

# Australian weekly

## Week beginning 19 October 2009

- RBA to tighten by 50 bp's in November, AUD to reach USD 0.98 by year's end.
- Australian data: August Westpac-MI Leading Index, Q3 export & import prices.
- New Zealand: first OCR hike brought forward to March; NZD f/c track higher.
- US data: producer prices, housing starts & permits, Beige Book, existing home sales, and plenty of Fed-speak this week.
- Key economic & financial forecasts.

Information contained in this report was current as at 16 October 2009

# RBA to tighten by 50 bp's in November AUD to reach USD 0.98 by year's end

The Reserve Bank Governor's speech which was delivered Thursday on "The Conduct of Monetary Policy in Crisis and Recovery" has emphasised to us the urgency he sees for the need to be moving rates back to more normal levels. While the Governor's Statement following the 0.25% increase in the cash rate on October 6 noted, "it is now prudent to begin GRADUALLY lessening the stimulus provided by monetary policy" Thursday's speech indicated a significantly greater degree of urgency.

We interpret that as a very intentional decision to raise the alert that the situation had become more urgent.

He noted, "If we were prepared to cut rates rapidly, to a very low level, in response to a threat but were then too timid to lessen that stimulus in a timely way when the threat had passed we would have a bias in our monetary policy framework."

We also note that quite unusually for a central banker he was prepared to question the veracity of the official inflation forecasts: "In fact, in late 2009, we are still to see whether inflation will be consistently back to target over a period of time. We think it will be, but, as yet, that remains a forecast."

We now expect the bank to tighten by 50 bp's on November 3 to be followed by a further 25 bp's on December 1. That will restore the overnight cash rate to 4%.

Another couple of 25 bp increases can be expected in the first half of 2010 with the cash rate to reach 4.5% by around May. With rates back to more normal levels and lead indicators such as consumer and business confidence and housing finance approvals (driven by both weakening demand and constrained supply) softening we would anticipate a pause for the remainder of 2010.

Last week we discussed that due to our upgrade of our labour market outlook with a lower peak in the unemployment rate of 6.5% (revised from 7%) there were upside risks (to 4.5%) to our estimated peak rate level of 4% in 2010 – with the more rapid rate increases now expected in 2009 that peak of 4.5% now seems to be the most likely scenario.

Note however, that the forecast peak in 2010 is still well below current market expectations of 5.25%.

## Commodities flat: AUD continues to surge

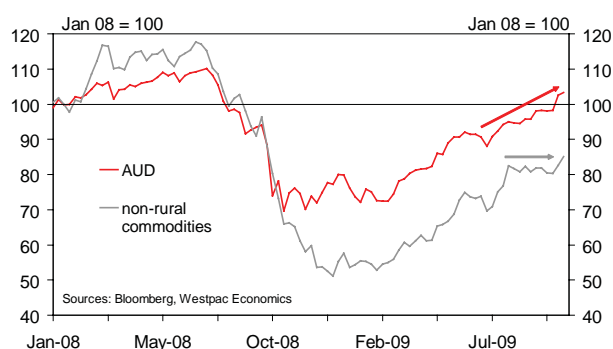


Chart 1:

This more aggressive **near term** profile for the RBA has clear implications for the AUD. Our research clearly points to the main driver of recent AUD strength being interest rate differentials rather than commodities (see Charts 1 and 2). Our near term forecasts point to a larger widening of the AUD/USD differential than is currently priced into markets.

## Interest rate spread drives AUD

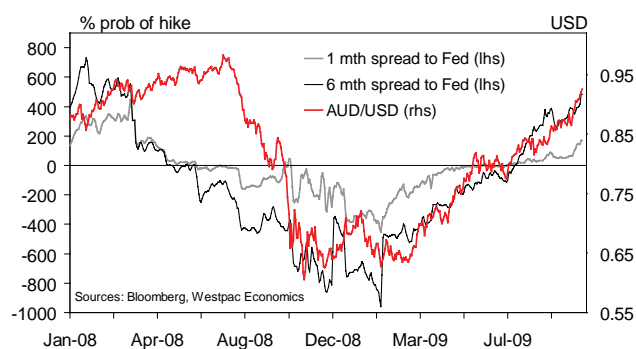


Chart 2:

While commodity prices have been stable over the last three months the AUD/USD has surged by 15% and that would appear to be mainly explained by the increasing attraction of AUD rates. Our revised rate view points to continuing momentum in the AUD through to year's end with a revised target of USD 0.98 by end December.

We would see that level holding through the March quarter before a substantial correction through to June as the market reacts to the expected pause by the RBA and global equity markets retrace as US markets realise that the revenue expectations embedded in equity prices cannot be delivered by the ailing US economy (see further discussion below).

## Data Risks to the 50 bp's Rate Hike in November and the 25 bp's in December.

It appears to us that the RBA currently expects to tighten by 50 bp's in November although near term data developments will always have a significant impact on that decision.

The most important data release before the November meeting will be the print of the September quarter CPI on October 28. Our preliminary estimate for core inflation is a read of 0.8%. While that will bring annual core inflation down to 3.5% from 3.9% the quarterly profile of the underlying measures (0.8% last quarter as well) points to the RBA's current forecast of 3.25% annual core inflation in 2009 being highly unlikely to be achieved. With 0.7% dropping off from the December quarter last year a core print of 0.4% would be required in the December quarter in 2009 to achieve the 2009 target. Despite the higher AUD that sharp reduction in the core measure seems extremely unlikely.

The Governor's concerns about achieving of the official forecasts for inflation would appear to be well founded and support the more aggressive move in November.

Last week we discussed the possibility of a substantial statistical

correction in the employment numbers which will print on November 12. We currently estimate a 30,000 fall pushing the unemployment rate back to 6%. That style of number would deter the Bank from a follow up 50 bp's in December but not 25 bp's given the Governor's clear feeling of urgency and the likely supportive nature of other data releases before the December meeting (including retail sales and business investment). In that context it is likely to assess the September/October employment numbers together to conclude, reasonably, that the overall employment trend is steadily improving.

### Our Rate Peak in 2010 is Well Below Market Expectations

From May 2010 we expect a break in the RBA's rate hikes with a pause in the second half.

Issues will be:

1. After the cash rate reaches 4.5% the standard variable mortgage rate will be around 7.3%. In the previous rate hike cycle we found that once the SVMR exceeded 7% households were extremely sensitive to rate hikes. The average fall in the Westpac Consumer Sentiment Index was 8.5% following each of the subsequent rate hikes. That sensitivity caused the RBA to extend the rate hike cycle over a further 3 years.
2. Previous housing recoveries have been largely driven by demand and the supply of credit has adjusted to accommodate demand. In this recovery the supply of credit will be a significant constraint. Australia still has a substantial foreign debt challenge (around 53% of GDP). That is broadly funded by the Australian banks who have not seen any marked improvement in funding costs since the introduction of government guarantees. Banks are still funding term offshore debt at 180–200 bp's (after guarantee costs or non guaranteed) above bank bill compared to 30 bp's prior to the crisis. At the margin that funding cost will act as a constraint to the availability of funding for both mortgages and SME loans. With limited prospects for improvements in global markets these supply constraints will impact the availability of credit in 2010.
3. Limits on the supply of credit are likely to also constrain the pace of recovery in the US, Europe and UK. While household demand may respond to, say, falling house prices and rising affordability credit supply constraints will contain the pace of recovery. Political pressures are likely to limit any substantially further enhanced role for government. Indeed governments' roles become counterproductive as they crowd out the household and SME sectors with their excessive demands for their own funding.
4. Equity markets are likely to experience a significant reversal following the inability of the US economy to justify earnings expectations. Growth currencies like the AUD are likely to experience a setback in that environment.
5. Debt servicing ratios for Australia's household sector will rise quickly. Rising debt to income ratios and higher rates will see household debt servicing ratios reach 2007 levels in the second half of 2010. We expect the household debt servicing ratio to reach 14.22% by end 2010. That compares with an average of

13.7% in 2007 and 14.5% in 2008. Despite average interest rates being 1.5 ppt's higher in 2007 compared to 2010 the ratios are comparable due to the higher household debt/income ratios in 2010.

The ratio will have risen from 11.09% in June 09 (3.1 ppt's) with 1.1 ppt's due to higher debt/income ratio and 2 ppt's due to higher interest rates.

### Implications for AUD in 2010: USD 0.98 in December 2009; USD 0.92 in June 2010; USD 0.95 in December 2010.

Our global view points to commodity prices moving largely sideways in 2010. We also expect that market expectations on Australian rates will be disappointed in 2010. Once the RBA pauses markets are likely to focus on potential rate hikes by the FED. We see that as more of a 2010 H2 event than H1 due to our negative view on the sustainability of the US "recovery" in 2010 H1.

This disappointment in the pace of the US and European recoveries, partly associated with the credit supply issues, is likely to see markets downgrading their global growth views in 2010 H1.

We have long argued for a retracement in AUD in the middle quarters of 2010 largely reflecting these factors. Certainly we would still expect that 5–10 big figure correction around that time but it now appears that it will be from a much higher base.

Prospects for a more durable global recovery and a resumption of RBA tightenings should restore the AUD to global favour in 2011 despite FED tightenings attracting some market attention. While interest rate differentials have and will dominate AUD sentiment for 2009 H2 and 2010 a resurgence in commodity prices as the global recovery attains a broader base should see AUD recovering some of the ground it is likely to have lost in those middle quarters of 2010.

While we are predicting solid weakness during 2010 we cannot argue that the AUD is fundamentally overvalued given the secular rise in Australia's terms of trade and our view that commodity prices will enter a renewed up swing in 2011 (Chart 3).

Bill Evans, Chief Economist

### AUD follows terms of trade long term

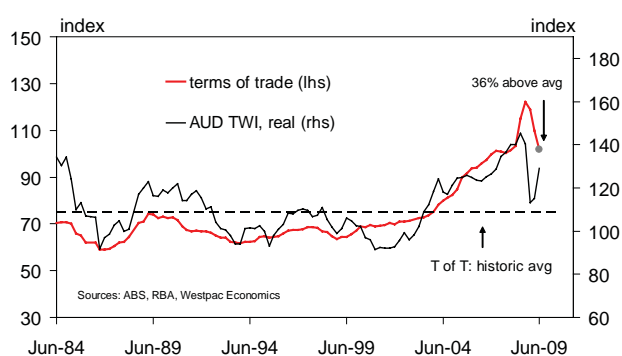


Chart 3:

# Data wrap

## Sep NAB business survey

- The Business Conditions Index edged slightly lower from 3.8 to August to 3.2 in September but this was still well up on the cyclical low of -20 in February.
- Despite the slippage, the NAB survey remains consistent with demand strengthening to a 3%+ annual pace.
- The pull-back was driven by softening trading conditions and profitability. Both remain in solid positive territory though and up sharply on the double-digit negative reads in Q1.
- Meanwhile, forward orders point to more strength ahead, with the sub-index rising to its highest level since October 2007.
- More importantly, the survey points to a further stabilisation in employment, the sub-index jumping from -10.5 in August to -1.1 in September, the highest reading since the Lehmans collapse.
- The headline Business Confidence Index showed a slightly sharper pull-back, from 18.1 in August to 13.7 in September, however this was coming from the highest level since 2003 and still leaves a strong trend improvement in place. Notably, the survey was conducted before the RBA's 25bp rate hike on October 6.

## Oct Westpac-MI Consumer Sentiment

- The Westpac-Melbourne Institute Index of Consumer Sentiment rose by 1.7% in October from 119.3 in September to 121.4.
- This rise is significant since the survey follows the Reserve Bank's decision to raise interest rates by 0.25%. However the result should come as no surprise. Evidence from the last tightening cycle, which began in May 2002, points to sentiment being resilient to rises while rates remain very low. For example, following the first rate hike in 2002, when the Reserve Bank raised rates from 4.25% to 4.5%, the Index fell by a modest 1.1%. The follow up move from 4.5% to 4.75% the next month actually saw a modest improvement in the Index of 0.5%. Over that previous period the standard variable mortgage rate was increased from 6.05% to 6.55%, whereas the current cycle has seen the rate rise from 5.80% to 6.05%.
- Other developments were all supportive of sentiment. Since the last survey the share market has risen by 7.2%, petrol prices have fallen by 7.5%, and the Australian dollar has appreciated a further 7.5% to be 50% above its lows of around a year ago.

- The resilience of the labour market has also been buoying sentiment. The surprise fall in the unemployment rate from 5.8% to 5.7% in September strengthened households' convictions that their jobs are safe.
- While the sharp divergence between expectations components and current conditions components remains, this month saw the expectations index rise 1.1% while the current conditions index rose 2.7%. Still, the expectations index is at its highest on record, while the current conditions index is well below previous peaks, leaving in place doubt over the extent to which the upbeat mood feeds into actual spending.

## Oct Westpac-MI unemployment expectations

- Consumers' unemployment expectations recorded their 8th consecutive fall in October, continuing their rapid downtrend since peaking in February. With the backdrop of the strong September employment data showing an unexpected dip in the unemployment rate from 5.8% to 5.7% released in the midst of the survey period, the fall in the index in October was the largest since March 1996. The unemployment expectations index fell 14.6% in October to 112.38 after a 3.6% fall previously, for a cumulative 38.6% fall from their February peak. We prefer to assess this index via a smoothed trend deviation from their full history average as a guide to annual employment growth seven months ahead. This deviation measure fell for the seventh consecutive month, to 0.7% in October from 12.9% in September, the lowest since May 2008.

## Oct MI inflation expectations

- Despite a further rise in consumer sentiment in October, consumers' inflation expectations remained steady in October for the third consecutive month at 3.5%. Nevertheless, this saw their uptrend since March continue, rising to 3.63% from 3.49% previously, the highest since October 2008. The trend expectation of managers and professionals rose to 3.78% from 3.54%, the highest since October 2008 also. The proportion expecting inflation within the 2% to 3% target band edged down to 17.3% from 17.4% but remains well above its twelve month average (11.7%), and the proportion expecting inflation above the band also eased to 57.8% from 59.1%. A greater proportion were unsure this month (10.9% in "don't know" vs 9.2% prev).

## Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Tue 13	Sep NAB survey: business conditions	4	3	-
Wed 14	Oct Westpac-MI Consumer Sentiment	119.3	121.4	-
Thur 15	RBA Governor Stevens Speech	-	-	-
	Oct WBC-MI unemployment expectations	-3.6%	-14.6%	-
	Oct MI inflation expectations	3.5%	3.5%	-
	Oct 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.

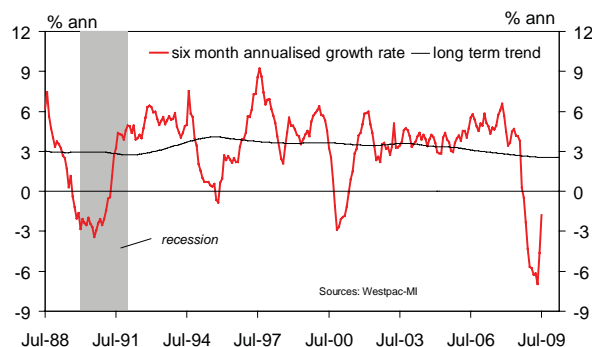
# Data previews

## Aus Aug Westpac-MI Leading Index

Oct 21, Last: **-1.8% 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 **-1.8%** in July, still well below its long term trend of 2.5% but continuing the sharp improvement on the **-7.0%yr** read in May. Indeed, the raw index rose at a double-digit annualised pace through June-July after slumping at an **-8.3%** average annualised rate over the previous nine months.
- Monthly components were somewhat mixed in August: equity markets continued to rally strongly (ASX **+5.5%** in the month); but dwelling approvals were down slightly (**-0.1%**) after previous strong gains; and money supply growth remained subdued at **+0.4%** (vs average 1.1%*mth* in the year to June). US industrial production posted a second gain, rising 0.8%*mth* in August, but this followed a stronger 1% rise in July.

## Westpac-MI Leading Index

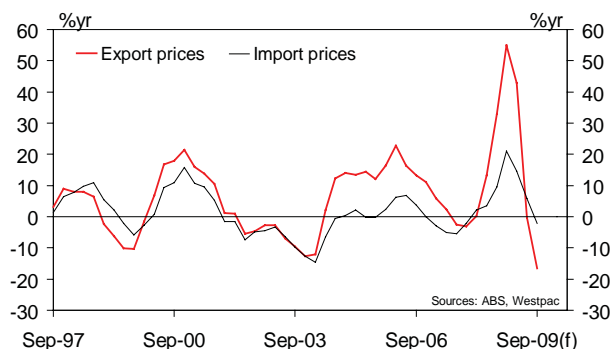


## Aus Q3 international trade price indexes

Oct 23, Export: Last: **-20.6%**, WBC f/c: **-4.8%**, Mkt f/c: **-4.7%**  
 Import: Last: **-6.4%**, WBC f/c: **-3.0%**, Mkt f/c: **-2.8%**

- Q2 export prices plunged a record 20.6%*qtr*, cutting annual growth to **-0.2%yr** from 42.8%*yr* previously. Sharp falls in USD bulks prices were reinforced by a 14.4%*qtr* AUD/USD appreciation. With the import weighted AUD TWI rising 10.2%*qtr*, core import prices fell a sharp 7.9%*qtr*. With food and beverage prices falling a lesser 2.9%*qtr* and some offset from a 6.1% rise in mineral fuels, the total MPI fell a lesser 6.4%*qtr*, leaving a sharp drop in the terms of trade.
- While further AUD strength (+9.6% vs USD) will weigh on export prices in Q3, improved China demand helped a partial offset from higher USD commodity prices (+2.9% for the RBA commodity price index, led by base metals). We forecast **-4.8%qtr** for the XPI. With the MTWI up 6.6%*qtr*, we expect a 4% fall in core import prices. But partial offset from a 3.4% rise in petroleum tempers the overall MPI forecast to **-3%qtr**.

## International trade price inflation

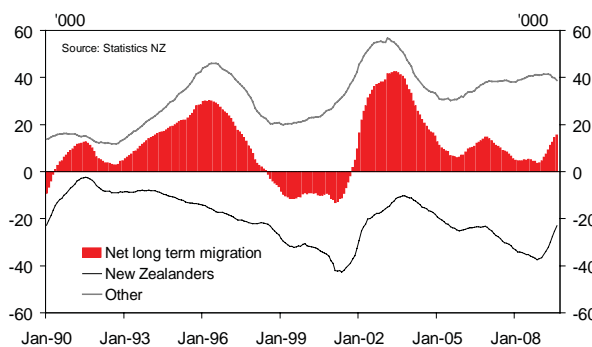


## NZ Sep external migration ann.

Oct 21, Last: **15,642**, WBC f/c: **17,600**

- Arrivals of foreigners dipped unexpectedly in August, paving the way for a bounce in net migration this month. However, the dramatic fall in departures of kiwis to Australia that's been driving the migration turnaround has now flattened out on a monthly basis, and an improved employment outlook over the ditch is expected to see it start picking up again soon.
- Nonetheless on an annual basis net migration will remain on a rising trend for some time, boosting the NZ economy and housing market.
- Visitor arrivals are suffering from the global downturn. A great snow season compared with Australia has provided some offset but this seasonal effect has now done its dash.

## NZ net migration



# Data previews

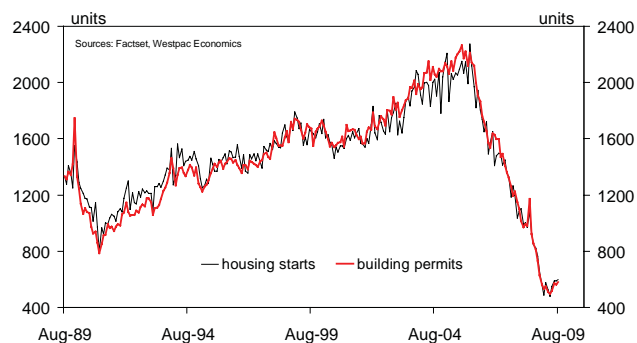
## US Sep housing starts and permits

Oct 20, Starts: Last: 1.5%%, WBC f/c: 1.0%

Oct 20, Permits: Last: 2.7%%, WBC f/c: 1.0%

- On a range of indicators, housing has shown clear signs of turnaround after several years of tumbling prices and activity. But in Aug, after five consecutive monthly gains, single family home starts posted a 3% fall. Only a jump in multiple starts prevented total starts from recording a decline. The permits story was similar in Aug.
- In Sep, construction jobs fell by 64k (more than in July), but homebuilder confidence rose to its highest in over a year. These mixed signals are not weak enough for us to forecast a second consecutive decline in the single family house starts and permits categories, though total starts and permits will only post modest gains due to a likely pull-back in the multiple components.
- If we are wrong, and single family starts/permits fall in Sep, that would be a worrying signal for the housing sector outlook.

## US housing starts & permits



# Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 19</b>					
Aus	RBA Assist. Gov. Lowe speech	-	-	-	Citigroup Australian Investment Conference (13:00 AEDT, topic tba).
Jpn	Bank of Japan minutes	-	-	-	BOJ deeply concerned about what happens beyond the sugar rush.
	Aug tertiary activity index	0.6%	flat	-	Should reflect improved household spending activity.
UK	Oct house prices %yr	-1.5%	-	-	Rightmove index.
US	Oct NAHB housing market index	19	20	18	Worries that tax credit for first home buyers won't be extended.
	Fedspeak	-	-	-	Bernanke at SF Fed's Asia Economic Policy conference in Calif.
<b>Tue 20</b>					
Aus	Sep merchandise imports, AUDbn	15.5	-	-	Fell 7.3% in Aug = -3.9%sa, but largely price driven from higher AUD.
	Oct RBA meeting minutes	-	-	-	Will they emphasise "gradual" or "measured but prompt adjustment"?
Ger	Sep producer prices %yr	-6.9%	-7.1%	-	Base effects will drive PPI annual rate higher from Nov.
UK	Sep PSNCR £bn	10.4	-	-	Public sector net credit requirement.
	Sep money supply M4 %yr	12.5%	-	-	Has decelerated sharply since Feb, despite QE introduction in Mar.
US	Sep producer prices	1.7%	0.1%	0.2%	Aug spike was due to 23% jump in gasoline prices which did not reverse in Sep, but was not repeated.
	Sep PPI core	0.2%	0.1%	0.1%	
	Sep housing starts	1.5%	2.0%	1.0%	Multiples at risk of decline following Aug spike. Failure of single family starts permits to bounce following soft Aug would be a concern.
	Sep housing permits	2.8%	1.9%	1.0%	
	Fedspeak	-	-	-	Warsh at SF Fed's AEP conference.
Can	Aug wholesale sales	2.8%	0.3%	-	July jump was due to autos.
	Sep leading indicators	1.1%	-	-	Has not fallen since April.
	BoC rate decision	0.25%	0.25%	0.25%	Is BoC thinking of softening conditional commitment to steady rates?
<b>Wed 21</b>					
Aus	Aug Westpac-MI Leading Index, ann'lisd	-1.8%	-	-	Below trend of 2.5%, but sharp improvement from -7% in May.
	Sep motor vehicle sales	0.3%	-	4.0%	Strong figures in September - suggesting underlying cyclical upturn.
NZ	Sep external migration ann.	15,642	-	17,600	Sep month bounce likely but then easing as Aussie exodus resumes.
	Sep credit card transactions	1.6%	-	-	Modest extension of last month's strong gains expected.
Thai	Bank of Thailand decision	1.25%	1.25%	1.25%	Thai economy off the canvas, but resource slack remains pervasive.
UK	Sep MPC meeting minutes	-	-	-	Expect another unanimous on hold decision.
	Oct CBI industrial trends survey	-	-	-	Includes more detailed quarterly survey responses.
US	Fed beige book	-	-	-	Fed's regional economic assessment prepared ahead of 4/11 FOMC.
	Fedspeak	-	-	-	Plosser, Lacker, Rosengren.
<b>Thu 22</b>					
Chn	Q3 GDP %yr	7.9%	9.0%	9.2%	Consensus f/c implies 9.5%saar. Our number is 10.3%saar.
	Sep consumer prices %yr	-1.2%	-0.8%	-	Degree of oversupply is shrinking as activity recovery broadens.
	Sep producer prices %yr	-7.9%	-7.4%	-	Base effects will begin pulling this series higher from October.
	Sep industrial value-added %yr	12.3%	13.1%	-	PMIs solid on the headline. Base effects will flatter thru to year end.
	Sep fixed investment %ytd	33.0%	33.1%	-	Initial impetus from stimulus spending waning, but still booming.
	Sep retail sales %yr	15.4%	15.5%	-	Market is implying a deceleration in real terms. A bit conservative.
Jpn	Sep trade balance ¥bn s.a.	235	380	-	Stabilisation of demand in export markets offset by yen strength.
	Aug all-industry activity index	0.5%	0.4%	-	Decent input from tertiary, but construction is dead in the water.
Eur	Aug current account €bn sa	6.6	-	-	July saw first surplus since Feb last year.
UK	Sep retail sales	flat	0.5%	0.4%	CBI survey suggested sales may have picked up.
US	Initial jobless claims w/e 17/10	514k	519k	520k	Claims downtrend is steepening.
	Sep leading indicators	0.6%	0.8%	-	Equities, jobless claims are among the major positives this month.
	Aug house prices	0.3%	0.3%	-	Lesser watched FHFA index.
	Fedspeak	-	-	-	Dudley, Evans, Rosengren.
Can	Aug retail sales	-0.6%	0.1%	-	Auto sales known flat; recent jobs strength driving higher spending?
	BoC monetary policy report.	-	-	-	Is BoC thinking of softening conditional commitment to steady rates?
<b>Fri 23</b>					
Aus	Q3 export price index %qtr	-20.6%	-4.7%	-4.8%	2.9% USD commodity price rise more than offset by 9.6% AUD/USD rise.
	Q3 import price index %qtr	-6.4%	-2.8%	-3.0%	Core prices -4% with 6.6% MTWI rise; partial petroleum offset (+3.4%).
Twn	Sep industrial production %yr	-9.6%	-	-	Rotation of inventory adjustment from tech to basic materials.
	Sep export orders %yr	-12.0%	-	-	A little behind the regional trend, but improving steadily.
Eur	Aug industrial orders	2.6%	-	1.0%	German orders known up 1.4% in Aug.
	Oct PMI factory advance	49.3	50.0	50.0	IP and orders data point to industrial expansion; services sector is already there.
	Oct PMI services advance	50.9	51.5	51.5	
Ger	Oct Ifo business climate index	91.3	92.0	92.0	Pace of gain has slowed a touch recently, but Ifo is still rising.
UK	Q3 GDP advance	-0.6%	0.2%	0.0%	Latest partial data (esp IP) suggest nil quarterly growth.
	Sep mortgages, '000	38.1	-	-	BBA data covering just the banks.
US	Sep existing home sales	-2.7%	5.9%	5.0%	Pending home sales suggest big catch up bounce due.
	Fedspeak	-	-	-	Bernanke at Boston Fed conference; also Kohn.

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# Economic & financial forecasts

## Interest rate forecasts

	Latest (Oct 16)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Cash	3.25	4.00	4.25	4.50	4.50	4.50
90 Day Bill	3.90	4.30	4.50	4.70	4.60	4.75
3 Year Swap	5.80	6.25	6.50	6.50	6.25	6.50
10 Year Bond	5.60	6.00	5.70	6.20	6.50	6.50
10 Year Spread to US (bps)	214	250	250	245	225	200

## International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.46	3.50	3.20	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	2.75	3.25	3.75	4.25
90 day bill	2.83	2.80	3.05	3.55	4.05	4.60
2 year swap	4.65	4.30	4.75	5.25	5.50	5.60
10 Year Bond	5.73	5.90	6.00	6.10	6.20	6.30
10 Year spread to US	227	240	280	235	195	180

## Exchange rate forecasts

	Latest (Oct 16)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
AUD/USD	0.9240	0.98	0.98	0.92	0.93	0.95
NZD/USD	0.7464	0.79	0.79	0.75	0.76	0.79
USD/JPY	90.71	87	87	93	96	100
EUR/USD	1.4936	1.52	1.52	1.47	1.50	1.51
AUD/NZD	1.2379	1.24	1.24	1.23	1.22	1.20

## 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	0.0	-1.5	2.8
Unemployment rate %	5.0	6.0	6.6	6.9	6.5	6.3	6.1	3.5	4.7	6.9	5.9
CPI % qtr	0.3	0.6	1.3	0.4	0.3	0.6	0.7	-	-	-	-
Annual change	3.0	1.9	1.7	2.5	2.5	2.6	2.0	3.2	3.4	2.5	1.8

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.