# Weekly Commentary

22 February 2010

# Discounting up

An otherwise quiet week was stirred up on Friday by the Federal Reserve's decision to increase its discount rate from 0.50% to 0.75%.

Fed officials were quick to follow up with reassurances that this didn't represent a monetary tightening, and that their main policy rate – the Fed funds rate – is still expected to stay low for "an extended period".

First impressions are that this won't immediately lead to higher interest rates. The discount rate is where the Fed will lend overnight cash to banks, effectively placing an upper bound on the rates at which they borrow and lend among themselves. Raising that upper bound implies that market rates could also move higher, but that seems unlikely: the market rate ultimately depends on the relative power of borrowers and lenders. At the moment the banking system is flush with cash, sitting in reserves at the Fed and earning zero interest. Any bank looking to borrow overnight will still be able to negotiate a relatively low rate (in recent months it has been 0.10-0.15%).

However, the move probably was significant as a signal of the Fed's intention to press ahead with the normalisation of monetary policy. And the speed with which they acted is certainly worth noting. On 10 February, Chairman Bernanke told Congress that "before long, we expect to consider a modest increase in the spread between the discount rate and the target federal funds rate"; just nine days later the decision had been made.

Locally, the news was limited to lower-tier data releases, which tends to be the case in the weeks ahead of a Monetary Policy Statement. Producer prices were subdued in the December quarter, confirming the sense that the prolonged recession and the stronger New Zealand dollar have dampened inflation pressures to date. Input prices rose 0.3% in the quarter, while output prices fell by 0.4%. Both measures were down more than 3% on a year earlier. While the gap between the two rates suggests a squeeze on profit margins, this was confined to specific circumstances in a few industries.

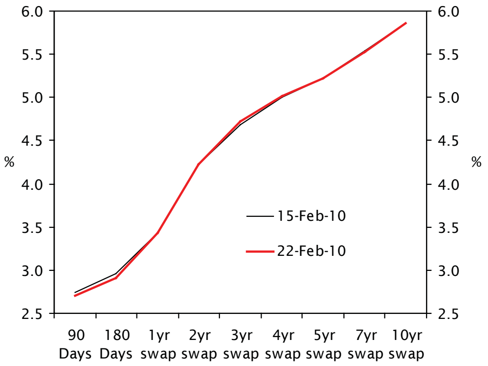
There were also two minor updates on the consumer. The ANZ-Roy Morgan consumer confidence index fell from 131.4 to 123.6 in February. But this only reversed a little more than half of January's climb to a three-year high, and at current levels is still consistent with annual growth in retail spending of 5% or more – hardly suggestive of a feeble recovery.

Second, the RBNZ's measure of credit card transactions rose 1.5% in January, following a 1.2% fall in December. This measure is often played down as an indicator of retail spending, as the relationship from month to month is weak. But we'd call attention to it this time because it helps to resolve the puzzle of the disappointingly soft retail sales data in December: while electronic card transactions recorded a solid 0.7% gain, total retail spending turned out flat (and ex-auto spending slumped by 1.8%). We're now more confident that this was a timing issue that will be reversed in January, so that retail spending growth should outstrip electronic cards (up 0.5%) by a comfortable margin.

The key data this week is the RBNZ's inflation expectations survey on Tuesday. The focus will be on expectations two years ahead, which is something of a benchmark measure for the RBNZ. Indeed, the measure for inflation one year ahead could be substantially higher if respondents have assumed that the mooted GST increase will be in place by October. An increase from 12.5% to 15% would have a direct impact of 2% on the CPI, which would see annual inflation peak at around 4.8% in our forecasts.

Expectations for two years ahead popped up to 2.6% in the last survey in November – a disconcertingly high level for an economy just entering the recovery phase. We expect this to drop back a little, helped by a benign inflation outturn in the December quarter (with annual inflation only

***NZ Interest Rates***




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

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increasing from 1.7% to 2.0%). However, the RBNZ will have genuine cause for concern if expectations remain elevated this time.

Next is the NBNZ business confidence survey on Thursday. The last few months have consistently seen small declines in the general confidence measure, but with continued improvement in the details. That pattern will probably be repeated this month, with general confidence softer. In particular, the extremely high confidence in the housing construction sector will be difficult to maintain in the face of buyer concerns about potential changes to the tax treatment of property (the survey would have largely been completed before PM Key's opening speech to Parliament, which ruled out proposals for new taxes on investment properties.) But the more critical details will be around firms' activity intentions, especially hiring (which returned to the long-run average in December) and investment (which was still slightly below average.

We expect a small deficit for January merchandise trade (Fri). The overall balance has improved in the last year or so, with exports supported by higher commodity prices and imports just starting to rebound after a sharp plunge during the recession. Car imports have seen the sharpest improvement in recent months, but appear to have taken a breather in January.

Finally, we are looking for residential building consents (Friday) to re-establish their upward trend after a couple of disappointing months. Tax worries aside, the current rate of building activity is still too low to meet population growth (which has been boosted by a turnaround in net migration trends in the last year), and the risk remains of a shortage of new housing over coming years. We are forecasting a 5% increase in consents, with apartments the wild card as always.

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

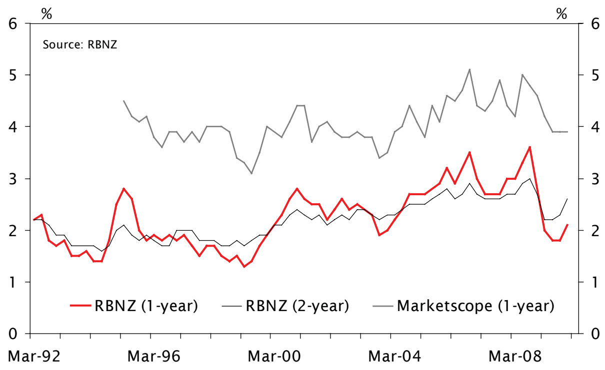
## Key Data Previews

### NZ Q1 RBNZ survey of inflation expectations

**Feb 23, 2yr ahead – Last: 2.6%, WBC f/c: 2.4%**

- The focus is on 2-year-ahead inflation expectations, which are something of a benchmark at the RBNZ. Inflation expectations dropped figuratively off the radar when it dropped literally from 3.0% in September 2009 to 2.2% in June 2009. However, expectations popped back up to 2.6% in December 2009. That would be high enough to concern the RBNZ if it were sustained, but not if it turns out to be a one-off blip. Therefore the Q1 2010 data will serve an important role in either confirming or refuting last quarter's surprise jump.
- Our money is on a fall in inflation expectations to 2.4%, which would give the RBNZ further comfort on the CPI outlook. However, 1-year-ahead expectations could spike higher if some respondents include the likely rise in GST.
- There is potential for a market reaction if inflation expectations turn out higher than we expect.

*NZ inflation expectations*

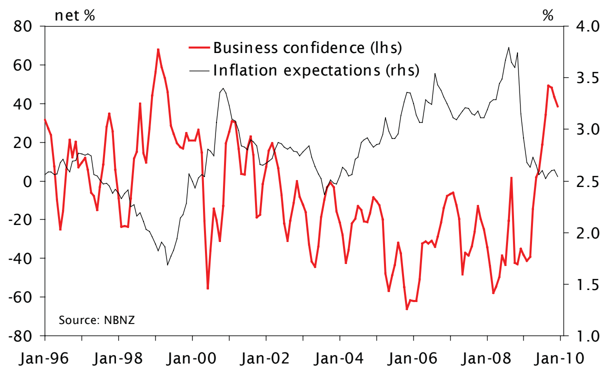



### NZ Feb NBNZ business confidence

**Feb 25, Last: 38.5%**

- The last few months have seen small declines in headline confidence, but strength in the details. In the December survey own-activity expectations rose to a new cycle high, and hiring and investment intentions closed in on their long-run averages.
- We expect this to be repeated in February. Overall confidence may have been dragged down by softer than expected data, and the extremely high confidence in residential construction may have taken a knock on concerns about potential tax changes. However, the focus will be on further improvement in the detailed measures.
- Expectations remain consistent with strong growth in coming quarters. An outturn similar to December would be consistent with our forecast for 1% growth in Q1 GDP.

*NBNZ Business Confidence*

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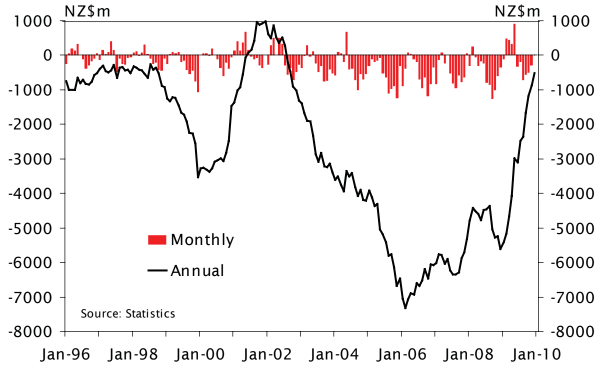
## NZ Jan merchandise trade NZDm

**Feb 26, Last: +2, WBC f/c: –90**

- The merchandise trade balance has been strong for the past year. Export receipts have grown with rising commodity prices, while the subdued spending environment has kept import expenditure relatively low. Late last year car imports rose sharply, creating a temporary return to decent deficits.
- Car imports have retreated from their peak, and were quite weak in January. Consequently, we expect a low import bill for the month.
- Export receipts are expected to remain robust thanks to high global commodity prices.

*NZ merchandise trade balance*

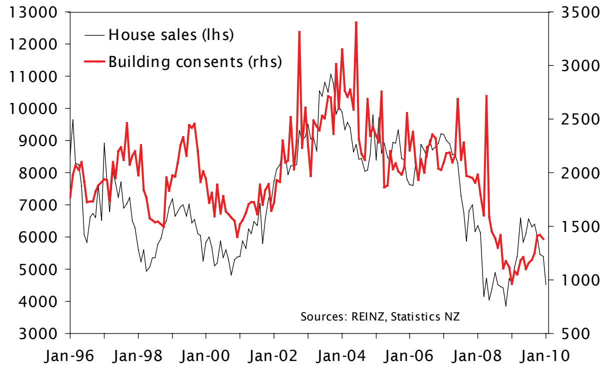



## NZ Jan building consents s.a.

**Feb 26, Last: –2.4%, WBC f/c: 5.0%**

- Dwelling consents fell 2.4% m/m in December, a disappointing result given that a strong pickup in residential construction is a key part of our growth forecasts for 2010. Admittedly consents have risen a hefty 44% from the lows seen last January, but our view has been that this trend is far from mature.
- We expect a 5% increase in dwelling consents for January, as ex-apartment consents return to a solid upward trend. Apartment consents remain the wildcard. We have factored in 80 apartment consents in January (average over the past 6 months).
- Non-residential consents were surprisingly robust in Dec, recording the highest value since May 2009. However, we expect the strength to be temporary, with a sustained pick up in non-residential building activity not expected until later in the year.

***NZ housing activity** (monthly, seasonally adjusted)*

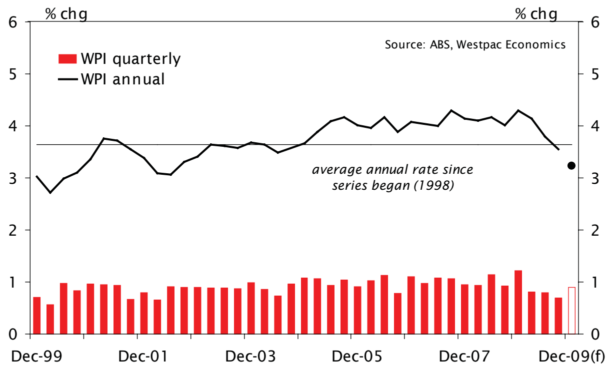



## Aus Q4 wage price index

**Feb 24, Last: 0.7%, WBC f/c: 0.9%, Mkt f/c: 0.8%, Range: 0.5% to 0.9%**

- The wage price index (WPI) rose 0.7%qtr in Q3, the lowest rise since 2000Q1, and with a 0.9%qtr result from the prior year dropping out, annual growth slowed to 3.6%yr from 3.8% (lowest since 2004Q2), back on its historic average pace. Private sector growth fell to 3.2%yr from 3.5%yr, dropping below its historic average pace (3.5%yr).
- With wage growth historically responding to labour market developments with a lag of around six months, and the unemployment rate rising through 2009H1, WPI growth should remain subdued in Q4. Also, the Q4 outcome will be biased down by the Australian Fair Pay Commission's final minimum wage decision of no change (vs 4.1% ann'lsd rise prior year). We forecast +0.9%qtr taking growth to 3.2%yr, and see downside risk – but this is likely to be the trough with the unemployment rate beginning to trend down in 2009Q3 more rapidly than expected.

*Wage inflation to ease Q4 ... likely the trough*

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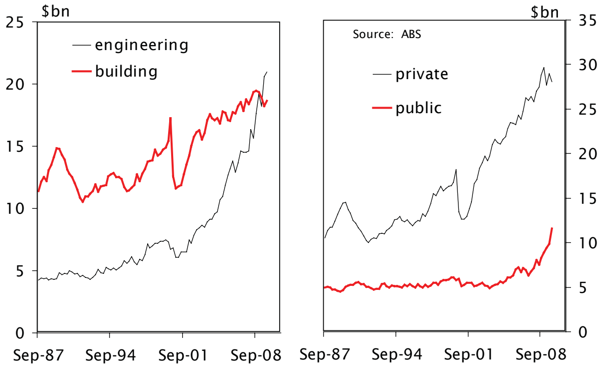
## Aus Q4 construction work done

**Feb 25, Last: 2.2%, WBC f/c: 3.5%, Mkt f/c: 2.0%, Range: -1.5% to 5.0%**

- Construction activity most likely ended 2009 on a strong note, with a forecast rise of 3.5%. Strength should be widespread, with the notable exception of private non-residential building work outside of the education segment.
- Public construction work, after jumping 18% in Q3, is forecast to rise further. The Federal Government's school building and public housing spending spree will provide the impetus.
- The strong housing construction upswing began in Q3 and is set to continue through 2010.
- Private engineering construction work is also expected to rise, given the sizeable pipeline of work outstanding. However, there is the potential for surprise given the uneven upward trend of late – with only four rises in the last nine quarters.

*Construction work on the rise*

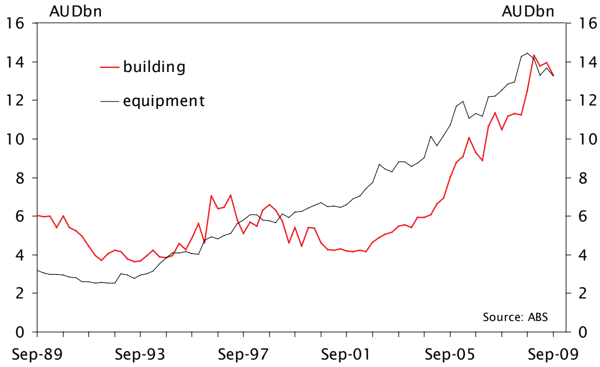



## Aus Q4 CAPEX

**Feb 25, Last: -3.9%, WBC f/c: 2.5%, Mkt f/c: 1.5%, Range: -3.0% to 5.0%**

- Business CAPEX expenditure is expected to finish 2009 on a positive note, ending what was a choppy year. CAPEX is forecast to increase by 2.5% in Q4, to be down 4%yr.
- Risks to this forecast are tilted to the upside.
- The Government's fiscal measures were at work again. Taxation incentives triggered an investment pull forward in Q2 and boosted vehicle sales in Q4. Other vehicles (trucks etc), which represent about 1/5th of total vehicle sales, leapt 35% in Q4. That compares with a 13% jump in Q2.
- This underpins a forecast 5% rise in equipment spending.
- However, building and structure spending is expected to be broadly flat, with weakness in building (ex-education).

***Real capital expenditure** (CAPEX survey)*

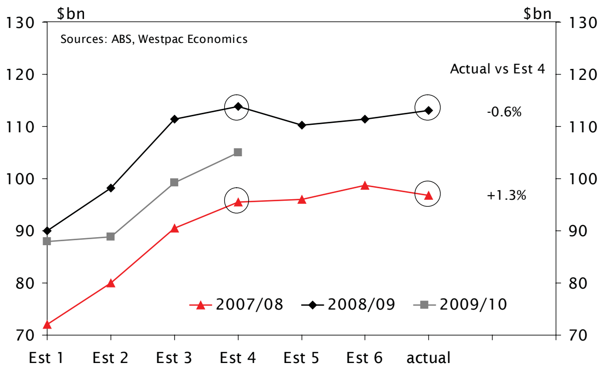



## Aus CAPEX intentions

**Feb 25, Last: 2009/10 $105bn**

- The survey will provide the 5th estimate for the value of CAPEX spend in 2009/10 and the first read on 2010/11 plans.
- A modest upgrade to 2009/10 plans is expected. The 4th estimate was about 8% below estimate 4 for 2008/09. However, the final outcome for 2009/10 is not likely to be as weak as that.
- Note: the final outcome in 2008/09 was actually a fraction below the 4th estimate for that year.
- The 1st estimate for 2010/11 plans is keenly awaited. But a word of caution, the first couple of estimates can often be wide of the mark – indeed very wide of the mark, given that the outcome of the year prior is still unknown.
- We're forecasting investment to rise in 2010/11, up by about 5%, in response to above average capacity utilisation levels.

*CAPEX plans*

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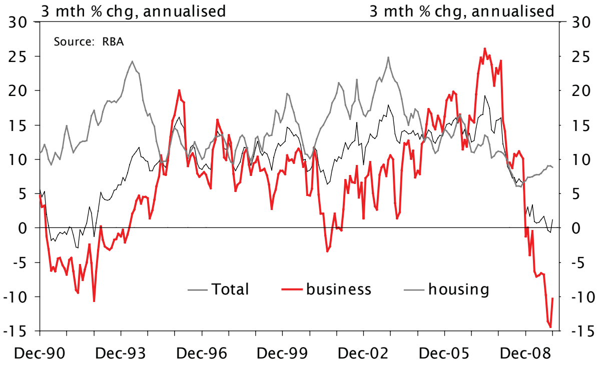
## Aus Jan credit

**Feb 26, Last: 0.3%, WBC f/c: 0.2%, Mkt f/c: 0.2%, Range: 0.0% to 0.5%**

- Credit to the private sector is expected to begin 2010 on a soft note. Just how soft is the question.
- Our forecast is for credit to increase by an insipid 0.2%, following a 0.3% rise in December. That outcome was the strongest monthly result since January 2009.
- Business credit, which contracted by a surprisingly hefty 3.8% over the 3 months to November (vs -1.8% over the 3 months prior), declined by just 0.2% in December. We expect business credit to turn the corner in 2010 given the more positive environment and the advanced stage of balance sheet reform. However, the monthly profile is likely to remain a bumpy one.
- Housing credit growth slowed a little over the final 2 months of 2009, as the winding back of government incentives and higher interest rates impacted.

*Credit momentum*

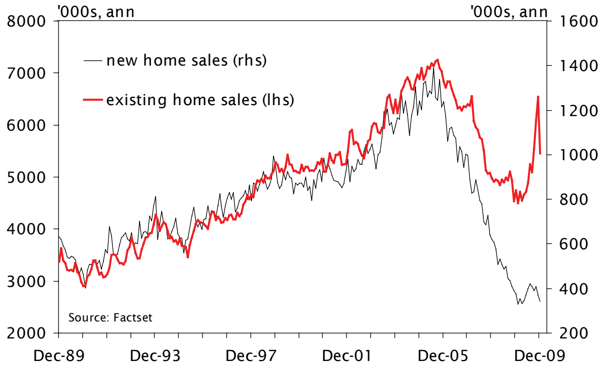



## US Jan new and existing home sales

**Feb 24, New home sales: Last: –7.6%, WBC f/c: 4.0%, Mkt f/c: 3.8%**
**Feb 26, Existing home sales: Last: –16.7%, WBC f/c: –2.0%, Mkt f/c: 0.9%**

- For nearly six months up until late Q3, US housing was showing signs of strengthening on all indicators: starts, permits, prices, homebuilder sentiment and of course sales. But more recently, most sector indicators have lost momentum, including some steep falls for both these sale measures in Dec.
- New home sales tend to be volatile and revisions can be severe. Some sort of bounce, in part due to extended tax credit, after the back to back losses worth 18% in Nov-Dec is likely, though the size of the gain may be muted by snow-storms.
- Existing home sales reflect transactions agreed in months prior, and the 17% collapse in Dec matched a similar-sized fall in pending home sales in Nov. However existing sales thru 2009 still have an overhang of around 3% vs the pending index, so we expect a further small fall in Jan.

*US housing sales*

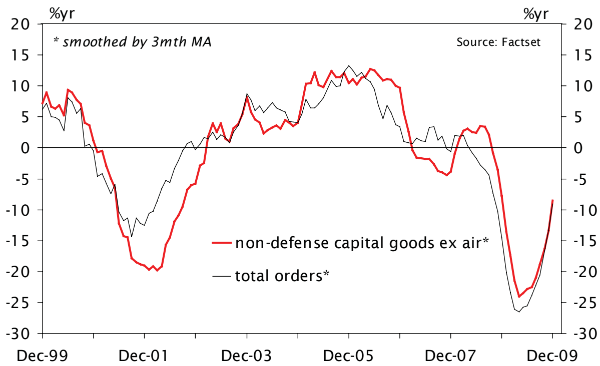



## US Jan durable goods orders to post a stronger gain

**Feb 25, Last: 1.0%, WBC f/c: 2.0%, Mkt f/c: 1.5%**

- Durables orders posted an 1.0% gain in Dec (originally 0.3% but later revised). The big surprise was the further steep fall in aircraft orders which contrasted with Boeing data showing a 500% increase in Dec. Defence fell slightly, its third consecutive decline. Other detail was more positive, including back to back rises in core capital goods in Nov-Dec: that component has risen in three of the past four months, suggesting some restored momentum in business investment.
- Jan orders are forecast to post another gain, which would mean the first string of three monthly rises since late 2007. Jan ISM factory orders rose to a new cycle high at 65.9; Jan industrial production showed solid gains in business equipment and consumer goods; and although Boeing Jan data revealed a steep fall, as noted above they are currently out of synch with the Census Bureau data. Defence is due to bounce too.

*US durable goods orders*

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## Key Data and Events

| | | Last | Market Median | Westpac Forecast | Comments |
|---|---|---|---|---|---|
| **Mon 22 Feb** | | | | | |
| US | Jan Chicago Fed National Activity Idx | -0.61 | -0.19 | – | Derived from 80 previously released activity data reports. |
| | Feb Dallas Fed Factory Index | 8.3 | – | 10.0 | One of the last regional surveys to turn positive, but less volatile. |
| | Fedspeak | – | – | – | SF Pres Yellen in San Diego. |
| **Tue 23 Feb** | | | | | |
| NZ | Q1 RBNZ 2yr Inflation Expectations | 2.6% | – | 2.4% | Expected to show last quarter's jump was anomalous. |
| Aus | RBA Dep. Gov Battellino Speaking | – | – | – | Topic tba; speaking to The Sydney Institute (18:00 AEDT). |
| Jpn | Bank of Japan Minutes | – | – | – | On hold indefinitely. |
| US | Dec House Prices %yr | -5.3% | -3.0% | – | S&P/ Case-Shiller 20 city index. |
| | Feb Conf Brd Consumer Confidence | 55.9 | 55.0 | 54.5 | Other consumer surveys for Feb have been softer. |
| | Feb Richmond Fed Factory Index | -2 | – | 1 | NY and Philly indices both stronger in Feb. |
| | Fedspeak | – | – | – | Bullard on regulatory reform. |
| Ger | Feb Ifo Business Climate Index | 95.8 | 96.1 | – | Still climbing strongly despite clearly weaker German economy in Q4. |
| UK | Feb House Prices %yr | 8.6% | 11.0% | – | Tentative date for Nationwide index due 23-26/2. |
| | Jan Mortgage Approvals | 45.9k | 43.0 | – | BBA data, loans for house purchase only. |
| **Wed 24 Feb** | | | | | |
| Aus | Q4 Wage Price Index %qtr | 0.7% | 0.8% | 0.9% | Biased down by lack of usual min. wage rise; likely trough with U now falling. |
| US | Jan New Home Sales | -7.6% | 3.8% | 4.0% | Factors: disruptive weather, back revisions, volatility in other housing data. |
| | Fedspeak | – | – | – | Fed chair Bernanke testimony and monetary policy report. |
| Jpn | Jan Corp. Services Prices %yr | -1.5% | -1.1% | – | Non-traded prices yielding to scale of slack in service economy. |
| | Jan Trade Balance ¥bn | 523 | 545 | – | In rare deficit year ago, slowly normalising as world demand firms. |
| | Feb Small Business Confidence | 41.3 | – | – | Still at weak levels despite inventories now being under control. |
| Eur | Dec Industrial Orders | 2.7% | -1.0% | -1.5% | German data known down 2.3% in Dec. |
| Ger | Q4 GDP (F) | 0.0%a | 0.0% | 0.0% | German economy stalled in Q4, detail breakdown will show why. |
| | Mar GfK Consumer Confidence | 3.2 | 3.0 | – | Labelled Mar but surveyed early Feb. |
| **Thu 25 Feb** | | | | | |
| NZ | Feb NBNZ Business Confidence | 38.5% | – | – | Confidence to remain high, but focus will be on detailed measures. |
| Aus | Q4 Capex | -3.9% | 1.0% | 2.5% | Equipment spend rebound, boosted by gov't tax incentives. |
| | 2009/10 CAPEX Intentions, AUDbn | 105 | – | – | Est 4 was 8% down on est 4 2008/09. Expect some upgrade. |
| | Q4 Construction Work Done | 2.2% | 2.0% | 3.5% | Housing, school building and infrastructure all expected to rise. |
| US | Jan Durable Goods Orders | 1.0% | 1.5% | 2.0% | Expected to post third consecutive gain. See text box. |
| | Initial Jobless Claims w/e 20/2 | 473k | 458k | 445k | No obvious distortion behind latest spike in claims. |
| | Dec House Prices | 0.7% | 0.4% | – | Lesser watched FHFA (govt) index. |
| | Fedspeak | – | – | – | Pianalto and Bullard. |
| Eur | Feb Business Climate Index | -1.12 | -1.05 | – | In contrast to some of the private sector surveys of confidence, and the |
| | Feb Consumer Confidence (F) | -17a | -17 | – | recent hard activity data flow which confirmed slower economic |
| | Feb Economic Confidence | 95.7 | 96.4 | – | growth in Q4, these surveys have continued to improve uninterrupted. |
| | Jan Money Supply M3 %yr | -0.2% | 0.0% | 0.0% | Money supply growth has stalled for first time in euro history. |
| Ger | Feb Unemployment chg | 6k | 16k | – | Recent data understate German job mkt weakness. |
| UK | Q4 Business Investment | -0.6% | 0.1% | – | An input into Friday's Q4 GDP revisions. |
| | Feb CBI Distributive Trades Survey | – | – | – | Private sector guide to retailing; maybe better than official data. |
| **Fri 26 Feb** | | | | | |
| NZ | Jan Merchandise Trade NZDm | 2 | – | -90 | Subdued car imports will keep import bill low. |
| | Jan Building Consents s.a. | -2.4% | – | 5.0% | Look for some payback in dwelling consents from a weak December. |
| Aus | Jan Private Credit | 0.3% | 0.2% | 0.2% | Business down just 0.2% in Dec – unclear if that'll be repeated in Jan. |
| US | Q4 GDP First Rev % ann'lsd | 5.7% | 5.7% | 5.7% | Partial data point to offsetting revisions esp from stocks, trade. |
| | Jan Existing Home Sales | -16.7% | 0.9% | -2.0% | Pending home sales suggest some decline in existing home sales likely. |
| | Feb Chicago PMI | 61.5 | 59.0 | 55.0 | Often moves out of synch with other regional surveys. Strong in Jan. |
| | Jan Milwaukee NAPM | 56.0 | – | – | One of the lesser watched PMIs. |
| | Fedspeak | – | – | – | Dudley, Kocherlakota, Tarullo, Evans in NY. |
| Jpn | Jan National CPI %yr | -1.7% | -1.4% | – | 9 of the last 10 monthly changes have been negative. |
| | Feb Tokyo CPI %yr | -2.1% | -2.0% | – | Ex food and energy measure has stabilised between -1¼% & -1½%. |
| | Feb Nomura PMI | 52.5 | – | – | Disconnect with small business reflect trade exposure of PMI sample. |
| | Jan Industrial Production | 1.9% | 1.0% | – | External demand joining stock cycle to provide impetus. |
| | Jan Retail Sales %yr | -0.2% | -0.2% | – | Household incomes still in decline, retail suffers accordingly. |
| | Jan Housing Starts %yr | -15.7% | -11.6% | – | Dwelling investment has been brutally weak. |
| | Jan Construction Orders %yr | 0.6% | – | – | Volatile series weighed down by DOA private non-res. building. |
| Eur | Jan CPI (F) %yr | 1.0%a | 0.9% | 1.0% | Core CPI was 1.1% in Dec. |
| Ger | Feb CPI %yr | 0.8% | 0.6% | – | Annual rate has probably peaked for time being. |
| UK | Feb GfK Consumer Confidence | -17 | -17 | -17 | Confidence improvement has stalled. |
| | Q4 GDP 1st Rev | 0.1% | 0.2% | 0.2% | We expect an upward revision; so does Gordon Brown. |
| Can | Q4 Current Account Balance C$bn | -13.1 | -8.9 | – | Q3 saw record deficit. |

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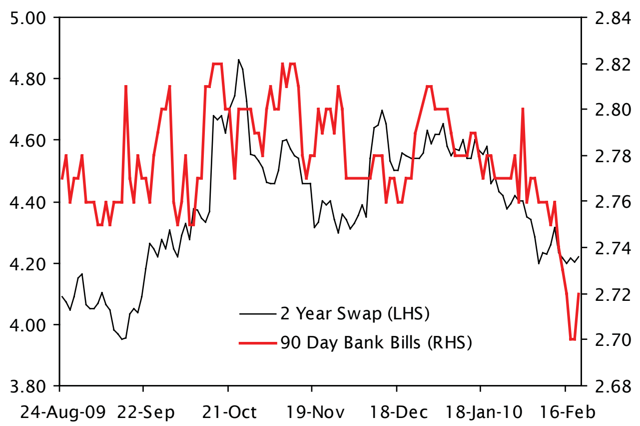
## New Zealand Economic and Financial Forecasts

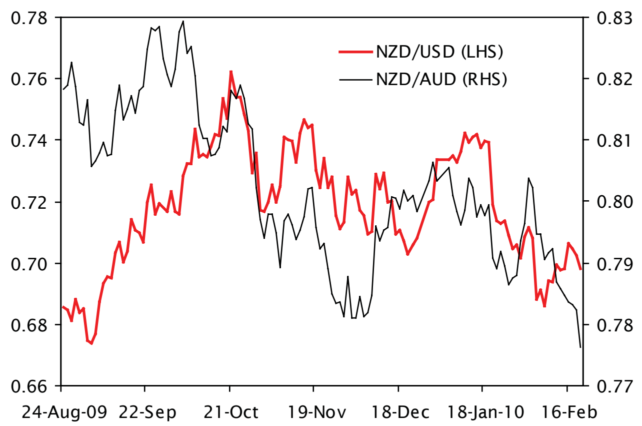
| Economic Growth Forecasts | March years | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|
| % change | 2008 | 2009 | 2010f | 2011f | 2008 | 2009e | 2010f | 2011f |
| GDP (Production) ann avg | 2.9 | -1.4 | -0.1 | 4.2 | -0.1 | -1.4 | 3.7 | 4.3 |
| Employment | -0.3 | 0.7 | -1.3 |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

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

***2 Year Swap and 90 Day Bank Bills***




***NZD/USD and NZD/AUD***




### NZ interest rates as at market open on Monday 22 February 2010

| Interest Rates | Current | Two Weeks Ago | One Month Ago |
|---|---|---|---|
| Cash | 2.50% | 2.50% | 2.50% |
| 30 Days | 2.69% | 2.72% | 2.71% |
| 60 Days | 2.74% | 2.74% | 2.75% |
| 90 Days | 2.71% | 2.76% | 2.77% |
| 2 Year Swap | 4.23% | 4.24% | 4.43% |
| 5 Year Swap | 5.22% | 5.23% | 5.34% |

### NZ foreign currency midrates as at Monday 22 February 2010

| Exchange Rates | Current | Two Weeks Ago | One Month Ago |
|---|---|---|---|
| NZD/USD | 0.7009 | 0.6860 | 0.7129 |
| NZD/EUR | 0.5137 | 0.5011 | 0.5050 |
| NZD/GBP | 0.4528 | 0.4388 | 0.4429 |
| NZD/JPY | 64.100 | 61.260 | 64.040 |
| NZD/AUD | 0.7773 | 0.7906 | 0.7919 |
| TWI | 64.900 | 63.740 | 65.090 |

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

Forecasts finalised 5 February 2010

| Interest Rate Forecasts | Latest (Feb 22) | Mar-10 | Jun-10 | Sep-10 | Dec-10 | Mar-11 |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Cash | 3.75 | 4.00 | 4.25 | 4.50 | 4.50 | 4.50 |
| 90 Day Bill | 4.16 | 4.20 | 4.50 | 4.60 | 4.75 | 4.75 |
| 10 Year Bond | 5.60 | 5.60 | 5.90 | 6.00 | 6.00 | 6.10 |
| **International** | | | | | | |
| Fed Funds | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| US 10 Year Bond | 3.77 | 3.60 | 3.40 | 3.75 | 4.00 | 4.50 |
| ECB Repo Rate | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 | 2.00 |

| Exchange Rate Forecasts | Latest (Feb 22) | Mar-10 | Jun-10 | Sep-10 | Dec-10 | Mar-11 |
|---|---|---|---|---|---|---|
| AUD/USD | 0.9017 | 0.86 | 0.85 | 0.90 | 0.95 | 0.93 |
| USD/JPY | 91.46 | 88 | 91 | 96 | 100 | 106 |
| EUR/USD | 1.3643 | 1.38 | 1.36 | 1.40 | 1.43 | 1.46 |
| AUD/NZD | 1.2865 | 1.26 | 1.25 | 1.22 | 1.20 | 1.19 |

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