

Australian weekly

Week beginning 24 August 2009

- Australia: confidence and the rate hike cycle.
- Australian data: Q2 CAPEX, Q2 construction work, vehicle sales.
- New Zealand: building consents, merchandise trade, inflation expectations.
- US data: house prices & sales, durable goods, income & speed, confidence.
- Key economic & financial forecasts.

Information contained in this report was current as at 21 August 2009

Confidence and the rate hike cycle

The Reserve Bank Board Minutes for the August 4 meeting confirmed most clearly that the Bank has moved to a tightening bias – rate hikes were openly discussed, "in discussing the timing and process of removing some of the current expansionary policy setting". The conclusion to the "discussion" was summarised with, "There was a risk of overstaying a very accommodative setting in a recovering economy...on the other hand there was a risk of an early tightening choking off confidence and demand prematurely."

The recent extraordinary surge in both business and consumer confidence has probably been the most significant development in leading to such a sharp reversal in the Bank's own sentiment. Recall that the Minutes of the previous meeting on July 4 still included, "members noted that the current inflation outlook afforded scope for some further easing of monetary policy."

Chart 1 shows the extraordinary rise in both business and consumer confidence over the last three months. Both business and consumer confidence have now recovered to the highest levels since the September quarter in 2007. The increase in the Westpac Consumer Sentiment Index over the last three months (27.7%) has been the largest increase over three months since we first started measuring the Index in the mid 1970's.

A return of confidence

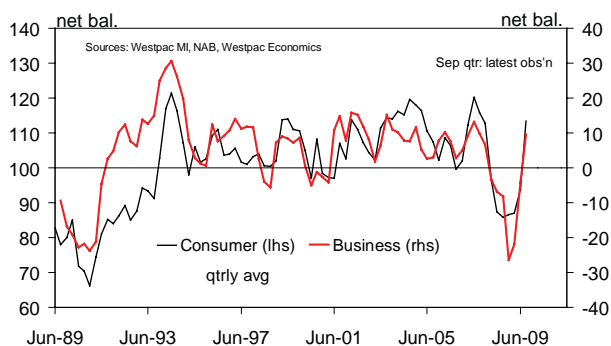


Chart 1

The significance of this rise in Consumer Sentiment is demonstrated in Chart 2. If Sentiment were to hold around current levels for an extended period then we could expect growth in consumer spending through 2010 of around 5% rather than the 2.5% we are currently expecting. Five per cent growth in consumer spending would be consistent with the Australian economy growing above trend and certainly not be consistent with "generational lows" in interest rates.

However, Sentiment is unlikely to hold at current levels.

The component of the Index which captures consumers' assessments of the economic outlook over the next five years is at its highest level since the Survey began in 1976 and this component of the Index is 9% higher than its level when the overall Index reached its record high in May 2007. There are too many uncertainties facing the domestic and global economies to sustain such optimism about the long term. Excessive government debt globally; uncertainties about the state of the global financial

system; questions about the sustainability of China's current growth "miracle"; uncertainties about the interaction between fiscal authorities who may try to ease the strain on their balance sheets by extracting an inflation tax and monetary authorities who will aim to contain inflationary expectations are just some of the huge questions affecting the medium term outlook. It seems almost surreal that Australian consumers could be at record levels of optimism about the medium term.

Consumer sentiment vs consumption

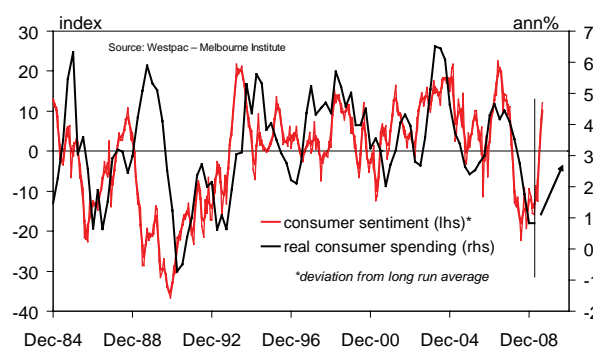


Chart 2

The more immediate question is how confidence will respond to the sharp turnaround in the stance of the Reserve Bank. As discussed above only last month the Bank was indicating an easing bias – now it has a tightening bias.

In previous tightening cycles Confidence has generally been reasonably resilient in the early stages of the cycle. There is no historical support for my prior that once rates start to rise expectations will be very adversely affected despite rates still being very low in the early stages of the cycle.

We have three previous rate hike cycles to consider.

In the first hike cycle in the August – December 1994 period the cash rate started the cycle at 4.75% and was increased by 75bp's and 100bp's in the first 2 moves in August and October 1994. Over that period Sentiment only fell by around 2.5% per month. Some feared that rates would return to the 17% of 1990 and Confidence suffered. The third and final 100bp move was devastating for consumers. Sentiment collapsed by a further 9.1% and while markets (and senior executives at the Reserve Bank) initially feared that rates would have to go much higher that jolt to Confidence and the subsequent wind back in consumer spending meant that rates peaked and were not set to rise again until November 1999.

The Consumer Sentiment Index was the first and clearest indicator that monetary policy had done its job. Of course during that period household debt to income ratios were around 60–65% so the move from 4.75% to 6.5% was much less painful than it would be today when debt to income ratios are around 160% (see Chart 3). Nevertheless the move in the cash rate from 6.5% to 7.5% (8.75% variable mortgage rate) proved to be the "tipping point.", rather than the early moves in the cycle.

Household financial ratios: Aus vs US

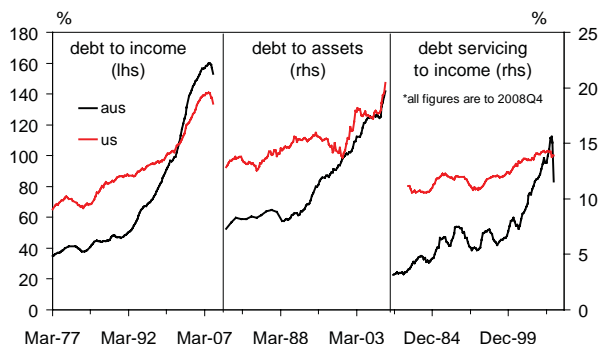


Chart 3

The second tightening cycle began in November 1999 when the cash rate was increased by 25bp's from 4.75% to 5%. There was no change in Sentiment but when rates were increased by 50bp's in February 2000 Confidence crashed by 6.8%. Three subsequent increases of 25bp's each over the April/August period saw a further 17% fall in Confidence – this a more difficult period to analyse because it spans the introduction of the GST – many factors would have been affecting Confidence at the time. By this time debt to income ratios had risen further to 95% which is broadly consistent with a lower "tipping point" – this time a cash rate of 5.5% (7.3% variable mortgage rate) compared to the 7.5% (8.75% variable mortgage rate) in the previous cycle.

The most recent cycle was a long six year tightening cycle. The cycle began in May 2002 with a 25bp rise in the cash from 4.25% with no significant impact on Confidence. Confidence was equally resilient to a further 25bp move in June. Due to major global shocks associated with the aftermath of the burst of the dot com bubble (Enron; Worldcom) the Bank desisted from any further moves until November/December 2003 when 2 consecutive 25 bp increases to push the cash rate to 5.25% (7.05% variable mortgage rate) lowered Sentiment by 5.5% with a particularly negative impact on the housing market. Sydney house prices fell by 10% over the next year and new housing loan approvals collapsed by 25%. This time debt to income ratios had further increased to 135%.

Over the next three years the RBA raised the cash rate by a further 200 bp's in 25 bp increments with the impact on Sentiment being consistently dramatic. The average fall in Sentiment following a rate hike over that period was 9.3% with the largest being 16.2% following the move in August 2006. Over that period the debt to income ratio increased further from 135% to 160%.

It appears that once the variable mortgage rate exceeded 7% the sensitivity of consumers to rate hikes was extremely high.

In summary, the impact of rate hikes on Sentiment was muted in the early stages of the cycle. Consistent with the sharp rise in debt to income ratios the "tipping point" of the variable mortgage rate at which rate hikes really affected Sentiment fell from 8.75% in 1994 to 7% in 2003 when the debt to income ratio had risen from

65% to 135%. With the rise in the debt to income ratio and as the variable mortgage rate moved further above 7% the impact of rate hikes on Sentiment was substantial.

In the "new" tightening cycle, the RBA will be starting with a variable mortgage rate of 5.8% – well below the "tipping point" of previous rate hike cycles when Sentiment started to be affected. That "tipping point" will be lower than the previous 7% since the debt to income ratio has risen from the 135% to 160% but certainly appears to be higher than the current 5.8%.

We cannot be sure of the level of the new "tipping point". One crude way to assess this is to adjust the previous "tipping point" interest rates for the debt to income ratio operating at the time to get a debt service ratio "tipping point". In 1995 that was 5.7% (8.75% x 0.65); 6.9% in 2001 (7.3% x 0.95); and 9.5% in 2003 (7.05% x 1.35).

At current variable mortgage rates the current debt service ratio is 9.3% (5.8% x 1.60) – around the same level as the 2003 debt service ratio "tipping point". That would imply that Sentiment will start to fall sharply with the first increase in the mortgage rate. However, the existence of extensive mortgage discounting and the apparent upward trend in the debt service "tipping point" probably indicates that Sentiment will be resilient in the early stages of the next rate hike cycle.

Conclusion

Current Sentiment levels are consistent with a much faster rebound in economic growth than we expect to be the case. There are good reasons to expect Sentiment to weaken in the second half of 2009.

We expect the RBA to begin raising rates from February next year. Our analysis of previous tightening cycles indicates there is some evidence to suggest that in the early stages of the tightening cycle Sentiment will be reasonably resilient. However there will be a point of the cycle after which Sentiment will weaken sharply. Depending on what else is happening in the economy that will be the first sign that rate hikes will be starting to bite.

On face value, it appears that the Bank will have some scope to raise rates back to more normal levels before it starts to sharply disturb Sentiment. Because of the high level of uncertainty about this "tipping point" level the Bank is likely to stick with previous policy in tightening cycles of moving in 25bp increments.

The first 100bp's of rate hikes which we expect for next year are likely to have a manageable impact on Sentiment.

Bill Evans, Chief Economist

Data wrap

Jun Westpac-MI Leading Index

- 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 -3.3% in June well below its long term trend of 2.6%. The annualised growth rate of the Coincident Index was -0.7%, also below its long term trend of 2.9%
- The pace of contraction of the growth rate of the Leading Index is easing considerably. Last month the growth rate registered minus 5.3% compared to the current measure of minus 3.3%. Clearly the lowpoint in the outlook for growth has been reached and steady improvement can be expected from here.

Jul merchandise imports

- Australian merchandise imports rose 6.5% unadjusted in July to \$16.698bn, following a 6.5% rise previously.
- The Statistician advised that after seasonal adjustment the data is consistent with a rise in goods imports on a BoP basis of \$678mn or 4.2%*mt*. Such a result, following a minor 0.1% fall in June goods imports, would further slow the pace of trend decline to -0.7%*mt* in July from June's published -1.3%*mt* pace, and a trough of -3.8%*mt* in February 2009. Additionally, with the AUD/USD up only slightly on a monthly average basis in July (+0.2%), price movements would have been minor, leaving the rise in July goods imports volume-led.
- The detail showed the jump in July goods imports was led by two volatile items. Intermediate and other merchandise imports rose 7% or \$455mn, with \$414mn of this driven by fuels and lubricants. Capital goods imports rose 5% or \$186mn, with \$103mn of that from the category "industrial transport equipment n.e.s." which captures volatile aircraft imports. Still, such a rise in capital goods imports would not be enough to prevent their rapid downtrend continuing (at -2.0%*mt*), consistent with ongoing weakness in business equipment investment spending.
- Aside from the aircraft/fuel boost to goods imports, consumption goods imports rose a further 2.3%, which following their 4.1% rise in June would see their renewed uptrend accelerate further, to +1.7%*mt* from June's published +0.8%*mt*. This would mark their 4th month of uptrend in further testament to the renewed strength in consumption. In unadjusted terms, the \$483mn rise in consumption goods was led by 'other' goods (up \$198mn); textiles, clothing and footwear (up \$179mn); and food and beverages (up \$101mn).

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Tue 18	Aug RBA meeting minutes	-	-	-
Wed 19	Jun Westpac-MI Leading Index	-5.3%	-3.3%	-
	RBA Asst Gov Edey speaking	-	-	-
	Treasury Sec. Henry speaking	-	-	-
	RBA Asst Gov Lowe speaking	-	-	-
Thu 20	Jul merchandise imports, AUDbn	15.7	16.7	-
	RBA Richards speaking (head of analysis)	-	-	-
	Aug RBA monthly bulletin	-	-	-

Past performance is not a reliable indicator of future performance. The forecasts given above 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 results ultimately achieved may differ substantially from these forecasts.

Data previews

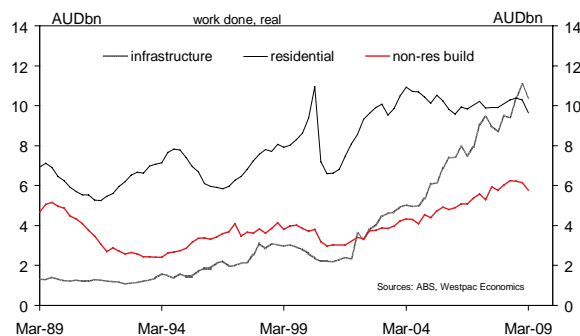
Aus Q2 construction work done

Aug 26, Last: -3.7%, WBC f/c: -3.0%

Mkt f/c: -3.0%, Range: -6.0% to 2.0%

- Construction activity is moderating in 2009 as the shockwaves from the global recession impact. We expect a 3.0% decline in Q2, little different from the 3.7% drop in Q1.
- We anticipate widespread weakness in private sector construction - as in Q1. While new residential building approvals did begin to rebound in Q2, we expect the boost to work to emerge during the second half of 2009. Non-residential building is set to remain weak for some time with approvals down 50%.
- Public construction work is likely to provide only a partial offset. There will be a burst of school construction but that will begin in Q3 - the jump in approvals for education projects was first evident in the June month.

Private construction moderates in 2009



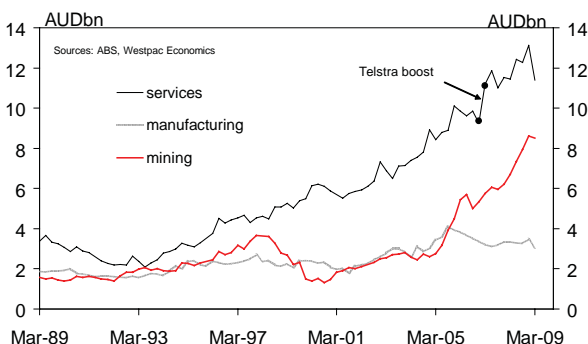
Aus Q2 CAPEX

Aug 27, Last: -8.9%, WBC f/c: -7.0%

Mkt f/c: -5.0%, Range: -8.5% to 4.1%

- The CAPEX survey is expected to show that private business cut capital spending sharply for a second consecutive quarter. We're forecasting a 7% decline after a near 9% fall in Q1.
- On the plus side, the Government taxation incentive triggered a burst of vehicle sales. "Other" vehicle sales rebounded 12% in the quarter, reversing the Q1 slump. This poses an upside risk to our forecast - with the extent of any run-down of vehicle inventories unknown at this stage.
- Despite higher vehicle sales, capital imports were particularly weak in the period - tumbling 14% in value terms (half of which we expect to be due to lower volumes).
- Non-residential construction is also expected to decline significantly - consistent with lower approvals.

Investment by industry (CAPEX survey)

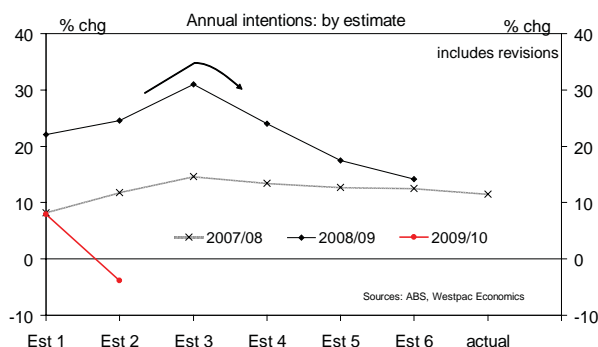


Aus 2009/10 CAPEX intentions

Aug 27, Last: \$76.9bn

- The last CAPEX survey of three months ago reported the 2nd estimate of business capital spending plans for 2009/10. Not surprisingly firms had cut their spending plans against the backdrop of a global recession.
- A further downgrade of investment plans is a real risk. The 2nd estimate for 2009/10 of \$76.9bn implied a 4% decline in capital spending from that of last year. That represented a downgrade from a 8% rise implied by the revised 1st estimate.
- Anecdotes suggest that firms are beginning to review the size of planned cuts. However, it may be that these considerations are not far enough advanced to translate into the numbers printed in this survey. The very recent recovery in business sentiment to the positive zone is more likely to boost investment prospects for the 2010/11 financial year.

CAPEX intentions:



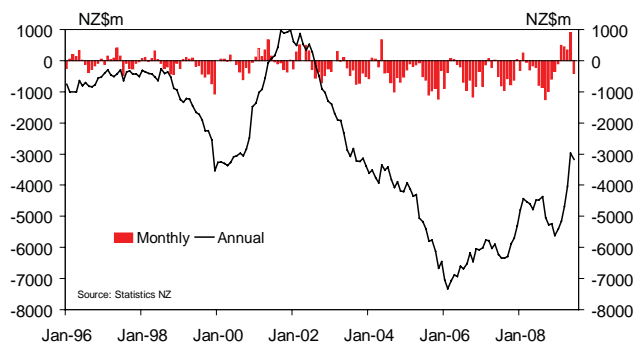
Data previews

NZ Jul merchandise trade NZDm

Aug 27, Last: -418, WBC f/c: -480

- The merchandise trade balance was on a rising trend over the past nine months, at first due to falling imports and more recently due to exports recovering more quickly than imports.
- We expect the July trade numbers to mark the start of a new trend towards a deteriorating trade balance. Consumers are making a comeback. Retailers may have cleared excess stock, so consumer imports are likely to be rising again. Car imports for July were double the February number. And the rising price of oil will have increased expenditure on imported oil. By contrast, soft commodity prices have been rising only slowly, so export revenue is improving only gradually.
- Rising imports and stable exports lead to a trade balance forecast of -\$480m. However, that would still be the smallest July deficit since 2004, and the annual balance is expected to continue improving on base effects.

NZ merchandise trade balance

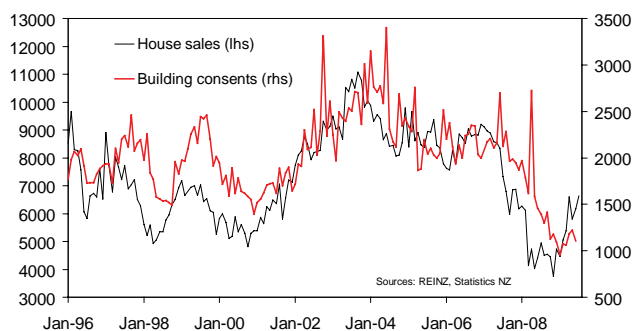


NZ Jul building consents

Aug 28, Last: -9.5%, WBC f/c: 9.0%

- Dwelling consents continued their recent see-saw pattern in June, with total consents falling 9.5% m/m. However, excluding the volatile apartment component, the trend in consent issuance has clearly turned, rising for the third consecutive month in June.
- We remain of the view that consents should continue to trend higher from here, supported by strong net migration, still low mortgage rates and improving sentiment in the housing market.
- The trend value of non-residential consent has been weak in recent months, but is possibly being overstated by Statistics NZ removing 'one-offs' from the trend series. On an unadjusted basis, non-residential consents have averaged around 9% y/y growth since January 2009. Still, investment intentions point to very weak building investment over 2009H2.

Housing activity monthly, seasonally adjusted

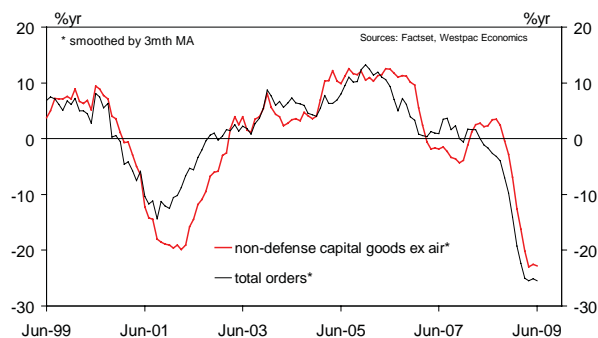


US July durable goods orders jump on autos

Aug 26, Last: -2.5%, WBC f/c: 3.0%

- Durable orders posted back to back gains in April-May, the first consecutive rises in orders since mid 2008, adding to the body of evidence pointing to a stabilising economy. However orders fell 2.5%, mainly due a pull-back in defence and civilian aircraft, and ongoing weakness in autos, although core capital goods orders posted another gain.
- July orders are shaping up well. The July ISM factory index orders component surged from 49 to 55; factory hours worked rose 0.4% in July (including 12% in auto factories!); auto sales surged thanks to the "cash for clunkers" scheme; Boeing orders more than doubled in number, and were skewed towards higher valued 777s rather than the 737s that dominated in June.
- Putting all this together we expect June orders to jump 3.0% restoring the recent positive trend.

US durable goods orders



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 24					
Aus	Jul new motor vehicle sales	5.7%	–	–4.0%	Industry figs showed reversal in July as tax-break induced surge eased.
Twn	Jul export orders %yr	–10.9%	–	–	Electronics sector at the vanguard of recovery.
	Jul industrial production %yr	–11.35%	–	–	Heavy industry adjusting but lagging tech.
Thai	Q2 GDP %yr	–7.1%	–5.2%	–	Multiplicity of shocks starting to dissipate.
Eur	Jun industrial orders	–0.2%	–	–	Factory orders still falling - but pace of decline slowed dramatically.
UK	Aug house prices %yr	–6.2%	–3.7%	–	Nationwide index. +1% or more in 4 of past 5 mths. (tbr 24-28/8)
Can	Jun retail sales	1.2%	–0.1%	–	May up on a 2.4% jump in auto sales + generally +ve reports elsewhere.
Tue 25					
NZ	Q3 RBNZ 2yr inflation expectations	2.2%	–	2.3%	Inflation expectations to remain close to the RBNZ's sweet spot.
Myr	BNM policy decision	2.00%	2.00%	2.00%	Easing cycle is over – normalisation a way off.
Ger	Q2 GDP final	0.3% a	0.3%	–	Provide detail on modest expansion in Q2.
UK	Jul BBA mortgage approvals, £bn	35.2	–	–	Hit a new 2009 year high in June, loans somewhat less difficult to get.
US	Aug consumer confidence	46.6	48.0	46	Partial reversal last 2mths. View on jobs mkt at new cyclical low.
	Aug Richmond Fed index	14	14	–	First & only regional factory surveys back into +ve territory.
	Jun S&P Case-Shiller house prices, %yr	–17.1%	–16.4	–16.5%	Posted its first monthly rise since July 2006!!
	Jun FHFA house price index, %mth	0.9%	0.4%	0.5%	Good news from lesser watched index, with prices up in May.
Wed 26					
Aus	Q2 construction work done	–3.7%	–3.0%	–3.0%	Private sector weakness (res & non-res) only partially offset by public.
Jpn	Jul trade balance ¥bn sa	438	–	–	Exports out of tail spin, import demand weak.
	Jul corp. services prices %yr	–3.2%	–	–	Corporates slashing discretionary spending.
	Aug small business confidence	41.1	–	–	Upstream firms still adjusting stocks.
Sing	Jul industrial production %yr	–9.3%	–	–	Biomed reversal coming – electronics on the improve.
Myr	Q2 GDP %yr	–6.2%	–	–	Trend improving but headwinds still gusting.
Thai	BoT policy decision	1.25%	1.25%	1.25%	On hold for now at extremely accommodative levels.
Ger	Aug IFO business climate index	87.3	88.9	–	Fourth mthly rise & in July there was a solid rise in current index.
US	Jul durable goods orders	–2.5%	3.2%	3.0%	Rise to restore recent +ve trend. July factory ISM orders rose to 55.
	Jul new home sales	11.0%	1.6%	3%	Up 16.7% from Jan low, sign that housing sector turning the corner.
	Fedspeak	–	–	–	Lockhart on economy.
Thu 27					
Aus	Q2 CAPEX	–8.9%	–5.0%	–7.0%	Capital imports down sharply. But tax incentives boost vehicle sales.
	2009/10 CAPEX intentions, AU\$bn	76.9	–	–	Firms cutting investment. But now reviewing size of likely cuts.
NZ	Jul merchandise trade NZDm	–418	–	–480	Rising imports mark beginning of trend deterioration in trade balance.
Php	Q2 GDP %yr	0.4%	1.0%	–	Resilience of remittances a source of stability.
Eur	Jul money supply M3 %yr	3.5%	–	–	Growth slowing & considered, by ECB, too low for health of economy.
Ger	Aug CPI prelim %yr	–0.7%	–0.3%	–	Upside bias to future annual numbers as last yr's energy falls drop out.
	Sep GfK consumer confidence	3.5	3.7	–	Continues its recovery as German economy contracts at slower pace.
UK	Q2 business investment	–7.6%	–	–	Clue to any possible revision of Q2 GDP.
US	Q2 GDP, prelim (1st revis), % ann'sld	–1.0% a	–1.4%	–1.7%	Slight downward revision to Q2 GDP anticipated.
	Initial jobless claims w/e 23/8	576k	563k	565k	Past auto retooling volatility but seasons still more volatile than usual.
	Fedspeak	–	–	–	Bullard to speak at University in Little Rock.
Fri 28					
NZ	Jul building consents.	–9.5%	–	9.0%	Apartment component highly volatile, but overall trend should be up.
Jpn	Jul national CPI %yr	–1.8%	–	–	Huge output gap undermines the price level.
	Aug Tokyo CPI %yr	–1.8%	–	–	Services weakness catching up to durables.
	Jul unemployment rate	5.4%	–	–	On it's way north to record levels.
	Jul household spending %yr	0.2%	–	–	Real spending measure – nominal decidedly negative.
	Aug Nomura PMI	50.4	–	–	Have improved sequentially in '09, due to level out.
Eur	Aug business climate indicator	–2.71	–	–	Euroland household and business confidence surveys continue to improve, adding to sense that European recession is diminishing in depth.
	Aug consumer confidence	–23	–	–	Although most surveys remain at low levels historically.
	Aug economic confidence	76.0	–	–	
UK	Q2 GDP revision	–0.8% a	0.8%	–	The 5th quarter of recession. Improvement from –Q1's 2.4% slump.
	Aug GfK consumer confidence	–25	–24	–	Unchanged in July, at highest level since April 2008 - slump is easing.
US	Jul personal income	–1.3%	0.1%	flat	Rising labour income offset by the unwinding of stimulus payments.
	Jul personal spending	0.4%	0.2%	flat	Ex auto sales have been very weak, "cash for clunkers" boosting autos.
	Jul core PCE deflator	0.2%	0.1%	0.1%	Similar gain expected to the July rise in core CPI.
	Aug Uni of Michigan confidence, final	63.2	64.8	64	Other survey have bounced this month suggesting +ve revision.
Can	Q2 current account C\$bn	–9.1	–11.8	–	Q4 2008 saw the first deficit since the late 1990s.
	Jul industrial product prices	0.7%	–0.5%	–	First gain for 3mths. However, ex petroleum & coal prices fell 0.3%.

Past performance is not a reliable indicator of future performance. The forecasts given above 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 results ultimately achieved may differ substantially from these forecasts.

Economic & financial forecasts

Interest rate forecasts

	Latest (Aug 21)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Cash	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.27	3.35	3.40	3.75	4.00	4.25
3 Year Swap	5.11	5.10	5.25	6.00	6.50	6.75
10 Year Bond	5.45	5.40	5.50	5.80	6.25	6.25
10 Year Spread to US (bps)	202	190	210	205	225	200

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.43	3.50	3.40	3.75	4.00	4.25
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.00

New Zealand

Cash	2.50	2.50	2.50	2.50	2.50	3.00
90 day bill	2.75	2.80	2.80	2.80	2.80	3.60
2 year swap	4.03	3.90	4.10	4.30	4.30	5.00
10 Year Bond	5.80	5.80	5.90	6.00	6.00	6.20
10 Year spread to US	237	225	255	225	225	145

Exchange rate forecasts

	Latest (Aug 21)	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
AUD/USD	0.8310	0.86	0.80	0.83	0.85	0.87
NZD/USD	0.6765	0.69	0.63	0.67	0.69	0.71
USD/JPY	94.05	97	92	94	96	99
EUR/USD	1.4255	1.46	1.40	1.42	1.44	1.46
AUD/NZD	1.2285	1.25	1.27	1.24	1.23	1.22

Australian economic growth forecasts

	2008		2009		2010			Calendar years			
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	2007	2008	2009f	2010f
% change											
GDP	0.2	-0.6	0.4	0.4(f)	-0.5	0.3	0.3	4.0	2.3	0.2	1.8
ann chg	2.2	0.8	0.4	0.5(f)	-0.2	0.7	0.6	-	-	-	-
Unemployment rate	4.2	4.5	5.3	5.7	6.0	6.7	7.1	4.4	4.3	5.9	7.3
CPI headline	1.2	-0.3	0.1	0.5	0.9	0.4	0.4	-	-	-	-
ann chg	5.0	3.7	2.5	1.5	1.2	1.9	2.2	3.0	3.7	1.9	2.0
CPI core	1.2	0.7	1.1	0.8	0.8	0.6	0.5	-	-	-	-
ann chg	4.7	4.3	4.2	3.9	3.5	3.4	2.8	3.6	4.3	3.4	2.0

New Zealand economic growth forecasts

	2008		2009		Calendar years						
	Q2	Q3	Q4	Q1	Q2e	Q3f	Q4f	2007	2008	2009f	2010f
GDP % qtr	-0.2	-0.5	-1.0	-1.0	-0.4	0.2	0.1	-	-	-	-
Annual avg change	2.5	1.6	0.2	-1.0	-2.0	-2.4	-2.1	3.2	0.2	-2.1	2.6
Unemployment rate %	4.0	4.3	4.7	5.0	6.0	6.6	6.9	3.5	4.7	6.9	6.9
CPI %qtr	1.6	1.5	-0.5	0.3	0.6	0.7	0.6	-	-	-	-
Annual change	4.0	5.1	3.4	3.0	1.9	1.1	2.1	3.2	3.4	2.0	1.2

Past performance is not a reliable indicator of future performance. The forecasts given above 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 results ultimately achieved may differ substantially from these forecasts.