J.P.Morgan

# Australia and New Zealand - Weekly Prospects

## Summary


- A quiet week in **Australia** this week means that market pundits will be taking direction from offshore. The timing of the RBA's next rate move undoubtedly will be under consideration. Indeed, the domestic data since the last Board meeting has slightly lowered the likelihood of an October tightening, but probably failed to surprise RBA officials who, like us, expect the consumer-related data to be sluggish throughout 2H09 as the impact of the fiscal stimulus fades. We believe the softening in the data is insufficient to delay the first rate hike, especially given that policy settings currently are at "emergency" levels. We still look for a 25bp rate hike in October, provided the transition to weaker data is orderly, as it has been so far.
- In **New Zealand**, a positive 2Q GDP print is expected this week, confirming that the economy expanded in the June quarter for the first time since the end of 2007, marking the end of a prolonged recession. We recently revised higher our forecast for 2Q GDP to +0.3%q/q (from -0.1%), following stronger than expected retail sales and export volumes data. Though investment and inventories are expected to be a drag on economic growth in the June quarter, private consumption looks to have made a small, positive contribution, and net exports look to have added significantly to GDP growth.
- Amid clear evidence that a synchronized **global economic recovery** is taking hold, there is still significant concern that the recovery will be scuttled by the ongoing adjustment in US household balance sheets. From a starting point of low saving and high leverage, the US household sector was roiled last year by a collapse in wealth and a dramatic tightening in credit availability. The subsequent consumer retrenchment that drove the economy into a deep recession may have ended—a point reinforced by the broad-based firming in consumer spending indicators around midyear. Last week's 2Q09 US Flow of Funds data makes it clear that balance sheet adjustments remain in the early stages with leverage ratios well above their historical trend and net worth still depressed. However, it is important to recognize that substantial cash-flow adjustments have already been made that will lead to a marked improvement in household balance sheets over the coming quarters.
- With the economy and financial market conditions gradually normalizing, many **central bankers** are contemplating exit strategies. While the main focus will be on the outlook for economic growth and inflation, asset prices also will play a role in many cases. An important channel for the transmission of policy is through the reflation of depressed asset prices via excess liquidity, thereby improving household, corporate, and bank balance sheets and reinforcing the upturn in the economy. This process is now playing out across the globe, aided by unconventional policy measures (i.e., credit easing) in some countries. An important distinction must be made between the level and growth of asset prices, however. In countries where wealth is still deeply depressed, this is acting as a restraint on the economy, notwithstanding recent gains in asset prices. This is doubly true when domestic financial institutions are impaired.

### This week's highlight

New Zealand's 2Q GDP report Wednesday should confirm the end of the nation's prolonged recession.

**Sep 21, 2009**

### Contents


*Data and event previews* 2

*Feature charts* 3

*Research note*
New Zealand's recession finally to end in 2Q09 4

*Commentaries*
- Australia 6
- New Zealand 8
- GDW Global Essay 10

*The JPMorgan view*
- Global markets 13
- Markets - Australia 15

*Forecasts*
- Global outlook summary 16
- Global central bank watch 17
- Australian economy 18
- New Zealand economy 19

*Data release calendars*
- Australia and New Zealand 20
- Global data diary 21



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# Data and event previews - Australia and New Zealand

| Date | Time [a] | Data/event | Forecast JPMorgan | Forecast Consensus [b] | *Previous* |
|---|---|---|---|---|---|
| Monday, September 21 | 11.30am | Aust. new motor vehicle sales (%m/m, Aug.) | **na** | na | *-6.9* |
| Monday, September 21 | 1.00pm | NZ credit card spending (%oya, Aug.) | **-1.0** | na | *-2.0* |
| Tuesday, September 22 | 8.45am | NZ current account balance (NZ$bn, 2Q) | **-1.7** | -2.0 | *-1.2* |
| Tuesday, September 22 | 12.00pm | NZ Westpac-MM consumer confidence (Index, 3Q) | **na** | na | *106.0* |
| Wednesday, September 23 | 8.45am | NZ GDP (%q/q, 2Q) | **0.3** | -0.2 | *-1.0* |
| Wednesday, September 23 | 11.00am | Aust. DEWR skilled vacancies (%m/m, Sep.) | **na** | na | *1.0* |
| Thursday, September 24 | 11.00am | Aust. HIA new home sales (%m/m, Aug.) | **na** | na | *0.1* |
| Thursday, September 24 | 11.30am | RBA Financial Stability Review | **na** | na | *na* |
| Friday, September 25 | 8.45am | NZ trade balance (NZ$ mn., Aug.) | **50** | -330 | *-163* |

(a) Australian Eastern Standard Time.
(b) Consensus based on Bloomberg survey.

## New Zealand

**NZ credit card spending (%oya, Aug.) -** Credit card spending should fall just 1%oya in August, following a 2% decline in July. The pace of declines has recently eased, supporting our view that the consumer is becoming more confident that the New Zealand economy has emerged from recession.

**NZ current account balance (NZ$bn, 2Q) -** The CAD should have narrowed in the year to June, owing mainly to stronger exports. The trade balance should have remained in surplus for the second straight quarter, and should reaffirm that net exports made a significant, positive contribution to 2Q GDP growth. As a share of GDP, the deficit should drop from 8.5% to 7.2% in 2Q, marking the smallest deficit since early 2005.

**NZ Westpac-MM consumer confidence (Index, 3Q) -** Consumer confidence probably rose, owing to signs of stabilization in the global economy, low domestic interest rates, and growing expectations that New Zealand's recession has ended. The upside will be limited by concerns of rising unemployment and softer wage growth.

**NZ GDP (%q/q, 2Q) -** We forecast 2Q GDP to print at 0.3%q/q. Though investment and inventories are expected to be a drag on economic growth, private consumption looks to have made a small, positive contribution, and net exports look to have added significantly to GDP growth.

**NZ trade balance (NZ$mn, Aug.) -** The trade balance should rise into positive territory in August, owing to stronger exports growth. Imports, though, probably fell for the third straight month, owing to still-weak domestic demand.

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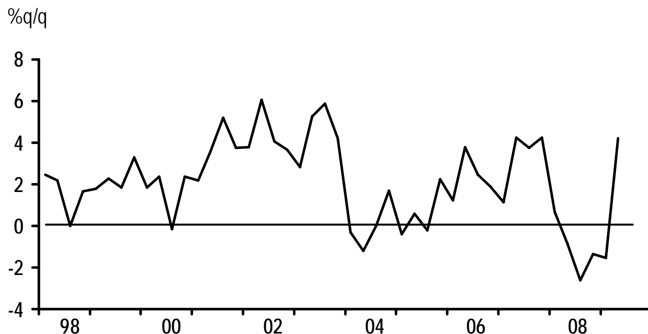
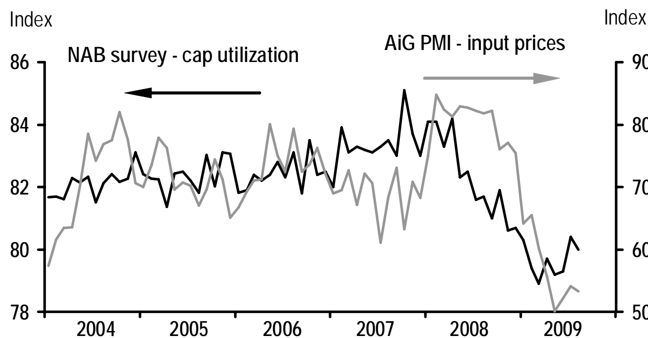
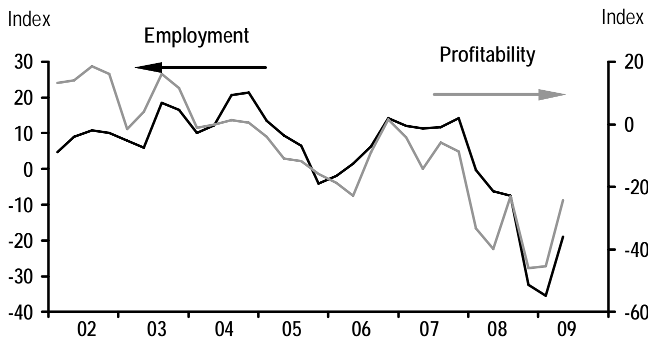
# Feature charts




In 2008, a prolonged period of house price appreciation in Australia ground quickly to a halt due to the lingering effects of the credit crisis. Prices have rebounded in 2009, however, owing mainly to the government's expansion of the first home buyers' grant. The phasing down of the expanded grant in 2H09 is a risk to the stability of house prices and the health of the consumer during the economic recovery.




The deep contraction in economic activity felt worldwide in the last year has created sufficient slack to cap inflation pressure on the supply side, despite a strong rebound in manufacturing output. Similarly, wages, the largest input cost in the service industry, will be suppressed by continued loosening of the labour market. Similar to elsewhere across the globe, the Aussie unemployment rate will continue to rise considerably over the next 12 months.




Leading indicators of employment in New Zealand remain weak. Now that the end of recession is in sight, the wildcard for the interest rate outlook is the amount of labour market adjustment that remains to be realized. The RBNZ will be anxious if long-term rates in New Zealand falls too far below those across the Tasman, but steadily rising unemployment will make aggressive tightening politically difficult.

# Research note

## New Zealand's recession finally to end in 2Q09

- **We now anticipate a rise in 2Q GDP after upside surprises in retail and export volumes**
- **Strong NZD will weigh on export-led recovery, but rising global demand will soften the blow**
- **RBNZ to soon remove explicit easing bias, paving the way for OCR hike in mid-2010**

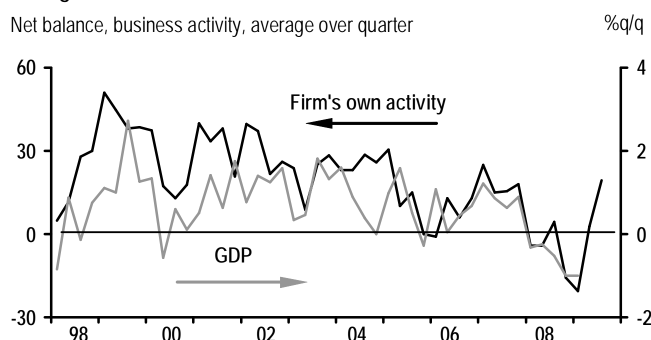
Following the release of the last few missing pieces of New Zealand's 2Q GDP puzzle, we have upgraded our GDP forecast to show a resumption of growth. Indeed, if the economy does expand in the second quarter, it will mark the end of New Zealand's prolonged recession, which commenced at the start of 2008. But, although the end of the recession will occur earlier than we had originally anticipated (previously, we forecast declining GDP until 4Q), we maintain our view that the RBNZ will sit on the sidelines until mid-2010, when the next tightening cycle will begin.

GDP forecasts

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Household spending | 0.1 | -1.5 | 1.2 |
| Government spending | 3.9 | 2.0 | 1.1 |
| Fixed investment | -2.8 | -15.8 | 0.2 |
| Inventories (contr.) | 0.4 | -1.5 | 0.6 |
| Exports | -1.5 | 0.2 | 7.5 |
| Imports | 2.5 | -15.5 | 3.5 |
| GDP | 0.2 | -1.6 | 2.4 |

Source: J.P. Morgan

GDP growth soon will resume




### Prolonged recession probably has ended

We now expect the economy to expand 0.3%q/q in the June quarter. Previously, we had forecast the economy to contract a marginal 0.1%q/q, the sixth straight quarterly decline. However, recent data showing stronger-than-expected increases in retail sales and export volumes in 2Q prompted us to revise higher our GDP forecast. In contrast, the RBNZ believes the economy will start to expand in the current quarter (3Q), and forecast in its September Statement of Monetary Policy that the economy will shrink 0.1%q/q in 2Q, before crawling ahead by 0.1% in 3Q.

Retail sales volumes rose in 2Q (+0.4%q/q), due to significant discounting, the boost to households' disposable incomes from the personal income tax cuts (delivered from April 1), strong net migration flows, and signs of stabilization in the domestic housing market. Export volumes also surprised on the upside, rising 7%q/q. With import volumes falling, net exports look likely to have made a positive contribution to GDP in the three months to June.

Other recent economic data confirmed, though, that investment will have remained a drag on the economy in 2Q. Construction activity declined for the sixth consecutive quarter, led by a tumble in residential construction (-6.5%q/q), which fell to the lowest level in eight years; nonresidential construction was down 2.5%. But, with credit conditions easing, we suspect investment will recover, albeit modestly, in 2010.

### Recession ended, but recovery modest

We expect that the New Zealand economy will continue to expand in the final two quarters of 2009; this forecast was reaffirmed by the recent NBNZ business confidence survey, which showed another significant improvement in business confidence in August—34% of managers surveyed expected economic conditions to improve in the next 12 months and firms' own activity expectations spiked to a five-year high.

The recovery in 2010 will be lacklustre, however, with our forecast calling for annual growth of only 2.4%, following the 1.6% contraction we expect in the economy this year. A key reason for our caution is that private consumption, which accounts for nearly two-thirds of the economy, will be subdued. Strong immigration flows and signs of stabilization in the housing market will support spending, but the recovery will be limited by rising unemployment and softer wage growth. Business profits remain under pressure, and firms, which have already cut workers' hours sharply, are increasingly shedding jobs to trim costs further. Employment expectations in business surveys remain negative, supporting our assessment that conditions in the labour

market will get worse before they get better. Our forecast is for the unemployment rate to rise from 6% currently to 8% by mid-2010. The unemployment rate will be inflated by an elevated rate of labour force participation, owing primarily to strong migration inflows (currently at a two-year high) and older workers staying in the workforce longer to repair personal balance sheets.

Further deterioration of labour market conditions should discourage consumers from reverting to their old "borrow to spend" habits, providing some relief to the RBNZ governor, who fears any reversion to debt-fueled spending would prevent a much-sought-after rebalancing of GDP growth toward exports. Delaying the restructure, according to the RBNZ, only increases the risk of a larger and more disruptive correction later. Thus, we believe the RBNZ will be reluctant to facilitate a return to debt-driven consumption via further monetary policy stimulus, even if there is further evidence of near-term economic weakness.

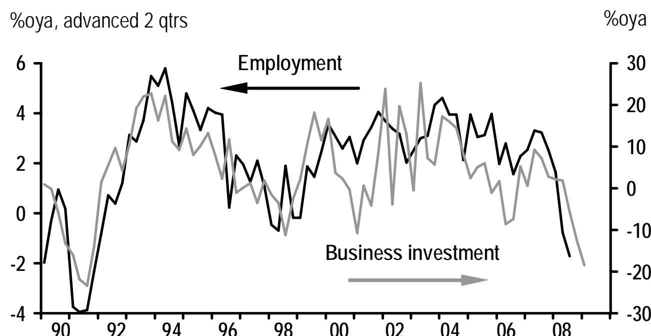
Indeed, cutting interest rates again at a time when housing market activity has picked up would be particularly risky. Median house prices rose 2%m/m in August and house sales jumped 39%oya. Also, it took less time to sell a house, with the median number of days to sell falling to 34 from 37, well below the peak of 62 days recorded in February.

## What to expect from the RBNZ?

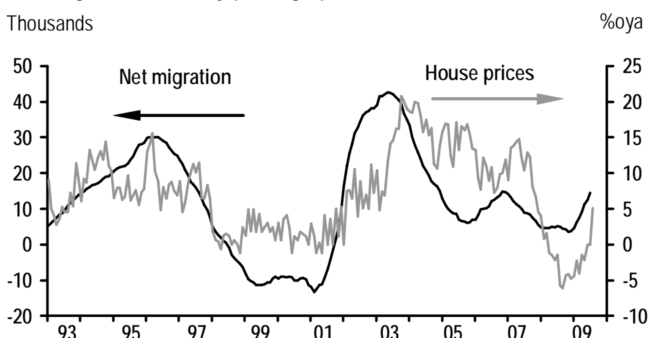
The RBNZ has left the official cash rate (OCR) unchanged at 2.5% for six straight months, with Governor Bollard reiterating in recent months that the OCR will remain "at or below" current levels until the end of 2010. The RBNZ avoided being even the slightest bit hawkish in the commentary accompanying its most recent "no change" decision in September, in a bid to contain expectations of rate rises in early 2010. Futures market pricing already suggests a 25bp rate hike will be delivered by March next year.

In September, the RBNZ said that "until the risks and uncertainties about the outlook have acceptably reduced we anticipate keeping the OCR low." We believe these risks and uncertainties will be considerably reduced by year-end, when the synchronized global economic recovery should have more legs and the domestic economy will be expanding at a decent clip. With that in mind, we expect that the RBNZ will maintain its explicit easing bias in the statements accompanying the upcoming October and December OCR announcements, before shifting to a neutral stance in early 2010. The first RBNZ move will likely be in July 2010, at a point when Bollard should be confident that a rate hike won't stifle the recovery in the domestic economy.

**Weak investment has negative implications for employment**




**Housing market activity picking up**




We have seen in the past that the RBNZ can be quick to change its policy stance. Thus, we are comfortable with our forecast that the cash rate will rise in July next year, much earlier than Bollard currently is flagging to the market.

## NZD rising, but exports should be ok

We acknowledge, though, that the main risk to the recovery is continued NZD strength, which is damaging the competitiveness of Kiwi exporters. NZD is up 20% against USD this year, strengthening amid rising investor risk appetite, higher world commodity prices, and a weakening USD, factors the RBNZ can do nothing about despite its publicly acknowledged desire for a lower exchange rate.

That said, the export picture has improved, due to stronger growth in New Zealand's trading partners, particularly Australia and China (among New Zealand's top three export destinations). This should prevent a fall in export volumes, which so far this year have proved surprisingly resilient. With import volumes sluggish, net exports should contribute to growth in 2009 and 2010. On the price side of the equation, the news also is good, with soft commodity prices that dominate New Zealand's exports bottoming after steep falls. Dairy prices, for example, rose 0.4%m/m in August, the first rise since February.

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# Australia

- **RBA liaison suggests retailing held up in August**
- **Consumer data will be soft in 2H09**
- **October rate hike remains in play**

The release of the minutes from the RBA's early September Board meeting offered few surprises last week. They did, however, explain in more detail the reasons behind RBA officials' more upbeat tone in the statement accompanying their decision to leave the cash rate steady earlier this month. The statement three weeks ago was more optimistic in three key areas: the global outlook, the domestic inflation outlook, and the domestic investment outlook. With the cash rate currently at "emergency" levels, in the absence of an abrupt reversal in key economic data, we believe that a rate hike is imminent.

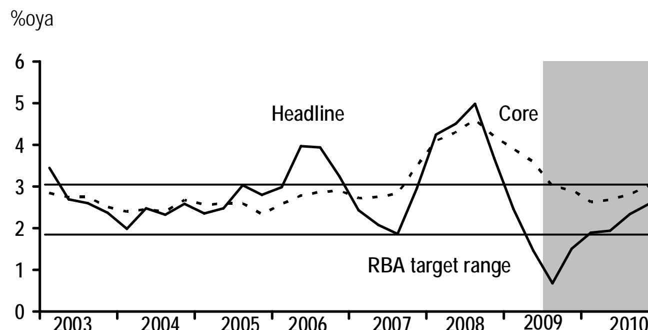
## RBA minutes signal rate hikes imminent

The minutes from the RBA's last Board meeting were released last week. They reaffirmed what was suggested by the statement accompanying the Board's "no change" decision—that the RBA Board is feeling more upbeat, particularly with respect to the global outlook and the resilience of the domestic household sector. We recognize, though, that the minutes are dated in the sense that they precede a slew of mixed economic data over the last fortnight, which included a set of soft retail and housing finance numbers, but a significant improvement in the consumer and business confidence indicators.

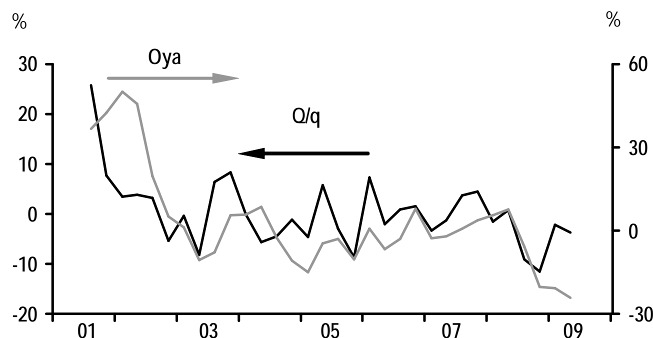
Indeed, the domestic data since the last Board meeting has slightly lowered the likelihood of an October tightening, but probably failed to surprise RBA officials who, like us, expect the consumer-related data to be sluggish throughout 2H09 as the impact of the fiscal stimulus fades. The RBA said last week that if the "economy continued to evolve as in the latest forecasts, the Bank would in due course need to adopt a less expansionary policy stance." Thus, we believe the softening in the data is insufficient to delay the first rate hike beyond October, especially given that policy settings currently are at "emergency" levels. We still look for a 25bp rate hike in October, provided the transition to weaker data is orderly, as it has been so far.

The minutes acknowledged continued improvements in financial markets and in the global economy, particularly throughout the Asian region due to firmer domestic demand. In Japan, Australia's largest export destination, the economy was holding up better than expected; in China, Australia's second-largest export partner, the longer-term prospects were strong, despite recent evidence of slowing.

Australia: CPI




Australia: housing starts




Some uncertainty surrounded whether the recent economic improvement would be sustained, though we believe a synchronized recovery in global growth will create a positive feedback loop, fueling further demand and a recovery in Asian exports.

On the domestic front, the RBA highlighted the continued improvement in confidence measures, and the surprising strength in consumption, investment, and exports. Consumers, in particular, were more upbeat and, although data two week ago showed that retail sales were softer than expected in July, the RBA's conversations with retailers suggested that spending had picked up in August. This, in part, explains the recent strength in the more timely indicators of business confidence—the NAB business confidence survey for August showed a significant 8-point rise—which the RBA acknowledged are hovering modestly above average levels.

The investment outlook again was discussed in detail in early September. RBA officials were surprised by the strength of the recent quarterly capital spending survey, as were most market economists. The Board recognized that private investment will likely be weak near term (which largely explains the recent drop in business credit), but the outlook thereafter had improved, owing to developments in the resource sector. This, of course, has positive implica-

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tions for the employment outlook. The Board acknowledged that the deterioration in labour market indicators had not been as dire as expected at the start of the year.

Finally, the RBA reiterated that the current policy stance is appropriate only for the "time being;" thus, the October policy meeting remains live. We maintain our call for a 25bp rate hike in October and another hike before year-end.

## Housing starts still very weak

The number of housing starts slumped 3.7%q/q in the June quarter (consensus +2%, J.P. Morgan +6%), after falling 2.1% in 1Q. The fall in starts was concentrated in other residential buildings, which fell 23%q/q for private sector buildings and 22% in total. New houses jumped a solid 4.2%q/q, the strongest growth since December 2007, after a period of sustained weakness following the lingering effects of the global credit crunch.

Starts have been weak over the past 12 months or so, in spite of a pickup in building approvals. The significant rise in approvals in 2Q, for example, owed a lot to first homebuyer (FHB) demand, which has continued to increase since the government expanded the FHBs's grant in October 2008. Moreover, it appears that the sluggishness of starts, stemming mostly from other residential building (-42%oya, compared to -16% for houses) can be attributed to supply bottlenecks, rather than a lack of demand or profitable prospects in the housing sector.

We believed housing starts would have garnered further support in 2Q from the RBA's assertive interest rate cuts and improved confidence. It appears, though, that starts remained weak due to excessive red tape in the building sector, and that the still sluggish rate of local council approvals is constraining building activity.

Importantly, in recent Parliamentary testimony by RBA officials, Governor Stevens faced several questions on the role of supply constraints in the housing market. Stevens noted that while an existing undersupply of housing stock supports prices, any situation that results in sustained house price appreciation without an expansion of supply would be very worrying.

Adding to constraints to home construction is the crowding out effect of scheduled public infrastructure projects. The government has outlined a combined A$20 billion in infrastructure projects targeted at schools, roads, rail, and ports. Private housing developers may, therefore, be facing congestion in the market for building materials, planning and development services, or labour.

### Data releases and forecasts

Week of September 21 - 25

Mon Sep 21 11:30am — **Sales of new motor vehicles**
Units, seasonally adjusted

| | May | Jun | Jul | Aug |
|---|---|---|---|---|
| (%m/m) | 5.4 | 5.8 | -6.9 | __ |
| (%oya) | -12.1 | -7.1 | 10.4 | __ |

### Review of past week's data

**Dwelling starts**
Seasonally adjusted

| | 4Q08 | 1Q09 | | 2Q09 | |
|---|---|---|---|---|---|
| (%q/q) | -11.5 | ~~-4.0~~ | *-2.1* | ~~6.0~~ | *-3.7* |

**WMI leading index**
Seasonally adjusted

| | May | | Jun | | Jul | |
|---|---|---|---|---|---|---|
| (%m/m) | ~~-0.4~~ | *-0.8* | ~~0.7~~ | *0.9* | __ | *1.1* |

# New Zealand

- **Kiwi economy should have exited recession in 2Q**
- **Annual CAD will have narrowed**
- **Retail sales fell in July owing to lower prices**

In New Zealand, the economic data flow picks up this week, with the highlight being the 2Q GDP report. A positive GDP print is expected, confirming that the economy expanded in the June quarter for the first time since the end of 2007, marking the end of a prolonged recession.

## Kiwi recession to have ended in 2Q

We forecast 2Q GDP to print at 0.3%q/q, following stronger than expected retail sales and export volumes data. Though investment and inventories are expected to be a drag on economic growth in the June quarter, private consumption looks to have made a small, positive contribution, and net exports look to have added significantly to GDP growth. Data two weeks ago showed that export volumes surged 7%q/q in the June quarter while imports fell 1.9%.

We believe the significant monetary and fiscal policy easing that has been delivered in New Zealand has helped the economy finally recover from prolonged recession. We forecast that the economy will continue to expand in 2H09 and going into 2010, a view reaffirmed by the recent NBNZ business confidence survey, which showed another marked improvement in business confidence in August.

## CAD massive, but probably narrowed

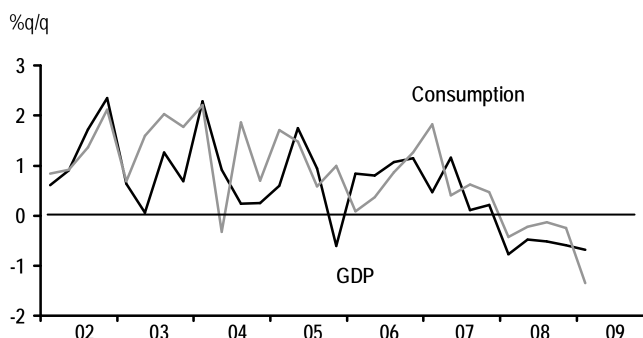
The CAD should have narrowed in the year to June, from NZ$15.2 billion in 1Q to NZ$13.0 billion, owing mainly to stronger exports. The trade balance will have remained in surplus for the second straight quarter, and should reaffirm that net exports made a significant, positive contribution to 2Q GDP growth.

As a share of GDP, the deficit should drop from 8.5% ito 7.2% in 2Q, marking the smallest deficit since early 2005. Despite the moderation, New Zealand's huge external imbalance means that the economy remains more vulnerable than most, owing to the enormous amount of foreign capital needed to make up for the deficiency of domestic saving. We expect a material improvement in the deficit in the medium term, however. The CAD should narrow as imports continue to weaken, private sector borrowing declines, and the household saving rate continues to rise.

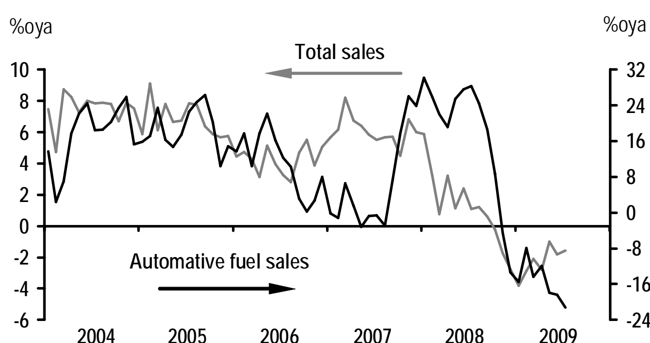
## Price falls drag down sales values

Retail sales unexpectedly fell in July, the first fall in four months, with the headline and ex-auto measures each tumbling 0.5%m/m. The slump in sales bucked expectations

New Zealand: GDP and private consumption




New Zealand: retail sales




for a rise (J.P. Morgan 0.3%, consensus 0.4%), which was expected to stem from positive net immigration flows, an uptick in housing market activity, and rising confidence.

Despite the drop in retail sales in July, we suspect that a lot of this can be explained by lower prices, rather than a sharp drop in volumes. Automotive fuel retailing recorded the biggest drop in July (-2.9%), owing to lower petrol prices. Of the 20 core industries, 13 showed sales declines in July. The largest was in department store sales (-2.2%), owing to continued discounting. This discounting helps to explain the consistent decline in trend sales at department stores (-6%) over the last 11 months.

We maintain our forecast for a modest recovery in consumer spending in coming quarters, owing to the rise in confidence expected from the recent pickup in housing market activity and stabilization in financial markets. We acknowledge, however, that further labour market weakness will cap the upside for retail sales, with the jobless rate likely to approach 8% by mid-2010.

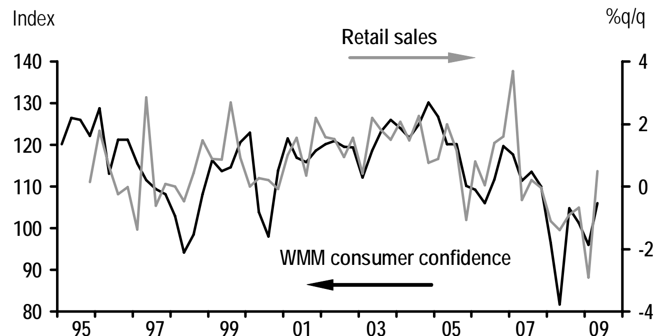
## Confidence will have continued rally in 3Q

We expect the Westpac McDermott-Miller consumer confidence index this week to show another rise in 3Q, remaining above the neutral level of 100 for the second straight quarter and signaling that optimists outweigh pessimists. The improvement in consumer confidence should stem from signs of stabilization in the global economy, low do-

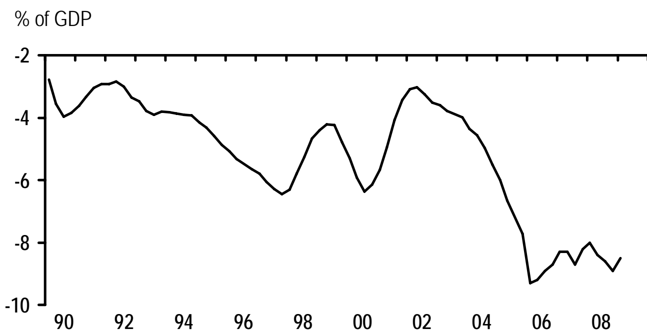
mestic interest rates, and growing expectations that New Zealand's recession has ended. The upside will be limited by concerns of rising unemployment and softer wage growth.

On the upside, consumers should feel confident that the next official cash rate (OCR) hike remains some way off. We believe the RBNZ will maintain a dovish tone in the statements accompanying the upcoming October and December OCR announcements, but we expect that Governor Bollard will shift away from the current explicit easing bias in early 2010. The RBNZ said recently that "until the risks and uncertainties about the outlook have acceptably reduced we anticipate keeping the OCR low." We believe that by year-end the synchronized global economic recovery will be gathering steam, and the domestic economy will be expanding; thus, we maintain our forecast that the first OCR rate hike will be delivered in July next year.

New Zealand: consumer confidence and retail sales volumes




New Zealand: current account balance




## Data releases and forecasts

Week of September 21 - 25

Mon
Sep 21
3:00pm

**Credit card spending**
Percentage change

| | May | Jun | Jul | Aug |
|---|---|---|---|---|
| %oya | -2.4 | -2.1 | -2.0 | -1.0 |

Credit card spending should fall just 1%oya in August, following a 2% decline in July. The pace of declines has recently eased, supporting our view that the consumer is becoming more confident that the New Zealand economy has emerged from recession.

Tue
Sep 22
12:00pm

**Westpac-McDermott-Miller consumer confidence**
Not seasonally adjusted

| | 4Q08 | 1Q09 | 2Q09 | 3Q09 |
|---|---|---|---|---|
| Index (neutral=100) | 101.3 | 96.0 | 106.0 | __ |

Tue
Sep 22
10:45am

**Balance of payments**
NZ$ million, nsa

| | 3Q08 | 4Q08 | 1Q09 | 2Q09 |
|---|---|---|---|---|
| Current account | -6013 | -4061 | -1247 | -1700 |

Wed
Sep 23
10:45am

**Real GDP**
Seasonally adjusted, production-based

| | 3Q08 | 4Q08 | 1Q09 | 2Q09 |
|---|---|---|---|---|
| (%oya) | -0.2 | -2.1 | -2.7 | -2.2 |
| (%q/q) | -0.5 | -1.0 | -1.0 | 0.3 |

Fri
Sep 25
10:45am

**Trade balance**
Not seasonally adjusted

| | May | Jun | Jul | Aug |
|---|---|---|---|---|
| Trade balance (NZ$ mn) | 905 | -332 | -163 | 50 |

## Review of past week's data

**Retail trade**
Seasonally adjusted

| | May | Jun | Jul |
|---|---|---|---|
| (%m/m) | 0.7 | ~~0.1~~ *-0.1* | ~~0.3~~ *-0.5* |
| (%oya) | -1.0 | -1.8 | ~~-0.7~~ *-1.7* |

**Business PMI**
Seasonally adjusted

| | Jun | Jul | Aug |
|---|---|---|---|
| Index | ~~46.5~~ *46.4* | ~~49.7~~ *49.6* | __ *48.7* |
| (%oya) | ~~2.8~~ | 3.2 | __ *7.2* |

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# Global Essay

- **US household balance sheet repair well in train**
- **Early recovery in final sales hints at a more extended surge in global IP**
- **Euro IP disappoints in July, suggesting full strength of GDP recovery may not be felt until 4Q**
- **Differing levels of asset prices and financial fragility will factor into central bank policymaking**

## Deleveraging by any means necessary

Amid clear evidence that a synchronized global economic recovery is taking hold, there is still significant concern that the recovery will be scuttled by the ongoing adjustment in US household balance sheets. From a starting point of low saving and high leverage, the US household sector was roiled last year by a collapse in wealth and a dramatic tightening in credit availability. The subsequent consumer retrenchment that drove the economy into a deep recession may have ended—a point reinforced by the broad-based firming in consumer spending indicators around midyear. Last week's release of the 2Q09 US Flow of Funds makes it clear that balance sheet adjustments remain in the early stages with leverage ratios well above their historical trend and net worth still depressed. However, it is important to recognize that substantial cash-flow adjustments have already been made that will lead to a marked improvement in household balance sheets over the coming quarters.

The US deleveraging in the pipeline comes from two sources. With the saving rate currently hovering around 4%, roughly US$400bn dollars per year is now being channeled to balance sheet adjustment. Some of these funds are being used to acquire assets. However, with credit-sensitive demand at historically low levels relative to income, an unprecedented reduction in liabilities is underway. An anticipated modest move up in the saving rate over the coming quarters will add further momentum to this adjustment.

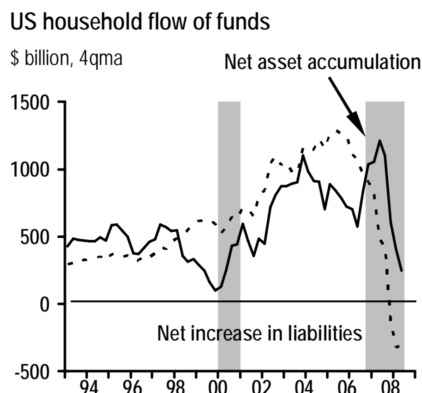
While this active adjustment will be significant, the impact of the recovery in asset prices to date is even larger. From its first-quarter low, US household wealth is estimated to have increased by roughly US$4 trillion. Absent a renewed decline in wealth, the stage is set for a rapid deleveraging of household balance sheets. Based on conservative assumptions that net worth will move in line with income (rising at a 3-4% pace) and that the saving rate rises roughly 1/2%-pt per year, we estimate that the US household leverage ratio will move below its trend by 2011.

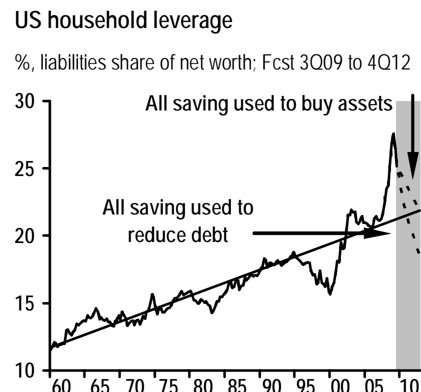
This analysis does not paint a rosy picture for US consumers. Indeed, the recovery in spending is likely to be restrained, with spending expected to rise at about a 2% pace over the coming year. This would represent the shallowest consumption upturn since World War II on the heels of the deepest downturn. However, the path of consumer spending is likely to be governed more by the extent of the recovery in labour income than by the remaining structural balance sheet adjustments.

## Production and final demand are lifting

As the global economy moves through the third quarter, the projected bounce in manufacturing output has arrived on schedule. Despite a slower than expected recovery in the Euro area, global production is up at a 7.8% pace in the three months through July. And judging from the strong August readings reported so far from the US and China (and likely Taiwan this Wednesday), and the continued surge in J.P. Morgan's global PMI last month, we appear well on the way to meeting our expectation that global IP growth in 2H09 will exceed that of any comparable period over the past two decades.

However, the most interesting development this quarter has been the rise in final sales, which is coming somewhat earlier than expected. This is certainly true in the US, where consumption, capital spending, and housing starts have increased more than anticipated. But the recovery in final



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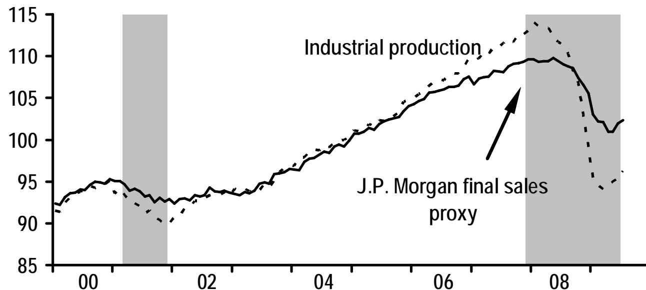
Global industrial production and final sales
Index, Jan00-Jul09 average = 100




sales is broadly rooted. Car sales have surged across the globe, reinforcing the firming in underlying retail sales. And the impressive rise in G-3 aggregate capital goods shipments points to a rise in global business equipment expenditures this quarter.

With industrial production having been slashed to extraordinary lows in early 2009, a key implication of the early firming in final sales is that inventories will keep falling at a rapid pace even as output starts to recover. The US is on track for a third straight quarter of a triple-digit (i.e., greater than US$100 billion, saar) decline in nonfarm inventory. The resulting, rapid decline in global inventory/sales ratios will give extra impetus and duration to the manufacturing recovery. This will, in turn, lead to a faster stabilization in employment and ultimately to further increases in aggregate demand.

## Euro area IP rebound delayed but coming

To date, the Euro area is the odd man out in what is turning out to be a broadly based and strong recovery in manufacturing output. Last week's reports showed that output continued to edge down in the Euro area in July, leaving the level of production below the average for the second quarter. The disappointment does not appear to reflect unexpected weakness in final demand: household spending is holding steady after a bounce in 2Q; business equipment spending is leveling off or even growing modestly; and exports are booming. Rather, the delayed IP upturn apparently reflects a very deep inventory adjustment. The July IP report raises downside risk to our forecast for 3% GDP growth this quarter. To the extent that 3Q growth does undershoot, growth is likely to be correspondingly higher in 4Q. The stars are aligned for a very strong run for industrial production: The forward-looking PMI orders/inventory ratio stands near a record high; exports are taking off; and German domestic and foreign orders are booming.

## Policymakers factor in asset prices

With the economy and financial market conditions gradually normalizing, many central bankers are contemplating exit strategies. While the main focus will be on the outlook for economic growth and inflation, asset prices also will play a role in many cases. An important channel for the transmission of policy is through the reflation of depressed asset prices via excess liquidity, thereby improving household, corporate, and bank balance sheets and reinforcing the upturn in the economy. This process is now playing out across the globe, aided by unconventional policy measures (i.e., credit easing) in some countries. An important distinction must be made between the level and growth of asset prices, however. In countries where wealth is still deeply depressed, this is acting as a restraint on the economy, notwithstanding recent gains in asset prices. This is doubly true when domestic financial institutions are impaired.

Last week, BoJ Governor Shirakawa noted that the improvement in domestic financial conditions suggested that some of the BoJ's extraordinary credit easing measures could be withdrawn at the end of the year. The BoJ's foray into QE was fairly limited because its financial institutions were relatively insulated from the crisis. A sharp contrast was evident in BoE Governor King's comments on reducing the rate of remuneration on reserves. At first blush, such a move by the Bank of England, which now seems very likely, would seem surprising given the significant move up in equity prices and the dramatic compression of corporate bond yields. But, the UK has a much broader set of problems with financial conditions, with a significant part of the financial system still on government life support.

In the light of this contrast between the Bank of England and the Bank of Japan, this week's Fed meeting is likely to reveal a central bank that stands somewhere in between. The Fed is not adding to its existing commitments on the unconventional side, as the Bank of England is, but neither is it anywhere close to scaling down the size of its balance sheet, as the Bank of Japan may do later this year. Although downside risks to the US growth outlook have receded in recent months, the Fed is keenly aware that unemployment will remain high for an extended period, partly because of lingering balance sheet adjustments. Alongside high unemployment rates, core inflation numbers in the US have recently begun to move to the low side of the range the Fed sees as consistent with price stability. This combination of high unemployment and uncomfortably low inflation will likely lead the FOMC to reiterate guidance that rates will remain exceptionally low for an extended period.

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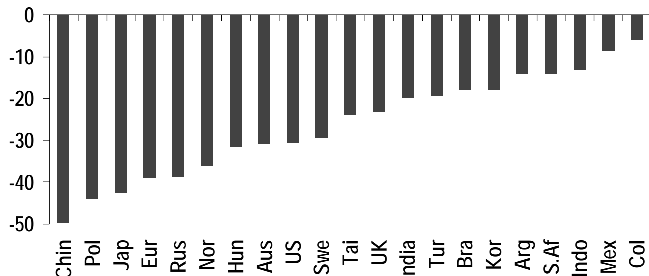
Global equity markets

%chg, peak to current




Asset prices are perhaps affecting policy the most in EM Asia. The strong economic recovery throughout the region partly reflects the relative strength of household and corporate balance sheets as well as of the banking system. With labour markets already stabilizing and deposit rates at extremely low levels, households are spending more and allocating more of their sizable saving to riskier investments, driving up asset prices. Managing monetary policy with a single goal of goods price stability was never deeply ingrained in the mentality of EM Asian central bankers, even those nominally operating under inflation-targeting regimes. Instead, policymakers have shown a bias for economic growth, driven by exports, and tightening cycles are influenced not only by consumer prices, but also by asset prices and credit growth. Property prices are making new highs in some important markets in the region, while the recovery in equity prices has sharply narrowed the gap with previous highs. (China's equity market is an important exception, but it must be viewed apart because it had seen such fantastic appreciation prior to the previous peak.) Hence the discomfort voiced by a number of regional policymakers about asset prices, with the Singapore government joining the chorus last week. By our forecast, around the turn of the year, %oya changes in the CPI will be in positive territory across EM Asia. By that time, if micro-regulatory measures do not succeed in cooling the pace of price increases across a broad array of assets, then policymakers in countries such as Korea and India are signaling that macro tightening measures will be deployed.

## Changing Japan's business model

The business model in Japan appears set for a potentially big change. One policy objective of the new DPJ government is to redistribute income toward households, whereas LDP policies tended to favour corporates, in particular exporters through a weak yen and construction firms through spending on public works. It remains to be seen what effect this change will have on the economy over the longer term. In the very near term, the changeover may dampen growth. Public works are being suspended pending a review of the supplementary budget, while the DPJ's rhetoric may encourage further yen appreciation, which could temper the rebound in net exports. That said, DPJ policies should boost growth next year. Consumption is likely to increase on the back of measures including lower gasoline taxes, the gradual removal of highway tolls, and the elimination of high school tuition. One continuing concern is how these policies will affect the country's fiscal position. While the new Finance Minister Fujii stated that the total amount of the "unexecuted" funds in the supplementary budget was JPY3-4 trillion out of a JPY15 trillion total, that is not enough to finance the new economic package. Unless the government finds a new source of funds, which appears unlikely, it will have to resort to additional JGB issuance, further ballooning the debt.

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# JPMorgan View - Global Markets

## Is everything really back to normal?

- **Portfolio strategy:** Stay in recovery and asset reflation trades.
- **Fixed Income:** Stay short duration.
- **Equities:** Inflows into equity funds should start accelerating in coming months as bond yields are at historic lows.
- **Credit:** Stay overweight super senior AAA CMBS and consumer and mortgage-related ABS, as investors reach further for yield.
- **FX:** Stay short USD on FX reserve diversification. Add to sterling shorts.

10-yr Government bond yields

| | Current | Sep 09 | Dec 09 | Mar 10 | Jun 10 |
|---|---|---|---|---|---|
| United States | 3.46 | 3.50 | 3.60 | 3.75 | 4.00 |
| Euro area | 3.38 | 3.40 | 3.45 | 3.50 | 3.60 |
| United Kingdom | 3.74 | 3.75 | 3.95 | 4.15 | 4.30 |
| Japan | 1.34 | 1.50 | 1.45 | 1.40 | 1.30 |

Foreign exchange

| | Current | Dec 09 | Mar 10 | Jun 10 | Sep 10 |
|---|---|---|---|---|---|
| EUR/USD | 1.47 | 1.50 | 1.50 | 1.47 | 1.45 |
| USD/JPY | 91.4 | 89 | 91 | 97 | 100 |
| GBP/USD | 1.63 | 1.63 | 1.60 | 1.58 | 1.58 |

Commodities - quarterly average

| | Current | 09Q4 | 10Q1 | 10Q2 | 10Q3 |
|---|---|---|---|---|---|
| WTI ($/bbl) | 72 | 65 | 65 | 65 | 70 |
| Gold ($/oz) | 1009 | 975 | - | - | - |
| Copper ($/m ton) | 6361 | 5600 | - | - | - |
| Corn ($/Bu) | 3.17 | 3.65 | 4.00 | 4.15 | 4.05 |

Source: J.P. Morgan, Bloomberg, Datastream.

**In a nutshell, yes, much is getting back to normal,** in large part due to unprecedented global policy action directed at an unprecedented crisis. An enormous amount of work remains to be done and good fortune is needed, but the forces required to get the world economy and markets back to normal are in place. It is surely too early to declare victory, given high unemployment, sky-high fiscal deficits, and entrenched pessimism. But we are on the road to normalcy, can see the ultimate end point, and have made much faster progress than we could have hoped only six months ago.

Where are we furthest from normal, and where are the main risks? Both are in the ongoing process of **balance sheet repair**, or **delevering**, as it is commonly called. **Companies** are spending a lot of money to strengthen their balance sheets. Across the world, US$300 billion in new equity has been raised, much of this in the US. But much larger has been the worldwide drive to replace short-dated and floating-rate debt by old-fashioned, longer-term fixed-rate debt. Net new issuance of bonds by corporates across the world has reached a record high of US$1.5 trillion ytd. The negative carry on this trade—issuing bonds to replace low-cost CP and bank debt and invest in liquidity—is massive and a reflection of how worried companies still are. This worry shows up also in the lack of any new hiring so far, although global capex spending should be growing at a 5-10% annual pace this quarter. We anticipate that companies will shift from balance sheet repair to expansion in coming quarters, but this remains largely a forecast, and not yet fact.

**Banks are similarly seen to be in delevering mode** as they need to build capital to offset future credit losses and security writedowns. Bloomberg (WDCI) counts that banks and insurers have so far booked US$1,622 billion in writedowns and credit losses since the crisis started mid-2007. The IMF estimated in April that this total loss would grow to US$4 trillion. **Chris Flanagan**, our Head of ABS Research, has updated his own estimates given much improved economies and asset prices (see today's *US FIMS*). Chris projects that total losses will more likely peak at US$2.25 trillion with remaining losses spread over the next five years, which should not create a large problem for banks to absorb. By his count, we are 72% through the cycle of financial losses and writedowns. He thus expects that the IMF will similarly lower its loss estimates next month. Hence, we project that the process of severe bank delevering is nearing its end.

**Consumers** similarly remain in balance sheet repair, in particularly in the US. Last week's US Flow of Funds report for 2Q showed that US consumers continue to pay off debt. But the greatest part of delevering will come from asset capital gains, which are occurring. Based on conservative assumptions that net worth will move in line with income (rising at a 3-4% pace), and that the saving rate rises roughly 1/2%-pt per year, our economists estimate that the US household leverage ratio will move below its trend by 2011.

**In short, the process of returning to normal is taking place and is proceeding faster than we had dared to hope.** But we are not there yet, and will likely suffer lower growth and a weaker rebound than in past recoveries.

**The recovery and asset reflation trade continue to work in tandem to push up asset prices across the world.** Equities hit new highs last week, while credit spreads and the dollar fell to new lows. Bonds are in a range despite massive supply. We stay with both of these trades, keeping us long equities and credit, long carry, short the dollar, and positioning

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for range trading on bonds and commodities. Neither positions nor value are as yet threatening. We estimate the world remains long cash and bonds. Cash is likely the most expensive asset in the world. And fixed income is now near all-time lows. Hence, we expect to see further flows from cash and low-yielding bonds into credit and equities.

## Fixed income

Government bonds backed up, but are effectively in a range. We retain a short duration bias, being outright short the short ends of Europe and Japan, while taking profit on our US 2-yr short (assuming the 2-yr UST ends the day over 2%). We keep a negative bias on US intermediate maturities. Elsewhere, we are simply long spread product, except in paper that is very tight to government debt.

## Equities

Equities continue to rally, driven by better than expected economic data. Our US **Economic Activity Surprise Index** climbed to 23 last week, its highest level in more than two years. With the consensus still around 1% below our own 2H US GDP growth projections, we see further scope for economic activity data to surprise to the upside and the EASI to stay in positive territory for longer. At some point, economic surprises will narrow or even turn negative as consensus expectations continue to adjust and raise the bar for economic data. This represents the **biggest challenge for equity markets.** We believe that when this happens, flows have the potential to replace the economic surprise factor and sustain the equity rally into 2010.

So far, both retail and other end investors such as pension funds and insurance companies have been reluctant buyers of equities. Of the more than US$300 billion that left US money funds since March, US$266 billion went into bond funds and only US$30 billion went into equity funds, predominantly EM equity funds. But as the compression in bond yields fades and investors become less impressed by the capital gains of their bond holdings, a larger share of the cash deployed should move into equities. Indeed, during 2003, **inflows into equity funds** started accelerating several months following the market bottom **after bond yields started bottoming out.**

How large is the upside from here for equity markets? This depends to a large extent on the outlook for earnings. Looking into 2010, the bottom-up consensus looks for an EPS of US$75 for the S&P 500 versus a perhaps more realistic US$69 for the top-down consensus. Applying a PE multiple of 17, the average seen in 2003-2006, **we arrive at a fair value of 1,173 for the S&P 500**, an upside of 10% from here. This is less impressive than the equity gains of the past few months, but the balance of risk is skewed toward stronger economic and earnings growth relative to top-down projections.

## Credit

Credit resumed its rally with the CDX.HG spread making a new low below 100bp. US HG corporate bond spreads are now 201bp over USTs, nearing our year-end target of 175bp. We stay **overweight US HG**. Demand remains strong, easily absorbing slowing US net supply. Client discussions show that insurers continue to deploy their cash flows into corporate bonds and that pension funds are raising their bond allocations to better manage their asset/liability duration mismatch. In addition, HG bond fund managers are also trying to buy HG bonds to invest the US$5 billion per week inflow from retail investors. **Within sectors, we stay with our spread compression theme** and overweight wider-spread sectors including Insurance and REITs and underweight tighter-spread sectors including Pharma, Capital Goods, and Retail sectors.

## Foreign exchange

**As the dollar sell-off continues and EUR/USD approaches new 2009 highs, fingers inevitably will point toward renewed reserve diversification.** The topic lends itself well to doomsday predictions, since the narrative is so compelling—rising emerging market surpluses, soaring US deficits, a growing chorus of complaints about dollar hegemony—but hard evidence so elusive.

While it is premature to link dollar depreciation to a permanent decline in the currency's role as a reserve asset, there is **circumstantial evidence that reserve diversification has resumed vigorously**. The gap between the growth of global FX reserves and foreign official buying of US assets is near a record high, and this sort of divergence is unusual in an environment where rate spreads between the US and the rest of the world are stable. This apparent reserve diversification is clearly dollar-bearish but not dollar-disastrous, since the absolute level of USD buying remains sizable. **Stay short USD**, but don't bet on a high-volatility dollar crisis this year.

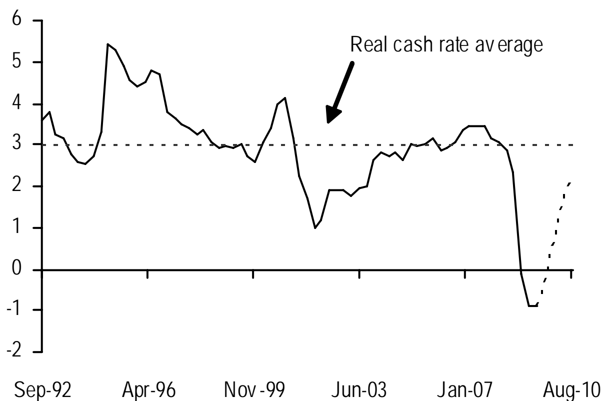
We also revise the G-10 forecast to show dollar weakness for longer. Rather than topping at 1.50 in December 2009, we now look for EUR/USD to remain strong through 1Q10, and then to decline modestly assuming the Fed begins hinting at rate normalization. Commodity currency strength is likely to persist throughout 2010, particularly for pairs such as AUD/USD, whose central banks will be lifting rate. We target AUD/USD at 0.95 by the end of next near.

# Markets - Australia

**Below is a summary of *The Antipodean Strategist*, published weekly. The full version can be found on Morgan Markets.**

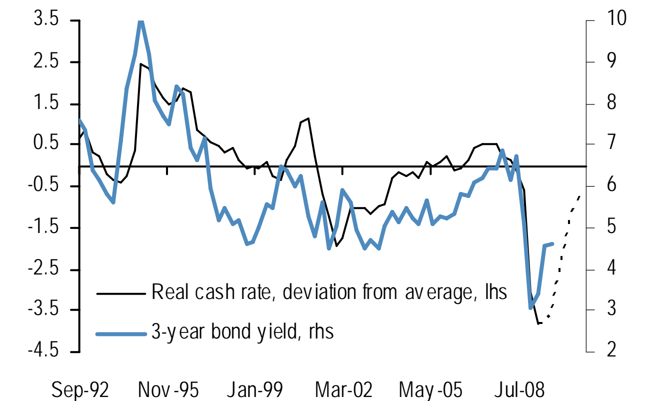
- J.P. Morgan economists remain upbeat on the global growth story. However, the consensus forecast continues to lag, and seems to have an element of disbelief to the global growth story. The RBA is also very cautious on the global economy.
- In light of this, maybe the most relevant risk for the RBA is that the positive feedback loop is well entrenched and that growth will continue to surprise on the stronger side of expectations.
- Indeed, given continued momentum in the domestic economy, we would argue that the balance of risks have shifted over the past month for the RBA such that the cost of leaving rates on hold is starting to rise, and not in an insignificant manner. Moreover, stronger business and consumer confidence data imply that the risks of tightening and adversely affecting confidence are now lower.
- We would argue that a cash rate of 4% is probably the more appropriate policy setting by Q1 next year – but even that would only yield a real cash rate of around 1% on the RBA's own forecasts for core inflation.
- Risk/reward still favours short positions in the Oct-09 contract, but we are probably marginally more confident on trades that take advantage of the fact that the market is not yet fully priced for 2x25bp rate hikes by year end.
- We still think 10-year unguaranteed semi-government bonds offer value, especially versus government bonds. We continue to favour under-performance of 3-year swap against cash product.
- We take a look at the $A inflation market. The impending 2025 linker issuance has renewed interest in this product space. Indeed, in the sovereign cash space we forecast the cash market to grow by $A6bn by December 2010.
- We would look to tactically underweight inflation positions once the tightening cycle starts. But we would use any sell-off in inflation (supply or monetary policy induced) as a good opportunity to reset strategic longs in $A inflation. We also think there are good cross market opportunities; inflation looks too low in Australia relative to inflation in the US. Sell 10-year TIPS against 10-year TIBS.

AUS real cash rate, history and forecasts
Percent




Source: J.P. Morgan and RBA

AUS real cash rate and 3-year bond yields
Percentage Points
Percent




Source: J.P. Morgan and RBA

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# Global Economic Outlook Summary

| | Real GDP % over a year ago | | | Real GDP % over previous period, saar | | | | | | | Consumer prices % over a year ago | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 1Q09 | 2Q09 | 3Q09 | 4Q09 | 1Q10 | 2Q10 | 3Q10 | 2Q09 | 4Q09 | 2Q10 | 4Q10 |
| **The Americas** | | | | | | | | | | | | | | |
| United States | 0.4 | -2.4 | 3.2 | -6.4 | -1.0 | 4.0 | 3.0 | 3.0 | 4.0 | 4.0 | -0.9 | 1.2 | 2.0 | 0.9 |
| Canada | 0.4 | **-2.4** ↑ | **2.6** ↑ | -6.1 | -3.4 | 2.0 | **3.0** ↑ | 3.0 | 3.0 | 3.5 | 0.1 | 1.3 | 1.9 | 2.3 |
| Latin America | 3.8 | -3.1 | 4.5 | -10.0 | -1.3 | 7.7 | 4.2 | **5.2** ↑ | 4.9 | 3.8 | 6.7 | 5.4 | **6.2** ↓ | 6.5 |
| Argentina | 6.8 | -4.5 | 2.5 | 0.2 | -18.0 | -10.0 | -4.0 | 12.0 | 10.0 | 6.0 | 5.5 | 6.0 | 10.0 | 10.2 |
| Brazil | 5.1 | 0.0 | 5.0 | -3.8 | 7.8 | 6.5 | 5.0 | 4.3 | 5.0 | 4.0 | 5.2 | 4.2 | 4.5 | 4.7 |
| Chile | 3.2 | -1.5 | 5.0 | -3.0 | -1.4 | 8.0 | 6.0 | 6.0 | 5.0 | 3.0 | 3.1 | -1.5 | 2.0 | 3.0 |
| Colombia | 2.5 | -0.5 | 3.0 | 0.9 | -2.0 | 1.9 | 3.2 | 3.5 | 4.3 | 5.5 | 4.8 | 3.3 | 3.9 | 4.3 |
| Ecuador | 6.5 | -1.5 | 1.5 | -6.3 | -4.0 | 0.0 | 2.0 | 2.0 | 2.5 | 3.0 | 5.5 | 3.5 | 2.4 | 4.0 |
| Mexico | 1.3 | -6.5 | 5.0 | -21.2 | -4.4 | 15.5 | 5.0 | 5.0 | 4.0 | 3.0 | 6.0 | 4.0 | 3.3 | 3.5 |
| Peru | 9.8 | 1.0 | **5.5** ↑ | -6.3 | -1.6 | 8.0 | 13.0 | 3.0 | 3.5 | **4.0** ↑ | 4.0 | 1.1 | 1.5 | 2.0 |
| Venezuela | 4.8 | -1.5 | **2.5** ↑ | -7.3 | -3.3 | 0.0 | 2.0 | **3.0** ↑ | **4.0** ↑ | **4.0** ↓ | 28.2 | 29.5 | **36.4** ↓ | **37.1** ↑ |
| **Asia/Pacific** | | | | | | | | | | | | | | |
| Japan | -0.7 | -5.6 | 2.2 | -12.4 | 2.3 | 3.0 | 3.0 | 2.5 | 1.0 | 1.5 | -1.0 | -2.0 | -2.2 | -1.5 |
| Australia | 2.4 | **1.0** ↑ | **2.9** ↑ | 1.6 | 2.5 | **1.2** ↑ | **3.8** ↑ | **2.1** ↑ | **2.4** ↑ | **4.4** ↑ | 1.5 | 1.5 | 1.9 | 2.6 |
| New Zealand | 0.2 | **-1.6** ↑ | **2.4** ↑ | -3.9 | 1.2 | 0.9 | **1.7** ↑ | **2.6** ↑ | **3.3** ↑ | **3.5** ↑ | 1.9 | 1.8 | 1.6 | 1.7 |
| Asia ex. Japan | 5.8 | **3.9** ↓ | 7.2 | 2.5 | 12.6 | **7.5** ↓ | **6.8** ↓ | 6.4 | **7.0** ↑ | **6.9** ↑ | 1.3 | 2.0 | **3.5** ↑ | **3.2** ↑ |
| China | 9.0 | 8.4 | 9.5 | 8.3 | 14.9 | 9.5 | 9.1 | 9.0 | **9.5** ↑ | **9.3** ↑ | -1.5 | 0.9 | 3.2 | 2.7 |
| Hong Kong | 2.4 | -2.6 | 5.3 | -16.1 | 13.9 | 9.0 | 5.0 | 4.2 | 4.0 | 3.8 | -0.1 | -0.4 | 0.6 | 2.1 |
| India | 6.1 | **6.0** ↓ | **7.5** ↑ | 8.2 | 6.7 | **5.2** ↓ | **5.6** ↓ | **7.0** ↓ | 7.7 | **8.3** ↑ | 8.9 | **7.4** ↓ | **6.3** ↑ | **4.7** ↑ |
| Indonesia | 6.1 | 4.1 | 5.0 | 5.4 | 3.8 | 4.0 | 4.0 | 5.0 | 6.0 | 6.0 | 5.6 | 2.4 | 4.6 | 6.0 |
| Korea | 2.2 | -0.8 | 4.0 | 0.5 | 11.0 | 4.0 | 3.5 | 3.5 | 3.5 | 3.5 | 2.8 | 2.5 | 3.0 | 3.3 |
| Malaysia | 4.6 | -3.0 | 5.0 | -17.7 | 12.8 | 6.1 | 4.5 | 1.6 | 4.9 | 4.9 | 1.3 | -1.2 | 0.5 | 1.5 |
| Philippines | 3.8 | 1.5 | 5.0 | -8.1 | 10.0 | 4.0 | 4.0 | 5.0 | 5.0 | 5.0 | 3.2 | 3.0 | 3.6 | 3.7 |
| Singapore | 1.1 | -1.8 | 7.0 | -12.2 | 20.7 | 12.6 | 7.0 | 3.6 | 4.9 | 6.1 | -0.5 | -0.8 | 1.9 | 1.8 |
| Taiwan | 0.1 | -3.8 | 5.5 | -10.2 | 20.7 | 9.5 | 8.0 | 3.0 | 3.0 | 2.0 | -0.8 | -1.0 | 1.8 | 2.1 |
| Thailand | 2.6 | -3.1 | **6.1** ↑ | -7.2 | 9.6 | 7.0 | 5.3 | 4.9 | 5.7 | 7.0 | -2.8 | 1.4 | 4.6 | 4.0 |
| **Africa** | | | | | | | | | | | | | | |
| South Africa | 3.1 | -2.0 | 3.0 | -6.4 | -3.0 | 0.6 | 3.4 | 4.5 | 3.7 | 3.6 | 7.7 | 6.3 | 4.5 | 4.1 |
| **Europe** | | | | | | | | | | | | | | |
| Euro area | 0.6 | -3.6 | 2.7 | -9.5 | -0.5 | 3.0 | 2.5 | 3.0 | 3.0 | 3.0 | 0.2 | 0.6 | 1.1 | 1.1 |
| Germany | 1.0 | -4.6 | 3.6 | -13.4 | 1.3 | 5.0 | 4.0 | 3.5 | 3.5 | 3.5 | 0.2 | 0.3 | 0.5 | 0.3 |
| France | 0.3 | -1.9 | 2.7 | -5.3 | 1.3 | 2.8 | 2.5 | 3.0 | 3.0 | 3.0 | -0.2 | 0.6 | 1.0 | 0.7 |
| Italy | -1.0 | -4.9 | 1.5 | **-10.3** ↑ | **-1.9** ↑ | 1.5 | 1.0 | 2.0 | 2.0 | 2.0 | 0.9 | 1.0 | 1.4 | 1.0 |
| Norway | 2.5 | -1.1 | 2.8 | -5.0 | 1.3 | 2.5 | 3.0 | 3.0 | 3.0 | 3.0 | 3.1 | 1.2 | 1.0 | 0.4 |
| Sweden | -0.4 | -4.5 | 3.2 | -3.7 | 0.6 | 1.0 | 4.0 | 4.0 | 3.5 | 3.5 | -0.4 | -0.2 | 0.9 | 0.5 |
| Switzerland | 1.8 | -1.3 | 2.2 | -3.5 | -1.0 | 1.8 | 2.3 | 2.5 | 2.5 | 3.0 | -0.7 | -0.3 | 0.7 | 0.7 |
| United Kingdom | 0.7 | -4.2 | 2.1 | -9.3 | -2.6 | 1.5 | 3.0 | 2.0 | 2.5 | 2.8 | 2.1 | **1.7** ↓ | **2.0** ↓ | **1.7** ↓ |
| Emerging Europe | 4.1 | -5.3 | 3.9 | -19.3 | 1.9 | 5.4 | 4.7 | 3.5 | 3.4 | 3.3 | 7.7 | 6.8 | 6.3 | 6.0 |
| Bulgaria | 6.1 | -5.0 | -1.5 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Czech Republic | 2.7 | -4.0 | 3.0 | -17.9 | 0.4 | 4.5 | 5.0 | 3.0 | 3.0 | 2.5 | 1.4 | 1.0 | 2.4 | 3.5 |
| Hungary | 0.6 | -6.2 | 1.0 | -10.0 | -7.9 | -2.0 | 2.0 | 2.0 | 2.0 | 2.5 | 3.6 | 5.5 | 3.9 | 2.4 |
| Poland | 4.9 | 1.2 | 3.0 | 1.2 | 2.0 | 2.2 | 2.5 | 3.2 | 3.5 | 3.5 | 3.7 | 3.7 | 2.7 | 2.5 |
| Romania | 7.1 | -6.0 | 2.0 | ... | ... | ... | ... | ... | ... | ... | 6.1 | 6.0 | 6.2 | 6.5 |
| Russia | 5.6 | -8.5 | 5.0 | -33.6 | 4.9 | 9.0 | 6.5 | 4.5 | 4.0 | 4.0 | 12.6 | 10.6 | 9.1 | 9.2 |
| Turkey | 0.9 | -5.3 | 5.0 | ... | ... | ... | ... | ... | ... | ... | 5.7 | 5.0 | 6.3 | 5.2 |
| **Global** | 1.3 | -2.5 | 3.4 | -7.3 | 1.2 | 4.0 | **3.5** ↑ | 3.4 | 3.6 | 3.7 | 0.6 | 1.2 | 1.8 | 1.5 |
| Developed markets | 0.4 | -3.3 | 2.8 | -8.2 | -0.4 | 3.2 | **2.9** ↑ | 2.8 | **3.1** ↑ | 3.2 | -0.3 | 0.5 | 1.1 | 0.7 |
| Emerging markets | 4.9 | 0.5 | **5.9** ↑ | -3.9 | 7.2 | 7.1 | 5.8 | 5.7 | **5.9** ↑ | **5.6** ↑ | 3.9 | **3.7** ↓ | 4.6 | 4.5 |

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# Global Central Bank Watch

| | Official interest rate | Current | Change from Aug '07 (bp) | Last change | Next meeting | Forecast next change | Sep 09 | Dec 09 | Mar 10 | Jun 10 | Dec 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Global | GDP-weighted average | 1.32 | -339 | | | | 1.32 | 1.32 | 1.34 | 1.37 | 1.48 |
| excluding US | GDP-weighted average | 1.89 | -255 | | | | 1.88 | 1.88 | 1.91 | 1.96 | 2.13 |
| Developed | GDP-weighted average | 0.48 | -366 | | | | 0.48 | 0.49 | 0.50 | 0.52 | 0.57 |
| Emerging | GDP-weighted average | 4.66 | -234 | | | | 4.64 | 4.61 | 4.64 | 4.73 | 5.13 |
| Latin America | GDP-weighted average | 5.78 | -303 | | | | 5.78 | 5.78 | 5.78 | 5.81 | 6.33 |
| CEEMEA | GDP-weighted average | 5.30 | -171 | | | | 5.22 | 5.09 | 5.13 | 5.23 | 5.56 |
| EM Asia | GDP-weighted average | 4.00 | -232 | | | | 4.00 | 4.00 | 4.04 | 4.13 | 4.52 |
| The Americas | GDP-weighted average | 0.75 | -484 | | | | 0.75 | 0.75 | 0.75 | 0.76 | 0.82 |
| United States | Federal funds rate | 0.125 | -512.5 | 16 Dec 08 (-87.5bp) | 23 Sep 09 | on hold | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| Canada | Overnight funding rate | 0.25 | -425 | 21 Apr 09 (-25bp) | 20 Oct 09 | on hold | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Brazil | SELIC overnight rate | 8.75 | -275 | 22 Jul 09 (-50bp) | 21 Oct 09 | Oct 10 (+50bp) | 8.75 | 8.75 | 8.75 | 8.75 | 9.75 |
| Mexico | Repo rate | 4.50 | -275 | 17 Jul 09 (-25bp) | 16 Oct 09 | on hold | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| Chile | Discount rate | 0.50 | -500 | 9 Jul 09 (-25bp) | 8 Oct 09 | 2Q 10 (+50bp) | 0.50 | 0.50 | 0.50 | 1.00 | 3.50 |
| Colombia | Repo rate | 4.50 | -475 | 19 Jun 09 (-50bp) | 25 Sep 09 | on hold | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| Peru | Reference rate | 1.25 | -350 | 6 Aug 09 (-75bp) | 7 Oct 09 | on hold | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| Europe/Africa | GDP-weighted average | 1.42 | -317 | | | | 1.41 | 1.40 | 1.41 | 1.46 | 1.57 |
| Euro area | Refi rate | 1.00 | -300 | 7 May 09 (-25bp) | 8 Oct 09 | on hold | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| United Kingdom | Repo rate | 0.50 | -525 | 5 Mar 09 (-50bp) | 8 Oct 09 | 2Q 10 (+25bp) | 0.50 | 0.50 | 0.50 | 0.75 | 1.25 |
| Sweden | Repo rate | 0.25 | -325 | 2 Jul 09 (-25bp) | 22 Oct 09 | on hold | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Norway | Deposit rate | 1.25 | -350 | 17 Jun 09 (-25bp) | 23 Sep 09 | 24 Mar 10 (+25bp) | 1.25 | 1.25 | 1.50 | 1.50 | 1.75 |
| Czech Republic | 2-week repo rate | 1.25 | -200 | 6 Aug 09 (-25bp) | 24 Sep 09 | 1Q 10 (+25bp) | 1.25 | 1.25 | 1.75 | 2.50 | 3.50 |
| Hungary | 2-week deposit rate | 8.00 | 25 | 24 Aug 09 (-50bp) | 28 Sep 09 | 28 Sep 09 (-50bp) | 7.50 | 6.50 | 6.00 | 6.00 | 6.00 |
| Israel | Base rate | 0.75 | -325 | 24 Aug 09 (+25bp) | 24 Sep 09 | 24 Sep 09 (+25bp) | 1.00 | 1.50 | 2.00 | 3.00 | 4.00 |
| Poland | 7-day intervention rate | 3.50 | -125 | 24 Jun 09 (-25bp) | 30 Sep 09 | 3Q 10 (+25bp) | 3.50 | 3.50 | 3.50 | 3.50 | 4.50 |
| Romania | Base rate | 8.50 | 150 | 4 Aug 09 (-50bp) | 29 Sep 09 | 29 Sep 09 (-50bp) | 8.00 | 8.00 | 8.00 | 7.50 | 7.00 |
| Russia | 1-week deposit rate | **5.75** | 250 | **14 Sep 09 (-25bp)** | 4Q 09 | **4Q 09 (-25bp)** | 5.75 | 5.50 | 5.50 | 5.50 | 5.50 |
| South Africa | Repo rate | 7.00 | -300 | 13 Aug 09 (-50bp) | 22 Sep 09 | 4Q 10 (+50bp) | 7.00 | 7.00 | 7.00 | 7.00 | 7.50 |
| Switzerland | 3-month Swiss Libor | 0.25 | -225 | 12 Mar 09 (-25bp) | 10 Dec 09 | on hold | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Turkey | Overnight borrowing rate | **7.25** | -1025 | **17 Sep 09 (-50bp)** | 15 Oct 09 | **15 Oct 09 (-25bp)** | 7.25 | 7.00 | 7.00 | 7.00 | 7.00 |
| Asia/Pacific | GDP-weighted average | 2.05 | -150 | | | | 2.05 | 2.08 | 2.12 | 2.18 | 2.38 |
| Australia | Cash rate | 3.00 | -350 | 7 Apr 09 (-25bp) | 6 Oct 09 | 6 Oct 09 (+25bp) | 3.00 | 3.50 | 4.00 | 4.25 | 4.50 |
| New Zealand | Cash rate | 2.50 | -575 | 30 Apr 09 (-50bp) | 28 Oct 09 | 8 Jul 10 (+25bp) | 2.50 | 2.50 | 2.50 | 2.50 | 3.50 |
| Japan | Overnight call rate | 0.10 | -40 | 19 Dec 08 (-20bp) | 14 Oct 09 | on hold | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Hong Kong | Discount window base | 0.50 | -625 | 17 Dec 08 (-100bp) | 24 Sep 09 | on hold | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| China | 1-year working capital | 5.31 | -171 | 22 Dec 08 (-27bp) | 2Q 09 | 3Q 10 (+27bp) | 5.31 | 5.31 | 5.31 | 5.31 | 5.85 |
| Korea | Base rate | 2.00 | -300 | 12 Feb 09 (-50bp) | 9 Oct 09 | 1Q 10 (+25bp) | 2.00 | 2.00 | 2.25 | 2.50 | 3.00 |
| Indonesia | BI rate | 6.50 | -175 | 5 Aug 09 (-25bp) | 5 Oct 09 | on hold | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| India | Repo rate | 4.75 | -300 | 21 Apr 09 (-25bp) | 27 Oct 09 | 2Q 10 (+25bp) | 4.75 | 4.75 | 4.75 | 5.00 | 5.25 |
| Malaysia | Overnight policy rate | 2.00 | -150 | 24 Feb 09 (-50bp) | 28 Oct 09 | 2Q 10 (+25bp) | 2.00 | 2.00 | 2.00 | 2.25 | 3.00 |
| Philippines | Reverse repo rate | 4.00 | -200 | 9 Jul 09 (-25bp) | 1 Oct 09 | 4Q 10 (+25bp) | 4.00 | 4.00 | 4.00 | 4.00 | 4.25 |
| Thailand | 1-day repo rate | 1.25 | -200 | 8 Apr 09 (-25bp) | 21 Oct 09 | 2Q 10 (+25bp) | 1.25 | 1.25 | 1.25 | 1.50 | 2.00 |
| Taiwan | Official discount rate | 1.25 | -188 | 18 Feb 09 (-25bp) | 3Q 09 | on hold | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |

**Bold** denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

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# Economic forecasts - Australia

**Australia: economic projections** *percentage change over previous period, seasonally adjusted annual rates, un*

| | | | | 2008 | | | 2009 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Chain volume GDP | 2.4 | 1.0 | 2.9 | 1.4 | 1.3 | -2.8 | 1.6 | 2.5 | 1.2 | 3.8 | 2.1 | 2.4 | 4.4 | 6.2 |
| Private consumption | 2.6 | 1.0 | 1.3 | -0.1 | 0.8 | 0.5 | 2.0 | 3.4 | -2.8 | 0.0 | 2.4 | 2.0 | 2.8 | 2.4 |
| Construction investment | 5.4 | -3.4 | 3.6 | 4.2 | 5.9 | 0.2 | -8.9 | -6.9 | -7.4 | 2.8 | 1.9 | 7.7 | 12.4 | 17.9 |
| Equipment investment | 15.6 | -7.4 | -4.7 | 33.7 | 3.7 | 0.3 | -34.6 | 24.2 | -22.8 | -4.1 | -10.1 | -8.1 | 8.7 | 17.8 |
| Public investment | 14.6 | -1.3 | 6.1 | 7.3 | 36.9 | -8.9 | -14.2 | 3.3 | -4.5 | 0.0 | 2.6 | 16.3 | 18.2 | 11.6 |
| Government consumption | 4.1 | 2.2 | 4.1 | 4.6 | 4.4 | 1.7 | 1.0 | 3.2 | -0.4 | 3.7 | 5.6 | 4.9 | 5.0 | 4.7 |
| Exports of goods & services | 3.8 | 1.4 | 3.6 | 13.0 | -6.8 | -5.1 | 8.2 | 3.9 | -1.6 | 0.0 | 4.9 | 8.2 | 5.1 | 3.2 |
| Imports of goods & services | 11.3 | -9.8 | 5.8 | 20.6 | 0.1 | -27.9 | -27.2 | 8.6 | 7.0 | 3.2 | 2.4 | 8.2 | 8.2 | 10.4 |
| Contributions to GDP growth: | | | | | | | | | | | | | | |
| Domestic final sales | 4.8 | -1.1 | 2.9 | 5.2 | 2.8 | -3.7 | -7.8 | 2.8 | 2.7 | 0.8 | 1.9 | 3.3 | 5.9 | 6.8 |
| Inventories | -0.7 | -0.6 | 0.6 | -1.7 | 0.0 | -5.9 | 0.8 | 0.7 | 0.4 | 3.7 | -0.3 | -0.7 | -0.7 | 1.1 |
| Net trade | -1.8 | 2.7 | -0.5 | -2.1 | -1.5 | 7.1 | 9.1 | -1.0 | -1.8 | -0.7 | 0.5 | -0.1 | -0.7 | -1.6 |
| GDP deflator (%oya) | 6.7 | 0.3 | 1.1 | 6.5 | 8.4 | 7.5 | 5.3 | 0.3 | -2.0 | -2.2 | -0.9 | 1.7 | 1.7 | 2.0 |
| Consumer prices (%oya) | 4.4 | 1.5 | 2.2 | 4.5 | 5.0 | 3.7 | 2.5 | 1.5 | 0.7 | 1.5 | 1.9 | 1.9 | 2.3 | 2.6 |
| Producer prices (%oya) | 8.3 | -5.0 | 0.2 | 8.7 | 10.9 | 6.7 | -1.0 | -6.4 | -7.4 | -4.8 | -1.0 | 0.5 | 0.4 | 1.0 |
| Trade balance (A$ bil, sa) | -4.3 | -4.0 | -14.6 | -2.1 | 1.4 | 4.3 | 4.4 | -1.9 | -2.9 | -3.6 | -3.6 | -3.3 | -3.3 | -4.4 |
| Current account (A$ bil, sa) | -67.0 | -50.3 | -65.2 | -15.3 | -10.6 | -7.9 | -6.3 | -13.3 | -14.8 | -15.9 | -16.0 | -15.8 | -15.9 | -17.5 |
| as % of GDP | -6.2 | -4.2 | -5.2 | -5.2 | -3.5 | -2.6 | -2.1 | -4.5 | -4.9 | -5.2 | -5.2 | -5.1 | -5.1 | -5.5 |
| 3m eurodeposit rate (%)* | 6.0 | 3.4 | 4.5 | 7.8 | 7.0 | 4.1 | 3.4 | 3.2 | 3.4 | 3.8 | 4.3 | 4.5 | 4.6 | 4.8 |
| 10-year bond yield (%)* | 5.6 | 5.2 | 5.9 | 6.5 | 5.4 | 4.0 | 4.2 | 5.1 | 5.4 | 5.9 | 5.9 | 5.8 | 5.8 | 6.0 |
| US$/A$* | 0.75 | 0.77 | 0.86 | 0.74 | 0.77 | 0.65 | 0.66 | 0.76 | 0.82 | 0.83 | 0.84 | 0.85 | 0.86 | 0.87 |
| Commonwealth budget (FY, A$ bil) | 13.5 | -29.0 | -48.0 | | | | | | | | | | | |
| as % of GDP | 1.1 | -2.4 | -3.8 | | | | | | | | | | | |
| Unemployment rate | 4.3 | 5.8 | 6.9 | 4.2 | 4.2 | 4.5 | 5.3 | 5.7 | 5.9 | 6.5 | 6.8 | 7.0 | 7.0 | 6.8 |
| Industrial production | 2.0 | -5.6 | 1.3 | 0.5 | -5.2 | -17.8 | -10.3 | 2.9 | 5.0 | 3.0 | 0.0 | -1.0 | -2.0 | 0.0 |

*All financial variables are period averages

## Australia - summary of main macro views

- The Australian economy has emerged from the global downturn largely unscathed as one of the few economies to **avoid back-to-back falls in GDP**.
- We expect only a mild **fall in business investment** in 2009-10, following the 2Q business investment survey, which showed firms are more optimistic about the outlook, both domestic and offshore.
- With **labour force participation falling** slowly, the jobless rate will continue rising. That said, the fall in hours worked is spreading the pain.
- On **housing**, the expanded first home owners' grant has sucked forward buyers from 2010. The mini-boom will end in tears as the jobless rate rises, along with interest rates.
- The **consumer** is yet to be fully tested—households have been on financial "life support" from the RBA and the government's fiscal support.
- **Export volumes** have held up owing mainly to firm demand from Asia, but the terms of trade is tumbling.
- The **RBA** has become more hawkish, particularly with respect to the global outlook, domestic investment prospects, and the domestic inflation outlook. We suspect the first rate hike will come in October 2009.
- Having front-loaded the **policy support**, the government is unlikely to deliver more significant fiscal stimulus.

# Economic forecasts - New Zealand

**New Zealand: economic projections** *percentage change over previous period, seas. adjusted annual rates, unless stated*

| | | | | 2008 | | | 2009 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Real GDP (1995-96 prices) | 0.2 | -1.6 | 2.4 | -0.9 | -2.0 | -3.9 | -3.9 | 1.2 | 0.9 | 1.7 | 2.6 | 3.3 | 3.5 | 2.5 |
| Private consumption | 0.1 | -1.5 | 1.0 | -0.9 | -0.5 | -1.0 | -5.3 | 0.2 | 0.7 | 0.5 | 1.1 | 1.2 | 1.9 | 1.6 |
| Fixed Investment | -3.7 | -18.7 | 0.0 | 5.6 | -26.2 | -22.5 | -27.0 | -18.2 | -4.7 | -2.3 | 1.2 | 6.3 | 5.0 | 5.0 |
| Residential construction | -17.1 | -22.5 | 0.2 | -27.2 | -25.6 | -45.8 | -1.2 | -28.0 | -8.0 | -4.0 | 3.2 | 8.0 | 10.0 | 12.0 |
| Other fixed investment | -0.3 | -17.9 | 0.0 | 14.7 | -26 | -16.7 | -31.2 | -16.0 | -4.0 | -2.0 | 0.8 | 6.0 | 4.0 | 3.6 |
| Inventory change (NZ$ bil, saar) | 1.4 | -0.7 | 0.1 | 0.3 | 0.5 | 0.2 | -0.2 | -0.2 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government spending | 3.9 | 2.0 | 1.1 | 1.6 | 1.6 | 6.2 | 1.4 | 0.4 | 0.4 | 0.8 | 0.8 | 1.6 | 2.4 | 1.6 |
| Exports of goods & services | -1.5 | 3.2 | 8.4 | 0.4 | -11.5 | -11.9 | 2.3 | 31.0 | 7.0 | 8.0 | 6.0 | 7.0 | 8.0 | 8.0 |
| Imports of goods & services | 2.5 | -16.1 | 3.9 | 13.4 | -24.4 | -23.6 | -30.2 | -7.5 | 4.0 | 4.0 | 4.0 | 5.0 | 6.0 | 8.0 |
| Contributions to GDP growth: | | | | | | | | | | | | | | |
| Domestic final sales | 1.3 | -7.3 | 0.4 | 5.0 | -11.0 | -6.1 | -11.6 | -9.8 | -0.6 | -0.2 | 0.9 | 2.3 | 2.5 | 2.2 |
| Inventories | 0.4 | -1.5 | 0.5 | -0.9 | 2.4 | -3.7 | -4.8 | 0.2 | 0.6 | 0.6 | 1.0 | 0.3 | 0.2 | 0.2 |
| Net trade | -1.4 | 7.2 | 1.5 | -4.8 | 7.3 | 6.1 | 13.7 | 11.7 | 1.0 | 1.3 | 0.7 | 0.7 | 0.7 | 0.1 |
| GDP deflator (%oya) | 3.6 | 3.7 | 3.0 | 3.7 | 2.1 | 2.5 | 2.4 | 3.9 | 5.4 | 3.1 | 2.8 | 3.0 | 3.1 | 3.1 |
| Consumer prices | 4.0 | 1.8 | 1.7 | 6.7 | 6.2 | -1.8 | 1.1 | 2.3 | 2.0 | 1.6 | 1.4 | 1.4 | 1.7 | 2.3 |
| %oya | 4.0 | 1.9 | 1.7 | 4.0 | 5.1 | 3.4 | 3.0 | 1.9 | 0.9 | 1.8 | 1.8 | 1.6 | 1.6 | 1.7 |
| Trade balance (NZ$ bil, sa) | -2.2 | 2.3 | -0.9 | -1.1 | -0.8 | -0.1 | 0.9 | 0.9 | 0.5 | 0.1 | -0.1 | -0.2 | -0.3 | -0.3 |
| Current account (NZ$ bil, sa) | -16.0 | -7.4 | -14.9 | -4.7 | -4.0 | -3.7 | -1.2 | -2.7 | -1.7 | -1.8 | -2.7 | -5.2 | -3.4 | -3.6 |
| as % of GDP | -9.0 | -4.9 | -7.9 | -10.5 | -9.1 | -8.3 | -6.0 | -3.8 | -3.9 | -5.9 | -7.2 | -7.5 | -7.7 | -9.1 |
| Yield on 90-day bank bill (%)* | 7.9 | 2.9 | 3.2 | 8.8 | 8.2 | 6.0 | 3.4 | 2.8 | 2.8 | 2.8 | 3.0 | 3.1 | 3.2 | 3.3 |
| 10-year bond yield (%)* | 6.0 | 5.5 | 6.0 | 6.5 | 5.9 | 5.3 | 4.7 | 5.7 | 5.6 | 5.8 | 6.0 | 6.0 | 6.0 | 6.0 |
| US$/NZ$* | 0.71 | 0.60 | 0.66 | 0.78 | 0.71 | 0.58 | 0.51 | 0.64 | 0.62 | 0.64 | 0.65 | 0.66 | 0.67 | 0.67 |
| Commonwealth budget (NZ$ bil) | -3.0 | -8.1 | -8.9 | | | | | | | | | | | |
| as % of GDP | -1.7 | -4.4 | -4.6 | | | | | | | | | | | |
| Unemployment rate | 4.2 | 6.2 | 7.6 | 4.0 | 4.3 | 4.7 | 5.0 | 6.0 | 6.6 | 7.1 | 7.5 | 7.8 | 7.6 | 7.4 |

*All financial variables are period averages

## New Zealand - summary of main macro views

- The New Zealand economy was in a homegrown **recession** before the worst of the international troubles unfolded. GDP growth should have turned positive in 2Q thanks to stronger export volumes.
- **Business confidence** has improved markedly, though investment will remain a drag on GDP growth this year; this, of course, has negative implications for the employment outlook.
- The prolonged decline in **private consumption** will continue, particularly given the recent deterioration in the labour market. The recession has altered consumer behaviour, leading consumers toward increased saving rather than spending.
- **Increased anxiety about job security** probably is the strongest headwind facing consumers. We expect the unemployment rate to peak close to 8% in 2010. In the June quarter, wage growth slowed to a standstill and unemployment jumped a full percent to 6%.
- The **RBNZ** has delivered 575bp of policy easing since mid-2008. We believe that the OCR, currently at 2.5%, is the terminal cash rate in this cycle, and the RBNZ will begin tightening policy in mid-2010.

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# Australia and New Zealand economic calendar

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| 21 Sep<br><br>Australia:<br>New motor vehicles sales (11.30 am) Aug<br><br>New Zealand:<br>Visitor arrivals (10:45 am) Aug<br>Credit card spending (3:00 pm)<br>Aug -1.0 %oya | 22 Sep<br><br>New Zealand:<br>Current account (10:45 am)<br>2Q -1700 NZ$ mn<br>Westpac NZ consumer Confidence (2:00 pm) 3Q | 23 Sep<br><br>New Zealand:<br>GDP (10:45 am)<br>2Q -2.2 %oya | 24 Sep | 25 Sep<br><br>New Zealand:<br>Trade balance (10:45 am)<br>Aug 50 NZ$ mn |
| 28 Sep | 29 Sep<br><br>New Zealand:<br>Building permits (10:45 am) Aug | 30 Sep<br><br>Australia:<br>Building approvals (11:30 am) Aug<br>Pvt. Sector credit (11:30 am) Aug<br>Retail sales (11:30am) Aug<br><br>New Zealand :<br>NBNZ business conf.(2:00 pm) Sep | 1 Oct | 2 Oct |
| 5 Oct<br><br>Australia:<br>ANZ job ads (11:30 am) Sep<br><br>New Zealand:<br>ANZ commodity price (3:00 pm) Sep<br><br>*Holiday Australia* | 6 Oct<br><br>Australia:<br>Trade balance (11: 30 am) Aug<br>RBA cash target rate (2:30 pm) Oct<br><br>New Zealand:<br>NZIER bus. opinion survey (%bal) (11:00 am) 3Q | 7 Oct<br><br>Australia:<br>Housing finance approvals (11:00 am) Aug | 8 Oct<br><br>Australia:<br>Unemployment rate (11:00 am) Sep | 9 Oct |
| 12 Oct<br><br>New Zealand:<br>QV house prices Sep | 13 Oct<br><br>Australia:<br>NAB bus. Confidence (11:30 am) Sep<br><br>New Zealand:<br>Retail sales (10:45 am) Aug | 14 Oct<br><br>Australia:<br>Westpac consumer confidence (10:30 am) Oct | 15 Oct<br><br>New Zealand:<br>CPI (10:45 am) 3Q | 16 Oct |

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# Global Data Diary

| Week / Weekend | Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|---|
| **21 - 25 Sep** | **21 September** | **22 September** | **23 September** | **24 September** | **25 September** |
| United Kingdom<br>• Nat'wide HPI (Sep) | Mexico<br>• GDP by expenditure (2Q) | South Africa<br>• CPI (Aug)<br>• SARB meeting<br><br>United States<br>• FHFA HPI (Jul)<br>• Richmond Fed surv (Sep) | Belgium<br>• BNB bus survey (Sep)<br><br>Euro area<br>• Industrial orders (Jul)<br>• PMI flash (Sep)<br><br>France<br>• Cons of mfg goods (Aug)<br>• INSEE bus survey (Sep)<br><br>Norway<br>• Norges bank meeting<br><br>Taiwan<br>• Export orders, IP (Aug)<br><br>United Kingdom<br>• MPC minutes<br><br>United States<br>• FOMC meeting | Czech Republic<br>• CNB meeting<br><br>Germany<br>• IFO bus survey (Sep)<br><br>Israel<br>• BoI meeting<br><br>Japan<br>• All sector activity (Jul)<br>• Trade balance (Aug)<br><br>Mexico<br>• Trade balance prov (Aug)<br><br>Taiwan<br>• CBC meeting<br><br>United States<br>• Existing home sales (Aug) | Colombia<br>• BanRep meeting<br><br>Euro area<br>• M3 (Aug)<br><br>United Kingdom<br>• Bus investment final (2Q)<br><br>United States<br>• Consumer sent (Sep)<br>• Durable goods (Aug)<br>• New home sales (Aug) |
| **28 Sep - 2 Oct** | **28 September** | **29 September** | **30 September** | **1 October** | **2 October** |
| United Kingdom<br>• Halifax HPI (Sep) | Germany<br>• CPI prelim (Sep)<br>• Retail sales (Aug)<br><br>Hungary<br>• NBH meeting | Euro area<br>• EC bus survey (Sep)<br><br>Italy<br>• ISAE bus survey (Sep)<br><br>Japan<br>• CPI (Aug)<br>• Shoko Chukin (Sep)<br><br>Romania<br>• NBR meeting<br><br>United Kingdom<br>• GDP final (2Q)<br><br>United States<br>• S&P/C-S HPI (Jul) | Australia<br>• Retail sales (Aug)<br><br>Canada<br>• Monthly GDP (Jul)<br><br>China: PMI mfg (Sep)<br><br>Euro area<br>• HICP flash (Sep)<br><br>Germany<br>• Labor mkt report (Sep)<br><br>Japan<br>• IP prelim (Aug)<br>• Nom wages (Aug)<br>• PMI mfg (Sep)<br><br>Korea: IP (Aug)<br><br>Poland: NBP meeting<br><br>United States<br>• ADP employment (Sep)<br>• Chicago PMI (Sep)<br>• Real GDP third (2Q) | Euro area<br>• PMI mfg final (Sep)<br>• Unemployment (Aug)<br><br>Japan<br>• Auto regs (Sep)<br>• BoJ Tankan (3Q)<br>• Retail sales (Aug)<br><br>Korea<br>• CPI, Trade balance (Sep)<br><br>Philippines: BSP meeting<br><br>United Kingdom<br>• PMI mfg (Sep)<br>• BoE credit cond surv (3Q)<br><br>United States<br>• Construction spend (Aug)<br>• ISM mfg (Sep)<br>• Light vehicle sales (Sep)<br>• Pending homes (Aug)<br>• Personal income (Aug) | Brazil<br>• IP (Aug)<br><br>Japan<br>• Hhold spending (Aug)<br>• Unemployment (Aug)<br><br>United States<br>• Employment report (Sep)<br>• Factory orders (Aug) |

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