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WeeklyCommentary

A **weekly outlook** for New Zealand, Australia and US markets

3 August 2009

Wouldn't it be nice

The RBNZ struck a surprisingly dovish chord in last week's OCR review, reiterating that the OCR could still move lower in coming quarters and that it would remain at or below current levels until the latter part of 2010.

The tone of the statement was, if anything, more downbeat than in the June *Monetary Policy Statement*. There was no acknowledgement of the improving global outlook, which other central banks have picked up on recently, or the domestic factors that are setting the stage for recovery: rising net migration, the pickup in housing activity, improved business and consumer confidence, and the ongoing easing in effective interest rates as borrowers reset at lower levels.

The recent gains in the New Zealand dollar came in for particular attention. In recent times the RBNZ have highlighted the risk that a higher currency could skew the recovery towards borrowing and spending, at the expense of exports. But their latest statement suggests they now believe the NZD could derail the recovery altogether: "The forecast recovery is based on a further easing in financial conditions. If this easing does not occur, the forecast recovery could be put at risk. In these circumstances we would reassess policy settings." That implies two stark options: either the currency heads lower, or the cash rate will.

But there is a third option (which is, implicitly, our central view): that the economic outlook continues to improve in line with what currency markets have already anticipated. As we've said before, if the market is overestimating the strength of the recovery, then the NZD is likely to fall of its own accord; and if the market is correctly anticipating the recovery then a stronger NZD won't be enough to cancel it out. It's not obvious that markets have got it wrong to date: they were quick to incorporate the now widely-held view that a repeat of the Great Depression had been avoided, and more recently they have correctly anticipated the stabilisation and recovery in some segments of the global economy.

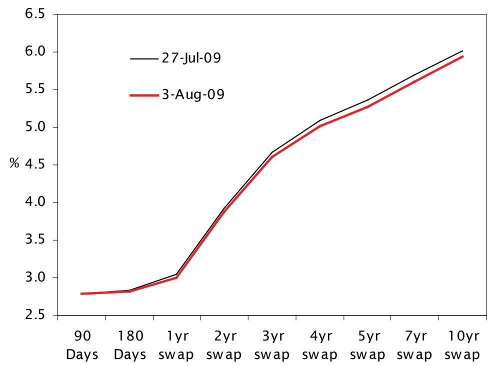
Nor is it obvious that the NZD is particularly stretched at current levels: it's around its long-run average on the trade-weighted index, slightly above average against the structurally weak US dollar and below average against the Australian dollar. While prices for New Zealand's 'soft' commodity exports haven't matched the recent rebound in 'hard' commodities, they are still around their long-term trend in NZD terms, whereas they have generally fallen below trend during previous, milder global slowdowns.

And further rate cuts are far from a risk-free option. The RBNZ has noted the risk of a return to debt-fuelled consumption, and while it's probably not an immediate danger, the most likely catalyst for it would be if interest rates were left too low once the recovery was underway. If the RBNZ cut rates further than necessary to secure a recovery, they may have to work even harder to cool domestic demand in the future – and markets are sufficiently forward-looking to factor in this risk via higher long-term interest rates, and possibly even a higher exchange rate.

So while the threat of further rate cuts can't be dismissed completely, we think the RBNZ will ultimately be guided by the outlook for domestic demand, the area over which it has the most influence. And the evidence to date is pointing to a recovery in coming quarters – a patchy and gradual one at first, but a recovery nonetheless. A greater contribution to growth from the export sector might be nice to have, but it's not for monetary policy to decide. As RBNZ Governor Bollard noted recently, "Sustainable recovery, with rebalancing in demand and the economy's productive base, is mostly a microeconomic matter."

Last week's data provided further indications of the emerging recovery. Residential building consents, outside

NZ Interest Rates



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

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of the volatile apartment component, rose 3% in June, the fourth consecutive increase after reaching multi-decade lows at the start of this year. However, the implied level of activity is still short of what's needed to accommodate natural population growth and the recent upturn in net migration. We expect a pickup in residential investment to be a significant source of growth for 2010.

Business confidence continued to rise in July, with all surveyed sectors aside from agriculture moving into net positive territory. General business conditions rose to the highest level since March 2002. The biggest improvements were in expected profits and employment intentions, and while they remain negative on balance, they have now risen to levels consistent with the start of previous recoveries.

This week the focus is on the labour market. Wage growth (Tues) is likely to ease gradually as unemployment rises and inflation abates; we expect the LCI measure of annual wage inflation to slow from 3.3% to 2.9% for the June quarter. Unemployment (Thurs) has risen only by 1.5 percentage points so far in this recession, due to a pre-existing shortage of workers in some industries. But as the recession has broadened and intensified, more recently laid-off workers are less likely to have found work elsewhere. In the past six months, firms have reported greater ease of finding labour, and the number of people registering for the unemployment benefit has soared. We expect a rise in the unemployment rate from 5.0% to 5.7% in Q2.

Fixed vs. floating: Interest rates have bottomed and are likely to trend higher over coming years, although the RBNZ's intention to keep the OCR low suggests little pressure for short-term rates to rise any time soon. We recommend fixing for six months to one year, which remain easily the most favourable rates on offer. While a strategy of fixing for short terms creates more uncertainty about future cash flows, borrowers can reduce this uncertainty by repaying more than the minimum amount while interest rates are at the lower end of the cycle.

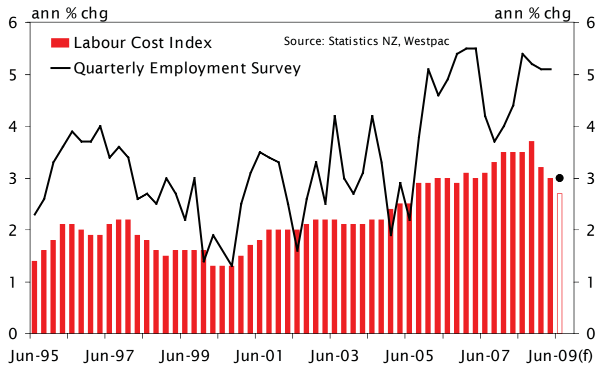
Key Data Previews

NZ Q2 wage growth

Aug 4, LCI pvt ord time – Last: 0.5%, WBC f/c: 0.4%, Mkt f/c: 0.5%
Aug 4, QES pvt ord time – Last: 1.1%, WBC f/c: 0.0%, Mkt f/c: 0.8%

- LCI wage inflation has been moderating rapidly since Q4 2008. We expect the moderating trend to continue as the employment market weakens and inflation expectations fall. The news wires report LCI private sector ordinary time wages, but the RBNZ focuses on LCI private sector all salary and wage rates, so this is arguably more important. We are picking 0.4% for the RBNZ's key measure.
- The QES wage measure has not moderated at all, probably because it is not adjusted for compositional shifts in the workforce. We are picking something of a catch-up this quarter. However, this series is so volatile on a quarterly basis that it would be hard to read much into almost any outturn. We expect a small negative for the QES measure of hours paid.

LCI and QES wages, private sector ord time

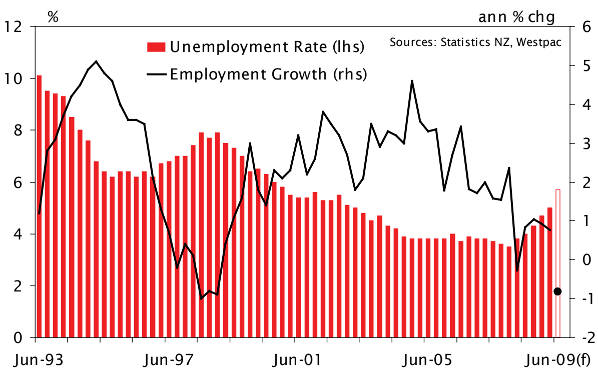


NZ Q2 HLFS employment and unemployment

Aug 6, Employment – Last: -1.1%, WBC f/c: –0.4%, Mkt f/c: –0.8%
Unemployment – Last: 5.0%, WBC f/c: 5.7%, Mkt f/c: 5.7%

- Unemployment is now the most reliable labour market indicator, and should garner most market attention. We predict the biggest quarterly increase in unemployment since 1991.
- Employment growth in the HLFS has been extremely volatile for the past two years, and has exhibited strong negative autocorrelation (strong follows weak in a spiky pattern). Our forecast reflects a continuation of that pattern, with Q2 incorporating an element of payback from Q1's very weak result. Adding to the case for a less-weak outcome, employment intentions in the NZIER survey improved from -36 to -19 in Q2. We are stunned to find our forecast is top-of-market – if anything, the risks lie to the upside of our forecast.
- Any surprise in employment will likely be matched by a surprise in the participation rate.

NZ employment and unemployment

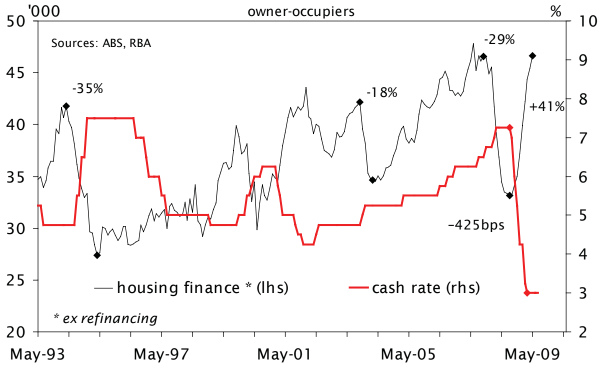


Aus RBA policy announcement

Aug 4, Last: 3.00%, WBC f/c: 3.00%, Mkt f/c: 3.00%, Range: 3.00%

- The RBA, after leaving rates unchanged at the last three monthly meetings, is expected to keep the cash rate at 3.00%. Signs of any further shift in the tone of the associated press release will be the focus for markets.
- While there is scope for additional monetary easing, aided by a downward trend in inflation, that appears unlikely to be necessary. Aggressive rate cuts and the substantial fiscal stimulus have cushioned the downturn. There has been a return of confidence, housing finance has rebounded sharply, the business conditions index was far less negative in June and global conditions are stabilising.
- The quarterly Monetary Policy Statement will be released on Friday. Markets will be closely watching for any changes to the economic forecasts – both activity and inflation.

Housing finance at historic high

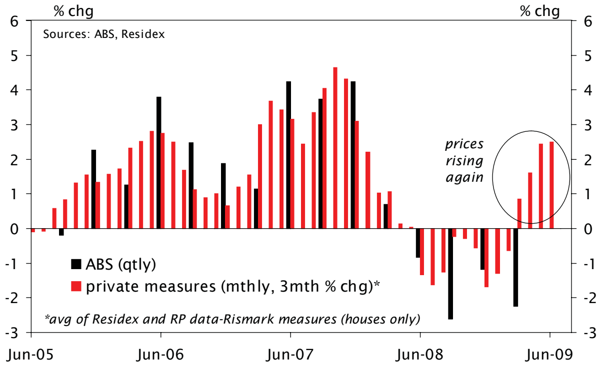


Aus Q2 house price index

Aug 4, Last: –2.2%, WBC f/c: 2.5%, Mkt f/c: 2.0%, Range: 0.5% to 3.0%

- The official ABS measure showed house prices down 2.2% in Q1 to be 6.7% lower through the year. However, the estimate has been widely criticised for over-stating price weakness, particularly due to its narrow definition (it only counts detached houses and excludes townhouses, terraces and units, which have seen much stronger price gains over the last six to nine months). Private sector measures suggested a slight rise for house prices in Q1 in the range of flat to ½%, and stronger gains for units (ranging from ½ to 2%).
- The same private sector measures point to a solid gain in house prices in Q2, ranging from +2.4%qtr to +3.4%qtr. Overall we expect the official ABS measure to record a 2.5% rise, with clear risks of upward revisions to previous estimates.

House prices: ABS vs private measures

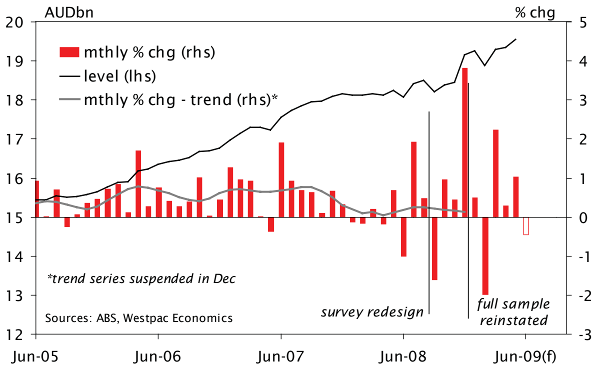


Aus Jun retail trade

Aug 4, Last: 1.0% (sa, trend series suspended), WBC f/c: –0.5%
Mkt f/c: 0.5%, Range: –1.0% to 1.7%

- Retail sales posted another solid 1.0% rise in May after a 0.3% gain in April and a 2.2% jump in March. Sales are up 7.1%yr and are 5.9% higher than their November level last year (i.e. prior to fiscal stimulus payments).
- The month to month impact of fiscal stimulus payments remains uncertain with the risk of a sharp reversal as payments wind down. We saw just such a pull-back when the boost from the first round of payments dropped out in Feb (sales fell 2.2%mth). However, industry reports suggest sales held up well through Q2. A big lift in consumer sentiment would also have helped sustain demand – sentiment surged 23% between May and July. Overall we expect a slight 0.5% pull-back for the month, reflecting their elevated starting point and a minor wind-down in fiscal payments.

Monthly retail sales

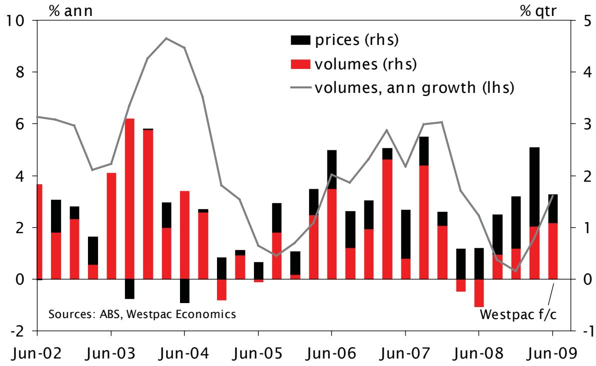


Aus Q2 real retail sales

Aug 4, Last: 1.0%, WBC f/c: 1.1%, Mkt f/c: 1.3%, Range: 1.0% to 2.0%

- Real retail sales rose 1% in Q1, after a 0.6% gain in 2009Q4, a 0.5% gain in Q3 and declines in the first two quarters of 2008.
- Even with a soft June month, nominal sales are forecast to be up 1.6% for Q2 as a whole; extending the strong gains in Q1 (+2.5%qtr) and Q4 (+1.6%qtr). Retail components of the CPI point to a more subdued price component in the quarter: assumed at +0.6%qtr vs +1.5% in Q1 (mainly on weaker food prices).
- Overall, this gives 1.1%qtr gain Q2 real retail sales. Risks around the number are mixed. There is clearly upside risk to nominal sales if the expected slight wind-down in the policy boost to sales does not come through. However, there is also some downside to real sales if the moderation in retail prices is milder than anticipated.

Q2 retail sales: volumes and prices

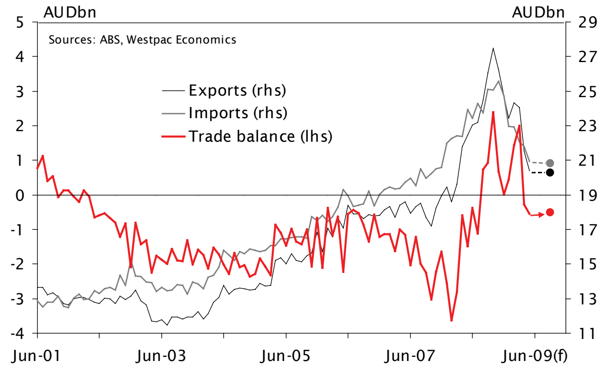


Aus Jun international trade balance, AUDbn

Aug 5, Last: –0.56, WBC f/c: –0.5, Mkt f/c: –0.8, Range: –1.8 to –0.35

- The trade deficit rose to $556mn in May from $282mn. Exports saw further price-led weakness, although their 5.2% fall in a month when the RBA AUD commodity price index plunged 8.3% implied continued resilience in volumes. The weakness in export prices leaves total exports trending down at –3.0%mth with non-rural trend growth –4.5%mth despite volumes growth. Imports fell 3.8% with a 7% AUD rise weighing on prices, continuing their downtrend (–1.9%mth).
- Non-rural export volumes are expected to remain firm in June but with further price weakness (RBA NR index fell 5%), we look for –1.4% for non-rural exports. Rural volumes and prices were weaker, but a large s.a. boost gives a net 2% rise, tempering the total export fall to –0.5%mth. Merchandise import data implies an offsetting –0.7% for goods, with total imports –0.7% also, narrowing the deficit slightly to $500mn.

Price led NR X fall largely offsets M fall

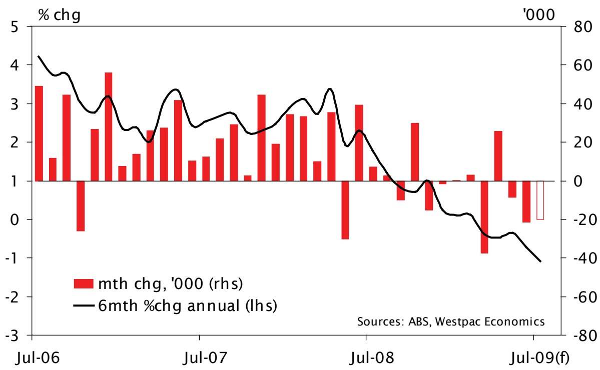


Aus Jul employment chg

Aug 6, Last: –21.4k, WBC f/c: –20k, Mkt f/c: –18k, Range: –30k to flat

- After several months of resilient surprises, employment fell 21.4k in June, with weakness again concentrated in full-time jobs (–21.9k) but part-time supported by labour hoarding as employers cut hours worked. Still, total employment trend growth slowed to –0.09%yr (weakest since Mar-93), trend full-time jobs fell 6.9k (10th straight fall) and annual full-time trend growth fell to –1.44%yr (weakest since Nov-92).
- While job ads of late have shown tentative signs of finding a low base, they remain at a detrended level consistent with further near-term jobs weakness to take growth to –1½%yr at end-09. We expect employment to fall 20k in July, taking annual trend growth to –0.3%yr. However, recent gains in our short-term labour demand indicator (a composite of business survey employment responses) suggest risks of a more resilient result.

Aust jobs: further deterioration ahead

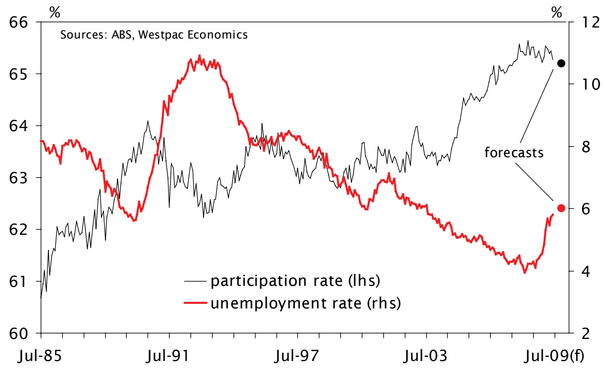


Aus Jul unemployment rate

Aug 6, Last: 5.8%, WBC f/c: 6.0%, Mkt f/c: 6.0%, Range: 5.9% to 6.2%

- With more pronounced jobs weakness in June and the unemployment rate trending higher, the participation rate fell to 65.3% from 65.4%. This offset some of the impact of the employment fall on the unemployment rate, which rose to 5.8% from 5.7%. The trend rate rose to 5.8% also, the highest since Aug-03, up from a trough of 4.1% in Mar-08.
- Our forecast of further jobs weakness in July, and the higher unemployment rate last month, argues for some further edging down in the July participation rate. We forecast 65.2% (–0.1ppts). But as was seen last month, this would only partially offset the forecast 20k jobs decline, lifting the unemployment rate to 6.0% (+0.2ppts), the highest since Jul-03. However, with risks to the upside for our jobs f/c, risks to our unemployment rate f/c are to the downside.

Unemployment and participation rates

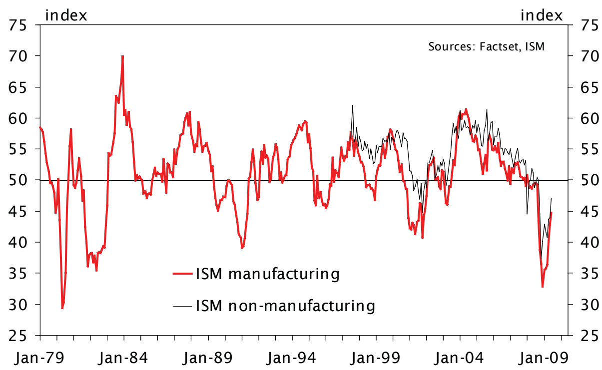


US July ISM factory and non-manufacturing reports

Aug 3, Factory: Last: 44.8, WBC f/c: 47.0, Mkt f/c: 46.5
Aug 5, Non-manuf: Last: 47.0, WBC f/c: 47.0, Mkt f/c: 48.0

- Since late Q1, most US business surveys have shown varying degrees of improvement, as fears of economic Armageddon around the turn of the year have been replaced by "normal" recession concerns. Mid year, some regional surveys rose close to neutral (indicating activity bottoming out) and one (Richmond Fed), has been in expansionary mode for 3 months.
- The ISM factory index bottomed below 33 in Dec but steadily recovered to almost 45 in June (still consistent with industrial contraction). That trend should continue in July, though June's durable orders decline suggests 50 is still a bridge too far.
- The June non-factory headline (essentially a confidence survey) jumped a sharp 3 points so we expect it to hold that level in July rather than rising further, partly due to higher oil prices.

US ISMs: staging a fight back!

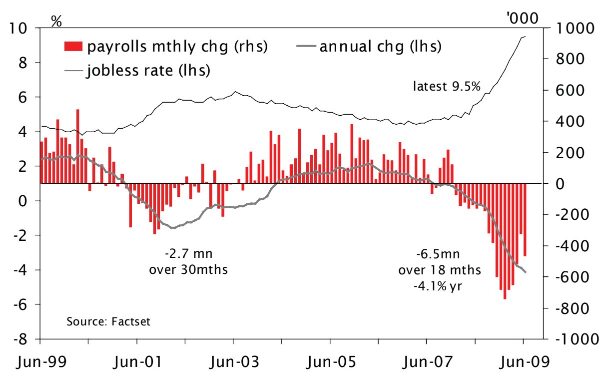


US July non-farm payrolls to fall by 270k

Aug 7, Payrolls: Last: –467k, WBC f/c: –270k
Aug 7, Unemployment: Last: 9.5%, WBC f/c: 9.7%

- June's 467k payrolls decline was steeper than May's 322k which had overstated the extent of improvement in the labour market mid Q2. We expect July's payrolls report to correct the other way, because of shifting timing of auto sector layoffs to earlier in the year which will positively impact the July seas. adj. result. This distortion caused wild swings in initial claims recently.
- Such a sharp improvement in July will mask a steadier underlying diminishment in the pace of US job shedding, consistent with the slower pace of contraction in the economy.
- However the jobless rate will rise further due to a rebound in labour force participation and another household survey job loss of 300-400k. Sharply weaker consumer job market confidence also points to a higher unemployment rate, up 0.2 pts to 9.7%.

US jobs market: losses moderating

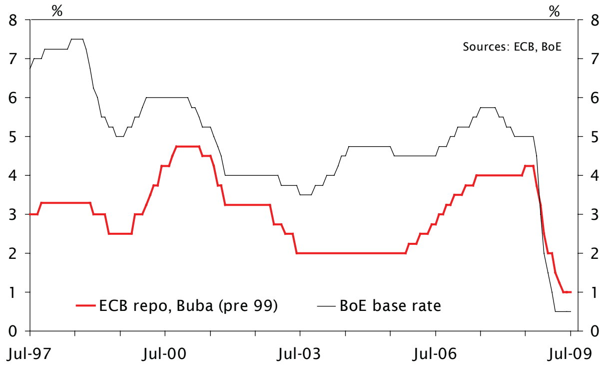


Bank of England and European Central Bank

Aug 6, BoE: Last: 0.5%, WBC f/c: 0.5%
Aug 6, ECB: Last: 1.0%, WBC f/c: 1.0%

- The BoE policy committee unanimously voted to keep rates on hold at 0.50% in July and left the quantitative easing program unchanged, with £13bn of £125bn still to be spent before the August meeting. With the economy still contracting in Q2, we expect the final £25bn of QE will be spent in Aug, plus an agreement with Treasury for a potential further £50bn (taking QE to a total £200bn), though no commitment to spend the last £50bn just yet.
- The ECB will provide an update on its €60bn covered bond purchase program, but with the economy believed to be contracting at a lower pace, we do not expect any further quasi-QE programs to be announced, and the prospect of a further rate cut has diminished sharply.

ECB and BoE policy rates



Key Data and Events

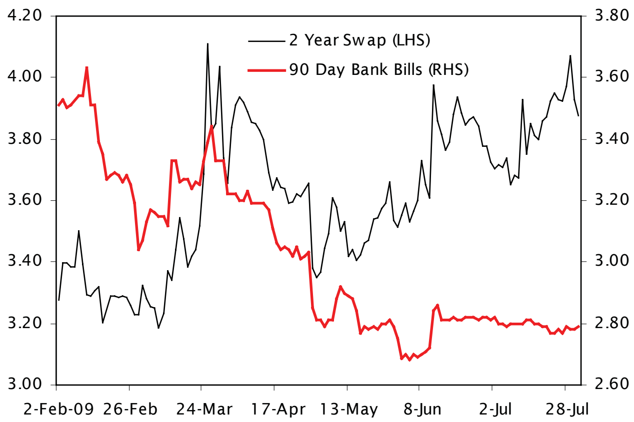
		Last	Market Median	Westpac Forecast	Comments
Mon 3 Aug					
Aus	Bank Holiday in NSW	–	–	–	Markets open. Westpac Economics out of commission.
	Jul AiG PMI	38.4	–	–	Well in contraction zone. Up 6pts from the six months to April.
	Jul ANZ Job Ads	-6.7%	–	–	Downtrend at –4.5%mth & –52.1%yr implies 2H09 jobs weakness.
US	Jul ISM Factory	44.8	46.5	47.0	Regional surveys mostly point to a firmer outcome. See text box.
	Jun Construction Spending	–0.9%	–0.5%	0.2%	Housing component turning, so risk of rise, dependent on revisions.
	Jul Auto Sales mn ann'lsd	9.7	10.0	9.7	Orders data hint at another soft sales month in July.
Jpn	Jun Labour Earnings %yr	–2.5%	–	–	Major drag on consumption. Reflects both job cuts and lower hours.
Eur	Jul PMI Factory (F)	46.0a	46.0	45.5	Not normally revised but Jul result was suspiciously strong.
Ger	Jun Retail Sales	–1.3%	0.5%	–0.2%	Tentative date, due 3-7/8.
UK	Jul PMI Factory	47.0	47.8	48.0	Pace of contraction continues to diminish.
Tue 4 Aug					
NZ	Q2 Labour Cost Index Private Ord Time	0.5%	0.5%	0.4%	Easing in line with employment and inflation expectations.
	Q2 QES Private Sector Ord Time	1.1%	0.8%	0.0%	Catch-up after earlier strength.
	Jul ANZ Commodity Price Index	0.2%	–	–	Mild increase in world prices expected, prices down in NZD terms.
Aus	RBA Policy Announcement	3.00%	3.00%	3.00%	Rates widely expected to be unchanged – as at last three meetings.
	Jun Retail Sales	1.0%	0.5%	–0.5%	Reflecting high starting point and a minor wind-down in fiscal boosts.
	Q2 Real Retail Sales	1.0%	1.3%	1.1%	Another solid rise courtesy of massive policy injections to disp income.
	Q2 House Prices	–2.2%	2.0%	2.5%	Has significantly understated price appreciation since late 2008.
US	Jun Core PCE Deflator	0.1%	0.2%	0.2%	Quarterly totals for income/spending will be released as part of Q2
	Jun Personal Income	1.4%	–1.0%	–1.2%	GDP report on 31/7 so less interest in these monthly figures than
	Jul Personal Spending	0.1%	0.3%	0.4%	is usually the case.
	Jun Pending Home Sales	0.1%	0.6%	2.0%	Housing is clearly turning the corner.
	Fedspeak	–	–	–	Governor Tarullo on bank regulation.
Eur	Jun PPI %yr	–5.8%	–6.6%	–6.8%	Base effects will pull annual rate lower until August.
UK	Jul PMI Construction	44.5	45.0	45.0	Stalled improvement since May.
Wed 5 Aug					
Aus	Jun International Trade Balance, AUDbn	–0.56	–0.8	–0.5	Weak NR X prices, rural vols & prices for 0.5% X fall; M -0.7% on prices.
US	Jul Corporate Layoff Announcements	–	–	–	Guide to lab mkt but not other lab mkt data.
	Jul ADP Private Payrolls Change	–473k	–335k	–	Accurately warned of weaker payrolls outcome in June.
	Jun Factory Orders	1.2%	–0.5%	–2.0%	Durables component known down 2.5%.
	Jul ISM Non-Manufacturing	47.0	48.0	47.0	June's jump quite steep, so just steady in July.
Eur	Jul PMI Services (F)	45.6a	45.6	45.6	Not usually revised much.
	Jun Retail Sales	–0.4%	0.3%	0.2%	June retail PMI was marginally higher.
UK	Jul Consumer Confidence	58	59	59	Nationwide BS index.
	Jul PMI Services	51.6	51.8	51.0	Third month of very modest expansion.
	Jun Industrial Production	–0.6%	flat	0.2%	PMI suggests factory output uptrend unlikely just yet.
	Jul BRC Shop Price Index %yr	0.7%	–	–	High street inflation has slowed consistently since March.
Thu 6 Aug					
NZ	Q2 HLFS Employment	–1.1%	–0.5%	–0.4%	An element of payback from Q1, surveyed employment intentions up.
	Q2 HLFS Unemployment	5.0%	5.7%	5.7%	This would be the biggest unemployment increase since 1991.
Aus	Jul Employment chg	–21.4k	–18k	–20k	Job ads imply 2H09 weakness, but bus. surveys imply some upside risk.
	Jul Unemployment Rate	5.8%	6.0%	6.0%	Jobs fall partially offset by 0.1ppt participation fall, but risk to downside.
US	Initial Jobless Claims w/e 1/8	584k	580k	590k	Unwind of distortion from auto sector shutdowns mostly complete.
	Jul Chain Store Sales %yr	–5.1%	–	–	Often different message to weekly retail stats.
Jpn	Jun Leading Index	76.9	79.7	–	Modest gains of late, but woeful CapU won't go away in a hurry.
Eur	ECB Rate Decision	1.00%	1.00%	1.00%	Diminishing chance of a further cut/new unconventional measures.
Ger	Jun Factory Orders	4.4%	0.6%	–2.2%	Too soon for sustained orders revival but trend bottoming out.
UK	BoE Rate Decision	0.50%	0.50%	0.50%	A further £25bn of QE, plus another £50bn agreed with Treasury.
Can	Jun Building Permits	14.8%	–3.2%	–	Very volatile series but underlying trend seems to be turning positive.
Fri 7 Aug					
Aus	Aug RBA Statement on Monetary Policy	–	–	–	Recent data/speeches imply GDP/inflation forecasts to be revised up.
US	Jul Non-farm Payrolls Change	–467k	–325k	–270k	Job shedding continues but at slower pace. Jobless rate to keep rising
	Jul Unemployment Rate %	9.5%	9.6%	9.7%	into 2010, but less steeply. See text box.
	Jun Consumer Credit $bn	–3.2	–4.2	–	Still very constrained.
Ger	Jun Industrial Production	3.7%	0.5%	–2.5%	Industrial upswing is not yet underway but output is bottoming out.
UK	Jul PPI %yr	0.1%	–0.5%	–	Core output measure. Not a source of inflationary concern.
Can	Jul Employment Change	–7k	–20k	–15k	Jobs being shed at much slower pace.
	Jul Ivey PMI nsa	58.2	53.5	54.0	Usually weakens in July so surprise gain would be clear sign of strength.

New Zealand Economic and Financial Forecasts

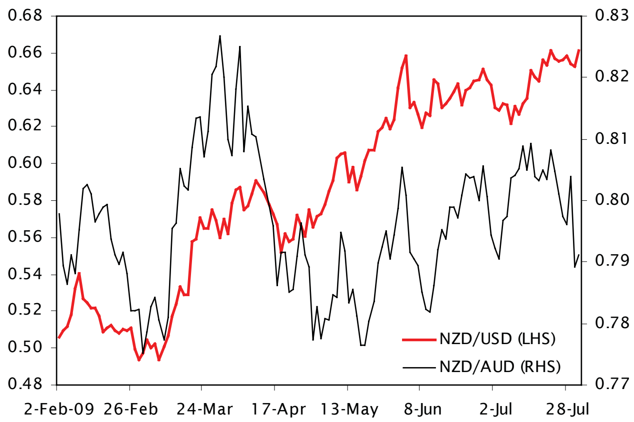
Economic Growth Forecasts	March years				Calendar years			
% change	2008	2009	2010f	2011f	2008	2009f	2010f	2011f
GDP (Production) ann avg	3.1	-1.0	-1.2	3.2	0.2	-2.1	2.6	3.6
Employment	-0.3	0.8	-1.5	1.6	0.9	-2.6	1.1	1.7
Unemployment Rate % s.a.	3.8	5.0	6.9	6.4	4.7	6.7	6.5	6.2
CPI	3.4	3.0	2.0	1.6	3.4	2.1	1.2	2.1
Current Account Balance % of GDP	-8.0	-8.5	-4.7	-5.7	-9.0	-4.9	-5.5	-6.5

Financial Forecasts	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Cash	2.50	2.50	2.50	2.50	3.00	4.00	5.00
90 Day bill	2.80	2.80	2.80	2.90	3.60	4.60	5.50
2 Year Swap	3.90	4.10	4.30	4.60	5.00	5.40	5.85
5 Year Swap	5.30	5.40	5.50	5.60	5.80	6.00	6.30
10 Year Bond	5.80	5.90	6.00	6.10	6.20	6.30	6.40
NZD/USD	0.60	0.59	0.62	0.65	0.68	0.70	0.71
NZD/AUD	0.79	0.80	0.81	0.81	0.83	0.84	0.85
NZD/JPY	55.2	53.1	57.7	62.4	67.3	72.1	75.3
NZD/EUR	0.43	0.43	0.45	0.46	0.47	0.48	0.48
NZD/GBP	0.38	0.37	0.38	0.38	0.39	0.39	0.38
TWI	57.4	56.8	59.0	61.3	63.6	65.6	66.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 3 August 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.80%	2.78%	2.81%
60 Days	2.81%	2.78%	2.80%
90 Days	2.80%	2.79%	2.80%
2 Year Swap	3.88%	3.86%	3.72%
5 Year Swap	5.27%	5.32%	5.21%

NZ foreign currency midrates as at Monday 3 August 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6599	0.6566	0.6291
NZD/EUR	0.4626	0.4614	0.4504
NZD/GBP	0.3948	0.3970	0.3850
NZD/JPY	62.550	61.860	60.370
NZD/AUD	0.7901	0.8051	0.7905
TWI	61.340	61.390	59.600

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2004	2005	2006	2007	2008	2009f	2010f
Australia							
Real GDP % yr	3.8	2.8	2.9	4.0	2.3	-0.6	1.0
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	1.8	2.4
Unemployment %	5.4	5.1	4.8	4.4	4.3	6.2	7.9
Current Account % GDP	-6.1	-5.8	-5.3	-6.2	-4.3	-3.9	-5.7
United States							
Real GDP %yr	3.9	3.1	2.8	2.0	1.1	-3.1	1.4
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-1.0	1.0
Unemployment Rate %	5.5	5.1	4.6	4.6	5.8	9.5	11.2
Current Account %GDP	-5.7	-6.1	-6.0	-5.3	-4.9	-2.2	-1.9
Japan							
Real GDP %yr	2.3	1.9	2.8	2.2	-0.8	-6.8	1.4
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	-1.1	-0.6
Unemployment Rate %	4.5	4.4	4.1	3.9	4.0	5.1	6.6
Current Account %GDP	3.3	3.6	3.9	4.8	3.2	2.4	2.5
Euroland							
Real GDP %yr	1.9	1.8	3.1	2.7	0.6	-4.9	-0.2
Consumer Prices %yr	2.1	2.5	2.0	3.1	1.6	0.3	0.7
Unemployment Rate %	9.0	8.8	7.9	7.3	7.8	10.0	11.5
Current Account %GDP	0.0	-0.2	-0.5	0.0	-0.2	0.0	0.4
United Kingdom							
Real GDP %yr	3.0	2.2	2.9	2.6	0.7	-4.6	0.3
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.0	1.2
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	5.5	7.0
Current Account %GDP	-1.9	-2.6	-3.0	-2.8	-2.3	-6.0	-5.5

Forecasts finalised 10 July 2009

Interest Rate Forecasts	Latest (Aug 3)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Australia						
Cash	3.00	3.00	3.00	3.00	3.00	3.25
90 Day Bill	3.20	3.20	3.20	3.20	3.25	3.50
10 Year Bond	5.61	5.40	5.10	5.65	6.25	6.25
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.48	3.50	3.40	3.75	4.00	4.25
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

Exchange Rate Forecasts	Latest (Aug 3)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
AUD/USD	0.8352	0.76	0.74	0.77	0.80	0.82
USD/JPY	94.79	92	90	93	96	99
EUR/USD	1.4264	1.38	1.36	1.39	1.42	1.45
AUD/NZD	1.2656	1.27	1.25	1.24	1.23	1.21

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