

Australian weekly

Week beginning 12 October 2009

- Labour data implies upside risks to rate forecasts; but no change to Dec view.
- Australian data: consumer sentiment to gauge initial rate rise reaction.
- New Zealand data: retail, house prices, CPI data due.
- US data: autos to drive retail 'shocker', CPI, IP & Empire & Philly Fed previewed.
- Key economic & financial forecasts.

Information contained in this report was current as at 9 October 2009

Labour data implies upside risks to rate forecasts – but no change to December rate view

Going into this week's Reserve Bank Board meeting we were expecting consecutive rate hikes of 0.25% in both November and December. The decision to move earlier prompted a revision to that view with a second move in November and a pause in December.

Following the RBA's announcement, markets quickly moved to price in a probability of around 60% for a November move and 150% for a December rise.

Following Thursday's labour market data showing an extraordinary increase in employment in September of 40,600 (vs consensus of a 10,000 fall) markets are now giving a 110% probability of a 25bp rate hike in November and 200% for December, i.e. the market now sees hikes in both November and December as certainties. There is even some speculation that rates will be increased by 50bps in November although this prospect is currently being given little chance by the market. We certainly concur with that assessment.

While we recognise the strong recent record of market pricing we are reluctant to follow the market into forecasting a third rate hike in December.

Firstly, we are somewhat sceptical about the monthly jobs data. Chart 1 shows the extraordinary volatility of the monthly jobs reports in recent times. The "pattern" that has been established for some months is that large negatives have followed large positives in every report since April. Significantly, this April/September period covered part of the time when the sample size had been reduced to 0.24% of the population. The sample size is now to be progressively restored (over four months) to almost double (0.45% of the population) starting with the September report – along with risks associated with the smaller sample a further source of instability may be associated with this first stage of the upward adjustment of the sample size.

Additional curious aspects of this series relate to a cross check with the state numbers. The sum of reported state changes in employment was only 22,900 (compared to the 40,600 national number) with 70% of the rise being in South Australia!

Accordingly, we expect a technical correction with a number around minus 30,000 for the October jobs report (due out on November 11). That is likely to push the unemployment rate to 6% from 5.7%.

Another complicating aspect to the decision by the RBA on December 3 will be that the September quarter GDP data will print the following day. We are currently expecting domestic demand to contract by 0.4%. A positive GDP result of 0.3% will only be delivered by a forecast 1.5ppt contribution to growth from inventories as firms rebuild stocks following three successive quarters of running them down. Such is the unpredictability of the inventory cycle that we could easily be overestimating the degree of inventory rebuilding and GDP could print negative for the September quarter.

We accept that the guidelines being used by this current RBA Board are somewhat more decisive than under previous Boards and that Boards must be forward looking. However, note that since the Bank began announcing rate moves we have never seen rate hikes in three consecutive months. Even a forward looking Board might be uncomfortable with an unprecedented third consecutive tightening preceding a negative print on GDP.

While, at this stage, we are comfortable to defer the December rate hike due to our concerns about the volatility of the job numbers we have revised our unemployment profile. We do recognise the broad message from the September jobs report. We had been expecting

total job losses for the September/December period of 50,000. Even with our expected technical correction to the September number in October we are still now forecasting a modest increase in jobs over that period of around 10,000.

While jobs growth will be insufficient to contain a rise in the unemployment rate to around 6.5% (from 5.7%) in Q3 2010, we expect that the period of job losses has essentially passed (but the unemployment rate will still rise since new jobs of around 15,000 are required to hold the unemployment rate steady in any month). Chart 2 sets out our revised profile for the unemployment rate.

This more moderate profile for the labour market may delay the timing of the "pause" which we assess the RBA will adopt at some point around the middle of 2010. We have expected the pause to begin around May next year once the cash rate reaches 4%. The risks now point to that pause coming later off a higher (4.5%) final cash rate. However, our views on the most important "forces" supporting that pause – global growth; global capital markets; ongoing domestic credit difficulties; households' sensitivity to rising mortgage rates; businesses' concerns with ongoing tight credit conditions; and a rising unemployment rate (albeit at a slower pace) – have not changed.

On balance, for the time being, that points to us retaining our 4% cash rate peak forecast for the first stage of the cycle with clear emphasis on upside risks.

Bill Evans, Chief Economist

Aust jobs: Sep jump; extreme volatility

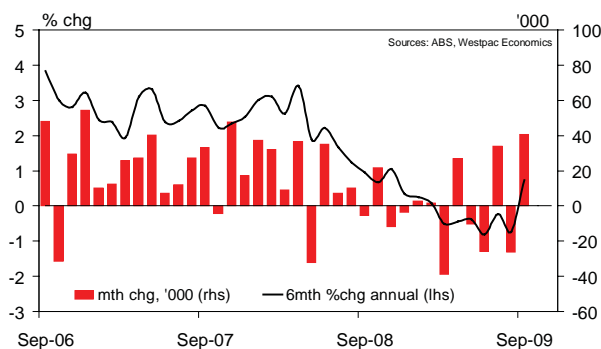


Chart 1

Unemployment rate: revised f/c peak 6.5%

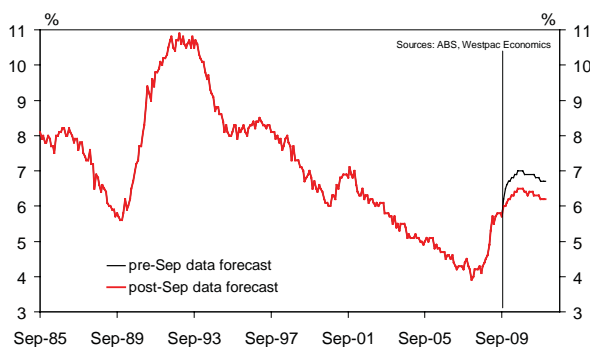


Chart 2

Data wrap

Aug international trade balance

- The trade deficit was bigger than expected in August, falling \$259mn to \$1.524bn (consensus f/c \$900mn, Westpac f/c \$500mn).
- Exports fell 1.8%, suggesting a volumes pullback as the RBA AUD commodity price index fell a lesser 0.5% in the month. Rural exports fell 2.8% weighed on by prices. The disappointment was in a 2.6% or \$318mn fall in non-rural exports led by an unexpected \$248mn fall in coal. This contrasted with industry data suggesting higher coal prices and volumes so a rebound is likely near-term.
- Imports fell 2.9% in a month that the AUD/USD rose 3.8% (denting prices), suggesting firm volumes. Consumption goods fell 5.8% after back to back monthly gains, while capital goods rose 2.2%, their third consecutive rise.
- Despite the export setback, their downtrend slowed to -2.6%*mth* from -3.0%*mth* previously, the strongest since Dec-08. The non-rural exports downtrend also slowed, to -2.3%*mth* from -2.8%*mth*, the strongest since Nov-08. Despite the fall in consumer imports, their renewed uptrend continued at +0.7%*mth* consistent with retailer restocking. Also, capital goods imports are still trending lower, albeit at a lesser pace of -0.6%*mth*, consistent with weaker equipment investment in Q3 after the policy-induced bring forward of spending into Q2.

Aug housing finance

- The number of new finance commitments to owner-occupiers rose further in August, increasing by 1.3%. With refinancing declining in the month, the headline number printed at -0.6%.
- Demand for housing has surged over the last year, reflecting the very favourable combination of historically low interest rates, government incentives, strong population growth and pent-up demand for housing stock.
- This has set the scene for a housing construction boom. The upswing, to kick-in from late 2009, will be a key growth engine of the Australian economy through 2010.
- Prospects for a boom were confirmed in the data detail for August. Finance commitments to owner-occupiers for the construction of new dwellings rose by 4.6% in the month, surging by 69% over the year.

- Moreover, the housing finance recovery is evolving, as is to be expected. There has been a smooth baton change between First Home Buyers, which are now losing altitude, and Upgraders. In addition, finance to Investors also bounced, rising by 7.6% in August.
- Monetary policy remains very accommodative and will continue to be supportive of the housing upswing. At this stage the Reserve Bank, in lifting the cash rate on 6 October by 0.25% to a still historically low 3.25%, is gradually reducing the extent of the stimulus.

Sep employment and unemployment

- The September employment report was unequivocally strong, with a much higher than expected jobs result, a solid full-time rebound, and an unexpected fall in the unemployment rate to 5.7% from 5.8%. The monthly data is always volatile, and the State split of the jobs gain advocates caution (with one of the smallest States, South Australia, accounting for the majority of the jobs rise). While we have recently revised down our forecast for the unemployment rate peak to 7.0% (from 7.5%), the September data implies risks the peak could be lower at around 6¾%.
- With the downturn in labour demand heavily concentrated in hours worked, it is likely that improving labour demand will initially come through increases in hours worked by existing labour, rather than consistent additions to outright employment. Indeed, with continued strong population growth, we expect labour force growth to continue lifting the trend unemployment rate until 2H2010.
- Total employment rose 40.6k (consensus -10k, WBC f/c -5k) after a 26.1k fall previously. Annual trend growth eased to -0.15%*yr*, although the monthly trend has now turned positive at +4.7k. Full-time jobs bounced 35.4k after a cumulative 109.9k fall in the prior four months. Nevertheless, the full-time trend remained negative for the 13th consecutive month (-8.4k) with annual trend growth falling to -2.27%*yr*, the weakest since Apr-92.
- With the bounce in full-time jobs, aggregate hours worked rose 0.9%*mth*, sufficient to reinstate an uptrend (+0.03%*mth*), although they remain down more than 2% from a year ago. Still, the monthly gain is encouraging.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Mon 5	Labour Day holiday (NSW, ACT, SA)	-	-	-
	Sep ANZ job ads	4.1%	4.4%	-
Tue 6	Aug international trade balance, AUDbn	-1.78	-1.52	-0.90
	RBA policy announcement	3.00%	3.25%	3.00%
Wed 7	Aug housing finance (no.)	-2.2%	-0.6%	flat
Thu 8	Sep employment chg	-26.1k	40.6k	-10k
	Sep unemployment rate	5.8%	5.7%	6.0%

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.

New Zealand: week ahead & data wrap

Steady progress

The trickle of positive New Zealand data continued this week, though there was nothing to match the fireworks in the Australian market.

The September *Quarterly Survey of Business Opinion* showed that business sentiment has improved markedly since the depths of the recession earlier this year. Expectations of general conditions for the next six months soared to their highest in ten years, while own-activity expectations rose to slightly above their long-term average.

But the details of the survey, while encouraging, suggest that business sentiment as a whole is greater than the sum of its parts. The gap between own-activity expectations and recent performance was easily at its widest in the history of the survey. Firms reported that conditions remained tough in the September quarter – little better than in June by many measures. And in many cases, the sharp rise in expectations for the key indicators largely reflected a return to long-run averages, having come from record or near-record lows. This is consistent with an economy in the early stages of recovery, rather than one that is roaring ahead.

Indicators of inflation pressure remain modest. Pricing intentions rose in September, with a net 13% of firms expecting to raise their prices in the next quarter. This is a fairly low proportion compared to recent history – though it is consistent with annual inflation edging back into the upper half of the RBNZ's 1-3% target band over the next year. Capacity utilisation fell from 90.7% to 88.4%, which appears to have been a correction of the abnormally sharp gain in the June quarter, the biggest quarterly increase on record (this may have been due to an unusually low response rate for the question). Capacity utilisation is still at the second-lowest level seen during this cycle, and is some way below its long-run average.

Expectations of domestic trading activity are a useful indicator for same-quarter GDP, and the latest reading is consistent with growth in Q3 in excess of 1%. However, the relationship has been strained recently, with expectations severely overstating the extent of decline throughout the recession. We put this down to the fact that the QSBO excludes some sectors that have been a driving force in recent growth performance – with agriculture being the most glaring omission. For the same reasons we think Q3 GDP growth will be more modest than the survey implies. Having said that, we feel the risks for the second half of the year in general are to the upside – the easiest gains are to be made in the early stages of recovery.

Fonterra's online auction for October saw a 5.7% rise in milk powder prices, taking the total gain to 65% over the last three months. Improving global demand and lower supply are helping to underpin prices – the recent GDP and overseas trade figures suggest that local stocks of milk powder have been run down to very low levels. More

generally, export commodity prices were 6.8% higher in September, the strongest monthly gain since 1987. The stronger NZ dollar over the month pegged the gains back to 2.4% in local currency terms.

The RBA's rate increase this week inevitably raises questions about when other central banks, such as the RBNZ, will follow. While they share some common concerns, the RBA's move largely served to underscore the differences between the two countries. Australia's experience of the global recession was one quarter of negative growth, compared to five straight quarters in NZ. Confidence, employment, credit growth and house prices are all rebounding much faster in Australia. And whereas underlying inflation in NZ has softened along with activity, it remains stubbornly high in Australia and is unlikely to moderate as much as the RBA previously thought.

By and large, the market seems to grasp these differences. New Zealand's current cash rate of 2.50% is even further below normal than Australia's 3.25% rate – historically the gap has averaged around 75bp in New Zealand's favour. But interest rate markets are pricing in a slower return to normality in NZ; by mid-2010 the gap is expected to increase to around 125bps in Australia's favour. Using 90-day rates as a proxy for policy rates pre-1999, this would be the widest gap in Australia's favour since 1990. Clearly the market accepts that different conditions warrant different responses, for now.

The June quarter CPI is the major data release next week. We expect a 0.9% increase for the quarter, bringing annual inflation down to 1.3%, a world away from the 5.1% recorded a year ago. As usual, the details for the current quarter are more about specific price changes rather than the general inflation environment. Higher food prices made the biggest positive contribution, with unusually cold weather early in the quarter meaning poor growing conditions. The usual increases in alcohol excise tax and local authority rates, and an ACC levy increase on car registrations, also made sizeable contributions. Uncertainty about the impact of the weaker NZD earlier this year adds some upside risk to our forecast, while airfares and Government subsidies for home insulation present downside risks.

Importantly, various measures of underlying inflation are expected to moderate further in Q3. Annual non-tradeable inflation is expected to dip below 3% for the first time since early 2002, with our forecast of 2.6% a touch below the RBNZ's recent forecast of 2.8%. We expect underlying inflation to continue easing as economic slack created by the prolonged recession and the strong appreciation of the NZD over the past six months take effect.

Round-up of local data released last week

Date	Release	Previous	Latest
Mon 5 Oct	Sep ANZ commodity prices	4.2%	6.8%
Tue 6 Oct	Q3 NZIER business confidence	-25%	36%
Fri 9 Oct	Sep electronic card transactions	0.3%	0.7%

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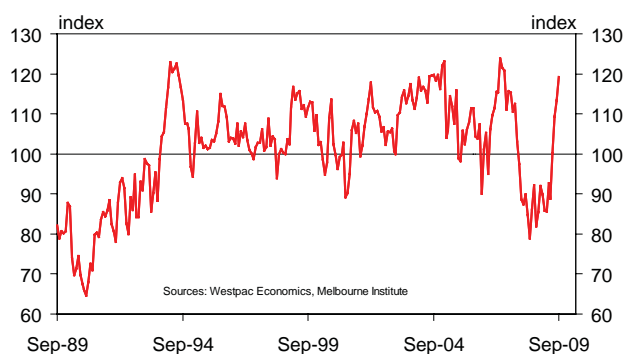
Data previews

Aus Oct Westpac-MI Consumer Sentiment

Oct 14, Last: 119.3

- The *Westpac-Melbourne Institute Index of Consumer Sentiment* increased by 5.2% in Sep from 113.4 in Aug to 119.3. The extraordinary 34% surge since May is the biggest four month gain in the survey's 35 year history and has taken the Index to strongly optimistic levels associated in the past with booming consumer demand. That said, the survey detail continues to carry a note of caution with optimism centred on extremely bullish expectations for the economy and signs of lingering risk aversion and a conservative approach to spending.
- The Oct survey is in the field the week ended Oct 11. Sentiment is likely to be impacted by: the RBA's decision to raise rates 25bps with indications of more tightening to come; the surprise rise in employment in Sep and better than expected retail sales; strong gains for equities (ASX up another 7.5% since the Sep survey); and the AUD rising above 90c US.

Consumer Sentiment

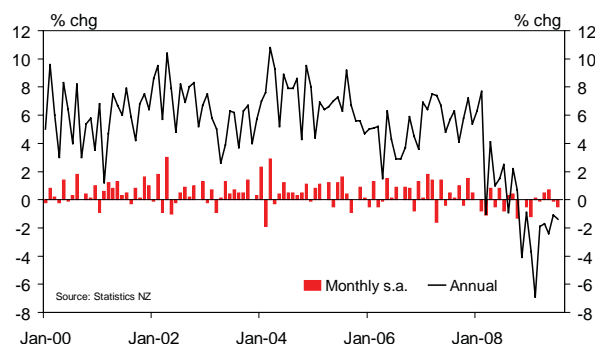


NZ Aug retail sales

Oct 13, Last: -0.5%, WBC f/c: 0.3%, Mkt f/c: 0.5%

- Total sales are expected to grow in August after a surprise fall in July. Supporting an increase in sales is soaring consumer confidence, rising net migration, and further increases in electronic card transactions.
- We expect lower car sales (given a drop in registrations), a slight dip in house sales and a lift in retail interest rates early in the month to dampen the increase in August sales. All up, we anticipate core sales growth of 0.6% for the month, with a drop in vehicle sales restricting total sales growth to 0.3%.
- Winter woollies were bought early this year when May and June were colder than normal. Watch for a possible weather effect on sales as August 2009 was the warmest August since records began 155 years ago. The effect on clothing sales is ambiguous with less end of winter buying but possible early spring season buying.

NZ nominal retail sales



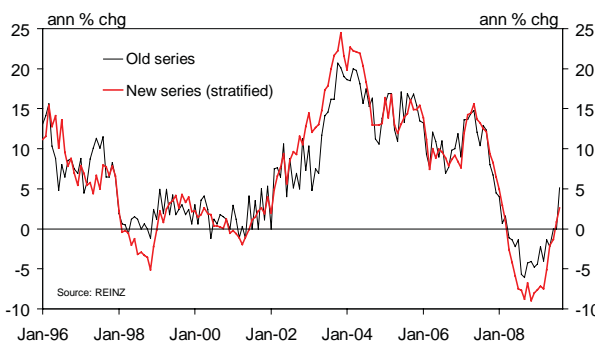
NZ Sep REINZ house sales and prices

Oct 14, sales (s.a.) last: -2.1% mth, 39% yr

Price index last: 1.2% mth, 2.6% yr

- House sales have picked up strongly in recent months, recovering to almost average levels. Sales have been prevented from rising further by a marked shortage of listings. September data from Auckland revealed that the shortage of listings continued, while house sales were unchanged. We expect a similar flat out-turn for seasonally adjusted nationwide sales, and a further reduction in the number of days to sell.
- The inaugural release of the REINZ's House Price Index showed that prices rose 1.2% in August, to be 2.6% higher than a year ago. The index was developed in conjunction with the RBNZ. It takes account of the varying composition of house sales by suburb, and is therefore a better price guide than the old median sale price measure. We expect another solid month for house prices, in the order of a 1% monthly gain.

REINZ house prices



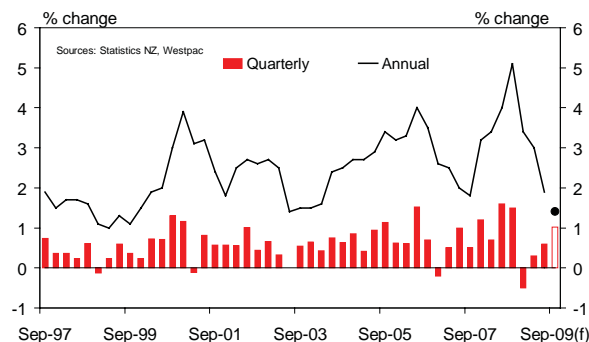
Data previews

NZ Q3 CPI

Oct 15, Last: 0.6%, WBC f/c: 0.9%, Mkt f/c: 0.8%

- We have made a late tweak to our Q3 inflation estimate, after additional work on the price effects of the government's home insulation subsidies. We now expect annual inflation to drop from 1.9% in Q2 to 1.3% in Q3, compared to an estimate of 1.4% in our CPI preview.
- The 0.9% increase for the quarter will be driven by higher food and fuel prices and increases in government charges, including the ACC levy component in car registrations, along with the regular annual adjustments to alcohol excise tax and local authority rates.
- The easing in headline inflation will come to an end in Q3 as the spike in petrol prices in mid-2008 drops out of the annual calculations. However, annual non-tradeable inflation, which is set to fall below 3% for the first time since early 2002, is expected to continue easing beyond Q3.

CPI inflation

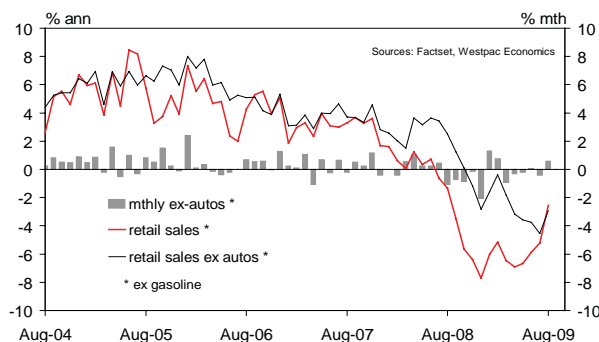


US Sep retail sales dragged lower by autos

Oct 14, Last: 2.7%, WBC f/c: -3.0%

- Retail sales jumped 2.7% in August, their strongest rise since early 2006, buoyed by an 11% surge in new car sales thanks to the cash for clunkers trade-in scheme. Higher gasoline prices also added 0.5 pts to retail sales value growth last month. Excluding those two factors, core retail sales gained 0.6%, the fastest pace since February, though sales tax holidays in some states may have given the August data a temporary boost.
- With cash for clunkers now over, auto unit sales are known to have fallen 35% in September. Gasoline prices were steady and the sales tax breaks are mostly over.
- Tying all this together we expect a 3.0% fall in total retail, including declines around 0.4% for both ex auto sales, and ex autos & gasoline.

US retail sales



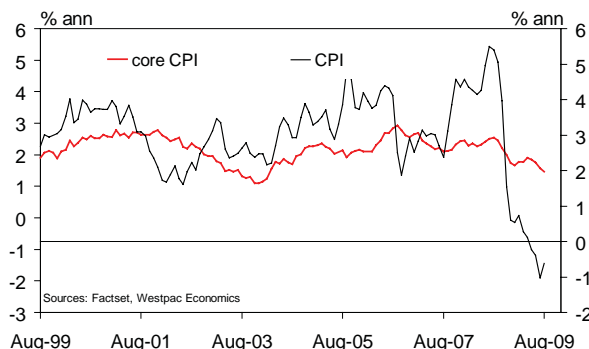
US Sep CPI - very mild price pressures

Oct 15, CPI headline Last: 0.4%, WBC f/c: 0.1%

Oct 15, CPI core Last: 0.1%, WBC f/c: 0.1%

- The Aug CPI rose 0.4% due mainly to a 9.1% jump in gasoline prices; food prices rose 0.1%. Ex food and energy, the core rate gained by less than 0.1%, constrained by a 1.3% fall in new car prices, but all car prices fell just 0.4% because used car prices rose 1.9%. That would be a function of reduced supply, because those autos traded in the cash for clunkers scheme were scrapped.
- In Sep, average gasoline retail prices varied little relative to Aug, so that source of upward price pressure has eased but not reversed. New auto prices will have risen somewhat now that the cash for clunkers scheme is over, and other downside surprises in Aug may reverse somewhat in Sep. Food prices may be an upside risk, according to the Aug PPI. Tying this together, we expect 0.1% gains for Sep CPI headline and core.

US CPI inflation



Data previews

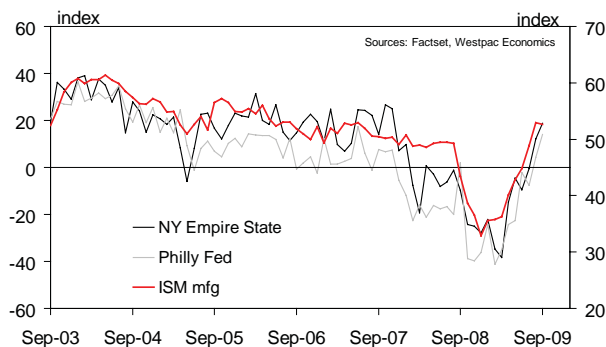
US Oct NY and Philly Fed surveys

Oct 15, New York Fed: Last: 18.9, WBC f/c: 17.0

Oct 17, Philadelphia Fed: Last: 14.1, WBC f/c: 12.0

- These surveys helped kick off the "green shoots of recovery" story that emerged in March-April, by turning sharply less negative - consistent with a slower pace of industrial contraction. Then in August-September, both rose above zero (joining the Richmond Fed), indicative of industrial sector expansion, later backed by official IP data.
- Without local agents it is difficult to forecast these surveys of just 100 bosses. However, with the ISM factory index in Sep (whose survey period overlaps with the regional Fed surveys for Oct) still above the neutral 50 level, but edging a little softer, we expect Empire and Philly to record modestly lower readings.
- These outcomes would be broadly consistent with the economy continuing to expand in the fourth quarter, but not at an accelerated pace.

US manufacturing surveys

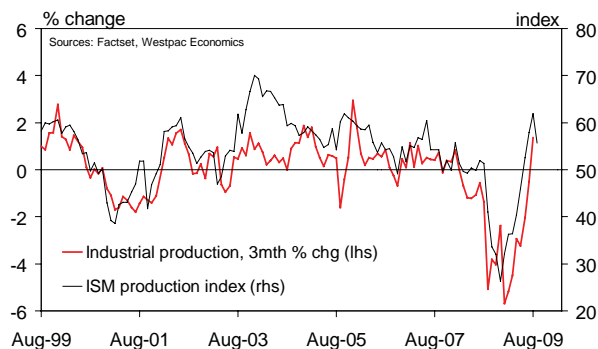


US Sep industrial production to stall

Oct 16, Last: 0.8%, WBC f/c: flat

- For nearly two years, industrial production had just one monthly gain (in Oct 2008), prior to the back to back July-August rises this year, reflecting surging auto output thanks to cash for clunkers and the reopening of Chrysler/GM plants post bankruptcy; rebuilding of depleted inventory in some sectors; and a modest increase in business investment in plant & equipment.
- Business survey evidence points to a Sep IP gain, although the production index of the ISM manufacturing index fell from 62 to 56 last month. Also, we know that factory hours worked fell 0.5% in Sep (despite a slight gain in the auto sector).
- Hence we are forecasting a flat IP result, with upside risk, if it turns out that increasing output doesn't require hours worked to rise at current low levels of output when there is plenty of spare capacity.

US industrial production



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
Sing	MAS policy review	-	-	-	Stance on the SGD to be reiterated. A band reset is not expected.
	Q3 advance GDP %yr	-3.7%	0.5%	-	Upside surprises on IP through the quarter should be reflected here.
Inr	Aug industrial production %yr	6.8%	9.8%	-	Infrastructure segment bounced back in Aug; plus durables reviving.
US	Columbus Day holiday	-	-	-	Equity markets thin but open.
Tue 13					
Aus	Sep NAB survey	18	-	-	August saw strongest confidence read since October 2003.
NZ	Aug retail sales	-0.5%	0.5%	0.3%	Solid increase in core sales expected; vehicles down.
Jpn	Sep bank lending %yr	1.8%	1.7%	-	Working capital demands remain; capex demand just not evident.
Chn	Oct M2 money supply %yr	28.5%	28.5%	-	Tentative date: monetary transmission functioning smoothly.
	Oct new bank lending CNYbn	410	440	-	Tentative date: seasonality points to soft raw outcome.
Ger	Oct ZEW analyst survey	57.7	58.0	63.0	Increased optimism about global growth should be supportive.
UK	Sep BRC retail sales monitor %yr	-0.1%	-	-	Same store sales. Very soft in August, when official data were flat.
	Sep RICS house price balance	10.7%	15.0%	-	A majority of surveyors are now valuing prices higher.
	Sep CPI %yr	1.6%	1.3%	1.3%	Base effects and discounting apparent in BRC data point to soft CPI.
	Aug house prices %yr	-8.3%	-	-	Lesser watched DCLG (govt) index.
US	IBD/TIPP economic optimism	52.5	-	53.0	This index rose in Sep when CB fell, so only modest Oct gain likely.
	Fedspeak	-	-	-	Kohn in St Louis, Dudley in NY.
Cad	Aug new house prices	0.3%	0.2%	-	July saw first gain since Sep last year.
Wed 14					
Aus	Oct Westpac-MI Consumer Sentiment	119.3	-	-	Will capture initial consumer reaction to RBA's 25bp rate hike.
NZ	Sep REINZ house prices %yr	2.6%	-	-	Price support to remain as demand outstrips supply.
Jpn	Bank of Japan decision	0.1%	0.1%	0.1%	Nothing to see here - please move on.
	Sep corp. goods prices %yr	-8.5%	-7.9%	-	Yen strength a major factor, as is ongoing supply glut.
Chn	Sep trade balance USDbn	15.7	17.0	-	A year ago surplus was \$24bn. CY outcome likely down by \$60bn.
Eur	Aug industrial production	-0.3%	1.0%	0.5%	German IP known up 1.7% in Aug.
UK	Sep unemployment change	24k	25k	20k	With economy now looking stalled in Q3, jobless still rising apace.
US	Sep import price index	2.0%	0.2%	0.0%	Oil prices, the big driver of the Aug import price jump, steady in Sep.
	Sep retail sales	2.7%	-2.1%	-3.0%	Auto sales known down 35%, gasoline prices steady and a sales tax holiday in some states now over, point to collapsing retail sales.
	Sep retail sales ex auto	1.1%	0.2%	-0.4%	
	Aug business inventories	-1.0%	-0.8%	-0.8%	Stock building not making much of a contribution to Q3 GDP growth.
	Sep 23 FOMC minutes	-	-	-	Rumours of some hawkish discussion which may be in minutes if true.
Can	Aug auto sales	5.3%	flat	flat	StatCan guidance for "relatively unchanged" Aug sales
Thu 15					
Aus	RBA Governor Stevens speech	-	-	-	Speaking to public policy forum, topic TBA (Perth, 10.30 am AEDT)
	Oct WBC-MI unemployment expectations	-3.6%	-	-	Have trended down 24.9% since Feb implying Q4 trough for jobs%yr.
	Oct MI inflation expectations	3.5%	-	-	Activity & confidence strength has seen uptrend since Mar to 3.51%.
	Oct RBA monthly bulletin				Bulletin can include latest RBA research articles.
NZ	Q3 CPI %qtr	0.6%	0.8%	0.9%	Food, fuel and govt charges to boost quarter; annual inflation easing.
	Sep food prices	-0.9%	-	0.6%	Dip in vegetable prices not enough to offset higher grocery prices.
Php	Aug overseas remittances %yr	9.3%	-	-	World Bank expects global remit. fall of 7.3%, so this is a great story.
Eur	Sep CPI final %yr	-0.2%	-0.3%	-0.3%	Report will include Sep core rate, was 1.3% yr in Aug.
US	Sep CPI	0.4%	0.2%	0.1%	Gasoline prices little changed, some upside risk from auto prices, but elsewhere a typically subdued CPI. See text box.
	Sep CPI core	0.1%	0.1%	0.1%	
	Initial jobless claims w/e 10/10	521k	525k	530k	Clear downtrend in claims underway.
	Oct Empire Fed index	18.9	18.0	17.0	Both these surveys have some overlap with the Sep ISM factory index, which was a little bit softer.
	Oct Philly Fed index	14.1	12.0	12.0	
	Fedspeak	-	-	-	Bullard in St Louis.
Fri 16					
Sing	Sep NODX %yr	-7.1%	-	-	PMI softened notably in September, putting downside risk on NODX.
Eur	Aug trade balance €bn	6.8	-	-	In surplus now for 4 months running.
US	Aug TIC data \$bn	15.3	-	-	Net long term TIC flows.
	Sep industrial production	0.8%	0.1%	flat	Hours worked down 0.5% in manufacturing, though autos up slightly.
	Oct UoM consumer sentiment prelim	73.5	73.5	74.0	This index rose in Sep when CB fell, so only modest Oct gain likely
Can	Sep CPI %yr	-0.8%	-0.9	-	Headline rate still negative but core rate 1.6% yr in Aug.

Economic & financial forecasts

Interest rate forecasts

	Latest (Oct 9)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Cash	3.25	3.50	3.75	4.00	4.00	4.00
90 Day Bill	3.73	3.70	3.80	4.10	4.20	4.50
3 Year Swap	5.46	5.25	6.00	6.50	6.50	6.50
10 Year Bond	5.20	5.40	5.80	5.85	6.05	6.25
10 Year Spread to US (bps)	193	220	240	210	180	175

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.27	3.20	3.40	3.75	4.25	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.25

New Zealand

Cash	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	2.78	2.80	2.90	3.00	3.60	4.60
2 year swap	4.33	4.30	4.50	4.70	5.00	5.40
10 Year Bond	5.53	5.90	6.00	6.10	6.20	6.30
10 Year spread to US	226	270	260	235	195	180

Exchange rate forecasts

	Latest (Oct 9)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
AUD/USD	0.9049	0.88	0.82	0.84	0.86	0.90
NZD/USD	0.7396	0.73	0.69	0.71	0.73	0.76
USD/JPY	89.21	87	90	93	96	100
EUR/USD	1.4734	1.46	1.40	1.42	1.44	1.47
AUD/NZD	1.2235	1.21	1.19	1.18	1.18	1.18

Australian economic growth forecasts

	2009				2010			Calendar years			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	2007	2008	2009f	2010f
% change											
GDP	0.4	0.6	0.3	0.2	0.6	0.7	1.2	4.0	2.4	0.7	2.5
ann chg	0.3	0.6	0.6	1.5	1.8	1.9	2.9	-	-	-	-
Unemployment rate	5.3	5.7	5.8	6.0	6.2	6.4	6.5	4.4	4.3	5.8	6.9
CPI headline	0.1	0.5	1.0	0.4	0.4	0.6	0.6	-	-	-	-
ann chg	2.5	1.5	1.3	2.0	2.3	2.4	2.0	3.0	3.7	2.0	2.0
CPI core	1.1	0.8	0.8	0.6	0.5	0.5	0.5	-	-	-	-
ann chg	4.2	3.9	3.5	3.4	2.8	2.4	2.1	3.6	4.3	3.4	2.0

New Zealand economic growth forecasts

	2009				2010			Calendar years			
	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	2007	2008	2009f	2010f
GDP % qtr	-0.8	0.1	0.4	0.2	1.1	0.8	0.9	-	-	-	-
Annual avg change	-1.1	-1.8	-2.0	-1.5	-0.5	0.7	1.7	3.2	0.2	-2.1	2.6
Unemployment rate %	5.0	6.0	6.6	6.9	6.5	6.3	6.1	3.5	4.7	6.7	6.5
CPI % qtr	0.3	0.6	0.9	0.4	0.1	0.4	0.4	-	-	-	-
Annual change	3.0	1.9	1.3	2.1	2.0	1.8	1.2	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.