

Weekly Commentary

A weekly outlook for New Zealand, Australia and US markets

29 June 2009

Through the worst

New Zealand remained deep in the grips of recession in the first quarter of this year. However, more recent indicators suggest that the economy may be entering a bottoming-out phase.

GDP fell by 1% in the March quarter, following the same-sized contraction in the December 2008 quarter (revised down from -0.9%). That makes it five straight quarters of decline in the current recession, something that hasn't been observed since the official statistics began in 1977. The fall was close to our expectation of -0.9% and in line with the RBNZ's most recent forecast.

The tough economic conditions internationally in late 2008 spooked domestic consumers and businesses. Consumers cut spending by 1.4%, with spending on durable items taking the biggest hit. This was despite a recent income tax cut and anticipation of another in April, lower petrol prices, and a succession of interest rate cuts. House price declines, job insecurity and the international fear factor outweighed the positives. The decline in consumer spending in Q1 was the largest drop since 1991. Businesses felt no better, and slashed investment by 7.3% over the quarter.

Manufacturers, especially makers of durable goods, were slammed by the lack of demand. We estimate that the 7.2% drop in manufacturing output was the biggest quarterly fall since 1977. While New Zealand manufacturers have fared better than in some regions (Germany and Japan spring to mind), few will have

escaped the fallout of the global credit crunch, as purchases of durable goods are delayed or cancelled.

Retailers, wholesalers and transport providers also felt the ill-wind of weaker demand. In fact, retailers posted their worst quarter since September 1989, when the rate of GST was increased. Retail and wholesale trade both posted their fifth consecutive quarterly declines.

On a more positive note, the real estate and business sectors provided the strongest contribution to growth, partly due to a pick-up in house sales. Government spending also supported growth both directly and indirectly through more infrastructure spending, helping the construction sector post a modest rise in the quarter. And oil flowing from the new Maari field boosted mining output.

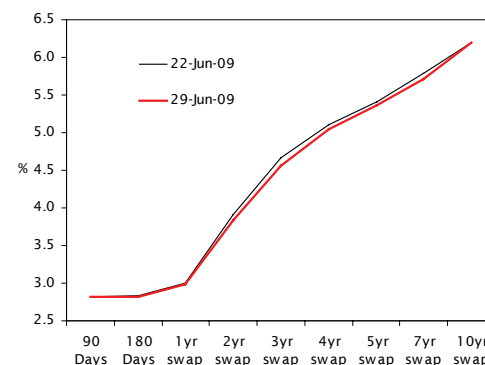
At face value, the net export position added a whopping 4% to GDP. However, this was made up of a modest increase in exports and extremely weak imports, both of which detracted from other areas: exports were boosted by a rundown of stocks of dairy products, while weaker imports were the product of the sharp fall in consumption and capital investment. Import volumes have fallen by around 20% in the last three quarters – again, a run of declines not seen before in the official statistics.

Weakness in demand also drove the improvement in the current account deficit, which narrowed from 9.0% to 8.5% of GDP in the March quarter. As

well as the import-driven shift in the goods balance, income from services exports was stronger than expected, reflected higher average spending by overseas visitors. Imports of transport services were soft, a by-product of the slump in import volumes.

The narrowing in the current account deficit was less than we expected, due to persistent strength in investment income outflows. The quarterly figures suggest an increase in profits for overseas-owned firms in New Zealand, and a sharp rise in interest payments on debt instruments held offshore. Quite frankly we find both of these implausible in the current environment. Company profits have demonstrably fallen in recent times, and notwithstanding the higher premium paid for borrowing offshore, the absolute level of interest rates fell as the RBNZ continued to slash the cash rate. However, we'll grant that these series are very difficult to measure from quarter to the next (they're no piece of cake to forecast either), and

NZ Interest Rates



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

Westpac

we remain of the view that they will trend lower over this year.

We expect the annual deficit to narrow significantly over the rest of the year, partly due to the oil price spike in the first half of 2008 dropping out of the equation, and partly due to ongoing weakness in import demand. Beyond this, though, the hope for a sustained decline in the deficit will depend on how households and businesses respond as the economy recovers. Little has changed in terms of the incentives that drove borrowing and spending prior to the credit crunch, so it may come down to whether New Zealanders have been sufficiently chastened by this recession to change their ways voluntarily. The RBNZ is giving the benefit of the doubt so far, but they are sufficiently worried about a return to

lopsided growth to highlight it as a risk in the March *Monetary Policy Statement*.

Recent data indicates that June quarter GDP will be less weak than in the previous two quarters, although we're not forecasting a return to growth just yet. The Westpac-McDermott Miller consumer confidence survey rose from 96 to 106 in Q2, the highest reading since December 2007 but still below the long-run average. We suspect that consumers are responding more to what hasn't happened in recent months: back in March, fears of global depression, loss of access to credit, and widespread job losses were rampant. Today, the economy still faces significant challenges, but the fear of something much worse has diminished.

Finally, net migration continued to surge

in May, reaching an annual inflow of 11,200. While the make-up of net flows differs from the 2003-03 migration boom – so far it's entirely driven by more New Zealanders staying home or, more recently, coming back from overseas – it is still a major positive for the labour force, consumer spending, housing – and interest rates.

Fixed vs. floating: With the RBNZ nearing the end of its easing cycle, short-term rates are unlikely to fall significantly further, while long-term rates will continue to anticipate the next tightening cycle. For those borrowers currently on floating rates who have been looking to time their re-entry into fixed rates, we recommend fixing now for six months to one year, which are easily the most favourable rates on offer.

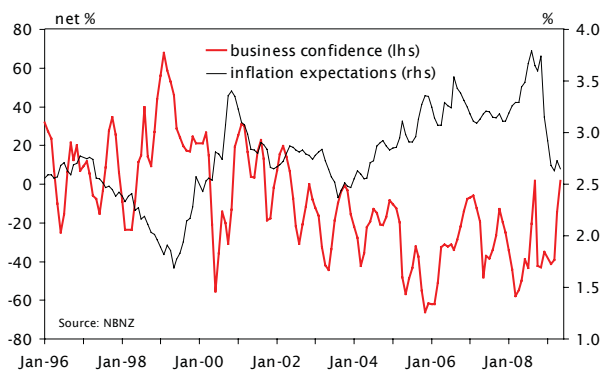
Key Data Previews

NZ Jun NBNZ business confidence

Jun 30, Last: 1.9%

- Headline confidence rose sharply again in May, reaching positive territory for only the second time in the last seven years. However, while most of the details of the survey improved, they remained weaker than in previous recessions.
- Some recent negative factors could see confidence ease back slightly this month. House sales eased in May in seasonally adjusted terms as long-term mortgage rates continued to rise, and Fonterra's first estimate of the payout for the 2009/10 season was at the low end of expectations at \$4.55/kg. On the other hand, the 1 April tax cuts and surging net migration have provided some support to consumer spending.
- The survey results in April and May were broadly consistent with a 0.5% decline in Q2 GDP, compared to the RBNZ's most recent forecast of -0.3%. We are likely to revise up our current forecast of -1.0%.

NBNZ Business Confidence

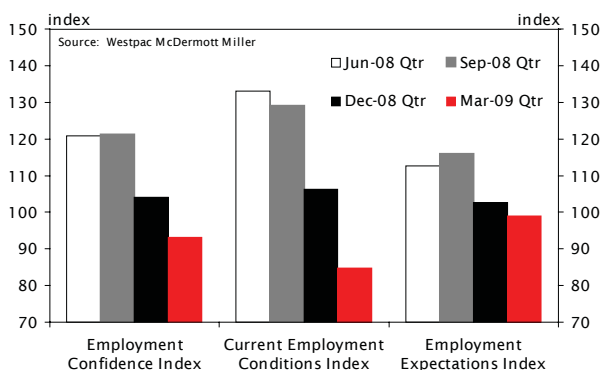


NZ Q2 employment confidence index

Jul 1, Last: 93.2

- Employment confidence took a hammering in Q1, as concerns around current employment conditions reached fever pitch, and expectations of future conditions worsened.
- Since March, the news on the employment front hasn't worsened but neither has it improved. Business surveys suggest layoffs will continue to rise, and evidence suggests that wage growth is slowing fast.
- That said, employment confidence has already collapsed in the past six months. Moreover, the recent lift in consumer confidence suggests a stabilisation in views around the labour market may have occurred.

NZ Employment Confidence Indices



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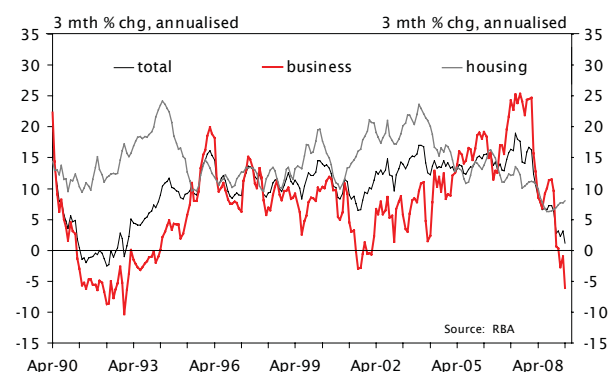
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Aus May private credit

Jun 30, Last: 0.1%, WBC f/c: 0.1%, Mkt f/c: 0.2%, Range: 0.0% to 0.5%

- Private credit rose by just 0.1% in each of the last three months. A similar outcome is likely in May. That would lower annual growth to 4%, down from 16% at the start of 2008.
- The positive is that housing credit growth is strengthening, as new lending (housing finance) rebounds in response to a 41 year low in variable mortgage rates and the enhanced First Home Buyer scheme. Housing credit growth is now running at around an 8% annualised pace, after briefly dipping to less than 6½% annualised last August.
- However, business credit (representing a little less than 40% of total credit) is contracting, declining by 1.6% over the last three months. The downturn has some way to run with firms reducing expenditure in response to the recession.

Credit: business cutting back

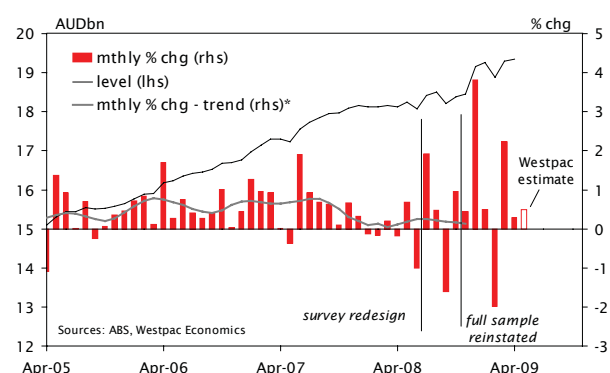


Aus May retail trade

Jul 1, Last: 0.3% (sa, trend series suspended), WBC f/c: 0.5%
Mkt f/c: 0.5%, Range: -2.0% to 1.5%

- Retail sales rose 0.3% in April after a 2.2% rise in March. Sales are up 6.8%yr and are 4.8% higher than their November level last year (i.e. prior to fiscal stimulus payments).
- Uncertainty over the impact of the Govt's second round of fiscal payments and the flow through to spending continues to make forecasting extremely difficult. Govt spending figures show the bulk of the payments were disbursed by April, implying a sharp wind-down through May-June. However, we suspect the payments made in March-April would have continued to support retail sales in May – a view corroborated by anecdotal reports of strong sales. A steady rally in consumer sentiment would also have helped.
- Overall we expect a 0.5% rise in sales but the risks around this clearly remain large, with a big wind-down looming from June.

Monthly retail sales

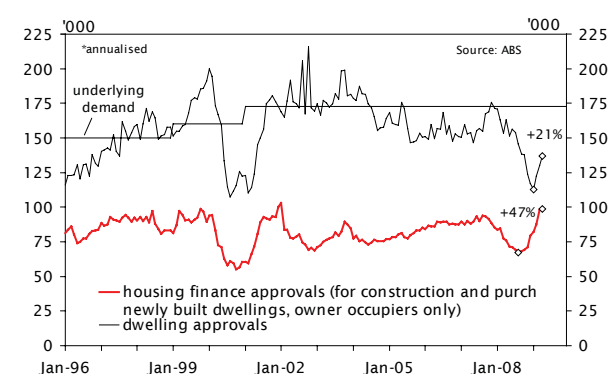


Aus May dwelling approvals

Jul 1, Last: 5.1%, WBC f/c: 2.0%, Mkt f/c: 3.3%, Range: -2.5% to 7.0%

- Dwelling approvals rose strongly by 5.1% in April with significant upward revisions to previous months. The gain brings approvals more in line with the strong increases signalled by other indicators.
- However, there is still a way to go. Housing finance approvals for the construction & purchase of newly built dwellings for example are up well over 40% from their mid-2008 lows. Dwelling approvals by comparison are up just 21%. There is unlikely to be a one-for-one mapping between the two, but something a little closer is to be expected.
- We are forecasting a solid 2% rise in approvals for May. However, there has been a tendency over the last six months for gains in approvals to appear in revised figures rather than original estimates (due to late survey returns).

Dwelling approvals vs housing finance

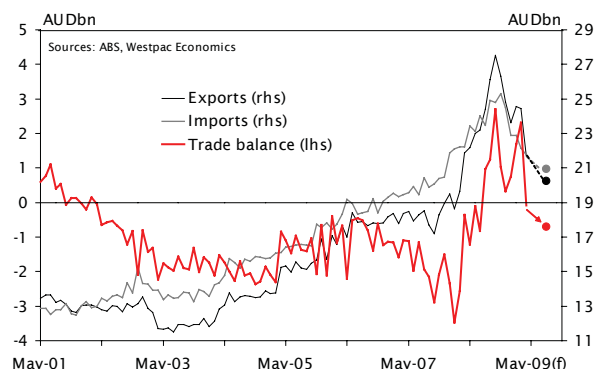


Aus May international trade balance, AUDbn

Jul 2, Last: $-\$0.09$, WBC f/c: $-\$0.7$, Mkt f/c: $-\$0.125$, Range: $-\$1.0$ to $+\$1.0$

- The trade balance returned to deficit in April for the first time since July 2008, falling from a $\$2.302$ bn surplus to a $\$0.091$ bn deficit. Exports saw a price-led 11.3% collapse, with the ABS incorporating a 20% estimate for the iron ore price fall from March to April. The hit to bulk export prices has driven total exports into a downtrend at -2.5% month, with the non-rural trend at -3.8% month, despite recent gains in volumes. Imports fell 1.7% (5th straight fall) as a 7.3% higher AUD hit prices, leaving them in a downtrend (-2.0% month led by capital goods).
- While better China demand argues for higher non-rural volumes, further significant price weakness (RBA NR index fell 10.7%) and a large s.adj drag gives a 10% non-rural export fall, and -6.6% for total exports. Merchandise import data implies a partially offsetting 4.7% price-led fall in goods, with total imports -3.8% , widening the deficit to $\$700$ mn.

Price driven NR X weakness outweighs M fall

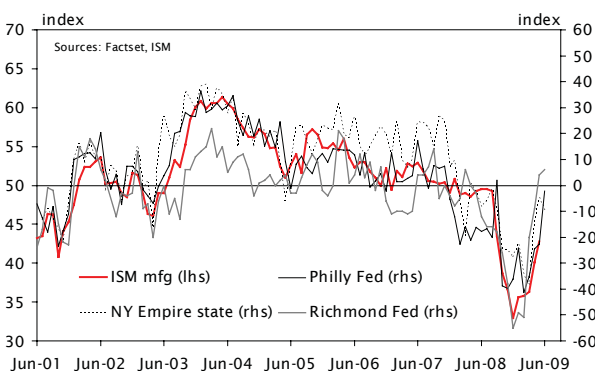


US Jun ISM factory index

Jul 1, Last: 42.8, WBC f/c: 44.5

- Over the past few months, all the US business surveys have shown varying degrees of improvement, as fears of economic Armageddon around the turn of the year have been replaced by concerns about a more 'normal' recession. The ISM factory index bottomed at 32.9 in Dec but steadily recovered to 42.8 in May (still consistent with significant industrial contraction).
- The regional surveys available so far for June have mostly continued this trend: Philly Fed was less negative and Richmond Fed indicated industrial expansion for the second month running. The exception was a modest pull-back in the NY Fed after May's steep jump. These signals, and back to back durable orders growth in April-May, point to a further rise in the national ISM factory index for Jun, though we expect it to remain in negative (sub 50) territory for some time yet.

US factory surveys bottoming out?



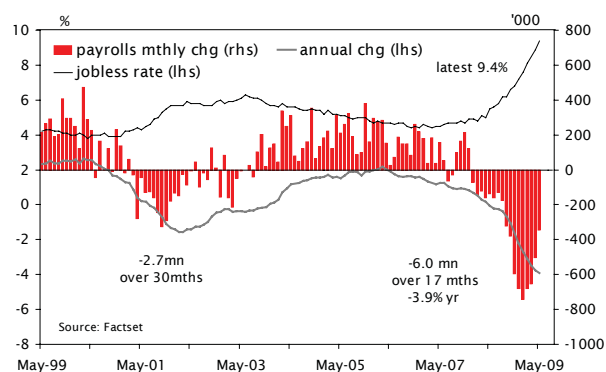
US June non-farm payrolls to fall by 400k

Jul 2, Payrolls Last: -345 k, WBC f/c: -400 k

Jul 2, Unemployment Last: 9.4%, WBC f/c: 9.6%

- The monthly payrolls decline reached 741k in January, but losses have moderated since then, and in May the decline was 345k.
- However that outcome looked a little out of line with other labour market indicators, which have shown some improvement since the start of this year, but perhaps not as much as the payrolls report found. Initial jobless claims peaked at 674k in late March but by late June were still holding well above 600k. Business surveys were reporting a rapid pace of job shedding late in Q2, consistent with ~ 400 k payrolls losses. The ADP payrolls estimate found 532k private sector job losses in May compared to 338k in BLS report.
- For these reasons we expect June payrolls to fall by a somewhat larger 400k, with a further rise in the jobless rate to 9.6%.

US jobs market: losses moderating



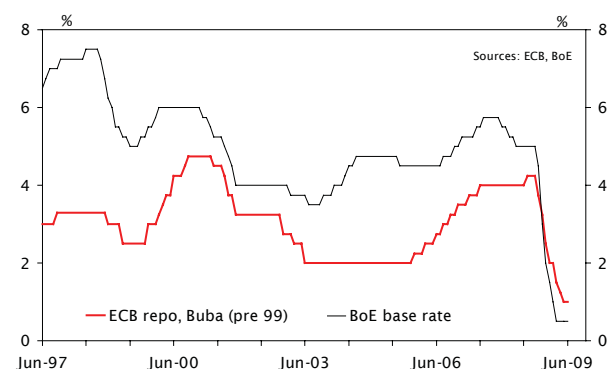
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European Central Bank rate decision

Jul 2, ECB Last: 1.0%, WBC f/c: 1.0%

- Unlike in the US and the UK, European economic data do not yet make a convincing case that the pace of economic contraction has moderated substantially from the 1.8% & 2.5% slumps recorded in Q4 and Q1 respectively. While some business surveys show less pessimistic growth expectations, most measures of current activity remain around historic lows.
- The ECB has not ruled out further cuts in its repo rate, but recent policy action has been on different fronts. It is about to embark on its €60bn covered bond purchase program, and its so-called “stealth easing” on June 24 represented its biggest ever single day market operation where €442bn of 1 year funding was provided to all bidders at the official repo rate of 1.0%. We suspect the ECB will wait to assess the impact of these measures before contemplating a further repo rate cut.

ECB and BoE policy rates



Key Data and Events

		Last	Market Median	Westpac Forecast	Comments
Mon 29 Jun					
US	May Chicago Fed National Act Index	-2.06	-	-	Compilation of 80 different indicators into one data series.
	Jun Dallas Fed Factory Index	-21.5	-17.5	-16.0	The regional surveys are all strengthening, to varying extents.
Jpn	May Industrial Production	5.9%	7.0%	-	De-stocking mature, but some sectors are more equal than others.
	May Retail Sales %yr	-2.8%	-2.6%	-	Retail sales hit by both declining incomes and job insecurity.
Eur	Jun Retail PMI	47.1	-	-	Early clue to official retail data.
	Jun Business Climate Index	-3.17	-3.00	-3.10	Most surveys have bottomed out but improvement relatively muted.
	Jun Consumer Confidence	-31	-30	-30	Bottomed out at -34 in March.
	Jun Economic Confidence	69.3	71.0	70.0	Off its March low but improvement constrained by ongoing recession.
UK	May Net Consumer Credit £bn	0.3	0.3	-	Waiting for further signs that households are starting to borrow again.
	May Net Mortgage Lending £bn	1.0	1.0	1.2	Bank data points to renewed gain in home loan approvals in May.
Tue 30 Jun					
NZ	Jun NBNZ Business Confidence	1.9%	-	-	Could ease slightly after sharp gains in April and May.
Aus	May Private Credit	0.1%	0.2%	0.1%	Slowed considerably as business credit contracts. Housing improving.
US	Apr House Prices %yr	-18.7%	-18.8%	-	S&P-CS series. Realtor data point to steeper annual price declines.
	Jun Chicago PMI	34.9	39.0	39.0	The regional surveys are all strengthening, to varying extents.
	Jun CB Consumer Confidence	54.9	55.2	56.0	Householders sensing that downward eco momentum is easing.
	Jun Milwaukee PMI	43.0	-	46.0	The regional surveys are all strengthening, to varying extents.
Jpn	May Household Spending %yr	-1.3%	-1.5%	-	Inflation adjusted but super volatile. Won't recover until incomes do.
	May Unemployment Rate	5.0%	5.2%	-	Jobs-to-applicants ratio points to an ongoing rise in joblessness.
	Jun Nomura PMI	46.6	-	-	Basically in line with other major economy manufacturing surveys.
	Jun Small Business Confidence	34.1	-	-	Clearly, now is not the time to be a manufacturing sub-contractor.
	May Cash Earnings %yr	-2.7%	-3.0%	-	With profits collapsing, bonuses will shrink, as will regular pay.
	May Housing Starts %yr	-32.4%	-27.8%	-	Weakness is extreme given the absence of a boom level to fall from.
	May Construction Orders %yr	-25.9%	-	-	Commercial property in hibernation, but public works may help soon.
Eur	May Money Supply M3 %yr	4.9%	4.6%	4.7%	Took deep recession for M3 growth to near ECB's 4.5% reference rate.
	Jun CPI Flash Estimate %yr	0.0%	-0.2%	-0.2%	Inflation to dip temporarily below 0%, mainly due to base effects.
Ger	Jun Unemployment Chg	1k	45k	-	Statistical changes held May rise to just 1000.
UK	Q1 GDP (F)	-1.9% a	-2.1%	-1.9%	Not usually revised but risk to downside.
	Q1 Current Account Deficit £bn	-7.6	-6.7	-	Has narrowed from £14bn peak in late 2006.
	Jun GfK Consumer Confidence	-27	-25	-25	Households are sending message that things might be past their worst.
Can	May Industrial Product Prices	-0.5%	-0.6%	-	Apr saw first decline for the year so far.
	Apr GDP	-0.3%	-0.1%	-	Down for eight months running already.
Wed 1 Jul					
NZ	Q2 Employment Confidence Index	93.2	-	-	Consumer confidence suggests some stabilisation in labour outlook.
Aus	Jun AiG PMI	37.5	-	-	Manufacturing contracting. Index up 7.4pts in May, highest since Oct.
	May Retail Sales	0.3%	0.5%	0.5%	Supported by govt payments, firming seen. Policy boosts unwind from Jun.
	May Building Approvals	5.1%	3.0%	2.0%	Housing finance points to continued resurgence.
US	Jun Corporate Layoff Announcements	111k	-	-	Down from 241k peak in Jan.
	Jun ADP Private Payrolls Chg	-532k	-390k	-	Did not warn of official payrolls improvement in May.
	Jun ISM Factory	42.8	44.5	44.5	Regional surveys mostly point to less steep contraction in June.
	May Construction Spending	0.8%	-0.6%	0.5%	Starts and sales both up in May.
	May Pending Home Sales	6.7%	1.1%	-	Early clue to June existing home sales - rising mortgage rates a factor?
	Jun Auto Sales mn ann'lsd	9.9	9.8	-	Finding a base just under 10mn.
Jpn	Q2 Tankan Large Manufacturing	-58	-43	-45	At the margin, conditions have improved, with sales stabilising.
	Q2 Tankan Large Non-Manufacturing	-31	-27	-31	Non-manuf will not see the gains expected for their manuf. brethren.
	May Bank Lending %yr	3.0%	-	-	Still rather high relative to just about every other activity indicator.
Eur	Jun PMI Factory (F)	42.4a	42.4	42.4	Revisions usually minor.
Ger	May Retail Sales	0.5%	0.0%	0.0%	Retail PMI weaker in May.
UK	Jun PMI Factory	45.4	46.4	46.0	Still contracting but at slower pace.
	Jun House Prices %yr	-16.3%	-10.8%	-	Tentative date for HBoS index, due 1-3/7.
Thu 2 Jul					
NZ	Jun ANZ Commodity Prices	2.7%	-	-	Moderate increase in world prices expected, down in NZD terms.
Aus	May Int'l Trade Balance, AUDbn	-0.09	-0.125	-0.7	Weak NR X prices & s.adj drag for 6.6% X fall; M -3.8% on prices (\$A).
US	Jun Non-Farm Payrolls chg	-345k	-350k	-400k	Out a day early due to Friday holiday. Jobs downtrend still slowing but we expect a slightly steeper Jun payrolls decline. See text box.
	Jun Unemployment Rate	9.4%	9.6%	9.6%	Watch out for downward distortion from auto sector summer layoffs.
	Initial Jobless Claims w/e 27/6	627k	615k	610k	Durables known up nearly 2%, non-durables up due to price rise.
	May Factory Orders	0.7%	0.8%	2.0%	Heading to 10% before year end.
Eur	May Unemployment Rate	9.2%	9.4%	9.5%	Base effects will continue pulling annual rate lower until July.
	May Producer Prices %yr	-4.6%	-5.6%	-5.2%	ECB to withstand pressure to cut rates further.
	ECB Rate Decision	1.00%	1.00%	1.00%	Construction still contracting but at a slower pace.
UK	PMI Construction	45.9	46.0	46.0	
Fri 3 Jul					
Aus	Jun AiG PSI	39.9	-	-	Services sectors contracting, broad based weakness. Index flat in May.
US	Independence Day Holiday	-	-	-	Markets closed.
Eur	Jun PMI Services (F)	44.5 a	44.5	44.5	Revisions usually minor.
	May Retail Sales	0.2%	-0.1%	0.0%	Retail PMI weaker in May.
UK	Jun PMI Services	51.7	51.5	49.0	Not convinced services sector is already back in recovery mode.
	Q1 Mortgage Equity Withdrawal £Bn	-8.0	-9.0	-	No net withdrawal taken place since Q1 last year.

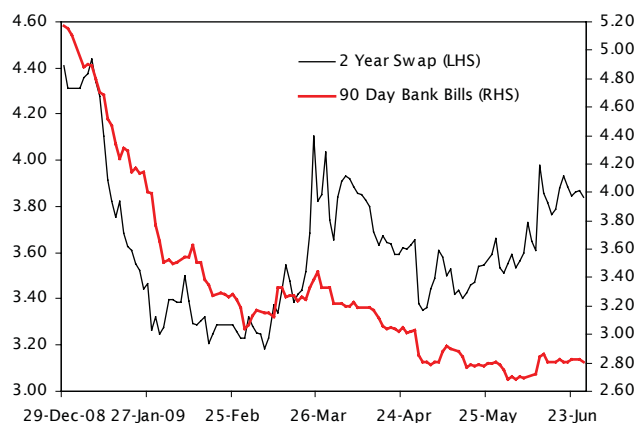
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New Zealand Economic and Financial Forecasts

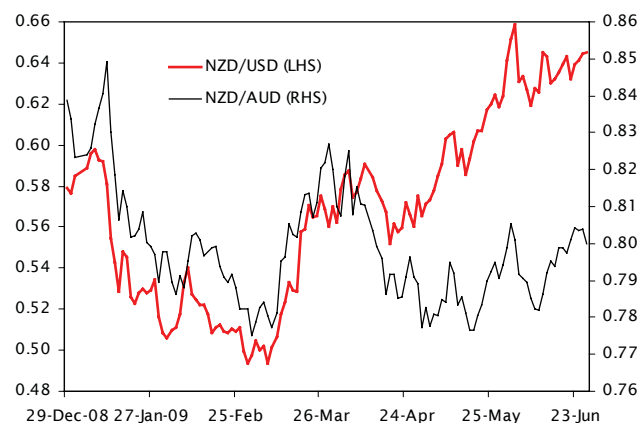
Economic Growth Forecasts	March years				Calendar years			
	2008	2009f	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	3.1	-0.9	-2.3	2.2	0.2	-2.7	1.2	3.7
Employment	-0.3	0.8	-2.8	1.5	0.9	-3.8	0.8	2.2
Unemployment Rate % s.a.	3.8	5.0	7.5	6.4	4.7	7.4	6.8	5.3
CPI	3.4	3.0	1.5	1.3	3.4	1.3	1.1	1.3
Current Account Balance % of GDP	-8.0	-8.2	-5.3	-5.6	-8.9	-5.0	-5.6	-6.0

Financial Forecasts	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Cash	2.25	2.00	2.00	2.00	2.00	2.00	3.00
90 Day bill	2.50	2.30	2.30	2.30	2.30	2.50	3.40
2 Year Swap	3.60	3.70	3.90	4.10	4.30	4.50	4.70
5 Year Swap	4.50	4.60	4.70	4.80	5.00	5.20	5.40
10 Year Bond	5.40	5.50	5.60	5.70	5.80	5.90	6.10
NZD/USD	0.60	0.59	0.62	0.65	0.68	0.70	0.70
NZD/AUD	0.79	0.80	0.81	0.81	0.83	0.84	0.83
NZD/JPY	57.0	54.3	59.5	64.4	70.0	72.1	74.2
NZD/EUR	0.43	0.43	0.45	0.46	0.47	0.48	0.48
NZD/GBP	0.38	0.37	0.38	0.38	0.39	0.39	0.38
TWI	57.7	57.0	59.3	61.6	64.0	65.6	65.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 29 June 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.79%	2.85%	2.80%
60 Days	2.82%	2.84%	2.75%
90 Days	2.82%	2.81%	2.75%
2 Year Swap	3.84%	3.82%	3.51%
5 Year Swap	5.36%	5.26%	4.98%

NZ foreign currency midrates as at Monday 29 June 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6452	0.6301	0.6415
NZD/EUR	0.4586	0.4572	0.4539
NZD/GBP	0.3907	0.3869	0.3963
NZD/JPY	61.510	61.520	61.140
NZD/AUD	0.8003	0.7953	0.7988
TWI	60.760	60.130	60.850

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Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2004	2005	2006	2007	2008	2009f	2010f
Australia							
Real GDP % yr	3.8	2.8	2.9	4.0	2.3	-0.6	1.0
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	1.8	2.4
Unemployment %	5.4	5.1	4.8	4.4	4.2	6.3	8.5
Current Account % GDP	-6.1	-5.8	-5.3	-6.2	-4.3	-3.9	-5.7
United States							
Real GDP %yr	3.9	3.1	2.8	2.0	1.1	-3.1	0.7
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-1.4	1.1
Unemployment Rate %	5.5	5.1	4.6	4.6	5.8	9.3	10.6
Current Account %GDP	-5.7	-6.1	-6.0	-5.3	-4.7	-2.7	-2.9
Japan							
Real GDP %yr	2.3	1.9	2.8	2.3	-0.8	-7.5	1.1
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	-1.1	-0.6
Unemployment Rate %	4.5	4.4	4.1	3.9	4.0	5.1	6.6
Current Account %GDP	3.3	3.6	3.9	4.8	3.2	2.5	2.4
Euroland							
Real GDP %yr	1.9	1.8	3.0	2.6	0.7	-4.7	-0.2
Consumer Prices %yr	2.1	2.5	2.0	3.1	1.6	0.3	0.7
Unemployment Rate %	9.0	8.8	7.9	7.3	7.8	10.0	11.5
Current Account %GDP	0.0	-0.2	-0.5	0.0	-0.2	0.0	0.4
United Kingdom							
Real GDP %yr	2.8	2.1	2.8	3.0	0.7	-4.5	-0.1
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.0	1.2
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	5.5	7.0
Current Account %GDP	-1.9	-2.6	-3.0	-2.8	-2.3	-6.0	-5.5

Forecasts finalised 5 June 2009

Interest Rate Forecasts	Latest (Jun 29)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Australia						
Cash	3.00	2.50	2.50	2.50	2.50	2.50
90 Day Bill	3.24	3.00	2.75	2.75	2.75	2.75
10 Year Bond	5.58	4.50	4.25	4.25	4.50	5.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.54	3.50	3.25	3.75	4.25	4.75
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00
Exchange Rate Forecasts						
AUD/USD	0.8062	0.76	0.74	0.77	0.80	0.82
USD/JPY	95.34	95	92	96	99	103
EUR/USD	1.4068	1.38	1.36	1.39	1.42	1.45
AUD/NZD	1.2495	1.27	1.25	1.24	1.23	1.21

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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.