Weekly Commentary

1 March 2010

Not a one-way bet

Last week's data schedule was largely second-tier and a mixed bag in some respects. However, the results should still serve as warning to those who are counting on the recent run of softer than expected data to continue.

The RBNZ's quarterly survey found that expectations of inflation two years ahead rose to 2.7% in Q1, indicating that the jump to 2.6% in the previous quarter wasn't simply a blip. Inflation expectations are disconcertingly high for an economy in the early stages of recovery, and suggest that the RBNZ's stated goal of keeping inflation close to 2% is not being taken seriously.

Markets routinely ignore the inflation expectations survey, and this time was no exception. But we think the data deserves a lot more attention. The RBNZ regards inflation expectations as a crucial determinant of underlying, medium-term inflation. High inflation expectations mean that, as the economy recovers, the OCR will need to do more of the work than if expectations had kept to a more 'friendly' level.

Business confidence improved further in February, even in the face of re-emerging concerns about the global economy in the last couple of months (note that there is no survey in January). General business sentiment rose to its highest level since November 1999, while own-activity expectations – a more reliable guide to current quarter GDP – also reached a new cycle high, consistent with our forecast of 1% growth in Q1 GDP.

The details of the survey were mostly stronger as well. Profit expectations rose to a nine-year high, pricing intentions saw the first significant increase since mid-2008, and a net 9% of firms said that they intend to hire more staff. (Note that net hiring intentions of zero are historically consistent with around 2% annual jobs growth – so it's wrong to assume that a low reading on this measure implies a 'jobless recovery'.) Investment intentions were slightly weaker, one of the few indicators that remains below its long-term average.

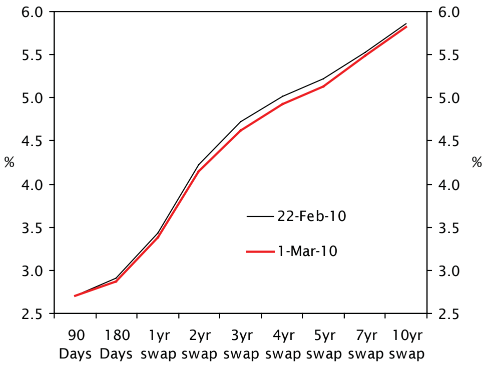
Confidence in the retail sector was markedly lower than in early December, which fits with the anecdotes of a tough post-Christmas period. However, this was more than offset by strong gains in all other sectors. Even the residential construction sector was surprisingly perky, with confidence down slightly from record highs, in spite of recent concerns about changes to the tax treatment of property.

However, those concerns may explain why expectations in the building industry aren't yet being matched by action. Dwelling consents fell 2.8% in January (up 0.7% excluding the volatile apartments component), the third straight month that they've fallen short of our forecasts. The fact remains that building activity is well below the levels needed to meet population growth, so something has to give – either building activity will increase, house prices will be squeezed higher, or population pressures will ease as people head to Australia (in practice we'll probably see elements of all three). We've been forecasting a strong pickup in building activity through 2010, but the soft consents numbers present the risk that some of this activity is delayed.

The January merchandise trade surplus of $269m was much stronger than we expected, and was the strongest January balance on record. Imports were broadly as expected, with car imports cooling slightly after strong gains through the second half of last year, and good farm growing conditions obviating the need to import fertiliser. Meanwhile, exports were boosted by strong prices for dairy and oil, and the start of shipments from the Kupe gas field (which we estimate will contribute 0.1% to GDP growth in Q1). The surprising resilience of exports through the global recession has been a significant – though not sufficient – step in the direction of righting NZ's external imbalances.

Meanwhile, net permanent and long-term migration held up better than expected in January. Monthly seasonally adjusted

NZ Interest Rates



**Yield curve is yields on bank bills to 180 days, fixed interest rate swaps for 1year onwards.*

Published by Westpac, PO Box 691, Wellington, ph: (04) 381 1413. For further information contact Brendan O'Donovan, Michael Gordon, Donna Purdue or Dominick Stephens. For email address changes contact natalie_denne@westpac.co.nz

migration numbers have been steady at a high level since March 2009, mainly because the number of New Zealanders leaving has been very low. We had expected the weak labour market in NZ, combined with low unemployment in Australia, to lead to a renewed outflow of Kiwis crossing the Tasman. So far, this has not happened. The number of NZers leaving for Australia is still 32% below last year's level, and is lower than it has been in any year since 2004. The number of NZers coming back from Australia is up by 26% compared to last year. There is also an elevated number of NZers returning from other countries, although nothing like the 2002 migration boom.

Finally, we've noticed a curiously sudden interest (more so from overseas than locally) in New Zealand's monetary aggregates. RBNZ figures released last week showed that M3, the broadest measure of the money supply, fell 4.5% in the year to January, the biggest fall on record. The assumption is that a contraction in the money supply means a contraction in the economy in nominal terms – deflation, recession, or both.

However, as an indicator of economic activity, what matters is not just the availability of money but whether it's being put to use – that is, credit. The same RBNZ figures show that domestic credit grew by 2.6% in the year to January – well off its highs, but the pace is picking up from recent lows.

The difference between the two series is largely a matter of how they are calculated. M3 reflects the supply of NZ dollars – not that useful when a considerable share of banks' funding is originated in foreign currencies. Indeed, this is the reason for the unprecedented fall in M3: this time a year ago, in the depths of the financial crisis, banks found it harder to obtain foreign currency funding, and became more reliant on NZ dollar funding. As the crisis has eased, banks have substituted away from NZ dollars (hence the drop in M3) and back towards foreign currency funding. This change in the mix of funding has not affected banks' ability to make loans, as the credit figures demonstrate.

Fixed vs. floating: The growing prospect of OCR hikes in the first half of the year will eventually flow through to short-term fixed rates, which have only seen small increases to date and remain at historically low levels. As a result, we could see more borrowers moving to fix at the favourable rates still on offer – and the experience of March/April last year shows that these types of flows can put a great deal of upward pressure on mortgage rates. With floating and one-year fixed rates around similar levels, there may not seem to be much advantage in fixing right now, but those who wait until they see the whites of the RBNZ's eyes before fixing are likely to face much less attractive options. Repaying more than the minimum amount and spreading the loan over a mix of terms can help to reduce overall risk regarding uncertain future interest rate changes.

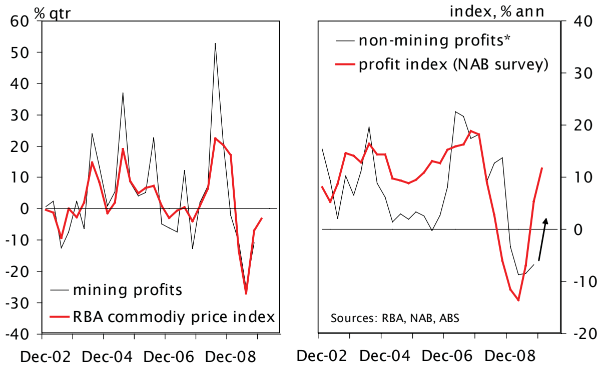
Key Data Previews

Aus Q4 company profits

Mar 1, Last: –2.1%, WBC f/c: 1.0%, Mkt f/c: 2.3%

- Profits are forecast to increase by 1% in Q4, following four consecutive quarters of decline, to be down -20%yr in Q3.
- A correction to mining profits over the last year was the major driver. The fall should be considerably smaller in Q4 – we're forecasting a 4% drop. That compares with –11%qtr, –42%yr in Q3. An upswing in mining profits is set to begin early in 2010, with sharp rises in iron ore and coal prices to be pivotal.
- Profitability in the broader economy (i.e. ex mining) started to rebound in Q2 as domestic turnover improved, boosted by government assistance to consumers and business. Private business surveys suggest the trend continued in Q4. After a rise over the last six months, we expect an additional 3% increase in Q4.

Q4 profits: broader economy improvement

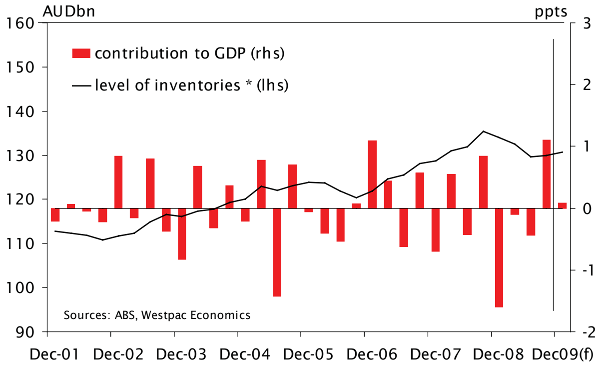


Aus Q4 business inventories

Mar 1, Last: 0.8%, WBC f/c: 0.5%, Mkt f/c: 0.5%, Range: –0.7% to 1.2%

- Business inventories are forecast to make only a slight contribution to growth, following a hefty boost in Q3.
- A word of caution: inventory data is notoriously volatile and history is almost always revised – evidence of the statisticians difficulty in accurately measuring this data.
- To confuse matters, the National Accounts reported inventory levels up 0.3% in Q3 (adding 1.1ppts to growth) while the *Business Indicators* survey reported +0.8%, +1.8ppts.
- The economy gained momentum in Q4, with growth in domestic demand estimated to have accelerated to more 1½%. Import volumes also rose strongly in the period. Given this, firms most likely increased inventory levels at a faster pace. We're forecasting inventories to add 0.1ppt to Q4 GDP growth.

Inventory rebuilding underway

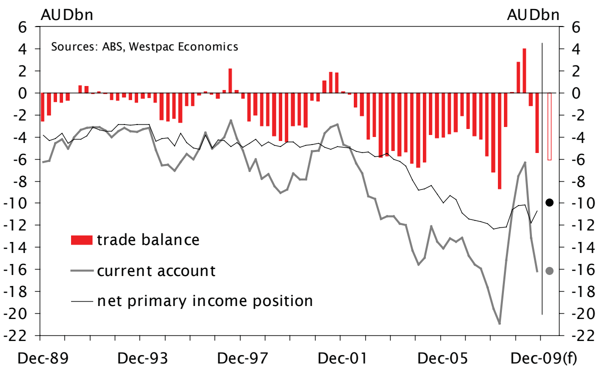


Aus Q4 current account balance, AUDbn

Mar 1, Last: –16.2, WBC f/c: –16.1, Mkt f/c: –17.2, Range: –19.5 to –14.0

- Despite a higher terms of trade with a 9%qtr AUD/USD rise cutting import prices, surging import volumes and flat export volumes will drive a higher trade deficit. But, the current account deficit is forecast to narrow slightly with offset from a lower net primary income deficit (previously referred to as "net income").
- Monthly data showed a price driven 1.4%qtr fall in exports (with volumes virtually steady). Import volumes surged a further 6.5%qtr, lifting values 1.8%qtr. This lifts the trade deficit to $6.1bn (was $5.4bn prev; likely revised to $4.2bn).
- We forecast a net primary income deficit of $10.0bn (v $10.7bn prev). Lower net debt income outflows (lower USD 3m and 10yr rates; higher AUD) should be reinforced by slightly lower net equity income outflows (lesser Aust equity market outperformance vs US – A$ adjusted – in Q4 relative to Q3).

Current account balance and components

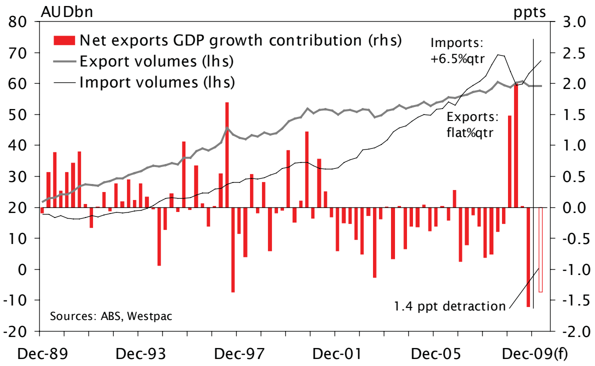


Aus Q4 net exports contribution to GDP, ppts

Mar 1, Last: –1.6, WBC f/c: –1.4, Mkt f/c: –1.1, Range: –1.4 to 0.0

- After solid 3.2% growth in 2009H1 as China ramped up commodity imports, export volumes have stalled in 2009H2. While export values fell 1.4%qtr in Q4, we calculate this was price driven. This implies a forecast for Q4 export volumes of flat%qtr (vs –2.3%qtr prev).
- Import volumes have continued to surge in Q4 (forecast +6.5%qtr vs +5.8%qtr prev) with consumer goods boosted by inventory rebuilding after a 2009H1 rundown, and further gains in capital goods as business confidence in the upswing supports equipment investment. We expect a 3% rise in consumption volumes (values –1.5% but C goods MPI –4.7%), a 7% jump in capital volumes (values up 0.5% but K goods MPI –6.6%) and higher intermediate and non-monetary gold volumes also.
- This results in a 1.4ppt net X detraction from Q4 GDP growth.

Export and import volumes

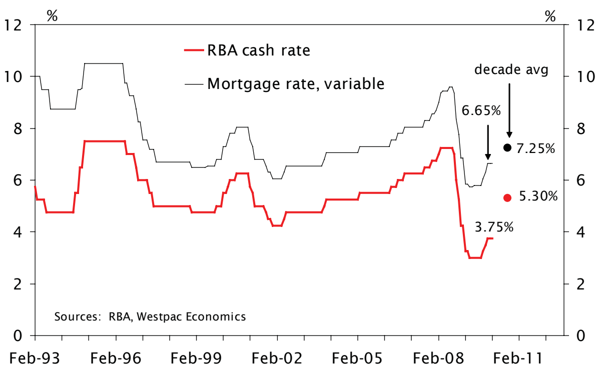


Aus RBA policy announcement

Mar 2, Last: 3.75%, WBC f/c: 3.75%, Mkt f/c: 4.00%, Range: 3.75% to 4.00%

- The RBA left rates on hold at its Feb meeting, against widespread expectations of a further 25bp move. It retained a clear tightening bias though, commenting that "if economic conditions evolve broadly as expected, ... monetary policy will, over time, need to be adjusted further". The decision to hold was mainly to allow for a fuller assessment of the impact of moves to date. The Bank also wanted to signal that the unwind of 'emergency' policy settings was complete, implying a more measured approach to further tightening.
- The balance of data has continued to point to a stronger than expected recovery over the last month, particularly for jobs. Early indicators also suggest last year's rate rises have been easily absorbed by consumers and the housing sector. As such we expect the RBA to raise rates by another 25bps. But as with the Feb decision, March may also be a 'finely balanced' call.

RBA: lessening the monetary stimulus

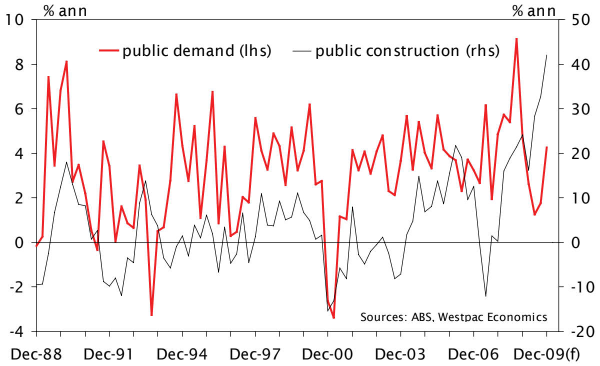


Aus Q4 public demand

Mar 2, Last: 1.6%, WBC f/c: 2.0%, Mkt f/c: 2.7%

- Public demand is expected to expand at a healthy clip for a third consecutive quarter. We're forecasting a rise of almost $1.4bn (2.0%), which would add about 0.5ppts to growth.
- The Federal Government's stimulus measures, with a focus on schools and public housing, are in full swing. Public investment could well repeat the 5% rise recorded in Q3, or better. The Government is spending about $14bn on schools and $6bn on housing over a couple of years. We know public construction rose by 14.4% in Q4, after a revised 13.4% increase in Q3.
- Public consumption (almost 80% of public demand) is ticking over at a modest pace. Growth has been held down by the Federal Government keeping a lid on public service numbers. Our forecast is for a rise of 0.7%qtr, 2.7%yr in Q4.

Public demand up on construction boom

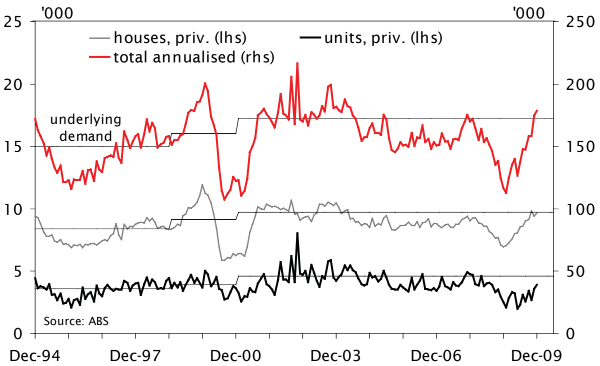


Aus Jan dwelling approvals

Mar 2, Last: 2.2%, WBC f/c: 1.0%, Mkt f/c: 1.0%, Range: –5.0% to 5.0%

- Dwelling approvals surged strongly in late 2009 with 2.2% rise in Dec following on from a 10.4% jump in Nov. The gains bring the measure more in line with finance approvals, which had been much stronger through most of 2009. Rising private activity is being complemented by a strong surge in public housing construction as part of the Federal Government's "nation building and jobs" plan – albeit from a very low base.
- We suspect there is more strength to come on both the private and public side. The gap to finance approvals hasn't quite been closed and public building is still ramping up. As such, we expect dwelling approvals to post another 1% rise in Jan despite the softening in finance approvals in recent months. Note that the Christmas low season means Jan estimates are much less reliable with a 25% boost from seasonal adjustment.

Dwelling approvals

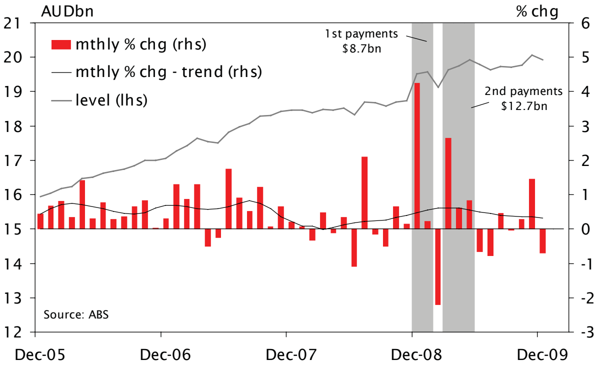


Aus Jan retail trade

Mar 2, Last: –0.7%, WBC f/c: 0.5%, Mkt f/c: 0.5%, Range: 0.3% to 0.8%

- Retail sales had a softer than expected finish to 2009 with a 0.7% fall in Dec. However, that followed a solid gain in Oct (+0.3%) and strong rise in Nov (+1.5%). The Dec result likely reflects some pull-back in response to rising interest rates. But it also suggests the 'take-off' in spending that normally follows the sort of surge in consumer sentiment seen in 2009 has been more subdued this time around. That said, an upturn is underway with the spending detail showing a clear cyclical shift towards discretionary and housing-related items.
- Consumer sentiment bounced strongly in Jan, over and above the usual seasonal high. Improving job markets are giving a boost to job security and incomes while the housing revival is giving a lift to household wealth. Anecdotes suggest retailers had a better month in Jan. As such, we expect the uptrend in spending to reassert with a solid 0.5% rise in Jan sales.

Monthly retail sales

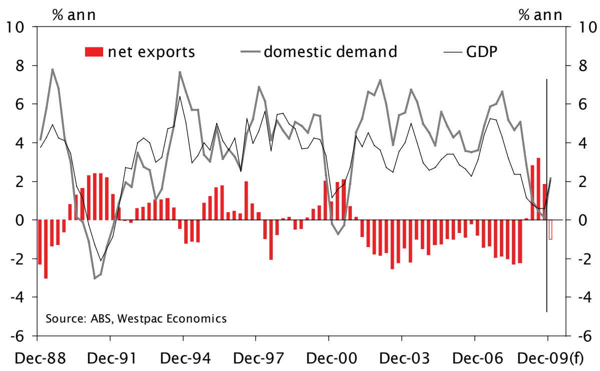


Aus Q4 GDP

Mar 3, Last: 0.2%, WBC f/c: 0.6%, 2.1%yr, Mkt f/c: 0.9%, 2.4%yr
Range: 0.5% to 1.25%, 2.1%yr to 2.7%yr

- The Australian economy accelerated in the December quarter, with fiscal policy stimulus providing a substantial boost.
- GDP is forecast to increase by 0.6%qtr, 2.1%yr. Domestic demand was brisk, with a forecast 1.7%qtr, 2.2%yr. However, net exports were most likely a major drag for a second consecutive quarter: –1.4ppts qtr, –1.0ppts yr.
- Public construction, with a focus on school building, jumped a further 14% (adding 0.5ppts to growth) and business responded to government taxation incentives by increasing equipment spending by 12% (adding 0.9ppts). Consumer spend was strong, with real retail sales up 1.1%, as households were supported by a burst of jobs growth and rising house prices.

Australian economy

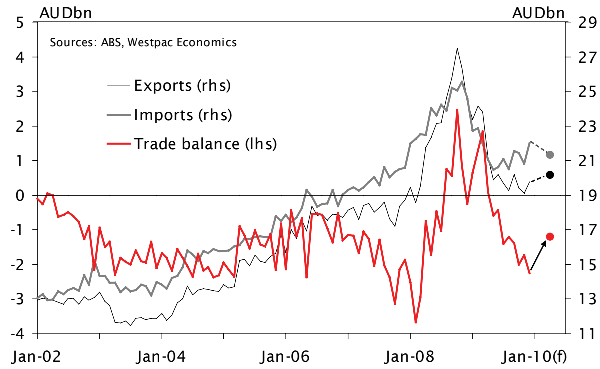


Aus Jan international trade balance, AUDbn

Mar 4, Last: –2.252, WBC f/c: –1.2, Mkt f/c: –1.58, Range: –3.0 to –1.2

- The deficit rose $524mn in Dec to $2.3bn. Exports rose 3.5% led by higher prices, implying near steady vols, continuing their 2009H2 consolidation after a strong H1. Export values continued their downtrend (–0.2%mth, –23.2%yr) that has been price driven with the XPI down 32.7%yr in Q4. Imports surged 5.8% with price support (AUD fell 2.1%) and continued strong vols growth in capital and consumption goods.
- Seasonality is extreme in Jan exports, with seasonal factors that boost the raw data markedly. Also port data suggests iron ore vols were unseasonally higher in Jan and coal vols were steady. Non-rural prices fell in aggregate (–1.1%) but coal prices were strong. We f/c a solid 4% rise in non-rural exports, but with a dip in rural exports (–2%) we f/c a 2% rise in total exports. Merchandise import data implied a 4.1% vol led pullback in goods and we f/c –3% for total imports. Risks for the deficit f/c are to the downside from stronger non-rural exports.

Deficit down: M dip & unseasonally high NR X

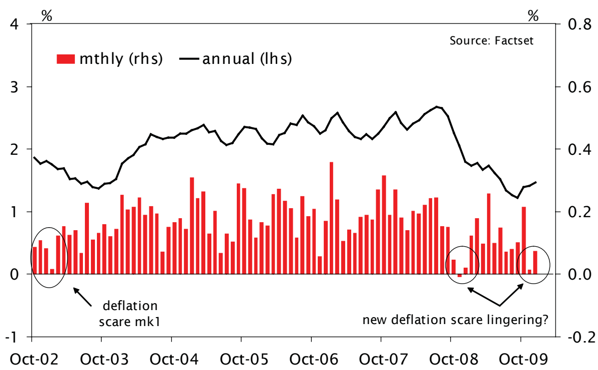


US Jan core PCE deflator

Mar 1, Last: 0.1%, WBC f/c: flat, Mkt f/c: flat

- Apart from an outsized 0.2% rise in October, the core PCE deflator has risen by 0.1% or less per month since May last year. The core CPI, however, has tended to be a little stronger on average over that period, though it too paints a benign inflation picture. Indeed deflation risks are not yet dead.
- In January, the core CPI fell 0.1%, it's first fall since 1982. A major factor at play was falling shelter/rent costs, which have a higher weight in the Bureau of Labor Statistics' CPI than in the Bureau of Economic Analysis' deflators. So we expect a soft Jan core PCE deflator a flat result and risk of a small fall.
- Earnings/hours worked and retail data point to 0.5% gains in both personal income and personal spending in January. But annuals changes to welfare payments/taxes in Jan can distort the income number (esp. disposable income) in some years.

US core PCE deflator

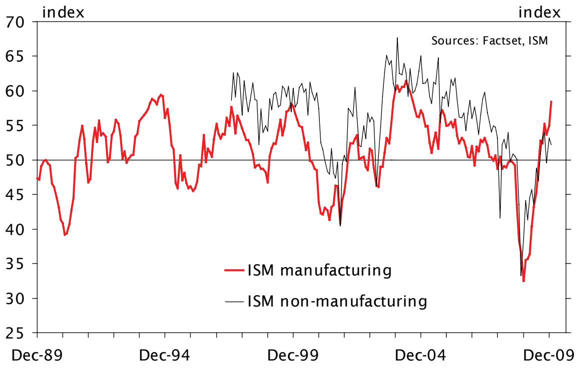


US Feb ISM factory and non-manufacturing reports

Mar 1, Factory Last: 58.4, WBC f/c: 58.0, Mkt f/c: 58.0
Mar 3, Non-manuf Last 50.5, WBC f/c: 51.5, Mkt f/c: 51.0

- The factory ISM jumped to a new cycle high at 58.4 in Jan. These outcomes are consistent with the 5-6% annualised GDP growth pace the economy was running at the turn of the year, with the factory sector a major beneficiary of inventory rebuilding, exports and government policy aimed at housing construction and vehicle demand. For Feb, we expect a similarly strong outcome – regional surveys have been mixed to solid – though weather disruption in some parts may prevent a further gain.
- In contrast, the services sector has not benefitted as obviously from fiscal stimulus (aside from the fact the banks were effectively bailed out by govt!) so the non-manufacturing ISM has lagged well behind, peaking at just 50.5 in Jan. But the production boom should spill over into some services gains, so we expect a rise to 51.5 in Feb.

US ISMs

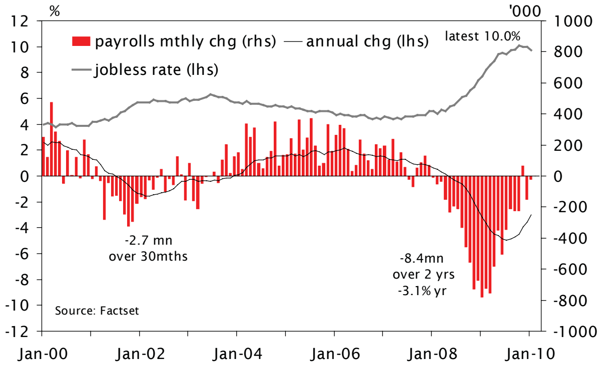


US Feb non farm payrolls

Mar 5, Payroll employment: Last: –20k, WBC f/c: 20k, Mkt f/c: –50k

- Ahead of Nov payrolls we warned of a positive payrolls surprise. After revisions, payrolls saw a 64k gain – the first rise since Dec 2007. But we thought that was premature strength and forecast an –80k decline in Dec; the actual outcome was very close at –85k (now revised to –150k). Similarly, we warned against consensus expectations of a Jan payrolls gain; the actual outcome was down –20k vs our –40k forecast.
- Factors at play in our Feb +20k payrolls forecast: Small business plans to hire were less negative in Dec and Jan; factory jobs probably rose again; we estimate 40k census workers were hired in Feb. BUT weather was disruptive in the payrolls survey week; consumer confidence in the job market weakened in Feb; states are laying off workers; and initial jobless claims were sharply higher in the survey week. So we expect a 20k payrolls gain, but a –20k fall excluding census workers.

US jobs market: haemorrhaging stops

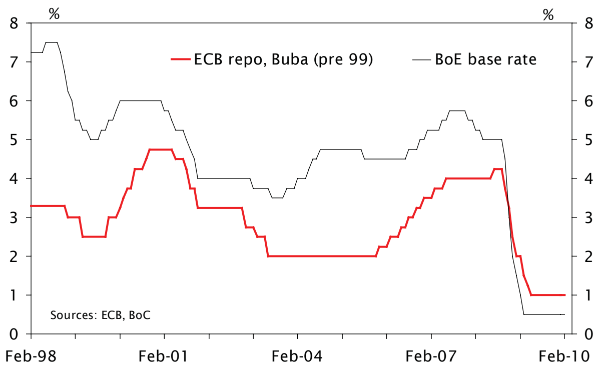


Bank of Canada, England and ECB: all on hold

Mar 2, BoC Last: 0.25%, WBC f/c: 0.25%, Mkt f/c: 0.25%
Mar 4, BoE Last: 0.50%, WBC f/c: 0.50%, Mkt f/c: 0.50%
Mar 4, ECB Last 1.00%, WBC f/c: 1.00%, Mkt f/c: 1.00%

- We accept the BoC's condition commitment to hold the policy rate at 0.25% until the end of the second quarter of 2010, so nothing this week!
- Although risks to the UK recovery are to the downside according to BoE Governor King and the decision not to vote for further quantitative easing in Feb was "finely balanced for some", we doubt the March-April decisions will be live. But in May we will know Q1 GDP (flat or negative?) and the BoE will have reworked their growth/inflation forecasts.
- The ECB Council meeting and press conference will be dominated by Greek and other euro member country budget concerns, pushing the expected on hold policy decision to the back-burner. New staff economic projections will be published.

ECB & BoC policy rates



Key Data and Events

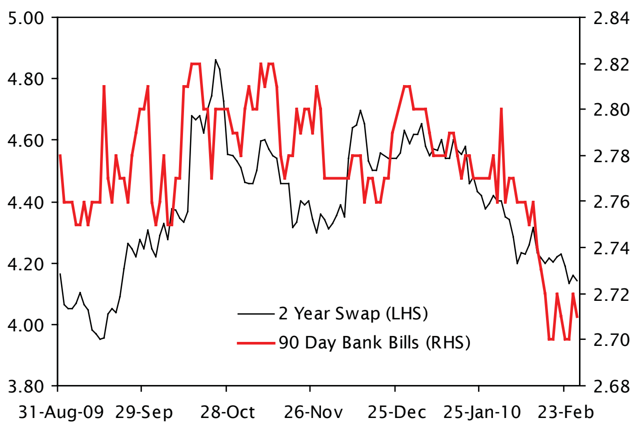
		Last	Market Median	Westpac Forecast	Comments
Mon 1 Mar					
NZ	Feb ANZ Commodity Price Index	0.4%	–	–	Further falls in dairy prices will drag index down.
Aus	RBA Gov Stevens speaking	–	–	–	Panel discussant on "Implications of Global Regulatory Reform for Aus"
	Q4 Company Profits	-2.1%	2.3%	1.0%	Strengthening turnover a plus. Mining drag waning (see text box).
	Q4 Business Inventories, %chg	0.8%	0.5%	0.5%	Rising in response to stronger sales. To add 0.1ppts to growth.
	Q4 Current Account Balance AUDbn	–16.2	–17.2	–16.1	Higher trade deficit of $6.1bn offset by lower $10bn net income deficit.
	Q4 Net Export Contribution to GDP ppts	–1.6	–1.1	–1.4	X vols flat%qtr after 2009H1 rise & Q3 dip, but M vols surge 6.5%qtr.
	Feb AiG PMI	51.0	–	–	Strengthened during 2009. Index a little above 50 in 5 of last 6 mths.
	Feb TD-MI Inflation Gauge	0.8%	–	–	Jan rise seasonal; 3mth pace 1.31% v 0.21% prev = stronger Q1 h/l CPI.
US	Jan Personal Income	0.4%	0.4%	0.5%	0.3% gains in hours worked and earnings should support incomes,
	Jan Personal Spending	0.2%	0.4%	0.5%	while up-beat retail sales suggests spending gain.
	Jan Core PCE Deflator	0.1%	flat	flat	Rare fall in core CPI in Jan suggests flat core PCE deflator
	Feb ISM Factory	58.4	58.0	58.0	Philly stronger, NY headline up but detail less up-beat.
	Jan Construction Spending	–1.2%	–0.6%	–0.8%	Weather disruption plus ongoing commercial decline.
	Fedspeak	–	–	–	Lacker on regulatory reform.
Eur	Feb PMI Factory (F)	54.1a	54.1	54.1	Revisions usually minor, though Feb gain was quite steep.
	Jan Unemployment Rate %	10.0%	10.1%	10.0%	Growth not strong enough to pull jobless rate lower.
UK	Feb House Prices %yr	–0.8%	–	–	Hometrack survey.
	Jan Net Consumer Credit £bn	0.1	-0.1	–	Loans outstanding have been flat or falling since July.
	Dec Net Mortgage Lending £bn	1.2	0.9	–	Almost begrudging upswing – compares to £10bn mth gains in 06/07.
	Feb PMI Manufacturing	56.7	56.5	56.0	Decent jump in Jan may be weaker sterling related, or overstated
Can	Dec GDP	0.4%	0.4%	–	Would be fourth consecutive positive monthly growth.
	Q4 GDP % annualised	0.4%	4.0%	4.0%	Much firmer evidence of recovery than in Q3.
Tue 2 Mar					
Aus	Q4 Public Demand	1.6%	2.7%	2.0%	Healthy rise as burst of spending on school buildings.
	Jan Building Approvals	2.2%	1.0%	1.0%	Still catching up to finance apps. Low season means Jan figs less reliable.
	Jan Retail Sales	–0.7%	0.5%	0.5%	Sentiment & anecdote point to solid Jan sales.
	RBA Policy Announcement	3.75%	4.00%	4.00%	Nudge closer to neutral as job markets tighten, inflation pressures build.
US	Fed Beige Book	–	–	–	Regional and largely anecdotal assessment of district economies.
	Jan Auto Sales mn annualised	10.82	10.4	10.6	Toyota recall/sale suspensions to impact the figures.
	Fedspeak	–	–	–	Kocherlakota topic tba
Jpn	Jan Unemployment Rate	5.1%	5.1%	–	Jobs-to-applicants ratio has bottomed, but market is still icy.
Eur	Jan PPI %yr	–2.9%	–1.1%	–1.9%	Base effects to lift annual rate sharply.
	Feb CPI %yr Flash	1.0%	0.9%	–	Still awaiting clues from German data but base effects less significant.
UK	Feb House Prices %yr	3.6%	5.0%	–	Tentative date for HBoS series, due 2-6/3.
	Feb PMI Construction	48.6	48.9	49.0	Still contracting but no snow disruption as in Jan.
Can	BoC Rate Decision	0.25%	0.25%	0.25%	Third last meeting before end of Q2 when rates may be lifted.
Wed 3 Mar					
Aus	Q4 GDP	0.2%	0.9%	0.6%	Demand accelerated supported by fiscal boost. Net exports major negative.
US	Feb ADP Private Payrolls Change	–22k	–10k	0k	ADP won't capture census workers which will boost BLS data soon.
	Feb ISM Non-Manufacturing Survey	50.5	51.0	51.5	Production economy strength spilling over into some services gains.
	Fedspeak	–	–	–	Rosengren, Lockhart.
Jpn	Jan Labour Earnings %yr	–5.9%	–1.2%	–	This downturn has absolutely horrible from an income perspective.
Eur	Feb PMI Services (F)	52.0 a	52.0	51.9	Revisions usually minor but downtrend emerging.
	Jan Retail Sales	0.0%	–0.3%	flat	Lacklustre consumer spending picture to continue.
Ger	Jan Retail Sales	0.9%	–0.6%	–	Tentative date due 1-8/3.
UK	Feb Consumer Confidence, Nationwide	73	73	71	Budget cuts imminent, inflation higher but equities stronger.
	Feb BRC Shop Price Index %yr	2.3%	–	–	Useful post VAT hike guide to inflationary pressure.
	Feb PMI Services	54.5	55.0	54.0	Slipping from Oct peak consistent with stalling GDP growth in Q1.
Thu 4 Mar					
Aus	Jan International Trade Balance, AUDbn	–2.3	–1.6	–1.2	Unseasonally high NR X vols = X +2% (upside risk); M –3% (vol pullback).
US	Q4 Productivity % ann'lsd Revised	6.2%	6.3%	6.3%	Not looking for big GDP revisions so the productivity and ULC
	Q4 Unit Labour Costs % ann'lsd Revised	–4.4%	–4.4%	–4.4%	revisions should be minor.
	Initial Jobless Claims w/e Feb 27	496k	465k	460k	Weather disruptions cited as primary cause of latest spike.
	Jan Factory Orders	1.0%	1.8%	1.0%	Durables known up 3.0%, energy prices little changed on average.
	Feb Chain Store Sales %yr	3.0%	–	–	Guide to official retail data.
	Jan Pending Home Sales	1.0%	1.0%	4.0%	Extended tax credit arrangements kicking in.
	Federal Budget	–	–	–	More details.
Jpn	Q4 MoF Capex Survey %yr	–24.8%	–18.4%	–	Key source data for GDP revision to inventories and capital spending.
Eur	ECB Rate Decision	1.00%	1.00%	1.00%	Firmly on hold. Revised staff projections due. Focus on fiscal issues.
	Q4 GDP (F)	0.1%a	0.1%	0.1%	Detailed GDP breakdown will be provided.
UK	BoE Rate Decision	0.50%	0.50%	0.50%	Firmly on hold.
	BoE QE Target £bn	200	200	200	No extension of QE likely before May.
Can	Jan Building Permits	2.4%	0.8%	–	Trend in housing is rising strongly.
	Feb Ivey PMI nsa	50.8	56.0	56.0	Feb seasonality suggest stronger result. Olympics disruption a risk.
Fri 5 Mar					
NZ	Q4 Wholesale Trade Survey	–0.8%	–	1.5%	Strong consumer sales plus rising export prices point to positive qtr.
US	Feb Non-Farm Payrolls ch'	–20k	–50k	20k	See our recent forecast track record and detailed Feb reasoning in
	Feb Unemployment Rate	9.7%	9.8%	9.9%	the text box. Falling household survey jobs to lift the jobless rate.
	Jan Consumer Credit $bn	–1.7	–4.5	–5.0	Falling away again as consumers restrain spending, pay down debt.
	Fedspeak	–	–	–	St Louis Fed President Bullard on monetary policy.
Ger	Jan Factory Orders	–2.3%	1.3%	–1.0%	Mid 2009 orders recovery now stalled.
UK	Feb PPI %yr	2.5%	2.8%	–	Core output measure.

New Zealand Economic and Financial Forecasts

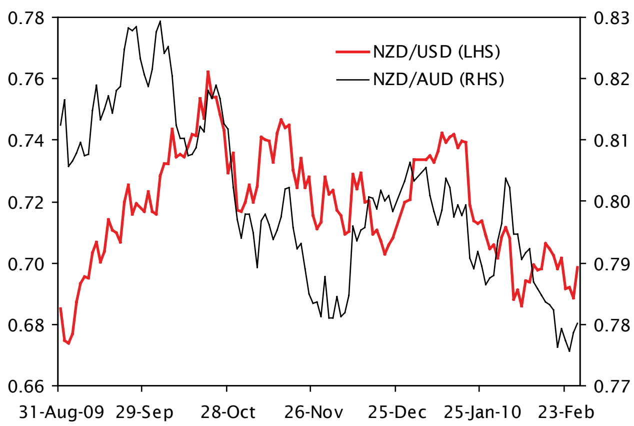
Economic Growth Forecasts	March years				Calendar years			
% change	2008	2009	2010f	2011f	2008	2009e	2010f	2011f
GDP (Production) ann avg	2.9	-1.4	-0.1	4.2	-0.1	-1.4	3.7	4.3
Employment	-0.3	0.7	-1.3	1.8	0.9	-2.4	1.2	2.1
Unemployment Rate % s.a.	3.8	5.0	7.1	6.3	4.7	7.3	6.5	5.7
CPI	3.4	3.0	2.3	2.8	3.4	2.0	2.7	2.8
Current Account Balance % of GDP	-7.8	-7.9	-2.1	-4.9	-8.7	-2.1	-4.7	-5.1

Financial Forecasts	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Cash	2.50	2.75	3.25	3.75	4.25	4.75	5.25
90 Day bill	2.80	3.20	3.70	4.20	4.70	5.20	5.70
2 Year Swap	4.40	4.70	5.00	5.30	5.60	6.20	5.90
5 Year Swap	5.40	5.60	5.70	5.90	6.10	6.30	6.45
10 Year Bond	5.80	5.90	5.90	6.00	6.10	6.20	6.20
NZD/USD	0.68	0.68	0.74	0.79	0.78	0.75	0.72
NZD/AUD	0.79	0.80	0.82	0.83	0.84	0.83	0.84
NZD/JPY	59.8	61.9	71.0	79.0	82.7	81.8	80.6
NZD/EUR	0.49	0.50	0.53	0.55	0.53	0.51	0.49
NZD/GBP	0.43	0.42	0.44	0.46	0.43	0.40	0.38
TWI	63.0	63.6	68.2	71.9	71.3	69.0	67.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 1 March 2010

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.69%	2.71%	2.73%
60 Days	2.70%	2.73%	2.76%
90 Days	2.71%	2.73%	2.80%
2 Year Swap	4.14%	4.22%	4.40%
5 Year Swap	5.14%	5.21%	5.33%

NZ foreign currency midrates as at Monday 1 March 2010

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6997	0.6980	0.7084
NZD/EUR	0.5135	0.5133	0.5091
NZD/GBP	0.4611	0.4457	0.4443
NZD/JPY	62.350	62.810	64.290
NZD/AUD	0.7793	0.7848	0.7964
TWI	64.740	64.700	65.250

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2005	2006	2007	2008	2009e	2010f	2011f
Australia							
Real GDP % yr	2.8	2.9	4.0	2.3	1.0	3.0	3.2
CPI inflation % annual	2.8	3.3	3.0	3.7	2.1	2.5	2.7
Unemployment %	5.1	4.8	4.4	4.3	5.6	5.5	5.3
Current Account % GDP	-5.8	-5.3	-6.3	-4.4	-4.2	-5.3	-4.7
United States							
Real GDP %yr	3.1	2.7	2.1	0.4	-2.4	1.8	3.0
Consumer Prices %yr	3.4	3.2	2.9	3.8	-0.5	1.3	2.4
Unemployment Rate %	5.1	4.6	5.8	5.8	9.3	10.7	10.6
Current Account %GDP	-6.1	-6.0	-5.3	-4.9	-3.0	-3.0	-2.2
Japan							
Real GDP %yr	1.9	2.8	2.2	-1.5	-5.6	1.5	1.8
Consumer Prices %yr	-0.3	0.2	0.1	1.4	-1.2	-0.7	0.3
Unemployment Rate %	4.4	4.1	3.9	4.0	5.1	5.2	5.1
Current Account %GDP	3.6	3.9	4.8	3.2	2.9	4.0	4.8
Euroland							
Real GDP %yr	1.7	2.9	2.7	0.6	-4.0	0.7	1.1
Consumer Prices %yr	2.5	2.0	3.1	1.6	0.9	0.7	1.2
Unemployment Rate %	8.8	7.9	7.3	7.8	10.0	11.5	10.8
Current Account %GDP	-0.2	-0.1	0.1	-1.1	-1.0	-0.5	0.0
United Kingdom							
Real GDP %yr	2.2	2.9	2.6	0.7	-4.7	0.4	1.2
Consumer Prices %yr	2.1	3.0	2.1	3.5	2.9	2.0	1.5
Unemployment Rate %	2.8	3.0	2.5	3.1	5.5	7.0	7.3
Current Account %GDP	-2.6	-3.3	-2.7	-1.6	-2.4	-2.0	-1.5

Forecasts finalised 5 February 2010

Interest Rate Forecasts	Latest (Mar 1)	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Australia						
Cash	3.75	4.00	4.25	4.50	4.50	4.50
90 Day Bill	4.18	4.20	4.50	4.60	4.75	4.75
10 Year Bond	5.43	5.60	5.90	6.00	6.00	6.10
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.61	3.60	3.40	3.75	4.00	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.25	2.00

Exchange Rate Forecasts	Latest (Mar 1)	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
AUD/USD	0.8978	0.86	0.85	0.90	0.95	0.93
USD/JPY	89.11	88	91	96	100	106
EUR/USD	1.3626	1.38	1.36	1.40	1.43	1.46
AUD/NZD	1.2831	1.26	1.25	1.22	1.20	1.19