

Weekly Commentary

31 January 2011

A better tomorrow

The Reserve Bank left the OCR unchanged at 3.00% last week, in a brief statement that was meant to convey no change in the outlook for interest rates over the next couple of years.

The statement noted from the outset that: "The outlook for the New Zealand economy remains consistent with the projections underlying the December *Monetary Policy Statement*". The biggest surprise since then has been the repeatedly disappointing pace of the recovery through the middle of 2010, including a 0.2% contraction in September quarter GDP. But the RBNZ felt that this had been balanced out by improvements in the more recent forward-looking indicators, some of which the RBNZ had singled out as downside risks in the December review.

While there are still clear and present dangers to the global outlook, actual growth outturns for 2010 have tended to beat forecasts more often than not. Trading partner growth forecasts have also been revised up recently – particularly for the US, following the extension of the Bush-era tax cuts and other stimulus measures. Similarly, while the sustainability of world prices for our commodity exports has been questioned at times, they made strong gains at the end of 2010 to reach new record highs.

In December the RBNZ concluded, based on surveyed intentions, that "businesses remain reluctant to invest... with many

preferring to hire additional staff rather than make the more significant financial commitment required to purchase new capital equipment." But the latest statement acknowledged that actions have been somewhat different from words: the pickup in hiring has been modest to date, but investment has surged as the high NZ dollar has made it cheap to import capital equipment.

Finally, one of the RBNZ's big assumptions has been that house prices would continue to fall through to the middle of this year, prompting households to save even more in order to shore up their balance sheets. The recent stabilisation in house sales makes that less likely, though we're talking about degrees of weakness here rather than any genuine strength in the housing market.

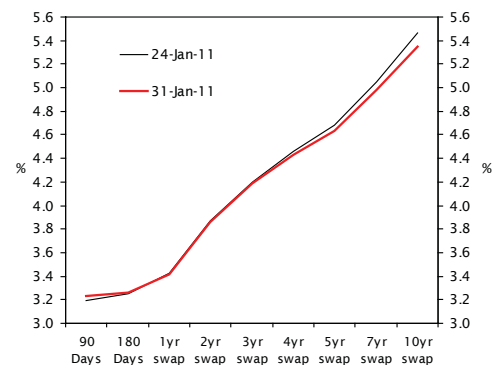
The RBNZ noted that underlying inflation, excluding one-off government policy changes such as the GST hike, remains comfortably within target. The RBNZ has long stated that it would only be concerned about second-round effects from the initial inflation spike; that risk didn't even warrant a mention, at least in this brief statement.

The overall message was that, at this stage, there is no change to the RBNZ's intentions for monetary policy, in terms of either the timing of the next move, or the pace of tightening over the next few years. The statement repeated that "for now

it seems prudent to keep the OCR low until the recovery becomes more robust and underlying inflationary pressures show more obvious signs of increasing." While we have a more positive view on growth in the first half of this year compared to the RBNZ, it's likely that the RBNZ will need to see more than a one-quarter growth spurt to be persuaded that the recovery is "robust". That suggests September as the earliest timing for the next OCR hike, which is in line with the RBNZ's December projections.

This week brings the quarterly suite of labour market indicators. A gradual dissipation in economic, and specifically labour-related, spare capacity should make itself felt in a slow grind upwards in wage inflation (Tues). There is still substantial slack in the economy – the ease of finding labour remains above historical averages – and wage inflation has been very subdued over the past year (the Quarterly

NZ Interest Rates



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

Employment Survey measure more so than the Labour Cost Index, because it does not strip out performance-based pay increases or changes in the jobs mix over the cycle). But on an annual basis wage growth appears to have bottomed out.

We expect a further slight improvement in annual wage inflation in the December quarter. Our forecast of around 0.5% quarterly wage inflation (in line with the market for the LCI, a bit stronger for the QES measure) is dragged down somewhat by seasonal factors (neither the LCI or QES wage are officially seasonally adjusted, and pay rises are typically concentrated in the September quarter). We do not expect to see significant GST-related wage increases.

The Household Labour Force Survey (Thurs) has seen some wild gyrations over the past year, with the unemployment rate

see-sawing between 7.1% in December, 6.0% in March and 6.9% in June, before easing back to 6.4% in September. Recent indicators point to employment growth around 0.5% in the December quarter and, assuming no change in labour force participation, a further slight decline in the unemployment rate.

Of course, the employment figures are volatile at the best of times and, if recent history is anything to go by, what the headline number will be on the day is anyone's guess. We tend to have a little more confidence in our unemployment forecasts, given that swings in employment growth tend to be offset by similar movements in labour force participation (a measured spike in employment coincides with a measured spike in people lining up for work). We suspect the March 2010 unemployment number was a rogue result (possibly

caused by unusual seasonal movements during the months when summer jobs normally end).

Looking at a broader range of data suggests that the labour market troughed early last year and should continue on a gradual trend of improvement over 2011. Employment is up since the start of the year, hours worked have been increasing over the past three quarters, and alternative indicators of labour market slack (such as firms' reported ease of finding labour) have also improved.

Fixed vs. floating: The RBNZ's more cautious stance suggests that floating rates will remain on hold for several more months. Fixed-term rates could rise in that time, but only if there is a substantial turnaround in sentiment on the global economy. As a result, there is no urgency to fix right now.

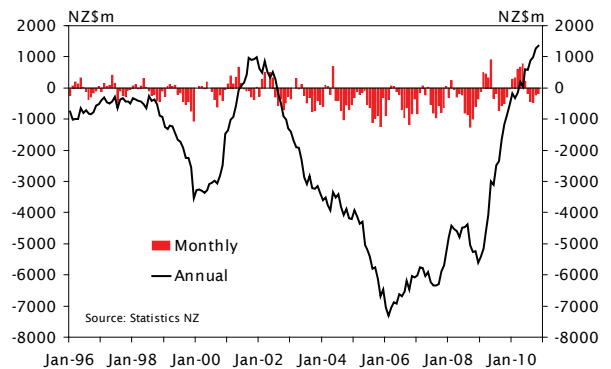
Key Data Previews

NZ Dec merchandise trade NZDm

Jan 31, Last: -186, WBC f/c: -140

- NZ's trade balance steadily improved throughout 2010, and we expect this improvement to continue in December. Export volumes traditionally begin to climb around this time of year with the value of exports further boosted by sustained strength in commodity prices. Poor weather experienced during 2010 (spring storms and wide-spread dry weather in early summer) will weigh on volumes over the coming months.
- While growth in consumer spending, and consequently imports of consumer goods, has been relatively modest, imports of capital equipment picked up strongly during 2010. In November, imports of capital equipment were 22% above levels of a year ago, compared to imports of consumer goods which are up around 13% over the same period.

NZ merchandise trade balance

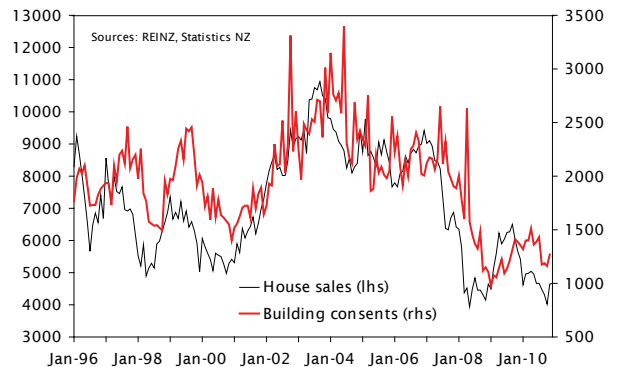


NZ Dec building consents s.a.

Jan 31, Last: 8.8%, WBC f/c: -9.0%

- November's headline spike in building consents was entirely due to an increase in the lumpy apartments category. Ex-apartments, consent issuance actually fell. We expect November's spike to unwind this month, and ex-apartment consents to decline further.
- Housing market activity weakened considerably in 2010. However, most recent forward-looking indicators of housing market activity have been more positive. A sharp increase in the number of house sales in November was sustained in December providing us with an early indication that house prices may start to stabilise in the New Year.
- It's still difficult to construct an accurate picture of how rebuilding in Canterbury is progressing. There have been modest increases in consent issuance in the region, however some building repair work won't require consent.

Housing activity (monthly, seasonally adjusted)



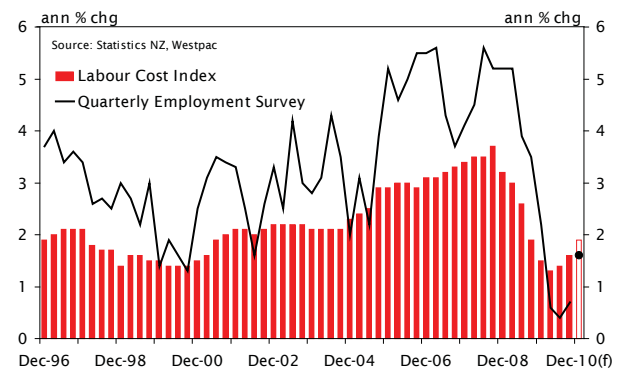
NZ Q4 wage growth

Feb 1, LCI pvt ord time - Last: 0.6%, WBC f/c: 0.6%

Feb 1, QES pvt ord time - Last: 1.0%, WBC f/c: 0.5%

- Wages are expected to grind higher in December. Quarterly wage growth tends to be seasonally weaker in December, informing our picks. QES wages are likely to be weighed down by compositional effects (more low-paid workers at this point in the cycle).
- The QES employment measures remain a valuable additional source of information given the volatility of the HLFS numbers. QES filled jobs were weaker than HLFS employment in September but we expect modest growth in December as the economy starts to pick up.

LCI & QES wages, private sector ord time



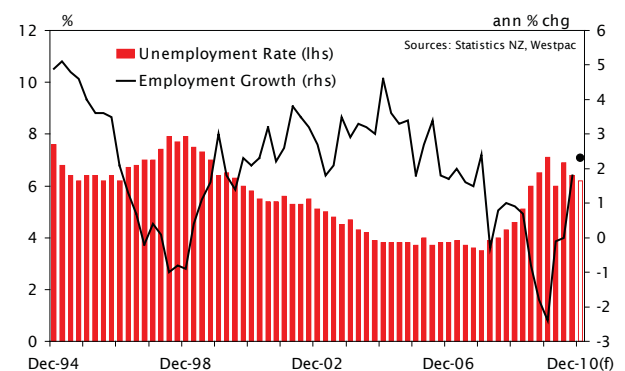
NZ Q4 HLFS employment and unemployment

Feb 3, Employment - Last: 1.0%, WBC f/c: 0.5%

Unemployment - Last: 6.4%, WBC f/c: 6.2%

- The HLFS has been very volatile in recent quarters, with wild swings both in employment growth and (more unusually) the unemployment rate. The 3 February outturn will confirm if the noise has quietened down.
- A wider range of data point to an improving labour market, albeit at a slower rate following the economy's mid year soft patch. Our pick is for a further modest fall in the unemployment rate in December.

NZ employment and unemployment

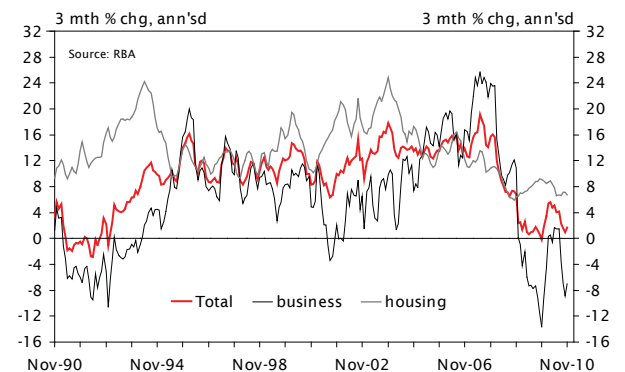


Aus Dec private credit

Jan 31, Last: 0.3%, 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 December, little different from the 0.25% rise in November.
- Housing credit growth is unspectacular, at 0.5% in November (around 7% annualised over the last three months). Rising interest rates impacting the owner-occupier market and a set-back in the investor upswing are headwinds.
- Business credit, which was at a turning point in the first half of 2010, weakened over the second half of the year as business confidence eroded. There was a small fall of 0.2% in November and a further decline in December is likely. An uptrend is expected to emerge during 2011 as business investment spending advances.

Credit upswing stalls

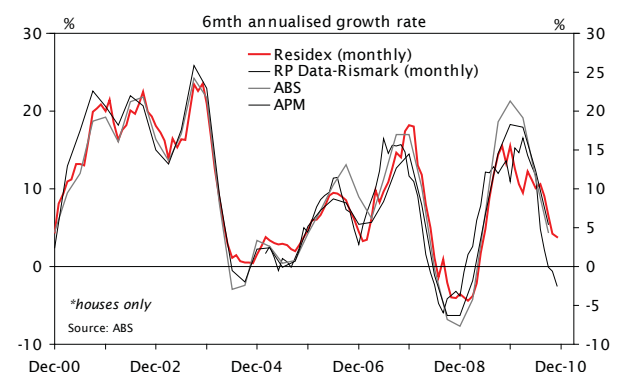


Aus Q4 house price index

Feb 1, Last: 0.1%, WBC f/c: flat, Mkt f/c: -0.2%, Range: -0.7% to 0.5%

- The official ABS House Price Index stalled in Q3 with a 0.1% qtr rise and downward revisions to Q1 and Q2. However, at 11.1%, annual price growth was still in double-digit territory. That's in contrast to private sector measures showing annual growth closer to 8%yr. We suspect the official measure will be revised down again. The same private sector measures show price patchiness continued in Q4.
- The ABS measure may stay on the high side compared to others. We expect a basically flat result for Q4 although a small decline is possible depending on how previous provisional estimates get revised.

House prices: all measures show slowing

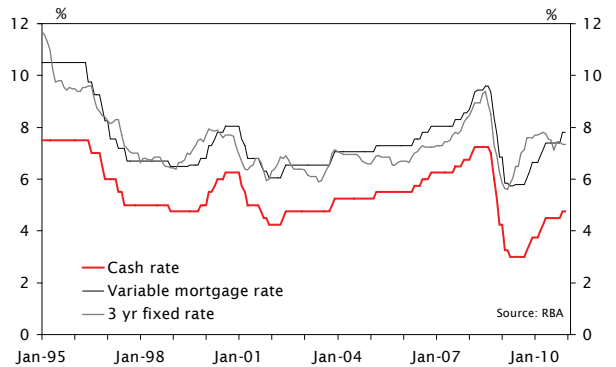


Aus RBA policy announcement

Feb 1, Last: 4.75%, WBC f/c: 4.75%, Mkt f/c: 4.75%

- The RBA is widely expected to leave interest rates unchanged in February, as they did at the last meeting in December. That followed the decision to lift the cash rate in November by 0.25% to 4.75% – which saw the average standard bank variable mortgage rate increase by 0.4% to 7.35%.
- The absence of inflation pressures over most of 2010 provides the RBA with some breathing space. Core inflation increased by 0.5% in Q2, 0.5% in Q3 and just 0.4% in Q4, lowering the annual rate to 2.2%.
- We expect the RBA to lift rates once during 2011, most likely in Q3. Inflation pressures are set to build over the forecast period, with limited spare capacity in the labour market (the unemployment rate declined to just 5.0% in Dec – down from 5.8% in mid-2009). Growth is forecast to be trend or a little bit faster – as the mining sector responds to historically high commodity prices and with the post floods rebuild.

RBA cash and mortgage rates

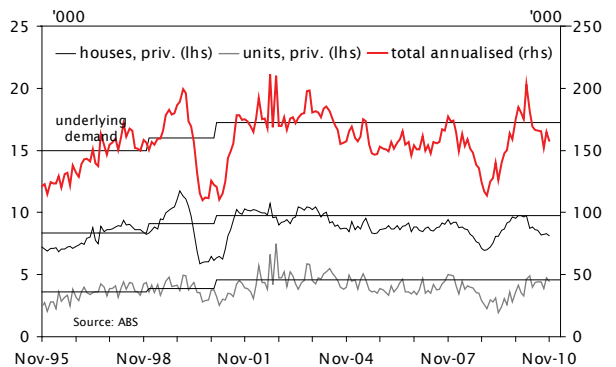


Aus Dec dwelling approvals

Feb 3, Last: -4.2%, WBC f/c: -2.5%, Mkt f/c: 1.3%, Range: -3.0% to 5.0%

- Dwelling approvals fell 4.2% in November, partially reversing an 8.3% jump in October that mainly reflected a jump in the volatile ‘units’ segment. Private house approvals were somewhat weaker than expected although upward revisions lifted the trend level of total approvals.
- Lags in the approval process mean November’s data would not have captured reactions to the RBA’s interest rate rise that month (plus the 15bp additional increase in average mortgage rates from the major banks). That’s likely to show through more fully from December on. With units also likely to continue unwinding their October spike, total approvals are forecast to decline 2.5% in December.

Dwelling approvals

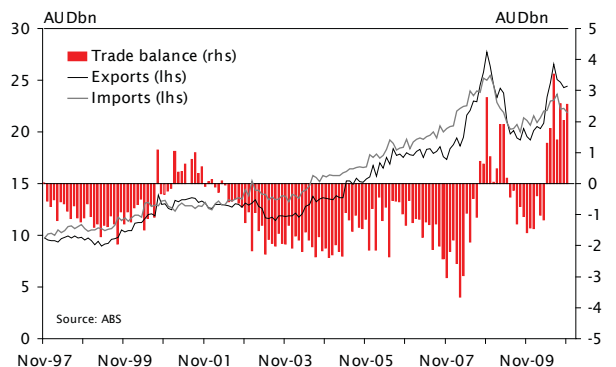


Aus Dec trade balance, AUDbn

Feb 3, Last: 1.9, WBC f/c: 1.6, Mkt f/c: 1.6, Range: 0.5 to 2.8

- The trade balance is expected to remain comfortably in surplus in December, for the ninth consecutive month. However, the size of the surplus is forecast to narrow a little, to \$1.6bn from \$1.9bn in November.
- Imports are forecast to rise by around 1% to 1.5%. The ABS advise that goods imports increased by 1.3% (boosted by a spike in fuel imports) and we expect service imports to rise, with more Australians holidaying overseas.
- Exports are forecast to be broadly flat. While rural commodity prices rose 5%, disruptions to harvesting are likely to have dented cereal exports. Non-rural prices were little changed in the month and ports data suggest coal and iron-ore export volumes increased in line with normal seasonal factors.

Trade balance: a string of surpluses



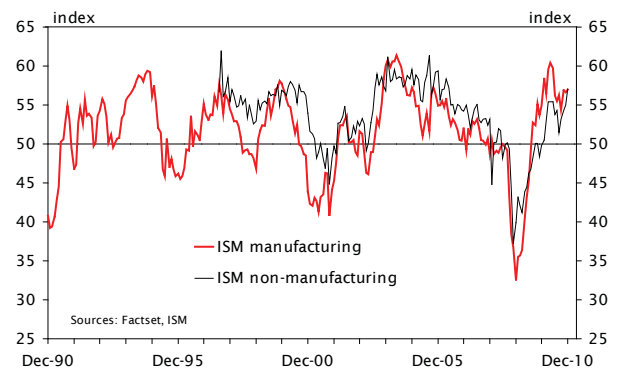
US Jan ISM factory and non-manufacturing reports

Feb 1, Factory Last: 57.0, WBC f/c: 58.0, Mkt f/c: 58.0

Feb 3, Non-manufacturing Last: 57.1, WBC 56.5, Mkt f/c: 57.0

- 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 57 by Dec as economic momentum recovered. NY/Philly factory surveys were stronger in the Jan shipments, orders and jobs detail, but Richmond less so. Given the ISM is a composite of its key activity components, that regional mix suggests a further modest gain in the Jan ISM – making it harder to argue an industrial sector slowdown is imminent.
- The services ISM also experienced a mid-year slowdown but surged to a 4.5 year high in Dec. Given ongoing cutbacks in state government spending, constraints on consumer spending, weak construction and poor weather early in Jan, that looks unsustainable so we expect its out-performance relative to the factory ISM to prove temporary, with a dip to 56.5 in Jan.

US ISMs

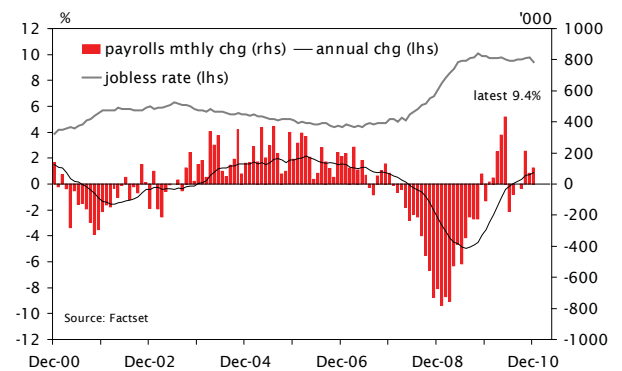


US Jan non farm payrolls to rise 135k

Feb 4, Payroll employment: Last: 103k, WBC f/c: 135k, Mkt f/c: 140k

- Payrolls growth disappointed in Nov-Dec, averaging 87k, after Oct’s up-beat 210k gain. However the household survey found a 297k rise in jobs and 260k unemployed leaving the workforce, so the jobless rate dropped from 9.8% to 9.4% (19 month low).
- GDP growth accelerated in Q4; jobless claims have a downward bias; small business hiring intentions hit a new cycle high; regional factory surveys found more jobs; consumer pessimism in the job market diminished. These signals suggest accelerating jobs growth, outside budget-constrained state/local govts. We forecast a 135k payrolls gain (155k private, -20k govt) and a partial correction higher in the jobless rate to 9.6%.
- Annual revisions to payrolls history, Jan’s huge seasonal adjustment, and updated household survey population data make Jan the most difficult month for forecasting these statistics.

US payrolls

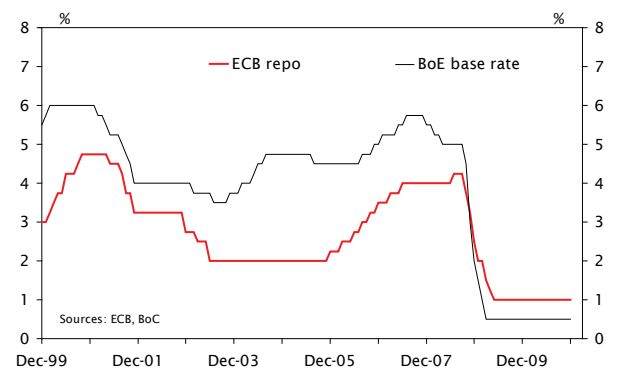


ECB on hold but sounding more hawkish

Feb 3, Last: 1.00%, WBC f/c: 1.00%, Mkt f/c: 1.00%

- After the Jan 13 Council meeting, ECB president Trichet described rates as appropriate but said that “very close monitoring of price developments is warranted... Risks to the medium-term outlook for price developments are still broadly balanced but could move to the upside”. These new references to upside risk and close monitoring suggested that the ECB is concerned about the current combination of above target inflation and low rates.
- Trichet clarified the point, noting the ECB sees no “second round” inflation effects from rising commodity prices “at this stage”: the ECB is not signalling an imminent policy move.
- Nevertheless, business survey record highs, solid industrial data and the especially robust German economy suggest emergency policy may have a use by date at some point – but sovereign risk and fragile banks remain a convincing counterpoint.

Official rates: ECB on hold



Key Data and Events

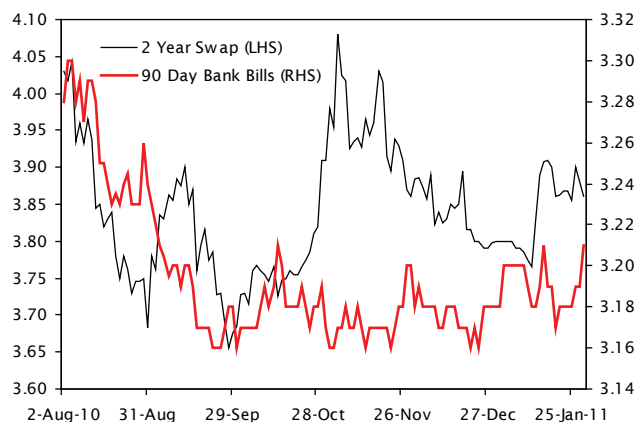
		Last	Market Median	Westpac Forecast	Comments
Mon 31 Jan					
NZ	Dec Merchandise Trade NZDm	-186	50	-140	Trade balance continues to benefit from high world commodity prices.
	Dec Building Consents	8.8%	-1.3%	-9.0%	Building consents to unwind apartment-led jump in November.
	Auckland Anniversary Day	-	-	-	Public holiday.
Aus	Jan MI Inflation Gauge	0.2%	-	-	Overstated CPI last couple of quarters.
	Nov Private Credit	0.3%	0.3%	0.2%	Business credit declining & housing constrained by rising rates.
US	Dec Core PCE Deflator	0.1%	0.1%	0.1%	Core CPI was 0.092% in Dec.
	Dec Personal Income	0.3%	0.4%	0.2%	As usual, forecasts based on published hours worked, hourly earnings and retail data for Dec, though Q4 totals to be published 28/1.
	Dec Personal Spending	0.4%	0.5%	0.4%	Recent readings very strong.
	Jan Chicago PMI	66.8	64.5	60.0	Accelerated through Q4.
	Jan Milwaukee NAPM	62.0	-	-	Atlanta Fed's Lockhart in Miami.
	Jan Dallas Fed Factory Index	12.8	15.0	15.0	Other regional Fed indices consistent with low mid-teens outcome.
	Fedspeak	-	-	-	Atlanta Fed's Lockhart in Miami.
Jpn	Dec Industrial Production	1.0%	2.8%	-	Levering off flurry of durables buying locally and strong EM demand.
	Jan Nomura Manufacturing PMI	48.3	-	-	Weaker than the official IP series at present.
	Dec Housing Starts %yr	6.8%	4.6%	-	Climbing off the canvas after woeful 2007-2010H1 collapse.
	Dec Construction Orders %yr	-5.3%	1.1%	-	Sovereign downgrade further reason to mark down non-res. activity.
Eur	Jan CPI %yr Flash	2.2%	2.3%	2.3%	Ger CPI (EU harmonised) up from 1.9% to 2.0% yr in Jan.
Can	Nov GDP	0.2%	0.3%	-	Oct saw GDP bounce after contraction in Sep.
	Dec Industrial Product Prices	0.5%	0.6%	-	Have not posted a fall since June.
Tue 1 Feb					
NZ	Q4 Labour Cost Index Private Ord Time	0.6%	0.5%	0.6%	Seasonally soft, trend a bit stronger.
	Q4 QES Private Sector Ord Time	1.0%	0.6%	0.5%	QES employment is a useful cross-check to volatile HLFS numbers.
	Jan ANZ Commodity Prices	2.0%	-	-	Commodity prices remain high.
Aus	Q4 House Prices, ABS Series	0.1%	-0.2%	flat	Price consolidation over 2010 H2, following strong gains previous 5 qtrs.
	RBA Policy Announcement	4.75%	4.75%	4.75%	RBA, after lifting rates in Nov, is on hold for now.
	Jan AiG PMI	46.3	-	-	Fell 1.3pts in Dec. Index in contractionary zone from Sep.
	Dec NAB Business Survey	3.7	-	-	Conditions index up 2pts in Nov but down on avg levels of last year.
US	Dec Construction Spending	0.4%	0.1%	-0.5%	Weather impact.
	Jan ISM Factory Index	57.0	58.0	58.0	Detail in 2 out of 3 regional Fed surveys suggests some acceleration.
	Jan Auto Sales mn annualised	12.53	12.6	-	Modest but steady acceleration in auto sales through 2010.
Jpn	Dec Labour Cash Earnings %yr	0.2%	1.0%	-	Rise in food and energy prices is cutting purchasing power.
Eur	Jan PMI Factory (F)	56.9a	56.9	56.8	Advantage factory PMI was lower, revision might take it down further.
	Dec Unemployment Rate %	10.1%	10.1%	10.1%	Euroland jobless rate at cyclical high although German rate falling.
Ger	Jan Unemployment ch'	3k	-10k	-	Dec saw first rise since June 2009, probably due to weather disruption.
UK	Jan PMI Factory	58.3	58.0	57.0	Cyclical high at end 2010 looks unsustainable.
	Dec Net Consumer Credit	-0.1	0.0	-	Household credit outstandings are essentially stalled with repayments more of less offsetting new lending.
	Dec Net Mortgage Lending	0.8	0.6	-	Household credit outstandings are essentially stalled with repayments more of less offsetting new lending.
	Jan House Prices %yr	0.4%	-1.0%	-	Nationwide index.
Wed 2 Feb					
US	Jan ADP Private Payrolls	297k	150k	-	Surge in private jobs here contrasted with weaker official payrolls data.
Eur	Dec PPI %yr	4.5%	5.2%	5.2%	Ger PPI jumped sharply from 4.4% to 5.3% yr in Dec.
UK	Jan BRC Shop Price Index %yr	2.1%	-	-	Often picks direction of movement in CPI annual rate.
	Jan PMI Construction	49.1	49.5	-	Back below 50 in Dec for first month since Feb.
	Jan House Prices %yr	-1.6%	-3.0%	-	Tentative date for Halifax index.
Thu 3 Feb					
NZ	Q4 HLFS Employment	1.0%	0.2%	0.5%	A modest improvement expected but survey has been very volatile recently.
	Q4 HLFS Unemployment	6.4%	6.5%	6.2%	A modest improvement expected but survey has been very volatile recently.
Aus	Dec Dwelling Approvals	-4.2%	1.3%	-2.5%	Further unwinding of Oct apartments spike + negative of Nov rate hike.
	Dec Trade Balance AUDbn	1.9	1.6	1.6	Imports to edge up 1%. Exports flat, weather disruptions to farm sector.
US	Jan Chain Store Sales %yr	3.1%	-	-	Guide to official retail data.
	Q4 Productivity Prelim	2.3%	2.0%	2.5%	Hours worked and earnings data combine with our GDP forecast point to accelerating productivity and flat ULC in Q4.
	Q4 Unit Labour Costs	-0.1%	0.2%	0.0%	Hours worked and earnings data combine with our GDP forecast point to accelerating productivity and flat ULC in Q4.
	Initial Jobless Claims w/e 29/1	454k	420k	430k	Latest jump due snow disruption claims backlog; snow in late Jan too.
	Jan ISM Non Manufacturing	57.1	57.0	56.5	Q4 services sector acceleration looks overdone, correction expected.
	Dec Factory Orders	0.7%	-0.4%	-1.0%	Durables down 2.5% in Dec, but aircraft 99.5% fall might be corrected
	Fed Chairman Bernanke	-	-	-	Speaking at National Press Club.
Eur	Jan PMI Services	55.2a	55.2	55.3	Advance PMI recovered most of Dec's decline.
	Dec Retail Sales	-0.6%	0.5%	-	Have not posted a rise since July.
	ECB Rate Decision	1.00%	1.00%	1.00%	Will recent hawkish commentary lead to higher rates? Not our view.
UK	Jan PMI Services	49.7	51.3	52.0	Dec's 3.2 pt plunge was at least in part due to snow disruption.
Fri 4 Feb					
NZ	Dec External Migration s.a.	630	-	775	Net departures across the Tasman to continue weighing on migration.
Aus	RBA Statement on Monetary Policy	-	-	-	Focus on updated activity and inflation forecasts post floods.
US	Jan Non-Farm Payrolls ch'	103k	140k	135k	Benchmark revisions will substantially change recent history, always makes Jan forecast more difficult. See text box.
	Jan Unemployment Rate %	9.4%	9.5%	9.6%	Benchmark revisions will substantially change recent history, always makes Jan forecast more difficult. See text box.
	Fedspeak	-	-	-	New FOMC voter Kocherlakota in St Paul.
Can	Jan Employment ch'	22k	16k	13k	Jobs trend about 13k per month through Q4.
	Jan Ivey PMI	50	53	55	Not seasonally adjusted but usually rises in Jan.

New Zealand Economic and Financial Forecasts

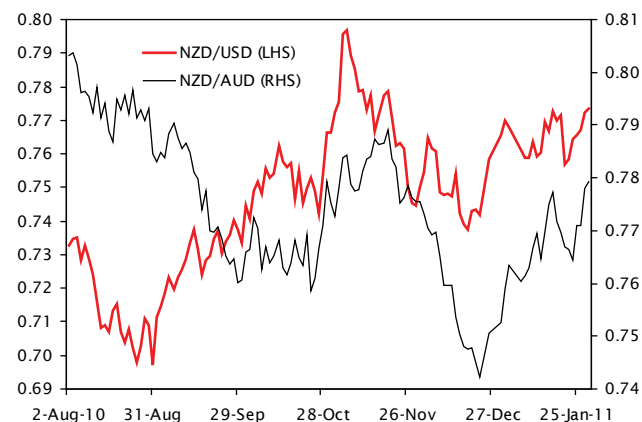
Economic Growth Forecasts	March years				Calendar years			
	2010	2011f	2012f	2013f	2009	2010e	2011f	2012f
% change								
GDP (Production) ann avg	-0.5	1.5	3.9	2.9	-1.7	1.5	3.3	3.1
Employment	-0.1	1.4	2.5	1.1	-2.4	2.3	2.3	0.9
Unemployment Rate % s.a.	6.0	6.2	5.1	4.9	7.1	6.2	5.2	5.1
CPI	2.0	4.6	1.7	2.4	2.0	4.0	2.3	2.1
Current Account Balance % of GDP	-2.4	-2.7	-4.1	-5.0	-2.8	-2.6	-3.9	-4.9

Financial Forecasts	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Cash	3.00	3.00	3.25	3.50	3.75	4.00	4.50
90 Day bill	3.20	3.20	3.50	3.80	4.00	4.30	4.80
2 Year Swap	4.00	4.30	4.60	4.90	5.10	5.30	5.50
5 Year Swap	4.90	5.10	5.40	5.60	5.70	5.80	5.90
10 Year Bond	5.70	5.70	5.70	5.80	5.90	6.00	6.00
NZD/USD	0.76	0.79	0.78	0.77	0.76	0.75	0.74
NZD/AUD	0.76	0.77	0.79	0.80	0.80	0.81	0.81
NZD/JPY	63.1	65.6	70.2	73.2	73.7	74.3	74.7
NZD/EUR	0.56	0.57	0.59	0.59	0.59	0.59	0.58
NZD/GBP	0.48	0.49	0.49	0.48	0.47	0.45	0.44
TWI	68.0	69.9	71.0	71.6	71.2	70.8	70.2

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 January 2011

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	3.00%	3.00%	3.00%
30 Days	3.18%	3.11%	3.12%
60 Days	3.19%	3.16%	3.15%
90 Days	3.23%	3.19%	3.20%
2 Year Swap	3.86%	3.91%	3.80%
5 Year Swap	4.64%	4.63%	4.73%

NZ foreign currency midrates as at Monday 31 January 2011

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7697	0.7728	0.7678
NZD/EUR	0.5668	0.5813	0.5763
NZD/GBP	0.4860	0.4864	0.4925
NZD/JPY	63.100	63.930	62.920
NZD/AUD	0.7783	0.7772	0.7633
TWI	68.920	69.480	68.820

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2006	2007	2008	2009	2010e	2011f	2012f
Australia							
Real GDP %yr	2.7	2.1	0.0	-2.6	2.7	1.1	2.4
Consumer Prices %yr	3.2	2.9	3.8	-0.3	1.6	2.3	3.3
Unemployment Rate %	4.6	5.8	5.8	9.3	9.7	10.0	10.2
Current Account % GDP	-5.3	-6.3	-4.5	-4.2	-2.9	-3.0	-3.2
United States							
Real GDP %yr	3.1	2.7	2.1	0.0	-2.6	2.5	1.1
Consumer Prices %yr	3.4	3.2	2.9	3.8	-0.3	1.5	2.2
Unemployment Rate %	5.1	4.6	5.8	5.8	9.3	9.8	10.2
Current Account %GDP	-6.0	-5.3	-4.7	-2.7	-3.3	-3.1	-2.4
Japan							
Real GDP %yr	2.8	2.2	-1.5	-6.6	4.5	1.8	2.3
Consumer Prices %yr	0.2	0.1	1.4	-1.3	-0.8	-0.4	-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	3.3	3.4	3.6
Euroland							
Real GDP %yr	3.2	2.9	0.3	-4.0	1.7	1.2	1.5
Consumer Prices %yr	2.0	3.1	1.6	0.9	1.5	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 10 December 2010

Interest Rate Forecasts	Latest (Jan 31)	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	4.97	5.00	5.00	5.25	5.25	5.40
10 Year Bond	5.46	5.70	5.60	5.60	5.60	6.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.32	3.30	3.00	3.00	3.00	3.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00
Exchange Rate Forecasts						
AUD/USD	0.9889	1.00	1.02	0.99	0.96	0.95
USD/JPY	81.98	83	83	90	95	97
EUR/USD	1.3579	1.35	1.38	1.33	1.30	1.29
AUD/NZD	1.2848	1.32	1.29	1.27	1.25	1.24

Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (NZ division). Information current as at 31 January 2011. All customers please note that this information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. The information contained in this report is general in nature and does not constitute an offer, a solicitation of an offer, to subscribe for or purchase any securities or other financial instrument and does not constitute an offer, inducement or solicitation to enter a legally binding contract. Australian customers can obtain Westpac's financial services guide by calling +612 9284 8372, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. © 2010 Westpac Banking Corporation.