Weekly Commentary

28 February 2011

Tragedy in Christchurch

Last week's tragic earthquake is devastating for the people of Christchurch, and has touched the lives of all New Zealanders. For a city already coping with the aftermath of last September's 7.1 magnitude earthquake and the thousands of aftershocks that have followed, this is heart-rending. The February 22 earthquake measured lower on the Richter Scale than the September shake, at 6.1. However, as last Tuesday's quake was centred closer to the city centre and was shallower, the ground beneath Christchurch actually shook more violently this time. The intense shaking combined with the lunch-hour timing of last Tuesday's quake resulted in a horrific human toll.

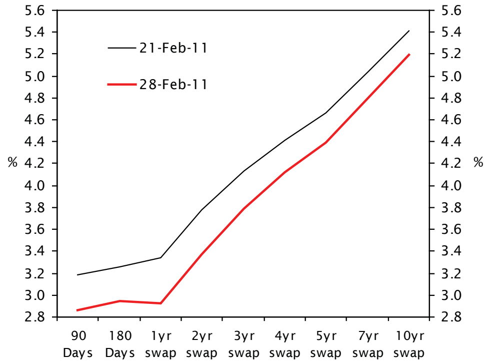
In time attention will turn to the economic cost of the latest quake. It is too early to place a meaningful value on the damage, other than to say that it will in all likelihood be far greater than the damage from last September, currently reckoned at NZD$5bn plus. Economic activity will take a severe knock in the short term. We estimate that disruptions such as school closures and reduced retail spending following last September's quake shaved at least 0.3% off national GDP growth. The disruption this time will be more severe and longer lasting. And this latest crisis is doubly damaging because one of the key pillars of growth in 2011 has been knocked from under us. We had expected Canterbury reconstruction activity to begin in earnest around now, but this is now likely to be delayed until late 2011, as the assessments and planning begin afresh. Our forecasts will be subject to revision over coming weeks as more information becomes available, but at this stage we have trimmed 1.5 percentage points from our 2011 GDP growth forecast, which now stands at 1.7%.

From the Reserve Bank's point of view, the most acute risk is a loss of business and consumer confidence. We now think there is a good chance that the Reserve Bank will cut the OCR by 50 basis points to 2.50% at the March 10 *Monetary Policy Statement*. This is a difficult call, and market opinions regarding the Reserve Bank's likely course of action vary. In this kind of situation we must put ourselves in the Governor's shoes, given what we know about the RBNZ's decision-making process and the information we have so far about the scale of this disaster. Our judgement is that the Governor will err on the side of shoring up confidence and easing the burden on an economy whose short-term growth prospects have been stunted. To be effective, the cut would need to be timely and meaningful in size (i.e. more than 25bps). Regardless of whether the Reserve Bank delivers a cut on March 10, we no longer expect any hikes in the OCR this year.

In time reconstruction activity will provide a large boost to Christchurch and New Zealand GDP growth. We have pencilled in the greater part of this activity for 2012 and 2013. As the Canterbury reconstruction effort draws on the nation's scarce (and damaged) resources, inflationary pressures are likely to develop. While the Reserve Bank will be at pains to give growth a chance, eventually OCR hikes could be required. We are now forecasting a steep series of OCR hikes through 2012 and 2013, taking the OCR to 5.25% by June 2013.

It is inevitable that the government accounts will deteriorate as a consequence of the quake. The state-owned Earthquake Commission (EQC), which is liable for the first $100,000 of damage to insured residential properties plus $20,000 for household contents claims, will spend $1.5bn in reserves plus $2.5bn in reinsurance contracts before drawing on government guarantees. The Government is also liable for repairing

NZ Interest Rates



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

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its own buildings and infrastructure in Christchurch, and will probably cover much of the cost of restoring local infrastructure. Fiscal revenues will drop with the short-term hole in economic activity, and there will be costs associated with health and welfare spending, ACC claims, and housing and accommodation benefits. However, Standard & Poor's have affirmed New Zealand's AA+ rating, noting "the government has sufficient flexibility to absorb additional fiscal costs without a negative impact on its creditworthiness." Markets responded calmly, with government bond yields falling after the quake.

Week in review, week ahead

Economic data over last week was rightly ignored by markets. Fonterra announced that its forecast milk payment for the 2010/11 season had been revised 60 cents higher. The total payment for a 100% share backed farmer is now forecast to equal that of the 2007/08 "dairy boom" days, at $7.90 – a clear positive for New Zealand. There was a small rise in inflation expectations, whereas the Reserve Bank would have been looking for a fall to confirm its assumption that the GST hike would not affect expectations. Today's merchandise trade balance featured decent export receipts thanks to strong commodity prices.

Statistics New Zealand has delayed until further notice the release of some data previously scheduled for this week (see calendar for details).

Soaring global prices for New Zealand's export commodities will be the dominant theme of the data that is released. On Tuesday we expect the Q4 Terms of Trade will hit a 37-year high, and the ANZ Commodity Price Index to register more price gains in February.

Fixed vs. floating: The RBNZ's response to the earthquake could generate significant volatility in interest rates next week. There is a good chance of a sharp fall in floating rates. Fixing before the RBNZ's decision in known is of little value, given the likely market responses to various scenarios. An OCR cut would probably generate a fall in fixed rates, while an on-hold decision could leave fixed rates unchanged. If the RBNZ does cut, there may be a window of opportunity to lock in favourable fixed rates, given that Christchurch reconstruction will eventually put upward pressure on the OCR.

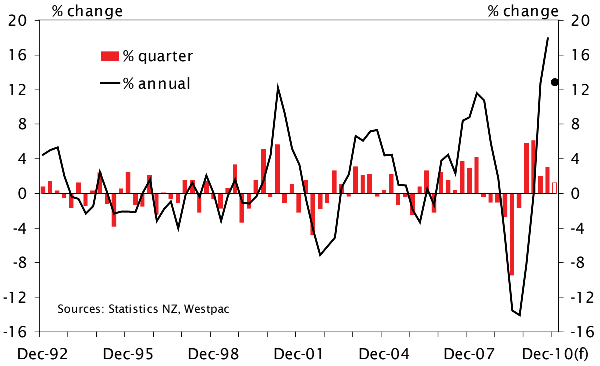
Key Data Previews

NZ Q4 terms of trade

Mar 1, Last: 3.0%, WBC f/c: 1.2%

- We expect New Zealand's terms of trade to register a small gain in Q42010. Higher prices for non-dairy commodity exports are expected to outweigh temporary softness in dairy prices in Q4, pushing export prices up by 0.7%. Lags between contract and delivery mean lower dairy prices mid-year 2010 will be reflected in Q4 export prices.
- Import prices are expected to be marginally lower (-0.5%) on the back of a slightly stronger New Zealand dollar in Q4 dampening manufactured import prices.
- This combination would leave New Zealand's terms of trade at its highest level since 1974 – a clear positive for the NZ economy.

NZ terms of trade

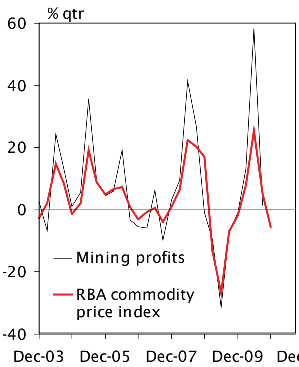


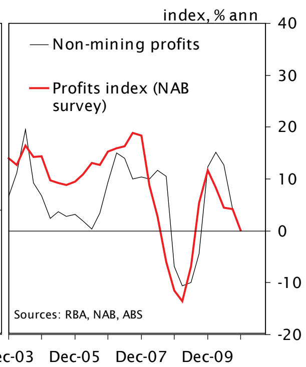
Aus Q4 company profits

Feb 28, Last: –1.5%, WBC f/c: –3.0% Mkt f/c: 1.0%, Range: –3.0% to 8.5%

- Company profitability deteriorated over the second half of 2010, exacerbated by an end of year dip in mining profits. We're forecasting a 3.0% fall in Q4, after a 1.5% decline in Q3.
- In the broader economy (i.e. ex-mining), profits fell by around 3.5% in Q3 and are forecast to drop by about 1% in Q4. Patchy spending by consumers has been a headwind, with retailers forced to discount. Although, the sharp rise in the currency has held down costs.
- Mining sector profits have been trending upwards and are set to move higher still in 2011. However, we suspect there was a fall in Q4, triggered by a dip in global commodity prices. Our forecast is for a 5% fall, in line with the decline in the RBA's non-rural commodity price index (in AUD terms).

Mining profits: a dip in Q4



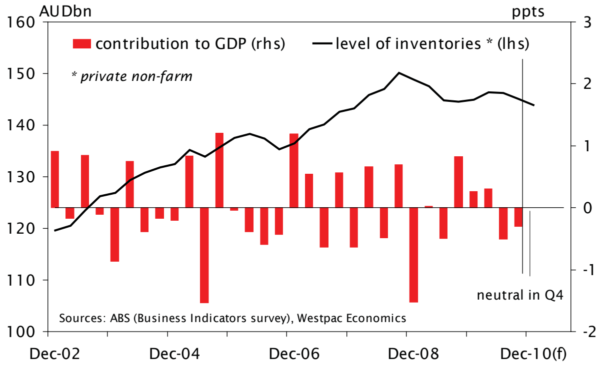


Aus Q4 inventories

Feb 28, Last: –0.8%, WBC f/c: –0.8% Mkt f/c: –0.5%, Range: –2.0% to 1.2%

- Private non-farm inventories are forecast to fall in Q4 – at the same rate as in Q3.
- We're forecasting inventory levels to decline by 0.8% in Q4, implying no contribution to Q4 GDP growth. That represents an improvement from a 0.3ppt subtraction in Q3.
- Retailers and manufacturers ran down inventories in Q3 at a time of mixed domestic sales. Also, the mining sector partly met export orders by drawing down inventories. These themes most likely extended until the end of the year. However, after the run-down of retail inventory levels in Q3 we expect a smaller decline this quarter.

Inventories: decline at same pace?

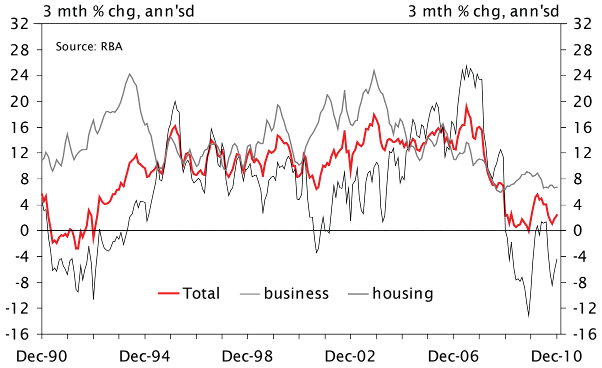


Aus Jan private credit

Feb 28, Last: 0.2%, WBC f/c: 0.2% Mkt f/c: 0.3%, Range: 0.1% to 0.4%

- Credit to the private sector is forecast to expand by 0.2% in January, in line with the rise over the last couple of months. However, disruption from the Qld floods is a downside risk – although we see the impact as more likely in Feb and March.
- Housing credit growth has been unspectacular, at 0.55% in December and 6.7% annualised over the last three months. Rising interest rates and a dip in finance to the investor segment have been headwinds. However, more recently, new lending edged higher – thereby pointing to some upside.
- Business credit dropped 2.2% over the three months to October – reflective of a bout of business jitters (most notably in WA and Qld). This was after business credit stabilised over the first half of 2010. The final two months of 2010 saw falls of a more modest nature, of 0.1% and 0.3%. We anticipate that January will see a decline of similar magnitude.

Credit upswing stalls

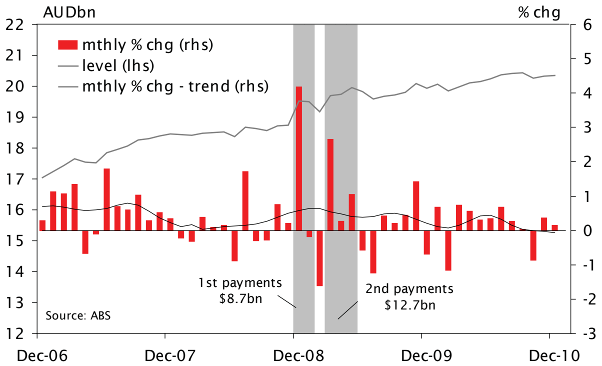


Aus Jan retail trade

Mar 1, Last: 0.2%, WBC f/c: –0.2% Mkt f/c: 0.3%, Range: –1.0% to 1.1%

- Retail sales rose 0.2% in Dec after a disappointing 0.4% gain in Nov and a 0.9% fall in Oct. The weak finish to 2010 reflected intense consumer caution, inclement weather, a steady leakage of sales to online imports encouraged by a high AUD, and aggressive price discounting.
- These headwinds will remain active in early 2011. In addition, **Jan retail sales will be impacted by severe flooding** in Qld and parts of NSW and Vic. Qld accounts for 20% of sales. With data collection activities and survey response rates affected, the ABS may even suspend its estimate (although that is not their expectation at this stage). The experience during the Brisbane floods and Cyclone Tracy in 1974 suggests the initial hit to retail is offset by a rush to stockpile essentials. We expect this to be the case in Jan with just a small 0.2% dip in sales overall. Risks around this forecast are wide.

Monthly retail sales

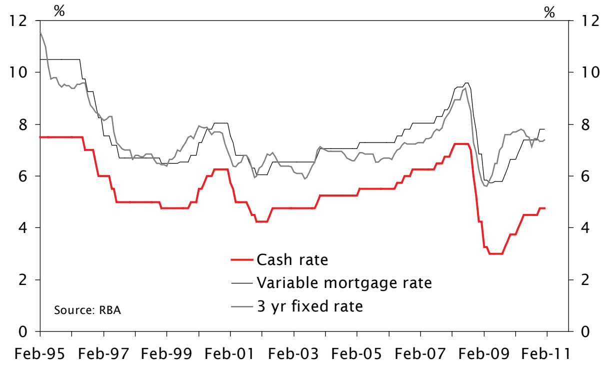


Aus RBA policy announcement

Mar 1, Last: 4.75%, WBC f/c: 4.75% Mkt f/c: 4.75%, Range: 4.75% to 4.75%

- The RBA left rates unchanged at its Feb meeting but retains a clear medium term tightening bias. According to the Feb SoMP – released two days after the decision – the Bank still expects above trend growth to push inflation to the top of the 2 to 3% target band by the end of 2012. While significant for near term growth and inflation, severe weather events in early 2011 were not expected to alter this medium term outlook.
- Despite this medium term view, the RBA appears comfortable with current settings. In his testimony to the House of Reps Committee on Economics, Governor Stevens said the Bank was "ahead of the game" and could afford to watch and wait if necessary. He broadly endorsed market pricing on rates which had no moves expected before late 2010. As such, we expect the RBA to again leave rates on hold in March. We're forecasting one rise later in 2011, most likely in Q3.

RBA cash and mortgage rates

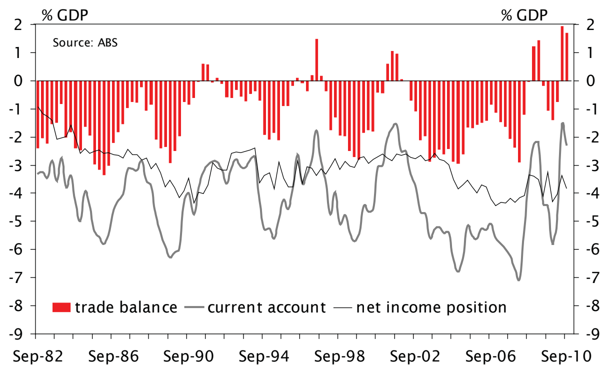


Aus Q4 current account, AUDbn

Mar 1, Last: –7.8, WBC f/c: –8.0 Mkt f/c: –7.0, Range: –10.0 to –5.7

- The current account deficit is forecast to be around $8bn (2.4% of GDP) in the December quarter, little changed from the $7.8bn (2.3% of GDP) originally reported in September.
- The trade position is comfortably in surplus at $6.8bn in the December quarter. That represents 2.0% of GDP, equal to that in the June quarter and before that, the largest since 1973. The surplus increased by $0.7bn from the revised September quarter position.
- We expect a further and largely offsetting deterioration in the primary income balance, forecasting a rise to -$14.4bn. The primary income balance, which temporarily narrowed in the June quarter, rebounded to -$13.2bn in the September quarter. This was on a surge in equity income outflows to foreign owners of Australian companies – in particular, mining stocks.

Current account: % of GDP

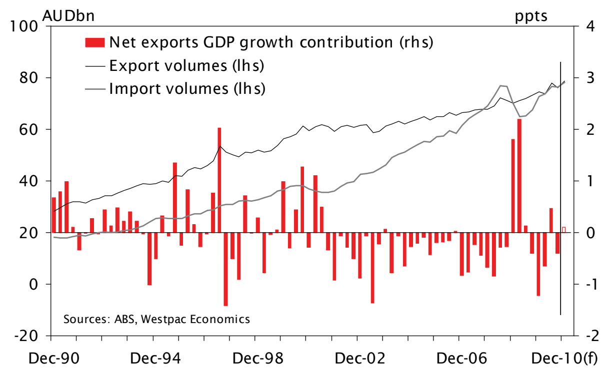


Aus Q4 net exports, ppt cont'n

Mar 1, Last: –0.4, WBC f/c: 0.1 Mkt f/c: 0.1, Range: –1.0 to 0.9

- Net exports are expected to improve in the December quarter. However, there is the risk of a surprise result because of discrepancies between movements in the export price index and the balance of payments export price measure.
- Net exports are expected to be neutral in Q4, contributing just 0.1ppts, following a 0.4ppts subtraction in Q3.
- Export volumes rose by a forecast 3.2%, rebounding from a disruption driven 2.4% fall in Q3. That slightly outpaces a forecast 2.7% rise in imports in Q4, following a 0.5% fall in Q3.
- The terms of trade is forecast to be broadly flat (up 0.5%). Export prices are forecast to drop by 3.8%, however movements in the export price index point to the risk of a larger decline. The cost of imports declined by a forecast 4.4% as the currency appreciated by 6% in the quarter.

Export and import volumes

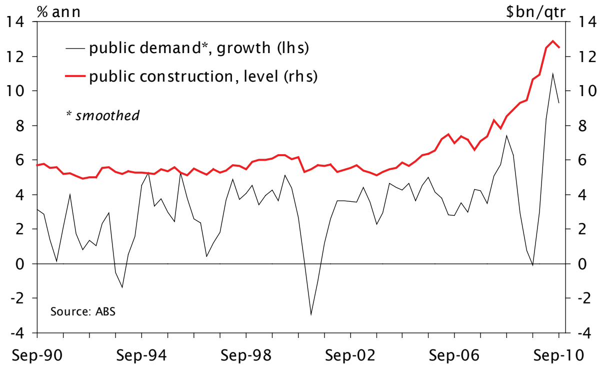


Aus Q4 public demand

Mar 1, Last: 0.9%, WBC f/c: flat

- Public demand, now 24% of the economy, is expected to become a headwind for growth over the near-term as the fiscal stimulus package winds down.
- We're forecasting public demand to be flat in Q4. A loss of momentum was already evident over the previous half year – with a flat Q2 and a rise of 0.9% in Q3. Prior to that, demand surged by 11% in the year to March 2010.
- The Federal Government's multi-billion dollar school building and public housing program drove this surge in public demand. Total public investment jumped by almost 50% in the year to March 2010 and then stalled over the last half year. Public construction data for Q4 reported a 2.8% fall.
- Public consumption (almost 75% of total public demand) is forecast to rise by 0.7%qtr, 3.7%yr in Q4.

Public construction boom peaks

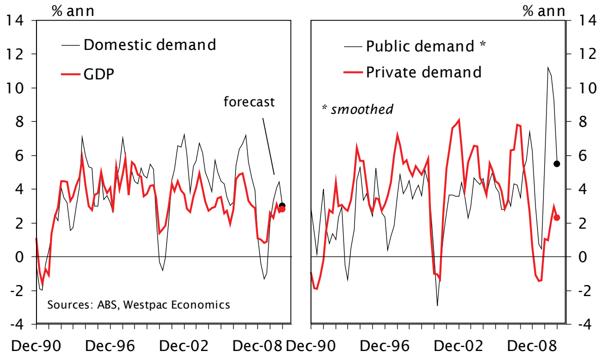


Aus Q4 GDP

Mar 2, Last: 0.2%, WBC f/c: 0.8% Mkt f/c: 0.6%, Range: 0.3% to 1.0%

- We're forecasting Q4 GDP growth of 0.8%, 2.8%yr. That's against the backdrop of relatively strong labour market conditions, with hours worked increasing 0.8%qtr, 3.2%yr.
- The expected solid end to 2010 represent a rebound in GDP growth from a sluggish 0.2% rise in Q3.
- Domestic demand growth is forecast to strengthen to 0.8% from 0.6% in Q3. Business investment growth is expected to be a little stronger and housing is expected to stabilise after declining in Q3. We anticipate that consumer spending growth remained modest and that public demand was flat in Q4.
- Net exports and inventories are forecast to be broadly neutral in the quarter. That represents an improvement from a modest subtraction in Q3 – a drag that was the major source of disappointment in the quarter.

Australian economic conditions

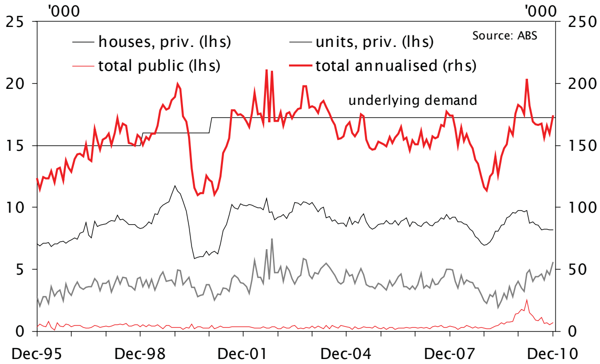


Aus Jan dwelling approvals

Mar 3, Last: 8.7%, WBC f/c: –12.0% Mkt f/c: –3.3%, Range: –12.0% to 3.5%

- Approvals posted a sharp 8.7% rise in Dec, more than offsetting a 3.9% fall in Nov and implying a modest trend rise late last year. That comes despite a 40bp rise in the mortgage rate to 7.8%. Gains have been most pronounced in 'units'. The rise may be partly a slower response to earlier strong demand due to funding problems in this segment.
- We should see more impact from Nov's rate rise in early 2011. However, **Jan figures will be heavily impacted by severe flooding** in Qld and parts of NSW and Vic which will affect applications, processing and data collection. Qld alone accounts for 18% of all approvals. The ABS still plans to publish a national figure but this may be revised substantially over time. Adding to complications, the low season also means Jan has a high seasonal adjustment factor (~25%). **We expect a 12% drop but it could easily be bigger.**

Dwelling approvals

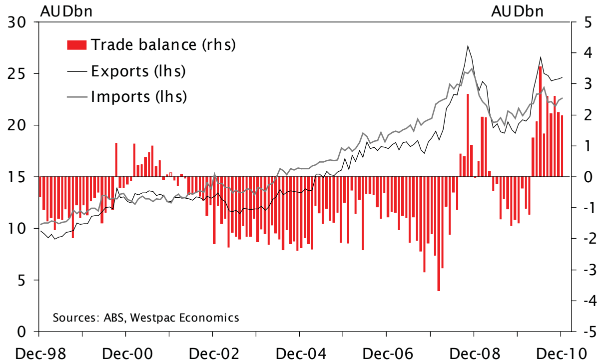


Aus Jan trade balance, AUDbn

Mar 3, Last: 1.98, WBC f/c: 2.6 Mkt f/c: 1.55, Range: 0.5 to 3.9

- Australia's trade surplus is forecast to widen in January, despite significant disruption from severe flooding.
- We're forecasting a $2.6bn surplus, up from $1.98bn, with exports -1.0% in the month and imports -4.0%.
- Coal export volumes are expected to be down 20% in the month and rural export volumes are also likely to have been disrupted. However, higher commodity prices and a lift in iron ore volumes largely offset this. We expect coal values to be down 15% ($0.6bn) but iron ore values to be up 14% ($0.9bn).
- The forecast 4% fall in import values, a drop of $0.9bn, is driven predominantly by a sharp pull-back in fuel imports, down $0.8bn, following a strong run-up in December. One area of strength is likely to be import services, with more Australian's travelling overseas.

Trade balance: a string of surpluses

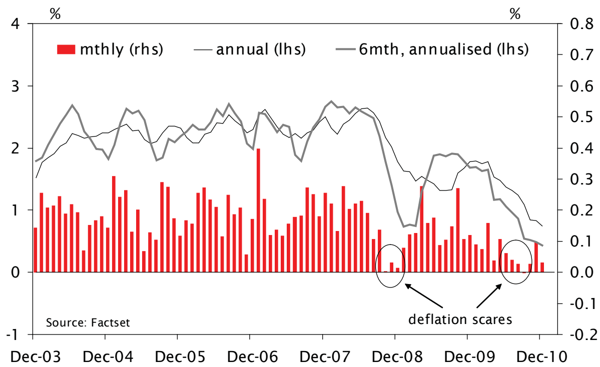


US Jan core PCE deflator

Feb 28, Last: 0.0%, WBC f/c: 0.1%, Mkt f/c: 0.1%

- The core PCE deflator was flat for the 4th month in five in Dec, for a quarterly annualised pace of 0.4% in Q4 and an annual pace of 0.7%yr, down from 1.8%yr at the start of 2010.
- This continued downtrend in the Fed's preferred measure of inflation provides some of the justification for the Fed's current round of Treasury purchases (QE2), even though it seems to be contributing to inflationary pressures in some asset markets and other regions of the world.
- There have been some early signs of higher core inflation in the CPI, up 0.2% in Jan (the first core gain above 0.1% since Oct 2009, although it was a soft 0.17% before rounding). Food and gasoline prices are rising due to weather and geopolitical issues. We are forecasting a 0.1% core PCE gain for Jan, but risks around that are skewed modestly to the upside.

US core PCE deflator

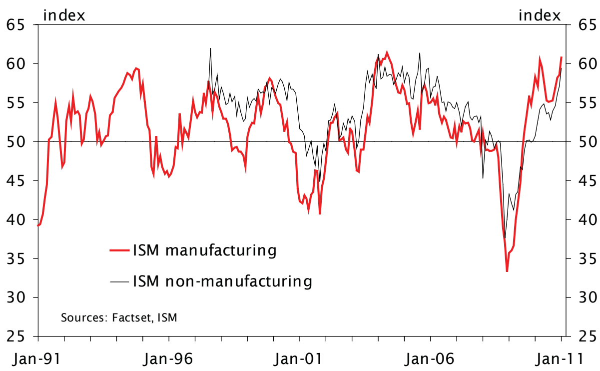


US Feb ISM factory and non-manufacturing reports

Mar 1, Factory Last: 60.8, WBC f/c: 62.0, Mkt f/c: 60.8
Mar 3, Non-manufacturing Last: 59.4, WBC 58.0, Mkt f/c: 59.4

- The factory ISM jumped to a new cycle high at 60.4 in Apr 2010, then fell back as the economy slowed mid year, before rising back to 60.8 in Jan, just shy of its highest reading in three decades. Philly/Richmond factory surveys were stronger in the Feb shipments, orders and jobs detail, but NY less so. Given the ISM is a composite of its key activity components, that regional mix suggests a further gain in the Feb ISM – making it harder to argue an industrial sector slowdown is imminent.
- The services ISM also experienced a mid-2010 slowdown but surged to its highest since Aug 2005 in Jan. But given ongoing cutbacks in state govt spending, constraints on consumer spending and weak construction, that looks unsustainable so we expect its renewed under-performance relative to the factory ISM to continue, with a dip to 58.0 (still solid) in Jan.

US ISMs: fresh highs in January

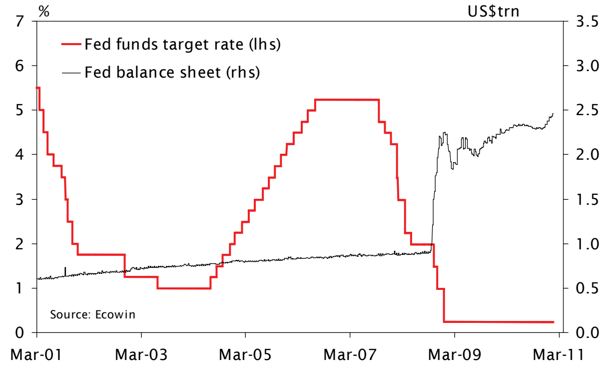


US Bernanke testimony and semi-annual policy report

Mar 1, repeated Mar 2

- The minutes to the Jan 26 FOMC meeting included the latest projections of the participants, including 3.75% GDP growth this year (central tendency mid-point, Q4 compared to a year earlier); 4.0% in 2012 and 4.2% in 2013. The jobless rate was forecast to fall from 8.9% to 7.0% over that horizon, and core PCE inflation to be little changed around 1.5%. These forecasts are too upbeat on the growth and unemployment variables, relative to our more pessimistic view, but are likely to be close to the numbers in the semi-annual monetary policy report.
- There was also some discussion in those minutes about possibly curtailing the current round of Treasury purchases prior to reaching $600bn by June. That is unlikely in our view, but it also suggests that any further quantitative easing (i.e. QE3) is not currently envisaged. The Bernanke testimony and Q&A may shed more light on that.

Fed funds target rate and balance sheet

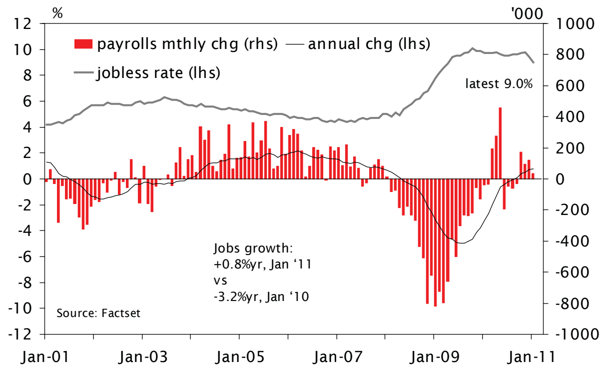


US Feb non farm payrolls to rise 220k

Mar 4, Last: 36k, WBC f/c: 220k, Mkt f/c: 190k

- Payrolls rose just 36k in Jan, clearly impacted by snowstorm disruption. The separate household survey found many more workers than usual could not work due to the weather, but we don't know by how many the payrolls survey was held back.
- GDP growth has been accelerating; jobless claims have a downward bias; most regional factory surveys found more jobs; consumer pessimism in the job market diminished. These signals suggest ongoing jobs growth, outside budget constrained state/local govts. We forecast a 220k payrolls gain (240k private incl the 90k weather bounce, –20k govt).
- The household survey showed 700k jobless workers leave the workforce in Dec-Jan, pulling the unemployment rate down from 9.8% to 9.0%. That looks unsustainable, and a job force participation correction could push the jobless rate back to 9.3%.

US payrolls



Key Data and Events

		Last	Market Median	Westpac Forecast	Comments
Mon 28 Feb					
NZ	Jan Building Consents s.a.	-18.6%	–	–	Delayed until further notice.
	Feb NBNZ Business Confidence	29.5	–	–	Confidence will be a focus in coming months.
Aus	Q4 Company Profits	-1.5%	1.0%	-3.0%	Soft patch. Mining profits dipped in Q4 and domestically patchy sales.
	Q4 Inventories, % chg	-0.8%	-0.5%	-0.8%	A run down by mining and retail. Neutral for growth in Q4 (see textbox).
	Jan Credit	0.2%	0.3%	0.2%	Constrained by declines in business & rising interest rates.
	Jan RP Data-Rismark House Price Idx	-0.7%	–	–	Clearly picking shifts earlier. Weather disruptions may factor in Jan.
US	Jan Core PCE	0.0%	0.1%	0.1%	Some evidence inflationary pressures picking up; core CPI 0.2% in Jan.
	Jan Personal Spending	0.7%	0.4%	0.3%	Retail sales 0.3% in Jan.
	Jan Personal Income	0.4%	0.4%	0.4%	Hours worked down but earnings per hour higher.
	Feb Chicago PMI	68.8	67.5	60.0	Recent elevated readings can't last for ever if our slowdown view is right
	Feb NAPM Milwaukee	57.0	59.9	–	Less watched and volatile.
	Jan Pending Home Sales	2.0%	-2.3%	-5.0%	Snow disruption.
	Feb Dallas Fed Factory Index	10.9	12.6	12.0	Philly Fed was spectacular, suggesting upward bias elsewhere.
	Fedspeak	–	–	–	NY Fed's Dudley on the economy. Also Rosengren.
Eur	Jan CPI Core %yr	1.1%	1.2%	1.2%	Headline rate already reported at 2.4%yr in Jan
Ger	Jan Import Prices	12.0%	11.2%	–	Pace of gain may have peaked.
Can	Q4 Current Account Balance C$Bn	-17.5	-9.7	–	Running deficits for two years now
	Q4 GDP % ann'lsd	1.0%	3.0%	–	Canadian GDP growth slowed from around 5% a year ago to just 1%
	Dec GDP	0.4%	0.3%	–	in Q3 but partial data suggest some reacceleration in Q4.
Tue 1 Mar					
NZ	Q4 Terms of Trade	3.0%	–	1.2%	Commodity price strength ensures ToT remains high
	Feb ANZ Commodity Price Index	3.8%	–	–	Strength in commodity prices to continue
Aus	RBA Policy Announcement	4.75%	4.75%	4.75%	On hold, as at last 2 meetings. Next rate hike not expected until Q3.
	Jan Retail Trade	0.2%	0.3%	-0.2%	Increased uncertainty due to floods. Stockpiling to offset initial hit?
	Q4 Current Account Balance, AUDbn	-7.8	-7.0	-8.0	Trade surplus +$0.7bn to $6.8bn. Offset by larger primary income deficit.
	Q4 Net Exports Contribution, ppt	-0.4	0.1	0.1	Expected to be broadly neutral in Q4 after Q3 -ve. A rebound in exports.
	Q4 Public Spending	0.9%	–	flat	Wind down of fiscal stimulus package, off set by public consumption.
	Feb AiG PMI	46.3	–	–	Index +0.4pts in Jan. In contractionary zone for 5th consecutive month.
US	Jan Construction Spending.	-2.5%	-0.5%	0.0%	Weather disruption in both Dec and Jan.
	Feb ISM Factory Survey	60.8	60.8	62.0	Regional surveys mostly suggest further acceleration in industrial sector.
	Feb Auto Sales mn ann'lsd	12.54	12.62	–	Auto sales steadily trending higher since early 2011.
	Fed Chairmen Bernanke	–	–	–	Semi-annual testimony and monetary policy report in Senate
	Fed Beige Book	–	–	–	Labour market comments will be a key focus.
Eur	Feb PMI Factory	59.0a	59.0	59.2	Revisions tend to be to upside.
	Feb CPI Flash %yr	2.4%	2.4%	2.4%	Some risk might tick up to 2.5%, awaiting German CPI Friday 25/2.
	Jan Unemployment Rate	10.0%	10.0%	10.0%	Lower German joblessness offsetting weaker job markets elsewhere.
Ger	Feb Unemployment Change	-13k	-18k	–	Downtrend resumed in Jan after Dec weather-related blip higher.
UK	Feb PMI Factory	62.0	61.0	60.0	From record low 8/08 to record high in 1/11. Where to from here?
	Jan M4 Money Supply %yr	-1.5%	–	–	More focus now on ex OFC data at 3.0% ann in Dec.
	Jan Net Consumer Credit £bn	0.2	0.2	–	There is next to no growth in household credit in the UK reflecting
	Jan Net Mortgage Lending £bn	-0.3	0.1	–	tighter lending and increased household caution/saving.
	Feb House Prices %yr	-2.4%	-2.5%	–	Tentative date for Halifax index, due 1-4/3.
Can	Bank of Canada Rate Decision	1.00%	1.00%	1.00%	Probably on hold until Fed signals further QE unlikely.
Wed 2 Mar					
Aus	Q4 GDP	0.2%	0.6%	0.8%	Stronger business investment + improved housing, net X & inventories.
US	Feb Corp Layoffs Announced %yr	-46.1%	–	–	Further evidence of how much lab mkt weakness has abated.
	Feb ADP Private Payrolls Change	187k	180k	140k	ADP not impacted by weather; correction lower after Dec-Jan spike.
	Fed Chairman Bernanke	–	–	–	Testimony repeated in House. Also Hoenig, Lockhart.
Eur	Jan PPI %yr	5.3%	5.7%	5.7%	Running around the same pace as already published German data.
UK	Feb PMI Construction	53.7	52.8	52.5	Back from snow constrained sub 50 in Dec but still soft
Can	Jan Industrial Product Prices	0.7%	0.6%	–	Commodity prices driving IPP higher.

Key Data and Events cont.

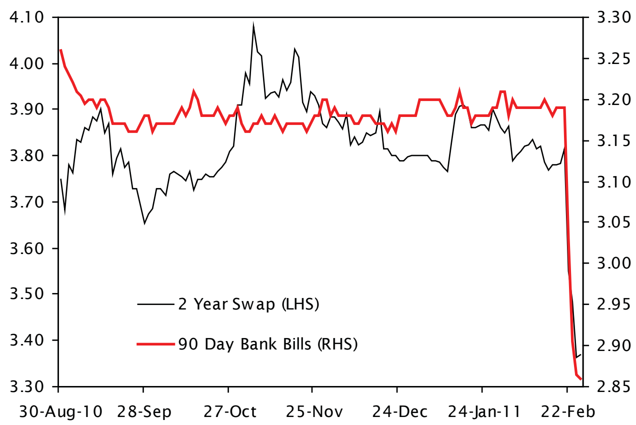
		Last	Market Median	Westpac Forecast	Comments
Thu 3 Mar					
NZ	Jan External Migration s.a.	750	–	–	Delayed until further notice.
	Q4 Building Work Put in Place	–3.4%	–	–	Delayed until further notice.
Aus	Jan Dwelling Approvals	8.7%	–3.3%	–12.0%	Increased uncertainty due to floods. Qld accounts for 18% of total.
	Jan Trade Balance, AUDbn	1.98	1.55	2.6	Imports -4% (largely fuel). Exports only -1%, coal down but iron ore up.
US	Q4 Productivity Revision	2.6%	2.6%	2.6%	Minimal revision likely if GDP is unrevised on 25/2.
	Initial Jobless Claims w/e 26/2	391k	395k	400k	Claims downtrend might be resuming.
	Feb ISM Non-Manufacturing	59.4	59.4	58.0	Can services sector really be this strong with sluggish jobs growth?
	Feb Chain Store Sales %yr	4.8%	–	–	Guide to official retail data.
	Fedspeak	–	–	–	Kocherlakota and Lockhart.
Jpn	Q4 Investment Incl. Software %yr	5.0%	5.9%	–	Source data for second estimate of investment in GDP.
Eur	Q4 GDP Revision	0.3%a	0.3%	–	More detail and possible back revisions.
	Jan Retail Sales	–0.6%	0.3%	–	Have not posted a rise since July.
	ECB Rate Decision	1.00%	1.00%	1.00%	New staff forecasts will be presented at the press conference.
	Feb PMI Services (F)	57.2a	57.2	57.2	Less likely to be revised higher than factory survey.
Ger	Jan Retail Sales	–0.3%	0.5%	–	Have not posted a significant rise since July.
UK	Feb House Prices %yr	–2.2%	–	–	Hometrack survey.
	Feb Services PMI	54.5	53.7	53.0	Jan saw rebound from weather-impacted Dec but pull-back due in Feb
Fri 4 Mar					
US	Feb Non-farm Payrolls chg	36k	190k	220k	90k weather bounce on top of 150k private jobs, less 20k for govt.
	Feb Unemployment Rate	9.0%	9.1%	9.3%	Recent jobless rate downswing at risk from participation bounce.
	Jan Factory Goods Orders	0.2%	2.0%	3.0%	Durables known up 2.7% in Jan. Non-durables prices rising.
Can	Feb IVEY PMI	41.4	51.0	52.0	Not seasonally adjusted but usually rises in Feb.

New Zealand Economic and Financial Forecasts

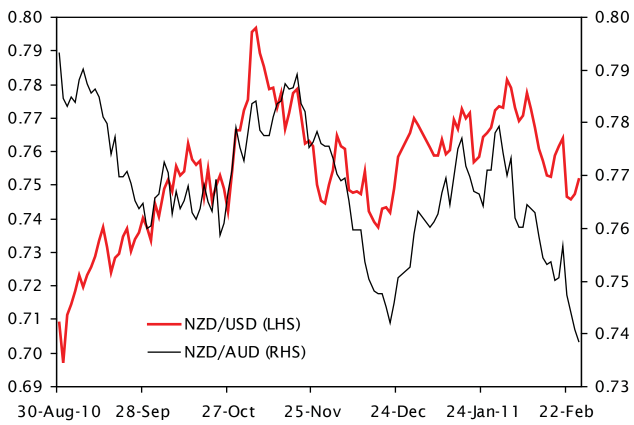
Economic Growth Forecasts	March years				Calendar years			
% change	2010	2011f	2012f	2013f	2009	2010e	2011f	2012f
GDP (Production) ann avg	-0.5	1.0	2.7	3.6	-1.7	1.4	1.7	3.7
Employment	-0.1	-0.2	2.5	1.9	-2.4	1.3	1.3	2.1
Unemployment Rate % s.a.	6.0	6.9	6.7	5.7	7.0	6.8	6.9	6.0
CPI	2.0	4.8	1.9	2.3	2.0	4.0	2.8	2.0
Current Account Balance % of GDP	-2.4	-1.3	-4.0	-4.8	-2.8	-2.5	-2.4	-4.8

Financial Forecasts	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Cash	2.50	2.50	2.50	2.50	3.00	3.50	4.00
90 Day bill	2.70	2.70	2.70	3.00	3.50	4.00	4.50
2 Year Swap	3.50	3.70	3.90	4.20	4.50	4.80	5.20
5 Year Swap	4.60	4.80	5.00	5.20	5.40	5.60	5.80
10 Year Bond	5.40	5.50	5.60	5.70	5.80	5.90	6.00
NZD/USD	0.75	0.79	0.79	0.77	0.76	0.74	0.72
NZD/AUD	0.74	0.76	0.77	0.78	0.79	0.80	0.80
NZD/JPY	62.3	65.6	65.6	68.5	69.2	68.8	68.4
NZD/EUR	0.56	0.57	0.57	0.58	0.58	0.57	0.56
NZD/GBP	0.47	0.48	0.47	0.46	0.45	0.44	0.42
TWI	66.9	69.4	69.6	69.8	69.8	68.9	67.8

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 28 February 2011

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	3.00%	3.00%	3.00%
30 Days	2.93%	3.17%	3.16%
60 Days	2.88%	3.17%	3.17%
90 Days	2.86%	3.20%	3.21%
2 Year Swap	3.37%	3.77%	3.86%
5 Year Swap	4.39%	4.66%	4.64%

NZ foreign currency midrates as at Monday 28 February 2011

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7507	0.7571	0.7733
NZD/EUR	0.5456	0.5612	0.5683
NZD/GBP	0.4660	0.4724	0.4872
NZD/JPY	63.580	63.050	63.870
NZD/AUD	0.7395	0.7544	0.7793
TWI	66.400	67.690	69.010

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2006	2007	2008	2009	2010e	2011f	2012f
Australia							
Real GDP % yr	2.9	4.0	2.2	1.3	2.7	3.2	4.0
CPI inflation % annual	3.3	3.0	3.7	2.1	2.7	3.9	2.6
Unemployment %	4.8	4.4	4.3	5.6	5.2	4.9	4.6
Current Account % GDP	-5.3	-6.3	-4.5	-4.2	-3.1	-3.0	-1.7
United States							
Real GDP %yr	2.7	2.1	0.0	-2.6	2.9	2.6	2.1
Consumer Prices %yr	3.2	2.9	3.8	-0.3	1.6	2.0	2.0
Unemployment Rate %	4.6	5.8	5.8	9.3	9.6	9.5	9.4
Current Account %GDP	-6.0	-5.3	-4.7	-2.7	-3.3	-2.9	-2.1
Japan							
Real GDP %yr	2.8	2.2	-1.5	-6.6	4.5	2.0	2.2
Consumer Prices %yr	0.2	0.1	1.4	-1.3	-0.7	-0.3	-0.1
Unemployment Rate %	4.1	3.9	4.0	5.1	5.1	5.0	4.9
Current Account %GDP	3.9	4.8	3.3	2.8	3.6	4.1	4.2
Euroland							
Real GDP %yr	3.2	2.9	0.3	-4.0	1.7	1.3	1.5
Consumer Prices %yr	2.0	3.1	1.6	0.9	2.0	1.6	1.5
Unemployment Rate %	7.9	7.3	7.8	10.0	10.5	10.5	10.5
Current Account %GDP	-0.1	0.1	-1.1	-1.0	-0.5	0.0	0.0
United Kingdom							
Real GDP %yr	2.8	2.7	-0.1	-5.0	1.8	1.3	1.5
Consumer Prices %yr	3.0	2.1	3.5	2.9	3.0	2.8	1.5
Unemployment Rate %	3.0	2.5	3.1	5.0	4.5	5.0	5.5
Current Account %GDP	-3.3	-2.7	-1.6	-2.4	-2.0	-1.5	-1.0

Forecasts finalised 4 February 2011

Interest Rate Forecasts	Latest (Feb 28)	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Australia						
Cash	4.75	4.75	4.75	5.00	5.00	5.25
90 Day Bill	4.94	4.95	5.00	5.25	5.25	5.50
10 Year Bond	5.54	5.70	5.50	5.20	5.40	5.50
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.41	3.60	3.30	3.10	3.30	3.40
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

Exchange Rate Forecasts	Latest (Feb 28)	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
AUD/USD	1.0152	1.01	1.04	1.03	0.99	0.96
USD/JPY	81.69	83	83	83	89	91
EUR/USD	1.3758	1.35	1.39	1.38	1.33	1.31
AUD/NZD	1.3523	1.31	1.28	1.27	1.25	1.23