21 Mar (3:00pm)	RBNZ Credit Card billings – Feb	Flat	We expect a 0.2 percent increase in billings.
Wed 23 Mar (10:45am)	Balance of Payments – 2010Q4	Lower	We expect a quarterly deficit of $1.9b, with more reinsurance flows for Q3 to lower the annul deficit to 1.7 percent of GDP.
Wed 24 Mar (10:45am)	Gross Domestic Product – 2010Q4	Soft	We expect a 0.2 percent increase. Sector divergences remain, with weak construction offset by climbing primary sector output.
Mon 28 Mar (10:45am)	Wholesale Trade – 2010Q4	Up	Weak retail volumes suggest a flat quarter at best, although the increase in export volumes was encouraging.
Tue 29 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Up	We expect Q4 manufacturing volumes to increase by around 1 percent. Risks look higher.
Tue 29 Mar (10:45am)	Overseas Merchandise Trade – Feb	Surplus	We expect a monthly trade surplus of $180m but for the annual trade surplus to ease to $700m.
Wed 30 Mar (10:45am)	Building Consents – Feb	Down	We expect a slide in residential consent numbers of at least 2 to 3 percent. Reconstruction work will provide a much needed fill-up for the sector from later this year.
Thur 31 Mar (3:00pm)	National Bank Business Outlook	- -	- -
Thur 31 Mar (3:00pm)	RBNZ Credit Aggregates - Feb	Deleveraging mood	Small increases are expected. We will be closely watching the business sector credit numbers.
Mon Apr 4 (3:00pm)	ANZ Commodity Price Index - March	- -	- -
Tue Apr 5 (10:00am)	NZIER QSBO – Q1	Earthquake hit	Earthquake disruptions will be evident, with a wide gap between expected and actual domestic trading activity. General business confidence should take a hit. Capacity utilisation measures are likely to move higher.
Mon Apr 11 (10:45am)	Electronic Card Transactions - Mar	Down	Card transaction values are expected to decline 1 to 2 percent due to earthquake disruptions. Consumers remain cautious.
Wed Apr 13 (10:45am)	Food Price Index - Mar	Up	We expect a 0.2 percent increase in food prices. Stronger rises over 2011 are in prospect.
Thur Apr 14 (10:45am)	REINZ housing market data – March	Down	Sales volumes are expected to decline as households retreat back into their shell.
On Balance		**Weak H1**	**The Christchurch earthquake will result in continuing weakness over the first half of 2011, with the recovery pushed out at least 6 months.**

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)	1.8	1.5	**0.7**	**-0.2**	**-0.3**	**1.3**	**2.9**	**4.1**	**4.9**	**4.4**
CPI (% qoq)	0.2	1.1	2.3	**1.0**	**1.0**	**0.8**	**0.7**	**0.6**	**0.8**	**0.7**
CPI (% yoy)	1.7	1.5	4.0	**4.6**	**5.5**	**5.1**	**3.4**	**3.0**	**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	-2.5	**-1.7**	**0.9**	**1.0**	**-0.4**	**-3.5**	**-4.0**	**-4.5**	**-4.9**
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**

	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Retail ECT (% mom)	0.3	0.5	0.3	-0.7	2.3	0.8	1.0	-0.8	2.4	-0.2
Retail ECT (% yoy)	2.5	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2
Credit Card Billings (% mom)	1.6	1.2	-1.2	0.7	1.0	0.6	0.0	-1.7	3.8	..
Credit Card Billings (% yoy)	3.3	4.5	2.6	2.2	4.2	4.7	3.8	2.1	5.6	..
Car registrations (% mom)	-3.9	5.6	-6.3	0.0	2.5	-3.8	13.7	-8.7	0.8	-1.0
Car registrations (% yoy)	30.5	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8
Building consents (% mom)	-10.0	1.2	3.2	-17.7	0.9	-1.9	8.4	-18.2	9.6	..
Building consents (% yoy)	11.0	27.0	25.2	-3.1	-9.4	-17.5	-9.1	-26.4	-14.6	..
REINZ House Price Index (% yoy)	2.3	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	0.2	0.1	0.2	0.1	0.0	0.0	0.1	..
Household Lending Growth (% yoy)	2.6	2.6	2.5	2.3	2.3	2.0	1.8	1.6	1.6	..
ANZ Roy Morgan Consumer Confidence	126.0	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1
NBNZ Business Confidence	48.2	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5
NBNZ Own Activity Outlook	45.3	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6
Trade Balance ($m)	770	221	-186	-430	-455	-220	-177	-264	11	..
Trade Balance ($m ann)	41	593	585	871	978	1259	1363	1125	865	..
ANZ World Commodity Price Index (% mom)	1.2	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7
ANZ World Commodity Price Index (% yoy)	51.8	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9
Net migration (sa)	360	200	930	870	1010	510	600	720	450	..
Net migration (annual)	17967	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	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.773	0.752	0.730	0.73	0.75	0.74	0.73	0.72	0.71	0.70
NZD/AUD	0.775	0.739	0.733	0.73	0.74	0.74	0.75	0.74	0.75	0.76
NZD/EUR	0.564	0.545	0.514	0.56	0.59	0.57	0.55	0.54	0.53	0.52
NZD/JPY	63.41	61.53	58.96	63.5	66.0	66.6	65.7	66.2	66.7	66.5
NZD/GBP	0.483	0.463	0.450	0.46	0.48	0.47	0.46	0.45	0.44	0.44
NZ$ TWI	68.7	66.4	64.1	66.6	68.6	67.7	66.9	65.9	65.3	65.0
INTEREST RATES	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	3.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25
NZ 90 day bill	3.21	2.86	2.61	2.70	2.70	3.10	3.70	3.80	4.20	4.70
NZ 10-yr bond	5.48	5.54	5.54	5.80	6.00	6.20	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	0.30	0.31	0.31	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	4.92	4.97	4.86	5.20	5.50	5.70	6.00	6.00	6.00	6.00

	18 Feb	14 Mar	15 Mar	16 Mar	17 Mar	18 Mar
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.50
90 day bank bill	3.17	2.65	2.65	2.64	2.63	2.64
NZGB 11/11	3.88	3.42	3.34	3.33	3.32	3.38
NZGB 04/13	4.52	4.27	4.20	4.19	4.18	4.23
NZGB 12/17	5.40	5.31	5.24	5.25	5.24	5.31
NZGB 05/21	5.61	5.53	5.46	5.46	5.44	5.51
2 year swap	3.78	3.22	3.16	3.18	3.18	3.23
5 year swap	4.67	4.31	4.23	4.25	4.23	4.30
RBNZ TWI	67.7	65.3	64.8	64.7	63.9	64.4
NZD/USD	0.7603	0.7390	0.7342	0.7316	0.7229	0.7292
NZD/AUD	0.7518	0.7328	0.7346	0.7393	0.7374	0.7335
NZD/JPY	63.36	60.69	59.91	59.10	57.27	59.65
NZD/GBP	0.4702	0.4601	0.4548	0.4557	0.4519	0.4511
NZD/EUR	0.5591	0.5305	0.5259	0.5239	0.5192	0.5180
AUD/USD	1.0113	1.0084	0.9995	0.9896	0.9804	0.9942
EUR/USD	1.3599	1.3929	1.3961	1.3965	1.3924	1.4076
USD/JPY	83.33	82.12	81.60	80.78	79.22	81.80
GBP/USD	1.6171	1.6061	1.6145	1.6056	1.5998	1.6164
Oil (US$/bbl)	85.05	101.14	97.23	97.23	97.99	101.47
Gold (US$/oz)	1384.85	1422.70	1394.70	1396.63	1392.65	1411.40
Electricity (Haywards)	2.94	3.38	5.60	5.66	23.98	6.52
Baltic Dry Freight Index	1301	1559	1548	1538	1533	1531
Milk futures (US$/contract)	158	157	157	157	157	157

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;

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- 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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