J.P.Morgan

Australia and New Zealand - Weekly Prospects

May 31, 2010

- The week ahead in **Australia** sees an RBA Board meeting and the usual dump of quarterly data, including the 1Q GDP result. The RBA will leave the cash rate steady, despite growing inflation risks stemming partly from recent AUD weakness. In what we anticipate will be a balanced commentary Tuesday, officials will weigh firm conditions for domestic corporates and in Asia against the disinflationary impact of the troubles in Europe and a waning consumer. The policy pause officials will embark on tomorrow should extend until at least the August Board meeting. The GDP result Wednesday should produce a subpar 0.4%q/q gain, less than half the growth in the December quarter. The mix of growth in 1Q will be less than impressive too, with most of the gain coming from fiscal pump priming. The monthly data should produce a drop in retail spending, as interest rate hikes take a bite from household disposable income, and softer growth in credit.
- We remain unconvinced that the **RBNZ** will kick off the tightening cycle in June, even though market pricing now suggests a 64% chance of a 25bp move next month. We maintain that Governor Bollard will deliver the first hike in July. Aside from the very strong 1Q employment numbers, the domestic indicators have been weak. The credit numbers, in particular, remain soft—consumer and business credit continue to fall on a year-ago basis, and housing credit growth has held around the 3%-mark since early last year, despite the upturn in the housing market toward end-2009. With the recovery in the domestic economy patchy, and given heightened sovereign concerns offshore, the RBNZ Governor has scope to sit on the policy sidelines for the time being. The tone of the statements accompanying the RBA's and BoC's policy decisions this week could offer handy guidance on what to expect from the RBNZ on June 10.
- Beyond a modest downward revision to our Euro area growth forecast, we have not materially altered our **global outlook** in the face of the latest wave of financial market stress. This partly reflects a view that markets are pricing in event risks—of a European sovereign debt default or broadening banking crisis—that are unlikely to be realized. However, market movements also incorporate concerns that a positive feedback loop could shift into reverse as rising financial sector risk aversion reduces global credit availability and weighs on business and household confidence. To be sure, powerful forces are generating global lift at present and there are important offsets to the fall in price of risk assets—notably lower energy prices and risk-free interest rates. But the financial shock emanating from Europe still has the capacity to temper growth.
- Looking ahead, the forecast calls for a continued broadening in the base of growth alongside important rotations and a small moderation in the overall pace of global growth. The key rotation is sectoral. Manufacturing output gains are expected to come off the boil—slowing to a still strong 6% pace—while service sector activity picks up. Consistent with this shift is a geographic rotation. A moderation in growth in Emerging Asia is in the cards, led by a downshift in **China** from its current double-digit pace of increase. Growth in the developed world is expected to remain comfortably above trend with an anticipated lift in Western Europe tempered but not short-circuited by recent developments.

This week's highlight

The RBA Board meeting Tuesday. With officials likely to leave the cash rate steady at 4.5%, the focus will be on the tone of the commentary. It will be balanced, a far cry from the hawkish tone heralding the early May rate hike.

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Data and event previews - Australia and New Zealand

Date	Time [a]	Data/event	Forecast JPMorgan	Forecast Consensus [b]	*Previous*
Monday, May 31	10.30am	Aust. TD Securities Inflation Gauge (%m/m, May)	**na**	na	*0.4*
Monday, May 31	11.00am	HIA new home sales (%m/m, Apr.)	**na**	na	*0.9*
Monday, May 31	11.30am	Aust. private sector credit (%m/m, Apr.)	**0.4**	0.5	*0.5*
Monday, May 31	11.30am	Aust. current account balance (A$bn., 1Q)	**-16.3**	-16.4	*-17.5*
Monday, May 31	11.30am	Aust. company profits (%q/q, 1Q)	**4.5**	3.0	*2.2*
Monday, May 31	11.30am	Aust. inventories (%q/q. 1Q)	**-0.1**	0.5	*0.2*
Monday, May 31	1.00pm	NBNZ business confidence (Index, May)	**45.0**	na	*49.5*
Tuesday, June 1	9.30am	AiG performance of manufacturing (Index, May)	**na**	na	*59.8*
Tuesday, June 1	11.30am	Aust. retail sales (%m/m, Apr.)	**-0.2**	0.3	*0.3*
Tuesday, June 1	11.30am	Aust. building approvals (%m/m, Apr.)	**-6.0**	-5.0	*15.3*
Tuesday, June 1	2.30pm	RBA cash rate announcement (%, Jun.)	**4.5**	4.5	*4.5*
Wednesday, June 2	11.30am	Aust. GDP (%q/q, 1Q)	**0.4**	0.6	*0.9*
Wednesday, June 2	1.00pm	NZ ANZ commodity price index (%m/m, May)	**na**	na	*4.9*
Thursday, June 3	9.30am	AiG performance of services (Index, May)	**na**	na	*52.3*
Thursday, June 3	11.30am	Aust. trade balance (A$mn., Apr.)	**-1800**	-800	*-2082*

(a) Australian Eastern Standard Time.
(b) Consensus based on Bloomberg survey.

Australia

TD Securities Inflation Gauge - We expect a softer monthly print on the inflation gauge, due mainly the unwind from the high base from last month, in which tobacco excise was substantially increased. Monetary policy now is at an awkward juncture, with some signs that rate hikes are beginning to slow the consumer, but inflationary pressures mounting due to skill shortages and minimal spare capacity.

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Data previews - Cont'd.

HIA new home sales - New home sales should have headed lower in April. The RBA lifted the cash rate for the fifth time in this hiking cycle, and first home buyers continue to exit the market after last year's stimulus induced buy-in, which particularly favoured the purchase of new housing.

Private sector credit - The RBA's credit aggregates should show that credit growth eased in April. Housing and personal credit will have been trimmed by the steady normalization of borrowing rates. Business credit growth, however, which turned positive in March for the first time since early 2009, will have continued to pick up, as banks transition to more permissive lending conditions for small to medium-sized businesses.

Current account balance - The current account deficit will have narrowed in 1Q, owing to a reduced trade deficit. As a percentage of GDP, the CAD will hit 5.0%, albeit below the levels seen in the lead-up to the financial crisis. Further gains in commodity prices, which feed through to export income, should cap the deficit below 6% of GDP.

Company profits, inventories - Profits finally turned the corner in 4Q, rising 2.1%q/q, having declined by nearly 20% over the previous four quarters. Mining profits should have continued to improve into the new year, owing to higher commodity prices, but retailers will have found it somewhat tougher to achieve profit growth. Inventories should have fallen slightly, with better demand in the mining and wholesale sectors counterbalanced against sluggish retail sales volumes. We forecast a 0.1%q/q fall in inventories, which will subtract 0.1%-pts from 1Q GDP.

Retail sales - Retail sales probably fell again in April, marking the third monthly slide since the RBA commenced the current tightening cycle in October last year. Our forecast is for a fall of 0.2%m/m—consumer confidence was down in the month, monetary conditions were tight, and equities were lower. With mortgage rates for most borrowers now back around long-term average levels, consumers are starting to feel the pinch of monetary tightening. The discretionary areas of spending will, therefore, remain subdued.

Building approvals - Approvals should have fallen a substantial 6%m/m in April, in part a payback for the 15% jump in March. The higher density category, which spiked 60%m/m in March, continues to drive the volatility of this series, since approvals for a small number of large projects can translate manifold into dwelling approvals. As such, approvals of higher density dwellings should have taken a decent step down in April. Growth in approvals for private sector houses probably continued to chug along at around a 1%m/m pace.

RBA cash rate announcement - The RBA probably will pause. While the inflation outlook has deteriorated, officials will be anxious that the sovereign debt troubles in Europe may raise material risks for the global growth outlook. Further, there is evidence that the substantial 150bp of tightening delivered thus far is beginning to affect the consumer. The pause should last at least until the August Board meeting, which follows the release of the 2Q CPI report in late July. Any escalation of the turmoil in financial markets, in particular, if it spills into the growth outlook for the major European economies, would force a longer pause. Provided these troubles fade, however, the medium term fundamentals for the Australian economy—the soaring terms of trade, capacity constraints, and skills shortages—will require policy to venture into restrictive territory.

GDP (%q/q, 1Q) - Australia's economy likely expanded at a sub-trend 0.4%q/q pace in 1Q, a significant step down from the 0.9% rate of advance in 4Q. The extension of the government's fiscal stimulus package means public investment again will have been an important contributor to growth in the economy, as will have been private sector spending on investment, particularly in mining. Household spending growth, however, will have been subdued, with consumer income being squeezed by higher borrowing costs, in particular. Net exports probably will be a drag on GDP growth for the third straight quarter, with export volumes rising less than import volumes, which will be inflated by purchases of capital equipment.

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Data previews - Cont'd.

Trade balance - Preliminary data showed imports were essentially flat in April. Exports, on the other hand, probably rose owing to a strong contribution from coal shipments, which will trim the trade deficit to A$1.8 billion. Coal exports had been severely diminished early in the year due to flooding in Queensland, but production had recovered by the end of the first quarter. This message was confirmed with a substantial rise in shipments leaving ports in the far north of the state. Iron ore exports will be slightly weaker again, however, owing to softer Chinese demand over April.

New Zealand

NBNZ business confidence - The headline reading on the NBNZ business confidence index likely eased in May to around 45 from 49.5 in April. The all-important firms' own activity outlook index also should post a decline, partly a payback for the sizeable jump in the previous month, although will continue to suggest that the economy will expand at a relatively healthy clip in coming quarters. Any deterioration in confidence will highlight the risks around the investment and employment outlooks, adding to other evidence that the recovery in the domestic economy is patchy.

Research note

First home buyers to suffer most as RBA tightens policy

- **Assertive RBA tightening now pushing interest rate burdens to pre-crisis levels**
- **Pain for first home buyers lured by government stimulus will be most intense**
- **Further rate hikes are likely owing to deteriorating inflation outlook**

Australian mortgage holders have watched anxiously as interest rates have increased rapidly over the past eight months. One reason for this anxiety is that the transmission of changes to monetary policy has been direct. Indeed, commercial banks have lifted their variable loan rates by 25bp, or more, following each of the official rate hikes delivered by the RBA since October. Most mortgages in Australia are taken out on a variable-rate basis; fixed-rate loans accounted for under 5% of new loans issued in the past year. Households' debt servicing costs, therefore, already have risen significantly. With market interest rates set to head higher as the RBA attempts to suppress an inflation threat, these interest burdens are set to hit historical highs.

Rate hikes already delivered are biting

The assertive policy tightening has occurred as the RBA unwinds the emergency policy settings put in place in the midst of the global financial crisis. The RBA has lifted the official cash rate 150bp since October 2009. Early in the current tightening cycle, however, some local lenders increased their variable loan rates by more than the rise in the official cash rate. Standard variable home loan rates (SVR) rose by 160bp on average over this period.

The rapid pace at which the RBA stepped away from emergency settings caught many borrowers off guard, especially those who entered the mortgage market when interest rates were at generational lows. It seems many new borrowers overcommitted, and cracks have started to appear. Following the most recent rate hike in May, which took the average SVR to an 18-month high of 7.4%, confidence among mortgage holders slumped 8.1%m/m, nearly four times the drop following the five previous rate hikes in this cycle. Many borrowers appear to have crossed the pain threshold.

First home buyers to suffer the most

Higher income earners and those who have owned property for an extended period are better positioned to deal with further rate hikes. They have more equity in their homes and, hence, lower mortgages as a multiple of their incomes.

Household interest rate burdens

	Housing debt[1]		Interest payments[1]	
	Total	FHB[2]	Total	FHB[2]
Mar 08	135.8	127.5	12.9	11.9
Jun 08	135.2	131.5	13.0	12.4
Sep 08	134.7	135.9	12.8	12.7
Dec 08	133.0	141.7	9.3	9.7
Mar 09	133.0	144.6	8.0	8.5
Jun 09	133.7	142.9	8.0	8.3
Sep 09	135.0	137.1	8.1	8.0
Dec 09	138.2	140.4	9.3	8.9
Mar 10	140.3	142.4	9.4	9.6
Jun 10	142.4	144.4	10.5	10.7
Sep 10	144.6	146.4	11.1	11.2
Dec 10	146.8	148.5	11.6	11.7
Mar 11	149.1	150.6	12.2	12.3
Jun 11	151.4	152.8	12.7	12.8
Sep 11	153.7	155.0	13.3	13.4
Dec 11	156.0	157.2	13.9	14.0

[1]Percentage of disposable income
[2]First home buyers

Investors also have watched property values rise significantly in recent years, particularly relative to first home buyers (FHBs), so have a substantial equity buffer. In contrast, lower income earners, many of whom are FHBs, will suffer the most as mortgage repayments continue to rise; their mortgages are large as a multiple of their incomes and as a ratio of the value of their homes.

Our analysis shows that FHBs' higher leverage, combined with their lower household incomes, has increased their sensitivity to rate rises. The average loan size for FHBs was A$240,000 in the 12 months before the government expanded the FHBs' grant in October 2008. The average loan size for FHBs rose to A$275,000 thereafter, until the expiry of the grant in December last year. In December, the loan size peaked at A$290,000. FHB demand has started to retreat, with FHBs accounting for just 16% of all loans issued in March, compared to a peak of 29% in mid-2009. FHB interest will remain depressed, with the RBA having hiked the official cash rate another 50bp since March.

Also, affordability is worsening. According to the Housing Industry of Australia (HIA), FHB housing affordability approached record lows in 1Q. The HIA housing affordability index dropped 28.7%oya in the March quarter, with mortgage repayments accounting for 25% of FHBs' incomes. Rising interest rates and elevated house prices were to blame. Nationwide house prices spiked 20%oya in 1Q, underpinned by strong employment growth, the expanded government support to FHBs, and the fact that population

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growth easily has outstripped new home construction. Conditions are starting to cool, though, with auction clearance rates dropping by as much as 14%-pts last weekend.

Variable mortgage rates to head near 9%

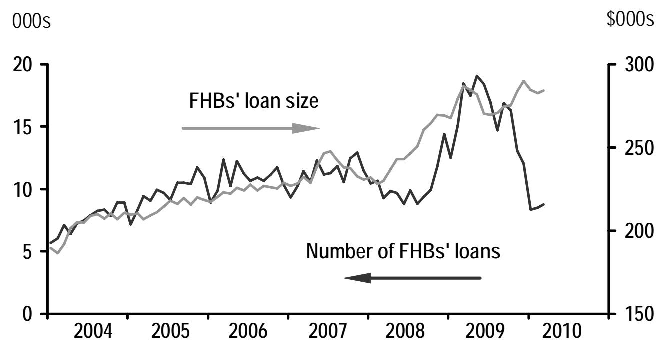
With the policy stance now closer to "normal" and market interest rates back to "average" levels for most borrowers, the first phase of the RBA's tightening cycle is over. The minutes from the RBA's most recent Board meeting described current policy settings as "well placed" and suggested there were early signs that interest rate increases had started to affect consumer behaviour. Retail sales, for example, have been subdued since January and home loan approvals recently tumbled. In fact, new loan commitments now are at a nine-year low, and will likely fall further given the deterioration in affordability and banks' efforts to tighten their lending standards. The interest rate-sensitive sectors of the economy already are growing below trend.

These data reaffirm our view that the RBA will take a breather for now, so borrowers can expect some reprieve. The deteriorating inflation outlook means, though, that officials soon will embark on the second phase of the tightening cycle, one that will push policy into restrictive territory. The rising medium-term inflation pressure stems partly from the stimulatory effects of the resources boom, including the booming terms of trade and rising wage pressure. Headline inflation, on our forecasts, will track above the RBA's 2%-3% target range in the period ahead, and core inflation will meander above the top of the target later this year, meaning that further rate hikes will be necessary.

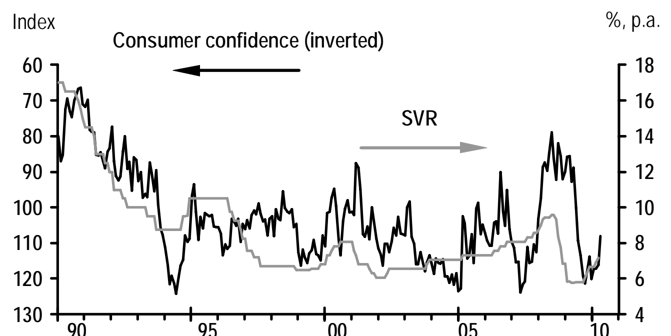
We have based our analysis of the impact on households on an RBA cash rate of 6% by end-2011, although this forecast assumes that heightened sovereign concerns do not escalate to the extent that they prompt downgrades to our global growth forecast, and thus the outlook for Australia. Assuming that the current spread between market interest rates and the official cash rate is maintained (at 290bp, compared to 180bp pre-crisis), this means that the average SVR will likely rise to nearly 9%. Households' interest rate burdens will, as a result, hit record levels. Based on these assumptions, households will be paying 13.9% of their disposable income on interest rate payments by the end of next year, or a slightly higher 14% for FHBs (table previous page).

Already, mortgage stress already is on the rise. Financial services consulting firm Fujitsu estimates that mortgage stress now is affecting almost 40% of the 270,000 people who have borrowed to enter the property market since June

First home buyers' home loan demand tumbling



Consumer confidence and mortgage rates



2008. Mortgage stress generally is defined as expenditure of at least 30% of income on home loan repayments. It typically leads to households cutting back on spending elsewhere and putting more expenditures on credit cards, which explains our forecast of sub-trend growth in consumption spending this year and next.

Debt accumulation partly to blame

The significant increase in interest rate burdens partly owes to the rapid rate of household debt accumulation in recent years, despite the structural decline in inflation and interest rates. The proportion of housing debt to disposable income in Australia is among the highest in the developed world, having grown substantially over the past two decades. This ratio of households' housing debt to disposable income fell slightly at end-2008 as some households delevered post the financial crisis. Households were quick to take on debt again, though, after the government announced its generous fiscal stimulus package, which included the expansion of the FHBs' grant. It was then that, for the first time, the debt to disposable income ratio among FHBs overtook that of all households (again, see table). At the end of 2009, housing debt to disposable income ratios were at 138% for all households, but 140% for FHBs. We calculate that this measure will be up at 156% for all households by the end of next year, or an even higher 157% for FHBs.

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Australia

- **RBA will likely sit on the policy sidelines this week**
- **1Q GDP outcome to be underwhelming**
- **Retail sales will have declined in April**

Amid signs that rising market interest rates are starting to bite in Australia, we believe the RBA this week can afford to sit on the policy sidelines. The Reserve Bank has hiked the cash rate 150bp since October last year, but it appears interest rate-sensitive sectors of the economy already are growing below trend. Credit and retail sales data this week will add to this picture.

RBA to hold fire after brisk tightening

The RBA, having hiked the cash rate target at each of the past three monthly Board meetings, and at six of the past seven such gatherings, probably will pause on Tuesday. While the inflation outlook has deteriorated, owing partly to the sharp rise in tobacco prices from the recent tax rise, and partly to the plunge in AUD this month, officials will be anxious that the sovereign debt troubles in Europe may raise material risks for the global growth outlook. We suspect that the pause will last at least until the August Board meeting, which follows the release of the 2Q CPI report in late July. The policy pause will be extended if the instability in financial markets spills over to the real economy.

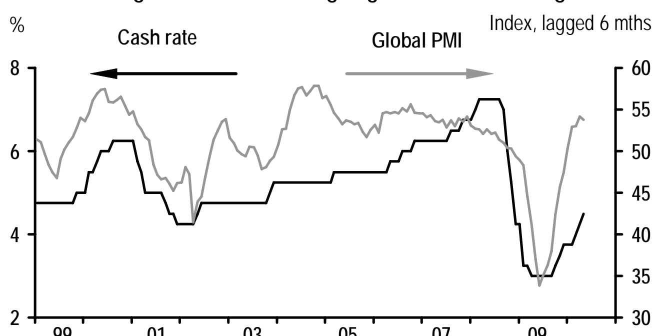
The RBA's commentary Tuesday announcing the unchanged target rate of 4.5% probably should be more balanced than the hawkish commentary delivered earlier this month, when the RBA lifted the cash rate a further quarter point. Officials will likely highlight the still robust economic conditions in Asia and the beneficial impact on Australia's national income of the soaring terms of trade. On the flip side, however, the commentary also will likely refer to the recent instability in financial markets, and the growing risk that these events will spill over to the real economy.

This change of tone from the RBA will signal that the cash rate's climb back into restrictive territory has stalled. The tightening cycle is not, however, over. Indeed, with core inflation likely to trough in the upper half of the RBA's 2%-3% target range and accelerate in 2011, we still expect a cash rate of 6% in this cycle. It now looks likely, though, that the RBA will take a little longer to get it there.

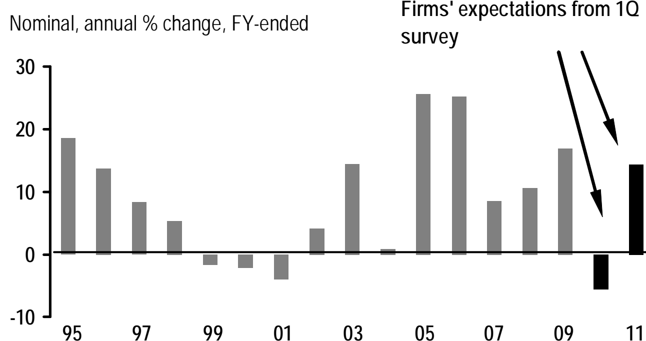
Aussie firms' capex plans still in place

Last week's 1Q business investment survey confirms that Aussie firms' spending plans remain largely intact, although managers are slightly less upbeat than they were three months ago. Indeed, firms now plan to *boost* investment spending by 14% in the year ended June 2011; previously, the expectation was for an 18% rise. Spending in the March quarter unexpectedly fell, but there was an upgrade to spending in the December quarter. The surprise fall in private investment spending in 1Q has trimmed our preliminary forecast for 1Q GDP to 0.4%q/q; the data are released Wednesday. Monday's quarterly profits, inventories, and current account data, and Tuesday's public spending estimates will help us finalize the GDP estimate.

RBA cash target rate and J.P. Morgan global manufacturing PMI



Australia: total business investment



Importantly, firms' newfound caution does not fully reflect the government's planned changes to the tax regime for mining companies. Indeed, 99% of responses to the survey were collected *before* the government announced the contentious 40% tax on the "super profits" of the mining companies. That said, there was widespread media and market speculation that the government preferred such an approach; mining industry respondents may, therefore, have taken this into account when completing the survey.

Since the government's announcement of the contentious new mining tax, which kicks in from July 2012, mining company executives, including from the world's largest commodity extractors, have lined up to condemn the idea. Some have announced intentions to scale back investment in Australia; others have put projects on hold or placed

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them "under review." The extent to which Australia's bulging investment pipeline has dwindled will be better reflected in the June quarter survey, released in August.

For now, for what it is worth, given that collection of the 1Q survey also predates the recent extreme volatility in global financial markets, which may make funding investment projects more problematic than managers believed was likely when they filled out the survey forms, Australia's investment pipeline remains swollen. Although firms trimmed spending slightly in real terms in the March quarter (after a healthy gain in the December quarter), managers still plan to lift spending by a double-digit growth rate in the year ended June 2011. This rise will be from already elevated spending levels in the year ended June 2010.

The details of the survey showed that a 15%q/q plunge in investment in manufacturing in 1Q caused the 0.2% decline in total investment; investment in other sectors rose. After adjustment for the usual estimation errors (using long-run average realization ratios), this implies that spending in the year ended June 2010 will be 5.5% below spending in 2008-09. Firms previously expected a drop of only 3.3%. For 2010-11, firms' second estimate of spending for the year also came in below our expectation at A$103.9 billion. After adjustment, this implies a rise from the current fiscal year of 14.4%, down from the 18% rise implied from the December survey. If realized, though, the 14% gain next year will take investment spending to a record high.

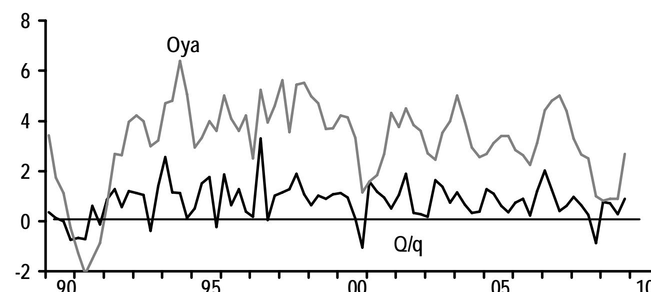
1Q GDP report to show sub-trend growth

The 1Q GDP report Wednesday should show that Australia's economy expanded at a sub-trend 0.4%q/q pace in the March quarter, a significantly slower pace than the 0.9% rate of advance in 4Q. This will push the annual growth rate down to 2.3%oya. The extension of the federal government's fiscal stimulus package means public investment again will have been an important contributor to growth in the economy, as will have been private sector spending on investment, particularly in mining. Household spending growth, however, will have been subdued, with consumer income being squeezed by higher borrowing costs, in particular. Net exports probably will be a drag on GDP growth for the third straight quarter, with export volumes rising less than import volumes, which will be inflated by purchases of capital equipment.

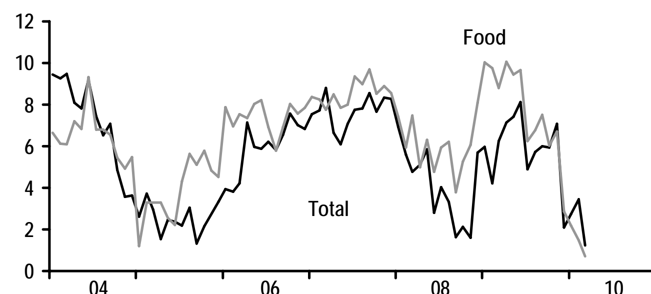
Pieces of the GDP puzzle still missing

There remain several important components of the 1Q GDP print to be delivered this week, before the headline number prints Wednesday. The current account data should show a smaller deficit of A$16.3 billion, owing to a reduction in the trade deficit. As a percentage of GDP, the CAD probably will hit 5.0%. Further gains in commodity prices, which feed through into export income, should continue to trim the deficit over the remainder of the year.

Australia: GDP
%, chain volume



Australia: retail sales
%oya



Company profits likely rose a further 4.5%q/q, having finally turned the corner in 4Q. Mining profits likely rose into the new year, owing to higher commodity prices, but retailers had a tough time as consumers reined in spending. Inventories probably fell very slightly in 1Q, with better demand in the mining and wholesale sectors counterbalanced by sluggish retail sales volumes. We forecast a 0.1%q/q fall, which will subtract 0.1%-pt from 1Q GDP.

Aussie consumers pulling in purse strings

Retail sales likely posted another fall in April, marking the third monthly slide since the RBA commenced the current tightening cycle in October last year. Our forecast is for a fall of 0.2%m/m—consumer confidence was down in the month, monetary conditions were tight, and equities were lower. Solid employment gains probably prevented an even larger decline in consumer spending, however. Anecdotal evidence suggests consumers are taking a conservative approach to spending amid expectations that the RBA will continue tightening policy. Such spending restraint has led to continued discounting, which has weighed down retail sales values. Indeed, several major retailers have high-

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lighted that the absence of the government's fiscal stimulus payments, which were delivered in late 2008 and early last year, is making comparative growth this year harder to achieve.

Retailers should expect further weakness in the months ahead. Consumer confidence tumbled in May, falling 7% over the month, the largest fall since October 2008. The deterioration in confidence owed mainly to the impact of higher mortgage rates. Mortgage repayments have risen significantly over the past eight months, which means discretionary spending probably will remain subdued.

Credit growth returning to normal

The RBA's credit aggregates should show that credit growth eased in April, providing further evidence that the RBA's rate hikes are biting. Our forecast is for a 0.4%m/m rise versus +0.5% in March. Housing and personal credit growth will likely be lower, owing mainly to higher interest rates, although business credit growth, which turned positive in March for the first time since early 2009, should have picked up.

Credit conditions have been particularly tight for small to medium-sized businesses since the onset of the financial crisis, and have been slow to recover compared to the turnaround in the broader economy. Larger firms, though, have had adequate access to global capital markets. Smaller businesses that rely more heavily on intermediation have found financing particularly hard to get. Housing credit in April will likely be the fastest growing pool once again, although growth should slow to 0.6%m/m, from 0.7%. We suspect that higher interest rates would have dampened demand for housing credit, but the absence of the expanded first home buyers' grant also will have played a part. We expect that personal credit growth will have eased marginally to 0.4%m/m, from 0.5%.

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 11:30am — **Inventories**
Seasonally adjusted

	2Q09	3Q09	4Q09	1Q10
%q/q	-1.9	0.1	0.2	-0.1
%oya	-1.4	-3.7	-2.6	-1.7

Mon May 31 11:30am — **Company operating profits**
Nominal, gross operating, sa

	2Q09	3Q09	4Q09	1Q10
%q/q	-6.9	-1.4	2.2	4.5
%oya	-12.6	-19.7	-11.2	-2.0

Mon May 31 11:30am — **Current account balance**
A$ bn, sa

	2Q09	3Q09	4Q09	1Q10
Current account (A$ bn)	-13.1	-14.7	-17.5	-16.3
% of GDP	-4.2	-4.7	-5.4	-5.0

Mon May 31 11:30am — **Private sector credit**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	0.4	0.4	0.5	0.4
%oya	1.3	1.7	2.1	2.4

Tue Jun 1 11:30am — **Building approvals**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	-5.0	-2.7	15.3	-6.0
%oya	53.5	36.3	51.6	32.3

Approvals should have fallen substantially, partly as payback for a surge in March.

Tue Jun 1 11:30am — **Retail trade**
Seasonally adjusted

	Jan	Feb	Mar	Apr
%m/m	0.9	-1.2	0.3	-0.2
%oya	2.7	3.4	1.2	0.5

Tue Jun 1 2:30pm — **RBA cash rate announcement**
No change expected. See main text.

Wed Jun 2 11:30am — **Real GDP**
Chain volume, sa

	2Q09	3Q09	4Q09	1Q10
%q/q	0.7	0.3	0.9	0.4
%oya	0.9	0.9	2.7	2.3

Thu Jun 3 11:30am — **Trade balance**
Seasonally adjusted

	Jan	Feb	Mar	Apr
Trade balance (A$ mn)	-951	-1701	-2082	-1800

Preliminary data showed imports essentially were flat in April. Exports, on the other hand, probably rose owing to a strong contribution from coal shipments.

Review of past week's data

Sales of new motor vehicles
Units, sa

	Feb		Mar		Apr	
%m/m	~~-1.9~~	*-1.8*	~~-2.7~~	*-2.8*	~~-3.5~~	*8.4*
%oya	~~17.3~~	*17.4*	~~19.2~~	*19.6*	~~11.8~~	*28.7*

Construction work done

	3Q09		4Q09		1Q10	
%q/q,sa	~~1.6~~	*0.9*	~~2.6~~	*-0.2*	~~-1.0~~	*1.9*
%oya,sa	~~5.4~~	*5.0*	~~3.9~~	*0.7*	~~6.9~~	*5.6*

Private new capital expenditure

	3Q09		4Q09		1Q10	
%q/q,sa	~~-5.2~~	*-4.4*	~~5.5~~	*6.1*	~~5.0~~	*-0.2*
%oya,sa	~~-2.7~~	*1.0*	~~-2.3~~	*-2.8*	~~7.4~~	*1.0*

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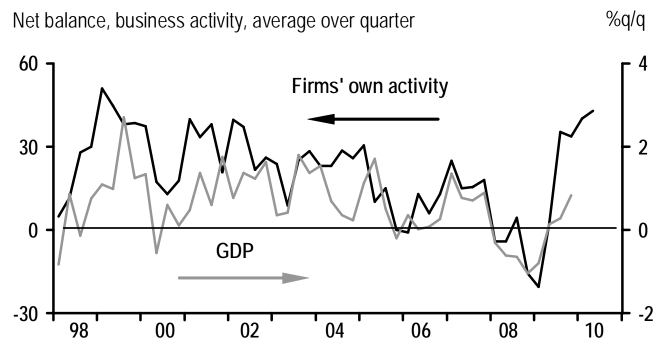
New Zealand

- **NZ business surveys likely to be downbeat**
- **Investment and employment outlook at risk**
- **RBNZ can afford to sit on the sidelines next month**

As with the RBA, the RBNZ can afford the time on the policy sidelines next month. Sovereign debt concerns are escalating in the Euro area, while some of the domestic data has printed on the downside of expectations. This week's business survey should post a decline, reaffirming our view that the RBNZ will stand pat until July, beyond the consensus forecast for a June move.

New Zealand: NBNZ business outlook survey and GDP growth



Kiwi surveys will be gloomy

The monthly NBNZ business confidence survey today should show that confidence deteriorated in May. The headline reading on the NBNZ business confidence index likely eased to around 45 from the 49.5 level reported in April. The all-important firms' own activity outlook index also should post a decline, partly a payback for the sizable jump in the previous month, although this continues to suggest that the economy will expand at a relatively healthy clip in coming quarters.

Data releases and forecasts

Week of May 31 - June 4

Mon May 31 3:00pm — **NBNZ business confidence**

	Feb	Mar	Apr	May
% balance of respondents	50.1	42.5	49.5	45

Wed Jun 2 3:00pm — **ANZ commodity price series**
Not seasonally adjusted

	Feb	Mar	Apr	May
Index—world prices (%m/m)	3.8	1.8	4.9	__
Index—NZD (%m/m)	7.9	0.4	3.8	__

Review of past week's data

Trade balance

	Feb		Mar		Apr	
Trade balance (NZ$ mn,nsa)	~~335~~	*334*	~~567~~	*590*	~~500~~	*656*

Building consents

	Feb		Mar		Apr	
%m/m,sa	~~5.8~~	*6.1*	~~-0.4~~	*0.1*	~~-2.0~~	*8.5*
%oya,sa	29.8		~~32.9~~	*33.3*	~~15.8~~	*32.1*

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Global Essay

- **A testing phase for global growth resiliency begins with May releases**
- **May PMIs and US payrolls expected to signal rotation between manufacturing and service sector activity**
- **The Bank of Canada and Brazil on track for tightening; Asian central banks equivocate with China adjustments pushed out to 3Q**

The test starts now

Beyond a modest downward revision to our Euro area growth forecast, we have not materially altered our global outlook in the face of the latest wave of financial market stress. This partly reflects a view that markets are pricing in event risks—of a European sovereign debt default or broadening banking crisis—that are unlikely to be realized. However, market movements also incorporate concerns that a positive feedback loop could shift into reverse as rising financial sector risk aversion reduces global credit availability and weighs on business and household confidence. To be sure, powerful forces are generating global lift at present and there are important offsets to the fall in price of risk assets—notably lower energy prices and risk-free interest rates. But the financial shock emanating from Europe still has the capacity to temper growth.

While we await data to gauge the shock's impact, it is important to recognize the strides the global economy has made in the first four months of the year. Industrial production is estimated to have increased at a 10% annualized rate during this period, a development mirrored in the sharp rise in our global PMI survey. Global employment gains were established and our proxy of final sales gains—which track retail sales volumes and capital goods shipments—increased at its fastest pace in over a decade. These developments support our view that global growth is broadening and that GDP growth this quarter will rival 4Q09 for the strongest gain during this expansion.

Looking ahead, the forecast calls for a continued broadening in the base of growth alongside important rotations and a small moderation in the overall pace of global growth. The key rotation is sectoral. Manufacturing output gains are expected to come off the boil—slowing to a still strong 6% pace—while service sector activity picks up. Consistent with this shift is a geographic rotation. A moderation in growth in Emerging Asia is in the cards, led by a downshift in China from its current double-digit pace of increase. Growth in the developed world is expected to remain comfortably above trend with an anticipated lift in Western Europe tempered but not short-circuited by recent developments.

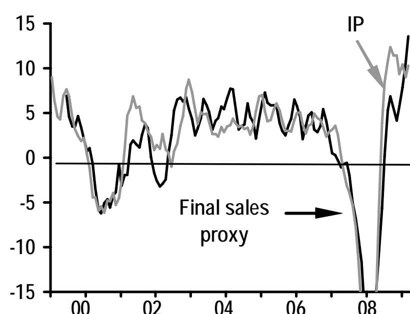
It is against this backdrop that we present markers to assess how well our forecast is tracking. In this week's releases, we expect the output index of the global manufacturing PMI survey to step down to 57.0 in May, led by a drop in the US ISM. Around midyear, we expect this downshift to end with the output indexes of both surveys settling around 56. At the same time, we are looking for solid readings from the service sector and the labour market. We expect US private payrolls to increase about 150,000 in May, a pace anticipated to remain in place in the coming months. Consistent with this forecast, initial jobless claims are expected to fall to about 430,000 in the coming weeks.

Euro area: cyclical lift meets financial risk

The potential negative spillovers to growth are obviously greatest in the Euro area, which stands at the epicenter of the financial shock. Growth prospects will certainly be diminished by the latest developments. In judging the magni-

Global final sales and IP

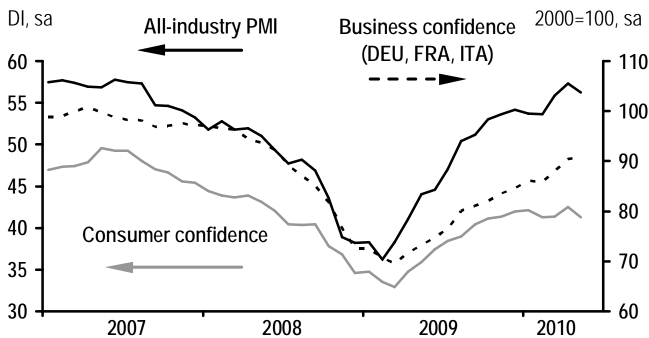
%3m/3m, saar



Marking global growth forecasts

	1Q10	May	Jun-Jul
Manufacturing			
Industrial output (%ch., saar)	10.3	9.0	6.0
Manufacturing PMI - output	58.9	57.0	56.0
Labor markets			
All-sector PMI - employment	49.0	51.0	52.0
US initial jobless claims	464	455	430
Services			
Services PMI - activity	53.3	57.0	57.0
Shoko-Chukin - non-mfg.	42.0	46.0	48.0
Euro area			
German IFO	96.5	101.5	101.0
Euro all-industry PMI - output	54.4	56.2	55.5

Euro area PMI and confidence surveys



tude of the drag, it is important to recognize two points about the current position of the regional economy.

- Following three quarters in which GDP growth averaged less than 1% annualized, a powerful cyclical tailwind is pushing up economic activity into midyear. The rebound in regional exports is striking, as is the improvement in business surveys, which points to an improvement in domestic spending. Absent the shock, these forces looked likely to propel regional growth well above trend by midyear.
- Fiscal policy is neutral for 2010. Despite the additional actions taken on the periphery, the fiscal easing in Germany, the Netherlands, Austria, and Finland leaves the region's fiscal thrust roughly neutral this year. Fiscal tightening does become a large drag next year, with our forecast pointing to a tightening of a little more than 1% of GDP.

For now, we view the financial shock as sufficient to limit the regional upturn to achieving growth of around 2% in the coming quarters. While this outcome would be below what had been anticipated only weeks ago, it still represents an upward trajectory for regional performance as the year continues. Risks are, of course, squarely skewed to the downside, and financial market stress will likely need to abate between now and midyear for this outcome to be realized.

As we look to the next ECB meeting on June 10, it is worth considering whether the central bank will become a risk manager and take additional steps against the backdrop of heightened stress and downside risk. In our view, a package of measures that included a 50bp rate cut and unlimited long-dated refi tenders—with maturities of six months to 12 months—would be reasonable. These steps would exhaust the ECB's conventional avenues of support and provide an implicit signal that it was ready to move quickly into unconventional easing territory if conditions deteriorate further. The move would also make sense as inflation is set to undershoot the ECB's expectations, as laid out in the March forecast. Indeed, the central bank's own methodology for forecasting inflation points to a significant undershoot of the price stability objective on an 18-month horizon.

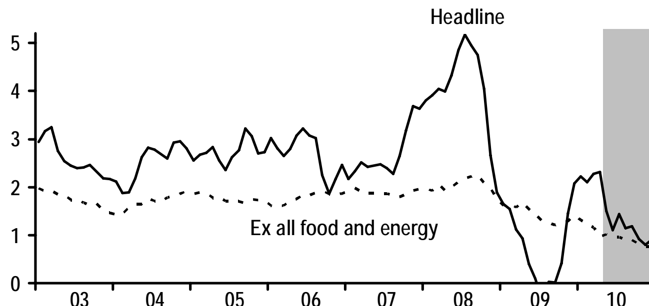
Central bank reactions to vary

The central bank calendar is busy elsewhere in the next several weeks. Rather than considering easing, these meetings will provide us with insight into how the timetable for policy rate normalization might be affected by potential fallout from the European debt crisis. In the Americas, projected moves remain on track:

- The Bank of Canada is expected to begin a tightening cycle next Tuesday. The Canadian economy is growing robustly, with limited slack and core inflation near target. With rates at an emergency low 0.25%, policymakers have signaled they are ready to move.
- Brazil's COPOM will also hike rates even as it reassesses its policy stance on June 9. Until recently, the strong data flow was raising the possibility that policymakers might step up the pace of tightening from 75bp/meeting to 100bp. However, the more uncertain global backdrop probably rules out such an aggressive step. At the same time, the bar for a slowdown in the hiking pace to 50bp or an early pause is quite high. The crucial variable that would lead to a change in the COPOM's stance would be a clear signal of contagion through credit channels akin to what happened in late 2008.

In Australasia, it is more likely that policy decisions could be influenced by recent events:

- Our long-standing call has been that Chinese policymakers would raise policy rates and their currency in either May or June. However, indications are that Chinese authorities are becoming increasingly concerned about the prospects for China's export sector, even as domestic demand is moderating in response to previous tightening measures. We now expect rate hikes to be delayed to the third quarter, with the 1-year working capital rate ending the year at 5.85% (vs. 6.12%). We maintain our view that China will relax its hold on the currency by midyear.
- Monetary policymakers gather this week in the Philippines, Thailand, and Indonesia. EM Asian policymakers have been very slow to normalize policy rates despite robust growth, limited slack, and an upturn in core inflation; so far, the only actions taken have been in India and Malaysia. Officials in the Philippines, where last week's reports showed that GDP rose at a blistering 12.9% an-



nual rate in 1Q, are expected to deliver an initial 25bp rate hike this week. However, this has become a close call in light of recent developments. While ASEAN direct trade exposures to the EU area are relatively low, the indirect effects of a broader hard-currency funding squeeze bear watching. In this context, this week's policy communications merit close attention.

- The Reserve Bank of Australia is likely to pause when it meets next Tuesday amid renewed financial market instability and early signs that 150bp worth of tightening since last October is beginning to affect household spending. Moreover, in a change of forecast, we now believe the pause in policy changes will extend at least until the August Board meeting to see if there is clear evidence of a slowdown in the global economy.

The inflation wedge will narrow rapidly

One constant feature of the 2000s expansion was the positive wedge between headline and core inflation, reflecting the record surge in commodity prices. History is repeating itself in the current expansion on this issue. Once again, the commodity complex rallied in tandem with the recovery in global growth. This has produced a surge in headline inflation, even as core inflation has retreated to record lows. As of April, the positive wedge between global headline and core inflation was 1.3%-pts, similar to the early years of the 2000s expansion. The policy response in the developed world also has been similar to that time, with the G-3 central banks firmly on hold, preoccupied with the need to support growth. The situation is different in the EM, where slack is more limited, but even so, the move to normalize policy has been slow.

Some relief on headline inflation may be in sight. Oil prices have tumbled since the flare-up of the Euro area debt crisis, while agricultural commodity prices have been trending down all year. Based on current spot prices, the base effect for energy prices will decline sharply from 47%oya in April to 15%oya in May, while it will turn negative for agricultural prices. If these spot prices persist, these base effects will be broadly neutral in 3Q. In the event, headline inflation would converge to the much lower rate of core inflation.

Japan: Upbeat May Shoko Chukin survey

Last week's incoming Japanese releases were mixed with notable softening in April labour market data. However, we believe that the most important release last week was the May Shoko Chukin small business survey, as it is the first reliable survey to reflect the impact of growing uncertainty. The outcome was better than expected with both manufacturers and nonmanufacturers expecting further improvement in their business conditions into June. Elsewhere, real export volumes grew rapidly in April as moderating export value growth to China was more than offset by sales to the US. The April IP report, due next Monday, includes manufacturers' industrial production forecasts for May and June. These forecasts will be key indicators of the current state of the economy and guide our view that the economy will grow at about a 2.5% pace during the middle quarters of the year.

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JPMorgan View - Global Markets

More market than economic correction

- **Asset allocation:** Medium-term positive view on risky assets remains in place, even as we recognize continued volatility over the next month.
- **Economics:** Damage to real economy from market sell-off is modest so far, keeping growth forecasts on hold.
- **Fixed income:** Short-dated Euro area high-yielders offer value for investors who can weather near-term volatility.
- **Equities:** Overweight markets that are more remote from the epicenter of the crisis, such as US industry groups with little euro exposure, and India and Mexico in EM.
- **Credit:** We maintain an underweight in European senior bank debt, especially that of Spanish banks.
- **FX:** A rebound in risky assets should ultimately help EUR slide down further, mostly versus EM and commodity currencies.
- **Commodities:** Commodity prices to move higher in the medium term.

Risky asset classes—equities, credit, commodities, and EM—rebounded strongly Friday, after having hit new lows for the year, pushing them up over the week. Government bonds moved down in mirror image. One sunny day does not make a summer season, though. Our best guess is that **skittish investors and only slowly receding uncertainty will keep markets quite volatile over the next month.** A new low cannot be excluded. **Over the next one to two months, however, a relatively resilient economic and profit outlook should push riskier assets up on average, and government bonds down.**

The main question with which market participants are struggling is how much damage increased fundamental uncertainty and market volatility may have inflicted on economic conditions. From one side, have we just witnessed a mindless panic by investors afraid of their own shadow that will soon be trumped by a teflon economy? Or, is the sell-off of risky markets the precursor and force that will drag down the world economy, in a rerun of the subprime/ Lehman crisis of 2008? Our view is that it is neither, but that it is more the former than the latter—**an 80/20 market correction versus an economic correction**. This is not to say that we are ready to lower global growth forecasts, but more that without the sell-off this month, we would have been raising them. Initial indications of the US growth consensus are showing a 0.1% drop in the forecast for the next four quarters—a rounding error, but still a break in forecast momentum.

Where is the real damage so far, and where is it not? Real damage can be found from a clear lurch toward fiscal tightening in Europe, weaker manufacturing PMIs, and increased funding problems for European banks. Confidence surveys remain strong, though, and lower interest rates, lower oil prices, and a cheaper euro are providing positive feedback from the market correction.

The risky-market correction is a month old. Recent activity data, which almost all relate to March and April, thus cannot tell us anything about the damage of this month's sell-off. What they do tell us is that growth momentum was strong going into this month, with analysts raising earnings and growth forecasts for most regions in April. Evidence for this month consists of sentiment and purchasing manager surveys (PMIs). See the Euro area essay among others in this *GDW* for a review. In sum, European manufacturing sentiment surveys have actually improved, likely reflecting the export-boosting impact of the weaker euro. Manufacturing PMIs in many countries are coming off the boil, but remain consistent with strong growth. J.P. Morgan's Global PMIs will come out this week.

Pressure on European governments to tighten up their finances is increasing. On net, we find that fiscal policy is likely neutral by now in the Euro area, only turning tighter next year by just over 1% of GDP. For 2010, tightening in the periphery is offset by easing in the core.

Funding problems for European banks are not abating, but neither were they worsening last week (see today's *Flows & Liquidity*). Core Euro banks remain reluctant to lend to the periphery, forcing the latter to the ECB. USD funding pressures stabilized last week, with no further drops in non-US financial CP outstandings and little demand for USD repos at the ECB. Conditions are worse in the Euro bond market where there has been virtually no bank issuance this month, and where the ECB has not intervened, yet.

Fixed income

A modest reversal of this month's flight to safety saw core bond markets sell off and EM bonds rally. US Treasuries underperformed German Bunds, in keeping with the greater volatility of Treasuries, which gives the Treasury-Bund spread a bearish bias. We remain short Treasuries against Bunds.

ECB buying has largely stabilized Greek, Irish, and Portu-

guese government bonds, where purchases have been focused. But this relative stability has not translated to Spanish and Italian bonds, which have seen spreads widening steadily over the past two weeks, approaching the levels before the ECB started buying, even before Fitch's downgrade of Spain Friday evening. The ample funding soon to be available from the European Stabilization Mechanism means **we continue to see value in short-dated Euro area high-yielders**, though only for investors who can weather high volatility. This is particularly so for Italy, where government debt is high, but the deficit is below the Euro area average, and reliance on foreign investors is less marked than elsewhere.

EM local bonds rallied across the board last week, reflecting the general recovery in risky markets. For the full month, EM underperformed, in a correction sparked by concern about sovereign risk, despite the fact that government balance sheets are healthier in aggregate in EM than DM. Indeed, **government debt and deficits are both around half as large in emerging economies as in their advanced counterparts**. This should make EM more resilient in the medium term, but for now funds are flowing out of EM bonds, ending a string of unbroken inflows since September, as is typical at times of heightened volatility. **We stay long in South Africa**, where debt is low, the deficit is improving, and we expect the central bank to remain on hold until 2Q next year.

Equities

No news was good news last week. Equity prices were up on the week and volatility is sharply lower from the peak seen at the end of the previous week. Equity investors have moved from panic to a wait-and-see mode and are trying to assess the damage that the financial stress of the past month has caused to the real economy. We believe that it will take time for markets to make that assessment and most likely June will see a volatile range for equities.

Our strategy focuses on **overweighting markets that are more remote from the epicenter of the crisis**, such as US industry groups with little euro exposure, and India and Mexico in EM. We are not yet recommending an overall overweight in EM versus DM equities, but we feel that the domestic engines of growth in the above EM countries are strong enough to cushion their equity markets from DM growth shocks. Within the US, the industry groups with the least euro exposure are Utilities, Wireless, Construction Materials, Telecom Services, Road & Rails, and Health Care Providers (see *US Equity Strategy*, Tom Lee).

We continue to see more upside for **defensive vs. cyclical sectors** and for **large vs. small caps**. Overweighting cyclical sectors and small caps were consensus trades and have retraced so far only a small portion of their YTD outperformance. The early indications from US and Euro area business surveys suggest a loss of momentum for global manufacturing, which is negative for cyclical stocks. In terms of small caps, their illiquidity cushions them during modest market sell-offs as investors tend to sell their more liquid holdings, but acts as a drag during more significant market sell-offs due to flight to liquidity.

Credit

Credit market performance was mixed last week, with high yield and EM credit rallying along with the equity market, while high grade corporate bond spreads widened in both the US and Europe.

European corporates continued to underperform US HG. We believe the trend will continue and keep an **overweight in US HG versus Euro area HG**. We are more positive on US HG as the current spreads of 177bp are now 50bp wider than the low in mid-April and fundamentals remain constructive. Although some investors are selling US HG bonds as yields are due to rallying US Treasuries, a lack of supply in US HG credit, steady inflows from retail investors and insurance companies, and a shrinking supply of US securitized credit provide a strong backdrop for a rebound once risk appetite returns.

In contrast, we are less positive on European HG not only because of the potential contagion from the European sovereign debt crisis, but also because there is little demand for Euro HG bonds. Given the higher perceived risk of Euro HG, investors and banks now both believe their existing holdings are too high. The outlook of European senior bank debt, one-third of the Euro HG universe, is also poor. We maintain **underweight European senior bank debt** as the term funding market is barely functional, creating a large backlog of supply that will hit the market later in the year.

We expect **peripheral European banks** to be more vulnerable to the current liquidity squeeze than banks of core European countries. However, for **Spanish banks** the problems are particularly acute due to their largely unresolved solvency issues. This will continue to weigh on investor sentiment for Spanish banks even when liquidity pressures are eased for other European banks (see *European Banks H2 Outlook*, Roberto Henriques, May 27).

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Foreign exchange

Stronger equity markets pushed up high-beta currencies last week, after a bad sell-off last week. The price action in EUR/USD has been mixed, falling to a midweek low of 1.2154 before staging an impressive rally toward 1.2450 at one point. This rally coincides with comments from a number of sovereign wealth funds reaffirming their commitment to Euro assets following speculation that some are increasingly concerned about the deteriorating fiscal outlook in the region. For now, fears over potential capital flight from the Euro area have been allayed. Nonetheless, this remains a potential medium-term risk to EUR should conditions in the region continue to deteriorate. Having been stopped out of our EUR shorts versus Asian FX and CHF last week, we have been stopped out of our last remaining cash position, short GBP versus CHF. **Given our view that risk markets should rebound from current levels over the next one to two months, EUR should underperform the high-yielding and EM currencies** as the ECB cements its status as a funding currency. EUR/USD should trade a range until the Fed begins to signal its intention to remove policy stimulus.

The equity market rally this past week has taken place against the backdrop of a further improvement in global macro fundamentals with G-10 economic data surprises approaching cyclical highs. The buildup of AUD long positions since the start of this year according to IMM data has been almost totally liquidated while a large proportion of CAD longs have also been unwound. This would normally provide fertile ground for a continued appreciation of high-beta FX. However, with both FX and equity volatility still elevated and the risk of additional regulatory announcements at the G-20 Summit in June, the **recovery in the high-beta currencies is likely to be constrained.**

Commodities

Commodities rallied more than 5% last week, recovering some of the recent losses. Energy was the best performing sector, up 6% since last Friday. We remain with a positive outlook for crude prices, as we still believe that the large price move was mostly due to position squaring. Fundamentals are still supportive and should not be seriously affected near term. Even though our bias is to reduce price forecasts, there is still upside from current levels. Looking at the WTI and Brent curves relative to one and two weeks ago, we have clearly seen a flattening of the front end and a steepening of the back end—to us that is a clear, but modest response to the oil spill and drilling moratorium and as higher costs and lack of access reduce future supplies.

Base metals were up 2% last week. From a fundamental perspective, the outlook for the base metals generally remains sound. Economic data continue to support the view that the global industrial recovery is gaining momentum. Thus, there will continue to be a solid pull for metals from fabricators as restocking supports a robust cyclical recovery. We remain bullish, but a material price rally becomes less likely as we enter 2H on the back of a moderation in the restocking cycle and a possible slowdown in Chinese demand.

Ten-year Government bond yields

	Current	Jun 10	Sep 10	Dec 10	Mar 11
United States	3.28	3.30	3.60	4.00	4.25
Euro area	2.68	2.75	3.05	3.15	3.25
United Kingdom	3.58	3.70	3.85	4.00	4.30
Japan	1.25	1.40	1.50	1.55	1.55
GBI-EM	6.92			7.90	

Credit markets

	Current	YTD Return
US high grade (bp over UST)	177	3.6%
Euro high grade (bp over Euro gov)	214	3.0%
USD high yield (bp vs. UST)	706	3.3%
Euro high yield (bp over Euro gov)	770	3.7%
EMBIG (bp vs. UST)	335	3.2%
EM Corporates (bp vs. UST)	366	2.7%

Foreign exchange

	Current	Jun 10	Sep 10	Dec 10	Mar 11
EUR/USD	1.23	1.25	1.25	1.20	1.18
USD/JPY	90.8	87	90	93	96
GBP/USD	1.45	1.44	1.39	1.35	1.34

Commodities - quarterly average

	Current	10Q2	10Q3	10Q4	11Q1
WTI ($/bbl)	74	86	94	93	90
Gold ($/oz)	1213	1150	1250	1200	1175
Copper($/m ton)	6955	8000	7150	6750	6500
Corn ($/Bu)	3.60	3.75	3.90	3.80	4.00

Source: J.P. Morgan, Bloomberg, Datastream

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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2009	2010	2011	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	1Q10	2Q10	4Q10	2Q11
The Americas														
United States	-2.4	3.5	3.1	5.6	3.0 ↓	4.0	4.0	3.5	2.5	2.5	2.4	1.8 ↓	0.9 ↓	1.1
Canada	-2.6	3.6	2.9	5.0	6.0	3.3	3.2	3.5	3.0	2.0	1.6	1.3	1.8	2.1
Latin America	-2.9	4.9	3.8	7.1	3.0 ↑	4.5 ↓	2.7 ↓	4.1 ↓	4.3 ↑	5.3 ↑	6.0 ↑	6.5 ↑	7.3	7.1 ↑
Argentina	-2.0	6.0 ↑	4.0 ↑	7.9	10.0 ↑	8.0	3.0	4.0 ↑	3.0 ↑	4.0 ↑	9.0 ↑	9.0 ↑	10.0	11.0 ↑
Brazil	-0.2	7.0	4.0	8.4	8.7	6.3	4.8	4.0	3.8	4.2	4.9	5.3	5.8	4.5
Chile	-1.5	5.0 ↓	6.0 ↑	6.2	-5.9	10.0 ↑	20.0 ↓	10.0 ↓	2.0 ↑	0.0 ↑	-0.3	3.3	4.0 ↓	3.8
Colombia	0.4	3.0	4.1	4.7	2.7	2.8	2.9	3.1	4.5	4.8	2.0	2.1	3.3	3.6
Ecuador	0.4	2.0	3.0	1.3	2.0	3.5	4.0	4.5	3.0	2.5	4.1	3.9	4.7	4.4
Mexico	-6.5	4.5	3.5	7.9	-1.4	3.2	-1.8	4.2	5.7	7.9	4.8	4.4	5.1	4.5
Peru	0.9	6.5	6.0	11.5	7.3	4.5	4.1	4.0	7.0	6.9	0.7	1.0	2.1	2.2
Venezuela	-3.3	-4.0 ↓	1.0 ↓	-5.3 ↓	-5.6 ↓	-5.0 ↓	5.0 ↓	1.0 ↓	1.0 ↓	1.0 ↓	27.4 ↓	31.8	33.7	39.3
Asia/Pacific														
Japan	-5.2	3.5	2.2	4.2	4.9	2.5	2.7	2.7	2.2	2.0	-1.2	-1.4	-0.7	0.1
Australia	1.3	3.1	3.6	3.7	3.0	3.3	3.8	3.9	3.1	4.2	2.5	2.5	2.6	3.0
New Zealand	-1.6	2.6	2.6	3.3	1.9	3.7	3.7	2.9	1.4	2.3	2.0	2.2	2.3	2.8
Asia ex Japan	4.6	8.9 ↑	7.2 ↓	7.3 ↑	12.4 ↑	6.8	6.4 ↓	6.8	7.1 ↓	7.4	4.3 ↑	5.1 ↑	5.0 ↑	4.1 ↑
China	8.7	10.8	9.4	10.8	13.1	9.4	9.3	9.0	9.1	9.5	2.2	3.2	3.1	2.4
Hong Kong	-2.8	6.8	4.2	10.0	10.0	4.3	4.0	3.8	4.2	4.3	1.9	2.4	2.3	1.9
India	7.2	8.3	8.5	-2.0	15.2 ↑	7.8 ↓	7.4 ↑	8.7	8.0 ↑	8.3 ↑	15.4 ↑	16.3 ↑	14.5 ↑	11.4 ↑
Indonesia	4.5	6.2	5.8	6.2	5.4	6.0	4.0	5.0	6.5	6.5	3.7	5.3	6.3	4.9
Korea	0.2	5.8	4.1	0.7	7.5	4.0	4.5	3.8	4.0	4.0	2.7	2.8	3.4	3.6
Malaysia	-1.7	7.7	4.8	8.2	5.0	4.0	5.0	5.0	4.9	4.9	1.3	1.7	2.4	2.4
Philippines	1.1 ↑	6.8 ↑	4.3	7.6 ↑	12.9 ↑	5.0	3.5	4.0	4.5	4.5	4.3	5.0	5.2	4.9
Singapore	-1.3	10.5 ↑	4.3 ↓	-1.0	38.6	5.7 ↑	-11.5 ↓	4.9	7.4 ↑	7.4 ↑	0.9	3.4	4.7	3.7
Taiwan	-1.9	9.2	4.8	16.7	11.3	3.3	3.5	3.5	5.0	5.3	1.3	0.9	2.0	1.8
Thailand	-2.2 ↑	8.5 ↑	4.0 ↓	17.0 ↑	16.0 ↑	-2.0 ↓	2.8 ↓	2.8 ↓	6.0 ↓	5.5 ↓	3.7 ↓	5.5	4.4	3.0
Africa/Middle East														
Israel	0.7	3.0	4.5	4.8	3.3	3.5	3.0	3.0	4.0	5.0	3.5	3.0	3.0	3.2
South Africa	-1.8	3.0	3.5	3.2	4.6 ↑	4.0	3.5	3.7	3.6	2.8	5.7	4.9	5.8	5.7
Europe														
Euro area	-4.0	1.3	1.9	0.2	0.8	3.0	2.0	1.8	1.8	1.8	1.1	1.5	1.5	0.9
Germany	-4.9	1.9	2.6	0.7	0.6	3.0	3.0	3.0	2.5	2.5	0.8	1.0	1.2	0.9
France	-2.5	1.7	2.1	2.2	0.5	3.0	2.0	2.0	2.0	2.0	1.5	1.8	1.3	0.6
Italy	-5.1	1.4	2.0	-0.2	2.1	2.5	1.5	2.0	2.0	2.0	1.3	1.5	1.5	1.1
Norway	-1.5	1.7	2.7	1.6	0.6	2.5	3.0	3.0	2.5	2.5	2.9	3.0	1.6	0.7
Sweden	-5.1	3.6 ↑	3.0	1.7 ↑	5.9 ↑	4.5 ↑	3.5	3.0	2.8	2.8	1.0	0.8 ↓	1.8 ↑	2.8 ↑
Switzerland	-1.5	2.5	2.8	3.0	2.5	2.8	3.0	3.0	2.8	2.8	1.1	1.0	0.9	0.8
United Kingdom	-4.9	1.5 ↑	3.0	1.8	1.2 ↑	3.0	3.0	3.5	2.5	3.0	3.3	3.5	2.6	1.7
Emerging Europe	-5.0	4.1	4.7	2.5	2.2	4.5	4.1	3.8	4.0	4.4	6.1	5.8	5.9	5.4
Bulgaria	-5.0	-0.5	4.5	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	-4.2	2.0	4.0	3.0	0.7	3.0	2.5	2.0	3.0	4.0	0.7	1.3	2.8	2.8
Hungary	-6.3	0.8	4.0	0.8	3.6	2.0	2.0	1.5	3.5	4.0	6.0	4.8	3.7	2.8
Poland	1.8	3.2	4.2	5.3	3.0	4.0	2.7	3.0	3.0	4.0	3.0	2.0	2.6	2.8
Romania	-7.1	1.0	4.0	...	...	...	...	...	...	...	4.6	4.4	4.7	4.5
Russia	-7.9	5.5	5.0	2.7	2.2	6.0	5.5	5.0	5.0	5.0	7.2	6.5	7.2	7.0
Turkey	-4.7	5.1	5.5	...	...	...	...	...	...	...	9.3	10.3	8.5	6.6
Global	-2.5	3.6	3.3	4.0 ↑	3.8 ↑	3.8	3.5	3.4	3.0	3.1	2.2	2.2	2.0 ↑	1.8 ↑
Developed markets	-3.4	2.7	2.6	3.3	2.6 ↓	3.3	3.1	2.9	2.3	2.3	1.5	1.3 ↓	1.0 ↓	1.0
Emerging markets	1.0	6.9 ↑	5.8 ↓	6.3 ↑	8.1 ↑	5.7	5.0 ↓	5.5 ↓	5.8	6.2 ↑	5.1 ↑	5.5 ↑	5.7 ↑	5.0 ↑
Memo:														
Global — PPP weighted	-0.8	4.8	4.3	4.7	5.5	4.7	4.4	4.4	4.1	4.1	3.3	3.5	3.3	2.9

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Global Central Bank Watch

			Change from			Forecast					
	Official interest rate	Current	Aug '07 (bp)	Last change	Next meeting	next change	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Global	GDP-weighted average	1.32	-334				1.34	1.42	1.50	1.58	1.78
excluding US	GDP-weighted average	1.88	-247				1.91	2.03	2.14	2.26	2.38
Developed	GDP-weighted average	0.52	-359				0.52	0.55	0.58	0.63	0.83
Emerging	GDP-weighted average	4.52	-234				4.59	4.87	5.14	5.35	5.56
Latin America	GDP-weighted average	5.99	-294				6.29	6.85	7.31	7.49	7.77
CEEMEA	GDP-weighted average	4.22	-264				4.11	4.12	4.41	4.49	4.82
EM Asia	GDP-weighted average	4.09	-201				4.13	4.41	4.60	4.88	5.02
The Americas	GDP-weighted average	0.78	-481				0.83	0.92	1.00	1.06	1.43
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	23 Jun 10	2Q 11 (+25bp)	0.125	0.125	0.125	0.125	0.50
Canada	Overnight funding rate	0.25	-400	21 Apr 09 (-25bp)	1 Jun 10	1 Jun 10 (+25bp)	0.50	1.00	1.50	2.00	2.50
Brazil	SELIC overnight rate	9.50	-250	28 Apr 10 (+75bp)	9 Jun 10	9 Jun 10 (+75bp)	10.25	11.50	12.50	12.50	12.50
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	18 Jun 10	2Q 11 (+25bp)	4.50	4.50	4.50	4.50	4.75
Chile	Discount rate	0.50	-450	9 Jul 09 (-25bp)	15 Jun 10	15 Jun 10 (+25bp)	0.75	1.50	2.25	3.75	5.00
Colombia	Repo rate	3.00	-600	30 Apr 10 (-50bp)	25 Jun 10	1Q 11 (+50bp)	3.00	3.00	3.00	4.00	5.00
Peru	Reference rate	1.50	-300	6 May 10 (+25bp)	10 Jun 10	July 10 (+25bp)	1.50	2.25	3.00	3.75	4.50
Europe/Africa	GDP-weighted average	1.29	-323				1.28	1.30	1.35	1.42	1.51
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	10 Jun 10	On hold	1.00	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	0.50	-500	5 Mar 09 (-50bp)	10 Jun 10	10 Feb 11 (+25bp)	0.50	0.50	0.50	0.75	1.00
Sweden	Repo rate	0.25	-325	2 Jul 09 (-25bp)	1 Jul 10	**1 Jul 10 (+25bp)**	0.25	**0.75**	**1.00**	**1.25**	**1.50**
Norway	Deposit rate	2.00	-250	5 May 10 (+25bp)	23 Jun 10	22 Sep 10 (+25bp)	2.00	2.25	2.50	2.75	3.25
Czech Republic	2-week repo rate	0.75	-200	6 May 10 (-25bp)	23 Jun 10	2Q 11 (+25bp)	0.75	0.75	0.75	0.75	1.00
Hungary	2-week deposit rate	5.25	-250	26 Apr 10 (-25bp)	31 May 10	21 Jun 10 (-25bp)	5.00	4.50	4.50	4.50	4.50
Israel	Base rate	1.50	-250	28 Mar 10 (+25bp)	28 Jun 10	**3Q 10 (+25bp)**	**1.50**	2.25	2.75	3.25	3.75
Poland	7-day intervention rate	3.50	-100	24 Jun 09 (-25bp)	30 Jun 10	1Q 11 (+25bp)	3.50	3.50	3.50	3.75	4.00
Romania	Base rate	6.25	-75	4 May 10 (-25bp)	30 Jun 10	30 Jun 10 (-25bp)	6.00	5.50	5.50	5.50	5.75
Russia	1-week deposit rate	3.25	25	29 Apr 10 (-25bp)	May 10	May 10 (-25bp)	3.00	3.00	3.00	3.00	3.50
South Africa	Repo rate	6.50	-300	25 Mar 10 (-50bp)	22 Jul 10	2Q 11 (+50bp)	6.50	6.50	6.50	6.50	7.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	Jun 10	16 Dec 10 (+25bp)	0.25	0.25	0.50	0.75	1.00
Turkey	1-week repo rate	7.00	-1050		17 Jun 10	14 Oct 10 (+50bp)	7.00	7.00	8.50	8.50	8.50
Asia/Pacific	GDP-weighted average	2.18	-126				2.20	2.34	2.45	2.59	2.67
Australia	Cash rate	4.50	-175	4 May 10 (+25bp)	1 Jun 10	**Aug 10 (+25bp)**	4.50	**4.75**	**5.00**	**5.25**	**5.50**
New Zealand	Cash rate	2.50	-550	30 Apr 09 (-50bp)	10 Jun 10	29 Jul 10 (+25bp)	2.50	3.00	3.50	4.00	4.25
Japan	Overnight call rate	0.10	-43	19 Dec 08 (-20bp)	14 Jun 10	4Q 11 (+15bp)	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	24 Jun 10	2Q 11 (+25bp)	0.50	0.50	0.50	0.50	1.00
China	1-year working capital	5.31	-126	22 Dec 08 (-27bp)	2Q 10	**3Q 10 (+27bp)**	**5.31**	**5.58**	**5.85**	**6.12**	**6.12**
Korea	Base rate	2.00	-250	12 Feb 09 (-50bp)	10 Jun 10	3Q 10 (+25bp)	2.00	2.25	2.50	2.75	3.00
Indonesia	BI rate	6.50	-200	5 Aug 09 (-25bp)	4 Jun 10	1Q 11 (+25bp)	6.50	6.50	6.50	6.75	7.00
India	Repo rate	5.25	-250	20 Apr 10 (+25bp)	27 Jul 10	2Q 10 (+25bp)	5.50	6.00	6.00	6.50	6.75
Malaysia	Overnight policy rate	2.50	-100	13 May 10 (+25bp)	8 Jul 10	3Q 10 (+25bp)	2.50	3.00	3.00	3.00	3.00
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	3 Jun 10	3 Jun 10 (+25bp)	4.25	4.75	5.00	5.00	5.00
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	2 Jun 10	14 July 10 (+25bp)	1.25	1.50	1.75	2.00	2.25
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	2Q 10	3Q 10 (+25bp)	1.25	1.50	1.75	2.00	2.25

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

Economic forecasts - Australia

Australia: economic projections *percentage change over previous period, seasonally adjusted annual rates, un*

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	1.3	3.1	3.6	2.9	1.1	3.7	3.0	3.3	3.8	3.9	3.1	4.2	4.2	1.8
Private consumption	2.2	1.7	2.1	3.5	3.0	2.6	1.2	0.8	0.4	1.2	3.2	2.8	2.4	2.0
Construction investment	-0.3	2.9	4.6	-2.8	3.4	1.7	3.6	3.4	4.5	3.5	4.3	5.1	6.0	6.2
Equipment investment	-3.4	22.1	9.3	4.3	-11.0	51.2	32.6	22.5	13.0	17.6	5.1	3.4	6.4	8.6
Public investment	3.8	21.3	10.7	18.3	28.3	47.7	17.0	9.5	15.1	11.2	7.4	14.0	7.4	11.8
Government consumption	2.9	3.7	1.7	3.6	5.7	7.2	3.9	0.1	3.9	0.1	0.1	3.8	3.8	0.4
Exports of goods & services	0.5	3.7	4.6	3.3	-9.1	7.0	6.6	4.9	3.2	7.4	4.1	4.1	4.1	4.1
Imports of goods & services	-7.7	11.6	4.1	3.0	18.5	34.6	8.2	4.1	2.0	4.1	4.1	4.1	2.0	12.6
Contributions to GDP growth:														
Inventories	-0.5	-1.9	-0.1	1.1	2.6	0.4	-8.9	-0.2	-0.1	-0.1	-0.2	0.0	-0.3	-0.1
Net trade	1.8	-1.7	0.0	0.1	-5.2	-4.9	-0.5	0.1	0.2	0.5	-0.1	-0.1	0.3	-1.8
GDP deflator (%oya)	0.4	1.8	2.4	0.3	-2.0	-1.4	0.1	2.9	2.4	2.0	2.2	2.4	2.5	2.5
Consumer prices (%oya)	1.8	3.4	3.8	1.5	1.3	2.1	2.9	3.5	3.5	3.8	3.8	3.7	3.7	3.8
Producer prices (%oya)	-5.4	-1.4	3.5	-6.4	-7.2	-6.8	-3.1	-1.6	-1.9	1.0	2.5	3.5	4.0	4.0
Trade balance (A$ bil, sa)	-6.7	-23.4	-23.3	-0.9	-4.3	-5.7	-6.0	-6.0	-5.9	-5.6	-5.6	-5.7	-5.5	-6.6
Current account (A$ bil, sa)	-67.0	-72.1	-74.6	-13.1	-14.7	-17.5	-18.0	-18.1	-18.1	-17.9	-18.1	-18.4	-18.3	-19.9
as % of GDP	-6.2	-5.4	-5.3	-4.2	-4.7	-5.4	-5.5	-5.5	-5.4	-5.3	-5.3	-5.3	-5.2	-5.6
3m eurodeposit rate (%)*	6.0	4.9	5.6	3.5	3.4	4.1	4.3	4.8	5.0	5.5	5.7	5.7	5.6	5.6
10-year bond yield (%)*	5.6	5.9	6.0	5.5	5.1	5.8	5.7	5.9	5.9	6.1	6.0	6.0	5.9	6.0
US$/A$*	0.75	0.89	0.87	0.82	0.88	0.91	0.94	0.82	0.87	0.92	0.90	0.88	0.86	0.84
Commonwealth budget (FY, A$ bil)	-27.0	-57.1	-27.0											
as % of GDP	-2.1	-4.3	-1.9											
Unemployment rate	5.6	5.4	5.3	5.7	5.7	5.6	5.3	5.4	5.5	5.5	5.4	5.3	5.2	5.0
Industrial production	-7.8	3.3	1.5	5.2	-5.5	21.8	1.0	0.0	-1.0	-2.0	0.0	1.0	2.0	3.0

*All financial variables are period averages

Australia - summary of main macro views

- The Australian **economy** powered out of the global downturn largely unscathed. Growth probably will be close to trend in 2010, but above trend in 2011, despite the further withdrawal of policy support.
- **Business investment** will be down slightly in the year to June, but investment spending probably will rise close to 20% in 2010-11, with mining leading the way.
- On **housing**, with the expanded first home owners' grant now having expired and price caps on the basic grant in place, house price growth should cool, particularly at the low and middle-end of the price spectrum.
- **Consumer confidence** has deteriorated sharply owing mainly to rising mortgage rates. Rate hikes are starting to bite, with confidence among respondents with a mortgage tumbling 8% in May.
- **Export volumes** have held up owing mainly to firm demand from China, but the terms of trade tumbled.This decline is reversing, thanks mainly to higher bulk commodity prices; we forecast a 25% rise.
- The **RBA** was the first central bank in the G20 to tighten policy and has hiked six times since last October. We now expect a pause, which will be extended if recent financial troubles spill over to real economies.
- The recent **Commonwealth budget** was "beige", with bolder policy announcements probably delayed until closer to this year's federal election.

Economic forecasts - New Zealand

New Zealand: economic projections *percentage change over previous period, seas. adjusted annual rates, unless stated*

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.6	2.6	2.6	0.6	1.1	3.3	1.9	3.7	3.7	2.9	1.4	2.3	2.7	3.9
Private consumption	-0.6	2.4	1.6	1.6	3.5	3.4	2.5	1.5	1.1	2.0	1.0	1.5	2.0	3.5
Fixed Investment	-13.5	-1.0	4.6	-1.6	-6.2	-3.5	-5.4	5.3	5.5	5.7	2.2	4.1	6.0	7.3
Residential construction	-18.7	4.6	4.7	-9.3	-15.3	21.1	8.0	4.0	4.8	6.0	3.2	4.8	6.0	4.0
Other fixed investment	-12.4	-2.1	4.6	0.0	-4	-7.6	-8.0	5.6	5.6	5.6	2.0	4.0	6.0	8.0
Inventory change (NZ$ bil, saar)	-1.7	0.8	0.4	-1.0	-0.7	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Government spending	1.5	2.2	1.7	-5.0	2.4	3.6	3.2	2.4	1.6	2.4	0.9	3.2	0.8	0.2
Exports of goods & services	0.0	7.2	9.0	19.8	0.7	-3.4	10.0	12.0	11.0	10.0	8.0	7.0	10.0	8.0
Imports of goods & services	-15.2	8.5	7.1	-10.3	6.2	26.4	5.0	8.0	5.0	8.0	5.0	8.0	9.0	9.0
Contributions to GDP growth:														
Domestic final sales	-5.0	1.2	2.4	0.6	-0.4	1.7	-0.4	3.0	2.1	3.0	1.2	2.4	2.7	3.8
Inventories	-2.5	1.9	-0.3	-9.0	3.3	11.1	0.9	-0.4	-0.2	-0.6	-0.8	0.2	-0.2	0.5
Net trade	5.9	-0.5	0.5	9.7	-1.7	-8.8	1.4	1.1	1.8	0.5	0.9	-0.4	0.2	-0.4
GDP deflator (%oya)	1.9	1.3	2.2	2.0	2.7	0.1	-0.2	1.0	1.8	2.8	2.8	2.4	1.9	1.6
Consumer prices	2.1	4.9	4.9	2.3	5.3	-0.7	1.5	2.8	3.3	12.1	3.3	2.9	3.9	3.8
%oya	2.1	2.7	4.9	1.9	1.7	2.0	2.0	2.2	1.7	4.8	5.3	5.3	5.5	3.5
Trade balance (NZ$ bil, sa)	2.5	2.5	-0.1	0.8	0.6	0.2	1.2	0.6	0.5	0.3	0.2	0.0	-0.1	-0.3
Current account (NZ$ bil, sa)	-5.6	-12.1	-14.2	-0.4	0.0	-3.1	-1.2	-2.8	-4.1	-3.0	-2.2	-5.2	-3.0	-2.9
as % of GDP	-3.1	-6.5	-7.2	-0.9	0.1	-6.9	-6.2	-8.9	-6.3	-4.6	-6.1	-5.9	-8.1	-8.8
Yield on 90-day bank bill (%)*	3.0	3.1	4.4	2.8	2.8	2.8	2.7	2.8	3.3	3.8	4.3	4.4	4.5	4.5
10-year bond yield (%)*	5.5	5.9	6.1	5.7	5.7	5.9	5.7	6.0	6.0	6.1	6.1	6.1	6.0	6.0
US$/NZ$*	0.64	0.72	0.72	0.60	0.68	0.73	0.73	0.67	0.71	0.75	0.73	0.71	0.71	0.71
Commonwealth budget (NZ$ bil)	-4.0	-7.2	-7.1											
as % of GDP	-2.2	-3.8	-3.6											
Unemployment rate	6.1	6.1	5.4	5.9	6.5	7.1	6.0	6.3	6.3	5.9	5.7	5.4	5.3	5.2

*All financial variables are period averages

New Zealand - summary of main macro views

- The **New Zealand economy** expanded at a healthy clip of 0.8%q/q in 4Q, driven again by firm private consumption. Inventories, though, were not the drag on growth we expected. In fact, inventories were built up by NZ$172 million, after three quarters of run downs.
- **Business confidence** is elevated and investment plans firm. Investment will, though, remain a drag on GDP growth this year.
- The **unemployment** rate tumbled to 6% in 1Q (from 7.1%), although is unlikely to fall far below this level in the near-term. Actual hiring remains well-below long run averages, and with corporate profitability fall in 1Q, new hiring will likely be postponed.
- **The RBNZ will begin tightening policy in July.** The RBNZ has said that the policy stimulus may start to be removed “in coming months.” Our forecast for a July move is highly data dependent.
- **Inflation** returned to positive territory in 1Q, after falling in the final three months of 2009. Medium term inflation pressures are a concern, given diminishing excess capacity and firms’ intentions to raise domestic prices.
- Managing **inflation expectations** will be a growing challenge for the RBNZ, given the July 1 introduction of the amended ETS and the GST hike on October 1.

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
31 May Australia: Pvt. Sector credit (11:30 am) Apr 0.4%m/m, sa Current account (11.30 am) 1Q, -16.3A$bn Profits (11.30 am) 1Q, 4.5%q/q Inventories (11.30 am) 1Q, -0.1%q/q New Zealand: NBNZ business confidence (3:00 pm) May 45% bal	1 Jun Australia: Building approvals (11:30 am) Apr 0.4%m/m, sa Retail sales (11:30am) Apr -0.2%m/m, sa RBA cash target (3:30 pm) Jun no change	2 Jun Australia: GDP (11:30 am) 1Q 0.4%q/q, sa New Zealand: ANZ commodity price (3:00 pm) May	3 Jun Australia: Trade balance (11:30 am) Apr -1800 A$bn, sa	4 Jun
7 Jun Australia: ANZ job ads (11:30 am) May New Zealand: QVNZ house prices May *Holiday New Zealand*	8 Jun New Zealand: Manufacturing activity (10: 30 am) 1Q	9 Jun Australia: Westpac consumer confidence (10: 30 am) Jun NAB bus. Confidence (11: 30 am) May Housing finance approvals (11:30 am) Apr	10 Jun Australia: Unemployment rate (11: 30 am) May New Zealand: RBNZ official cash rate (9:00 am) Jun Business NZ PMI (10:30 pm) May Terms of trade (10:45 am) 1Q	11 Jun
14 Jun New Zealand: Retail sales (10:45 am) Apr *Holiday Australia*	15 Jun	16 Jun Australia: Westpac leading index (10: 30 am) Apr Dwelling starts (11:30 am) 1Q	17 Jun	18 Jun
21 Jun Australia: New motor vehicle sales (11:30 am) May New Zealand: Visitor arrivals (10:45 am) May	22 Jun New Zealand: Credit card spending (3:00 pm) May	23 Jun New Zealand: Current account balance (10:45 am) 1Q	24 Jun New Zealand: GDP (10:45 am) 1Q	25 Jun New Zealand: Trade balance (10:45 am) May

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
31 May - 4 June	31 May	1 June	2 June	3 June	4 June
Russia • CBR mtg: -25bp	Canada • GDP (1Q) Euro area • EC business conf (May) • HICP flash (May) Hungary • NBH mtg: no chg India • GDP (1Q) Japan • IP prelim (Apr) • PMI mfg final (May) • Shirakawa speech Korea • IP (Apr) United States • Markets closed • Bernanke speech	Australia • RBA mtg: no chg Brazil • IP (Apr) Canada • BoC meeting: +25bp Euro area • PMI mfg final (May) Germany • Employment (May) • Retail sales (Apr) Japan • Auto regs (May) United States • ISM mfg (May)	Australia • GDP (1Q) Thailand • BoT meeting: no chg United Kingdom • Mortgage approvals (Apr) United States • Light vehicle sales (May) • Pending home sales (Apr) • ADP payrolls (May)	Euro area • PMI services/comp (May) • Retail sales (Apr) Japan • PMI services/comp (May) • MoF corp survey (1Q) Philippines • BSP meeting: +25bp United Kingdom • PMI services (May) United States • Factory orders (Apr) • ISM nonmfg (May) • Bernanke speech	Canada • Employment (May) Euro area • GDP prelim (1Q) Indonesia • BI meeting: no chg Korea • GDP (1Q) United Kingdom • Auto regs (May) United States • Employment (May)
7 - 11 June	7 June	8 June	9 June	10 June	11 June
	Brazil • Auto report (May) Germany • Mfg orders (Apr) Taiwan • Trade balance (May) United States • Consumer credit (Apr)	Brazil • GDP (1Q) Germany • Foreign trade (Apr) • IP (Apr) Japan • Economy Watcher survey (May) United States • JOLTS (Apr)	Brazil • COPOM mtg: +75bp Japan • Prv mach orders (Apr) United Kingdom • Cons conf (May) United States • Beige book	China • Trade balance (May) Euro area • ECB mtg: no chg Korea • BoK mtg: no chg New Zealand • RBNZ mtg: no chg Peru • BCRP mtg: No chg United Kingdom • MPC mtg: no chg United States • Flow of funds (1Q) • International trade (Apr)	China • CPI, FAI, retail sales, IP (May) India • IP (Apr) United Kingdom • IP (Apr) United States • Retail sales (May) • Cons sent (Jun)

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