

Weekly Commentary

A weekly outlook for New Zealand, Australia and US markets

8 June 2009

Cause for a pause

Thursday's *Monetary Policy Statement* comes at an interesting juncture for the New Zealand economy.

Activity is still contracting in most parts of the world, but at a slower pace than seen earlier this year – and for a change, the outlook for growth doesn't seem to have deteriorated further since the last OCR review. Meanwhile, financial markets are sending a clear signal that they believe the worst-case scenarios for the global economy have been avoided.

It's clear from the RBNZ's recent comments that they are sceptical about the near-term prospects for recovery, and they remain biased towards further easing if needed. Even so, we think there is enough reason to leave the OCR unchanged this time – if their scepticism turns out to be justified, they retain the option of cutting rates again later in the year, while if the 'green shoots' turn out to be genuine, they will have little to regret by not easing further.

Developments since the April OCR review have been mixed – which in itself is a notable development. Monthly indicators in most parts of the world suggest that manufacturing, trade and house prices have been falling at a slower pace in recent months. To be clear, this is hardly a sign of strength – the best we can say is that a global economy that was in freefall at the end of last year has since deployed the parachute. But the change in momentum is a necessary first step towards recovery.

The latest Consensus Forecasts for New Zealand's major trading partner growth were revised down slightly for this year to -2.3%. However, forecasts for 2010 were steady at 2.0%, which will test the RBNZ's view that there are further downward revisions to come as we get closer to the date.

The improvement in market sentiment has been more dramatic. Investors are moving away from safe havens such as US Treasuries and are prepared to take on more risk – share prices have soared, commodities (and commodity currencies) have risen, and some measures of credit spreads have narrowed to levels last seen before the collapse of Lehmans last September. Before discounting these moves as overdone, remember that when the 'green shoots' started to emerge, financial markets were starting from a much darker place than the real economy, having priced in the possibility of another Depression. And the breadth of the rebound across markets makes it hard to dismiss.

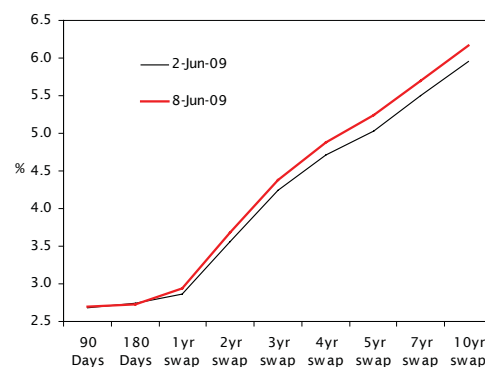
The 'green shoots' have been appearing in the domestic economy as well. Fiscal stimulus is forecast to add 3.3% to GDP over the next year, twice what was previously projected. House sales have surged from their lows and prices have probably risen in recent months, due to historically low mortgage rates. A sharp rise in net migration has also helped, with fewer New Zealanders trying their luck in Australia. The unemployment

rate has risen only modestly – in fact, as of March there were still 0.8% more people in work compared to a year earlier. And export commodity prices have held up better than expected, although the recent tit-for-tat subsidies on dairy products by Europe and the US are cause for concern.

Against these reasons for optimism, there is the fact that financial conditions have continued to tighten since April, via a stronger exchange rate and higher long-term interest rates. The NZD has risen 30% against the US dollar since early March, defying the RBNZ's projection that it would continue to fall to near-record lows and remain there for several years. The trade-weighted index is now just below its long-term average – not exactly stretched in historical terms, but perhaps an uncomfortable place to be in the context of a severe global recession.

But should the RBNZ be trying to resist this move? Currencies, along with other

NZ Interest Rates



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

Westpac

market prices, are sending a very clear signal about where investors think the global economy is heading: that the worst-case scenario has been avoided and the early conditions for a recovery are in place. If the RBNZ is correct that the market's optimism is overdone, then we could expect the NZD to reverse of its own accord. And if the market is correct in anticipating a pickup in world demand, it's unlikely that a higher currency would cancel this out completely - it doesn't work that way in theory, and it hasn't been observed in our recent history. Either way, the RBNZ can afford to wait and see how this develops.

As for long-term rates, we think the RBNZ is more concerned about borrowers

unnecessarily locking themselves in at those higher rates, when there are much lower rates available for shorter terms. The rise in long-term rates actually makes this an easier sell, as the gap between a one-year and a five-year fixed rate is now getting towards 250bp, compared to just 70-80bp in early March, when borrowers first began to rush into longer fixed terms.

We expect the RBNZ's interest rate projections to be lower than the track published in the March MPS - but crucially, higher than what they would have projected internally in April. We expect the 90-day rate projections to bottom out at around 2.5% by year-end, which would be consistent with one or two

more 25bp cuts, but with no urgency as to the timing. The RBNZ is likely to keep its April commitment to keeping rates at or below current levels until the latter part of 2010. Even if the 'green shoots' of recovery are genuine, the RBNZ can afford to wear a few positive surprises, as the economy is no longer running at or close to full capacity.

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.

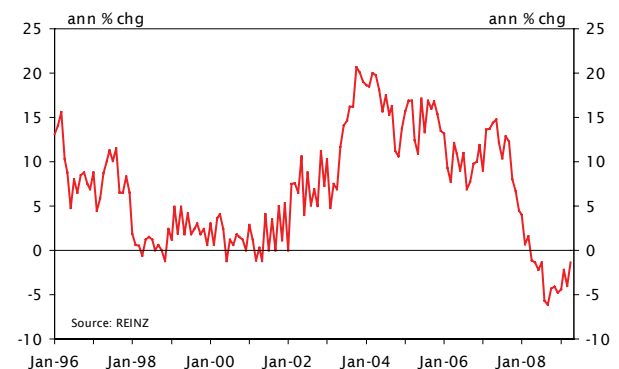
Key Data Previews

NZ May REINZ house prices %yr

Jun 8-12, Last: -1.4%

- Sentiment toward the housing market has clearly shifted since the beginning of the year, largely courtesy of lower mortgage rates. According to REINZ data, seasonally adjusted house sales have jumped 74% in five months, from rock-bottom to roughly average. The number of days to sell a house has fallen back to 2007 levels. And house prices have been rising not falling.
- Data from a major real estate agency in the Auckland region suggest that housing activity may have taken a bit of breather in May. However, on the whole we expect the REINZ data to show still solid momentum.
- With longer-term mortgage rates on the rise, we expect the pick-up in activity in the first half of 2009 will be short lived. We predict a return to low sales and gentle price declines in H2 2009.

REINZ house prices

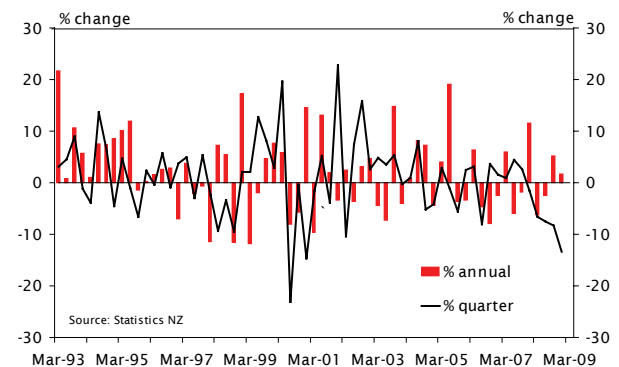


NZ Q1 Building work put in place

Jun 9, Last: -6.5%

- The seasonally adjusted volume of residential building work fell 13.4% in the December 2008 quarter, to be 31.5% lower than a year ago and the lowest since the March 2002 quarter. In contrast, non-residential building work held up, lifting 1.6% in the quarter, although remaining 2.2% lower than a year ago.
- Indicators suggest there was no improvement on the building front in Q1. Dwelling consents point to another large decline in residential construction in Q1 (in the order of 10%), as well as a sizeable contraction in non-residential building work.
- Consent data heading into Q2 suggests that the pace of decline in building activity should begin to ease in the second half of the year.

NZ real building work put in place



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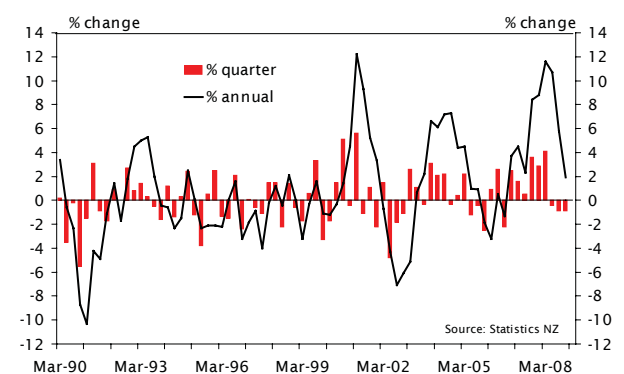


NZ Q1 terms of trade

Mar 10, Last: -0.9%, WBC f/c: -6.6%, mkt f/c: -3.8%

- We expect a 7.8% drop in export prices, dominated by a 23% fall for dairy products. Milk powder that was stockpiled late last year was sold down in Q1, boosting volumes but crystallising the fall in contract prices paid to Fonterra. Crude oil prices are also expected to be down 21%, though its share of exports has fallen sharply in the last six months.
- Our forecast of a 1.3% fall in import prices masks a wide range of outcomes, with prices for commodity items such as oil, fertiliser and steel down 20% or more, while the weaker NZD pushed up prices for manufactured items.
- The decline in the terms of trade is long overdue, with contracted dairy prices holding up for longer than anticipated. We expect the terms of trade to fall by 10% over this year.

NZ terms of trade

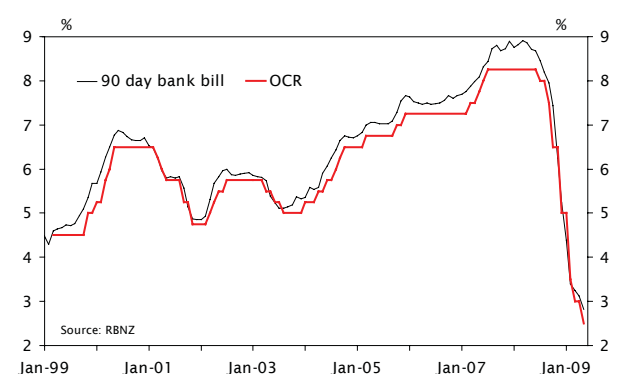


NZ RBNZ Monetary Policy Statement

Jun 11, Last: 2.50%, WBC f/c: 2.50%, mkt f/c: 2.50%

- We expect the RBNZ to pause at next week's OCR review, with any further cuts likely to be delayed until later this year.
- Economic conditions have shown some early signs of improvement. The global economy is contracting at a slower pace, and New Zealand is expected to benefit from fiscal stimulus, rising migration and firm commodity prices.
- The market's optimism about a global recovery has had the effect of pushing the NZD and long-term interest rates higher. The RBNZ appears to believe that this confidence is misplaced, but we think they can afford to wait and see whether their scepticism is justified.

NZ OCR and 90 day rate

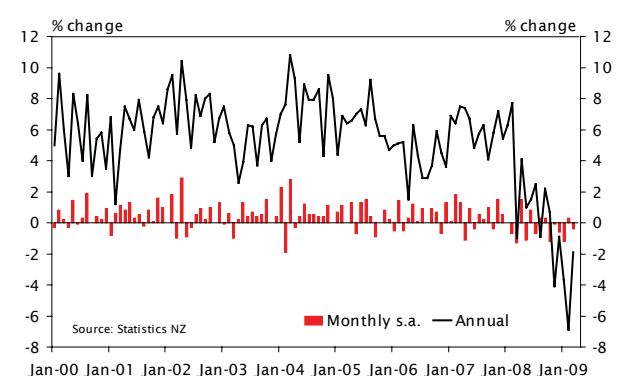


NZ Apr retail sales

Jun 12, Last: -0.4%, WBC f/c: 0.2%, mkt f/c: 0.2%

- The second tax cut came into effect on 1 April giving a boost to disposable incomes. We suspect much of this was saved given dented household balance sheets and the slackening labour market. Also, ACC premium (national accident insurance) increases at the same time dulled the increase in take-home pay.
- Credit card data fell 2.8% in March and bounced back 2.3% in April. Retail sales did not follow credit cards down in March so we discount the technical bounce in April credit card transactions. The 0.3% growth in the broader electronic transaction (includes eft-pos cards) data is likely to be a better guide.
- Core sales (+0.3%) are expected to slightly outperform total sales as we expect the latter to be pulled down by another drop in motor vehicle sales. Lower petrol prices (-0.8% in the month) leave more to spend elsewhere.

NZ nominal retail sales



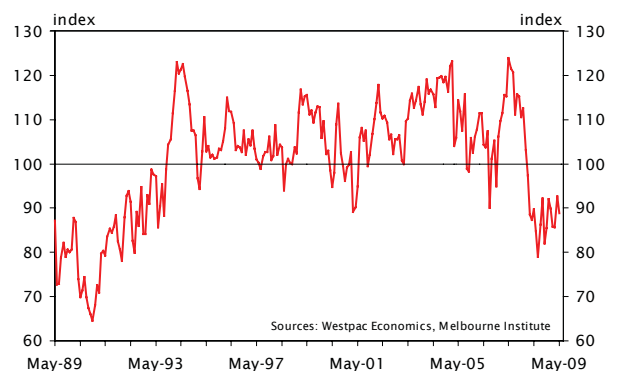
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Aus Jun Westpac-MI Consumer Sentiment

Jun 10, Last: 88.8

- The Westpac-Melbourne Institute Index of Consumer Sentiment fell by 4.3% in May from 92.7 in April to 88.8 in May. The key factor was consumers' reactions to a bleak Federal Budget.
- The June survey is in the field from June 1 to 7. Consumer sentiment is likely to be impacted by: the surprise positive Q1 GDP result that saw Australia escape a 'technical' recession; the continued rally in global equities (ASX up about 4% since the May survey and now up over 25% from March lows); a strong surge in the AUD, up about 5c US since the last survey (consumers typically view rises as positive); and continued signs of firming in housing markets. The RBA left interest rates on hold again at its June 2 meeting. The rapid rise in swine flu cases – poised to pass 1000 cases nationally – may also impact on sentiment.

Consumer Sentiment

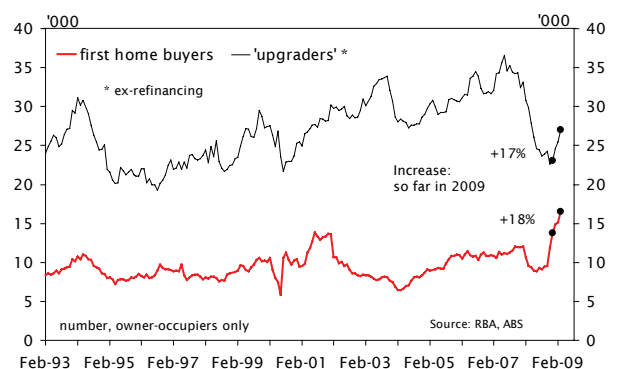


Aus Apr housing finance

Jun 10, Last: 4.9%, WBC f/c: -1.0%, Mkt f/c: 1.6%, Range: -1.0% to 5.5%

- Following a rapid 30% rise in new lending to owner-occupiers over seven months, we expect a consolidation in the Easter-affected month of April, forecasting a 1.0% decline.
- Housing finance has rebounded sharply in response to very low interest rates and the boost to the First Home Buyer scheme. With the standard bank variable mortgage rates tumbling to just 5.85% – the lowest since 1968 – the upswing in housing finance has gained momentum and breadth.
- It is upgraders who are driving the finance upswing in 2009, in that they account for the majority of the overall increase. That is no great surprise given their much larger weight. Lending to upgraders is up 17% so far in 2008, while there has been some loss of momentum in the First Home Buyer segment after a surge late in 2008.

Upgraders: major driver of upswing in 2009

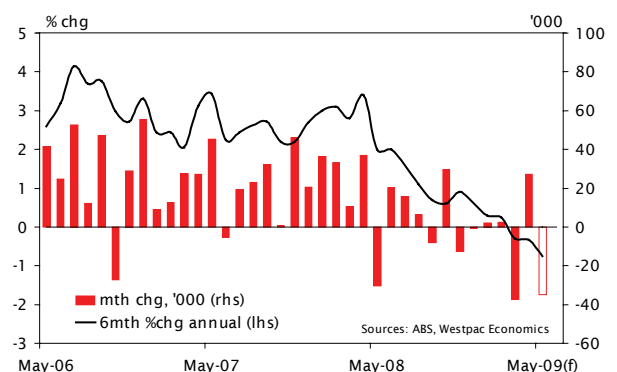


Aus May employment chg

Jun 11, Last: +27.3k, WBC f/c: -35k, Mkt f/c: -30k, Range: -50k to -15k

- April saw a surprise 27.3k jump in employment. But remember this is noisy data from month to month based on a small sample size of 0.24% of the population. Abstracting from the April noise, the trends continued to deteriorate with annual growth falling to 0.26%yr (lowest since Jun-93) and the monthly trend (-4.3k) in decline for five months.
- Signals from our preferred leading indicators of employment (Westpac-ACCI Labour Market Composite, detrended job ads, and our business survey composite labour demand indicator) continue to imply a more rapid jobs deterioration ahead. Indeed, despite a recent slight improvement, the labour demand indicator points to a fall in 3m MA jobs growth to around -13k from the current -2.5k pace. Thus we look for a 'payback' -35k jobs fall, slowing trend growth to +0.05%yr.

Aust jobs: leads imply payback for Apr rise



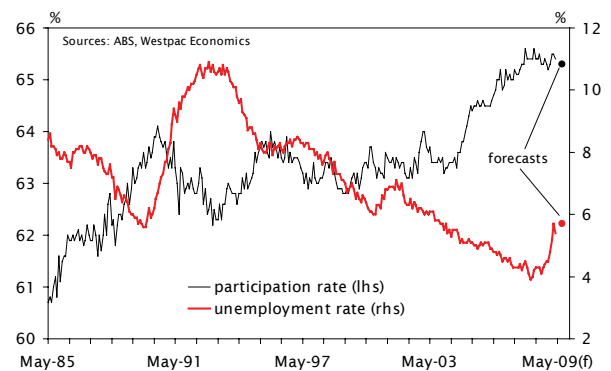
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Aus May unemployment rate

Jun 11, Last: 5.4%, WBC f/c: 5.7%, Mkt f/c: 5.7%, Range: 5.5% to 6.0%

- The April jobs surge, and a 0.1ppt dip in the participation rate to 65.4%, amplified the impact on the unemployment rate which unexpectedly fell 0.3ppts to 5.4%. Smoothing through the monthly headline volatility, the trend unemployment rate rose to 5.5% from 5.4%, up from 4.1% a year ago.
- Analysis of the historical participation rate reaction to jobs movements and prior unemployment rate changes shows that sharp falls in the unemployment rate are usually followed by higher participation, but weak employment is usually accompanied by lower participation. On balance, we expect the fall in May jobs to dominate over any positive participation influence from April's lower unemployment rate, lowering the participation rate to 65.3%. This would only partially offset the forecast jobs fall, returning the unemployment rate to 5.7%.

Unemployment and participation rates



US Apr trade deficit to widen again

Jun 10, Last: -\$27.6bn, WBC f/c: -\$29.0bn

- The trade deficit widened for the first time in eight months in March, reflecting unfavourable volume shifts on the export side (weaker capital, consumer, auto and aircraft sales to foreign customers) compounded by a rising import prices and falling export prices. Even so, the deficit remains at around levels last seen eight years ago.
- In April, import prices rose a further 1.6% as oil prices kept climbing and the US dollar weakened. However import volumes probably slipped reflecting the subdued demand environment. Export prices also rose, but only by 0.5%. Factory shipments were down modestly in April, suggesting export volumes were soft. Aircraft deliveries were down too.
- We expect a flat export outcome and a 1% rise in imports to widen the deficit again to \$29.0bn in April.

US trade: imports slump more than exports

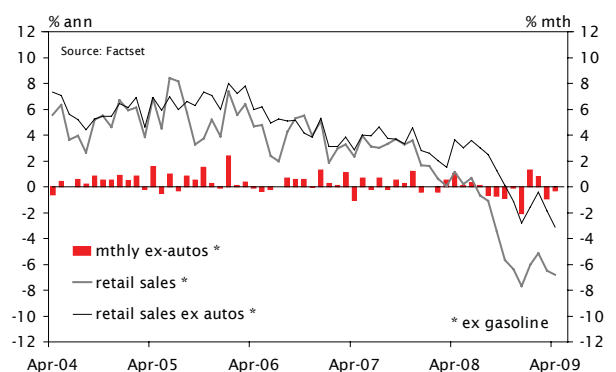


US May retail to post an auto and gas driven bounce

Jun 11, Last: -0.4%, WBC f/c: 0.5%

- Retail sales fell in both March and April, reflecting subdued core retailing, falling gasoline prices (weighing heavily on service station sales) and in March, weaker auto sales (they were about flat in April).
- Despite the bankruptcy of Chrysler and at the end of the month, GM, industry data showed a surprising 6% jump in unit sales. Discounting (and some fleet sales) will mean that retail auto sales won't post a similar-sized gain, but they should still be a positive. Also, gasoline prices rose about 20% on average last month, which will boost the headline retail number.
- But core retailing excluding autos and gasoline looks to have been about flat, helped by tax breaks and rising confidence, but still constrained by the growing savings imperative. We expect a 0.5% rise in total sales, 0.1% for ex auto and -0.1% for core.

US retail sales



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Key Data and Events

	Last	Market Median	Westpac Forecast	Comments	
Mon 8 Jun					
NZ	May REINZ House Prices %yr	-1.4%	-	-	Due this week. Higher fixed rates look to have dampened activity.
Aus	Queen's Birthday Holiday	-	-	-	Markets closed.
Jpn	Apr Current Account ¥bn sa	1486	850	-	Income surplus should be OK, trade position still suppressed.
	May Bank Lending %yr	4.2%	-	-	Artificially high with activity & investment moving rapidly backwards.
Eur	Jun Sentix Investor Confidence	-34.3	-31.0	-30.0	Tentative date. Stock market upswing should buoy confidence.
Ger	Apr Factory Orders	3.3%	flat	-1.0%	Big slump in orders now behind us but growth untrend unlikely yet.
Can	May Housing Starts	-19.9%	-	-	Volatile series but trend is to the downside.
Tue 9 Jun					
NZ	Q1 Building Work Put in Place	-6.5%	-	-	Indicators point to another sizeable contraction in Q1.
Aus	May ANZ Job Ads	-7.5%	-	-	Steep downtrend continues at -7.1% ¹ and -48.3% ³ yr.
	May NAB Business Survey	-10.0	-	-	Up 7pts in April, watching for any further signs of improvement.
US	Apr Wholesale Inventories	-1.6%	-1.1%	-1.0%	Early clue to contribution of stocks to Q2 GDP bottom line.
	Jun IBD/TIPP Economics Optimism	48.6	50.0	50.0	First confidence read for June; may show catch-up to CB and UoM.
Jpn	Apr Leading Index	76.3	77.2	-	Tentative improvement with manuf. de-stocking now well advanced.
Ger	Apr Industrial Production	flat	0.3%	1.0%	Orders bounced in March so IP might tick a little higher.
UK	May BRC Retail Sales Monitor %yr	4.6%	-	-	Same store sales measure. April boosted by Easter, warm weather.
	May RICS House Price Index net bal	-59.9%	-52.0%	-	Net balance of surveyors reporting falling house prices is falling...
	Apr DCLG House Price Index %yr	-13.6%	-13.3%	-	... but this govt index is yet to show any sign of bottoming out.
Wed 10 Jun					
NZ	Q1 Terms of Trade	-0.9%	-3.8%	-6.6%	Sharp price falls for dairy exports, fuel and fertiliser imports.
	May Electronic Card Transactions	0.7%	-	-	Early indicator to retail sales in May, small rise expected.
Aus	Jun Westpac-MI Consumer Sentiment	88.8	-	-	How did consumers rate news that the economy avoided recession?
	Apr Housing Finance	4.9%	1.5%	-1.0%	Easter consolidation after 30% rise in 7mths. More gains ahead.
US	Apr Trade Balance \$bn	-27.6	-29.0	-29.0	Deficit is widening again with import prices rising due to oil.
	May Federal Budget Balance \$bn	-166	-181	-	Budget blow out due to stimulus, banking measures, less tax receipts.
	Fed Beige Book	-	-	-	Regional economic situation, prepared ahead of June 24 FOMC.
	Fedspeak	-	-	-	Governor Duke in Cleveland.
Jpn	Apr Machinery Orders	-1.3%	-0.7%	-	With IP down 30%, industrial capacity is hugely excessive.
	May Corp. Goods Prices %yr	-0.4%	-0.3%	-	Oil has rallied ytd, but bulk prices are down substantially oya.
UK	Apr Visible Trade Balance £bn	-6.6	-6.4	-	Trade deficit is narrowing as imports slow more than exports.
	Apr Industrial Production	-0.6%	-0.1%	0.2%	A bounce in energy and utility output to deliver first +ve since 2007.
Can	Apr Trade Balance C\$bn	1.1	1.1	-	Back in surplus, just. US auto sector woes not helping exports.
	Apr New House Prices	-0.5%	-0.3%	-0.5%	Falling steadily for six months now.
Thu 11 Jun					
NZ	RBNZ OCR Review	2.50%	2.50%	2.50%	Mixed indicators but the RBNZ can afford to wait and see this month.
Aus	May Employment chg, '000	27.3	-30	-35	Payback for surprise April jump sees trend deterioration gather pace.
	May Unemployment Rate	5.4%	5.7%	5.7%	Jobs fall only partially offset by 0.1ppt PR dip, reversing Apr U rate fall.
	Jun WBC-MI Unemployment Expect's	-1.0%	-	-	Improved (fell) last three months, halting rapid uptrend.
	Jun MI Inflation Expectations	2.3%	-	-	Expectations ease with actual CPI and slowdown; trend now 2.2%.
US	May Retail Sales	-0.4%	0.5%	0.5%	Auto unit sales up 6% though discounting will impact on \$ value of sales. Gasoline prices higher. Chain store data subdued.
	May Retail Sales ex autos	-0.5%	0.2%	0.1%	
	Initial Jobless Claims w/e 6/6	621k	615k	605k	Drifting lower as pace of job shedding moderates.
	Apr Business Inventories	-1.0%	-1.0%	-0.8%	Another early clue to stocks contribution to Q2 GDP.
	Fedspeak	-	-	-	Dallas Fed president Fisher - not yet confirmed; also Lockhart in ATL.
Jpn	Q1 GDP %saar 2nd est.	-15.2%	-14.9%	-	A number of moving parts to the revision, with sales the over-rider.
Eur	Jun ECB Bulletin	-	-	-	May include more detail around ECB's credit easing program.
Can	Q1 Capacity Utilisation	74.7%	71.3%	-	Peaked 2005, fell through 2006, recovered 2007, down sharply again.
Fri 12 Jun					
NZ	Apr Retail Sales	-0.4%	0.2%	0.2%	Tax cut and lower petrol prices should lift sales.
	May Food Prices	-0.6%	-	-	Expect partial bounce back from drop last month.
US	May Import Prices Index	1.6%	1.4%	1.5%	Oil prices surging again as US dollar weakens.
	Jun UoM Consumer Sentiment	68.7	69.5	65.0	Weekly indicators suggest some pullback in early June.
Jpn	May Consumer Confidence	33.2	34.0	-	Declining income and job prospects hurting sentiment.
Eur	Apr Industrial Production	-2.0%	-0.4%	-0.5%	Orders falling at much milder pace during Q1, suggests smaller IP fall.
G8	Finance Ministers' Meeting	-	-	-	Lecce, Italy. Various big name speakers to watch for.

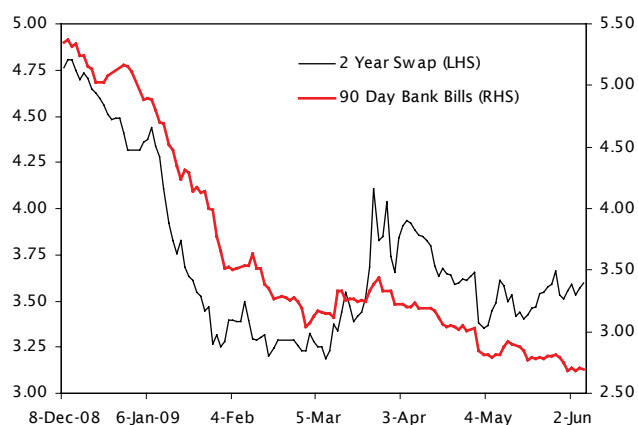
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New Zealand Economic and Financial Forecasts

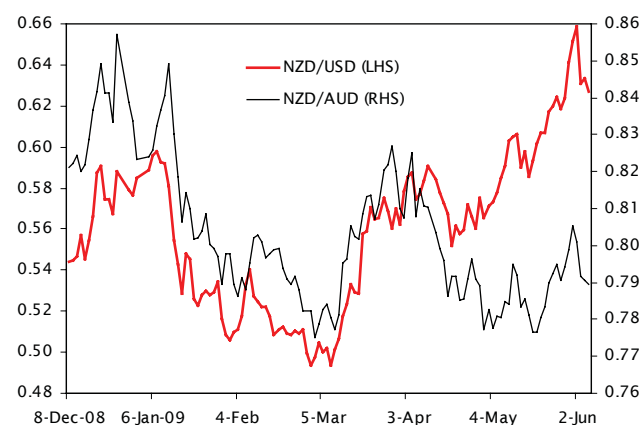
Economic Growth Forecasts	March years				Calendar years			
	2008	2009f	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	3.1	-0.9	-2.3	2.1	0.2	-2.8	1.1	3.7
Employment	-0.3	0.8	-2.9	1.5	0.9	-3.7	0.6	2.2
Unemployment Rate % s.a.	3.8	5.0	7.6	6.4	4.7	7.3	6.9	5.4
CPI	3.4	3.0	1.5	1.2	3.4	1.3	1.1	1.2
Current Account Balance % of GDP	-8.0	-8.5	-5.0	-4.9	-8.9	-5.1	-4.9	-5.6

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

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 8 June 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.75%	2.75%	2.85%
60 Days	2.74%	2.78%	2.85%
90 Days	2.70%	2.80%	2.88%
2 Year Swap	3.69%	3.57%	3.58%
5 Year Swap	5.24%	5.02%	4.87%

NZ foreign currency midrates as at Monday 8 June 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.6247	0.6199	0.6028
NZD/EUR	0.4485	0.4422	0.4419
NZD/GBP	0.3919	0.3894	0.3954
NZD/JPY	61.690	58.740	59.440
NZD/AUD	0.7878	0.7924	0.7842
TWI	59.640	58.890	58.420

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Economic and Financial Forecasts

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

Forecasts finalised 5 June 2009

Interest Rate Forecasts	Latest (Jun 8)	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Australia						
Cash	3.00	2.50	2.00	2.00	2.00	2.00
90 Day Bill	3.24	2.60	2.30	2.30	2.30	2.30
10 Year Bond	5.62	4.50	4.25	4.50	5.00	5.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.83	3.00	3.55	3.75	4.00	4.00
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00
Exchange Rate Forecasts						
AUD/USD	0.7930	0.76	0.74	0.77	0.80	0.82
USD/JPY	98.76	95	92	96	99	103
EUR/USD	1.3929	1.38	1.36	1.39	1.42	1.45
AUD/NZD	1.2694	1.27	1.25	1.24	1.23	1.21

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