Westpac

Weekly Commentary

31 August 2009

Cover me

The Government's decision to extend the retail deposit guarantee scheme will alleviate a source of uncertainty for the finance industry, but still leaves some tough questions.

The deposit guarantee was introduced last October at the height of the credit crisis, when many countries were introducing or expanding government protection for retail deposits. The concern at the time was that without a similar guarantee in NZ, depositors would flee offshore (specifically to Australia) to benefit from this protection. The scheme was initially set to expire in October 2010, which was expected to be well beyond the crisis period.

The guarantee appears to have achieved its initial goal – deposits at both banks and non-bank deposit taking institutions (NBDTs) have been broadly stable since October. But for months there have been questions swirling around two features of NZ's scheme: first, the inclusion of smaller NBDTs as well as systemically important banks and second, the time limit on the guarantee, including the fact that it was set to expire a year ahead of Australia's scheme.

Initially, there were concerns that the guarantee could encourage riskier behaviour, especially by finance companies, which have seen a string of failures in recent years. But the experience has been rather different: some NBDTs have reported a bulge in term deposits maturing around September 2010, i.e. just before the guarantee was due to expire.

Without the confidence that they will be able to maintain their funding beyond this date, they have been reluctant to lend beyond this date as well.

As a result, the extension of the guarantee scheme until December 2011 alleviates one of their immediate concerns. However, the extended guarantee comes with some significantly tougher conditions, which will put further pressure on some NBDTs to make decisions today about their future.

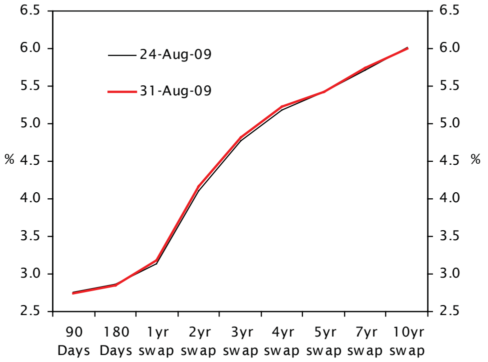
The first major change is to the guarantee fees. Previously, NBDTs were only charged a fee based on growth in deposits since October 2008 – which means they can avoid the fee if they choose to wind down their books in an orderly manner. But from October 2010, any NBDT that intends to remain in business and within the guarantee scheme will be charged a fee on their entire deposit book. So for anyone looking to exit the industry, the equation is much the same as before: best to do it by next October.

The second change is that those wanting to apply for the extension will have to obtain a credit rating of BB or better. Note, though, that in most cases a rating isn't a new obligation: the RBNZ recently introduced a requirement for most NBDTs to obtain a credit rating by March 2010 (though they haven't set a minimum level). As a result the process is well underway: of the 20 largest NBDTs within the guarantee scheme, 11 currently have a sufficient credit rating.

There is a grey area for NBDTs with less than $20m of deposits, which are exempt from the RBNZ's credit rating requirement but would still have to get one to qualify for the extended guarantee. Based on the most recent financial statements – which admittedly pre-date the deposit guarantee in many cases – this affects 30-35 firms with combined deposits of $200-270m (a few are very close to the cut-off). However, simply doing without the guarantee will be a viable option in some cases – for example, many are credit unions, which by nature are less vulnerable to a run on deposits.

All considered, deposit takers will face some significant changes to the landscape in the next few years. But in our view it's the RBNZ regulatory requirements that are already in train, more so than the deposit guarantee, which will be the driving force.

NZ Interest Rates



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

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On the data front this week, the July trade deficit of $163m was close to market expectations. Exports were 7.3% lower than a year ago, mainly due to the lower price of exported crude oil. Meat exports were also down on last year, with farmers rebuilding stock after last year's drought. Imports were weaker than we expected, though this was due to an unusually low volume of imported petroleum products and low capital imports, both of which are notably lumpy. We expect the trade deficit to deteriorate again over the next year, as imports gradually recover in line with domestic growth.

Residential building consents rose by 5% in July, with an 11.2% rise in ex-apartment consents confirming that the trend has turned upward again since the start of the year. Apartment consents were notably soft in July, but bear in mind that 'apartments' also covers the likes of units in retirement villages, which had surged in previous months. We expect consents to continue to trend higher, given the shortage in housing that is now rapidly developing in response to population growth from net migration.

Finally, the RBNZ survey of expectations found that expected inflation two years ahead rose slightly to 2.3% in August, from 2.2% in May – not surprising given the general improvement in economic conditions in that time. Inflation expectations remain close to the middle of the 1-3% target band, which should reassure the RBNZ that easy monetary policy settings are appropriate for now. Speaking of easy settings, it's interesting to note that although actual monetary conditions have tightened further since May, via the higher exchange rate and long-term interest rates, *perceptions* of monetary conditions have shifted from slightly tighter than neutral to slightly easier. In other words, perceptions of 'neutral' have moved higher – an acknowledgement that the NZ economy is coping better than expected with the stronger NZD.

Fixed vs. floating: Interest rates have bottomed and are likely to trend higher over coming years, although the RBNZ's intention to keep the OCR low suggests little pressure for short-term rates to rise any time soon. We recommend fixing for six months to one year, which remain easily the most favourable rates on offer. While a strategy of fixing for short terms creates more uncertainty about future cash flows, borrowers can reduce this uncertainty by repaying more than the minimum amount while interest rates are at the lower end of the cycle.

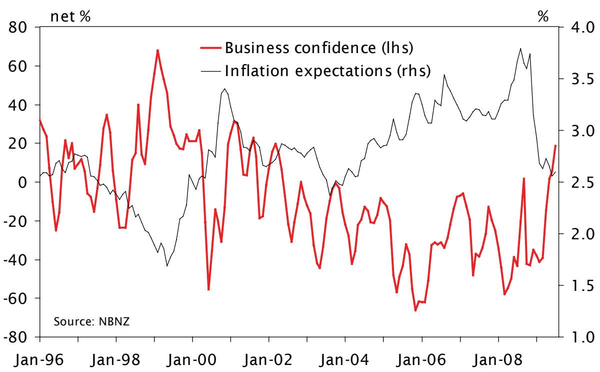
Key Data Previews

NZ Aug NBNZ business confidence

Aug 31, Last: 18.7%

- General business confidence improved further in July, reaching the highest level since March 2002. Confidence in the agricultural sector improved, but remained negative on concerns about lower dairy payouts this season; all other sectors were positive, with construction especially perky.
- Indicators suggest an ongoing improvement in activity, with the BNZ business survey rising sharply in August, and the manufacturing and services PMIs sitting just either side of 50 in July. The litmus test will be when employment and investment intentions, which turned extremely negative through the early part of this year, return to positive territory.
- An unchanged or higher reading in August would imply substantial upside risks to our forecast of 0.2% GDP growth in Q3 – though this includes a -0.4% allowance for the potential impact of swine flu, which has been minimal to date.

NBNZ Business Confidence

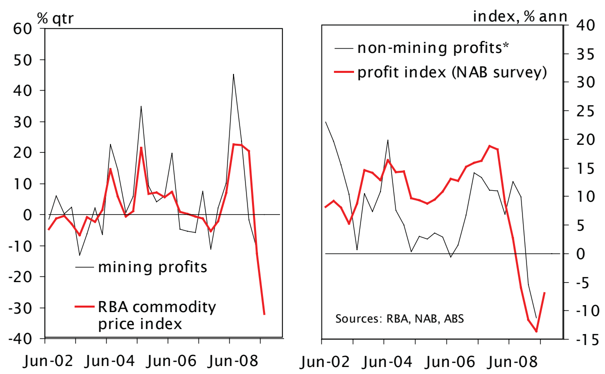


Aus Q2 company profits

Aug 31, Last: –7.2%, WBC f/c: –9.0%, Mkt f/c: –4.5%, Range: –10.0% to 5.0%

- Australia's national income took a hit as commodity prices declined from the record highs of 2008. That and mixed sales conditions have triggered a decline in company profits.
- We're forecasting company profits to contract by 9% in Q2, following falls of about 7% and 8% in the last two quarters. The detail should be more positive, however.
- Mining profits rode the commodity boom up and are retracing as iron ore and coal prices declined from the stratosphere. A 30% drop in quarterly mining profits appears feasible.
- Profitability in the broader economy improved in Q2 according to private business surveys. Notably, retailers took advantage of the cash-handout-fuelled spending spree to claw back margins eroded during the second half of 2008 as the currency free-fall sent import costs skywards.

Q2 mining profits take a hit

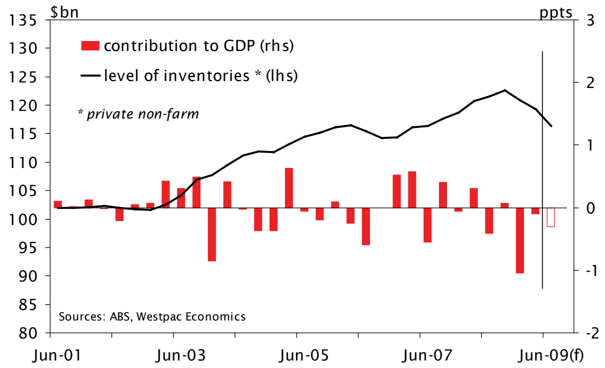


Aus Q2 inventories

Aug 31, Last: –1.8% (–0.1ppts); WBC f/c: –2.5% (–0.3ppts), Mkt f/c: –1.1% (0.1ppts), Range: –2.5% to 1.0% (–0.8ppts to 0.1ppts)

- The potential for surprise from this release is always high – in part because the statistician often revises history.
- We anticipate that business inventories will be a negative for quarterly GDP growth. Our forecast is for inventories to subtract 0.3ppts from growth, with a 2.5% drop in the level of inventories – after a 1.8% fall in the March quarter
- Firms have cut inventory levels over the last half year with a view to reducing costs and in response to patchy demand. We see the cost-cutting drive as still at play in the June quarter.
- We also expect some unintended run-down of inventories as retail sales and business equipment spending – boosted by government hand-outs / incentives – surprised on the high side.

Inventory run-down

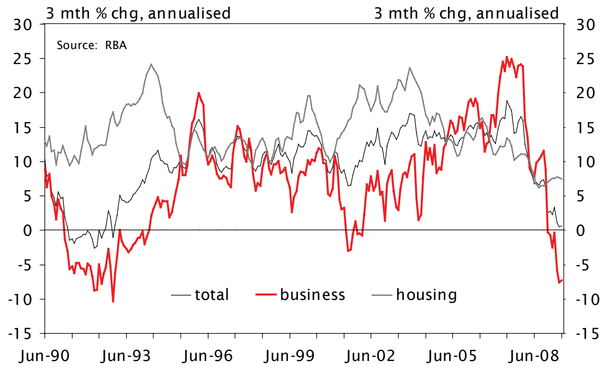


Aus Jul private sector credit

Aug 31, Last: 0.1%, WBC f/c: 0.1%, Mkt f/c: 0.2%, Range: 0.1% to 0.5%

- Credit growth has been anaemic in recent months as business credit contracts offsetting a modest upward trend in housing.
- We expect a repeat of last month, forecasting total credit to expand by just 0.1%.
- Housing credit growth has stepped up from the low of mid-2008 as the lowest variable mortgage rates in 41 years and government incentives trigger a surge in new lending. However, that boost has been tempered by existing mortgage holders paying down debt more aggressively.
- Business are cutting costs and reducing gearing levels. Credit for the segment is down 2.8% since January.

Credit

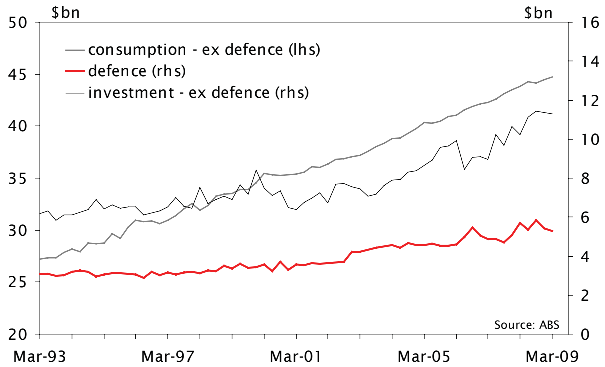


Aus Q2 public demand

Sep 1, Last: 0.1%, WBC f/c: 0.9%

- Public demand (22% of the economy) is expected to make a solid contribution to economic growth in the June quarter. Our forecast is for a 0.9% increase.
- While public demand is in an upswing, official figures reported no growth over the last half year (–0.2% in Q4 and +0.1% in Q1). Investment by the public sector – which can be lumpy – surprisingly dipped in the two quarters.
- We anticipate that public investment will resume its upward trend and that public consumption, which has been sluggish as governments keep a lid on public servant numbers, advances modestly.

Public spending

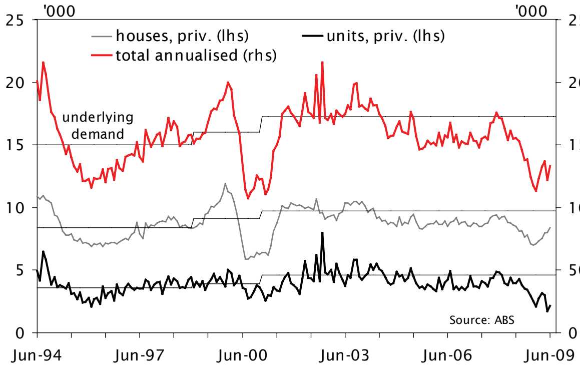


Aus Jul dwelling approvals

Sep 1, Last: 9.3%, WBC f/c: 2.0%, Mkt f/c: 3.3%, Range: –2.5% to 10.0%

- Dwelling approvals rebounded sharply in June, rising 9.3% after a surprisingly large 11% fall in May. The volatility was mainly in private units (includes apartments), which plunged 44% in May and rebounded 28% in June. In contrast, the larger, more stable private houses component rose 0.1% in May and 4.9% in June.
- We expect a 2% rise in July. The upturn in dwelling approvals – now +18% from 2008 lows – continues to lag other housing indicators. Finance approvals for the construction & purchase of newly built dwellings, for example, are up 62%. The divergence partly reflects difficulties in securing developer finance. However, we suspect it is also a delayed response. In particular, First Home Buyers require a signed contract to be eligible for Govt bonus payments and would have had more urgency in securing finance than building approval.

Dwelling approvals

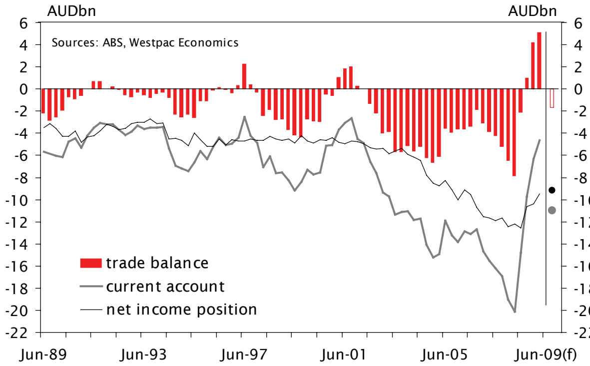


Aus Q2 current account balance, AUDbn

Sep 1, Last: –4.6, WBC f/c: –11.0, Mkt f/c: –10.7n, Range: –11.8 to –3.0

- With the AUD/USD surging 14.4% on a quarterly average basis in Q2 and sharply weaker USD commodity prices, valuation effects will again be dominant in the current account.
- Monthly data showed a price-driven 13.5%qtr drop in exports. Import volumes fell, but at a lesser rate with strengthening domestic demand after sharp plunges in Q4 and Q1. Add in weaker import prices, and import values fell 6.4%qtr. This drove a $5.9bn turnaround in net trade to a $1.667bn deficit.
- This should be partially offset by a fall in the net income deficit to $9.15bn from $9.5bn. While a strong Australian equity market total return vs the US (after adj. for A$ rise) relative to Q1 should lift net equity income outflows, this should be more than offset by lower net debt income outflows (with lower US short rates and the A$ rise reducing debt servicing costs).

Current account balance and components

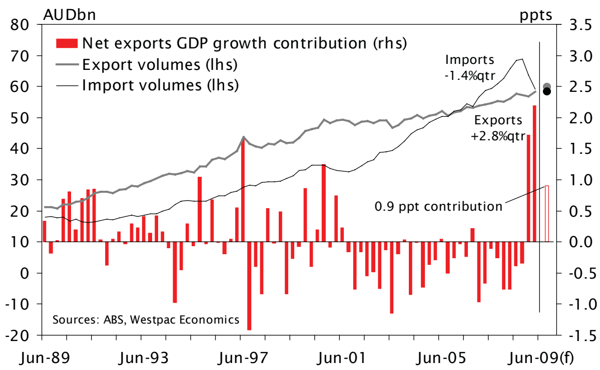


Aus Q2 net exports contribution to GDP, ppts

Sep 1, Last: +2.2, WBC f/c: +0.9, Mkt f/c: 0.3, Range: –0.3 to 1.2

- While export values fell 13.5% in Q2, this was entirely price driven, from both weaker USD commodity prices and the 14.4% AUD/USD rise. With prices falling more than values, backed out export volumes look to have increased yet again, led by non-rural resources as China demand strengthened. We expect a 2.8%qtr rise in export volumes (vs +2.7%qtr prev).
- The clear strengthening in consumer demand in 1H09 has seen import volumes of consumer goods rebound solidly in Q2 (values rose 3.6% and consumption goods import price index fell 5.6%). But we expect more than offsetting volume weakness for capital goods (values –14.1%; prices –7.3%) and intermediate goods (values –12.0%; prices –6.4%). This gives –1.4%qtr for total import volumes (vs –7.0%qtr prev).
- This gives a 0.9ppt contribution from net X to Q2 GDP growth.

Export and import volumes

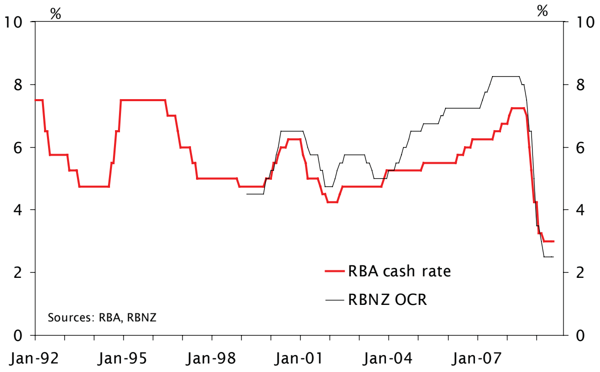


Aus RBA policy announcement

Sep 1, Last: 3.00%, WBC f/c: 3.00%, Mkt f/c: 3.00%

- The RBA is expected to leave rates unchanged at its September meeting. The statement from August's meeting indicated a clear shift from an easing bias to a neutral stance. The minutes from that meeting showed this 'neutral' was in fact an implicit tightening bias, with the Board viewing further cuts as unnecessary and stating that "if the economy evolved as anticipated ... the Bank would in due course need to adopt a less expansionary policy stance."
- Household spending was singled out as a key source of uncertainty for the Bank, particularly the strength of demand once the effects of temporary fiscal measures drop out. This makes a September move unlikely as there will be little new information on this front. However, markets will be eyeing the statement closely for any signs of firming in the hawkish tone.

Official interest rates: pause continues

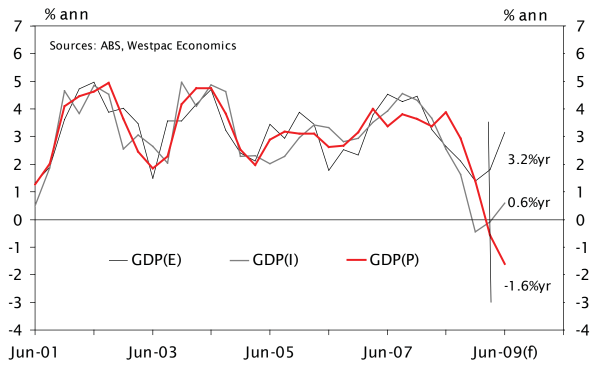


Aus Q2 GDP

Sep 2, Last: 0.4%, WBC f/c: 0.7%, Mkt f/c: 0.6%, Range: -0.4% to 1.5%

- Australia's economy continues to defy the global recession, proving to be more resilient than anticipated. We're now forecasting GDP growth of 0.7%qtr, 0.7%yr.
- Fiscal stimulus boosted retail sales and business investment. The resurgence of China has also lifted export volumes. Despite this strength, import volumes contracted – pointing to a run-down of inventories.
- GDP measurement difficulties / divergence appear to have persisted for a third quarter. The expenditure estimate may grow by as much as 1.4%. However, the production estimate could contract for a third consecutive quarter – with hours worked contracting by 0.4%. The income estimate will be constrained by a sharp step-down in mining profits.

Australian GDP: three measures

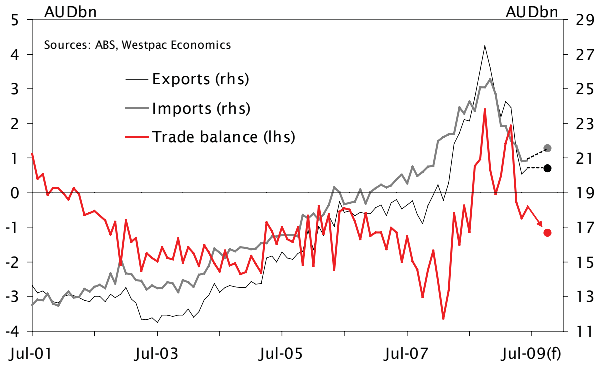


Aus Jul international trade balance, AUDbn

Sep 3, Last: -0.441, WBC f/c: -1.15, Mkt f/c: -0.88, Range: -2.10 to -0.20

- The deficit narrowed $296mn in June to -$441mn. Exports saw further volume gains, with values up 1.5% but weaker prices (RBA AUD commodity price index -3.4%). This was led by non-rural vols, with values up 2.2% but prices -3.3%. The downtrend in export values eased to -3.0%mth (best since Dec-08). Imports rose 0.1% despite a 5.1% higher AUD/USD denting prices, with consumption goods resuming an uptrend.
- Port data implies higher non-rural export vols (iron ore & coal) in July and the RBA non-rural price index rose 0.4%, but with a 3.5% s.a. drag, we f/c flat non-rural export values. Rural vols rose, but with prices -1.5% and a 1.7% s.a. drag, we f/c -2% for rural exports, giving -0.1% for total exports. But merchandise import data showed a solid 4% rise in goods, and we f/c +3.4% for total imports, lifting the deficit to its highest in a year.

X vol rise offset by s.a. & prices, but M strong

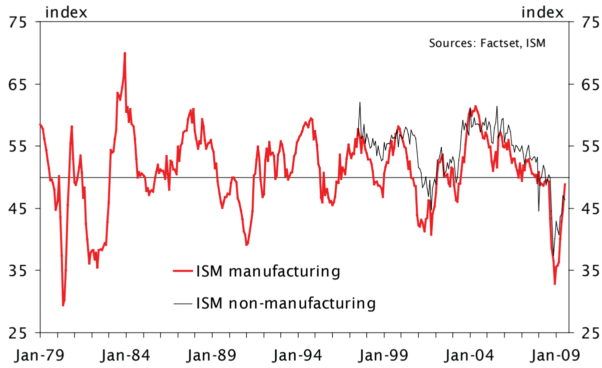


US Aug ISM factory and non-manufacturing reports

Sep 1, Factory Last: 48.9, WBC f/c: 50.0, Mkt f/c: 50.5
Sep 3 , Non-manufacturing Last: 46.4, WBC f/c: 49.0, Mkt f/c: 48.0

- Since late Q1, most US business surveys have shown varying degrees of improvement, as fears of economic Armageddon around the turn of the year were replaced by 'normal' recession concerns. Since mid year, an increasing number of the regional surveys have risen above the neutral level, indicating factory sector expansion.
- The ISM factory index bottomed below 33 in Dec but steadily recovered to almost 49 in July (still consistent with mild industrial contraction). Given the regional survey gains, and solid durable orders in July and August the ISM should rise back to the neutral 50 level, and may even exceed it.
- After slipping a little in July, the non-factory headline should resume its uptrend in August, to just shy of neutral 50.

US ISMs: closing back in on 50

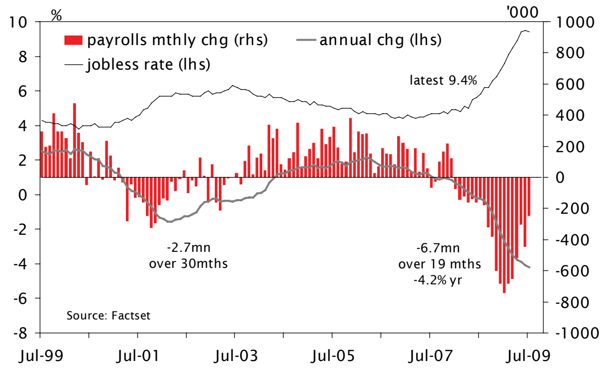


US Aug non-farm payrolls to fall by 150k

Sep 4, Payrolls Last: –247k, WBC f/c: –150k, Mkt f/c: –230k
Sep 4, Unemployment Last: 9.4%, WBC f/c: 9.6%, Mkt f/c: 9.5%

- Payrolls fell by 247k in July, the smallest decline since August last year. The report benefited from a seasonality distortion caused by earlier than usual layoffs in the auto sector, but also a genuinely less weak underlying trend in job market conditions was detectable in some of the other detail, including hours worked, earnings, the industry breakdown (less job losses in finance and professional services, hiring in leisure) and the slight dip in the jobless rate. Subsequent state payrolls data suggest July payrolls could even be revised a little higher.
- With the economy likely expanding at 3%+ pace in Q3, job shedding should further diminish, a view supported by falling initial/continuing claims, less weak job components in the business surveys, and improving consumer confidence with respect to the labour market. We forecast a 150k payrolls fall.

US jobs market: blowout moderating

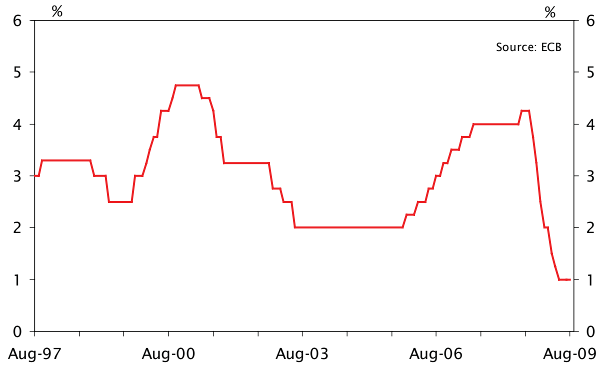


European Central Bank Council meeting

Sep 3, ECB Last: 1.00%, WBC f/c: 1.00% , Mkt f/c: 1.00%

- The European Central Bank left its key rate unchanged at 1.0% at the Aug Council meeting, and made no adjustments to its covered bond purchase program, which "hasn't had as much impact... as we would have liked".
- With the economy contracting just 0.1% in Q2, we do not expect any further quasi-QE programs to be announced, and the prospect of a further rate cut has diminished sharply further. Indeed new staff economic projections are likely to see forecasts for growth and inflation tweaked higher, compared to the June forecasts.
- The fly in the ointment is the continued declaration in M3 growth, to just 3.0% yr in July, and private sector lending to just 0.5% yr, but this provides justification for maintaining current easing policy settings, not easing them further.

ECB policy rate



Key Data and Events

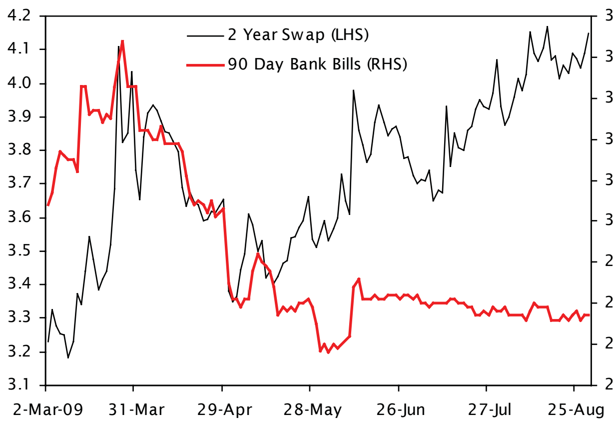
		Last	Market Median	Westpac Forecast	Comments
Mon 31 Aug					
NZ	Aug NBNZ Business Confidence	18.7%	–	–	Activity indicators suggest good reason for improving confidence.
Aus	Aug TD-MI Inflation Gauge	0.9%	–	–	July's record rise on strong seasonal spikes in utilities & council rates.
	Q2 Company Profits	-7.2%	-4.5%	-9.0%	Step-down in commodity prices major negative (see preview box).
	Q2 Inventories	-1.8%	-1.1%	-2.5%	Run-down: cost cutting & unintended as demand rebounds.
	Jul Private Credit	0.1%	0.2%	0.1%	Fall in business credit offsetting firmer housing credit.
US	Aug Chicago PMI	43.4	48.0	50.0	Most regional surveys pointing to industrial growth, autos to help
	Aug Milwaukee PMI	45.0	49.0	50.0	Chicago and may also benefit Milwaukee.
	Dallas Fed Factory Index	-25.5	-14.0	-15.0	The laggard of the regionals.
Jpn	Jul Industrial Production	2.3%	1.4%	–	Overall inventory adjustment advanced, sectoral diversity remains.
	Jul Retail Sales %yr	-3.0%	-3.5%	–	See rate of earnings decline below and -3% plus doesn't look so bad.
	Jul Labour Earnings %yr	-7.1%	-6.3%	–	Collapse from hours worked, job loss, corporate cost squeeze.
	Jul Housing Starts %yr	-32.4%	-30.3%	–	Job insecurity & new household debt commitments don't go together.
	Jul Construction Orders %yr	-28.0%	–	–	Public investment jumped 8%qtr in Q2 GDP, but didn't show up here.
	Aug Nomura PMI	50.4	–	–	Output has realigned itself to the meek state of final demand.
Eur	Aug CPI Flash %yr	-0.6%	-0.3%	-0.3%	Base effects will turn annual rate positive again from Sept.
UK	August Bank Holiday	–	–	–	Markets closed.
Can	Jun GDP	-0.5%	0.2%	–	Monthly GDP has been in trend decline since late 2007.
	Q2 GDP ann'lsd	-5.4%	-3.0%	-2.6%	Partial data point to steeper decline in Canadian GDP than in the US.
Tue 1 Sep					
Aus	Aug AiG PMI	44.5	–	–	Manufacturing on the improve – index +10pts from 2009H1 avg.
	Jul Dwelling Approvals	9.3%	3.3%	2.0%	Still lagging upturn in finance by a long way.
	Q2 Current Account Balance AUDbn	-4.6	-10.7	-11.0	\$5.9bn trade bal fall to \$1.7bn deficit; partial offset from lower NID.
	Q2 Net Export Contribution to GDP ppts	2.2	0.3	0.9	Lesser 1.4% M vols fall with C goods strong; X vols up 2.8% (NR-led).
	Q2 Public Spending	0.1%	–	0.9%	Public investment to resume upswing after soft half year.
	RBA Policy Announcement, 2:30pm	3.00%	3.00%	3.00%	Bank now has implicit tightening bias but unsure about H2 softening.
US	Aug ISM Factory	48.9	50.5	50.0	No longer contracting, but still lagging the mostly stronger regionals.
	Jul Pending Home Sales	3.6%	1.6%	5.0%	New home sales strength to show up in established mkt too.
	Jul Construction Spending	0.3%	-0.1%	0.5%	Housing recovery underway, boosting spending.
	Aug Auto Sales	11.3	13.2	13.2	Cash for clunkers boost.
Eur	Aug PMI Factory (F)	47.9 a	47.9	47.9	Revisions usually minor.
	Jul Unemployment Rate	9.4%	9.5%	9.4%	Still trending higher but at a slower pace, given less weak Q2 GDP.
Ger	Aug Unemployment chg	-6k	30K	10k	With economy growing in Q2, job shedding should have diminished.
UK	Aug House Prices %yr HBoS	-12.1%	-10.1%	-9.5%	Tentative date. Base effects combined with rising prices now.
	Jul Net Mortgage Lending £bn	0.3	0.3	0.5	Mortgage approvals up but borrowers increasing repayments.
	Jul Net Consumer Credit £bn	0.1	0.1	0.0	Personal credit growth remains a constraint on consumer spending.
	Aug PMI Factory	50.8	51.5	51.5	More evidence that factory sector is bouncing off the bottom.
Wed 2 Sep					
Aus	Q2 GDP	0.4%	0.6%	0.7%	Domestic spend boosted by govt stimulus & net exports a plus.
US	Aug Corporate Layoff Announcements	-5.7%	–	–	Diminishing, another sign the labour market is shedding fewer workers.
	Aug ADP Private Payrolls Change	-371k	-250k	–	Not such a reliable guide to payrolls.
	Q2 Productivity Revision	6.4%	6.4%	6.4%	Headline GDP was unrevised in Q2 but some of the components were
	Q2 Unit Labour Costs Revision	-5.8%	-5.8%	-5.8%	tweaked so still a chance of very modest productivity/ULC revisions.
	Jul Factory Orders	0.4%	2.2%	3.5%	Durables orders known up almost 5%.
	Aug 12 FOMC Minutes	–	–	–	More detail behind the decision to wind down QE.
	Fedspeak	–	–	–	Lockhart on lessons from financial crisis.
Eur	Jul Producer Prices %yr	-6.6%	-8.4%	-7.0%	Base effects will begin to lift annual rate from August.
	Q2 GDP First Revision	-0.1% a	-0.1%	-0.1%	More detail behind the less weak than expected result.
UK	Aug PMI Construction	47.0	48.0	48.0	Construction still contracting but at a slower pace.
Thu 3 Sep					
NZ	Aug ANZ Commodity Price Index	1.0%	–	–	Strong gain in world price index expected; NZ dollar prices flat.
Aus	Jul International Trade Balance, AUDbn	-0.44	-0.88	-1.15	Higher X vols offset by s.adj, lower rural prices for 0.1% X fall; M +3.4%.
US	Initial Jobless Claims w/e 29/8	570k	560k	560k	With economy probably growing in Q3, layoffs are decreasing.
	Aug ISM Non-Manufacturing	46.4	48.0	49.0	The services recession is starting to bottom out.
	Aug Chain Store Sales %yr	-5.0%	–	–	Don't always gel with the weekly data through the month.
Eur	PMI Services (F)	49.5a	49.5	49.5	Revisions not usually significant.
	Jul Retail Sales	-0.2%	0.1%	flat	Retail PMI suggests another soft monthly outcome.
	ECB Rate Decision	1.00%	1.00%	1.00%	No policy change but upgraded staff forecasts likely.
UK	Aug PMI Services	53.2	54.0	53.0	Growth continuing but not accelerating.
Fri 4 Sep					
US	Aug Non-farm Payrolls Change	-247k	-230k	-150k	With economy likely growing in Q3, job shedding should ease further
	Aug Unemployment Rate	9.4%	9.5%	9.5%	and the unemployment rate could show signs of peaking.
	Fedspeak	–	–	–	Fisher on the economy.
Jpn	Q2 MoF Capex Survey %yr	-25.3%	-23.0%	–	Provides raw data for capex, stocks inputs to 2nd estimate of GDP.
Eur	European Commission Forecasts Update	–	–	–	Revised growth, inflation and budget forecasts for all members.
G20	Finance Ministers Meeting	–	–	–	London.
Can	Aug Employment Change	-45k	-15k	-25k	With economy contracting sharply in Q2, job shedding continues.
	Aug Ivey PMI	51.8	54.5	56.0	Not seas. adjusted and seasonality unclear in Aug, but autos boost.

New Zealand Economic and Financial Forecasts

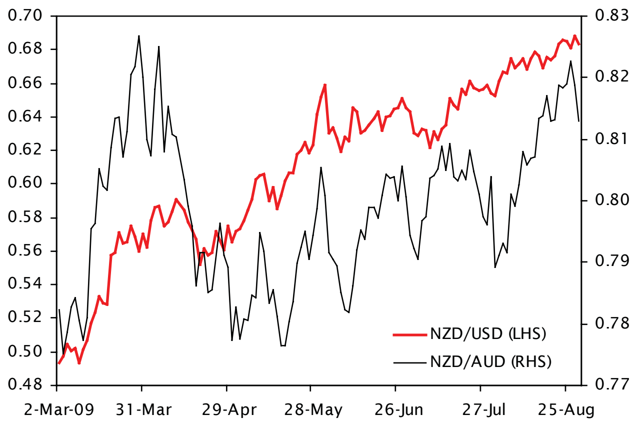
Economic Growth Forecasts	March years				Calendar years			
% change	2008	2009	2010f	2011f	2008	2009f	2010f	2011f
GDP (Production) ann avg	3.1	-1.0	-1.2	3.2	0.2	-2.1	2.6	3.6
Employment	-0.3	0.7	-1.3	1.1	0.9	-2.5	0.8	1.4
Unemployment Rate % s.a.	3.8	5.0	7.0	6.8	4.7	6.9	6.9	6.6
CPI	3.4	3.0	2.0	1.6	3.4	2.1	1.2	2.1
Current Account Balance % of GDP	-8.0	-8.5	-4.7	-5.7	-9.0	-4.9	-5.5	-6.5

Financial Forecasts	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Cash	2.50	2.50	2.50	2.50	3.00	4.00	5.00
90 Day bill	2.80	2.80	2.80	2.90	3.60	4.60	5.50
2 Year Swap	3.90	4.10	4.30	4.60	5.00	5.40	5.85
5 Year Swap	5.30	5.40	5.50	5.60	5.80	6.00	6.30
10 Year Bond	5.80	5.90	6.00	6.10	6.20	6.30	6.40
NZD/USD	0.69	0.63	0.67	0.69	0.71	0.74	0.73
NZD/AUD	0.80	0.79	0.81	0.81	0.82	0.83	0.85
NZD/JPY	66.9	58.0	63.0	66.2	70.7	76.2	77.4
NZD/EUR	0.47	0.45	0.47	0.48	0.49	0.50	0.50
NZD/GBP	0.40	0.39	0.40	0.40	0.41	0.40	0.39
TWI	63.7	59.4	62.6	64.0	65.9	67.8	67.8

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 August 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.78%	2.80%	2.78%
60 Days	2.79%	2.80%	2.79%
90 Days	5.75%	2.76%	2.79%
2 Year Swap	4.17%	4.07%	3.88%
5 Year Swap	5.43%	5.37%	5.27%

NZ foreign currency midrates as at Monday 31 August 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6841	0.6691	0.6615
NZD/EUR	0.4785	0.4753	0.4642
NZD/GBP	0.4208	0.4097	0.3956
NZD/JPY	63.860	63.140	62.660
NZD/AUD	0.8130	0.8139	0.7912
TWI	63.440	62.650	61.490

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	0.2	1.8
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	1.9	2.0
Unemployment %	5.4	5.1	4.8	4.4	4.3	5.9	7.3
Current Account % GDP	-6.1	-5.8	-5.3	-6.2	-4.3	-3.7	-4.8
United States							
Real GDP %yr	3.9	3.1	2.8	2.1	0.4	-2.9	1.2
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-0.8	1.1
Unemployment Rate %	5.5	5.1	4.6	4.6	5.8	9.5	11.1
Current Account %GDP	-5.7	-6.1	-6.0	-5.2	-4.9	-2.8	-2.5
Japan							
Real GDP %yr	2.3	1.9	2.8	2.1	-0.8	-6.6	1.5
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	2.4	2.5
Euroland							
Real GDP %yr	1.9	1.8	3.1	2.7	0.6	-4.9	-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	3.0	2.2	2.9	2.6	0.7	-4.6	0.4
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 7 August 2009

Interest Rate Forecasts	Latest (Aug 31)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Australia						
Cash	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.42	3.35	3.40	3.75	4.00	4.25
10 Year Bond	5.42	5.40	5.50	5.80	6.25	6.25
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.45	3.50	3.40	3.75	4.00	4.25
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

Exchange Rate Forecasts	Latest (Aug 31)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
AUD/USD	0.8415	0.86	0.80	0.83	0.85	0.87
USD/JPY	93.35	97	92	94	96	99
EUR/USD	1.4298	1.46	1.40	1.42	1.44	1.46
AUD/NZD	1.2301	1.25	1.27	1.24	1.23	1.22