

# Australian weekly

week beginning 2 March 2009

- Australia: RBA to cut 0.25%.
- Australian economy most likely expanded in Q4.
- Australian data: Q4 indicators, Jan partials (retail, trade, approvals).
- BoE, ECB & BoC all set to cut rates.
- US data: ISMs & payrolls focus in a busy week.
- Key economic & financial forecasts.

Information contained in this report was current as at 27 February 2009

# RBA to cut 0.25%: Economy expands in 4<sup>th</sup> quarter

Next week the Reserve Bank Board meets on March 3. We expect that the Board will decide to cut the cash rate by 0.25% to 3.0%. Last week we lowered our forecast for the cut from 0.75% to 0.25%. That was in response to our assessment of the Governor's message in his appearance before the Parliamentary Economic Committee which occurs semi annually. It appears that the Bank has decided to conserve its flexibility to be seen to be able to act through 2009 as economic conditions deteriorate.

The bulk of the easing (probably around 80%) has already been achieved with the principle of preemptiveness being firmly and appropriately embraced. However we now assess that there are probably only another 125bp's to go.

In contrast, the Fed, despite a near zero Federal funds rate still has ample instruments left, for example, it will soon expand its balance sheet by \$1 trillion to fund financial intermediaries into consumer loans; mortgage backed securities; commercial paper; (potentially) commercial property loans and other liquid assets all of which will be Government guaranteed. With Australia's financial system in good shape the RBA would be extremely unlikely to see the need to follow such a policy. The Fed also has scope to purchase treasury bonds to lower the mortgage rates on fixed mortgages (80% of US mortgages are fixed rate). In fact we expect that if 10 year treasury bond rates rise much above 3% the Fed will become an active buyer.

Decent cases can be made for the RBA to cut by as much as 50bp's and as little as zero. Given that emphasis on global economic conditions has been the key driver of the RBA's easing strategy the sudden collapse in growth in the Asian region, for example, (Japan contracted by 3% in the fourth quarter of 2008) which has appreciably gathered pace since the last Board meeting would be a strong signal that now is not the time to pause entirely. The collapse in activity in non China Asia is real. The recent "recovery" in the Chinese data could be illusory.

Indeed if we are going to be wrong with our 25bp call we would favour the 50 call over zero. That is despite the signals implied in the Governor's appearance before parliament.

The most important point however is that the RBA has not finished easing. We assess that the 2% low point for the RBA target will remain intact even if the Bank pauses next week. That target defines the level below which it would probably be difficult for the Bank to gain any traction with private sector rates. Beyond that point it would appear difficult for commercial banks to protect reasonable margins.

A decision to go even lower would mean that the RBA had decided to switch the main transmission mechanism from private sector rates to the Australian dollar. A lower Australian dollar would be of considerable assistance to the Australian economy particularly in the context of the likely fall in the currencies of other countries in this region. With markets priced for a low point of 2.25% to 2.5% a bold move well below that level would be unsettling for a currency which already has downward momentum. After spending the last two weeks meeting Money Managers; Economists; and officials in the US one can certainly envisage such global developments.

While the global economic outlook continues to deteriorate the domestic data has surprised on the upside. In particular, we now expect that Q4 GDP growth will be positive. However we would counsel against using that data as the key driver of the RBA's policy.

**Bill Evans**, Managing Director Economics and Research

## Australian Q4 GDP: a preview

Conditions in the Australian economy late in 2008 were more resilient than expected and than suggested by private business surveys – according to official partial indicators.

We've upgraded our Q4 GDP forecast to 0.5%, 1.5%yr from -0.2%, 0.8%yr. That represents an improvement from Q3, when GDP was broadly flat (+0.1%) and the non-farm economy contracted (-0.3%).

Building activity (residential and non-residential) held up in Q4, despite sharp falls in approvals. That cannot be sustained. Also, business equipment spending defied various indicators and apparently rose by 1.0%.

Other factors supporting activity in Q4 were – as expected – the public sector and consumer spending.

Consumer spend improved significantly in Q4, up a forecast 1.0%. That follows a stalling over Q2 and Q3. Annual growth is likely to be just 1.5%. An unprecedented boost from sharply lower interest rates and cash handouts was the driving force. Indeed, we suspect that over 80% of the \$8.4bn cash handout was saved. The household savings rate is forecast to jump from 3.9% to 8%.

Public sector activity is forecast to increase by 1.1% - as it did in Q3. The upswing in public investment has driven above trend growth in public demand over the last couple of years. We expect this to continue - although with a switch from a focus on state investment to increased spending by the Commonwealth.

More generally, we expect the Australian economy to contract during 2009. Housing activity will fall sharply over the first half of the year, business investment is expected to decline and the inventory cycle is a likely negative.

The risk of a modest contraction in the economy during 2009 is against the backdrop of the weakest global economy in over sixty years and tighter lending standards given the global credit crisis. Private surveys show a collapse in business confidence and a sharp decline in investment plans. In addition job ads have dropped sharply. This points to a marked rise in the unemployment rate - a trend that has become more apparent of late. Labour market weakness will begin to erode not only consumer confidence but household incomes. That suggests that, even with government cash handouts, consumers will be watching their spending.

**Andrew Hanlan**, Senior Economist

# Data wrap

## Q4 wage price index

- The headline Wage Price Index was above consensus in Q4, rising 1.2%qtr (consensus 0.9%) lifting annual growth to 4.3%yr after three straight quarters at 4.1%yr.
- The stronger than expected quarterly result was courtesy of the continued saw-tooth pattern that has been apparent over the past two years due to the shifted timing of annual SNR's, as well as a spike in public sector wages from a delayed review of collective agreements. The annual rate is least biased by the SNR timing shift, and in regards to the private sector, edged down to 4.2%yr from 4.3%.
- The private sector WPI rose 1.1%qtr taking annual growth to 4.2%yr from 4.3%. The public WPI rose 1.4%qtr taking annual growth to 4.2%yr from 3.6%.
- A broader measure than the headline WPI is for total hourly rates of pay including bonuses, which showed a steady annual rate of 4.2%yr (vs 4.7% peak) for all sectors, but the private sector pace easing to 4.2%yr (vs 4.4% prev).
- With the least distorted private sector WPI measures showing an easing in annual growth, the data is consistent with the RBA's view of wage growth showing "some moderation in the period ahead, in line with the softening in labour market conditions".

## Q4 construction work done

- The eight year construction upswing extended into the December quarter, with strength in private infrastructure work and public works. Construction activity was stronger than expected, increasing by 1.7%. That will add about 0.2% to quarterly GDP growth.
- Construction activity was worth \$35.4bn in the December quarter, up 13% on a year-ago, the fastest annual pace since early 2003.
- Momentum continued in the infrastructure segment, with a 3.6% rise in the quarter, boosted by the mining boom and additional public projects.
- Total residential building work moderated, falling by 1.0%, and private non-residential building activity eased fractionally, down 0.3% in the quarter. That was far more resilient than expected, with sharp declines in approvals pointing to significant weakness ahead.

- We anticipate that the construction sector will enter a down turn in 2009 as the global recession and credit crisis impact. Increased Commonwealth public works will provide only a partial offset to private sector weakness.

## Q4 CAPEX

- CAPEX spending in the December quarter showed surprising strength, increasing by 6.0%. That lifted annual growth to a brisk 18%.
- The industry split was also a surprise, with increased spending across the three sectors, rather than being confined to just the mining juggernaut.
- We have upgrade our Q4 GDP growth forecast to 0.5%, 1.5%yr in light of the CAPEX and construction work data.
- CAPEX intentions were scaled back in 2008/09, but still look too optimistic in our view.
- The 5th estimate for 2008/09 spending was \$98.1bn and implies a 16% rise in nominal spending on last year. That is a downgrade from the \$102.7bn and implied growth of 24% as reported in the survey three months ago.
- The 1st estimate for 2009/10 of \$79.9bn implies a 6% rise in nominal spending. That is also too optimistic in our view.
- We're forecasting business investment to fall significantly through 2009 given a number of negative fundamentals, notably the global recession, the global credit crisis, subdued domestic demand, sharply higher costs for imported capital with the lower AUD and a collapse in business confidence to levels below that of the 1990s recession. Business surveys and approvals data are particularly weak.

## Jan private credit

- Credit rebounded, increasing by a moderate 0.6% in January after a surprise 0.2% contraction in December.
- Business credit was apparently constrained by 'special factors' in December, triggering a 1.1% decline. A return to growth was evident in January, with business credit rising by 0.7%.
- Housing credit growth improved fractionally. December was revised higher, to a rise of 0.51% from around 0.40%, and January came in at about 0.55% - reflecting an uptrend in new lending.

## Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Wed 25	Q4 wage price index %yr	1.0%	1.2%	0.9%
	Q4 construction work done	5.5%	1.7%	-1.5%
Thu 26	Q4 CAPEX	1.6%	6.0%	-3.0%
	2008/09 CAPEX intentions, AUDbn	102.7	98.1	-
	2009/10 CAPEX intentions, AUDbn	-	79.9	-
	Q4 full-time AWOTE %qtr	1.8%	1.6%	-
Fri 27	Jan private credit	-0.2%	0.6%	0.3%

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

# Data previews

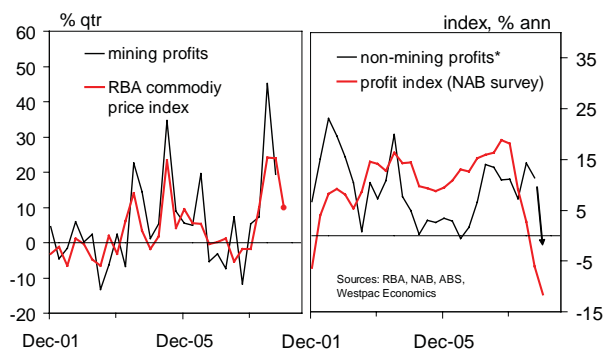
## Aus Q4 company profits

Mar 2, Last: 5.2%, WBC f/c: 1.0%

Mkt f/c: -1.0%, Range: -9.0% to 12.0%

- Company profits, after a strong rise overall in Q3, are expected to increase only modestly in Q4 - up 1.0% on our forecast.
- It was a last hoorah for mining sector profits in this cycle, with a likely 10% rise in Q4. That follows a 45% leap in Q2 and an almost 20% jump in Q3 - largely on higher bulk commodity prices (coal and iron ore). The RBA non-rural commodity index rose again through Q4, but has moved lower more recently.
- Profitability in the non-mining sector, which turned in Q3 is expected to deteriorate further. Weak turnover and margin compression, as higher import costs are absorbed, have hit the bottom line. Business surveys report a marked deterioration in profitability - initially in July and then again from October. We're forecasting non-mining sector profit to decline by almost 5% after a 1.6% fall in Q3.

## Company profits mixed



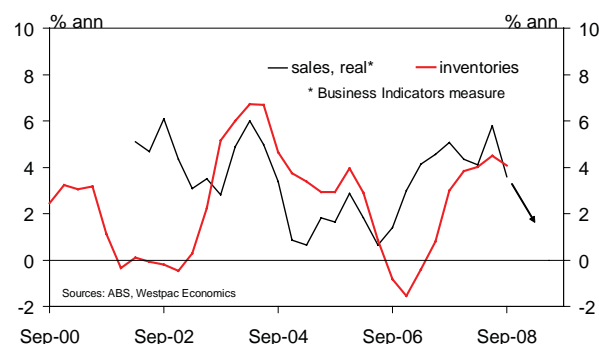
## Aus Q4 business inventories

Mar 2, Last: 0.9%, 0.1ppts, WBC f/c: 0.2%, -0.3ppts

Mkt f/c: 0.3%, -0.2ppts Range: -2.3% to 1.2%

- Non-farm business inventories are expected to subtract from growth in Q4. However, we caution that volatile conditions late in the year have the potential to generate a surprise.
- Our forecast is for inventories to rise by just 0.2%, following a robust rise of 0.9% in Q3. That would imply inventories subtract 0.3ppts from GDP growth (pending revisions).
- The dominant factor late in 2008 was most likely tighter inventory control in the broader economy, at a time of generally weak turnover and profit squeeze.
- However, disruptions to exports most likely resulted in some unintended run-up of inventories in the mining and manufacturing sectors.

## Inventory growth to slow



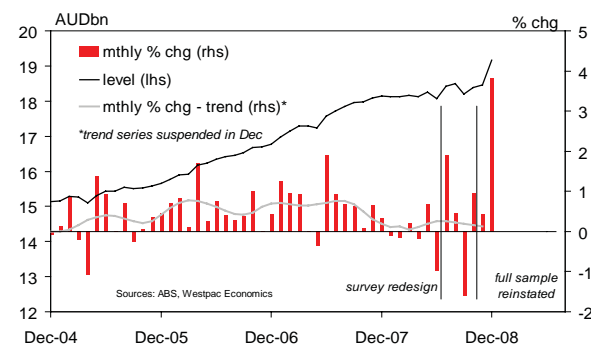
## Aus Jan retail trade trends

Mar 3, Last: 3.8% (sa, trend series suspended), WBC f/c: 0.6%

Mkt f/c: -0.6%, Range: -3.0% to 1.3%

- Retail sales jumped 3.8% in Dec as the Govt's \$8.4bn in fiscal payments to households produced a sharp spike in spending. Although the jump exceeded market expectations it was below our forecast going into the release, implying that households saved much more of the cash injection than initially estimated (~80%). We suspect some of this reflects households waiting to take advantage of post-Christmas sales.
- Spending is also being bolstered by a substantial reduction in interest rates - mortgage rates fell 275bps in the four months to Dec - although this is being negated to some extent by a sharply rise in consumer caution and a surge in saving.
- Overall, we expect the continued boost from fiscal payments to see another lift of 0.6% mth in January. Naturally though the risks around this forecast are much wider than normal.

## Retail sales: a sharp policy-driven spike



# Data previews

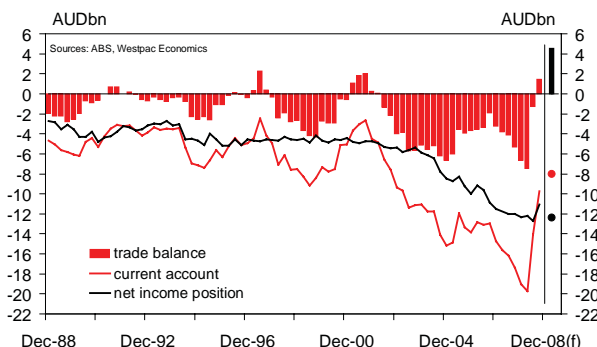
## Aus Q4 current account balance, AUDbn

Mar 3, Last: **-\$9.7bn**, WBC f/c: **-\$8.0bn**

Mkt f/c: **-\$6.9bn**, Range: **-\$10.0bn to -\$5.5bn**

- With the AUD/USD plunging 24.3% on a qtrly avg basis in Q4, valuation effects will be dominant in the current account.
- Monthly data showed a price-driven (from A\$ fall) 7.1% rise in Q4 exports. The abrupt slowing in domestic demand saw import volumes contract, but the A\$ fall boost to prices more than offset, lifting import values 4.4%qtr. This drove a \$3.1bn rise in the trade surplus to \$4.558bn.
- This will be partially offset by a forecast rise in the net income deficit to \$12.4bn from \$11.1bn. While a greater Australian equity market underperformance vs the US (after adjusting for the A\$ drop) relative to Q3 should reduce net equity income outflows, this should be more than offset by higher net debt income outflows (with lower US bond yields more than offset by the A\$ fall boosting debt servicing requirements).

## Current account balance and components



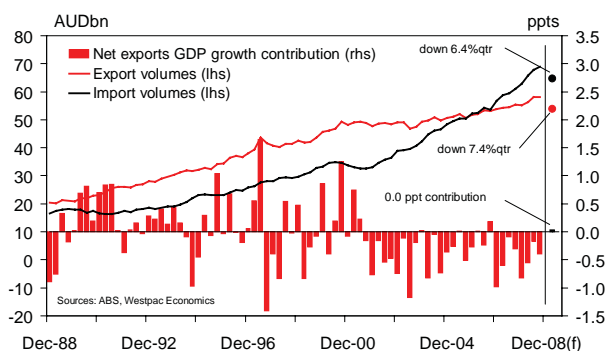
## Aus Q4 net exports contribution to GDP, ppts

Mar 3, Last: **-0.4ppts**, WBC f/c: **0.0ppts**

Mkt f/c: **0.1ppts**, Range: **-0.6ppts to 1.2ppts**

- While X values jumped 7.1% in Q4, this was all price driven, a positive from the 24%qtr drop in AUD/USD. With prices surging more than \$ receipts, backed out X volumes were weak, as global trade flows virtually ground to a halt. We expect a 7.4%qtr drop in X volumes (vs flat prev).
- The abrupt slowing in domestic demand has hit M volumes of consumer goods (values rose 4.9%qtr but consumption goods import price index surged 15.2%qtr) and capital goods (values up 8.5%qtr but capital goods import price index surged 23.2%qtr). We expect a 6.4%qtr fall in M vols (vs +1.6% prev).
- With the level of Q3 M vols higher than X, the net vols position actually improves in Q4 despite a forecast greater relative fall in X vols than M vols for Q4. We expect a zero ppt contribution from net X to Q4 GDP growth (vs -0.4ppts prev).

## Export and import volumes

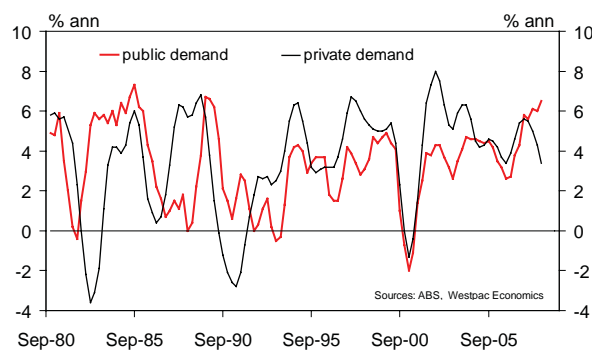


## Aus Q4 public spending

Mar 3, Last: **1.1%**, WBC f/c: **1.1%**

- Public spending is expected to make another solid contribution to activity, with a 1.1% rise forecast for Q4 - the same as Q3.
- Public spend, which accounts for just over 20% of the economy, is expanding at a brisk pace of around 6% annual - albeit with a lumpy quarter to quarter profile.
- The above trend pace reflects an upswing in public investment, with year average growth of around 14%. A sharp rise in state government public works is apparent, particularly in Qld, after years of under investment.
- Note, that cash handouts to households (such as the \$8.4bn in December) are not a component of public spending, but rather a simple financial transfer.

## Public spending cushions downturn



# Data previews

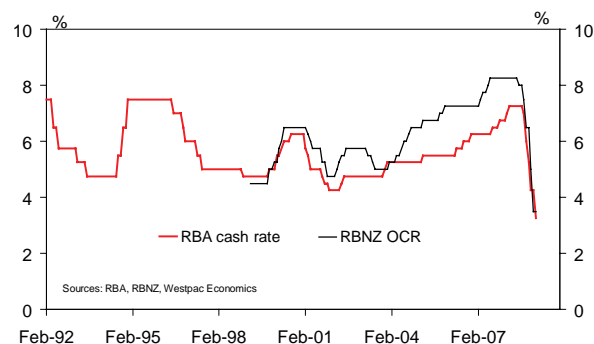
## Aus RBA policy announcement

Mar 3, Last: 3.25%, WBC f/c: 3.0%

Mkt f/c: 3.0%, Range: 2.75% to 3.25%

- The Reserve Bank is set to moderate the pace of rate cuts significantly - with some suggestion of a pause in March. Our call is for a cut of 0.25%, following the 1.0% cut in February. We see rates falling to a low of 2.0%, most likely in Q3.
- Recent RBA statements highlight that the very low interest rates now in place will provide a very significant stimulus to the economy - in time.
- Decent cases can be made for the RBA to cut by as much as 50bp's and as little as zero. Given that emphasis on global economic conditions has been the key driver of the RBA's easing strategy, the further significant collapse in growth in the Asian region over the last month is a strong signal that now is not the time to pause entirely.

## Official rates now very low



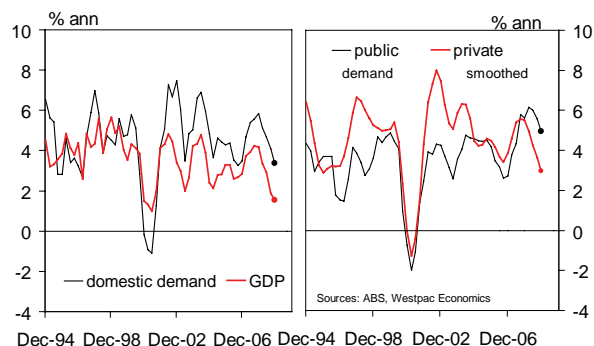
## Aus Q4 GDP

Mar 4, Last: 0.1%, WBC f/c: 0.5%

Mkt f/c: 0.1%, Range: -0.5% to 0.5%

- Conditions in the Australian economy late in 2008 were more resilient than expected and suggested by private business surveys - according to official partial indicators
- We now expect a rise of 0.5%, rather than a small contraction.
- Building activity held up, despite sharp falls in approvals. Also, business equipment spending apparently rose by 1.0% (despite our estimates that capital imports slumped).
- The public sector and consumer spending (boosted by the \$8.4bn cash handouts) also supported the economy late in 2008 - as expected. Also, net exports were most likely neutral.
- For more detail see our GDP preview note of 26 February.

## Australian economy slows



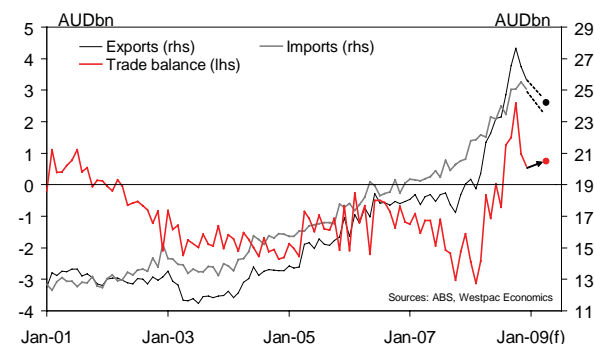
## Aus Jan international trade balance, AUDbn

Mar 5, Last: +\$0.589bn, WBC f/c: +\$0.75bn

Mkt f/c: +\$1.2bn, Range: -\$0.3bn to +\$2.3bn

- The trade surplus fell \$390mn in Dec to \$589mn. X fell 3.1% led by non-rural vols despite a bounce in iron ore vols. Non-rural X trend growth slowed to 0.7%*mt*h (weakest since Oct-07). M fell 1.7% slowing trend growth to 0.4%*mt*h (weakest since Oct-06). Consumption goods M rose, strengthening their uptrend, but renewed strength here has all been price driven from the Q4 AUD plunge. Capital goods saw an aircraft-led bounce.
- With global trade flows shrinking markedly, further X vols weakness is likely for Jan. SAdj provides a boost to Jan figures, but overriding vol and price falls should see a 6% fall in total X. But the trade surplus should rise, with merchandise M data implying a steep 8% plunge in goods M, with total goods and services M down 7%. Risks to our surplus forecast are to the downside from greater than assumed weakness in X vols.

## Further X weakness swamped by M plunge



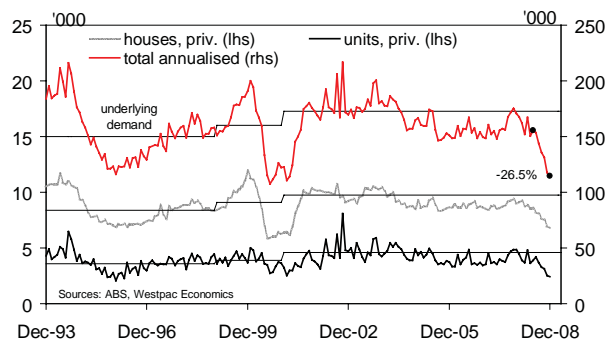
# Data previews

## Aus Jan dwelling approvals

**Mar 5, Last: -2.9%, WBC f/c: 5%**  
**Mkt f/c: 1.6%, Range: -4.0% to 7.5%**

- Dwelling approvals declined 2.9% in Dec following a large 10.2% drop in Nov. The fall was a disappointing result, extending the slide since mid-2008 to -26.5% and the cumulative decline from the Nov 2007 peak to -34.8%.
- Despite this, finance approvals for the construction & purchase of new dwellings still clearly point to a recovery in demand late in 2008 – approvals jumped 22% in Q4 after falls of -3.8%, -12.5%, -15.9% and -19.1% in the previous four quarters. Sharply lower interest rates and incentives for first home buyers gave a clear boost late in the year.
- Accordingly we expect a 5% jump in dwelling approvals in Jan. However there is some downside risk with funding problems reportedly holding back activity in some segments. The 'off-season' also means estimates can be more volatile in January.

## Dwelling approvals slump

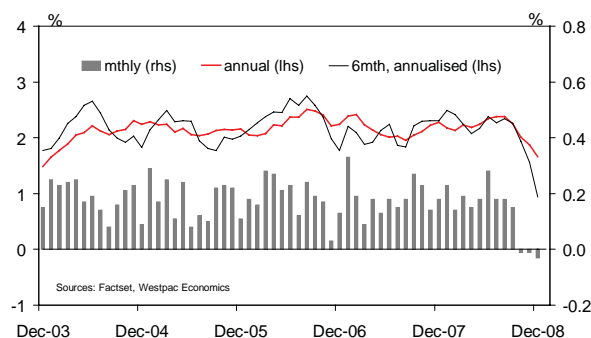


## US Jan core PCE deflator

**Mar 2, Last: flat, WBC f/c: 0.1%**

- The core PCE deflator has been flat to negative for the past three months. It is currently running at 1.7% yr, its lowest since early 2004, when deflation fears were circulating through the US Federal Reserve and indeed in the market. Those fears proved to be completely unfounded. Now, in 2009, we suspect the Fed really does have something to worry about.
- Core CPI was just above zero per month in late 2008, but edged up to 0.177% in Jan. Core PCE tends to be a little lower, hence our 0.1% Jan forecast.
- Also in the release, personal spending is expected to record its first rise in seven months, given the surprise gain in retail sales in Jan. However we do not expect that this represents the beginning of any sort of sustained consumer rebound.

## US core PCE deflator



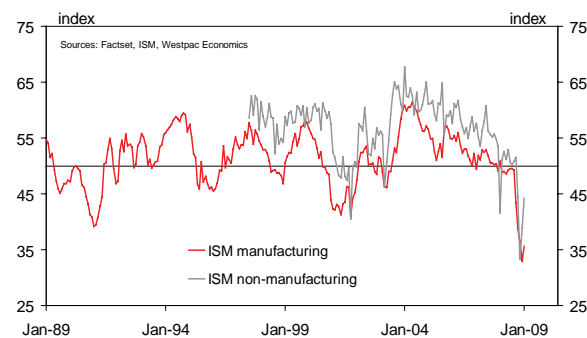
## US Feb ISM factory and non-manufacturing reports

**Mar 2, Factory Last: 35.6, WBC f/c: 34.5**

**Mar 4, Non-Man Last: 42.9, WBC f/c: 40.5**

- The regional Fed surveys rose in January, only to unwind those gains in Feb. We expect ISM manufacturing to follow a similar pattern with a sharpish fall in Feb, although it won't re-test December's low. The jobs components of the regional surveys were especially soft, and if that is also the case in the ISM, then our confidence in our -700k payrolls forecast (see below) would be enhanced.
- The non-manufacturing index should follow the general pattern of global PMIs. January's recovery has proven short-lived, with February heralding a new bout of weakness. For the non-manufacturing ISM, this possibly is in response to the recent renewed upswing in gasoline prices, and the accelerated pace of job losses in the US economy.

## US ISM surveys



# Data previews

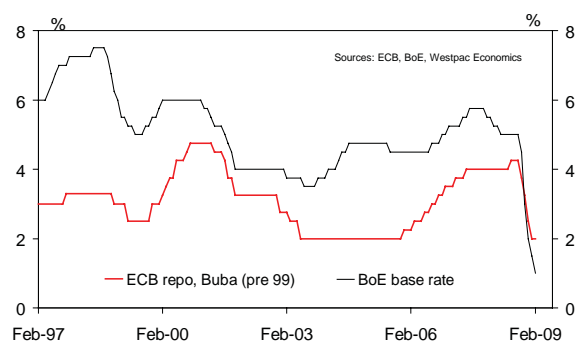
## Bank of England and European Central Bank

Mar 5, BoE Last: 1.0%, WBC f/c: 0.5%

Mar 5, ECB Last: 2.0%, WBC f/c: 1.5%

- The BoE policy committee voted 8:1 for Jan's 50bp rate cut, with dissenter Blanchflower once again preferring a larger move. The BoE's recent inflation report included substantial downgrades for forecast growth and inflation, implying both that further easing will be required and that the BoE is laying the ground for quantitative easing, possibly in conjunction with a near-zero bank rate.
- The ECB kept rates on hold in February, but since then Q4 GDP and industrial production figures from around Europe and further afield have shocked with their weakness. Add to that the spectre of Eastern Europe's malaise generating a fresh wave of Eurozone bank losses and ECB officials themselves openly mulling zero rates, and the risk is that the ECB cuts by more than our 50bp forecast. We see sub 1% ECB rates by mid year.

## BoE & ECB

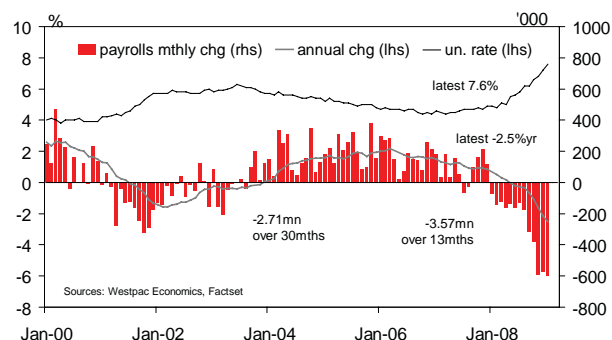


## US non-farm payrolls to fall by 700k

Mar 6, Last: -598k, WBC f/c: -700k

- The US has shed more than 2mn payroll jobs over the past four months; the separate household survey has been even weaker, finding nearly 3mn fewer people in employment.
- Initial unemployment insurance claims, layoff announcements, consumer job market expectations, and employment indicators from the Philadelphia and New York Fed indices all indicate that job losses have accelerated. Employment tends to lag economic growth, so the plunge in activity last quarter should be reflected in extra jobs market weakness around now.
- Given these factors, we expect the pace of payrolls decline to step up this month, to around 700k. The recent tendency for subsequent reports to include unfavourable revisions could see either/both of Dec/Jan's results revised to losses of over 600k.

## US jobs market: more losses to come



# Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 2</b>					
Aus	Feb TD-MI inflation gauge	0.8%	–	–	One-off ann. increases & petrol drove Jan bounce; 3mth rate –0.07%.
	Q4 company profits	5.2%	–1.0%	1.0%	Mixed. Non-mining profit to contract, mining up on bulk commodities.
	Q4 business inventories	0.9%	0.3%	0.2%	Weak turnover to slow inventory accumulation. To subtract 0.3ppts.
Eur	Feb PMI factory final	33.6 a	33.6	33.6	Tends not to be revised much.
	Feb CPI flash %yr	1.1%	1.0%	0.9%	Base effects favourable but less downward pressure expected in Feb.
Ger	Jan retail sales	–0.2%	0.3%	–	Tentative date, due 2-5/3.
UK	Feb house prices %yr	–9.4%	–	–	Hometrack series, not falling as fast as major lender price indices.
	Feb house prices %yr	–17.2%	–	–18.0%	Tentative date for HBoS series, due 2-6/3.
	Jan net consumer credit £bn	0.3	0.5	–	Anecdotes suggest lenders are pulling back on loans and credit cards.
	Jan net mortgage lending £bn	1.9	1.5	1.5	Some evidence that mortgage lending might have bottomed out.
	Feb PMI factory	35.8	34.9	34.5	Around the globe, Jan PMI rises reversed in Feb.
US	Jan personal income	–0.2%	–0.2%	–0.2%	Collapsing hours worked driving income aggregate lower.
	Jan personal spending	–1.0%	0.3%	0.4%	Retail sales figures suggest spending could post first gain in 7 months!
	Jan core PCE deflator	flat	0.1%	0.1%	Core CPI was 0.177%, core PCE tends to be a little less.
	Q4 mortgage delinquencies	7.0%	–	–	Tentative date, due 2-6/3. Shows % of loans in default/foreclosure.
	Feb ISM factory	35.6	33.8	34.5	Around the globe, Jan PMI rises reversed in Feb.
	Jan construction spending	–1.4%	–1.5%	–2.0%	Plunging house starts/sales and weakening commercial building.
	Fedspeak	–	–	–	Lacker on policy.
Can	Dec GDP %mth	–0.7%	–0.5%	–	Monthly GDP has not grown since July.
	Q4 GDP annualised	1.3%	–3.2%	–	Canada likely to post steepest quarterly contraction since 1991.
<b>Tue 3</b>					
Aus	Jan retail sales	3.8%	–0.6%	0.6%	How much of stimulus package induced spend spilled into Jan?
	Q4 current account balance, AUDbn	–9.7	–6.9	–8.0	Trade surplus up \$3.1bn, but higher NID (A\$ fall lifts debt Y outflows).
	Q4 net export contribution to GDP, ppts	–0.4	0.1	0.0	M vols slump 6.4%, X vols drop 7.4%, but net X improve as M vols larger.
	Q4 public spending	1.1%	–	1.1%	Another solid contribution, boosted by public investment upswing.
	RBA policy decision (2:30pm)	3.25%	3.0%	3.0%	Potential for a pause - but global weakness points to a cut.
Eur	Jan PPI %yr	1.8%	–	1.7%	Base effects less favourable; weaker euro, steadier energy prices in Jan.
UK	Jan PMI construction	34.5	–	32.0	Around the globe, Jan PMI rises reversed in Feb.
US	Jan pending home sales	6.3%	–3.0%	–1.0%	Holding up due to distressed sales of foreclosed homes.
	Feb auto sales mn ann'sld	9.6	9.6	9.4	Jan sales were the weakest since the early 1980s.
	Fedspeak	–	–	–	Lockhart on economy.
Can	BoC rate decision	1.0%	0.75%	0.75%	BoC has signalled on hold but data suggest further cut.
<b>Wed 4</b>					
Aus	Q4 GDP	0.1%	0.1%	0.5%	Late cycle investment / construction resilience to support growth.
NZ	Feb ANZ commodity prices	–4.3%	–	–	Another hefty and widespread slump in world prices expected.
Idr	Bank Indonesia policy rate	8.25%	8.0%	8.0%	Returning rates to year-ago levels, some risk of -50bp.
Eur	Feb PMI services final	38.9 a	38.9	38.8	Advance down sharply so risk of further downward revision.
	Jan retail sales	flat	–	0.1%	Jan retail PMI was somewhat less weak, so expect first rise in four mths.
UK	Feb Nationwide consumer confidence	40	–	37	Stock market slumping, jobs being shed, media recession obsession.
	Feb PMI services	42.5	41.4	41.0	Around the globe, Jan PMI rises reversed in Feb.
	Feb shop price index %yr	1.1%	–	–	Early clue to high street component of CPI.
US	Feb layoff announcements	242k	–	–	More evidence of slumping job market.
	Feb ADP private payrolls chg	–522k	–620k	–	Pace of loss broadly consistent with official payrolls data.
	Feb ISM non-manufacturing	42.9	41.3	40.5	Around the globe, Jan PMI rises reversed in Feb.
	Fed beige book	–	–	–	Prepared ahead of the Mar 18 FOMC meeting.
	Fedspeak	–	–	–	Fisher; Lockhart on economy again.
<b>Thu 5</b>					
Aus	Jan trade balance, AUDbn	0.59	1.2	0.75	Weaker rural & NR vols & prices for 6% X fall; but M plunged 7%.
	Jan dwelling approvals	–2.9%	1.6%	5.0%	–16% in Q4, but finance for constrn & purch new dwell up 6.8%.
NZ	Q4 wholesale trade survey	3.1%	–	–5.0%	Expected sales slump driven by motor vehicles and fuel prices.
Php	CB Philippines reverse repo rate	5.0%	–	4.5%	BSP only began easing policy on 18 Dec so some way to go.
Jpn	Q4 MOF capital spending %yr	–13.0%	–	–	Prelim Q4 GDP estimate assumed -11.6%yr.
Eur	Q4 GDP revision	–1.5% a	–1.5%	–1.5%	Revision unlikely but component detail very interesting.
	ECB rate decision	2.0%	1.5%	1.5%	ECB officials are strongly signalling a rate cut - risk of 75bp!
UK	BoE rate decision	1.0%	0.5%	0.5%	MPC tends to get to dissenter Blanchflower's position, eventually.
US	Feb chain store sales %yr	–1.6%	–	–	Another clue to subsequent official retail sales figures.
	Q4 productivity revisions	3.2% a	1.6%	–	Likely to be revised lower after downward revision to Q4 GDP.
	Initial jobless claims w/e 28/2	667k	–	650k	Claims hit new post 1982 high last week.
	Jan factory orders	–3.9%	–3.0%	–3.5%	Durables known down 5.2%.
	Fedspeak	–	–	–	Lockhart on economy again.
Can	Jan building permits	–3.9%	–	–	Down steeply for 3 months running through Q4.
	Feb Ivey PMI nsa	36.1	37.5	32.0	Tends to rise in Feb but underlying weakness to drag it lower.
<b>Fri 6</b>					
Ger	Jan PPI %yr	4.3%	3.1%	–	Base effects less favourable; weaker euro, steadier energy prices in Jan.
UK	Feb PPI %yr	4.1%	–	–	Core output measure.
	Q4 mortgage equity withdrawal £bn	–5.7	–	–	Actually, it's been net mortgage paydown since Q2 last year.
US	Feb non-farm payrolls	–598k	–625k	–700k	Rising initial claims/layoffs, likely downgrade to Q4 growth, weak job components of business surveys point to steeper payrolls decline.
	Feb unemployment rate %	7.6%	7.9%	7.8%	Fallen in four of last five months.
	Jan consumer credit \$bn	–6.6	–3.9	–	

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# Economic & financial forecasts

## Interest rate forecasts

	Latest (Feb 27)	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Cash	3.25	3.00	2.50	2.00	2.00	2.00
90 Day Bill	3.16	2.30	2.30	2.30	2.30	2.30
3 Year Swap	3.66	3.50	3.25	3.00	3.15	3.25
10 Year Bond	4.33	3.80	3.60	3.50	3.75	4.00
10 Year Spread to US (bps)	136	130	135	100	100	100

## International

Fed Funds	0.25	0.25	0.25	0.25	0.25	0.25
US 10 Year Bond	2.97	2.50	2.25	2.50	2.75	3.00
ECB Repo Rate	2.00	1.50	1.00	0.75	0.75	0.75

## New Zealand

Cash	350	2.50	2.00	2.00	2.00	2.00
90 day bill	3.19	3.10	2.20	2.20	2.20	2.20
2 year swap	3.22	2.60	2.40	2.50	2.60	2.70
10 Year Bond	4.48	4.10	3.90	4.00	4.10	4.20
10 Year spread to US	151	160	165	150	135	120

## Exchange rate forecasts

	Latest (Feb 27)	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
AUD/USD	0.6440	0.64	0.62	0.60	0.58	0.55
NZD/USD	0.5050	0.50	0.46	0.45	0.43	0.41
USD/JPY	97.40	90	88	86	82	80
EUR/USD	1.2710	1.25	1.22	1.15	1.12	1.10
AUD/NZD	1.2750	1.28	1.35	1.35	1.35	1.34

## Australian economic growth forecasts

% change	2008			2009				Calendar years			
	Q2	Q3	Q4a/f	Q1f	Q2f	Q3f	Q4f	2007	2008f	2009f	2010f
GDP	0.4	0.1	-0.2(f)	-0.5	-0.2	-0.3	0.4	4.0	2.2	-0.7	1.5
ann chg	2.9	1.9	0.8(f)	-0.2	-0.7	-1.1	-0.6	-	-	-	-
Unemployment rate	4.3	4.2	4.4	4.8	5.1	5.5	6.0	4.4	4.2	5.4	6.8
CPI Headline	1.5	1.2	-0.3	0.5	0.6	0.4	0.6	-	-	-	-
ann chg	4.5	5.0	3.7	2.9	2.0	1.2	2.1	3.0	3.7	2.1	2.4
CPI core	1.1	1.2	0.7	0.7	0.6	0.6	0.6	-	-	-	-
ann chg	4.4	4.7	4.4	3.8	3.3	2.7	2.5	3.6	4.4	2.5	2.4

## New Zealand economic growth forecasts

	2008		2009		March financial years			Calendar years		
	Q2	Q3	Q4e	Q1f	06/07	07/08	08/09f	2007	2008f	2009f
GDP % qtr	-0.2	-0.4	-0.9	-0.6	-	-	-	-	-	-
Annual avg change	2.5	1.7	0.3	-0.8	1.8	3.1	-0.8	3.1	0.3	-1.3
Unemployment rate %	3.9	4.2	4.6	5.2	3.7	3.7	5.2	3.4	4.6	6.4
CPI %qtr	1.6	1.5	-0.5	-0.2	-	-	-	-	-	-
Annual change	4.0	5.1	3.4	2.5	2.5	3.4	2.5	3.2	3.4	1.4

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