Westpac

Weekly Commentary

15 March 2010

Stick it in neutral

Last week's *Monetary Policy Statement* firmed up the sense that rate hikes are on the way from mid-year. But the market's attention was instead captured by the RBNZ's comments on the new interest rate environment.

Since the global financial crisis began, the cost of borrowing for banks and corporates has risen substantially. The RBNZ estimate that the marginal cost of bank funding is currently around 150 basis points above the OCR, compared to 20-30 points pre-crisis. This additional 'wedge' means that, for any desired level of market interest rates, the OCR will be lower than it would otherwise have been.

This in itself is not a new development, In fact, the RBNZ have been setting policy on the basis of a shock to funding costs for some time – after the first OCR cut in July 2008 they noted that "the cost of funds raised abroad by banks has been rising in recent months as the international financial situation has deteriorated. Today's cut will help to mitigate the effect of these increases on the actual borrowing costs paid by firms and households."

The crucial difference in last week's statement is that the RBNZ have made explicit their judgement about funding costs in the future. They have assumed that the 'wedge' will remain constant at around 150bps over their forecast horizon – not a permanent change, but close enough for policy-making purposes.

That implies a lower OCR over time than previously assumed. This comes through mostly in the later years of their projections, with the 90-day rate now expected to peak at 6.1% in early 2012, compared to a 6.5% peak in their previous forecasts.

A common interpretation of this change is that the RBNZ believes that the 'neutral' policy rate is now lower as a result of the financial crisis. One survey even suggested that some analysts have "seen the light" and reduced their own assessment of the neutral rate after the RBNZ's statement. We prefer not to describe it in these terms at all – 'neutral' is a concept that means different things to different people (and we note that the RBNZ avoided using this term as well). But the question has been raised, so we should point out some of the pitfalls in the debate.

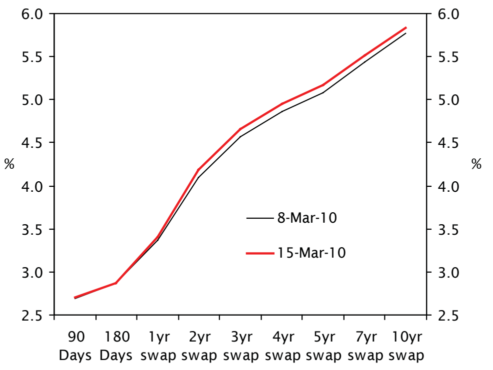
First, 'neutral' is a long-run equilibrium concept; it doesn't change quickly or easily. Only a permanent shock to the economy would warrant a change in our assumptions about the neutral rate, whereas a temporary shock should be treated as a temporary deviation from neutral. In the short term this distinction is largely irrelevant; the policy response will be the same.

From where we stand today, we can't say how much of the shock to funding costs will be permanent, which means we can't make any firm judgements about the 'new neutral'. And we note that the RBNZ haven't described the cost shock as permanent, but simply long-lived: they assume that it will remain in place at least for the length of their forecast horizon, about three years ahead.

It's tempting to argue that a three-year period is sufficiently long that it's as good as permanent, and hence we could say that 'neutral' is in fact lower. But there have been other periods, lasting three or more years, when the interest rate environment has been substantially different. For the sake of consistency, we'd also have to accept that the 'neutral' rate has often been different in the past.

We're thinking specifically of the period from around 2002 to just before the financial crisis in 2007. Bank funding

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

costs fell to rock-bottom levels during this period – around 20-30 basis points above the OCR, as previously noted. On top of this, banks' lending margins were competed down through this period, further narrowing the gap between the OCR and retail lending rates. Plus, the inflation target was raised in September 2002, a permanent change that implies a higher (nominal) neutral rate. Together, these features argue that the OCR needed to be higher than usual during this period, in order to reach the desired level of lending rates. We note that Governor Bollard made this point during the press conference.

We're comfortable with the idea that the OCR will be lower on average through the next cycle than it was through the previous one. (Which is effectively saying that we don't expect the OCR to reach 8.25% this time – hardly a bold forecast.) But we don't think that the 20-30bp margin pre-crisis, versus the 150bp margin post-crisis, is the appropriate reference point for debating neutral interest rates – it's comparing one abnormal period with another abnormal period.

Ultimately the task of identifying 'neutral' is secondary; the RBNZ's role is to set interest rates at the levels needed to achieve their inflation target. And based on their inflation projections, 'neutral' is well north of current levels. Partly due to administrative charges such as higher ACC levies and the Emissions Trading Scheme, they now expect annual inflation to reach 3% in mid-2011, and to remain close to that level for the rest of their forecast horizon. That gives them very little wiggle room to deal with any upside surprises on inflation – which is a concern when they already recognise the risks to the economy as either balanced or to the upside.

Fixed vs. floating: The prospect of OCR hikes through the second half of the year and beyond 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.

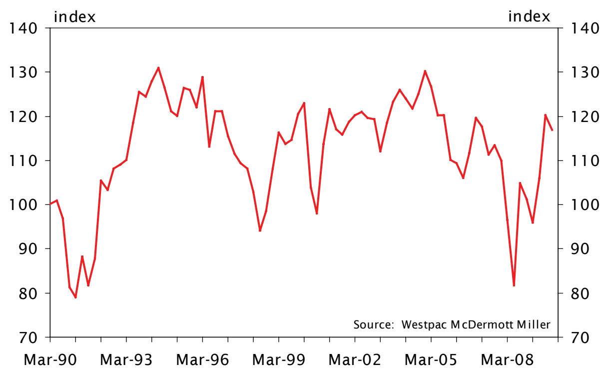
Key Data Previews

NZ Q1 consumer confidence

Mar 17, Last: 116.9

- Consumer confidence moved modestly lower in the December 2009 quarter, but remained at a high level. A reassessment of future conditions drove the decline, while consumers' assessment of current conditions actually improved.
- Economic news has generally gone against the consumer over the past few months. Unemployment has risen, petrol prices are higher, and the housing market has stalled. In addition, upcoming changes to tax policy are likely to be weighing on consumer's minds. However, at this stage it remains unclear whether the changes (a mix of lower income tax but higher GST) are seen as a positive or negative.

NZ consumer confidence

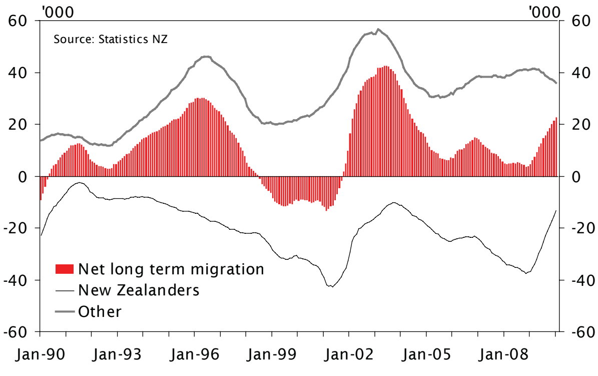


NZ Feb external migration ann.

Mar 19, Last: 22,590, WBC f/c: 22,530

- Monthly net migration has been steady at a high level since early-2009. The number of New Zealanders moving to Australia has been very low, while the number of NZers coming home has been very high. Movements of foreign citizens into and out of NZ have been about normal.
- We expect more NZers to move to Australia in 2010, as the opportunities associated with the mining boom reassert themselves. This would reduce overall net migration. However, it is too early to expect the February monthly figures to show a dramatic change.
- Annual net migration may now be peaking after 14 months of consecutive increases.

NZ net migration



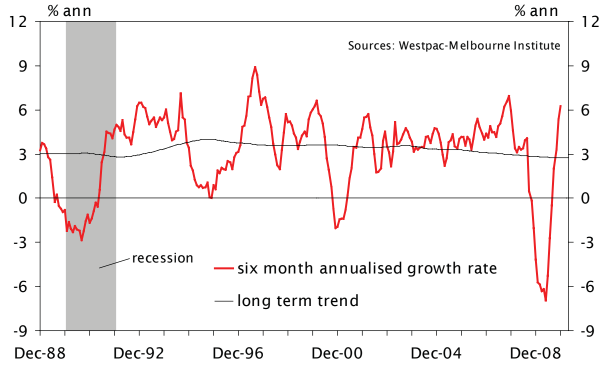
Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Aus Jan Westpac–MI Leading Index

Mar 17, Last: 6.2% annualised

- The annualised growth rate of the Westpac–Melbourne Institute Leading Index, a guide to the likely pace of economic activity three to nine months ahead, hit 6.2% in December, well above its long run trend of 2.7%. The Index continues to point to a dramatic improvement in growth prospects.
- That said, two of the four monthly components were sharply weaker in January. Equity markets saw a sell-off, the ASX dropping 6.2%. Dwelling approvals also dropped back sharply, falling 7% although December's 2.2% rise was revised up to 5.2%. Against this, the money supply – which has been the main drag on the Leading Index over the last six months – recorded a better month in January with a 0.3% dip compared to December's 0.7% fall. US industrial production also strengthened, rising 0.9% vs the 0.7% gain in December.

Westpac-MI Leading Index

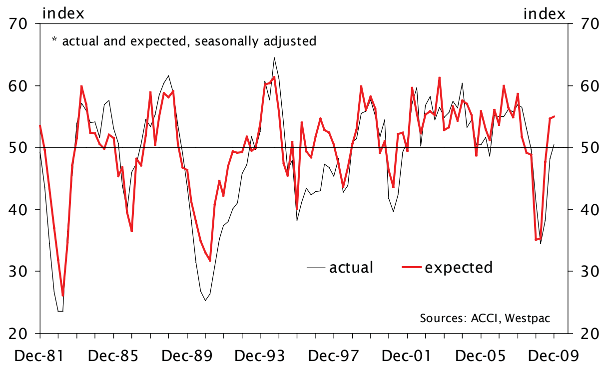


Aus Q1 Westpac–ACCI Survey of Industrial Trends

Mar 18, Last: Actual Composite Index: 50.4

- The Q4 Westpac–ACCI Survey saw a 2.2pt rise in the Actual Composite Index to 50.4 (highest since 2008Q2). The result was weaker than predictions in the prior Survey's Expected Composite Index (54.7) and below its decade average (51.9) for the sixth quarter, but significantly at over 50, it returned to manufacturing expansionary territory. The Labour Market Composite net balance rose 11pts to –1, historically consistent with jobs growth accelerating to 2% annual in 2010H1. The net balance reporting finance as 'harder to get' was steady at 16%, above average but below Q1's 40% peak.
- Expectations for Q1 activity were seasonally resilient. The Expected Composite Index rose 0.3pts to 55.0 (highest since 2007Q4) consistent with an expectation of above-trend activity growth (decade average is 52.7).
- The Q1 Survey was concluded in the week ending 12 March.

Westpac-ACCI composite indexes*

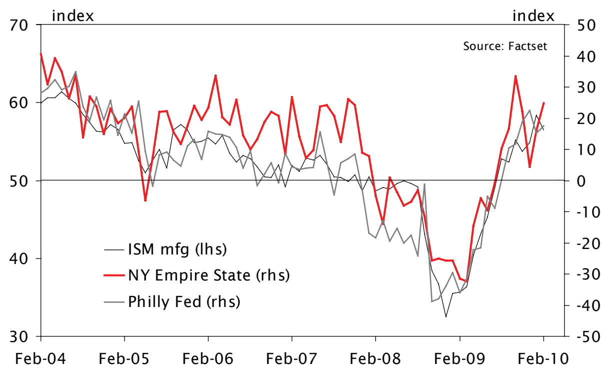


US Mar NY and Philly Fed surveys

Mar 15, New York Fed: Last: 24.9, WBC f/c: 15.0, Mkt f/c: 22.0
Mar 18, Philadelphia Fed: Last: 17.6, WBC f/c: 14.0, Mkt f/c: 18.0

- Both these regional Fed surveys surged in the second half of 2009, the NY index peaking at 33 (highest since 2006) in Oct and Philly at 23 (highest since 2005) in Dec. Since peaking, they have pulled back a touch, but both are still at levels consistent with a rapid pace of industrial expansion.
- Somewhat elevated readings should persist while government policies continue to support the housing market (via production of construction materials and household goods) and while firms are rebuilding their inventory levels.
- But given the Mar survey period overlaps with the Feb factory ISM which was a little softer, and that the sometimes forward looking Richmond Fed index is quite a bit lower, we see moderately lower readings in March for both NY and Philly.

US manufacturing surveys



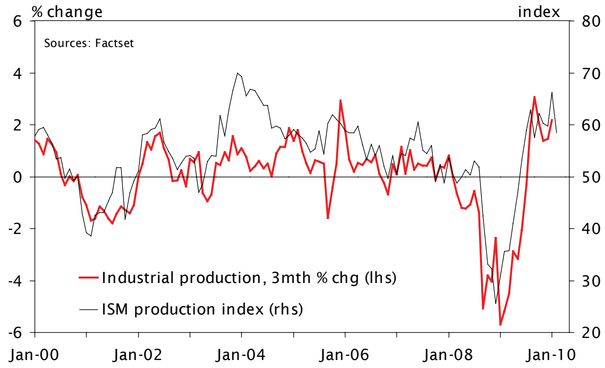
Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

US Feb industrial production: first fall in 8 months?

Mar 15, Last: 0.9%, WBC f/c: –0.2%, Mkt f/c: 0.0%

- Industrial production rose 0.9% in Jan, the seventh consecutive monthly gain, lifted by a solid manufacturing performance and a modest cold snap-driven rise in utility output. Decent gains in autos, consumer goods, business equipment, high tech and construction supplies point to a broad-based factory recovery continuing in early 2010.
- Factory hours fell 0.8% in Feb, though productivity gains and higher utility output given the colder than usual weather mid month should limit the IP fall to a more modest –0.2%.
- Other factors to consider include the near 6 pts fall in the production index of the ISM factory survey, recent renewed inventory rundown in some sectors, near flat factory orders back in Jan outside of the transport sector and recent problems at Toyota which saw some plants shut down in Feb.

US industrial sector: expansion mode

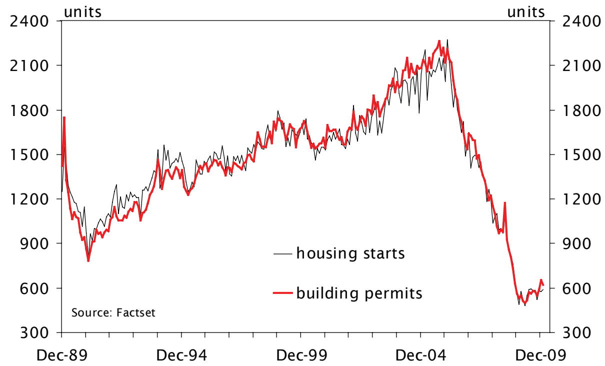


US Feb housing starts and permits

Mar 16, Starts: Last: 2.8%, WBC f/c: –8.0%, Mkt f/c: –3.6%
Mar 16, Permits: Last: –4.7%, WBC f/c: –3.0%, Mkt f/c: –3.4%

- Housing starts rose 2.8% in Jan but permits posted a multiples driven fall.
- Most housing data have failed to respond positively to the extended tax credit for home-buyers, and snowstorms must have impacted construction in some areas – construction hours worked slumped 3.4% in Feb. Also, new home sales fell to a record low in Jan, suggesting little incentive to start work on new properties.
- We expect a steep 8% fall in starts with both single family and multiples to fall; a double digit decline is a realistic risk. Permits will also fall, but by less, given that multiples may bounce and the weather impact on the approval process is not as disruptive as it is on builders trying to break ground on a new home.

US housing starts and permits

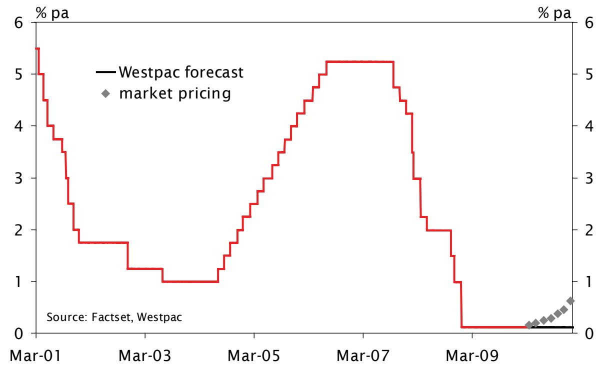


US FOMC meeting

Mar 16, Last: 0-0.25%%, WBC f/c: 0-0.25%, Mkt f/c: 0-0.25%

- Fed officials have made it clear that rates will remain low for an extended period, even if there is some debate about dropping that formal commitment from the statement.
- The assessment of the economy in the statement is likely to be broadly similar to that issued at the Jan 27 window, and recent weak inflation outcomes should ensure that the comment “inflation is likely to be subdued for some time” is retained.
- Despite weaker housing news of late, we expect the Fed to confirm that it will wind down purchases of agency mortgage-backed securities and debt by the end of the month, effectively ceasing its support for the mortgage lending and housing markets. The Fed will then take some time to assess the impact of this move, before moving further along its exit strategy.
- We do not expect the Fed funds target to be lifted until 2011.

Fed funds target rate



Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

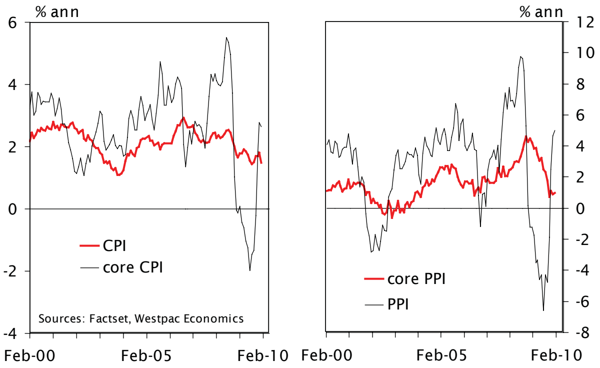
US Feb PPI and CPI

Mar 17, PPI headline Last: 1.4%, WBC f/c: –0.5%, Mkt f/c: –0.2%

Mar 18, CPI headline Last: 0.2%, WBC f/c: 0.1%, Mkt f/c: 0.1%

- The PPI jumped 1.4% in January, lifted by energy prices (gasoline up 11.5%) and a 1.9% bounce in light truck prices, which, despite a 0.5% fall in auto prices, contributed to an above trend 0.3% rise in the core PPI. Since the report was surveyed in early January, gasoline prices have eased and truck prices are volatile but not showing a significant rising trend, so the February PPI should see at least a partial reversal of that Jan gain.
- The CPI rose by 0.2% for the fifth month in a row in Jan with energy up 2.8% (including 4.4% for gasoline) and food up 0.2%. But the big surprise was the first negative core rate for nearly thirty years, down by over 0.1%. That is a sign that the wide output gap is still clamping down on price pressures, and we expect another subdued/flat core CPI in Feb. Food prices may lift the headline a touch but gasoline looks steady in Feb.

US price inflation



Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Key Data and Events

		Last	Market Median	Westpac Forecast	Comments
Mon 15 Mar					
US	Mar NY Fed Empire State Index	24.9	22.0	15.0	Recent lower reads on Richmond Fed might show up here soon.
	Jan Net Long Term TIC Flows $bn	63.3	47.5	–	Consistently positive though mix of flows shifting month to month.
	Feb Industrial Production	0.9%	0.0%	–0.2%	Factory hours worked down 0.8% but utility output to provide offset.
	Mar NAHB Housing Market Index	17	17	16	Increasing evidence housing market has lost momentum.
UK	Mar House Prices %yr	6.1%	–	–	Rightmove index of asking prices.
Can	Jan Auto Sales	2.6%	0.0%	0.0%	Prelim guidance from StatCan is "relatively unchanged" in Jan.
Tue 16 Mar					
Aus	Mar RBA Board Meeting Minutes	–	–	–	Was the March rate hike a 'finely balanced' decision like Feb's?
US	Feb Import Prices	1.4%	–0.2%	–0.3%	Oil prices little changed, stronger dollar to soften other prices.
	Feb Housing Starts	2.8%	–3.6%	–8.0%	Construction hours worked down 3.4% shows there was a sizeable
	Feb Housing Permits	–4.7%	–3.4%	–3.0%	weather impact in the sector, but less so on permits than starts.
	FOMC Rate Decision	0-0.25%	0-0.25%	0-0.25%	Firmly on hold but support for mortgage market to unwind.
Eur	Feb CPI (F) %yr	0.9%a	0.9%	0.9%	Core CPI was also 0.9% yr in Jan.
Ger	Mar ZEW Economic Sentiment	45.1	43.5	44.0	Already down five months running as concerns mount about 2010.
UK	Jan House Prices %yr	2.9%	3.5%	–	Lesser watched DCLG (govt) index.
Can	Jan Manufacturing Sales	1.6%	0.6%	–	Dec rise was transport sector driven.
	Q4 Labour Productivity	–0.3%	0.8%	–	Stronger jobs growth and strong GDP growth determining factors.
Wed 17 Mar					
NZ	Q1 Consumer Confidence	116.9	–	–	RBNZ on hold but unemployment rate higher, house prices slowing.
Aus	Jan WBC-MI Leading Index, %6m ann'lsd	6.2%	–	–	Very strong 2009H2 but some monthly components had weak Jan.
	Q4 Dwelling Commencements	8.9%	6.0%	12.0%	Catching up to approvals, which surged 11.9% in Q3 and 12.8%
	RBA Assistant Gov Debelle Speech	–	–	–	Panel discussant at MFAA Luncheon (1.30PM AEDT)
US	Feb Producer Prices	1.4%	–0.2%	–0.5%	Early month survey timing should capture lower energy prices and
	Feb PPI Core	0.3%	0.1%	0.0%	volatile truck prices should pull core PPI lower.
Jpn	Bank of Japan Decision	0.10%	0.10%	0.10%	Something looks to be brewing in the QE space.
	Jan Tertiary Activity Index	-0.9%	1.3%	–	Bounceback likely, but underlying trend is soft.
Eur	Q4 Labour Costs %yr	3.2%	2.7%	–	Noisy data over past year but downtrend in annual growth resuming.
UK	Mar BoE Policy Meeting Minutes	9:0	–		9:0 On hold vote likely unanimous until May when QE debate returns.
	Feb Unemployment chg	24k	6k	–	5k Jan jobless jump out of line with recent trend improvement.
Can	Jan Wholesale Sales	0.7%	0.5%	–	Dec rise led by machinery and electronic equipment.
Thu 18 Mar					
Aus	Q1 WBC-ACCI Survey of Industrial Trends	50.4	–	–	+2.2pts in Q4 to >50 (mfg expansionary zone) 1st time since 2008Q2.
	Feb Merchandise Imports, nsa AUDbn	15.4	–	–	–12.7% in Jan = –4.2% sa, with vols pulling back after strong 2009H2.
US	Feb Consumer Price Index	0.2%	0.1%	0.1%	Jan CPI saw first fall in core rate in 28 years, a sign that the output
	Feb Core CPI	–0.1%	0.1%	0.0%	gap is still weighing down on inflationary pressure.
	Initial Jobless Claims w/e 13/3	462k	455k	450k	Feb weather impact on claims now unwinding.
	Q4 Current Account Balance $bn	–108	–120	–	Wider trade deficits to push current account deficit wider.
	Mar Philadelphia Fed Index	17.6	18.0	14.0	Recent lower reads in other regionals and national ISM to show here.
	Feb Leading Index	0.3%	0.1%	flat	First pause after 10 monthly rises, mostly due to temp weather issues.
	Fedspeak	–	–	–	Hoenig, Lacker, Pianalto, Duke all to speak.
Jpn	Q1 BSI Large All-Industry %qtr	-1.9%	–	–	Lead indicator of Tankan and a decent survey in its own right.
Eur	Jan Trade Balance sa €bn	7.0	6.0	–	Ninth consecutive surplus after global trade crash. Trending higher too.
	Jan Current Account Balance Sa €bn	1.9	–	–	First surplus in five months in Dec.
UK	Feb Major Bank Mortgage Approvals	49k	54k	–	Down two months running from 63k peak in Nov.
	Feb PSNCR £bn	-11.8	11.0	–	UK public finances deteriorating almost every month.
	Feb Money Supply M4 %yr	4.9%	4.3%	–	Plunging from 18.8% yr in Feb 2009.
	Mar CBI Industrial Trends Survey	-36	–	–	Orders index. Survey improvement not matched by official data.
Fri 19 Mar					
NZ	Feb External Migration ann.	22,590	–	22,530	Has been stable, we expect a fall some time in 2010.
	Feb Credit Card Transactions	1.5%	–	–	Electronic card data suggests consumer caution in February.
Jpn	Jan All-Industry Activity Index	-0.3%	1.5%	–	Tertiary and IP expected to be positive, but construction weak.
Ger	Feb Producer Prices %yr	-3.4%	-2.8%	–	Base effects/current rises as EUR falls driving slower pace of decline.
Can	Feb Consumer Prices %yr	1.9%	1.4%	–	Base effects lifted the headline and core CPI back to around the
	Feb CPI Core %yr	2.0%	1.7%	–	midpoint of the BoC's 1-3% target.
	Jan Retail Sales	0.4%	0.5%	–	Retailing saw subdued end to the year in Canada.

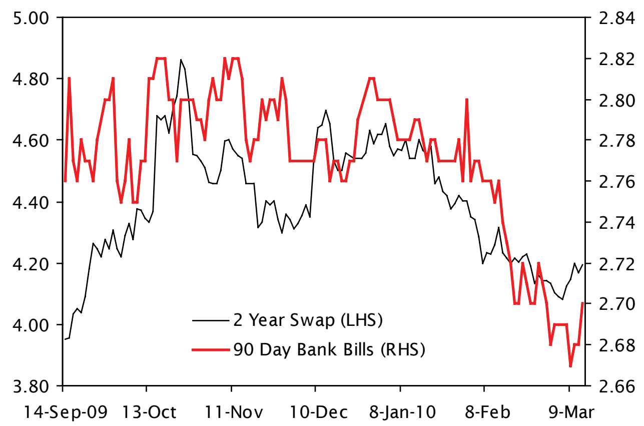
Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

New Zealand Economic and Financial Forecasts

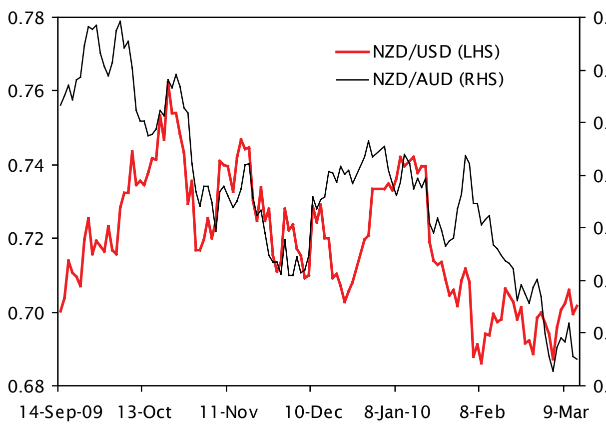
Economic Growth Forecasts	March years				Calendar years			
% change	2008	2009	2010f	2011f	2008	2009e	2010f	2011f
GDP (Production) ann avg	2.9	-1.4	0.0	4.1	-0.1	-1.4	3.7	4.3
Employment	-0.3	0.7	-1.3	1.8	0.9	-2.4	1.2	2.1
Unemployment Rate % s.a.	3.8	5.0	7.1	6.3	4.7	7.3	6.5	5.7
CPI	3.4	3.0	2.4	1.5	3.4	2.0	2.0	2.4
Current Account Balance % of GDP	-7.8	-7.9	-1.6	-4.2	-8.7	-1.9	-3.8	-5.5

Financial Forecasts	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Cash	2.75	3.25	3.75	4.25	4.75	5.25	5.75
90 Day bill	3.20	3.70	4.20	4.70	5.20	5.70	6.10
2 Year Swap	4.70	5.00	5.30	5.60	5.90	6.20	6.40
5 Year Swap	5.60	5.70	5.90	6.10	6.30	6.45	6.60
10 Year Bond	5.90	5.90	6.00	6.10	6.20	6.20	6.30
NZD/USD	0.67	0.72	0.77	0.76	0.74	0.72	0.71
NZD/AUD	0.79	0.80	0.81	0.82	0.82	0.84	0.84
NZD/JPY	61.0	67.0	73.9	77.5	78.4	78.5	79.5
NZD/EUR	0.50	0.53	0.56	0.56	0.56	0.56	0.57
NZD/GBP	0.46	0.48	0.50	0.48	0.47	0.46	0.46
TWI	63.3	67.1	70.8	71.1	70.7	70.4	70.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 15 March 2010

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.67%	2.67%	2.71%
60 Days	2.69%	2.69%	2.73%
90 Days	2.71%	2.70%	2.73%
2 Year Swap	4.19%	4.14%	4.22%
5 Year Swap	5.17%	5.14%	5.21%

NZ foreign currency midrates as at Monday 15 March 2010

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7027	0.6998	0.6980
NZD/EUR	0.5104	0.5171	0.5133
NZD/GBP	0.4630	0.4666	0.4457
NZD/JPY	63.650	62.460	62.810
NZD/AUD	0.7663	0.7769	0.7848
TWI	64.700	64.900	64.700

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2005	2006	2007	2008	2009	2010f	2011f
Australia							
Real GDP % yr	2.8	2.9	4.0	2.4	1.3	3.2	3.6
CPI inflation % annual	2.8	3.3	3.0	3.7	2.1	2.6	2.8
Unemployment %	5.1	4.8	4.4	4.2	5.6	5.2	4.9
Current Account % GDP	-5.8	-5.3	-6.3	-4.4	-4.1	-4.7	-4.1
United States							
Real GDP %yr	3.1	2.7	2.1	0.4	-2.4	2.4	3.0
Consumer Prices %yr	3.4	3.2	2.9	3.8	-0.4	1.3	2.4
Unemployment Rate %	5.1	4.6	5.8	5.8	9.3	9.6	9.1
Current Account %GDP	-6.1	-6.0	-5.3	-4.9	-3.1	-3.0	-2.3
Japan							
Real GDP %yr	1.9	2.8	2.2	-1.5	-5.8	2.3	1.8
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	3.2	2.8	4.1	4.3
Euroland							
Real GDP %yr	1.8	3.1	2.8	0.5	-4.0	0.6	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	0.5	-5.0	0.2	1.3
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 12 March 2010

Interest Rate Forecasts	Latest (Mar 15)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Australia						
Cash	4.00	4.25	4.50	4.50	4.50	5.00
90 Day Bill	4.46	4.50	4.60	4.75	4.75	5.25
10 Year Bond	5.70	5.90	6.00	6.00	6.10	6.75
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.50
US 10 Year Bond	3.70	3.40	3.75	4.00	4.50	5.25
ECB Repo Rate	1.00	1.00	1.00	1.00	1.25	1.50

Exchange Rate Forecasts	Latest (Mar 15)	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
AUD/USD	0.9170	0.85	0.90	0.95	0.93	0.90
USD/JPY	90.58	91	93	96	102	106
EUR/USD	1.3768	1.34	1.36	1.38	1.36	1.32
AUD/NZD	1.3050	1.27	1.25	1.23	1.22	1.20

Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (NZ division). Information current as at 15 March 2010. All customers please note that this information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. The information contained in this report is general in nature and does not constitute an offer, a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument and does not constitute an offer, inducement or solicitation to enter a legally binding contract. Australian customers can obtain Westpac's financial services guide by calling +612 9284 8372, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. © 2010 Westpac Banking Corporation.