

# Weekly Commentary

A weekly outlook for New Zealand, Australia and US markets

15 December 2008

## Pssst... pass it on

New Zealand's terms of trade fell 2.3% in the September quarter, the second decline after reaching a 34-year high in March.

The darkening outlook for the global economy has seen world commodity prices fall sharply in recent months but, through an accident of timing, they remained higher on average through Q3 than in Q2.

While the fall in the terms of trade was in line with our forecasts, the weaker exchange rate had a much larger impact than we expected on both sides of the ledger. Export prices rose 8.6%, with meat, fish and aluminium recording double-digit gains. Even dairy prices rose another 7.4% to a new high – the terms of trade reflects the contracted prices paid to Fonterra, which lagged the run-up in spot prices and will be equally slow to reflect the decline.

Meanwhile, import prices rose by 11.1% – the largest quarterly increase in 24 years – led by a 31% rise for petroleum products,

and sharp increases for items such as fertiliser (+67%) and iron and steel (+26%). This is not entirely a new story, since we know that annual consumer price inflation reached a peak of 5.1% in this quarter. But it underscores the fact that some importers have had to absorb a lot of pain in the last year.

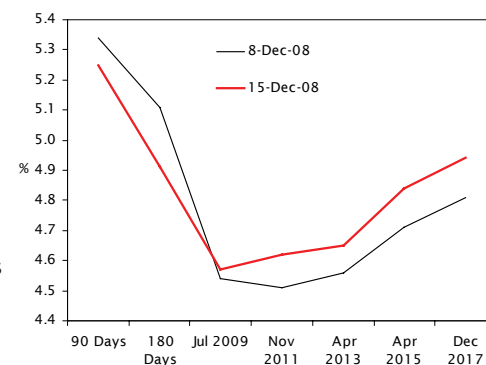
The terms of trade is a measure of the nation's purchasing power – that is, how many imports can be purchased with a given quantity of exports – and when it falls, New Zealanders are unambiguously left worse off. However, the exchange rate influences how the pain is shared – it can occur through lower prices for exports, more expensive imports, or a mix of the two. The sharp fall in the NZD has meant that, so far, the pain has largely been felt through higher import prices. If the currency continues to fall through the first half of next year, as we expect, then imported inflation could remain a problem.

Some of the RBNZ's inflation headaches are due to domestic factors as well, as Governor Bollard highlighted in a speech this week. He noted that some prices – such as local authority rates, electricity and construction materials – have consistently risen faster than the general rate of inflation, often due to a lack of competitive pressures. With demand cooling and commodity prices now falling, he urged all businesses to pass on lower costs and/or reduce their profit margins – with the threat that he may have to withhold further interest rate cuts otherwise.

The persistence of domestic inflation is a long-standing issue, and one that has received more attention in the RBNZ's recent statements even as they have slashed interest rates aggressively. Since the RBNZ began raising rates in 2004, annual non-tradables inflation has only fallen from 4.6% to 4.1%, and has only been as low as 3.4% (with the help of government subsidies for healthcare and education). Even with commodity prices plunging, the RBNZ's December Monetary Policy Statement still projected general inflation to settle at around 2.3% over the medium term.

To compound the problem, that forecast was based around the assumption that the Emissions Trading Scheme (ETS) would be scrapped. But the Government has since decided that there will "definitely" be an ETS of some sort, and indeed sharp-eyed readers may have noticed that Dr Bollard's speech included a chart of inflation forecasts that incorporated the impact of the ETS,

NZ Interest Rates



\*Yield curve is yields on bank bills to 180 days: yields on Government bonds for 2009 onwards.

This is the final *Weekly Commentary* for 2008. We wish you all a very Merry Christmas and a prosperous New Year. Publication of this document will resume on 12 January 2009.



**Westpac**

which would see inflation reach 2.7% through 2010. So the RBNZ has a lot less wiggle room on inflation than it thought just a week ago – no wonder the sudden urgency to deal with other long-standing inflation problems!

Banks' lending margins also incurred Dr Bollard's ire. The OCR has been cut by 325 basis points so far, with the market anticipating more to come. In that time, the average floating mortgage rate has fallen by 'only' 280bp; one-year fixed rates are down around 310bp from their peaks, and two-year rates are about 280bp lower. Admittedly they have not fallen as far as swap rates, but as Dr Bollard notes, "in the banking sector, the

cost of international funding has risen significantly and become less assured". Indicatively, the cost of raising funds offshore for 3 years or more would be around 300 basis points above the swap rate today (that includes 140bps for a government guarantee).

Given the degree of upward pressure on funding costs, we have been surprised ourselves at to how far mortgage rates have come down. And the RBNZ's ex ante statements on the matter suggest that they have been surprised as well. The OCR cuts in July and September were justified on the assumption that banks would drag their feet on reducing lending rates (or even raise them). Instead, mortgage

rates have been reduced sharply since the easing cycle began. It may be just a product of low expectations, but the evidence is that lenders have 'played their part' to a greater degree than the RBNZ had assumed in its interest rate decisions.

**Fixed vs. floating:** Wholesale interest rates imply a very deep and front-loaded easing cycle by the RBNZ, and much of this has already been reflected in lower mortgage rates. The advantage to floating or fixing for a short term is diminishing now, and borrowers should be looking for opportunities to extend the duration of their debt.

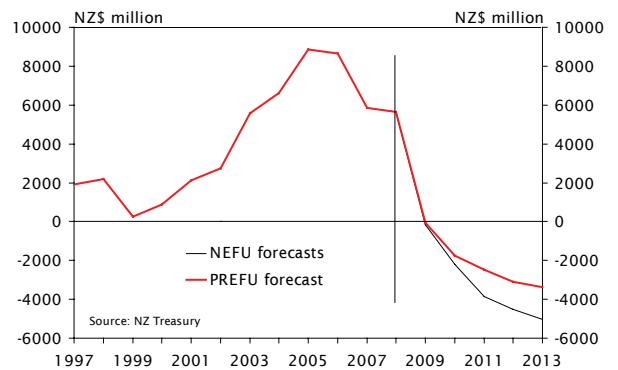
Key Data Previews

NZ Half Year Economic and Fiscal Update

Dec 18

- The international economic environment has deteriorated further since the Pre-Election Economic and Fiscal Update (PREFU) was released on October 6. As a result, we expect further downward revisions to the economic and fiscal outlook in the HYEPU.
- Operating deficits are expected to blow out from 2010, pushing debt levels higher to at least 27% of GDP by 2013 (from 17.4% currently).
- Bond issuance is set to rise substantially. Our forecasts suggest that the funding requirement for the 2008/09 fiscal year could be as high as \$5.0bn (up from \$4.0bn in the PREFU) as a result of lower tax revenues, higher expenses and an expanded capex programme, with even heftier issuance required in future years.

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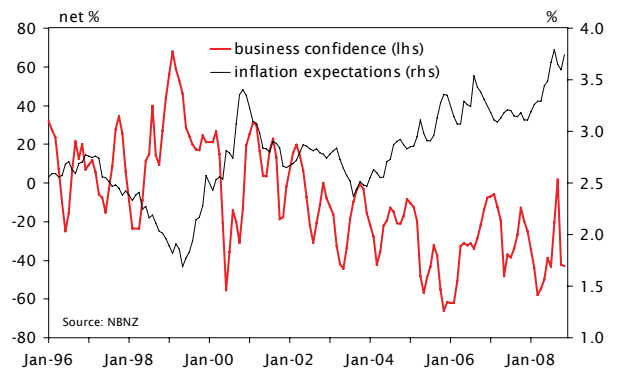


NZ Dec NBNZ business confidence

Dec 18, Last: -43.0%

- Business confidence remained at very depressed levels in November, with some key components again setting new lows. Sharp falls in fuel prices and interest rates have failed to assuage concerns about the slowing global economy.
- The balance of events since the last survey implies little change in business opinion this time. The RBNZ delivered a whopping 150bp cut to the OCR at the start of the month, but recent evidence shows that the global economy is cooling even faster than expected.
- Inflation expectations rebounded to 3.74% in November, a puzzling result in light of the ongoing decline in petrol prices. However, the sharp fall in pricing intentions in recent months suggest that wider inflation perceptions will eventually ease.

NBNZ Business Confidence



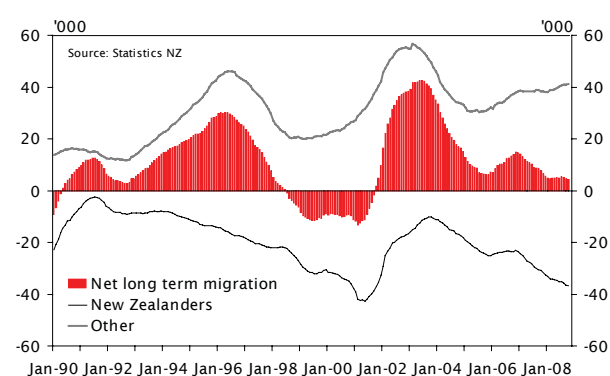
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**NZ Nov external migration ann.**

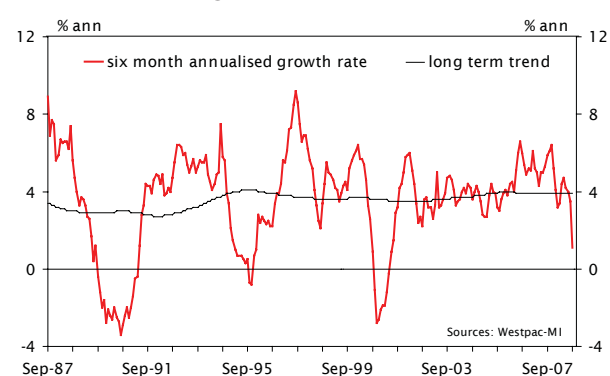
Dec 19, Last: 4,300, WBC f/c: 4,300

- We expect November 2008 to be the low-point for annual net migration. For the past 18 months migration figures have been dominated by a large outflow of NZers to Australia. Inflows from other countries to NZ barely exceeded the outflow to Australia, keeping the overall net migration figure low but positive.
- We forecast net migration of 15,000 in 2009, much stronger than 2008. The pull-factor from Australia's mining regions is waning as world commodity prices fall. And we fully expect an influx of Kiwis to return home from countries that have been hit harder by the credit crunch, such as UK.
- Evidence of stronger net migration could begin to surface in the November data.

**Net migration****Aus Oct Westpac-MI Leading Index**

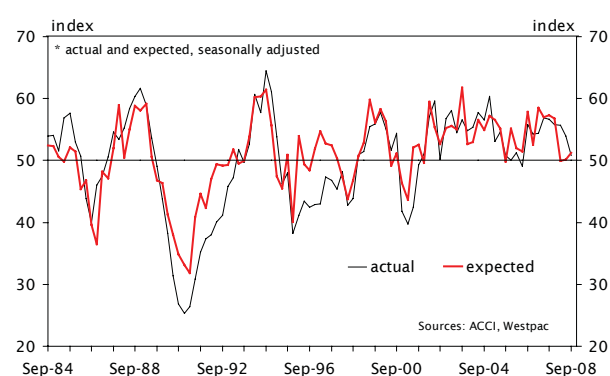
Dec 17, Last: 1.1% annualised

- 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 just 1.1% in September, well below its long term trend of 3.9%.
- Most monthly components were sharply weaker in October. Dwelling approvals fell 5.4%*mth*. Money supply growth stalled from 1.1%*mth* in September to just 0.2%*mth* in October. The sharemarket had a horror month, the ASX200 plunging 12.7% after the already nasty 10.4% drop in September. Of the Q3 quarterly data: overtime dropped from 1 to -10, manufacturing prices continued to rise sharply (+6.1%*qtr*), real unit labour costs rose 0.4%*qtr* after a -0.9%*qtr* fall in Q2, and corporate profit growth slowed from 10.5%*qtr* to 3%*qtr*. Ironically, the one positive in the month is likely to be US industrial production which rebounded 1.3%*mth* in October. However, this followed a sickening -3.8%*mth* slump in September.

**Westpac-MI Leading Index****Aus Q4 Westpac-ACCI Survey of Industrial Trends**

Dec 18, Last: Actual Composite Index: 50.8

- The Westpac-ACCI Survey of Industrial Trends for Q3 showed a slowing in manufacturing activity growth amidst a backdrop of weak domestic demand, continued financial market turmoil and concerns over the global outlook, and strong unit cost pressures, with the index consistent with below-trend growth (50.8 vs 53.4 decade avg). The Labour Market Composite net balance fell 10pts to -6, implying a more rapid labour market deterioration through 2009H1, and concerns over the extent of labour market tightness eased significantly.
- Business confidence (-22%) fell to its lowest since 2003Q1.
- The December quarter survey, concluded in the week ended 12 December, will give an important update on how conditions, expectations and confidence have fared in Q4 amidst continued weak domestic demand, further credit market turmoil, and a rapidly deteriorating global growth outlook.

**Westpac-ACCI composite indexes\***

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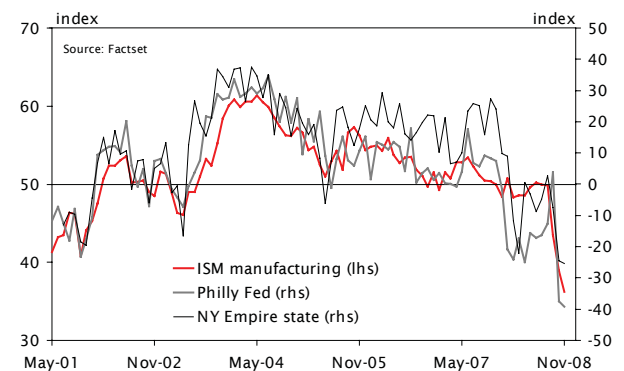
## US Dec regional Fed factory surveys

Dec 15, NY Fed index Last: -25.4, WBC f/c: -30.0

Dec 18, Philly Fed index Last: -39.3, WBC f/c: -45.0

- The neighbouring regional Fed surveys both plunged sharply in October (as did all other surveys of the factory sector) and held around these lows in November. These weaker readings accurately foretold the slump in employment since late Q3.
- Realistically, forecasting these surveys of 100 or so regional factory bosses is an impossible task without agents on the ground. But we can make observations about the factors that drive sentiment. And the ever-deepening recession, collapsing export markets, constrained credit availability and tortured progress towards an auto-sector life-line are all factors that will be weighing heavily on respondents' sentiment.
- We expect new survey lows to be reached in Dec though the ongoing decline in gasoline prices might help lessen the extent of the decline (as we suspect it did in Nov).

## US manufacturing surveys

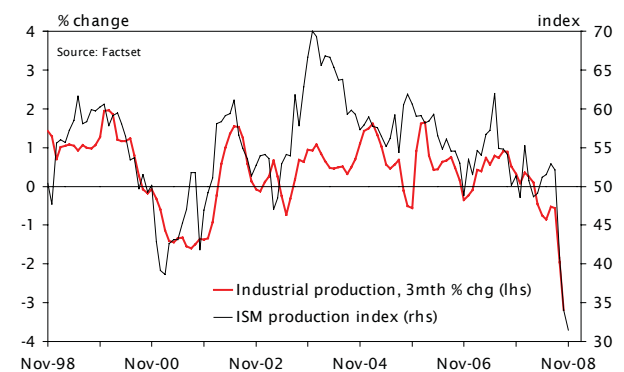


## US Nov industrial production to drop again

Dec 15, Last: 1.3%, WBC f/c: -2.0%

- Industrial production posted only a modest rebound in Oct after Sep's hurricane affected slump. The Fed estimated that excluding the drag from the hurricanes and the Boeing strike, output fell about 0.7% per month in Sep-Oct.
- Indications ahead of the Nov report point to another weak result, though we need to factor in some rebound following the Boeing strike, resolved early Nov. Factory hours worked fell 1.4% in Nov, with autos hard hit again, and we suspect productivity growth may have declined. The factory ISM plunged to a new 26 year low and factory orders were down 5.1% in Oct.
- Given these factors we expect a 2.0% IP fall, with some upside risk from a rise in utilities output due to very cold weather in some areas.

## US industrial production



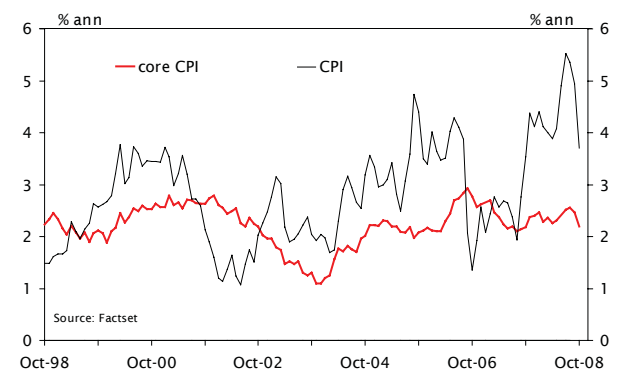
## US Nov CPI – inflation now collapsing

Dec 16, CPI headline Last: -1.0%, WBC f/c: -1.5%

Dec 16, CPI core Last: -0.1%, WBC f/c: flat

- The collapse in commodity prices since mid July, and the strength in the US dollar, has seen wholesale and in some cases retail gasoline, food and import prices tumble in recent months. In November, for example, average gasoline prices dived 35%, following a 20% fall in October (DoE data).
- However the Oct CPI included 'just' a 14% gasoline price fall, so we expect some catch-up in Nov. Also food prices were up modestly, although the PPI suggests they will soon be falling. Despite these factors, Oct's 1.0% fall in the headline CPI was still the biggest one month decline since the 1940s, helped along by a small fall in the core component (the first since the early 1980s).
- We expect an even steeper Nov fall of 1.5%, which would pull the headline CPI down from 3.7% yr to 1.3% yr.

## US CPI inflation



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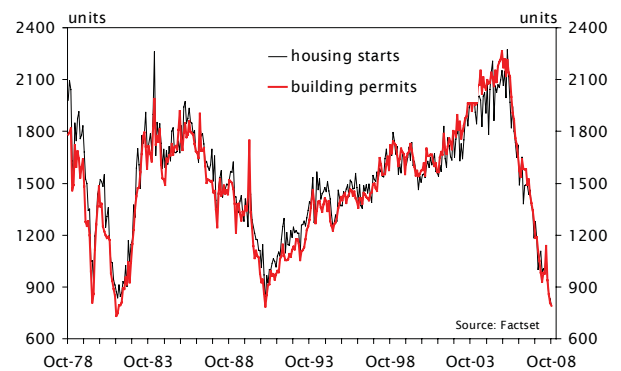
### US Nov housing starts and permits

Dec 16, starts Last: -4.5%, WBC f/c: -10.0%

Dec 16, permits Last: -9.3%, WBC f/c: -5.0%

- The housing data were exceptionally weak in Oct with single family permits in particular slumping 13%, indicative of further imminent pull-back in housing starts. Total permits were running a 730k annualised pace, vs starts on 791k.
- What incentive is there to buy or build a new home in the US, when there are millions of established dwellings available for sale at knock-down prices?
- With homebuilder sentiment slumping to a record low in Nov (from 72 in 2005 to 9 in Nov, Dec report due 15/12), we expect further starts/permits weakness, with starts likely to record a steeper catch-up fall.

### US housing starts and permits

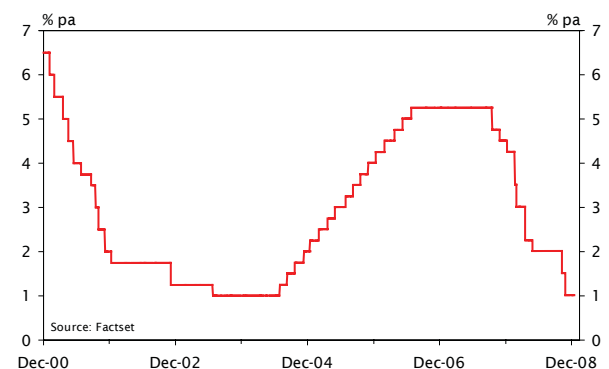


### US FOMC to cut 50bps to 0.5%

Dec 16, Last: 1.0%, WBC f/c: 0.5%

- The Fed and Treasury have been busy quantitatively easing since the last FOMC meeting, creating programs to purchase the direct obligations of the housing GSEs and to provide funds for student, auto and credit card loans, discussing plans to prevent mortgage foreclosures, recapitalising the banking system and so on. Meanwhile, the economic signals point to a Q4 contraction at a pace rarely seen less than a handful of times since WWII (at least -6% annualised). The Fed's beige book found activity weakening in all twelve districts, and inflation plunging lower.
- Central banks globally have continued to cut more aggressively than expected. US T-bills are already yielding <0% and overnight rates are 0.1%. A move by the Fed to formalise 0% rates seems inevitable but we expect it to do this in two steps of 0.5% in Dec and Jan. With downward pressure now on the USD we doubt the Fed will decide to surprise markets by going the 1% next week.

### Fed funds target rate



## Key Data and Events

		Last	Market Median	Westpac Forecast	Comments
<b>Mon 15 Dec</b>					
US	Dec NY Fed Factory Index	-25.4	-27.3	-30.0	Getting worse before they get better.
	Oct TIC Data \$bn	66.2	40.0	-	Net long term TIC flows.
	Nov Industrial Production	1.3%	-0.8%	-2.0%	Hours worked down sharply in factories and mining. See text box.
	Dec NAHB Housing Market Index	9	10	7	Getting worse before it gets better.
Jpn	Q4 Tankan Large Manufacturers	-3	-23	-	Q3 was the first slip below the neutral 0 level in 5 years.
	Q4 Tankan Non-Manufacturing	1	-9	-	Was barely expansionary and the lowest level in nearly 5 years.
UK	Dec House Prices %yr	-7.1%	-	-8.0%	Rightmove index, still not as weak as major lender indices.
<b>Tue 16 Dec</b>					
Aus	Q3 Dwelling Starts	-3.7%	-	-5.0%	Approvals slid -8.3% in Q3 after -2.1% drop in Q2.
	RBA Board December Minutes	-	-	-	Background to the jumbo 100bp rate cut into expansionary territory.
US	Nov CPI	-1.0%	-1.3%	-1.5%	Gasoline prices down 35% in the month.
	Nov CPI Core	-0.1%	0.1%	flat	Lower energy prices to indirectly weigh down core rate.
	Nov Housing Starts	-4.5%	-7.7%	-10.0%	The new housing market, already on its knees, rolled over and died in Q4. There is no incentive to build new homes at all. See text box.
	Nov Housing Permits	-9.3%	-4.8%	-5.0%	
	FOMC Rate Decision	1.0%	0.50%	0.50%	Further cuts on the way to zero. Expect more quant easing.
Jpn	Oct Tertiary Index %mth	-0.6%	-0.2%	-	The slowdown in Japanese industrial production continues.
Eur	PMI Factory Adv	35.6	34.2	32.0	Orders data point to severe cutbacks in Q4 production.
	PMI Services Adv	42.5	41.4	42.0	Also recessed, but less so than the factory sector.
UK	Nov CPI %yr	4.5%	3.9%	3.6%	Falling sharply due to base effects and pre-Christmas discounting.
Can	Oct Manufacturing Shipments	0.1%	-1.7%	-0.5%	Partials to weaken in Q4 as economy slips into recession.
<b>Wed 17 Dec</b>					
Aus	Oct Westpac-MI Leading Index	1.1%	-	-	This earliest macro gauge of the Aus economy gives first read for Q4.
	Nov Merchandise Imports AUDbn	21.9	-	-	Raw data; guide for goods M, which were flat in Oct despite 16% A\$ fall.
US	Q3 Current Account Deficit \$bn	-183.1	-179.0	-177.0	Lower trade deficit to narrow current account somewhat.
Eur	Nov CPI (F) %yr	2.1%a	2.1%	2.0%	Risk of downward revision. Core rate was 1.9%yr in Oct.
UK	Dec BoE Minutes	-	-	-	Another unanimous rate cut discussion?
	Nov Unemployment ch'	36.5k	44.5k	45.0k	Job losses mounting across the economy.
	Dec CBI Retail Survey	-46	-	-50	BRC survey still heading south, expect CBI survey will too.
Can	Oct Wholesale Sales	1.5%	-	-2.0%	Oct data to reflect weakness identified by BoC.
<b>Thu 18 Dec</b>					
NZ	Half Year Economic and Fiscal Update	-	-	-	Fiscal position to deteriorate, bond issuance to rise.
	Dec NBNZ Business Confidence	-43.0%	-	-	Firms likely to remain very downbeat as the global outlook worsens.
Aus	Q4 WBC-ACCI Survey of Indust Trends	50.8	-	-	-3.2pts in Q3 to < decade avg (53.4) = slowing to below trend pace.
	Dec RBA Bulletin	-	-	-	Can include latest monthly research articles.
US	Initial Jobless Claims w/e 13/12	573k	555k	590k	Labour market deteriorating at increasingly rapid pace.
	Dec Philadelphia Fed Index	-39.3	-40.0	-45.0	Getting worse before they get better.
	Nov Leading Index	-0.8%	-0.4%	-0.8%	Claims, equities, orders, confidence, permits to pull LEI lower.
	Fedspeak	-	-	-	Dallas Fed's Fisher on current economic crisis.
Jpn	BoJ Policy Meeting	-	-	-	Day one of a two day policy meeting, Any announcement on 2nd day.
	Nov Department Store Sales	-6.8%	-	-	Sales are declining along with sentiment and incomes.
Eur	Oct Trade Balance €bn sa	-5.7	-5.5	-	Heading for a full year deficit in 2008 as exports slide.
Ger	Dec IFO Business Climate Index	85.8	84.0	83.0	Surveys mixed for Dec so far but IFO is real economy and that is weak.
UK	Nov Retail Sales	-0.1%	-0.7%	-1.0%	At some point official retail data will catch up to weak surveys.
	Nov Public Finances £bn	-4.9	11.0	-	Public sector net credit requirement.
	Nov Money Supply M4 %yr	15.3%	16.8%	-	Sharply higher due to liquidation of investments.
Can	Nov Leading Index	-0.4%	-	-0.8%	Pointing to emerging recession; US component especially weak.
	Oct Retail Sales	1.1%	-	-1.5%	Lower gasoline prices and auto sales to weigh on data.
<b>Fri 19 Dec</b>					
NZ	Nov External Migration ann.	4,300	-	4,300	We are looking for evidence of a migration turnaround.
	Nov Credit Card Transactions	-1.1%	-	-	Mild growth expected as consumers get some short term relief.
Jpn	Oct All Industries Index %mth	-0.1%	-0.8%	-	Industrial production fell 3.1% in October so the total is set to fall.
	BoJ Target Announcement	0.30%	0.30%	0.30%	The BoJ has adopted measures to help companies obtain cash.
Ger	Nov PPI %yr	7.8%	6.1%	7.0%	Falling sharply due to base effects and this year's lower prices.
UK	Q3 Business Investment (F)	-0.2%a	-0.2%	-	Revision will be clue to revised Q3 GDP growth.
Can	Nov CPI %yr	2.6%	1.8%	1.5%	Lower gasoline prices will weigh heavily on headline CPI and core rate
	Nov CPI Core %yr	1.7%	1.5%	1.5%	will drift lower as economy slows, though weaker C\$ limits downside.

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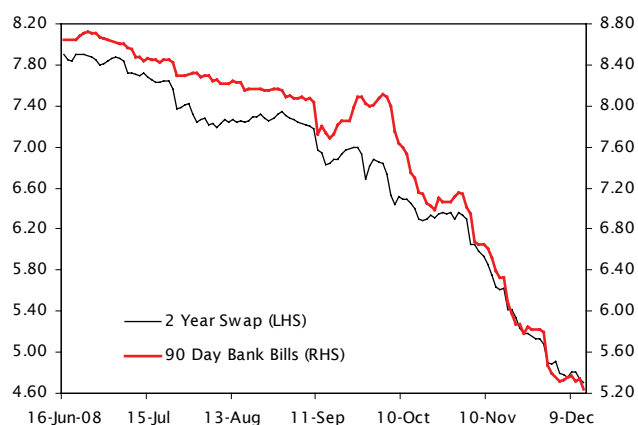
## New Zealand Economic and Financial Forecasts

Economic Growth Forecasts	March years				Calendar years			
	2008	2009f	2010f	2011f	2007	2008f	2009f	2010f
% change								
GDP (Production) ann avg	3.2	0.3	1.3	2.3	3.2	0.7	0.9	2.2
Employment	-0.2	-0.1	-1.1	1.1	2.4	-0.5	-2.1	0.9
Unemployment Rate % s.a.	3.7	4.6	5.4	5.1	3.4	4.4	5.6	5.2
CPI	3.4	3.0	2.0	2.8	3.2	3.6	1.6	2.5
Current Account Balance % of GDP	-8.0	-8.6	-4.9	-5.0	-8.2	-8.9	-5.3	-5.0

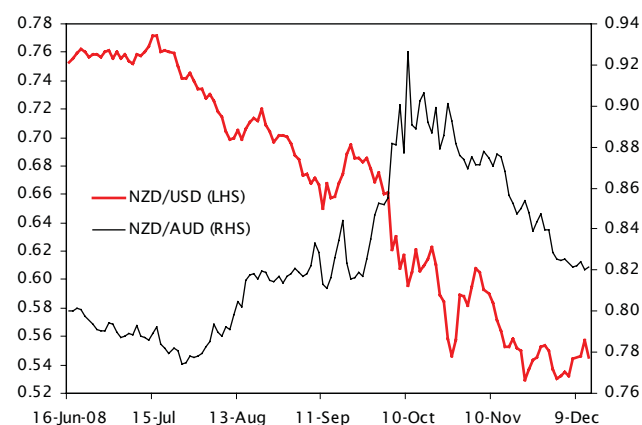
Economic forecasts finalised 7 November 2008

Financial Forecasts	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Cash	4.00	4.00	4.00	4.00	4.00	4.50	5.00
90 Day bill	4.40	4.30	4.30	4.30	4.50	5.00	5.50
2 Year Swap	4.50	4.50	4.50	4.65	4.80	5.25	5.70
5 Year Swap	4.95	4.90	4.90	5.00	5.15	5.60	6.00
10 Year Bond	5.10	5.15	5.20	5.25	5.40	5.80	6.10
NZD/USD	0.52	0.48	0.51	0.56	0.58	0.61	0.62
NZD/AUD	0.81	0.80	0.80	0.81	0.82	0.82	0.85
NZD/JPY	48.9	42.7	46.9	54.9	58.6	63.4	66.3
NZD/EUR	0.42	0.39	0.41	0.44	0.45	0.46	0.46
NZD/GBP	0.35	0.32	0.34	0.36	0.36	0.36	0.35
TWI	53.2	49.6	52.1	56.3	57.9	60.2	61.2

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 15 December 2008

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	5.00%	6.50%	6.50%
30 Days	5.45%	5.61%	6.95%
60 Days	5.37%	5.53%	6.52%
90 Days	5.25%	5.47%	6.33%
2 Year Swap	4.70%	4.90%	5.62%
5 Year Swap	5.04%	5.31%	6.02%

NZ foreign currency midrates as at Monday 15 December 2008

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.5470	0.5364	0.5528
NZD/EUR	0.4091	0.4244	0.4400
NZD/GBP	0.3658	0.3609	0.3758
NZD/JPY	49.950	50.060	53.590
NZD/AUD	0.8237	0.8287	0.8565
TWI	54.330	54.540	56.700

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## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2004	2005	2006	2007	2008e	2009f	2010f
<b>Australia</b>							
Real GDP % yr	3.6	2.8	2.7	4.2	2.4	1.6	2.7
CPI inflation % annual	2.6	2.8	3.3	3.0	4.2	3.1	2.7
Unemployment %	5.5	5.1	4.8	4.4	4.3	5.3	6.1
Current Account % GDP	-6.2	-5.8	-5.3	-6.3	-4.5	-4.9	-5.6
<b>United States</b>							
Real GDP %yr	3.9	3.1	2.8	2.0	1.1	-1.8	1.4
Consumer Prices %yr	2.6	3.4	3.2	2.9	4.3	1.5	1.5
Unemployment Rate %	5.5	5.1	4.6	4.6	5.7	8.1	8.5
Current Account %GDP	-5.7	-6.1	-6.0	-5.3	-5.0	-4.7	-4.8
<b>Japan</b>							
Real GDP %yr	2.3	1.9	2.8	2.0	0.3	-0.8	1.4
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	0.5	0.5
Unemployment Rate %	4.5	4.4	4.1	3.9	4.1	4.6	4.5
Current Account %GDP	3.3	3.6	3.9	4.8	3.8	3.9	4.2
<b>Euroland</b>							
Real GDP %yr	2.1	1.6	2.8	2.6	1.0	-0.9	0.9
Consumer Prices %yr	2.1	2.5	2.0	3.1	3.3	1.0	1.5
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
<b>United Kingdom</b>							
Real GDP %yr	2.8	2.1	2.8	3.0	1.3	-1.4	0.9
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.5	1.5
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	4.0	4.5
Current Account %GDP	-1.9	-2.6	-3.0	-3.5	-3.5	-3.5	-3.5

Forecasts finalised 8 December 2008

Interest Rate Forecasts	Latest (Dec 15)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
<b>Australia</b>						
Cash	4.25	3.50	2.75	2.75	2.75	3.25
90 Day Bill	4.53	3.40	3.25	3.25	3.35	3.80
10 Year Bond	4.30	4.20	4.00	4.25	4.50	5.25
<b>International</b>						
Fed Funds	1.00	0.00	0.00	0.00	0.00	0.00
US 10 Year Bond	2.57	2.50	2.25	2.50	3.00	3.50
ECB Repo Rate	2.50	1.00	1.00	1.00	1.00	1.25
<b>Exchange Rate Forecasts</b>						
AUD/USD	0.6641	0.64	0.60	0.64	0.69	0.71
USD/JPY	91.32	94	89	92	98	101
EUR/USD	1.3370	1.25	1.22	1.24	1.28	1.30
AUD/NZD	1.2141	1.23	1.25	1.25	1.23	1.22

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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.