

Weekly Commentary

A weekly outlook for New Zealand, Australia and US markets

25 May 2009

Reining it in

The events calendar for New Zealand turns heavier over this week, with the key event being the new National Government's first Budget on Thursday.

The stakes are high for this year's Budget. Government revenues are falling dramatically as the global downturn hits the domestic economy hard, while the legacy of the previous Government's big-spending ways is that expense growth is well entrenched and rising. If previously budgeted increases in new spending were retained, it is expected that operating deficits would reach \$10bn per year indefinitely and that Crown gross debt would hit 45% of GDP by 2013 (from 17.5% in 2008) and 70% by 2023. For a small economy that is already highly dependent on foreign funding, that is an untenable situation. Standard & Poor's has already stated that the Government will need to convincingly demonstrate how it intends to rein in spending, in order for New Zealand to retain its AA+ credit rating.

The economic backdrop underpinning the fiscal outlook has deteriorated further since the December economic and fiscal update, and is downright ugly relative to the last full set of forecasts released in the Pre-Election update (PREFU) on October 6 last year. The growth outlook is now even worse than the supposed downside scenario presented in December, in which trading partner growth of 0.4% and 1.6% was forecast for the 2009 and 2010 calendar years. The most recent predictions from Consensus Economics put trading partner growth at a shocking -2.3% for 2009 and +2.0% for 2010. Falling commodity prices and weaker demand pressure will also see the

Treasury lower their inflation and terms of trade forecasts relative to the downside scenario in December, resulting in much weaker growth in the nominal economy. The Finance Minister has indicated that nominal GDP is expected to fall short of the PREFU forecasts by a total of \$50bn over the three years to 2012, which implies a shortfall of tax revenues in the order of \$20bn.

This means that some tough decisions need to be made. The Government has already indicated that the tax cuts earmarked for 2010 and 2011 and the annual contributions to the Super Fund over the next few years will more than likely be postponed. The Government is also going through a rigorous process of assessing and reprioritising all spending decisions, and recent commentary suggests that some significant savings have been and will continue to be made.

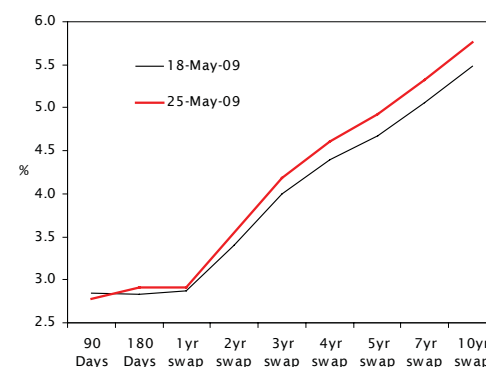
But, as we see it, the most effective way the Government can begin to get on top of expenses is by reducing the spending allowances for future Budgets, currently set at \$1.75bn per year for the 2009 Budget, increasing by 2% per year in each of the next three Budgets. Cumulatively, that totals \$17.87bn in new spending over the next four years. We expect the Government to halve those spending allowances, with the bulk of the remaining allowance being committed to health and education initiatives. That, in conjunction with the other savings-related initiatives discussed above, should be enough to keep spending and thus future deficits in check.

On our estimates, tighter spending controls combined with the various saving initiatives should be enough to ensure that gross debt remains below the 45% of GDP projected in December, under the assumption of no changes to policy. Even so, our forecasts suggest gross debt will still reach around 36% of GDP by 2013. Bond issuance is set to rise substantially in coming years, rising from \$5.5bn this fiscal year to around \$10bn next year and peaking at \$12bn in 2011.

While we expect fiscal policy to remain in expansionary territory over the next two years, the Government's commitment to fiscal discipline will likely mean less stimulus than estimated in December (around 5% of GDP over 2009 and 2010). That will put more of the burden back onto monetary policy, reinforcing the RBNZ's 'lower for longer' stance.

The RBNZ's inflation expectations survey (Tues) should also support their current stance. Expectations for inflation two

NZ Interest Rates



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

Westpac

years ahead have fallen sharply in recent quarters, and a further drop is likely this time. Interest rates are at historically low levels, but the risk of creating a new inflationary spiral is so distant that the RBNZ can afford to commit to low rates for a while longer.

This aside, the remaining data this week should be more promising. Merchandise trade (Tues) is expected to record another healthy surplus, with robust exports and soft import demand, particularly for cars. Business confidence (Wed) may build on its March gains, as low interest rates, rising home sales, and a tick up in Fonterra's payout forecast provide reasons for hope in some sectors. Residential building consents (Fri) should eventually respond to the rise in housing demand and net inward

migration, although access to credit may be a constraining factor for apartment consents.

The RBNZ appears sceptical about the extent of 'green shoots' in the global economy, and they are ready to cut rates further if conditions deteriorate again. But the recent improvement in housing activity, net migration, business confidence and global market sentiment seems to reduce the immediate need for another rate cut. We now expect a pause at the 11 June *Monetary Policy Statement*, with any further cuts delayed until September and beyond, once the extent of the slowdown in our major trading partners (particularly Australia) becomes clearer. The message will still be that the OCR is likely to be at or below

current levels for an extended period - while the RBNZ has urged banks to lower their lending rates, we think the more pressing concern for them is to encourage borrowers to take up the low short-term rates that are already on offer, rather than locking in for longer terms at substantially higher rates.

Fixed vs. floating: We emphasise that there is no urgency to fix for longer terms at the moment. Short-term rates are significantly lower than long-term rates and the RBNZ has signalled that they will remain so for some time. Consequently, the trade-off between fixed and floating rates is likely to be much the same in three or six months' time as it is today.

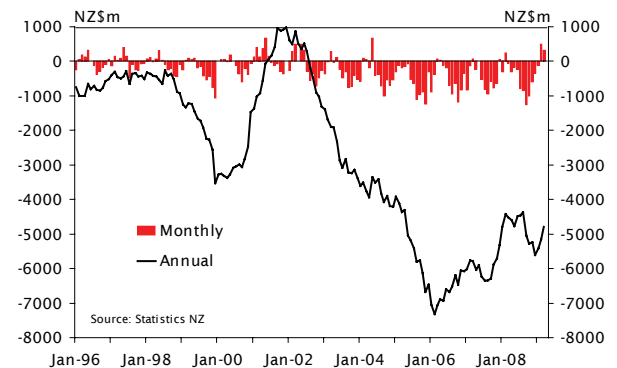
Key Data Previews

NZ Apr merchandise trade NZDm

May 26, Last: +324, WBC f/c: +450, mkt f/c: 250

- The merchandise trade balance has been moving steadily into positive territory. Expenditure on imports has plunged as demand for consumer durables, especially cars, has dried up. By contrast, export receipts have held up as the decline in the NZ dollar has outweighed the impact of lower commodity prices, and local production conditions have been solid.
- We predict the highest April surplus on record. Consumer imports will remain extremely weak following the miserable retail sales, and investment imports will be rock bottom in this environment. Car imports have lifted off their base, but remain weak.
- Exports should remain fairly robust given good growing conditions, average commodity prices, and the low exchange rate. The new Maari oil field began exporting in April, boosting crude oil exports by \$45m - \$90m.

NZ merchandise trade balance

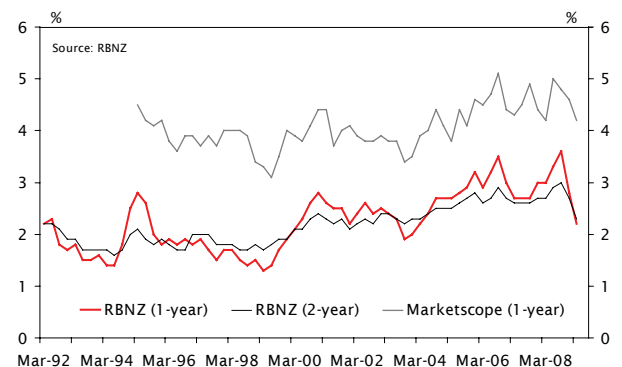


NZ Q2 RBNZ survey of inflation expectations

May 26, 2yr ahead - Last: 2.3%, WBC f/c: 2.1%

- 2-year ahead inflation expectations spiked up to 3% in September 2008, but have since plunged to 2.3% in March 2009.
- Our models predict that 2-year ahead inflation expectations will fall to 2.2% this quarter. However, we suspect there is downside risk to the model forecast, hence our 2.1% prediction. We participate in the survey, and our own response will be 1.1%.
- This inflation expectations survey could be a last-minute swing factor between a cut or on-hold decision ahead of the RBNZ's June 11 *Monetary Policy Statement*, but only in the event of a large surprise relative to expectations.

NZ inflation expectations



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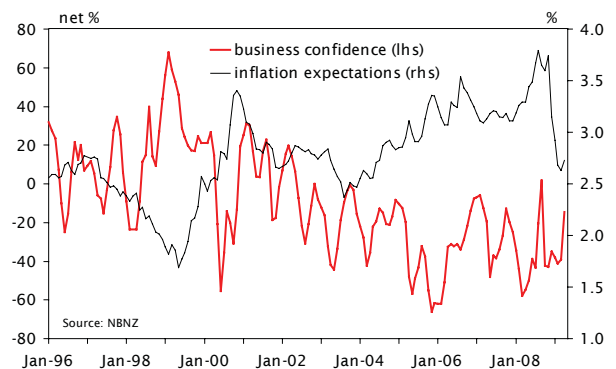
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NZ May NBNZ business confidence

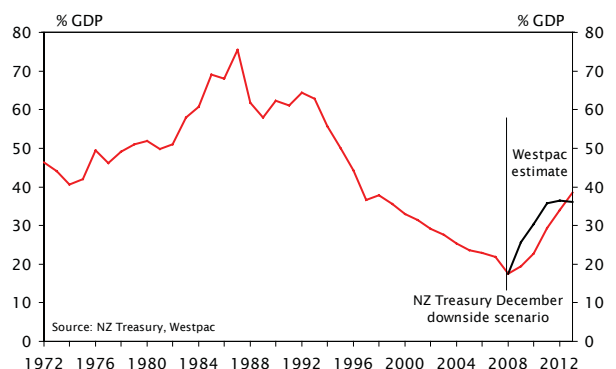
May 27, Last: -14.5%

- Business confidence recorded a sharp, broad-based gain in April, after plumbing record lows on many measures through the first quarter of this year.
- This survey can be volatile, and the rise in April was probably out of proportion with the few 'green shoots' that have emerged in the domestic economy. However, history suggests that the initial pickup in confidence could feed on itself in the following months. In particular, the agriculture and construction sectors should be buoyed by the 10c increase in Fonterra's payout forecast and the continued surge in house sales respectively.
- A further improvement in confidence would suggest upside risk to our Q1 GDP forecast of -1.0%, though this is well south of the RBNZ's March forecast of -0.2%.

NBNZ Business Confidence**NZ Budget 2009**

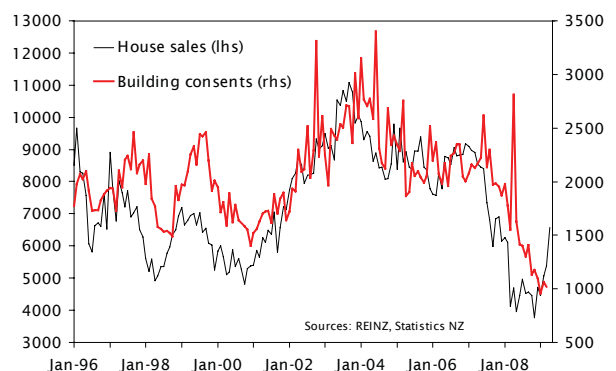
May 28, Last: \$5.637bn, WBC f/c: -\$1.5bn

- The Government's 2009 Budget will be one of the most important in years. Faced with a dramatic rise in crown debt and a possible credit rating downgrade, the Budget will be more about demonstrating fiscal discipline than providing additional relief to households and businesses.
- We expect the Government to postpone the 2010 and 2011 tax cuts, to defer payments to the superannuation scheme, and to halve the operating spending allowances for future Budgets. Together those initiatives should help keep the deficits and core crown debt in check.
- Our estimates suggest a bond programme of \$10bn will be required in 2010 (compared with a forecast of \$7.7bn at the December update), but that thereafter it will be either broadly in line with or lower than predicted back in December.

Gross sovereign-issued debt**NZ Apr building consents s.a.**

May 29, Last: -4.6%, WBC f/c: 9.0%, mkt f/c: 2.2%

- The number of dwelling consents issued per month has hit the lowest levels seen since the mid-1960s. With around 1,000 consents being issued per month, the number of new homes being built is now below that required to keep pace with population growth, especially with net migration rising sharply.
- The shortage of supply, combined with the marked increase in existing home sales in recent months and much lower interest rates, suggests a pick-up in building consents is imminent. The key risk remains access to credit, with anecdotal evidence suggesting property developers are still facing difficulties.
- The trend in non-residential consents has been tracking lower since November last year. With the signal from recent business confidence surveys that firms are curtailing their investment plans, this trend is likely to continue for a while yet.

Housing activity (monthly, seasonally adjusted)

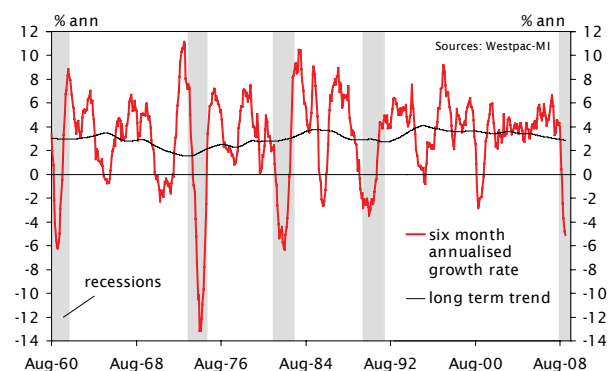
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Aus Mar Westpac-MI Leading Index

May 27, Last: -5.1% annualised

- The annualised growth rate of the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, was -5.1% in February, well below its long term trend of 2.9%.
- Most monthly components showed an improvement in March. In particular, equity markets surged strongly with the ASX recording its strongest monthly gain (+7.1%) since June 2000. Dwelling approvals also posted a solid 3.5% rise following on from an 8% jump in Feb. However against this, US industrial production again fell sharply by 1.7% in March and money supply growth slowed to 0.2% from 1.4% in Feb.
- The Coincident Index – a companion measure tracking current activity – has shown a milder slowdown to date (annualised growth was still positive at 0.7% in Feb) and is likely to get a boost from upticks in retail and labour market data in March.

Westpac-MI Leading Index

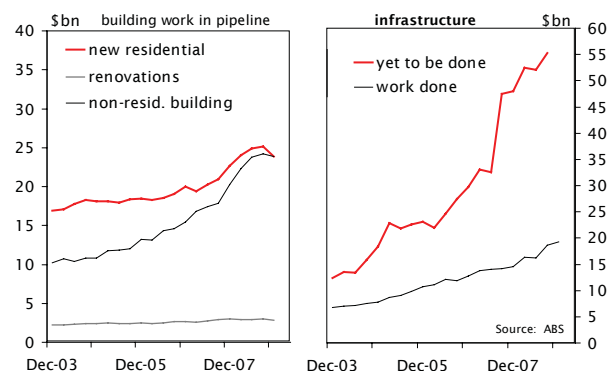


Aus Q1 construction work done

May 28, Last: 1.7%, WBC f/c: -3.5%, Mkt f/c: -3.0%, Range: -6.1% to 2.0%

- A downturn in the construction sector most likely began at the start of 2009. We're forecasting activity to contract by 3.5%.
- Private sector building activity, which levelled out over the second half of 2008, in particular will show a step down. Approvals for both residential and non-residential building retreated in late 2008 and the pipeline of work outstanding began to decline in the December quarter.
- Private infrastructure work and public construction are expected to provide a partial offset. While we do expect infrastructure activity to weaken in response to the global recession, momentum in the mining sector and the record pipeline of work outstanding points to a delayed reaction.

The building pipeline weakening

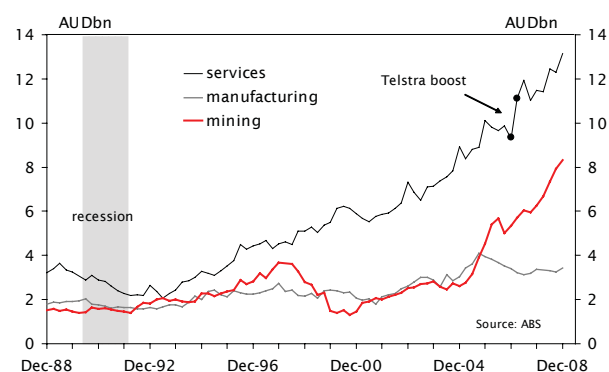


Aus Q1 CAPEX

May 28, Last: 6.0%, WBC f/c: -5.0%, Mkt f/c: -5.0%, Range: -9.7% to 2.0%

- We're forecasting the CAPEX survey to report a 5.0% fall in business investment spending in Q1. We expect further declines in the quarters ahead.
- Recall that the CAPEX survey revealed surprising strength last period. Momentum in the mining sector was understandable, but a rebound in manufacturing and the sizeable rise in service sector investment could only be interpreted – in our view – as a late cycle burst.
- As for Q1, we expect spending on equipment and activity in the building & structures segment to weaken. Lending support to this view, capital imports fell in nominal terms by around 4.7% – which points to a larger fall in real terms given a rise in prices with the dollar at lower levels.

Investment by industry (CAPEX survey)

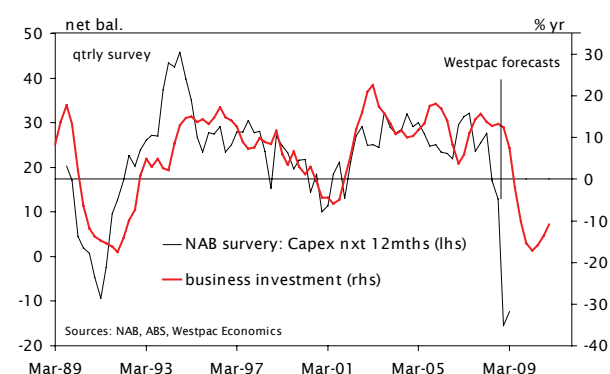


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Aus 2009/10 CAPEX

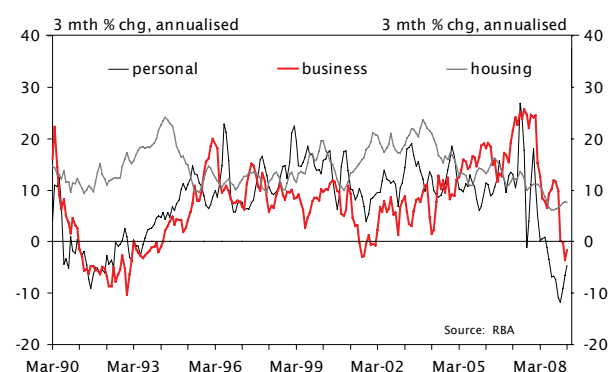
May 28, Last: AUD79.9bn

- The CAPEX survey will also provide a 2nd read on firms investment plans for the 2009/10 financial year.
- The 1st read three months ago of \$79.9bn was relatively upbeat. It implies a 6% rise in nominal spending and follows a likely 16% increase in 2008/09.
- As always, we caution that the 1st read of the CAPEX survey is often very unreliable – after all it is taken prior to the outcome from the year prior.
- The private sector surveys of the business sector, which are more timely, are pointing to a substantial decline in business investment over the year ahead. It is understandable that firms will react to the global and domestic recession by reducing spending, hiring and borrowing.

Business investment plans**Aus Apr private credit**

May 29, Last: 0.1%, WBC f/c: 0.2%, Mkt f/c: 0.2%, Range: -0.1% to 0.5%

- Private credit growth has slowed appreciably as the economy contracts. We're forecasting a rise of just 0.2% in April. That follows an increase of only 0.1% in March and a flat outcome in February.
- On the plus side, housing credit growth is improving – gradually – as new lending (housing finance) recovers in response to very low interest rates and the boost to the First Home Owners' Grant. The improvement is set to extend over coming months and has the potential to lift total credit growth in April – a touch.
- However, business is cutting back on borrowing in this environment. Credit to the sector – which can be volatile from month to month – contracted by 0.6% in March and declined by 0.5% in February. A further decline in April is likely.

Credit momentum, by segment**US regional factory surveys for May**

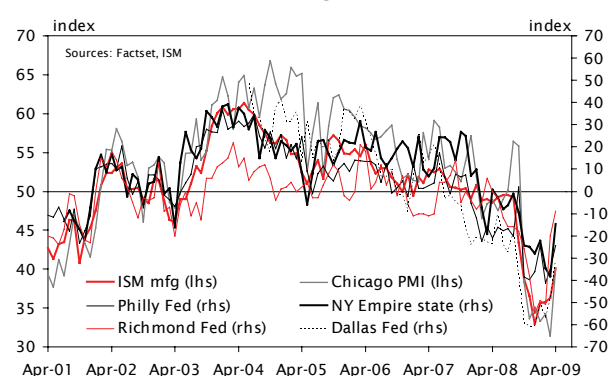
May 26, Richmond Fed: Last: -9, WBC f/c: -5

May 26, Dallas Fed: Last: -32, WBC f/c: -20

May 29, Chicago PMI: Last: 40.1, WBC f/c: 43.5

May 29, Milwaukee NAPM: Last: 39, WBC f/c: 43

- These surveys have been a big part of the cliched “green shoots of recovery” story that emerged in March, though the reality is that despite some steeply higher April readings, all were still at levels consistent with declining output, albeit at a slower pace than in Q1. Consistent with this, April industrial production fell 0.5%, compared to an average monthly fall of 1.6% in Q1.
- Thus far for May we have seen the New York Fed, which rose from -15 to -5, and the Philly Fed, which rose a more modest 1.8 pts to -22.6. Consistent with these outcomes, we expect further improvement in the swathe of regional surveys due over the coming week, though we are not yet confident enough to forecast outcomes consistent with positive IP growth.

US factory surveys bottoming out?

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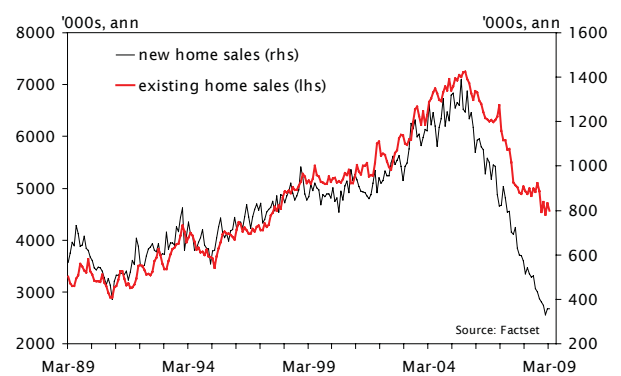
US Apr existing and new home sales

May 27, Existing home sales: Last: -3.0%, WBC f/c: 2.0%

May 28, New home sales: Last: -0.6%, WBC f/c: -1.0%

- Existing home sales fell 3% in March but have essentially been see-sawing about a flat trend since November last year. Sales do seem to have found some sort of base, most likely being supported by the sale of foreclosed properties at distressed prices. In March, median prices were down 12.4%yr.
- Pending sales posted back-to-back rises in Feb and Mar - the first such string of gains since 2007. That suggests April existing home sales should also post a rise, though that would merely be a continuation of the recent flat trend rather than an uptrend.
- New home sales also appear to have found a base about 75% below their 2005 peak, but with the market still grossly over-supplied and starts/permits falling there is little prospect of a near-term recovery in the new-build market.

US housing sales: slide continues

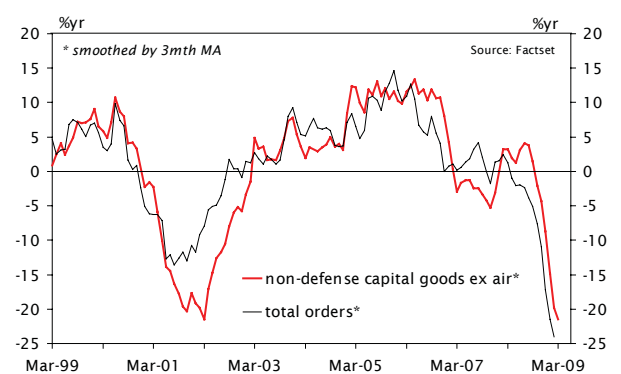


US Apr durable goods orders to be about flat

May 28, Last: -0.8%, WBC f/c: flat

- Durable orders posted a modest overall fall in March despite a second consecutive monthly gain in the core capital goods component and a slight rise in aircraft orders.
- Business surveys for April mostly revealed a less weak orders picture, and industrial production of durables such as autos (+1.4%), machinery (-0.7%) and business equipment (-0.6%) was mixed. Boeing reported a 183% increase in orders but the numbers are so low (17 orders vs 6 in March) that they will barely impact the bottom line.
- Putting all this together we expect April orders to be about flat, with a bias to the downside if core capital goods orders fail to post a third consecutive monthly gain.

US durable goods orders



Key Data and Events

		Last	Market Median	Westpac Forecast	Comments
Mon 25 May					
US	Memorial Day	-	-	-	Markets closed
Jpn	Bank of Japan Monthly Report	-	-	-	Nothing extravagant expected.
Ger	May Ifo Business Climate Index	83.7	85.0	84.0	Edging higher as with other surveys but may not prove sustainable.
UK	Bank Holiday	-	-	-	Markets closed
Tue 26 May					
NZ	Apr Merchandise Trade NZDm	324	250	450	We predict the largest April surplus on record.
	Q2 RBNZ Inflation Expectations	2.3%	-	2.1%	Inflation expectations are plunging alongside NZ's economic fortunes.
US	Mar S&P CaseShiller Home Price %yr	-18.6%	-18.4%	-18.0%	Assumes 1.5% fall in Mar, 2.1% Mar 08 fall dropping out.
	May CB Consumer Confidence Index	39.2	42.8	43.0	Less negative labour market assessment, strong equities key factors.
	May Richmond Fed Index	-9	-6	-5	Regional surveys point to slower pace of output decline in Q2.
	May Dallas Fed Manf. Activity	-32%	-22%	-20%	Regional surveys point to slower pace of output decline in Q2.
Jpn	Apr Corporate Services Prices %yr	-2.1%	-2.2%	-	Firms are controlling costs as sales plummet.
Eur	Mar Current Account €bn	-8.1	-	-10.0	Has not recorded a surplus in over a year.
	Mar Industrial Orders	-0.6%	0.8%	1.5%	German data showed unexpected 3% bounce.
Ger	Q1 GDP (F)	-3.8% a	-3.8%	-3.8%	Detail behind the shocking slump in Q1 output.
	Jun GfK Consumer Confidence	2.5	2.5	-	Labelled June but surveyed in early May.
UK	May House Prices %yr	-15.0%	-13.7%	-14.0%	Due 26-29/5. Steep declines now dropping out of annual calcs.
Wed 27 May					
NZ	May NBNZ Business Confidence	-14.5%	-	-	The pickup in confidence in April is likely to feed on itself in May.
Aus	Mar Westpac-MI Leading Index ann'lsd	-5.1%	-	-	Most components improved in March; equities in particular.
US	Mar House Prices	0.7%	0.2%	-	Lesser watched FHFA index.
	Apr Existing Home Sales	-3.0%	2.0%	2.0%	Pending data up in Feb and Mar suggesting existing sales should rise.
Jpn	May Shoko-Chukin Small Business Index30.8	-	-	-	A modest uptick would be in line with regional/global trends.
	Apr Trade Balance s/adj ¥bn	-97.1	-17.5	-	A return to surplus not far away: imports cannot lag forever.
Ger	May CPI Prelim %yr	0.7%	0.2%	0.1%	Energy related base effects to pull annual rate sharply lower.
UK	May Bank Mortgage Lending £bn	26	28	-	Off its lows but still very weak and a constraint on housing market.
Thu 28 May					
NZ	Budget 2009 NZDbn	5.64	-	-1.50	Commitment to fiscal discipline should avoid a ratings downgrade.
Aus	RBA Deputy Governor Battellino Speaking	-	-	-	Securities & derivatives industry annual conference, Sydney, 11:10am.
	Q1 Capex	6.0%	-5.0%	-5.0%	Inevitable downturn most likely began in Q1 - chunky falls ahead!
	2009/10 CAPEX Intentions, AUDbn	79.9	-	-	Business to scale back investment plans in response to recession.
	Q1 Construction Work Done	1.7%	-3.0%	-3.5%	Private building to fall sharply, infrastructure & public works to rise.
US	Apr Durable Goods Orders	-0.8%	0.4%	flat	Surveys suggest less weakness, modest boost from Boeing.
	Initial Jobless Claims w/e 23/5	631k	630k	640k	Laid off auto workers hitting the figures.
	Apr New Home Sales	-0.6%	1.1%	-1.0%	Bouncing along the bottom rather than rebounding.
Jpn	Apr Retail Sales %yr	-3.9%	-3.3%	-	Job insecurity is looming large as corporates cut spending.
Eur	May Retail PMI	48.4	-	-	April was least weak result for a year. Sustainable?
	May Business Climate Index	-3.33	-3.10	-3.15	German IFO survey suggests this survey based index should rise again.
	May Consumer Confidence	-31	-30	-29	These EC sponsored surveys both turned higher in Apr. A further rise in May is likely given other survey evidence but levels still very weak.
	May Economic Confidence	67.2	69.0	70.0	in May is likely given other survey evidence but levels still very weak.
Ger	Unemployment ch' 000	58k	64k	80k	Collapsing Q1 economy to see jobs slashed in coming months.
UK	May CBI Distributive Trades Survey	-	-	-	Recent revamped official ONS data vindicate recent CBI weakness.
	May GfK Consumer Confidence	-27	-25	-30	MP expenses scandal to undermine the survey outcome.
Fri 29 May					
NZ	Apr Building Consents s.a.	-4.6%	2.2%	9.0%	Stars aligned for a pick up; access to credit remains a key headwind.
Aus	Apr Private Credit	0.1%	0.2%	0.2%	Housing gradual upward trend, but business contracting.
US	Q1 GDP, Prelim % ann'lsd	-6.1%	-5.5%	5.0%	Partial data for March suggest upward revision.
	May Chicago PMI	40.1	42.0	43.5	Regional surveys point to slower pace of output decline in Q2.
	May UoM Consumer Confidence (F)	67.9	68.0	68.5	Recent tendency for rising confidence could see upward revision.
	May Milwaukee NAPM	39.0	42.0	43.0	Regional surveys point to slower pace of output decline in Q2.
Jpn	Apr Industrial Production	1.6%	3.3%	-	Official forecast positive, implying inventory rundown well advanced.
	May Nomura PMI	41.4	-	-	Manufacturers have now seen the worst on the inventory front.
	Apr Unemployment Rate	4.8%	5.0%	-	Labour market has turned decisively.
	Apr Household Spending	-0.4%	-0.7%	-	Out of synch with retail survey, but not for the first time.
	Apr National CPI %yr	-0.3%	-0.3%	-	Excess capacity amid declining demand is far from a felicitous combo.
	May Tokyo CPI %yr	-0.2%	-0.7%	-	Larger weight for shelter component helping for the minute.
	Apr Housing Starts %yr	-20.7%	-22.0%	-	Predictably weak in the current environment.
	Apr Construction Orders %yr	-37.8%	-	-	At some point, fiscal stimulus should show up in this series.
Eur	Apr Money Supply M3 %yr	5.1%	4.5%	4.8%	Falling back to ECB's reference rate of 4.5% for first time in eight yrs.
	May CPI %yr Flash Estimate	0.6%	0.2%	0.2%	Base effects favourable for next few months. CPI to fall below 0 soon.
	Apr Unemployment Rate %	8.9%	9.1%	9.1%	Forecast to reach previous 2004 cyclical high of 9.1%.
Can	Q1 Current Account C\$bn	-7.5	-10.4	-	Q4 saw first deficit since the late 1990s.

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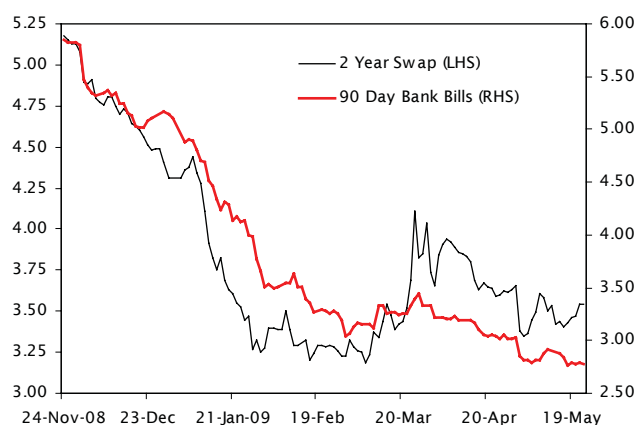
New Zealand Economic and Financial Forecasts

Economic Growth Forecasts	March years				Calendar years			
	2008	2009f	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	3.1	-0.9	-2.3	2.1	0.2	-2.8	1.1	3.7
Employment	-0.3	0.8	-2.9	1.5	0.9	-3.7	0.6	2.2
Unemployment Rate % s.a.	3.8	5.0	7.6	6.4	4.7	7.3	6.9	5.4
CPI	3.4	3.0	1.5	1.2	3.4	1.3	1.1	1.2
Current Account Balance % of GDP	-8.0	-8.9	-5.9	-5.3	-8.9	-6.2	-5.5	-5.9

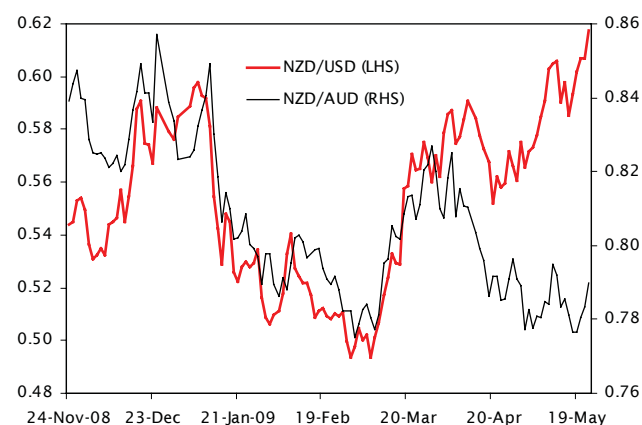
Economic forecasts 22 April 2009

Financial Forecasts	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Cash	2.50	2.25	2.00	2.00	2.00	2.00	2.00
90 Day bill	2.70	2.50	2.30	2.30	2.30	2.30	2.50
2 Year Swap	3.70	3.60	3.70	3.90	4.10	4.30	4.50
5 Year Swap	4.60	4.50	4.60	4.70	4.80	5.00	5.20
10 Year Bond	5.50	5.40	5.50	5.60	5.70	5.80	5.90
NZD/USD	0.61	0.53	0.51	0.54	0.56	0.58	0.59
NZD/AUD	0.78	0.76	0.75	0.75	0.76	0.76	0.78
NZD/JPY	57.3	48.2	47.4	52.9	56.6	59.7	60.8
NZD/EUR	0.44	0.39	0.39	0.41	0.41	0.43	0.43
NZD/GBP	0.38	0.34	0.34	0.35	0.35	0.36	0.36
TWI	58.2	51.8	50.8	53.3	54.9	56.7	57.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 25 May 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	3.00%
30 Days	2.99%	2.85%	3.18%
60 Days	2.97%	2.85%	3.12%
90 Days	2.78%	2.92%	3.05%
2 Year Swap	3.55%	3.50%	3.62%
5 Year Swap	4.92%	4.80%	4.74%

NZ foreign currency midrates as at Monday 25 May 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6164	0.6050	0.5719
NZD/EUR	0.4394	0.4449	0.4319
NZD/GBP	0.3871	0.3997	0.3893
NZD/JPY	58.300	58.960	55.610
NZD/AUD	0.7876	0.7948	0.7909
TWI	58.520	58.740	56.630

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

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	2.1	-0.8	1.0
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	1.8	2.4
Unemployment %	5.4	5.1	4.8	4.4	4.2	6.3	8.5
Current Account % GDP	-6.1	-5.8	-5.3	-6.3	-4.3	-4.0	-5.5
United States							
Real GDP %yr	3.9	3.1	2.8	2.0	1.1	-3.2	0.7
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-1.4	1.2
Unemployment Rate %	5.5	5.1	4.6	4.6	5.8	9.2	10.6
Current Account %GDP	-5.7	-6.1	-6.0	-5.3	-4.7	-2.9	-3.1
Japan							
Real GDP %yr	2.3	1.9	2.8	2.3	-0.9	-4.3	0.8
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	-1.1	-0.6
Unemployment Rate %	4.5	4.4	4.1	3.9	4.0	5.1	6.6
Current Account %GDP	3.3	3.6	3.9	4.8	3.2	2.5	2.4
Euroland							
Real GDP %yr	1.9	1.8	3.0	2.6	0.7	-3.8	0.0
Consumer Prices %yr	2.1	2.5	2.0	3.1	1.6	0.5	0.7
Unemployment Rate %	9.0	8.8	7.9	7.3	7.8	9.0	9.5
Current Account %GDP	0.0	-0.2	-0.5	0.0	-0.2	0.0	0.4
United Kingdom							
Real GDP %yr	2.8	2.1	2.8	3.0	0.7	-4.4	-0.1
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.0	1.2
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	4.5	5.5
Current Account %GDP	-1.9	-2.6	-3.0	-2.8	-2.3	-6.0	-5.5

Forecasts finalised 8 May 2009

Interest Rate Forecasts	Latest (May 25)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
Australia						
Cash	3.00	3.00	2.50	2.00	2.00	2.00
90 Day Bill	3.16	3.10	2.60	2.30	2.30	2.30
10 Year Bond	5.21	4.70	4.50	4.25	4.50	5.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.45	3.20	3.00	3.55	3.75	4.00
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00
Exchange Rate Forecasts						
AUD/USD	0.7826	0.78	0.70	0.68	0.72	0.74
USD/JPY	94.58	94	91	93	98	101
EUR/USD	1.4027	1.39	1.35	1.31	1.33	1.35
AUD/NZD	1.2696	1.27	1.32	1.33	1.33	1.32

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