

# Weekly Commentary

12 July 2010

## Bruised but unbowed

The *Quarterly Survey of Business Opinion* for June was generally softer compared to March, but it remains consistent with a normal pace of recovery.

In seasonally adjusted terms, own-activity expectations dipped from 19% to 16%, while expectations of general business conditions fell from 34% to 28%. To put these in context, own-activity expectations are still slightly above their historical average of 15%. The drop in general confidence still makes it the second-highest reading in eleven years.

What's more, while expectations for the next quarter were down, reported conditions for the past quarter continue to improve. The former tends to be the better indicator of current-quarter GDP (which perhaps tells us that 'expectations' aren't all that forward-looking), but the narrowing of the gap between the two should help to silence the sceptics, who have tried to dismiss the recovery by noting that expectations have fallen short of reality – as they have done consistently for over 20 years in this survey.

In a similar vein, many of the key activity indicators were softer in Q2. Employment intentions fell slightly to a net +1%, while profit expectations fell from -2% to -6%. But that merely puts them slightly above their long-term averages. As we've noted before, the levels of these indicators need to be read in comparison to their history.

The fall in confidence was most notable in the building industry, which is consistent with the sluggish trends in consented activity in recent months. The looming spectre of changes to the tax treatment of property (culminating with the removal of depreciation allowances in the May Budget) won't have helped sentiment. On the plus side, general expectations were up in the manufacturing sector, although that wasn't really replicated when it came to the detailed questions. The biggest rise in confidence was in retail, which certainly had room to improve from a dismal March quarter for sales volumes.

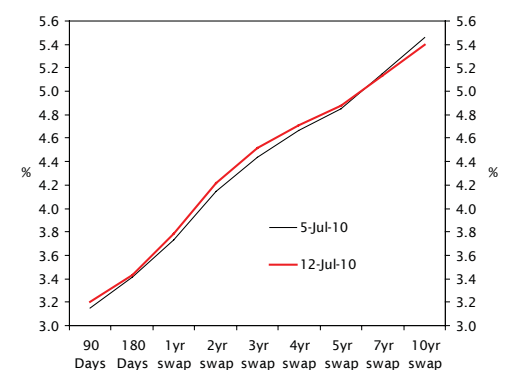
While activity indicators have gone from extremely weak to merely average over the last couple of years, there's little to suggest that the post-recession economy has been left with an overhang of spare capacity – indeed, quite the opposite. Capacity utilisation rose slightly to 90.8%, putting it right on its average for the last decade. The rise was concentrated in the building industry – bear in mind that 'capacity utilisation' is actually a question about unit costs, and there have been some well-publicised price increases for building materials this year. The ease of finding workers fell again, with skilled workers tipping back into "hard to find" on balance.

Pricing indicators rose substantially, with a net 36% of firms expecting their costs to increase and a net 40% planning to raise their prices in

the next three months. While a portion of this will reflect the increase in GST from 1 October, we would expect this to show up more fully in the next quarter. Policy changes shouldn't detract from the underlying inflation picture; even in the previous survey, pricing intentions were running at a net 27%, well above the low-inflation era average of 17%.

Evidence of rising price pressures and a lack of spare capacity won't come as a surprise to the RBNZ. In the June *Monetary Policy Statement* the RBNZ drastically revised down its assumption about the economy's potential growth rate, which means that even moderate growth could be expected to generate inflation pressures. Even without the impact of various government charges, inflation was projected to return to 2.7% by the end of next year.

NZ Interest Rates



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

Elsewhere on the data front, dairy prices fell by an average of 13.7% in Fonterra's online auction, with few bids above the minimum starting prices. Shaky sentiment in global markets and increasing supply from the Northern Hemisphere made for a tougher environment this month. Fonterra's initial payout forecast of \$6.60/kg for the next season had already allowed for some decline in world prices in coming months, so this auction result on its own shouldn't be cause for concern. However, prices will need to be watched closely in coming months.

Electronic card transactions for June suggested that retail spending is slipping into a trend of steady but unspectacular growth. Spending rose in all of the main categories except for fuel, where the 3% decline broadly matched the fall in petrol prices over the month. Non-retail spending rose 1.5%, as Rugby World Cup tickets

were allocated and charged to credit cards in late June.

The June quarter CPI is the main release next week. We expect a 0.4% rise, which would see the annual inflation rate drop slightly to 1.9%. The RBNZ forecast a 0.5% rise, although food prices have turned out slightly lower than expected since then. As usual, the quarterly change will tell us more about idiosyncratic price movements than the underlying trend. On the upside, we expect to see increases in fuel and building materials, and the majority of the tobacco excise hike that was imposed in late April. Lower food prices and cellphone charges should provide the main offsets.

The CPI figures aren't really telling a compelling story right now - other than that inflation didn't fall to particularly low levels in the wake of a drawn-out recession. The more significant

developments will come in Q3 and beyond, as government charges (mostly the GST hike on 1 October) push annual inflation above 5% in the first half of next year.

**Fixed vs. floating:** Last month, as was widely anticipated, the RBNZ kicked off what we expect to be an extended tightening cycle. Nevertheless the decision to fix or float remains finely balanced. Floating rates remain lower than short-term fixed rates at the moment, but they are likely to rise faster as the RBNZ increases the OCR. Fixing, if even for a short term, has the advantage of greater certainty around cash flows, at a time when floating rates could be rising rapidly. Repaying more than the minimum amount, and spreading the loan over a mix of terms, can also help to reduce the overall risk around uncertain future interest rate changes.

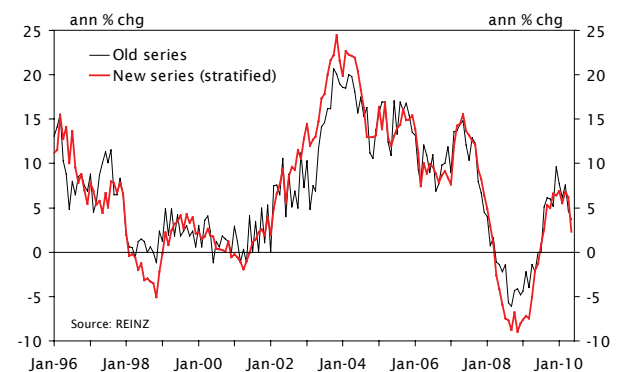
Key Data Previews

NZ Jun REINZ house price index

Jul 14, Last: 2.3% yr

- The May REINZ housing report revealed ongoing weakness in NZ's housing market, with sales falling, days to sell rising and prices declining.
- The tax changes in Budget 2010 were unambiguously negative for the housing market. We expect sales to undergo something of a revival in the next few months as investors reorganise their affairs prior to the tax changes (mostly effective from 1 October 2010). However, a housing report from a major Auckland real estate firm suggests that the reorganisation is not happening yet - sales and prices continued to fall in June.

REINZ house prices

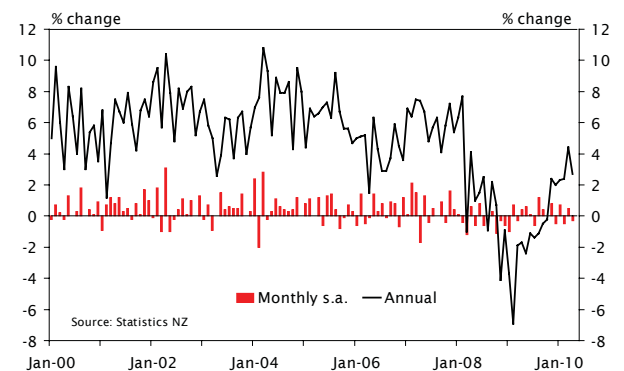


NZ May retail sales

Jul 14, Last: -0.3%, WBC f/c: 1.1%, Mkt f/c: 0.5%

- Retail spending appears to have picked up smartly in May, led by durables and clothing. We expect a 1.1% rise in ex-auto sales.
- We estimate that auto-related spending rose by a similar margin, although our forecast is even more uncertain than usual. Petrol prices fell slightly in May, against what has become a seasonal increase in recent years. However, vehicle sales are likely to have been stronger. In particular, registrations of light commercial vehicles rose sharply, some of which could be captured in retail trade.
- The early timing of Easter this year has caused some volatility in the monthly spending figures. But looking beyond this, retail spending appears to have slipped into a trend of steady but unspectacular growth, consistent with households strengthening their balance sheets.

NZ nominal retail sales

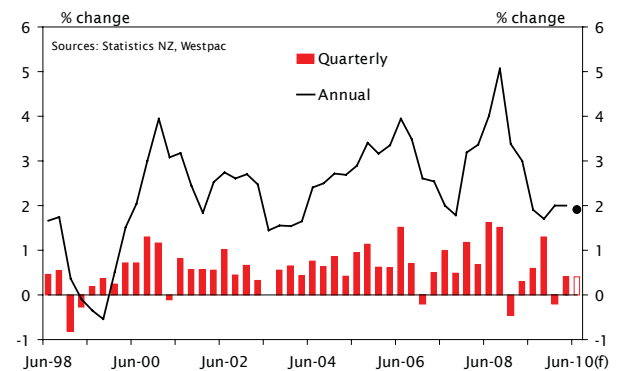


**NZ Q2 CPI**

Jul 16, Last: 0.4%, WBC f/c: 0.4%

- Inflation has been very subdued in late-2009 and early-2010, as the lagged effects of recession has kept and lid on the price of non-tradable goods and services and the high exchange rate has reduced prices for many tradables.
- Q2 is expected to be the “calm before the storm”. We anticipate another quarter of subdued prices before the ETS, tobacco excise, and GST all conspire to push inflation above 5%.
- Construction cost inflation, energy and petrol are expected to lead the (rather muted) charge, while lower prices for food and communication services provide the key offsets.

**CPI inflation**

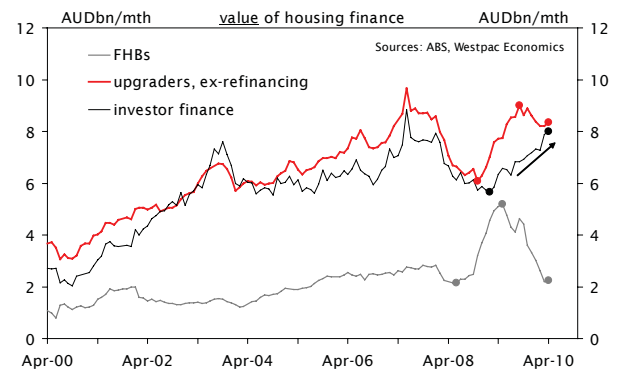


**Aus May housing finance**

Jul 12, Last: -1.8%, WBC f/c: -1.0%, Mkt f/c: 0.0%, Range: -4.5% to 3.4%

- Housing finance demand from owner-occupiers has weakened for seven consecutive months, following a strong upswing during 2009, as policy stimulus is unwound – monetary, as well as grants to First Home Buyers (FHBs).
- We expect another decline, forecasting a 1% fall in May as the RBA raised rates in the month to 4.50% (the 6th hike in 8 months). The pace of decline has eased, averaging -2% over the last three months, from -6% over the first four months.
- Lending to FHBs has slumped 58% from its May 2009 peak, to be 12% below the Jun 2008 low. Upgrader lending has eased, falling 13% from its Sep 2009 peak.
- By contrast, investors are returning in greater numbers, a trend that is likely to continue. The value of finance to investors is up 24% on a year ago and up 39% from the start of 2009.

**Cycle evolves: Investors up, FHBs down**

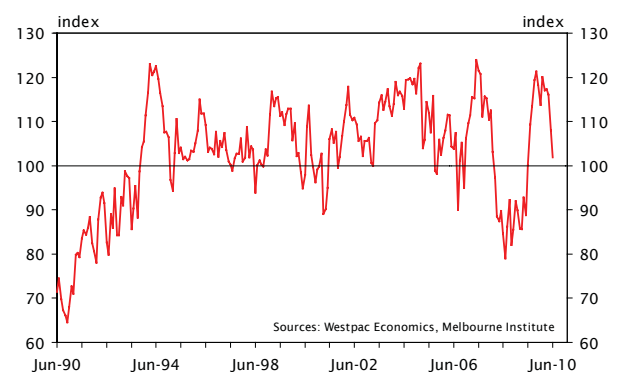


**Aus Jul Westpac-MI Consumer Sentiment**

Jul 14, Last: 101.9

- The Westpac-Melbourne Institute Index of Consumer Sentiment fell 5.7% in June after a 7% drop in May, taking it from relative highs to a roughly ‘neutral’ level just over 100. The initial fall was mainly due to interest rates, with RBA rate rises taking the mortgage rate over the key threshold level of 7¼% in May. The June decline though reflected a mixture of concerns about deteriorating conditions abroad, financial market turmoil and uncertainty around the Government’s proposed Resource Super Profits Tax.
- The July survey is in the field the week ended July 9. Sentiment may be affected by: the RBA’s decision to again leave rates on hold; the change of PM, Gillard taking over from Rudd; the amended Resources Tax and apparent end to the stand-off with the mining sector; stronger than expected job gains but patchy figures on retail and building approvals and a soft equities (ASX down 2% since June though with a late rally).

**Consumer Sentiment**

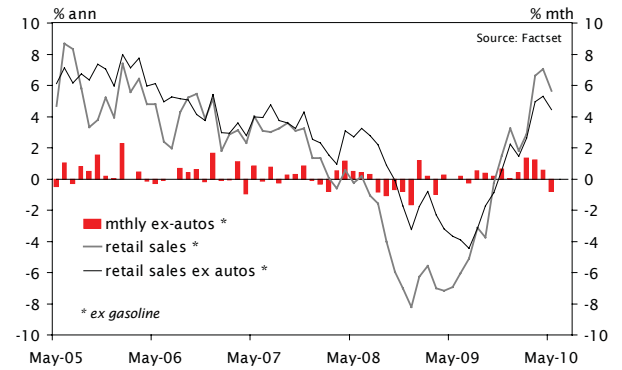


**US Jun retail sales**

Jul 14, Last: -1.2%, WBC f/c: -0.3%, Mkt f/c: -0.3%

- Retail sales fell 1.2% in May, weighed down by a fall in auto sale values; lower gasoline prices; a sharp pull-back in building materials (related to the homebuyer tax credit expiry in April); and further declines in apparel, general merchandise and department stores. But with eight of the fourteen storetypes in the breakdown recording gains it was not broad-based weakness.
- June unit auto sales were down nearly 5% but this series has not fitted well with the retail auto component lately. Gasoline prices drifted a little lower last month. Building materials may have further to fall. Weekly retail sales indicators were mixed.
- These pointers suggest a further but smaller retail sales fall – making the first back to back declines since Feb-Mar 2009.

**US retail sales**



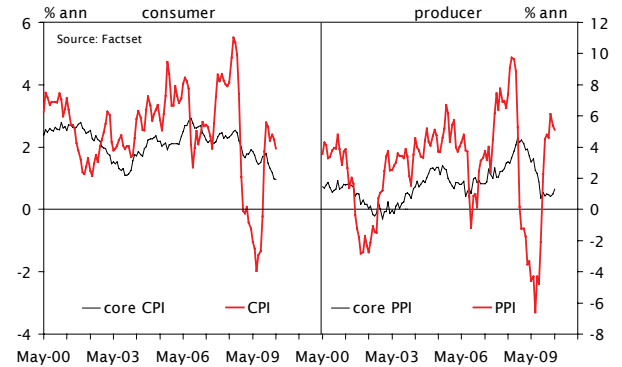
**US Jun PPI and CPI**

Jul 15, PPI headline Last: -0.3%, WBC f/c: flat, Mkt f/c: -0.1%

Jul 16, CPI headline Last: -0.2%, WBC f/c: flat, Mkt f/c: -0.1%

- The PPI fell 0.3% in May, driven once again by lower gasoline, residential energy and food prices. The core rate was up 0.2% with light truck prices bouncing 0.8% and auto prices also rising. The core PPI trend has picked up a bit in recent months but a likely reversal of the vehicle price rises should pull the core back to flat in June and the survey timing will capture lower oil prices, delivering a third straight headline fall.
- Despite pressure from some components of the PPI, there has been minimal pass-through to retail prices, as evidenced by regular flat to negative headline/core CPI outcomes this year. Anecdotally, consumer goods firms say they have no pricing power. In June, lower gasoline prices should weigh on the headline CPI again and apparel/accommodation blips in the May CPI should reverse, pulling the core back to flat again.

**US price inflation**

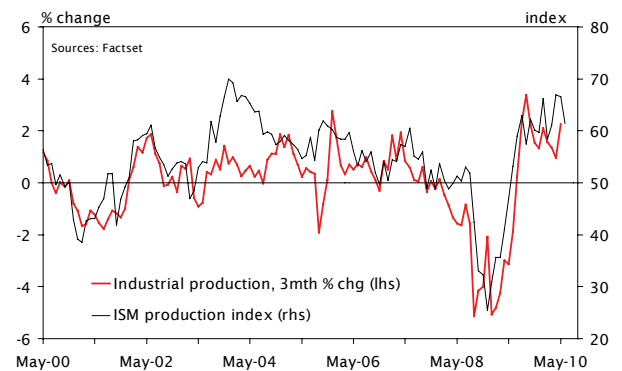


**US Jun industrial production**

Jul 15, Last: 1.3%, WBC f/c: -0.2%, Mkt f/c: -0.1%

- US industrial production rose 1.3% in May, with manufacturing up 0.9% (autos up 5.5%). Utility output boosted the headline IP number, probably weather related. So there was still some decent momentum in the factory sector in mid Q2, with business equipment and construction supplies showing solid growth.
- But as noted in our July regional Fed survey preview box, evidence is mounting that the industrial sector is seeing growth moderate from June.
- The June payrolls report showed that factory hours worked fell 1.2% and suggest mining output was down (there may be some impact from the Gulf oil spillage fallout). These negatives will be partially offset by productivity gains and a further utilities rise, but we are forecasting the first fall in total IP since June last year.

**US industrial sector: expansion mode**



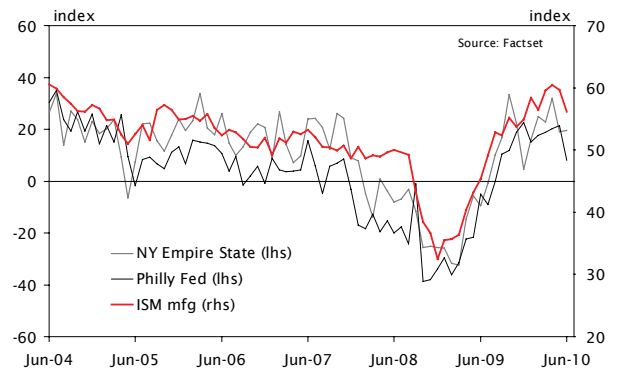
### US Jul NY and Philly Fed surveys

Jul 15, New York Fed: Last: 19.6, WBC f/c: 15.0, Mkt f/c: 18.0

Jul 16, Philadelphia Fed: Last: 8, WBC f/c: 6, Mkt f/c: 10.0

- All the major and most minor business surveys, national and regional, pointed to slower industrial growth late in Q2, supporting our view that US economic growth will moderate further in the second half of 2010.
- With recent retail, jobs, housing and consumer confidence data also pointing in that direction, the business surveys should slip further in coming months.
- That view is reflected in our lower July forecasts for both the NY and Philly surveys.

### US manufacturing surveys



## Key Data and Events

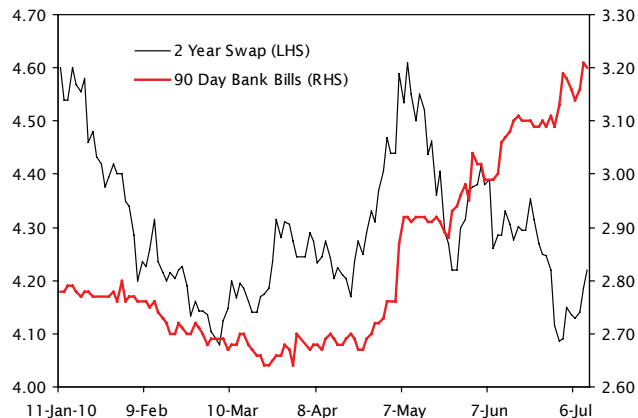
|                   | Last                                    | Market<br>Median  | Westpac<br>Forecast | Comments |   |
|-------------------|---|-------------------|---------------------|----------|---|
| <b>Mon 12 Jul</b> |   |                   |                     |          |   |
| Aus               | May Housing Finance (no.)               | -1.8%             | 0.0%                | -1.0%    | Expect 8th consecutive fall as RBA raised rate 6th time in 8 months.                                  |
| US                | Fedspeak                                | -                 | -                   | -        | Lacker  |
| Jpn               | Jun Corporate Goods Prices %yr          | 0.4%              | 0.6%                | -        | Raw materials and intermediate goods prices coming under pressure.                                    |
| UK                | Q1 GDP (F)                              | 0.3% <sup>a</sup> | 0.3%                | 0.3%     | Still some chance of revision.  |
| Can               | Q2 Business Outlook Survey              | 44.0              | 35.5                | -        | Future sales index.   |
|                   | Q2 BoC Loan officer Survey              | -18.7             | -                   | -        | Easing credit standards for 5 qtrs now.   |
| <b>Tue 13 Jul</b> |   |                   |                     |          |   |
| NZ                | Jun Food Prices                         | -0.7%             | -                   | 0.7%     | Normal seasonal increase in fresh food prices.  |
| Aus               | Jun NAB Business Survey                 | 6                 | -                   | -        | Mining confidence hit in May, June surveyed prior to RSPT 'resolution'.                               |
| US                | Jun NFIB Small Business Optimism        | 92.2              | 91.0                | 91.0     | Most big business surveys weaker in June.   |
|                   | May Trade Balance \$bn                  | -40.3             | -39.0               | -39.0    | Export bounce and softer import prices to help narrow deficit.  |
|                   | Jul IBD/TIPP Economic Optimism          | 46.2              | 45.5                | 44.0     | Sharp fall in Conf Board June index suggests downside risk.   |
|                   | Jun Federal Budget \$bn                 | -136              | -70                 | -        | Constraint on further Federal fiscal stimulus.  |
| Ger               | Jul ZEW Analysts' Survey                | 28.7              | 25.3                | 20.0     | Steep falls in May-June; July to make it three in a row.  |
| UK                | Jun BRC Retail Sales Monitor %yr        | 0.8%              | -                   | -        | Early clue to official retail data.   |
|                   | Jun RICS House Price Balance            | 22%               | 20%                 | -        | Some evidence here of modest renewed uptick in prices.  |
|                   | Jun CPI %yr                             | 3.4%              | 3.1%                | 3.2%     | BRC shop price index suggests some moderation in annual rate.   |
|                   | May House Prices %yr                    | 10.1%             | 10.2%               | -        | Lesser watched DCLG (govt) index.   |
| Can               | May Trade Balance C\$bn                 | 0.2               | -0.2                | -        | In surplus most months but occasionally slipping into deficit.  |
| <b>Wed 14 Jul</b> |   |                   |                     |          |   |
| NZ                | Jun REINZ House Prices %yr              | 2.3%              | -                   | -        | B&T Auckland data suggest another weak month.   |
|                   | May Retail Sales                        | -0.3%             | 0.5%                | 1.1%     | Solid rise in core sales, vehicles are the wild card.   |
| Aus               | Jul Westpac-MI Consumer Sentiment       | 101.9             | -                   | -        | Rates on hold; Resources Tax "resolved"; new PM; jobs up but ASX off.                                 |
| US                | Jun Import Price Index                  | -0.6%             | -0.4%               | -1.0%    | Stronger dollar and oil price to drive fall.  |
|                   | Jun Retail Sales                        | -1.2%             | -0.3%               | -0.3%    | A fall in auto sales and generally soft core spending should drive second consecutive fall in retail. |
|                   | Jun Retail Sales ex autos               | -1.1%             | 0.0%                | -0.2%    |   |
|                   | May Business Inventories                | 0.4%              | 0.3%                | 0.4%     | Further guide to stock-building contribution to Q2 GDP growth.  |
|                   | FOMC Minutes                            | -                 | -                   | -        | Extent of discussion of European problems will be interesting.  |
| Eur               | May Industrial Production               | 0.8%              | 0.9%                | 1.2%     | German data known up 2.6%.  |
| UK                | Jun Consumer Confidence                 | 65                | 62                  | 60       | Nationwide index; first reading since tough Budget .  |
|                   | Jun Unemployment Change                 | -31k              | -20k                | -        | Rare and probably unsustainable positive UK eco indicator.  |
| <b>Thu 15 Jul</b> |   |                   |                     |          |   |
| Aus               | Jul WBC-MI Unemployment Expectations    | 7.7%              | -                   | -        | Consecutive rises restored uptrend; still <LR avg = 3%yr jobs growth H2.                              |
|                   | Jul MI Inflation Expectations           | 3.4%              | -                   | -        | -0.2ppts in Jun stalled uptrend since Jan at 3.59%, above 3.16% LR avg.                               |
|                   | Jun Motor Vehicle Sales                 | -3.2%             | -                   | flat     | Tax-boosted business demand waning but consumer still recovering.                                     |
|                   | Q2 NAB Business Survey (due July 15-31) | 17                | -                   | -        | To reflect tone of 3 monthlies already released, but with more detail.                                |
| US                | Jun PPI                                 | -0.3%             | -0.1%               | 0.0%     | Survey timing should capture lower oil prices and vehicle prices are likely to correct lower.         |
|                   | Jun PPI Core                            | 0.2%              | 0.1%                | 0.0%     |   |
|                   | Initial Jobless Claims w/e 3/7          | 454k              | 447k                | 460k     | Expect some noise from annual temporary auto plant shutdowns.   |
|                   | Jul NY Fed Factory Survey               | 19.6              | 18.0                | 15.0     | Economy slowing in H2 2010.   |
|                   | Jun Industrial Production               | 1.3%              | -0.1%               | -0.2%    | Sharp fall in factory hours worked in June.   |
|                   | Jul Philadelphia Fed Survey             | 8                 | 10                  | 6        | US economy slowing in H2 2010.  |
|                   | Fedspeak                                | -                 | -                   | -        | Janet Yellen et al in Senate (confirmation hearings).   |
| Jpn               | Bank of Japan Policy Decision           | 0.10%             | 0.10%               | 0.10%    | New loan provision facility will be the last initiative for a while.                                  |
| UK                | Q1 Housing Equity Withdrawal £bn        | -4.0              | -3.5                | -        | Q1 will mark two years since HEW was a driver of spending growth.                                     |
| Can               | May Auto Sales                          | -4.7%             | 0.0%                | 0.0%     | StatCan guidance is for flat sales after steep Mar-Apr falls.   |
|                   | May Manufacturing Sales                 | 0.2%              | -0.5%               | -        | Has not fallen since Aug last year.   |
| <b>Fri 16 Jul</b> |   |                   |                     |          |   |
| NZ                | Q2 CPI %qtr                             | 0.4%              | -                   | 0.4%     | Subdued inflation, before a storm of government charges hit.  |
| US                | Jun CPI                                 | -0.2%             | -0.1%               | flat     | US inflation is not just subdued but falling due to wide output gap                                   |
|                   | Jun CPI Core                            | 0.1%              | 0.1%                | flat     | with other factors like oil prices driving monthly volatility.  |
|                   | May Net Long-Term TIC Flows \$bn        | 15.0              | -                   | -        | Guide to how current account deficit is funded.   |
|                   | Jul UoM Consumer Confidence             | 76.0              | 74.0                | 72.0     | Steep fall if June CB confidence index is any guide.  |
| Jpn               | May Tertiary Activity Index             | 2.1%              | -0.7%               | -        | Expect early signs of exhaustion in the durables sectors.   |
| Eur               | May Trade Balance €bn                   | 1.6               | -0.5                | -        | Trade is about the only source of European economic growth.   |
| Can               | Jun Leading Index                       | 0.9%              | 0.7%                | -        | Has not posted fall since Jun last year.  |

## New Zealand Economic and Financial Forecasts

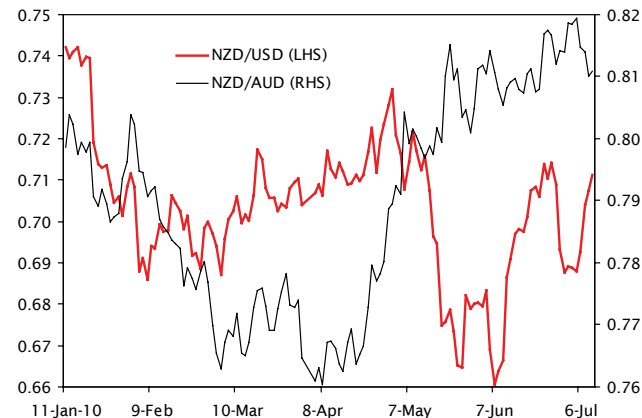
| Economic Growth Forecasts        | March years |      |       |       | Calendar years |       |       |       |
|----------------------------------|-------------|------|-------|-------|----------------|-------|-------|-------|
|                                  | 2009        | 2010 | 2011f | 2012f | 2009           | 2010f | 2011f | 2012f |
| % change                         |             |      |       |       |                |       |       |       |
| GDP (Production) ann avg         | -1.5        | -0.4 | 4.1   | 4.2   | -1.6           | 3.4   | 4.4   | 3.4   |
| Employment                       | 0.7         | -0.1 | 2.1   | 1.8   | -2.4           | 2.7   | 1.8   | 1.3   |
| Unemployment Rate % s.a.         | 5.1         | 6.0  | 5.3   | 5.0   | 7.1            | 5.5   | 5.0   | 4.9   |
| CPI                              | 3.0         | 2.0  | 4.9   | 2.7   | 2.0            | 4.8   | 2.6   | 3.1   |
| Current Account Balance % of GDP | -7.9        | -2.6 | -3.3  | -4.4  | -2.9           | -3.0  | -4.4  | -4.4  |

| Financial Forecasts | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash                | 3.25   | 3.75   | 4.25   | 4.75   | 5.25   | 5.75   | 6.00   |
| 90 Day bill         | 3.70   | 4.20   | 4.70   | 5.20   | 5.70   | 6.10   | 6.20   |
| 2 Year Swap         | 4.80   | 5.20   | 5.50   | 5.90   | 6.20   | 6.40   | 6.50   |
| 5 Year Swap         | 5.70   | 5.90   | 6.10   | 6.30   | 6.50   | 6.60   | 6.70   |
| 10 Year Bond        | 6.00   | 6.10   | 6.20   | 6.30   | 6.30   | 6.40   | 6.50   |
| NZD/USD             | 0.72   | 0.74   | 0.76   | 0.75   | 0.74   | 0.73   | 0.72   |
| NZD/AUD             | 0.82   | 0.82   | 0.83   | 0.83   | 0.84   | 0.78   | 0.75   |
| NZD/JPY             | 65.5   | 70.3   | 74.5   | 76.5   | 77.7   | 80.3   | 82.8   |
| NZD/EUR             | 0.57   | 0.58   | 0.59   | 0.60   | 0.61   | 0.58   | 0.56   |
| NZD/GBP             | 0.49   | 0.49   | 0.49   | 0.50   | 0.50   | 0.47   | 0.44   |
| TWI                 | 68.7   | 70.4   | 71.9   | 72.5   | 72.9   | 70.7   | 69.1   |

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



## NZ interest rates as at market open on Monday 12 July 2010

| Interest Rates | Current | Two Weeks Ago | One Month Ago |
|----------------|---------|---------------|---------------|
| Cash           | 2.75%   | 2.75%         | 2.75%         |
| 30 Days        | 2.96%   | 2.89%         | 2.94%         |
| 60 Days        | 3.04%   | 3.00%         | 3.01%         |
| 90 Days        | 3.20%   | 3.11%         | 3.07%         |
| 2 Year Swap    | 4.22%   | 4.21%         | 4.33%         |
| 5 Year Swap    | 4.88%   | 4.91%         | 5.07%         |

## NZ foreign currency midrates as at Monday 12 July 2010

| Exchange Rates | Current | Two Weeks Ago | One Month Ago |
|----------------|---------|---------------|---------------|
| NZD/USD        | 0.7108  | 0.7090        | 0.6909        |
| NZD/EUR        | 0.5623  | 0.5770        | 0.5702        |
| NZD/GBP        | 0.4720  | 0.4692        | 0.4748        |
| NZD/JPY        | 63.020  | 63.380        | 63.400        |
| NZD/AUD        | 0.8102  | 0.8120        | 0.8092        |
| TWI            | 67.480  | 67.980        | 67.260        |

## Economic and Financial Forecasts

| Economic Forecasts (Calendar Years) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010f | 2011f |
|-------------------------------------|------|------|------|------|------|-------|-------|
| <b>Australia</b>                    |      |      |      |      |      |       |       |
| Real GDP % yr                       | 2.8  | 2.9  | 4.0  | 2.3  | 1.3  | 3.0   | 3.5   |
| CPI inflation % annual              | 2.8  | 3.3  | 3.0  | 3.7  | 2.1  | 3.4   | 3.1   |
| Unemployment %                      | 5.1  | 4.8  | 4.4  | 4.3  | 5.6  | 5.1   | 4.9   |
| Current Account % GDP               | -5.8 | -5.3 | -6.3 | -4.4 | -4.1 | -3.4  | -3.0  |
| <b>United States</b>                |      |      |      |      |      |       |       |
| Real GDP %yr                        | 3.1  | 2.7  | 2.1  | 0.4  | -2.4 | 2.7   | 2.8   |
| Consumer Prices %yr                 | 3.4  | 3.2  | 2.9  | 3.8  | -0.2 | 1.3   | 2.4   |
| Unemployment Rate %                 | 5.1  | 4.6  | 5.8  | 5.8  | 9.3  | 9.8   | 10.0  |
| Current Account %GDP                | -6.1 | -6.0 | -5.3 | -4.6 | -2.7 | -0.3  | -2.4  |
| <b>Japan</b>                        |      |      |      |      |      |       |       |
| Real GDP %yr                        | 1.9  | 2.8  | 2.2  | -1.5 | -5.8 | 3.1   | 1.4   |
| Consumer Prices %yr                 | -0.3 | 0.2  | 0.1  | 1.4  | -1.3 | -1.1  | -0.2  |
| Unemployment Rate %                 | 4.4  | 4.1  | 3.9  | 4.0  | 5.1  | 4.8   | 4.5   |
| Current Account %GDP                | 3.6  | 3.9  | 4.8  | 3.3  | 2.8  | 4.2   | 4.6   |
| <b>Euroland</b>                     |      |      |      |      |      |       |       |
| Real GDP %yr                        | 1.8  | 3.1  | 2.8  | 0.5  | -4.0 | 0.6   | 1.2   |
| Consumer Prices %yr                 | 2.5  | 2.0  | 3.1  | 1.6  | 0.9  | 1.0   | 1.2   |
| Unemployment Rate %                 | 8.8  | 7.9  | 7.3  | 7.8  | 10.0 | 10.5  | 10.5  |
| Current Account %GDP                | -0.2 | -0.1 | 0.1  | -1.1 | -1.0 | -0.5  | 0.0   |
| <b>United Kingdom</b>               |      |      |      |      |      |       |       |
| Real GDP %yr                        | 2.2  | 2.9  | 2.6  | 0.5  | -4.9 | 0.5   | 1.3   |
| Consumer Prices %yr                 | 2.1  | 3.0  | 2.1  | 3.5  | 2.9  | 2.5   | 2.0   |
| Unemployment Rate %                 | 2.8  | 3.0  | 2.5  | 3.1  | 5.0  | 5.0   | 5.0   |
| Current Account %GDP                | -2.6 | -3.3 | -2.7 | -1.6 | -2.4 | -2.0  | -1.5  |

Forecasts finalised 9 July 2010

| Interest Rate Forecasts        | Latest (Jul 12) | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 |
|--------------------------------|-----------------|--------|--------|--------|--------|--------|
| <b>Australia</b>               |                 |        |        |        |        |        |
| Cash                           | 4.50            | 4.75   | 5.00   | 5.00   | 5.25   | 5.50   |
| 90 Day Bill                    | 4.89            | 5.00   | 5.20   | 5.20   | 5.50   | 5.75   |
| 10 Year Bond                   | 5.11            | 5.40   | 5.70   | 5.70   | 5.80   | 5.80   |
| <b>International</b>           |                 |        |        |        |        |        |
| Fed Funds                      | 0.125           | 0.125  | 0.125  | 0.125  | 0.125  | 0.375  |
| US 10 Year Bond                | 3.05            | 3.20   | 3.40   | 3.50   | 4.00   | 4.20   |
| ECB Repo Rate                  | 1.00            | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   |
| <b>Exchange Rate Forecasts</b> |                 |        |        |        |        |        |
| AUD/USD                        | 0.8773          | 0.88   | 0.90   | 0.92   | 0.90   | 0.88   |
| USD/JPY                        | 88.66           | 91     | 95     | 98     | 102    | 105    |
| EUR/USD                        | 1.2641          | 1.26   | 1.28   | 1.29   | 1.25   | 1.21   |
| AUD/NZD                        | 1.2342          | 1.22   | 1.22   | 1.21   | 1.20   | 1.19   |

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