

## THE SIGNIFICANCE OF "SIGNIFICANT"

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## ECONOMIC OVERVIEW

Given the softer tone from the RBNZ and our circumspect stance towards the credit cycle we remain comfortable with lower interest rates from September this year. Across the Tasman however, ugly inflation data puts the RBA on notice. The NZD/AUD looks set for a further run lower.

### What's ahead?

- > **NZ March Overseas Merchandise Trade** (Tuesday 1045 NZST). The ongoing impact of high dairy prices is expected to contribute to a small monthly surplus of \$250 million in March. This is offset slightly by continued high oil prices.
- > **NZ March Credit Growth** (Tuesday 1500 NZST). Last month's data surprised on the upside slightly. We expect a softer print for March as a slowing housing market reduces credit demand.
- > **NZ March Building Consents** (Wednesday 1045 NZST). Both residential and non-residential consent issuance is trending lower. We expect this to continue. We would not be surprised to see a massive decline in residential consents in the month given the sharp fall in construction sector sentiment shown in the March NBBO.
- > **NBNZ April Business Outlook** (Wednesday 1500 NZST).

### What's the view?

Looking back over the past week, the RBNZ obviously dominated.

With interest rates widely expected to be left unchanged, it was the tone of the Bank's accompanying statement and how they would approach the policy outlook that everyone was interested in. As expected, the Bank softened the tone compared with the statement delivered in March. It still highlighted the inflationary risks present within the economy (with food and energy prices again singled out) and the support provided by a strong labour market, commodity prices and upcoming tax cuts. But the Bank acknowledged that economic activity had slowed more markedly than expected just over six weeks ago. In contrast to recent speeches by Governor Bollard, the statement also referred to weaker prospects for world growth as well as acknowledging the impact of tighter credit conditions for the first time. We suspect these final two factors could yet have more of an impact on the RBNZ's view on New Zealand growth prospects and we will be looking for them to revise down their growth forecasts in their June *Monetary Policy Statement*.

Above all this though, the key development was the change in the final paragraph of the statement. The RBNZ now expects the OCR to remain at current levels for "a time yet", a step down from the March statement that noted rates at current levels "for a significant time yet". A very clever change in tone by the removal of just a single word. Given the outlook

for the economy, it was a prudent and appropriate step to take. It gives the Bank the flexibility to respond should the outlook deteriorate as we suspect it will, and we can't but help feel the change was also partly directed at the currency. We remain comfortable calling lower interest rates from September this year. We are comfortable with this view for three key reasons:

- > The economy is weak, and at present it's probably optimistic to say it's flat.
- > The economy will not reflate in 2009 courtesy of commodity prices and tax cuts. Ultimately, the de-leveraging that is occurring within the financial system must be matched by the real economy. With weak balance sheets, falling house prices, and a negative savings rate, such de-leveraging will be an arduous and drawn out process for households. We expect the economy to go through a saucer-shaped slow-down, being weaker for longer.
- > We remain circumspect with how the credit cycle will play out – a theme we continue to push. While the past week has seen a semblance of stability return to the global credit environment (particularly across equities), the next test will be earnings as the combination of sticky inflation and weakening growth make for a nasty earnings cocktail. Domestically, risk continues to be repriced. Last week saw 4 and 5 year fixed mortgage rates move up once again. While we also saw one financial institution offer a favourable two year rate, it was contingent on having 20 percent equity.

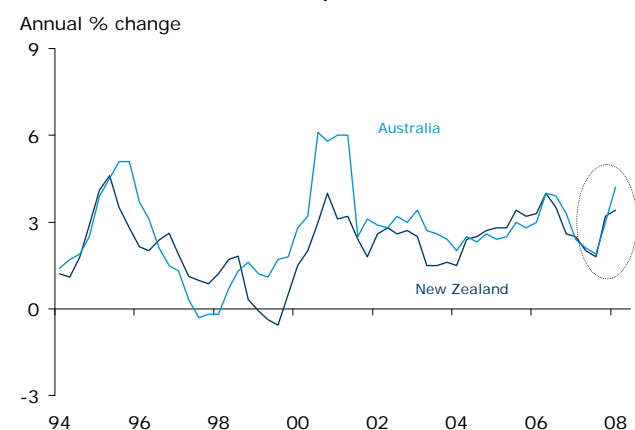
Irrespective of the real economy, rates will not move lower until the medium-term outlook for inflation improves. The key here remains the labour market and the currency (the joker in the pack). The RBNZ's battle with the housing market has been won and it is broadening quickly. The battlefield is now to see it filter into the labour market (and wages) to contain inflation. Q1 HLFS data next week will be closely eyed. By its very nature, the HLFS is likely to show a pull-back in employment growth after the 1.1 percent surge in the December quarter. This may get some excited, but given the volatility and yo-yo (autoregressive) nature of the survey, the second quarter (due 7 August) is shaping up as more informative of the underlying trend, particularly for the unemployment rate.

Looking elsewhere, everyone's eyebrows were raised with the release of inflation data for Australia. Headline inflation grew by 1.3 percent in the quarter, taking annual inflation to 4.2 percent, while core measures rose 1.25 percent, to be up 4.25 percent on a year ago – the highest levels since 1991. Ugly is an understatement, particularly after the preceding comment a week earlier from the RBA that the medium-term outlook for inflation was marginally better!

The RBA has absolutely no room for anymore upside inflation surprises and the data has all but ruled out

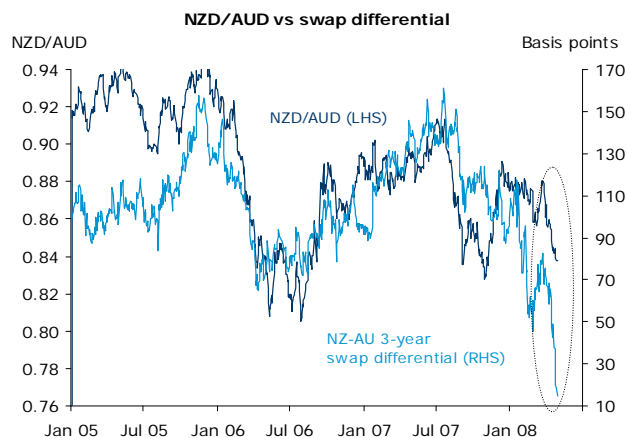
the possibility of interest rate cuts in 2008. In fact, the chances of the RBA needing to hike rates again have increased considerably. Our Australian counterpart's preferred view is that the RBA will be patient over the next few months given signs that the domestic economy is responding to higher nominal interest rates. They will give the economy a chance to slow given significant downside risks emanating from the changed credit environment. In the meantime, the risks to official interest rates in Australia are skewed to the upside.

CPI comparisons



Sources: ANZ National, Statistics NZ

So what do we take from all this? Well it suggests that the NZD/AUD is set for a continued push lower. The policy outlook between NZ and Australia is now clearly divergent and interest rate differentials are pricing this accordingly.



Sources: ANZ National, Bloomberg

Looking forward to this week, the major piece of domestic data will be the April National Bank *Business Outlook* survey. This will provide a key read on whether weak business sentiment has been sustained after the significant falls recorded last month and the first indications of how June quarter activity will paned out.

The other releases this week are trade, credit growth and building consents for March. We were surprised with the strength shown in credit growth last month, with total household claims rising by 0.8 percent, and up from the 0.7 percent growth in January. We

suspect that it could have had something to do with there being five Fridays in February (with loans typically settling on a Friday). We suspect that credit growth will weaken again in March. This is partly due to the early Easter this year, but also because of the collapse in house sales over the month. We'll also be looking at the picture from the liabilities side as well, with flexibility to grow the asset side of the equation – particularly going forward – in part determined by the liabilities (deposits picture) side. Similarly, we'll be looking for signs of de-leveraging across the non-bank financial sector.

Weak house sales are also likely to weigh on building consent issuance – due on Wednesday. We suspect that issuance plummeted in March and would not rule out a double-digit contraction. Anecdotes we have received is that consent issuance slowed markedly. As in previous releases, we will be watching for how non-residential consent issuance is tracking, particularly given the altered credit environment and collapse in mezzanine-related finance.

Finally, the trade data will be important for its implications for March quarter GDP. Although it is difficult to assess directly because exports can always come out of inventories, the data will help provide an indication of how agricultural production fared after the dry weather conditions since late 2007. We suspect that meat exports could be quite strong over the quarter, as stock was sent to slaughter early. This is just a timing issue, however, and should unwind in the following quarter. Nevertheless, stronger export growth will help provide a floor to GDP growth that is otherwise looking quite weak. For the March month, we expect a small trade surplus of \$250 million. This should see the annual deficit contract to its lowest level since February 2005, a positive development considering the elevated level of the NZD and a clear indication of the impact that high dairy prices and oil exports out of Tui are having on the external accounts.

Looking to the global calendar, the Federal Reserve interest rate announcement dominates. Markets are expecting a 25 basis point cut, although this has been pared back from a 50 basis point cut expected around two weeks ago. Improving financial market sentiment along with increased rhetoric from Fed officials that inflation still remains a concern, explains the repricing of the Fed. On the data-front, US advanced first quarter GDP will be important, and there is a risk that this could print negative. We also receive the ISM manufacturing index and the key non-farm payrolls releases. Out of Europe, we receive labour market data and a broad measure of confidence within the economy. The latter will be particularly interesting following on from the much weaker than expected German IFO business sentiment survey last week, with confidence falling to a 2-year low.

After sounding like a broken record over the past six months in regards to the credit cycle, we're putting something else on our watch list. The political economy of rising food prices.

According to the IMF, food prices have risen by 48 percent since the end of 2006. It is not just the inflationary implications that higher food prices are causing, but the fact that a number of poorer nations are struggling to find enough food to feed their citizens. We have already seen rioting in places like Haiti, pockets of China and Cameroon, and a number of countries have taken drastic measures such as price controls, restricting exports, or ordering armies to bake bread (Egypt).

It's not just the jump in food prices that is the problem, but the speed with which it has happened. Support for environmentally friendly biofuels – a key driver of grain prices - is being questioned as the food inflation political aspect manifests. Protectionist responses are feared. Will higher food prices be the factor that ends emerging markets' dream run? It is impossible to know, but something else to watch.

### Recent data...

- > **NZ External Migration (March).** There was a seasonally adjusted net inflow of 490 people in March, taking the 12 month total to 4,678.
- > **NZ Credit Card Spending (March).** Total billings fell 2.7 percent over the month.
- > **NZ Electronic Card Transactions (March).** Total retail-related transactions fell 0.3 percent, while core retail-related transactions fell 0.1 percent.
- > **Roy Morgan Consumer Confidence (mid-April).** The index recovered to 100, following a reading of 99.7 in early April.

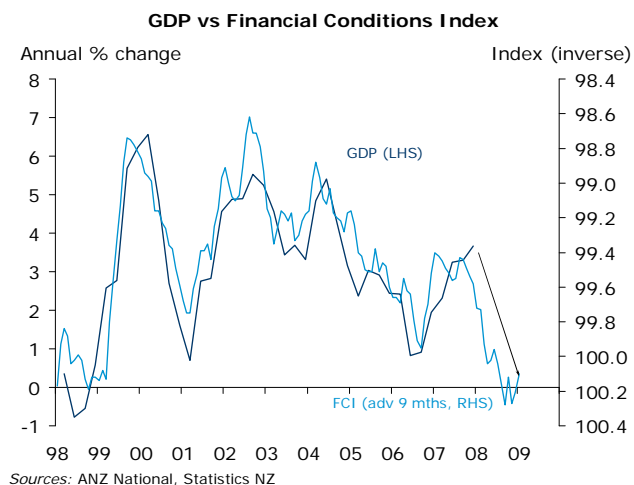
## FINANCIAL CONDITIONS UPDATE

Financial conditions appear to have stabilised despite some volatile movements in financial markets. But conditions are still restrictive and pointing to sub-1 percent growth over this year.

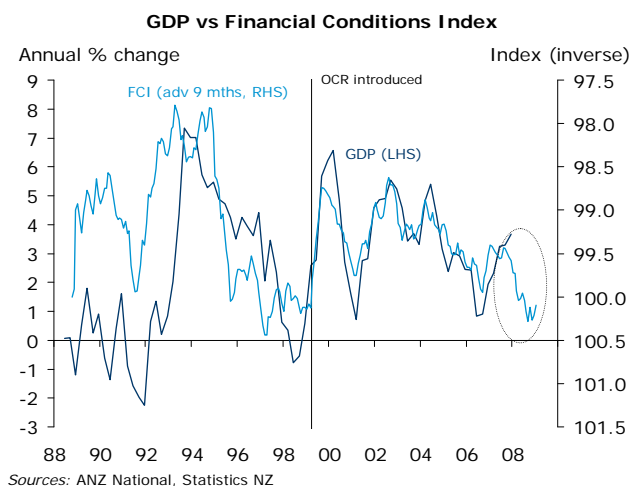
Regular readers will be familiar with our Financial Conditions Index<sup>1</sup>, which we monitor and provide periodic updates in this publication. Unlike the conventional Monetary Conditions Index, our Financial Conditions Index includes a wider array of variables to recognise the different channels through which monetary policy influences the economy. Our Financial Conditions Index provides a timely gauge of economic activity 6 to 9 months into the future, and more importantly it has been successful in predicting key turning points in the growth cycle.

Our Financial Conditions Index appears to have stabilised in recent months, though remains at very restrictive levels. Changes to some components within the index have been significant in the month to date, but more of less offset each other. For example, acting to loosen conditions is the decline in the TWI and lower swap rates. However, the 90-day bank bill rate remains at high levels given the elevated liquidity premium, and the US 2-year swap spread (which we proxy for the cost and supply of credit globally) has widened further. And despite house prices starting to fall, the NZ equity market has recovered off its lows. In addition, while credit growth is slowing, liquidity remains abundant.

percent growth over this year (in annual percent change terms). However, when we look at the correlation between our Financial Conditions Index and GDP growth since 1999, when the OCR was introduced, growth could be close to flat over the course of this year.



The slightly softer tone coming out of the RBNZ last week could see financial conditions loosen in the months ahead via a lower currency and swap rates. However, we expect this to be offset somewhat by tightenings via the wealth channel, as house prices continue to fall and the equity market is weighed down by weaker earnings outlook. In addition, our index does not incorporate any tightening in credit standards, which will lead to a further tightening in overall financial conditions.



Our Financial Conditions Index has been pointing towards a marked slowdown in growth over the first half of this year for some time. Recent declines in consumer and business confidence have now more or less confirmed this view. It now appears very likely that we will get a negative read on GDP growth in either Q1 or Q2 (we think most likely Q2 given the impact of dry weather conditions). At current levels, our financial conditions index is pointing towards sub-1

Indicators	Comment	Impact on activity
Currency, adjusted for the terms of trade	TWI lower over April compared to March.	↓
Interest rates	2-year swap yields down but 90-day still at high levels.	↓
US 2-year swap spread	Spreads continue to widen.	↓
Equity market index as a proxy for corporate wealth and liquidity	Equity market off lows but still likely on a downward trend.	↔
House prices as a proxy for household wealth	House prices now falling with further to go still.	↔/↓
Private sector credit growth	Credit growth starting to slow.	↔
Liquidity	Liquidity remains abundant but for how long more?	↔/↑
<b>Overall conditions</b>	<b>Still at restrictive levels</b>	↓

Whether financial conditions can move into less restrictive levels or not will depend largely on how quickly the currency and swaps market react to further evidence of the economic slowdown. But given the lags with which financial conditions impact on activity, this will not be of much help to growth this year.

<sup>1</sup> Our index is calibrated so that there is a 70 percent weighting towards the internal (e.g. interest rates) variables and 30 percent towards the external (e.g. currency and US swap spreads).

## GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. Data was mixed across the globe this past week. In the US, housing data remains weak as does consumer sentiment, but weekly labour market data firmed. In Europe, weaker than expected manufacturing activity was offset by stronger services activity, although the German IFO did fall. In Asia, South Korean GDP surprised on the downside, as did Taiwanese exports and industrial production.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>US</b>	Existing Home Sales (Mar) – mom	-2.3%	-2.0%	2.9%	Stronger
	House Price Index (Feb) – mom	-1.5%	0.6%	-1.0%	Stronger
	Richmond Fed Manufacturing Index (Apr)	-1	0	6	In-line
	Durable Goods Orders (Mar)	0.1%	-0.3%	-0.9%	Weaker
	Initial Jobless Claims (w/e Apr 20)	375k	342k	375k	Stronger
	Continuing Claims (w/e Apr 13)	2,990k	2,934k	2,999k	Stronger
	New Home Sales (Mar) – mom	-1.7%	-8.5%	-5.3%	Weaker
	University of Michigan Confidence (Apr F)	63.2	62.6	63.2	Weaker
	<b>Europe</b>	PMI Manufacturing (Apr A)	51.6	50.8	52.0
PMI Services (Apr A)		51.4	51.8	51.6	Stronger
PMI Composite (Apr A)		51.5	51.9	51.8	Stronger
Industrial New Orders (Feb) – mom		-0.4%	0.6%	2.2%	Stronger
Money Supply – M3 (Mar) - yoy		10.6%	10.3%	11.3%	Stronger
German IFO – April		104.3	102.4	104.8	Weaker
<b>UK</b>		Retail Sales (Mar) - mom	-0.3%	-0.4%	1.1%
	GDP (1Q A) – qoq	0.4%	0.4%	0.6%	In-line
	Index of Services (Feb) – 3mth/3mth	0.4%	0.3%	0.5%	Weaker
<b>Asia Ex-Japan</b>					
<i>Taiwan</i>	Unemployment Rate (Mar)	3.95%	3.90%	3.95%	In-line
	Export Orders (Mar) - yoy	17.3%	12.8%	18.1%	Weaker
<i>Singapore</i>	Industrial Production (Mar) - yoy	13.9%	8.3%	14.8%	Weaker
	CPI (Mar) – yoy	6.8%	6.7%	6.5%	Weaker
<i>Philippines</i>	Industrial Production (Mar) – mom	-2.0%	0.6%	7.7%	Stronger
	Overnight Borrowing Rate	5.00%	5.00%	5.00%	In-line
<i>South Korea</i>	GDP (1Q P) – qoq	0.9%	0.7%	1.6%	Weaker
<i>Malaysia</i>	CPI (Mar) – yoy	3.0%	2.8%	2.7%	Weaker
<i>Vietnam</i>	CPI (Apr) – yoy	-	21.4%	19.4%	-
	Exports (Apr) – yoy	-	27.6%	22.7%	-
	Imports (Apr) – yoy	-	71.0%	62.5%	-
	Industrial Output (Apr) – yoy	-	16.8%	16.4%	-
<i>Thailand</i>	Customs Exports (Mar) – yoy	-	14.4%	16.4%	-
	Customs Imports (Mar) – yoy	-	32.7%	33.1%	-
<i>Indonesia</i>	Money Supply M2 (Feb) – yoy	-	16.8%	16.5%	-
<b>Japan</b>	All Industry Activity Index (Feb) – mom	-0.5%	-1.4%	0.0%	Weaker
	National CPI (Mar) – yoy	1.2%	1.2%	1.0%	In-line
	National CPI Ex Food and Energy (Mar) - yoy	0.0%	0.1%	-0.1%	Stronger
<b>Australia</b>	Producer Price Index (1Q) – qoq	1.0%	1.9%	0.6%	Stronger
	Consumer Price Index (1Q) – yoy	4.0%	4.2%	3.0%	Stronger
	RBA Trimmed Mean (1Q) – qoq	0.9%	1.2%	1.0%	Stronger

## INTEREST RATE STRATEGY

**RBNZ opens door for receivers. Payside to take a back seat, though data still key. This week's business confidence and next week's labour market data next key reads.**

### Market themes...

- > RBNZ softens tone.
- > Strong AU Q1 CPI means RBA's job not yet done.
- > US selloff continues on Fed outlook, stronger US equities and inflation concerns.

### Review and outlook...

Last week was a week of two halves. In the lead-up to the *OCR Review*, moves in the NZ rates market were dictated to by offshore, with decent payside interest sending swap yields higher. Yields peaked for the week on Wednesday following much stronger than expected AU Q1 CPI, which caused a massive selloff in the Aussie market and filtered through into the NZ market.

But most of the selloff was reversed on Thursday following the RBNZ's statement, which the market interpreted as more dovish than they were expecting. Inflation is still a worry, but growth concerns are also increasing. Significantly, the RBNZ left out the word "significant" when describing how long they see the OCR at current levels. This was taken by the market as a green light for a lower OCR by the end of this year. Indeed, most economists have now shifted towards our long held view of an easing towards the end of the year, with most expecting a December start.

For the week, the NZ market once again massively outperformed global counterparts, with swap yields down 1 to up 5bps, compared to a US yields which were up 16-26bps and AU yields which were up 15-33bps. The receive side bias in NZ rates is expected to continue this week. The focus is back to trading the dataflow, with this week's NBBO and next week's Q1 labour market data the next key reads. We are maintaining our strategy of taking received positions in the 3-5 year part of the swaps curve, and going long the fourth bank bill contract. We expect the near-term dataflow to turn more bearish. And given the RBNZ's softer tone, the market will now be more willing to rally on weaker data. With the RBA possibly coming into play given the stronger inflation concern across the Tasman, this means the NZ rates market will become decoupled from the Aussie market.

In offshore events this week, it's a big one for the US, with Q1 GDP, non-farm payrolls and ISM data due. The FOMC is set to decide interest rates on Thursday morning NZST time. A 25bp cut is expected, but with markets increasingly betting that the end of the easing cycle may be near, the FOMC statement will be closely perused. The BoJ is also deciding on interest rates, though a no change is expected. In Eurozone, labour market data will provide further indication of how well that economy is holding up. Given the ECB's escalated

hawkish rhetoric, a firming labour market could yet see the ECB up their rhetoric. Across the Tasman, retail sales data is the next big read. A strong print could see the Aussie market place a larger odds on an August hike.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Slightly softer tone emerged. Concerns about growth growing, but still worried about inflation.
NZ data	↔	This week's QSBO and next week's labour market data next key reads.
Fed Funds/front end	↔/↓	Markets betting that Fed is close to done on the easing front.
RBA	↔/↑	Strong Q1 CPI means the RBA could yet be in play.
US 10 year	↔/↑	US equity recovery and inflation concerns see yields higher.
NZ swap curve	↔/↓	Overall picture will be to receive the curve – mid-curve the stronger.
Flow	↔/↓	Softer tone from RBNZ will increase new entry levels to receive.
Technicals	↔	Technically, swap yields will be trading at bottom of ranges. Timing of OCR move becomes the key.

### Borrowing strategies we favour at present

We continue to favour paying in the 2-year or less part of the curve. Those with longer term durations on existing portfolios should shorten them. The market is increasingly pricing in more rate cuts, hence our preference to keep borrowing short, no longer than two years.

### Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 5-Jun-08	-6	-14
Thu 24-Jul-08	-34	-42
Thu 11-Sep-08	-66	-86
Thu 23-Oct-08	-102	-142
Thu 4-Dec-08	-202	-218
Thu 22-Jan-09	-202	-218
Thu 5-Mar-09	-366	-362

### Trading themes we favour at present

We remain comfortable with our core strategy of receiving the belly of the curve (3-5 year) and going long the fourth bank bill contract. For those who like to hedge can consider paying the 2-year to benefit from the positive carry and as insurance against a pullback.

## CURRENCY STRATEGY

Renewed inflation concerns in the US and Japan are providing support to the greenback and yen and placing the kiwi under increased selling pressure. The NZD/AUD looks set for further tests of support given divergent policy outlooks for the RBNZ and RBA.

### Market themes...

- > Global inflation concerns resurfacing, particularly in US and Japan.
- > FOMC decision critical this week.
- > Divergent policy outlooks for RBNZ and RBA should see NZD/AUD continue to push lower.

### Review and outlook...

We have said it before, and we will say it again; the NZD is looking vulnerable around current levels. Domestic economic momentum continues to weaken, and now a slightly softer tone from the RBNZ has seen markets bring forward expectations of interest rate cuts. Some of the big themes we are watching in currency markets at present include:

- > The repricing of central banks: Inflation concerns have intensified in recent weeks as oil prices surge and inflation expectations increase. For those currencies where inflation pressures were already priced in, namely the NZD and euro (given previously hawkish central banks), this is not a new development. However, for currencies such as the yen and greenback, where inflation concerns are resurfacing, this potentially means large changes in sentiment could occur.
- > The extent of broadening US economic weakness: Data last week showed UK GDP growing at the slowest pace in three years and the German IFO hit a two year low. Global growth is slowing. As we have said previously, weaker global growth should eventually manifest in a lower EUR/USD.
- > Possible currency intervention: Although recent USD strength may put pay to this, the threat of intervention from European officials still lingers.
- > The diverging policy outlooks for NZ and Australia: Australian Q1 inflation data was ugly and further RBA interest rate hikes now look a real possibility. The NZD/AUD is set for further tests of support.

This week is shaping as an important one and potentially one where large currency movements could occur. The FOMC is due to announce their interest rate decision on Thursday morning (NZST). Markets have price in about an 80 percent chance the Fed will cut rates by 25 bps, although this continues to be pared back. If the Fed was to leave rates unchanged, or to highlight renewed inflation concerns, a strong rally in the USD could result and this could potentially be a watershed for the NZD and see it sold down quite aggressively. Although the levels of interest rate differentials remain wide, it is expectations of where they will head that are important for currency markets.

The Fed's announcement is the major focus, although the international data calendar is also full with US Q1 GDP, ISM manufacturing, and non-farm payrolls. In Europe, confidence and labour market data will be important, while March quarter retail sales is the big release across the Tasman. Locally, the data is largely second-tier in nature, although the NBNZ *Business Outlook* will be closely eyed. A speech from RBNZ Governor Bollard on Thursday will also be of interest.

Technically, NZD major support at 0.7770 still holds firm. This support band from 0.7720-0.7770 is critical with a break leading to a target of 0.7400. Topside looks capped at 0.8030 currently. For the NZD/AUD, 0.8300-60 support is massive. A confirmed break of 0.8300 is very negative for this cross. We favour this support to hold in the short-term with risk 0.8500 is seen later in the week, but sell 0.8500 level if seen.

#### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads narrowing
Commodities	↔	Oil new record highs, but hards struggling.
Partial indicators	↔/↓	Better across the Tasman.
Technicals	↔	Big support at 0.8300-20.
Sentiment	↓	NZD is not a better credit risk than AUD.
Other	↔	All eyes on commodities and yield differentials.
<b>On balance</b>	↓	<b>Moving lower, but you can afford to wait to sell rallies.</b>

#### 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	↔/↓	Yield and commodity story factored.
Yield	↓	Yield differentials narrowing as RBNZ repriced.
Commodities	↔	Still a key one to watch.
Risk aversion	↔	Sentiment slowly returning.
Partial indicators	↔	Both economies weak.
Technicals	↔	Major support at 0.7770.
AUD	↔/↑	Will the RBA need to hike?
Sentiment	↔	Risk appetites improving.
Other	↔/↓	Don't forget the current account deficit.
<b>On balance</b>	↓	<b>Domestic factors too big.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
28 Apr	JN	Retail Trade (Mar) – mom	0.7%	-0.9%	11:50
	GE	GfK Consumer Confidence Survey (May)	4.5	4.6	18:10
	EU	ECB's Trichet, Liebscher, Wellink speaking in Vienna	-	-	19:00
		ECB's Mersch, Hurley Speaking in Luxembourg	-	-	20:30
29 Apr	<b>NZ</b>	<b>Trade Balance (Mar)</b>	<b>390.0M</b>	<b>258.0M</b>	<b>10:45</b>
		<b>Imports (Mar)</b>	<b>3.64B</b>	<b>3.45B</b>	<b>10:45</b>
		<b>Exports (Mar)</b>	<b>4.05B</b>	<b>3.71B</b>	<b>10:45</b>
		<b>Money Supply M3 (Mar) – yoy</b>	<b>-</b>	<b>6.0%</b>	<b>15:00</b>
	UK	Net Consumer Credit (Mar)	1.1B	17.7B	20:30
		Mortgage Approvals (Mar)	66k	73K	20:30
		BoE's King to Testify in Parliament	-	-	20:45
30 Apr	US	S&P/CaseShiller Composite-20 (Feb) – yoy	-12.0%	-10.7%	01:00
		Consumer Confidence (Apr)	61.5	64.5	02:00
	<b>NZ</b>	<b>Building Consents (Mar) – mom</b>	<b>-</b>	<b>-6.5%</b>	<b>10:45</b>
		<b>NBNZ Business Confidence (Apr)</b>	<b>-</b>	<b>-57.9</b>	<b>15:00</b>
	JN	Nomura/JMMA Manufacturing PMI (Apr)	-	49.5	11:15
		Jobless Rate (Mar)	3.9%	3.9%	11:30
		Household Spending (Mar) – yoy	0.5%	0.0%	11:30
		Industrial Production (Mar P) – mom	-0.8%	1.6%	11:50
		BoJ Interest Rate Announcement	0.50%	0.50%	-
		Vehicle Production (Mar) – yoy	-	9.0%	16:00
		Housing Starts (Mar) – yoy	6.7%	-5.0%	17:00
		Construction Orders (Mar) – yoy	-	18.4%	17:00
		Small Business Confidence (Apr)	-	46.6	17:00
	AU	Private Sector Credit (Mar) – mom	0.8%	0.7%	13:30
	GE	ILO Unemployment Rate (Mar)	7.4%	7.4%	18:00
		Unemployment Rate (Apr)	7.8%	7.8%	19:55
		Unemployment Change (000's) (Apr)	-30k	-55k	19:55
	EU	CPI Estimate (Apr) – yoy	3.4%	3.5%	21:00
		Unemployment Rate (Mar)	7.1%	7.1%	21:00
		Business Climate Indicator (Apr)	0.69	0.80	21:00
		Economic Confidence (Apr)	98.9	99.6	21:00
		Consumer Confidence (Apr)	-13	-12	21:00
		Industrial Confidence (Apr)	-1	0	21:00
		Services Confidence (Apr)	9	9	21:00
	UK	GfK Consumer Confidence Survey (Apr)	-	-19	21:30
1 May	US	ADP Employment Change (Apr)	-60k	8k	00:15
		GDP Annualised (1Q A)	0.4%	0.6%	00:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)	
1 May cont	US	Personal Consumption (1Q A)	0.7%	2.3%	00:30	
		GDP Price Index (1Q A)	3.0%	2.4%	00:30	
		Core PCE (1Q A) – qoq	2.1%	2.5%	00:30	
		Employment Cost Index (1Q)	0.8%	0.8%	00:30	
		Chicago Purchasing Manager (Apr)	47.5	48.2	01:45	
			FOMC Interest Rate Announcement	2.00%	2.25%	06:15
	AU	AiG Performance of Manufacturing Index (Apr)	-	51.2	11:30	
		Building Approvals (Mar) – mom	-0.5%	0.1%	13:30	
		RBA Commodity Index SDR (Apr) – yoy	-	9.5%	18:30	
		<b>NZ</b>	<b>RBNZ's Bollard Speaks at Trans-Tasman Business Circle Lunch</b>	-	-	<b>12:15</b>
JN	Labour Cash Earnings (Mar) – yoy	1.2%	1.5%	13:30		
UK	PMI Manufacturing (Apr)	50.8	51.3	20:30		
2 May	US	Personal Income (Mar)	0.4%	0.5%	00:30	
		Personal Spending (Mar)	0.2%	0.1%	00:30	
		PCE Deflator (Mar) – yoy	3.2%	3.4%	00:30	
		PCE Core (Mar) – mom	0.1%	0.1%	00:30	
		PCE Core (Mar) – yoy	2.0%	2.0%	00:30	
		ISM Manufacturing (Apr)	48.0	48.6	02:00	
		ISM Prices Paid (Apr)	83.5	83.5	02:00	
			Construction Spending (Mar) – mom	-0.7%	-0.3%	02:00
	JN	Monetary Base (Apr) – yoy	-	0.0%	11:50	
	AU	Retail Sales (Mar) – mom	0.3%	-0.1%	13:30	
		Retail Sales Ex Inflation (1Q) – qoq	-0.2%	1.6%	13:30	
	GE	Retail Sales (Mar) – mom	0.6%	-0.7%	18:00	
		PMI Manufacturing (Apr F)	53.6	53.6	20:00	
	EU	PMI Manufacturing (Apr F)	50.8	50.8	20:00	
	UK	PMI Construction (Apr F)	47.0	47.2	20:30	
3 May	US	Change in Non-Farm Payrolls (Apr)	-78k	-80k	00:30	
		Unemployment Rate (Apr)	5.2%	5.1%	00:30	
		Change in Manufacturing Payrolls (Apr)	-35k	-48k	00:30	
		Average Hourly Earnings (Apr) – mom	0.3%	0.3%	00:30	
		Factory Orders (Mar)	0.2%	-1.3%	02:00	

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:** Next week's labour market data is shaping as critical to assess the medium-term inflation outlook. Given housing weakness, and evidence it is broadening, a turn in the labour market appears to be the final major hurdle for the RBNZ to be confident that inflationary pressures will reduce.

Date	Data/Event	Economic Signal	Comment
Tue 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Small surplus	The ongoing impact of high dairy prices is expected to contribute to a small monthly surplus in March. This is offset slightly by continued high oil prices.
Tue 29 Apr (15.00)	Credit Growth (Mar)	Soft	Last month's data surprised on the upside slightly. We expect a softer print for March as a slowing housing market reduces credit demand.
Wed 30 Apr (10.45)	Building Consents Issued	Downwards	Both residential and non-residential consent issuance is trending lower. We expect this to continue. We would not be surprised to see a massive decline in residential consents in the March month given the sharp fall in sentiment across the construction sector in the month.
Wed 30 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Mon 5 May (10.45)	QES and LCI (Mar qtr)	Still elevated	Wage growth should stay elevated (and near record highs) as a consequence of the lagged impact of a tight labour market.
Mon 5 May (15.00)	ANZ Commodity Price Index (Apr)	-	-
Thu 5 May (10.45)	Household Labour Force Survey (Mar qtr)	Early signs of softness?	Given recent employment intentions have eased we expect employment growth to be relatively soft over the quarter. This should see the unemployment rate tick-up from its record low.
circa 12 May	REINZ Housing Report (Apr)	Weak	March saw house sales collapse, but the median house price surge due to compositional aspects. Sales could possibly bounce back slightly in April, although we expect the prices to unwind.
Thu 15 May (10.45)	Retail Sales (Mar)	Exclude price, going backwards	We expect another soft month for retail, particularly due to the early Easter this year. Excluding price increases for food and petrol, the retail sector is heading backwards.
Fri 16 May (10.45)	Producer Price Index (Mar qtr)	Margins under pressure	A large surge in wholesale electricity prices is expected to drive both input and output prices higher. A small recovery in margins is expected, although they remain under pressure.
Tue 20 May (10.45)	External Migration (Apr)	Is a base forming?	The 3-month annualized inflow is expected to remain around 3,000. However, the risks do appear skewed to the downside.
Wed 21 May (10.45)	Electronic Card Transactions (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although the underlying weakness will remain.
Wed 21 May (15.00)	Regional Trends (Jun qtr)	-	-
Wed 21 May (15.00)	Credit Card Spending (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although the underlying weakness will remain.
Thu 22 May (14.00)	Budget Economic and Fiscal Update	Tax cuts	Personal tax cuts have been well signaled and details will be the major focus of this Budget. Given it is an election year we will also be looking for other spending initiatives. Nevertheless, the fiscal accounts are likely to remain strong.
<b>On Balance</b>		<b>A growth wall but inflation problems</b>	<b>Growth indicators are now expected to come in consistently weak, but inflation still problematic.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
GDP (% qoq)	1.2	0.9	0.5	1.0	<b>0.1</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>
GDP (% yoy)	2.3	3.2	3.3	3.7	<b>2.5</b>	<b>1.3</b>	<b>0.9</b>	<b>0.1</b>	<b>0.3</b>	<b>1.1</b>
CPI (% qoq)	0.5	1.0	0.5	1.2	0.7	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.4</b>	<b>0.7</b>
CPI (% yoy)	2.5	2.0	1.8	3.2	3.4	<b>3.3</b>	<b>3.7</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>
Employment (% qoq)	1.2	0.6	-0.3	1.1	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Employment (% yoy)	1.7	1.6	1.6	2.5	<b>1.2</b>	<b>0.4</b>	<b>0.7</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.2</b>
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	<b>3.5</b>	<b>3.8</b>	<b>3.9</b>	<b>4.1</b>	<b>4.1</b>	<b>4.3</b>
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	<b>-7.5</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-6.5</b>	<b>-6.5</b>	<b>-6.5</b>
Terms of Trade (% qoq)	1.5	0.4	3.7	2.9	<b>2.0</b>	<b>0.0</b>	<b>-0.9</b>	<b>0.0</b>	<b>-1.5</b>	<b>-1.2</b>
Terms of Trade (% yoy)	4.5	2.3	8.4	8.8	<b>9.3</b>	<b>8.8</b>	<b>4.0</b>	<b>1.1</b>	<b>-2.4</b>	<b>-3.5</b>

## KEY ECONOMIC INDICATORS

	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Retail Sales (% mom)	-0.4	0.2	0.3	1.0	-0.4	1.8	0.1	0.3	-0.7	..
Retail Sales (% yoy)	4.8	5.7	6.3	4.1	5.8	7.2	5.4	6.3	7.7	..
Credit Card Billings (% mom)	1.7	0.1	0.4	2.5	-0.6	1.2	0.5	-	0.5	-2.7
Credit Card Billings (% yoy)	9.0	7.8	8.5	9.4	7.7	9.4	7.6	8.6	8.0	3.5
Car Registrations (% mom)	-4.7	7.0	1.1	-6.6	5.6	-3.8	-2.9	10.3	-8.8	-12.8
Car Registrations (% yoy)	-1.5	7.0	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2
Building Consents (% mom)	12.4	-16.1	4.8	-9.3	-5.1	1.3	-4.2	3.2	-6.5	-4.0
Building Consents (% yoy)	32.9	-4.4	-1.9	-15.3	-16.5	-4.1	-6.4	-4.6	-17.9	-20.3
REINZ House Price (% yoy)	12.1	10.4	12.9	12.3	8.0	6.7	4.5	4.0	0.7	1.6
Household Lending Growth (% mom)	1.2	0.8	0.9	0.8	0.9	0.8	0.6	0.7	0.8	..
Household Lending Growth (% yoy)	13.5	13.5	13.4	13.0	12.8	12.6	12.2	11.8	11.5	..
Roy Morgan Consumer Confidence	121.0	121.1	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7
NBNZ Business Confidence	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9
NBNZ Own Activity Outlook	14.8	12.4	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4
Trade Balance (\$m)	-518	-808	-947	-572	-774	-628	38	-316	258	..
Trade Balance (\$m annual)	-6226	-6340	-6336	-6282	-5883	-5691	-5307	-4798	-4413	..
ANZ World Commodity Price Index (% mom)	6.3	4.6	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0
ANZ World Commodity Price Index (% yoy)	29.8	35.1	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9
Net Migration (sa)	610	460	770	640	250	460	30	110	240	490
Net Migration (annual)	10078	8966	8730	8309	7517	6588	5491	4799	4643	4678

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb-08	Mar-08	28-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NZD/USD	0.797	0.801	0.782	0.780	0.740	0.690	0.660	0.640	0.630	0.620
NZD/AUD	0.873	0.867	0.838	0.830	0.804	0.767	0.759	0.762	0.778	0.795
NZD/EUR	0.540	0.517	0.501	0.506	0.490	0.469	0.465	0.464	0.474	0.488
NZD/JPY	85.5	81.0	81.7	79.6	74.0	70.4	69.3	69.1	69.3	70.1
NZD/GBP	0.406	0.400	0.394	0.390	0.379	0.359	0.349	0.344	0.342	0.341
NZ\$ TWI	73.0	71.5	70.0	69.6	66.6	63.0	61.6	60.9	61.2	61.7
NZ interest rates	Feb-08	Mar-08	28-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
OCR	8.40	8.67	8.25	8.25	8.00	7.50	7.00	6.50	6.00	6.00
90 day bill	8.82	8.90	8.90	8.80	8.40	7.70	7.10	6.60	6.20	6.20
10 year bond	6.40	6.36	6.54	7.00	6.70	6.20	5.70	5.40	5.10	5.10
International	Feb-08	Mar-08	28-Apr-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
US Fed funds	3.00	2.25	2.25	1.50	1.50	1.50	1.50	1.50	2.00	2.50
US 3-mth	3.06	2.69	2.91	2.00	1.75	1.75	1.75	2.00	2.50	3.00
AU cash	7.00	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75	6.00
AU 3-mth	7.99	7.86	7.85	7.70	7.60	7.50	7.40	7.10	6.60	5.80

## KEY RATES

	25 Mar	21 Apr	22 Apr	23 Apr	24 Apr	25 Apr
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	n/a
90 day bank bill	9.06	8.90	8.90	8.91	8.90	n/a
NZGB 07/09	6.95	6.97	6.92	6.92	6.91	n/a
NZGB 11/11	6.59	6.72	6.71	6.72	6.70	n/a
NZGB 04/13	6.58	6.63	6.64	6.65	6.66	n/a
NZGB 12/17	6.48	6.47	6.48	6.49	6.50	n/a
2 year swap	8.24	8.19	8.23	8.27	8.16	n/a
5 year swap	7.83	7.70	7.74	7.76	7.69	n/a
RBNZ TWI	71.6	70.3	70.4	70.6	70.4	n/a
NZD/USD	0.8018	0.7909	0.7946	0.7991	0.7942	n/a
NZD/AUD	0.8802	0.8427	0.8432	0.8403	0.8384	n/a
NZD/JPY	80.48	82.06	81.84	82.29	82.30	n/a
NZD/GBP	0.4027	0.3953	0.4010	0.4007	0.4013	n/a
NZD/EUR	0.5159	0.4995	0.4993	0.4997	0.5008	n/a
AUD/USD	0.9109	0.9385	0.9424	0.9510	0.9473	n/a
EUR/USD	1.5542	1.5833	1.5914	1.5992	1.5860	n/a
USD/JPY	100.38	103.76	103.00	102.98	103.62	n/a
GBP/USD	1.9911	2.0006	1.9817	1.9941	1.9791	n/a
Oil	101.70	116.56	117.48	119.28	119.28	n/a
Gold	925.10	920.25	917.50	904.55	905.15	n/a
Electricity (Haywards)	17.50	11.17	13.16	11.79	12.28	n/a
Milk futures (US\$/contract)	130	133	133	133	133	n/a
Baltic Dry Freight Index	7619	8350	8550	8862	9182	n/a

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