

Australian weekly

Week beginning 5 October 2009

- RBA to signal rate hike in November
- Australian data: housing finance, labour force, job ads.
- New Zealand data: Q3 NZIER survey.
- BoE & ECB: firmly on hold.
- US data: ISM non-manufacturing, trade balance.
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Information contained in this report was current as at 2 October 2009

RBA to signal rate hike in November

The Reserve Bank Board meets on Tuesday, October 6 next week. We do not expect the Bank to change rates at that meeting. However we do expect the associated Statement from the Governor to set the scene for a tightening at its next meeting on November 2.

Markets have intensified speculation that a move could come as soon as next week. Given that the next move would be the first in a cycle that is leading the world by a year or more there are no real urgencies for the Bank. By next month there will further information about the inflation outlook with the print of the September quarter data. That is likely to provide the Bank with a strong specific case to move rather than "the emergency has passed". Given that the September Board Minutes emphasised ongoing "uncertainty" we do not believe that the data flow since that meeting has been sufficiently overwhelming for the Bank to revise its careful cautious approach to preparing markets and the community for this first move.

The inflation report will be released on October 21. Recent prints on quarterly underlying inflation have been: 1.2% (2008 Q3); 0.7% (2008 Q4); 1.1% (2009 Q1); 0.8% (2009 Q2). We are expecting 0.8% for 2009 Q3 which will lower the annual rate to 3.5% from 3.8% but a 0.5% in 2009 Q4 would be required to achieve the Bank's 3.25% forecast for 2009. Given the "run" of quarterly numbers, that seems a big stretch, and the Bank could easily justify a rate hike on the grounds that inflation is not slowing as rapidly as it had previously forecast.

We expect the RBA to raise rates by 25bp's in both November and December but unlike current market expectations which indicate the cash rate to reach 5% by early in the second half of 2010 we expect the peak in rates in 2010 to be around 4% with the Bank likely to be pausing over the second half of 2010.

Our GDP forecast of 4% growth through 2010 has been predicated on a cash rate peak in 2010 of 4%. We are not changing our growth forecast. In bringing forward the beginning of the cycle we really only expect the pause to come somewhat earlier.

On the demand side a variable mortgage rate of 6.5% (around 100bp's from current levels) is likely to sufficiently deflate Consumer Confidence and housing credit demand to signal the need for a decent pause in the hiking cycle. On the supply side we expect difficult global financial conditions to constrain the supply of credit ongoing in Australia.

This change brings forward our original timing of the first move from February next year to November. We have been forecasting through the year growth in 2010 of around 4% for some months with consumer spending; an improving outlook for business investment and the surge in government spending being key drivers. However we expected that the evidence around the consumer in particular would remain uncertain for some months.

August retail sales important

The case for an earlier than expected tightening has been significantly strengthened by the release of the August retail sales data.

In the Minutes to the September Board meeting it was noted that a deal of uncertainty existed with respect to the economic momentum. For us, the key area of uncertainty related to the momentum of the consumer. Consumer sentiment had reached

levels normally associated with a consumer boom. However, other aspects of the survey were sending a more opaque message. In particular consumers' investment preferences remained very conservative. Nearly 60% of respondents favoured "pay back debt" and bank deposits over other investments such as equities and property – that conservatism has not been associated with previous consumer booms.

These factors are likely to see a more subdued consumer than associated with "boom" conditions. That said, the tone of the August retail sales is now falling into line with our base forecast of 3% growth in consumer spending through 2010. That is consistent with our 4% overall growth forecast and would give the Bank more confidence to start the rate hike cycle earlier than we previously expected.

Up to August we had seen two very weak reads on retail sales –0.9% in July and –0.8% in June. Our interpretation of those numbers was that even after allowing for the correction for the withdrawal of the "cash splash" from the Government there was no evidence that underlying consumer spending was on the upward trajectory that would normally be associated with the current level of Consumer Sentiment.

The very sharp rise in retail sales in August is now convincing evidence that underlying consumer spending is very likely to be showing a cyclical upturn. While only one month's data, it will probably be sufficient to clear up any doubts at the RBA that the strong levels of Confidence are indeed indicating a recovery in consumer spending.

The data over the next month is now unlikely to change the near term interest rate outlook. The Bank seems convinced that the unemployment rate is likely to peak in "the sixes" (compared to our forecast of around 7.5%) so the employment release on October 15 would need to be a most unexpected "shocker" to change that benign outlook for the labour market.

Financial conditions still difficult

One reason why we think there will be a significant pause in the cycle in the second half relates to financial conditions.

Due to the lingering constraints from the global financial crisis some credit aggregates are not already performing in the normal way associated with "emergency" interest rates.

Businesses do not find rates at "emergency lows". Business credit has contracted by 2.2% in the year to August compared to an increase of 17% in the previous year. When businesses renegotiate their facilities they are finding that due to the widening of credit spreads margins have increased – RBA's Financial Stability Review estimates "100–200 basis points for new large business loans and around 135 basis points for new small business loans". Many businesses would argue that these "averages" are conservative. As more businesses renew existing facilities margins will continue to widen offsetting a considerable part of the benefit of these "emergency" level rates.

The key "measure" of whether the economy is reflecting these "emergency levels" must be housing credit. Housing credit growth has been subdued at 7.4% down from 9.1% last year) but this has reflected the decisions by existing borrowers to use the rate cuts to pay down capital at a faster pace by not opting for a lower interest payment. This reflects uncertainty with the current economic

environment and rising unemployment. Anecdotal evidence points to up to 80% of existing borrowers being "ahead" on their interest payments.

The strength has been in housing finance approvals – new housing loans. The number of new loans to owner occupiers is up by 38% from its low last August. While heavily influenced by the 77% rise in loans to First Home Buyers, lending to Upgraders has climbed 26% in 2009. Significantly, investors, who explained nearly 50% of new lending at the peak of the last housing boom in 2003 are up by only 5% since last August. Credit conditions are currently part of the explanation behind this unusually muted response of investors to the "emergency rates".

Tighter lending standards; uncertainty about prices; the prospect of rising rates; and limited supply of appropriate investment properties are all roadblocks to prospects for a strong investment upswing.

For investors "emergency interest rates" are only one factor – prospects for the others are not that encouraging. Indeed the buoyant story for new finance is starting to fade somewhat. Values have been down in the last 2 months and industry data is indicating another negative in August. The number of loans to First Home Buyers fell by 7.3% in July and while we can expect a boost in September the ongoing strength in the approvals data will depend on the confidence of investors and upgraders as First Home Buyers retreat.

House prices – demand/supply balance

Finally, we come to house prices. There is clear evidence that house prices are now rising (up 17% annualised in the last six months). This may be another example of the impact of "emergency" rate settings. However there are a number of other complicating factors.

Prices are driven by the gap between demand and supply. Interest rates can affect demand but will have little impact on supply. We would argue that the inertia of supply (national housing completions are running at around 130,000 per year compared to underlying demand of 190,000) has been a significant factor in the current upswing in prices. The Bank would argue that overstimulating demand in the face of rigid supply is inappropriate and does provide a case for tightening. However as rates rise this argument will quickly lose its relevance as the stimulus to demand fades and it becomes solely the inertia of supply which is driving prices.

Global growth to underperform market expectations

Our relative pessimism about the pace at which global financial conditions will improve to ease the pressure on banks and eliminate credit supply as a constraint to recovery is partly based around a much less upbeat outlook for the US economy than is currently factored into markets.

Balance sheet constraints and uncertain employment prospects are likely to contain any decent recovery in US consumer spending which is the key to a sustainable recovery in the US economy in 2010. On the supply side we expect that banks will remain capital constrained; push ahead with plans to deleverage and be wary of credit risk in the consumer sector. Equity and credit markets are likely to react adversely to these developments from the first quarter of 2010. That should see a solid reversal of the current risk appetite trades providing a break on the current surge in the AUD.

Revised view on AUD

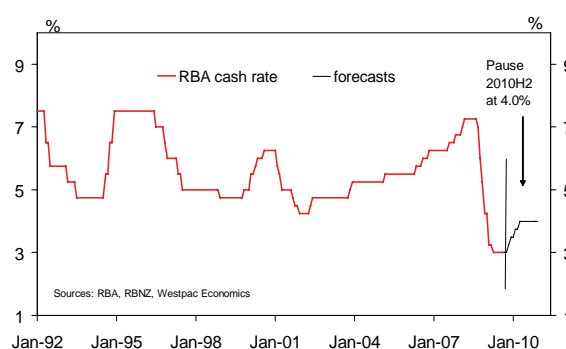
Constraints on bank funding which are largely determined in the global markets are likely to remain significant headwinds to a rapid return to "normal" cash rates. With only limited further easing of global financial conditions through 2010 banks will remain constrained in their flexibility to finance a stronger recovery. Softening demand and constraints on supply will mean that a 4% cash rate will seem much less stimulatory than in past cycles and lay the foundation for a pause in the second half of 2010.

We had been expecting a fall in the AUD through to year's end as markets became disappointed that the RBA delayed rate hikes until February. With rate hikes now being delivered that correction to the AUD will no longer occur. Our other basis for the AUD to correct related to our subdued view on the growth profile for the US economy. Our anticipated growth correction is now more likely in early 2010 than second half of 2009 since the stimulus from the recovery in the inventory cycle and government payments should sustain decent US growth momentum through 2009.

The 5–10 big figure correction in AUD is now more likely in the first half of 2010 before resuming its upswing as US markets price in a more realistic recovery profile for the US economy.

Bill Evans, Chief Economist

RBA cash rate



Data wrap

Aug retail sales

- Retail sales posted a strong 0.9% rise in August after a –0.9% fall in July and a –0.8% decline in June. The result was well above market expectations of a +0.5% gain and suggests the post-fiscal-stimulus 'soft spot' in spending has been both mild and short lived.
- Both the headline result and category detail point to an underlying cyclical upturn in spending consistent with the surge in consumer sentiment between May and September. The figures greatly reduce one of the key areas of uncertainty for the RBA – the short term pace of consumer spending – adding to the argument for rates to rise.

Aug dwelling approvals

- Total dwelling approvals edged 0.1% lower in August after surging 18.6% between May and July. The result was below market expectations of a 2.5% gain but was driven by a pull-back in the volatile apartments segment.
- The larger, more stable private sector houses segment posted another solid 3.1% gain in August and continue to trend higher at a 30% annualised pace consistent with the strong recovery in housing finance approvals.
- By state, strength was in NSW led by a big 15.6%*mt* jump in private sector house approvals. All states continue to show strong up-trends in private sector house approvals though; with NSW, Vic, Qld and WA all rising at 30%+ annual rates over the last three months in trend terms. The pull-back in apartments was concentrated in Victoria.
- The value of renovation approvals posted a second strong rise, up 7.1%*mt* after a 15.9%*mt* jump in July. The spectacular ramp-up in public works activity also gave another big boost to non-residential building approvals; up 68.7%*mt* in August after an 80% jump in June and flat July. Monthly (unadjusted) public non res building approvals have increased five-fold since May.
- Overall the disappointing headline continues the theme of dwelling approvals lagging other aspects of the housing recovery. However, a recovery remains evident in the detail. Meanwhile, the next phase of the Government's fiscal stimulus is showing through more clearly in public building approvals.

Aug private credit

- Credit to the private sector increased by 0.14% in August. That is a fraction firmer than the previous six months, when growth averaged just 0.06%.
- Business credit contracted further, declining by 0.6%. That is in line with the last half year.
- Housing credit increased by 0.64% in the month, marginally firmer than recent history. The big news is that investor housing credit has stepped up over the last two months, with increases of 0.4%.
- Personal credit rose 0.5%, after ten months of decline.
- Going forward, we expect a gradual firming of credit growth through 2010 and then a stronger tone through 2011. Monetary policy is set to remain expansionary for some time yet, albeit not as expansionary as present. Moreover, businesses are likely to become less aggressive in cutting debt levels.

Sep AiG PMI

- The AiG PMI reported that manufacturing sector conditions expanded for a second consecutive month. The index inched 0.3pts higher in September to 52.0.
- Production improved further (56.0), up from 53.0 in August. That represents a sharp turnaround from July (42.8).
- New orders grew only slightly in the month (51.0), following a large lift in August (60.3).
- Employment all but stabilised in the month (49.7), a sharp improvement from last month (40.5).

Sep TD-MI inflation gauge

- The TD-Melbourne Institute inflation gauge was unchanged in September following an unchanged August, but a record 0.9% spike in July. Annual growth fell to 1.3%*yr* from 1.7%*yr*.
- With the July spike, the 3*mt* growth in the gauge is 0.86%, down from 1.29% previously, but well above the Q2 mid-month-of-quarter –0.38%. This reaffirms our expectation for a considerably higher quarterly headline inflation pace in Q3 than Q2. Our preliminary Q3 headline CPI forecast is 1.0%*qtr* (vs 0.5%*qtr* prev), which coincidentally would lower the annual rate to 1.3%*yr* from 1.5%*yr* previously.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Mon 28	RBA Gov. Stevens at Senate Committee	–	–	–
Tue 29	RBA's Richards in panel discussion	–	–	–
Wed 30	Aug retail sales	–0.9%	0.9%	0.5%
	Aug dwelling approvals	6.6%	–0.1%	2.5%
	Aug private credit	0.2%	0.1%	0.2%
Thu 1	Sep AiG PMI	51.7	52.0	–
Fri 2	Sep TD-MI inflation gauge	0.0%	0.0%	–

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.

Data previews

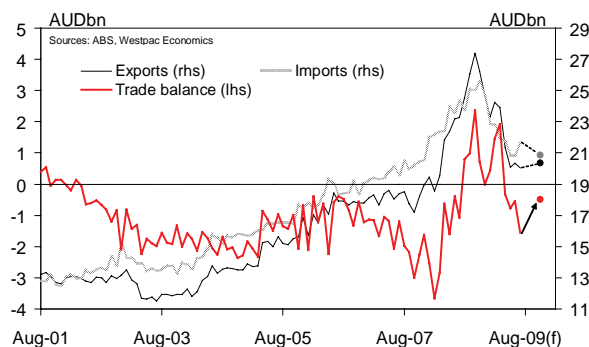
Aus Aug international trade balance, AUDbn

Oct 6, Last: **-\$1.56bn**, WBC f/c: **-\$0.5bn**

Mkt f/c: **-\$0.9bn**, Range: **-\$2.0bn to -\$0.5bn**

- The deficit rose \$1.018bn in Jul to \$1.556bn. Exports fell 1.4% with -27% in non-monetary gold and -3.6% in rural. But non-rural goods saw a vol rise, with values up 1.1% but prices -0.3%. This slowed the downtrend in exports to -2.7%*mth* (best since Dec-08). Imports rose 3.5% slowing their downtrend to -0.2%*mth* (best since Oct-08). Capital goods remain weak but consumption goods are in an accelerating uptrend.
- Port data implies non-rural export vol gains in August (iron ore, coal) but flat prices and a 2.1% s.a. drag temper our f/c for non-rural values to +3%. Rural vols were up slightly, but with prices -2.6% and a 5.5% s.a. drag, we f/c -5% for rural exports, giving +1.5% for total exports. Merchandise import data implies -4.6% for goods (largely price with AUD up 4%) and we f/c -3.5% for total imports, combining with the export rise to narrow the deficit more than \$1bn from last month.

Deficit to fall with NR X vols up, M vals down

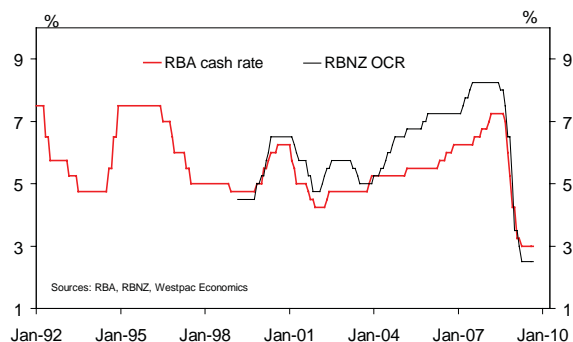


Aus RBA policy announcement

Oct 6, Last: **3.00%**, WBC f/c: **3.00%**

- Governor Stevens has stated a desire to lift interest rates from current "emergency lows", at some stage. It is widely expected that the tightening cycle will begin before years' end. While the rate hike option will be on the table at this meeting, we favour November, following the inflation update.
- In discussing monetary policy, the Governor stressed that it operates within an inflation targeting framework. It is this framework that will prompt / guide needed adjustments to rates. Moreover, these adjustments "will be timely and ahead of a build-up of imbalances that would occur if interest rates were kept low for too long".
- The balance of economic indicators clearly suggest that the likelihood of inflation being persistently below the target now looks low. Accordingly, we agree that rates need to be lifted from current emergency lows.

RBA: rates at unsustainable historic low



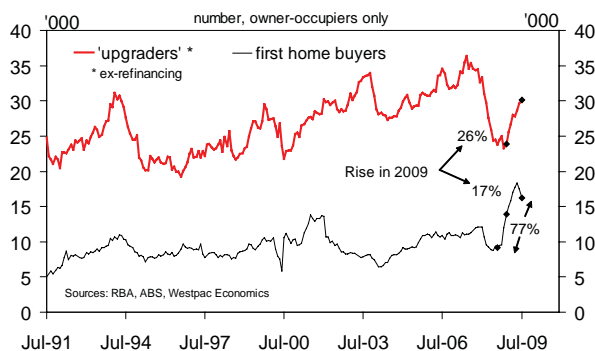
Aus Aug housing finance

Oct 7, Last: **-2.0%**, WBC f/c: **-1.5%**

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

- Housing finance is expected to ease modestly for a second consecutive month after a strong surge. We're forecasting a 1.5% decline - driven by a drop in lending to first home buyers, from elevated levels. Lending to upgraders, up 26% so far this year, is set to strengthen further.
- The story of this year has been a surge in finance with pent-up demand for housing unleashed by a 41 year low in variable mortgage rates and government incentives for first home buyers. The incentives triggered a burst of demand from FHBs.
- Investors have yet to play a major role in this cycle, with tighter lending standards a constraint. With the likelihood that this constraint will ease in time, we anticipate investors will return in greater numbers as 2010 progresses.

Housing finance to FHBs off highs



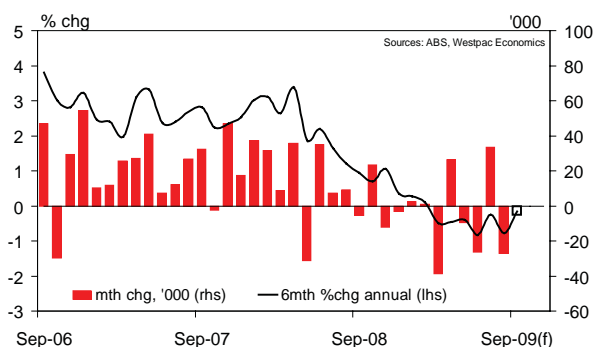
Data previews

Aus Sep employment chg

Oct 8, Last: -27.1k, WBC f/c: -5k
Mkt f/c: -10k, Range: -20k to 20k

- Employment fell 27.1k in August taking trend growth to -0.24%yr, the weakest since Jan-93. Full-time employment continued to underperform with a 30.8k fall, its fourth consecutive fall (for a cumulative loss of 109.8k), taking trend growth to -2.27%yr, the weakest since Apr-92.
- With job ads rising in August for the first time since Apr-08, their trend deviation measure has tentatively troughed, implying a low point for annual jobs growth in Jan-10. This measure remains consistent with a low of around -1.7%yr. However, our view is for jobs growth to trough at a more resilient -1%yr with employers reducing hours worked more than outright staffing. Our forecast -5k for September jobs would take trend growth to -0.3%yr in line with our prognosis, with a more resilient performance this month also consistent with less-negative business survey employment indices.

Aust jobs: surveys imply lesser Sep fall

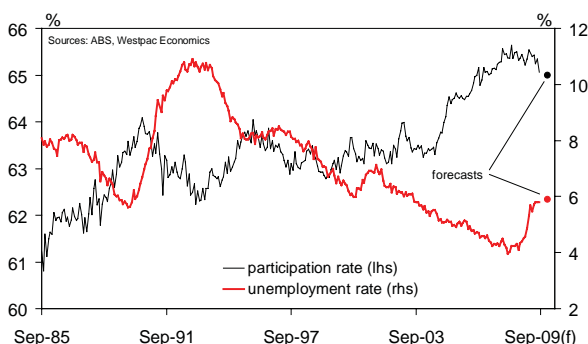


Aus Sep unemployment rate

Oct 8, Last: 5.8%, WBC f/c: 5.9%
Mkt f/c: 6.0%, Range: 5.8% to 6.2%

- As usually seen in months of employment falls, the participation rate fell a 'large' 0.3ppts in August to 65.1% (from 65.34% to 65.06% to two decimals). This was sufficient to drive a 29.1k fall in the labour force, enough to offset the fall in employment and leave the unemployment rate unchanged at 5.8% for the third straight month. The trend rate continued to rise, but very gradually to 5.85% from 5.83%.
- With a further (albeit significantly milder) fall in employment forecast for September, the participation rate should edge lower again to 65.0%. This would however result in around a 10k rise in the labour force, only partially offsetting the expected jobs fall, lifting the unemployment rate to 5.9%. Risks to our unemployment rate forecast lie to the upside though, from greater resilience in the participation rate after the 'large' August fall.

Unemployment and participation rates

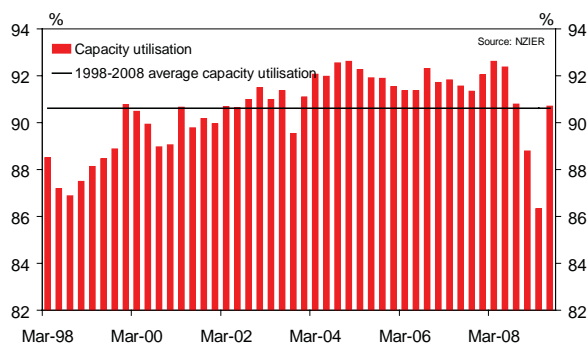


NZ Q3 NZIER business confidence

Oct 6, Last: -25%

- The June *QSBO* showed an improvement in business sentiment compared to the depths of the recession in March, though most of the key indicators remained negative.
- The ongoing recovery in domestic activity will drive a further pickup in business sentiment for Q3, with monthly confidence surveys suggesting the headline measures should turn positive. Detailed questions on the past three months could also be instructive as to how far the 'green shoots' of recovery have translated into a visible improvement in business conditions.
- The RBNZ's expectation of no rate hikes until the latter part of 2010 rests on inflation pressures remaining subdued. The June *QSBO* gave mixed signals on this matter: capacity utilisation saw the largest quarterly jump in the history of the survey, but costs and pricing intentions were soft and ease of finding workers remained high.

QSBO capacity utilisation



Data previews

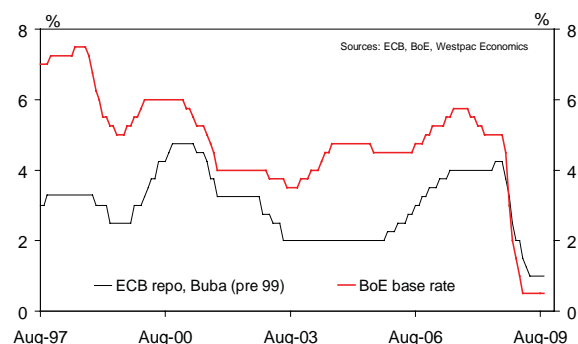
Bank of England and European Central Bank

Oct 8, BoE Last: 0.5%, WBC f/c: 0.5%

Oct 8, ECB Last: 1.0%, WBC f/c: 1.0%

- The BoE policy committee voted 9:0 in September to hold rates steady and leave the QE asset purchase program at £175bn. In briefings since then, BoE officials have been adamant that the impact of QE has been "significant". We believe it will probably be extended to at least £200bn but only after the next quarterly forecasting round in November. So another "no change" outcome is to be expected following the October meeting.
- Although the Euroland economy is emerging from recession, the fly in the ointment for the ECB is the continued declaration in M3 growth, to just 2.5% yr in August, and private sector lending to just 0.1% yr, but this provides justification for maintaining current easing policy settings, not easing them further.

ECB & BoE on hold



US August trade deficit to widen further

Oct 9, Last: -\$32.0bn, WBC f/c: -\$33.5bn

- The trade deficit narrowed dramatically earlier this year, from over \$60bn in mid 2008 to less than half that a year later, reflecting the collapse in global trade, weak domestic demand and sharply lower imported oil prices.
- In July, the deficit widened by \$4.5bn as roaring import growth (4.7%) far outpaced solid exports (2.2%), with higher oil prices only a minor factor. Auto imports and exports were especially strong, a function of "cash for clunkers", but the gains were pretty much across the board for both sides of the ledger, a clear sign that global trade is on the rise again.
- In August, import prices rose 2.0% (mainly oil), but ports data suggest decent export volumes. Boeing exports were up. But durable shipments were weak. Further gains of 2% (exports) and 2.5% (imports) would see the deficit widen to \$33.5bn.

US trade balance



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 5					
Aus	Labour Day holiday	–	–	–	Public holiday in NSW, ACT & SA.
	Sep ANZ job ads	4.1%	–	–	In downtrend but deviation has troughed = Jan-10 low pt for jobs%yr.
NZ	Sep ANZ commodity prices	4.2%	–	–	Dairy and forestry to drive strong increase in September.
ldr	BI policy decision	6.50%	6.50%	6.50%	Disaster averted, BI may soon be turning its mind to normalisation.
Eur	Sep PMI services final	50.6 a	50.6	50.7	Recent tendency for modest upward revision.
	Oct Sentix investor confidence	–14.6	–	–9.0	Equity upswing has continued; that should please investors.
	Aug retail sales	–0.2%	–0.4%	–1.0%	German retail sales known –1.5%, French consumer spending –1%.
UK	Sep PMI services	54.1	54.5	55.0	Uptrend to slow as economy grows in Q3-Q4, without accelerating.
US	Sep ISM non-manufacturing	48.4	50.0	49.5	The composite has struggled to reach 50 but activity already there.
	Fedspeak	–	–	–	FRBNY President Dudley.
Tue 6					
Aus	Aug international trade balance, AUDbn	–1.56	–0.9	–0.5	NR X vol rise tempered by SAdj, rural prices for 1.5% X rise; M –3.5%.
	RBA policy announcement	3.00%	3.00%	3.00%	RBA has signalled intention to hike. We favour Nov rather than Oct.
NZ	Q3 NZIER business confidence	–25%	–	–	Likely to turn positive as the economy moves clearly into recovery.
Sing	Sep PMI	54.4	–	–	Highly sensitive to upturn in global trading activity.
UK	Aug industrial production	0.5%	0.1%	0.3%	PMI survey suggested less strong Aug outcome.
Can	Aug building permits	–11.4%	–	–	Very volatile data but uptrend seems to be emerging.
	Sep Ivey PMI	55.7	–	60.0	Not seasonally adjusted; always jumps in Sep.
Wed 7					
Aus	Aug housing finance (no.)	–2.0%	flat	–1.5%	Modest decline, after surge, as FHB segment losses altitude.
Eur	Q2 GDP final	–0.1% a	–0.1%	–0.1%	Revision still possible.
Ger	Aug factory orders	3.5%	1.1%	2.0%	Aug gain would make it six straight monthly rises.
	Aug industrial production	–0.9%	–	2.0%	Orders gains mean factory output trend rising again.
UK	Sep consumer confidence	63	–	70	Nationwide index. GfK index surged in Nov.
	Sep BRC shop price index %yr	–0.1%	–	–	Early clue to part of the CPI basket.
US	Sep federal budget \$bn	45.7	–	–	Tentative date, due 7-16/10.
	Aug consumer credit \$bn	–21.6	–10.0	–13.5	Temporarily increased auto sales should slow credit decline.
	Fedspeak	–	–	–	FRBKC President Hoenig.
Thu 8					
Aus	Sep employment chg	–27.1k	–10k	–5k	Job ads imply further H2 09 falls, but bus. surveys imply milder fall.
	Sep unemployment rate	5.8%	6.0%	5.9%	Jobs fall partially offset by participation fall to 65.0%, but upside risk.
Jpn	Aug current account ¥bn sa	1159	–	–	Income surplus should widen on rising foreign asset prices.
Eur	ECB rate decision	1.0%	1.0%	1.0%	Policy on hold; no tweaks to unconventional measures expected.
UK	BoE rate decision	0.50%	0.50%	0.50%	No change to rates or QE program expected.
US	Initial jobless claims w/e 3/10	551k	541k	540k	Last week's jump likely a temporary correction higher.
	Aug wholesale inventories	–1.4%	–1.0%	–1.2%	Doubts emerging about Q3 inventory-rebuilding contribution to GDP.
	Sep chain store sales %yr	–2.0%	–	–	Often gives a different message compared to the weekly reports.
Can	Sep housing starts	12.1%	–	–	Uptrend emerging here too but data still volatile.
Fri 9					
NZ	Sep electronic card transactions	0.3%	–	–	Growth expected given strong lift in consumer confidence.
Jpn	Aug machinery orders	–9.3%	–	–	Despite rebound in manufacturing output, capex still in ice age.
UK	Sep PPI %yr	0.7%	0.9%	–	Core output measure.
	Aug visible trade balance £bn	–6.5	–6.35	–	Deficit downtrend has stalled in recent months.
US	Aug trade balance	–32.0	–32.6	–33.5	Deficit boost expected from import prices and autos.
	Fedspeak	–	–	–	FRBKC President Hoenig.
Can	Sep employment change	27k	10k	–20k	Correction from Aug's surprise jobs jump.
	Q3 BoC senior loan officer survey	–	–	–	Update on credit availability, which was already improving in Q2.
	Q3 business outlook survey	–	–	–	Quarterly update on business conditions.

Economic & financial forecasts

Interest rate forecasts

	Latest (Oct 2)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Cash	3.00	3.50	3.75	4.00	4.00	4.00
90 Day Bill	3.41	3.60	3.80	4.10	4.20	4.50
3 Year Swap	5.23	5.25	6.00	6.50	6.50	6.50
10 Year Bond	5.15	5.40	5.80	5.85	6.05	6.25
10 Year Spread to US (bps)	197	220	240	210	180	175

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.18	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	4.23	4.30	4.40	4.60	5.00	5.40
10 Year Bond	5.53	5.80	5.90	6.00	6.20	6.30
10 Year spread to US	235	245	215	175	145	130

Exchange rate forecasts

	Latest (Oct 2)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
AUD/USD	0.8680	0.88	0.82	0.84	0.86	0.90
NZD/USD	0.7120	0.73	0.69	0.71	0.73	0.76
USD/JPY	89.50	87	90	93	96	100
EUR/USD	1.4530	1.46	1.40	1.42	1.44	1.47
AUD/NZD	1.2190	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	0.2	0.2	0.6	0.7	1.2	4.0	2.4	0.7	2.5
ann chg	0.3	0.6	0.5	1.4	1.6	1.8	2.9	-	-	-	-
Unemployment rate	5.3	5.7	6.0	6.7	7.1	7.3	7.4	4.4	4.3	5.9	7.3
CPI headline	0.1	0.5	0.9	0.4	0.4	0.6	0.6	-	-	-	-
ann chg	2.5	1.5	1.2	1.9	2.2	2.3	2.0	3.0	3.7	1.9	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

	2008			2009				Calendar years			
	Q2	Q3	Q4	Q1	Q2	Q3f	Q4f	2007	2008	2009f	2010f
GDP % qtr	-0.4	-0.5	-1.0	-0.8	0.1	0.4	0.2	-	-	-	-
Annual avg change	2.5	1.5	0.0	-1.1	-1.8	-2.0	-1.5	3.2	0.0	-1.5	2.8
Unemployment rate %	4.0	4.3	4.7	5.0	6.0	6.4	6.8	3.5	4.7	6.8	6.8
CPI % qtr	1.6	1.5	-0.5	0.3	0.6	1.0	0.4	-	-	-	-
Annual change	4.0	5.1	3.4	3.0	1.9	1.4	2.2	3.2	3.4	2.2	1.3

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.