

# Weekly Commentary

28 June 2010

## Paying our way

March quarter GDP data showed that New Zealand's economic recovery remains on track, although some wobbles were apparent as part of the rebalancing process.

The economy grew by 0.6% in Q1, broadly in line with expectations. The makeup of the data fits with our overall impressions of the economy: this recovery is shaping up as emphatically export-led and oriented towards primary and goods production, while services and consumption remain subdued.

The strongest production growth was found in key export industries like mining, forestry, agriculture, metals (mostly aluminium) and machinery and equipment manufacturing. Global demand for commodities, combined with Australian demand for manufactured goods, drove a 3.4% increase in goods exports.

By contrast, private consumption rose by just 0.2%. Consumers were weighed down by stagnant real wages, the weak housing market and rising petrol prices. While spending on durable goods, typically the most cyclical product segment, has continued to recover, consumption of services and non-durable goods was basically flat. This showed up as either declining production or weak growth in most of the service industries, including a 0.8% fall in retail trade.

The external orientation of the economy also showed up in the mix of investment.

Intangibles (mostly mining exploration) were up 10%, while investment in non-residential building and transport equipment, which is more oriented toward the domestic economy, fell sharply. Investment in residential housing expanded just 0.5%, off a miserably low base. Government was the only real bright spot in domestic demand, with the import of a \$93m patrol vessel and a 2.5% increase in 'other construction' – mainly roads and bridges.

The robust export sector was also apparent in last week's other data releases. The current account deficit narrowed to 2.4% of GDP in the March quarter, the lowest since 1989. In seasonally adjusted terms, the goods surplus of \$919m was one of the largest on record, reflecting higher commodity prices (especially dairy products) and steady growth in volumes. That performance has continued into the following quarter, with overseas trade registering a healthy surplus of \$814m in May.

The current account deficit usually narrows in a recession, and will certainly expand again as import demand picks up and the cost of offshore financing rises from cyclical lows. The crucial debate now is how far it will expand as the economy recovers – with some official views implying a return to the 8%+ peaks of the bad old days.

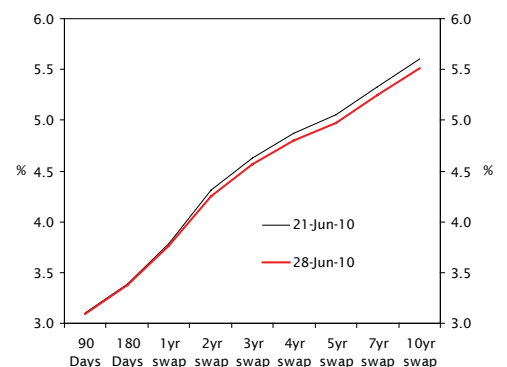
We're more confident that the deficit

will settle around more sustainable level of 4-5% of GDP. New Zealand produces the commodities that developing Asia (particularly China) wants and is willing to pay up for, and the strengthening of our ties to those economies in recent years paves the way for more regular trade surpluses than in the past.

The improvement in New Zealand's trade position is a clear long-run positive, and suggests that this recovery will have legs. Historically, recoveries have begun in the export sector and have radiated out to consumers later. While the starting point is slightly different this time – record-high international prices for our commodity exports, rather than a cyclically low exchange rate – the net effect is similar.

We have been consistently warning against the line of argument that "this time is different" – that this recovery has

**NZ Interest Rates**



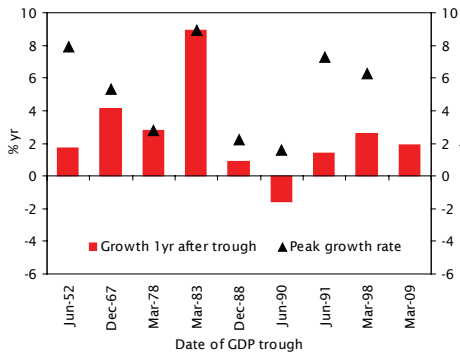
\*Yield curve is yields on bank bills to 180 days, fixed interest rate swaps for 1 year onwards.

been weak compared to past cycles. The economy has officially been growing for a year; March quarter GDP was 1.9% higher than the same time last year. In the chart below, we show the major downturns in the NZ economy since 1950, and how GDP was tracking a year after the trough. Some recoveries have been very strong, others

have been weak; the recovery to date has been firmly in the middle of the pack.

Since recoveries are rarely complete after one year, we've also shown the peak growth rate in the years following the downturn. Sometimes, like in 1983-84, growth has roared ahead in the first year but quickly petered out. More often, though, the rebound has been modest at first, with the peak growth rate coming two years or more after GDP has troughed.

GDP growth rates in NZ recoveries



There is – and should be – a healthy debate about the strength of the recovery from here on, and our chart certainly supports the notion that the next year could pan out any number of ways. (For the record, our top-of-the-market forecasts have annual growth peaking at 4.5%, which would still make this one of the more subdued

recoveries in post-war history.) But for us, alarm bells go off when we see gloomy assessments of the economy that rely on misrepresenting the past.

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

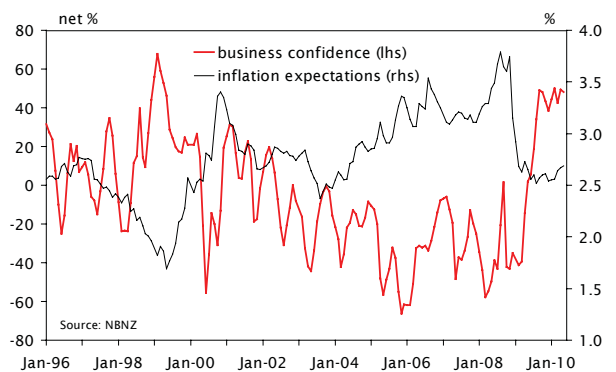
## Key Data Previews

### NZ Jun NBNZ business confidence

Jun 28, Last: 48.2%

- Business sentiment remained upbeat in May, with own-activity expectations reaching a new cycle high and all of the main activity indicators holding above their long-run average levels.
- Industry indicators point to continued strength overall but mixed fortunes across sectors. Retail spending appears to have picked up in May, and the agricultural sector has benefited from recent rainfall and a strong initial forecast by Fonterra for the 2010/11 dairying season. However, the housing market remains very weak.
- This is the first survey since the 20 May Budget. It will be interesting to see how the retail and construction sectors weigh the impact of increased GST and changes to the treatment of depreciation on property against substantial income tax cuts.

### NBNZ Business Confidence

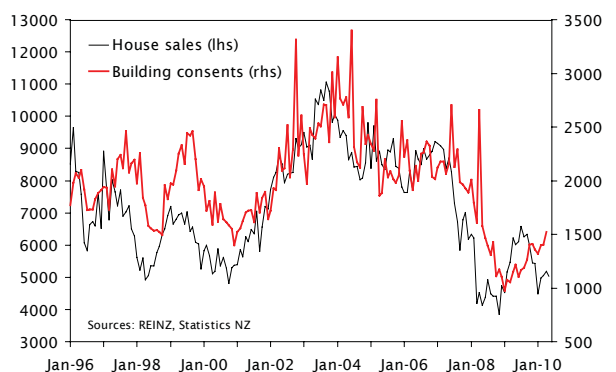


### NZ May building consents s.a.

Jun 29, Last: 8.5%, WBC f/c: 0.5%

- Dwelling consents spiked in April, most likely bolstered by an additional trading day through the month (ANZAC day fell on a weekend this year).
- We expect some unwind this month, particularly in ex-apartment consents, but the underlying upward trend is expected to remain intact.
- Non-residential activity continues to reflect the lagged effects of the recession, with the trend remaining weak. Recent business surveys suggest that sentiment in this space has now turned, although we expect it will be another 3-6 months before we really begin to see the benefits.

### Housing activity (monthly, seasonally adjusted)

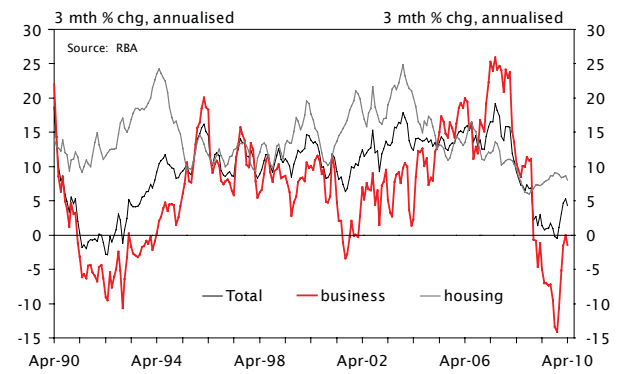


**Aus May private credit**

Jun 30, Last: 0.2%, WBC f/c: 0.4%, Mkt f/c: 0.4%, Range: 0.1% to 0.5%

- Private credit is forecast to expand by 0.4% in May. That implies an increase of 1.8% over the last six months, a marked step-up from a 0.3% rise over the previous half year.
- Business credit growth is stabilising, albeit with monthly volatility, reflecting improved economic and financial conditions. We're anticipating a rise of 0.1% after a 0.4% dip in April. That contrasts with -8.3% over the year to November.
- Housing credit growth, after tracking sideways at a 0.7% monthly pace from last June to March, slowed to 0.5% in April. A reading of just 0.5% is a soft read and is in line with the lows of 2008. The RBA's rate rises - six in the space of eight months to May - have had an impact, most notably on the owner-occupier segment.

**Credit growth off 2009 lows**

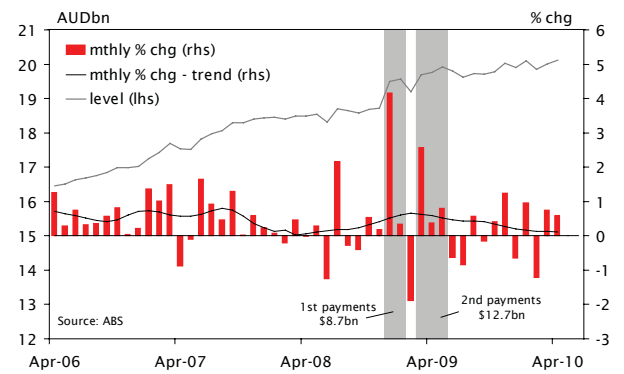


**Aus May retail sales**

Jul 1, last 0.6%, WBC f/c 0.3%, Mkt f/c: 0.3%, Range: -1.0% to 1.0%

- Retail sales posted a respectable 0.6% rise in April and a 0.8% gain in March. However that followed a very choppy few months (eg. -1.2% Feb, -0.7% Dec). Although underlying trends remain difficult to pinpoint, the pace in April was insipid at 0.1% mth, an annualised rate of just 1.3%.
- The weakness can no longer be attributed to a 'post stimulus let down' and is in stark contrast to recent upbeat consumer sentiment reads. While rate rises have restricted disposable incomes, this should have been largely offset by rising employment, wealth gains and population growth (which, running at 2.1%yr, shows just how weak the retail trend is). It appears to reflect continued consumer caution and a restrained attitude to spending. With May's interest rate rise biting harder in terms of consumer sentiment, this restraint is likely to remain a feature - as suggested by anecdotes and aggressive discounting. We expect retail sales to rise just 0.3% in May.

**Monthly retail sales**

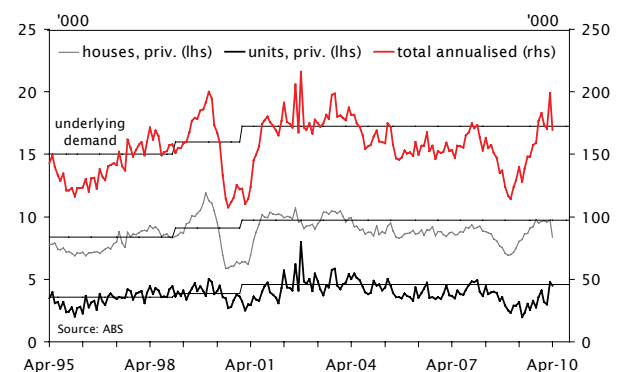


**Aus May dwelling approvals**

Jul 1, last -14.8%, WBC f/c -1.5%, Mkt f/c: flat, Range: -3.0% to 6.0%

- Dwelling approvals slumped 14.8% in April, mostly reversing a 16.8% jump in March. The detail showed a surprisingly sharp fall in private sector house approvals - surprising both given the relative stability of this segment, which usually gives a better 'read' on trends, and given that March's jump was driven by a big spike in apartment approvals (this segment remained resilient in April).
- Housing finance already shows a significant slowdown since late last year. A backlog of projects have held up dwelling approvals in early 2010 but this now appears to have cleared. As such, approvals are now set to turn down in the months ahead. We expect May to see a 1.5% fall with more to come. Note that despite the turning point, actual dwelling construction will still post strong gains through the rest of the year as the pipeline of approved work has yet to come through.

**Dwelling approvals**

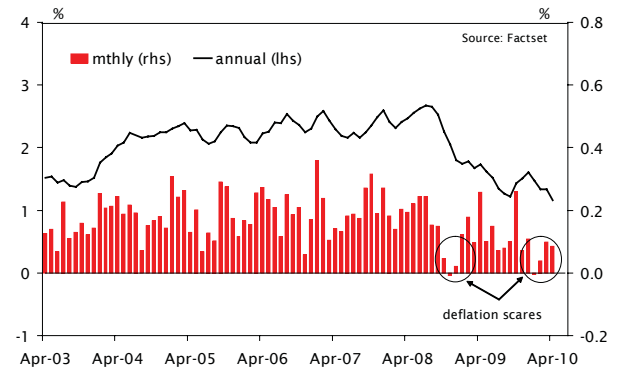


**US core PCE deflator to remain subdued**

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

- The core PCE deflator fell slightly in Jan and grew at a sub 0.1% pace in each of Feb, Mar and April. However April's 0.09% rise was not quite as soft as the flat core CPI in April. The annual core PCE deflator is running at 1.2% yr, matching the low points reached in 2009 and 1998, and prior to that, the mid 1960s.
- The May core CPI posted its first gain in three months, rising 0.1%, but we still see risks skewed towards a softer core PCE deflator, which should round down to 0.0% in May.
- The report will also include updates on personal income and spending. Income growth should be quite solid, given increased hours worked and earnings growth in May (including the temporary boost from Census worker income); however personal spending may have fallen, in line with very weak retail sales in May.

**US core PCE deflator**

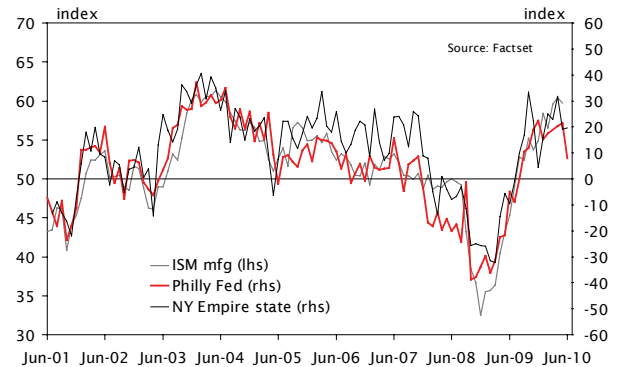


**US Jun ISM factory survey to pull back further**

Jul 1, Factory Last: 59.7, WBC f/c: 58.0, Mkt f/c: 59.0

- The US factory ISM slipped from its April cycle high of 60.4 to 59.7 in May. That is still a very solid industrial indicator, but perhaps an early sign that further acceleration in factory sector activity is unlikely. New orders held at their recent high, but production slipped marginally. Employment rose further, up 1.3pts to 59.8, but note that factory jobs growth actually slowed in the May payrolls report.
- The regional Fed factory surveys have tended to pull back sharply from their recent highs, with both NY and Philly down around 12pts from their Q2 peaks. That is consistent with our view that the pace of US economic growth will slow further in the second half of 2010.
- The ISM tends to be less volatile but a further pullback in the headline, steeper than May's, is likely.

**US manufacturing**

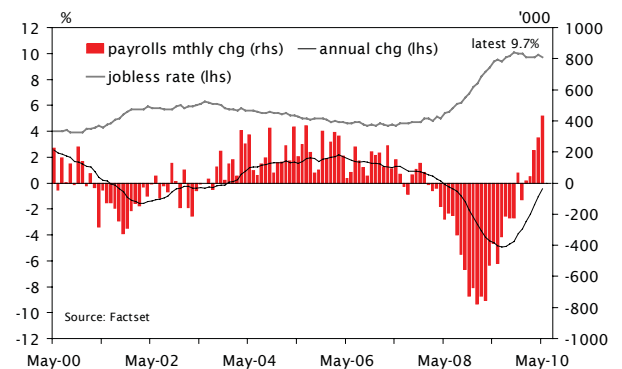


**US non farm payrolls to be flat in June**

Jul 2, Payroll employment: Last: 431k, WBC f/c: 0k, Mkt f/c: -110k

- Non-farm payrolls grew 431k in May, comprising 390k government jobs (411k temporary 2010 Census workers and a small fall in state govt jobs) and just 41k private sector workers, down from an average 188k private sector jobs in March-April.
- A useful but not infallible guide to swings in payrolls growth has come from the "intention to hire" index from the NFIB small business survey. It turned positive for the first month in several years in May, suggesting that small business may be putting on workers again (even if only temporarily).
- It is for this reason that we are forecasting a 180k gain in private payrolls, even though other indicators, such as the "big business" surveys and jobless claims, have been at best mixed. With temporary Census workers now finishing up, total payrolls will struggle to post a gain - we expect a flat outcome overall.

**US jobs market**



## Key Data and Events

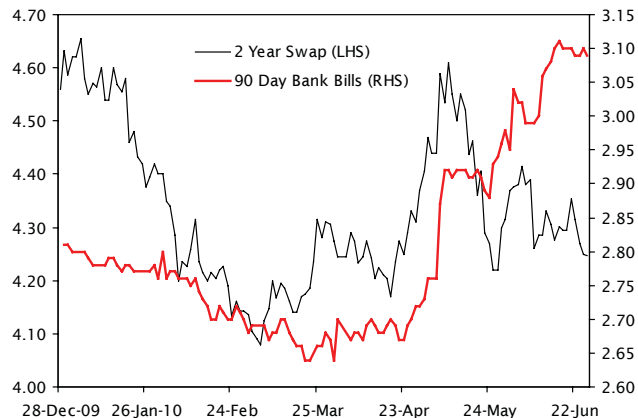
|                   |   | Last   | Market<br>Median | Westpac<br>Forecast | Comments  |
|-------------------|---|--------|------------------|---------------------|---|
| <b>Mon 28 Jun</b> |   |        |                  |                     |   |
| NZ                | Jun NBNZ Business Confidence            | 48.2%  | -                | -                   | Confidence to remain high but weather, tax, housing could weigh.          |
| US                | May Personal Spending                   | 0.0%   | 0.1%             | -0.1%               | Retail sales down sharply in May.   |
|                   | May Personal Income                     | 0.4%   | 0.5%             | 0.5%                | Hours worked and earnings higher in May.                                  |
|                   | May PCE Deflator, Core                  | 0.1%   | 0.1%             | 0.0%                | Core inflationary pressures remain benign.                                |
|                   | Jun Dallas Fed Manf. Activity           | 2.9    | -                | 0.0                 | Regional business surveys losing altitude.                                |
|                   | May Chicago Fed National Activity Index | 0.29   | 0.32             |                     | Based on 80+ previously released data points.                             |
|                   | Fedspeak                                | -      | -                | -                   | Warsh.  |
| Jpn               | May Retail Sales %yr                    | 4.9%   | 4.8%             | -                   | Base effects and stimulus measures driving eye-catching growth.           |
| Eur               | May Money Supply M3 %yr                 | -0.1%  | 0.3%             | -                   | Contraction so far this year.   |
| <b>Tue 29 Jun</b> |   |        |                  |                     |   |
| NZ                | May Building Consents s.a.              | 8.5%   | -                | 0.5%                | Housing shortage dictates underlying upward trend will remain.            |
| US                | Apr S&P/CaseShiller Composite-20 %yr    | 2.3%   | 3.5%             | -                   | House prices recovering off very low base.                                |
|                   | Jun Consumer Confidence, CB Index       | 63.3   | 62.9             | -                   | Dissatisfaction with Obama, worries about oil spill, economy.             |
| Jpn               | May Industrial Production               | 1.3%   | flat             | -                   | Manufacturing is settling back down after major revival.                  |
|                   | May Unemployment Rate                   | 5.1%   | 5.0%             | -                   | Demographic attrition wrestling modest labour demand.                     |
|                   | May Household Spending %yr              | -0.7%  | 0.3%             | -                   | Real measure broader than retail sales. Very volatile.                    |
| Eur               | Jun Economic Confidence                 | 98.4   | 98.1             | -                   | Euro depreciation helping, but sovereign debt/deficit worries persist     |
|                   | Jun Business Climate Index              | 0.34   | 0.32             | -                   | and these two factors will be main drivers of confidence surveys.         |
| UK                | May Net Consumer Credit £bn             | -0.1   | 0.1              | -                   | Household credit growth remains weak or nonexistent due both to           |
|                   | May Net Mortgage Lending £bn            | 0.5    | 0.8              | -                   | weak demand and constrained supply.                                       |
|                   | Jun GfK Consumer Confidence             | -18    | -20              | -                   | Fiscal austerity measures to impact Jun and July confidence data.         |
| Can               | May Industrial Product Prices           | 0.3%   | 0.1%             | -                   | Up in five of past six months.  |
| <b>Wed 30 Jun</b> |   |        |                  |                     |   |
| Aus               | May Private Credit                      | 0.2%   | 0.4%             | 0.4%                | Growth 0.4% of late, as business stabilises. Rate rises hitting housing.  |
| US                | Jun NAPM-Milwaukee                      | 65     | -                | 60                  | Regional business surveys losing altitude.                                |
|                   | Jun Chicago PMI                         | 59.7   | 59.0             | 57.0                | Regional business surveys losing altitude.                                |
|                   | Jun ADP Employment chg                  | 55k    | 60k              | 75k                 | Small business survey points to (temporary at least) job creation.        |
|                   | Fedspeak                                | -      | -                | -                   | Evans, Duke, Lockhart.  |
| Jpn               | Jun Nomura PMI                          | 54.7   | -                | -                   | Should edge towards the low 50s over the next few months.                 |
|                   | May Labour Earnings %yr                 | 1.6%   | 0.8%             | -                   | Grinding higher after the distress of 2009.                               |
|                   | May Housing Starts %yr                  | 0.6%   | 5.0%             | -                   | Increase off an ultra-low base of 793k annualised.                        |
|                   | May Construction Orders %yr             | -25.0% | -                | -                   | Volatile series weighed down by depressed private non-residential.        |
| Eur               | Jun CPI %yr                             | 1.6%   | 1.5%             | -                   | Headline CPI lifted by energy and euro decline but core still sub 1%.     |
| Ger               | Jun Unemployment chg                    | -45k   | -28k             | -                   | Falling due to short work scheme, demographics & some eco growth.         |
|                   | Presidential Elections                  | -      | -                | -                   | Litmus test of support for coalition government.                          |
| UK                | Q1 GDP Revision                         | 0.3%   | 0.3%             | 0.4%                | We continue to see some risk of upward revision.                          |
|                   | Q1 Business Investment (F)              | 6.0%a  | 6.0%             | -                   | Revision too late to impact thinking about Q1 GDP revision.               |
|                   | Q1 Current Account £bn                  | -1.7   | -4.5             | -                   | Current account deficit way smaller than trade deficit.                   |
|                   | Jun House Prices %yr                    | 9.8%   | 9.0%             | -                   | Nationwide index.   |
| Can               | Apr GDP                                 | 0.6%   | 0.2%             | -                   | Up seven months running.  |
|                   | May House Prices                        | 11.6%  | -                | -                   | Teranet/National Bank index.  |
| <b>Thu 1 Jul</b>  |   |        |                  |                     |   |
| NZ                | Jun ANZ Commodity Price Index           | 2.5%   | -                | -                   | Mixed picture with dairy down and meat up.                                |
| Aus               | May Retail Sales                        | 0.6%   | 0.3%             | 0.3%                | Continued caution by consumers, reinforced by rising interest rates.      |
|                   | May Dwelling Approvals                  | -14.8% | flat             | -1.5%               | To fall given housing finance drop. April fall reversed +16.8% in March.  |
|                   | Jun AiG PMI                             | 56.3   | -                | -                   | Manufacturing expanding in 2010, boosted by construction upswing.         |
| US                | Jun ISM Manufacturing                   | 59.7   | 59.0             | 58.0                | Factory sector to slow in H2 2010.  |
|                   | May Construction Spending               | 2.7%   | -0.7%            | -1.8%               | Homebuyer tax credit impact to be felt here too.                          |
|                   | May Pending Home Sales                  | 6.0%   | -14.4%           | -25.0%              | If new home sales are any guide, the post tax credit plunge will be steep |
|                   | Jun Total Vehicle Sales, mn ann'lsd     | 11.6   | 11.4             | 11.5                | Sales growth stalled.   |
|                   | Initial Jobless Claims, w/e 26/6        | 457k   | 455k             | 455k                | Claims no longer showing trend improvement.                               |
| Jpn               | Q2 Tankan Lrg Manuf Conditions          | -14    | -3               | -3                  | Industrial rebound continued through Q2.                                  |
|                   | Q2 Tankan Lrg Non-Manuf Conditions      | -14    | -7               | -5                  | Consumption has been decent on the back of tail end of stimulus.          |
| Eur               | Jun PMI Factory (F)                     | 55.6 a | 55.6             | 55.6                | Initial Jun report showed modest slippage.                                |
| UK                | Jun House Prices %yr                    | 6.9%   | -                | -                   | Tentative date for Halifax index, due 1-7/7.                              |
|                   | Jun Factory PMI                         | 58.0   | 57.6             | 56.5                | Concerns about stronger GBP vs euro, and European growth.                 |
| <b>Fri 2 Jul</b>  |   |        |                  |                     |   |
| US                | Jun Non-Farm Payrolls chg               | 431k   | -110k            | 0k                  | Small business hiring intentions turned positive in May which should be   |
|                   | Jun Private Payrolls chg                | 41k    | 113k             | 180k                | a positive for June private sector payrolls but Census workers are now    |
|                   | Jun Unemployment Rate                   | 9.7%   | 9.8%             | 9.9%                | finishing their contracts so total payrolls may be flat or post a fall.   |
|                   | May Factory Orders                      | 1.2%   | -0.5%            | -0.8%               | Durables component known down 1%.   |
| Eur               | May PPI %yr                             | 2.8%   | 3.1%             | -                   | Rising due weaker euro and energy prices.                                 |
| UK                | Jun PMI Construction                    | 58.5   | 8.5              | -                   | May hold up longer than factory/services surveys.                         |

## New Zealand Economic and Financial Forecasts

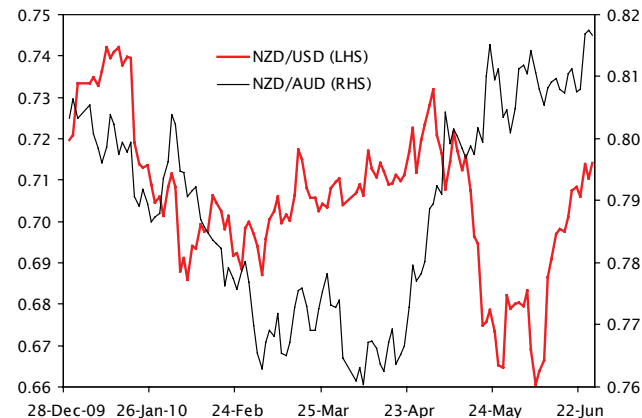
| Economic Growth Forecasts        | March years |      |       |       | Calendar years |       |       |       |
|----------------------------------|-------------|------|-------|-------|----------------|-------|-------|-------|
|                                  | 2009        | 2010 | 2011f | 2012f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

| Financial Forecasts | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 |
|---------------------|--------|--------|--------|--------|--------|--------|--------|
| Cash                | 3.25   | 3.75   | 4.25   | 4.75   | 5.25   | 5.75   | 6.00   |
| 90 Day bill         | 3.70   | 4.20   | 4.70   | 5.20   | 5.70   | 6.10   | 6.20   |
| 2 Year Swap         | 4.80   | 5.20   | 5.50   | 5.90   | 6.20   | 6.40   | 6.50   |
| 5 Year Swap         | 5.70   | 5.90   | 6.10   | 6.30   | 6.50   | 6.60   | 6.70   |
| 10 Year Bond        | 6.00   | 6.10   | 6.20   | 6.30   | 6.30   | 6.40   | 6.50   |
| NZD/USD             | 0.72   | 0.74   | 0.76   | 0.75   | 0.74   | 0.73   | 0.72   |
| NZD/AUD             | 0.82   | 0.82   | 0.83   | 0.83   | 0.83   | 0.84   | 0.84   |
| NZD/JPY             | 65.5   | 70.3   | 74.5   | 76.5   | 78.4   | 79.6   | 80.6   |
| NZD/EUR             | 0.58   | 0.60   | 0.63   | 0.64   | 0.64   | 0.63   | 0.62   |
| NZD/GBP             | 0.50   | 0.51   | 0.53   | 0.53   | 0.53   | 0.52   | 0.51   |
| TWI                 | 69.1   | 71.2   | 73.8   | 74.0   | 74.0   | 73.9   | 73.1   |

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



## NZ interest rates as at market open on Monday 28 June 2010

| Interest Rates | Current | Two Weeks Ago | One Month Ago |
|----------------|---------|---------------|---------------|
| Cash           | 2.75%   | 2.75%         | 2.50%         |
| 30 Days        | 2.90%   | 2.94%         | 2.72%         |
| 60 Days        | 3.00%   | 3.01%         | 2.86%         |
| 90 Days        | 3.09%   | 3.08%         | 2.98%         |
| 2 Year Swap    | 4.25%   | 4.31%         | 4.32%         |
| 5 Year Swap    | 4.98%   | 5.02%         | 5.20%         |

## NZ foreign currency midrates as at Monday 28 June 2010

| Exchange Rates | Current | Two Weeks Ago | One Month Ago |
|----------------|---------|---------------|---------------|
| NZD/USD        | 0.7150  | 0.6969        | 0.6789        |
| NZD/EUR        | 0.5779  | 0.5695        | 0.5536        |
| NZD/GBP        | 0.4750  | 0.4720        | 0.4691        |
| NZD/JPY        | 63.870  | 63.750        | 61.730        |
| NZD/AUD        | 0.8179  | 0.8098        | 0.8010        |
| TWI            | 68.430  | 67.440        | 65.900        |

## Economic and Financial Forecasts

| Economic Forecasts (Calendar Years) | 2005 | 2006 | 2007 | 2008 | 2009 | 2010f | 2011f |
|-------------------------------------|------|------|------|------|------|-------|-------|
| <b>Australia</b>                    |      |      |      |      |      |       |       |
| Real GDP % yr                       | 2.8  | 2.9  | 4.0  | 2.3  | 1.3  | 3.0   | 3.5   |
| CPI inflation % annual              | 2.8  | 3.3  | 3.0  | 3.7  | 2.1  | 3.3   | 3.1   |
| Unemployment %                      | 5.1  | 4.8  | 4.4  | 4.2  | 5.6  | 5.1   | 4.8   |
| Current Account % GDP               | -5.8 | -5.3 | -6.3 | -4.4 | -4.1 | -3.4  | -3.0  |
| <b>United States</b>                |      |      |      |      |      |       |       |
| Real GDP %yr                        | 3.1  | 2.7  | 2.1  | 0.4  | -2.4 | 2.7   | 2.8   |
| Consumer Prices %yr                 | 3.4  | 3.2  | 2.9  | 3.8  | -0.2 | 1.3   | 2.4   |
| Unemployment Rate %                 | 5.1  | 4.6  | 5.8  | 5.8  | 9.3  | 9.7   | 9.9   |
| Current Account %GDP                | -6.1 | -6.0 | -5.3 | -4.9 | -2.9 | -3.2  | -2.4  |
| <b>Japan</b>                        |      |      |      |      |      |       |       |
| Real GDP %yr                        | 1.9  | 2.8  | 2.2  | -1.5 | -5.8 | 3.3   | 2.0   |
| Consumer Prices %yr                 | -0.3 | 0.2  | 0.1  | 1.4  | -1.3 | -1.1  | -0.2  |
| Unemployment Rate %                 | 4.4  | 4.1  | 3.9  | 4.0  | 5.1  | 4.8   | 4.5   |
| Current Account %GDP                | 3.6  | 3.9  | 4.8  | 3.3  | 2.8  | 4.0   | 4.3   |
| <b>Euroland</b>                     |      |      |      |      |      |       |       |
| Real GDP %yr                        | 1.8  | 3.1  | 2.8  | 0.5  | -4.0 | 0.8   | 1.2   |
| Consumer Prices %yr                 | 2.5  | 2.0  | 3.1  | 1.6  | 0.9  | 1.0   | 1.2   |
| Unemployment Rate %                 | 8.8  | 7.9  | 7.3  | 7.8  | 10.0 | 10.5  | 10.5  |
| Current Account %GDP                | -0.2 | -0.1 | 0.1  | -1.1 | -1.0 | -0.5  | 0.0   |
| <b>United Kingdom</b>               |      |      |      |      |      |       |       |
| Real GDP %yr                        | 2.2  | 2.9  | 2.6  | 0.5  | -4.9 | 0.7   | 1.4   |
| Consumer Prices %yr                 | 2.1  | 3.0  | 2.1  | 3.5  | 2.9  | 2.5   | 2.0   |
| Unemployment Rate %                 | 2.8  | 3.0  | 2.5  | 3.1  | 5.0  | 5.0   | 5.0   |
| Current Account %GDP                | -2.6 | -3.3 | -2.7 | -1.6 | -2.4 | -2.0  | -1.5  |

Forecasts finalised 4 June 2010

| Interest Rate Forecasts        | Latest (Jun 28) | Sep-10 | Dec-10 | Mar-11 | Jun-11 | Sep-11 |
|--------------------------------|-----------------|--------|--------|--------|--------|--------|
| <b>Australia</b>               |                 |        |        |        |        |        |
| Cash                           | 4.50            | 4.75   | 5.00   | 5.00   | 5.25   | 5.50   |
| 90 Day Bill                    | 4.97            | 5.00   | 5.20   | 5.20   | 5.50   | 5.75   |
| 10 Year Bond                   | 5.25            | 5.60   | 5.90   | 5.90   | 6.00   | 6.00   |
| <b>International</b>           |                 |        |        |        |        |        |
| Fed Funds                      | 0.125           | 0.125  | 0.125  | 0.125  | 0.125  | 0.375  |
| US 10 Year Bond                | 3.11            | 3.40   | 3.50   | 4.00   | 4.20   | 4.50   |
| ECB Repo Rate                  | 1.00            | 1.00   | 1.00   | 1.00   | 1.00   | 1.00   |
| <b>Exchange Rate Forecasts</b> |                 |        |        |        |        |        |
| AUD/USD                        | 0.8742          | 0.88   | 0.90   | 0.92   | 0.90   | 0.88   |
| USD/JPY                        | 89.32           | 92     | 95     | 98     | 102    | 105    |
| EUR/USD                        | 1.2373          | 1.22   | 1.22   | 1.18   | 1.18   | 1.16   |
| AUD/NZD                        | 1.2227          | 1.22   | 1.22   | 1.21   | 1.20   | 1.19   |

Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (NZ division). Information current as at 28 June 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](http://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.