

Australian weekly

Week beginning 21 September 2009

- RBA Board minutes: emphasis on "uncertainty" rules out an October rate hike.
- New Zealand: Q2 contraction likely to mark the end of the recession.
- US Fed on hold – to reiterate "extended period of exceptionally low rates"?
- Very light week for Australian data and events.
- New Zealand data: GDP, current account, consumer sentiment, trade previewed.
- US data: leading index, home sales, durable goods orders due out.
- Key economic & financial forecasts.

Information contained in this report was current as at 18 September 2009

RBA Board minutes: emphasis on "uncertainty" rules out an October rate hike

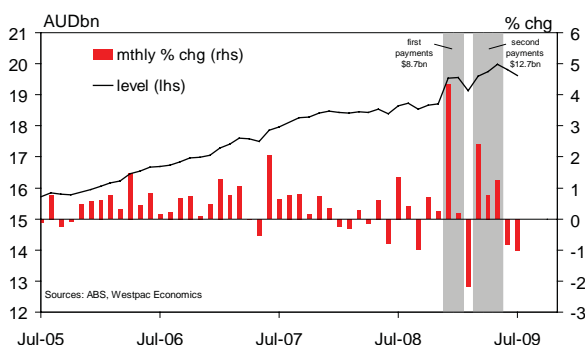
The RBA Board minutes from the 1 September meeting indicated that "some uncertainty remained about the outlook both abroad and at home". It is reasonable to conclude from this qualification that the Bank does not expect to raise rates in October. However, the Board confirmed conditions were evolving broadly in the way they had expected, and that would "in due course" require policy to be tightened. One can certainly conclude from this sentiment that the Board believes it is closer to raising rates than it believed it was a month ago. Note that these minutes pre-date the stronger than expected confidence measures, both for business and consumers, released last week, but also the weaker than expected retail, housing finance and employment data releases.

Supporting the "uncertainty" theme was the recognition that "it was hard to disentangle the contribution that Asian demand, fiscal stimulus and easier monetary policy had each made to the better-than-expected outcomes". However, with the Board taking a generally positive view on Asian demand and further fiscal stimulus in the pipeline, it may not be necessary to be too exact in this pursuit.

In the minutes of the August meeting, a very important source of uncertainty was "whether the recent growth in household spending was due mainly to the temporary fiscal measures in which case it would probably soon fade". The surprise -1.4% read for June retail sales was received on the day of the meeting, and presumably was taken into account in that comment. After the Board's September meeting, we received another weak -1.0% read for July retail sales, which would tend to support the "soon fade" view, although some weakness appears to have been anticipated. The Board's September minutes gave no update on their assessment of this very important issue, but the Bank's liaison with retailers "... suggested that household spending had softened somewhat in July but had been better in August".

While we can be confident that rates will not be moved at the October meeting, the emphasis on uncertainty which comes through in these minutes is not strong enough to rule out a November move. However, the timing of the release of September retail sales data complicates this issue. August sales data will be released before the October meeting, but there will be no additional information on this critical issue between the October and November meetings with the September report released the day after the November meeting.

Monthly retail sales



The September minutes show the Board's attitude towards business was definitely more positive than at the previous meeting. That is certainly because of the better than expected CAPEX survey and the strong reads on business confidence. In August, the Board noted "business investment was expected to fall significantly as a share of GDP over 2009 and 2010". In these minutes, the Board noted that business investment as a share of GDP was around the highest levels in 50 years but only referred to "some near-term weakness in private investment" whilst making very positive remarks about developments in the resources sector for the medium term.

This view would have been reinforced since then by business confidence surveys including this week's Westpac-ACCI survey results. These showed a solid improvement in prospects with the Composite Index rising 9.8 points in Q2. Although the Index is still below 50, indicating that activity is still contracting, the quarterly rise is the biggest proportional and points increase since 1983 when the Australian economy emerged from recession.

Because of the relationship between the Composite Index and investment prospects we can derive considerable comfort that prospects for a much improved investment environment have strengthened considerably. The major concern is that there has been only minimal improvement in capacity utilisation indicating that the surge in confidence while welcome may be overstated.

The survey also showed a markedly improved employment outlook consistent with a return to jobs growth by the middle of next year. That said, there was only a modest improvement in the actual current employment indicator which remained markedly negative. Recent rises in employment and overtime expectations have also not been met by actual outcomes. As such the very positive picture being painted by the indicator may be somewhat overstated.

The Westpac-ACCI survey is consistent with the results of other business surveys in pointing to the likelihood of others maintaining their positive tone. However, as with the Westpac Survey of Consumer Sentiment, we favour caution in reading too strong a recovery in employment and investment conditions as the surveys may be emphasising relief at avoiding recession rather than a return to 'boom' conditions.

Of course, the Bank's theme that rates are too low should always be tested by the pace of credit growth. On that basis, the September Board minutes note "household borrowing was growing at a moderate rate" and "business credit was still very weak and borrowers were facing tight credit conditions and rising borrowing costs The rise in market yields was also adding to borrowing costs." It is certainly a struggle to see the Bank's evidence that rates are too low when credit aggregates are behaving in this way.

The minutes continued to observe that "unemployment had been less than feared earlier in the year" which was supported by flexibility in hours worked. Last week's report showing a 27k job loss (released after the September Board meeting), only resulted in no rise in the unemployment rate because of an offsetting reduction of 0.3ppts in the participation rate. Further job losses, as we expect over the next three to four months, are unlikely to coincide with such large offsets from participation, with the unemployment rate to push significantly higher as a result. Such a data combination prior to the November Board meeting would really test a Board that admits to currently being "uncertain" about the outlook.

The September minutes give a more uncomfortable analysis of the current inflation situation. Whereas in August, the Board noted "the upward revision to the growth forecasts meant that inflation was not expected to fall as low as previously thought", now the Board notes that "with underlying inflation still relatively high and economic activity substantially stronger than expected, members were conscious of the need to balance the task of controlling inflation over the medium term with that of supporting economic recovery". This observation puts more than expected emphasis back on the next inflation reading. If for instance underlying inflation did not show a solid further fall, potentially the Bank could now use that as a justification for tightening in November.

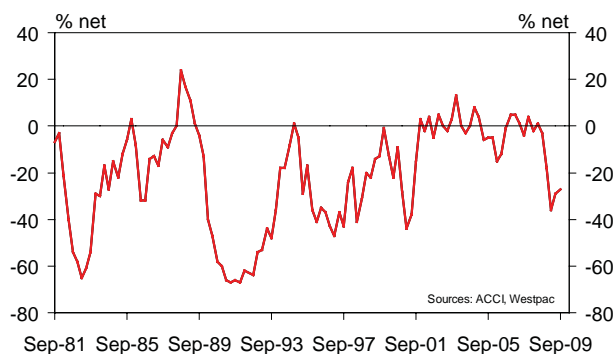
Conclusion

The easy aspect of these minutes is that the Board is not intending to raise rates in October. For the November meeting, the employment and inflation data will be very important. We are expecting another negative on employment and a quarterly underlying inflation read at around the 0.8% which was registered for the June quarter. That would lower annual underlying inflation from 3.9% to 3.5% – a solid improvement. However, the Bank could interpret the absence of a quarterly slowdown as "disappointing". That type of scenario keeps the November meeting very much alive for a potential 25bp rate hike. However, if we are right on the employment numbers then the general sentiment in these minutes does not appear to be strong enough to justify a November rate hike.

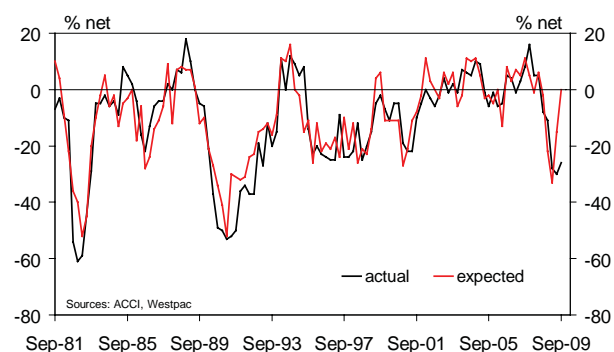
We are comfortable to maintain our view that despite clear signals that the Bank is intent on raising rates, that will not occur until February 2010 because the evidence from the economic data, particularly associated with employment, consumer spending and credit, will not provide a strong enough case.

Bill Evans, Chief Economist

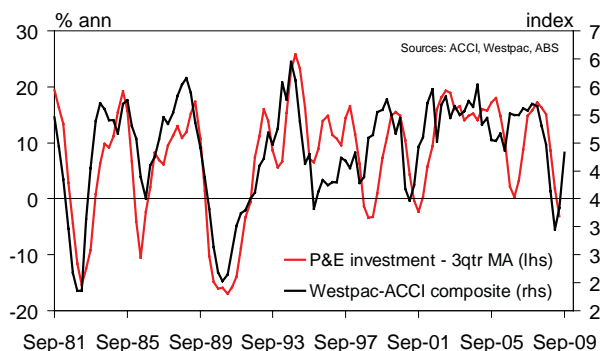
Westpac-ACCI: capacity utilisation



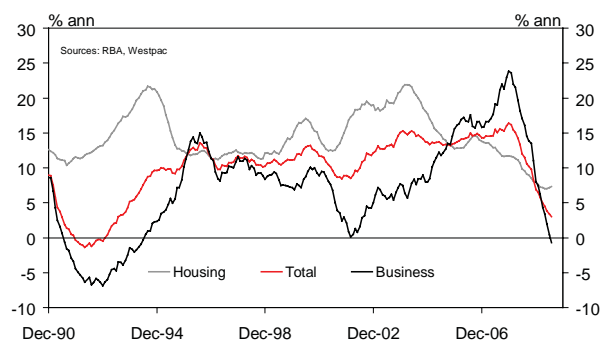
Westpac-ACCI: employment



Westpac-ACCI: composite vs investment



Credit growth- housing solid; not business



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Data wrap

Jul Westpac–MI Leading Index

- The annualised growth rate of the Westpac–Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, was –1.8% in July well below its long term trend of 2.5%. The annualised growth rate of the Coincident Index was –0.2%, also below its long term trend of 2.9%.
- The growth rate in the Leading Index has now improved from –7% in May to only –1.8% in July. The Index is best applicable to the growth outlook 3 to 9 months in the future. The weak reads in the middle of 2009 are broadly consistent with our view that growth in the second half of 2009 will be tepid. We are expecting the annual growth pace to slow from 2% in the first half to around 1% in the second half. However the pace of improvement in the growth rate of the Leading Index and, indeed the level of the Index (up 1.1% – the largest monthly rise since April 2003) points to a significant improvement in growth prospects in 2010.

Q3 WBC–ACCI Survey of Industrial Trends

- The Westpac–ACCI Survey of Industrial Trends showed a further lift in conditions across the manufacturing sector. The Actual Composite Index rose 9.8pts to 48.2, its highest level since 2008Q3. The result was broadly in line with predictions in the prior survey's Expected Composite Index. While the Actual Composite Index remained below its decade average (52.1) for the fifth consecutive quarter, it is approaching the 50 break-even level that signals an end to contracting manufacturing activity.

- The improving economic backdrop and growth in respondents' orders have seen further gains in expectations, lifting the Expected Composite Index 7.1pts to 54.7 (highest since 2007Q4). At 50-plus, this level is consistent with expanding manufacturing activity in Q4 at an above-par pace (decade average is 52.8). General business sentiment surged 46pts further to +42, the highest since 1994Q3.
- Labour demand indicators improved, but they are lagging the upturn in activity indicators. The Labour Market Composite net balance rose 13pts to –12, but remains well below its decade average (+5). It is at a level historically consistent with annual jobs growth turning positive in 2010H1, but prior levels imply job losses through 2009H2. Also, the rise in the Composite was led by expectations components, but actual employment continued to fall rapidly at a faster pace than prior surveyed predictions.
- Credit conditions tightened a little but remain well below their 2009Q1 peak.
- With rising business expectations, investment plans firmed further, but remained well below their decade average, consistent with ongoing weakness in capacity utilisation.
- Selling prices fell sharply and while a Q4 rise is expected, actual outcomes continue to undershoot expectations.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Tue 15	Q2 dwelling commencements	–4.0%	–3.7%	2.0%
	RBA minutes of September meeting	–	–	–
Wed 16	Jul Westpac–MI Leading Index	–4.6%	–1.8%	–
Thu 17	Q3 WBC–ACCI Survey of Industrial Trends	38.3	48.2	–
	Aug merchandise imports, AUDbn	16.7	15.5	–
	RBA monthly bulletin	–	–	–

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New Zealand: week ahead & data wrap

Levelling out

This week was mostly about putting the final pieces together for June quarter GDP, to be released on Wednesday.

We estimate that GDP fell by 0.2% in Q2. Having said that, we think that the economy was probably expanding again by the end of the quarter, and given the usual error bands around these estimates, it's possible that growth may have even been positive on a quarterly basis. Either way, leading indicators are increasingly pointing to growth in Q3. The substantial interest rate cuts over the last year, expansionary fiscal policy, a strong increase in net migration, the housing market upturn and a lift in energy output have arrested the decline in overall activity.

The margin of error around our forecast is greater than usual this time. High-level gauges like consumer confidence, electronic transactions, production, new orders and capacity utilisation indicators from the many business surveys all point to Q2 GDP coming in at a touch negative to flat. In contrast, indicators on a sector-by-sector basis collectively suggest mildly positive growth. To make life even harder, there's a technicality with unallocated and balancing items – normally a minor factor – which appear to have supported Q1 growth to the tune of around 0.4%. We have assumed that this will reverse in Q2, but we don't have a great deal of confidence about this.

Some of the detail of Q2 will look much like previous quarters of the recession, with declines in construction, manufacturing and wholesale trade. In construction, the scary economic landscape of 6-12 months ago saw investment plans delayed or cancelled and a slump in building consents at the time. Q2 will see the resulting drop in both residential and non-residential building activity. Manufacturing production is expected to post its fourth straight decline. Weaker domestic and foreign demand has seen producers cut back production and wholesale sales fall. It appears that a rundown of existing inventories, particularly for milk powder, drove the sales that did take place. The inventory run-down ties in with a strong contribution from net exports, as demonstrated in last week's terms of trade.

Among the sectoral positives for Q2, rising house sales will have lifted activity in the real estate and related services sectors. Energy-related sectors benefited from the first output from the Maari oil field and a rise in the share of relatively cheap hydro electricity generation. Government spending is also expected to make a positive contribution, adding to growth in the service sectors and helping to support domestic demand.

We suspect consumers eked out a small increase in real spending during the quarter, in what would be the first increase in 18 months.

But our expectation that spending increased by 0.2%, if correct, is nothing to write home about when you consider the degree of monetary (lower interest rates) and fiscal (tax cut) stimulus that consumers received during the quarter.

As if GDP weren't enough, there is plenty of other significant data next week. We expect the current account deficit (Tuesday) to narrow from 8.5% to 6.6% of GDP for the year to June. This is still high by world standards, but would be the lowest for New Zealand since December 2004.

The speed of the improvement in the deficit is less dramatic than these figures suggest – last year's spike in imported fuel prices is now dropping out of the equation, and the investment income deficit could be unusually small thanks to a couple of one-off factors. The range of market forecasts for the deficit, from our 6.6% to as high as 7.8%, in part reflects the degree of uncertainty around these factors. Notwithstanding this, though, the gradual trend improvement in the deficit remains intact.

Turning to more timely data, external migration for August (Monday) is expected to record another substantial gain on an annual basis. The turnaround in migration flows is an important part of our outlook for a people-led recovery in coming quarters. But by now it's a fairly well-recognised story, and has limited scope to provide further upside surprises – most of the improvement has been due to fewer New Zealanders heading offshore, which has a natural limit as to how far it can fall; and foreign arrivals are more tightly controlled than in previous cycles.

The Westpac McDermott Miller consumer confidence survey for June saw a collective sigh of relief that the economy had avoided the doomsday scenario that was feared at the peak of the global financial crisis. The September survey (Wednesday) will reflect the recent flow of data confirming that the worst is behind us, balanced against the ongoing uncertainty around job prospects.

Finally, the August trade balance (Friday) is expected to move further into deficit as it hits a seasonal low point. Export prices are rising, but this is offset to some degree by the stronger exchange rate. Meanwhile, imports are rebounding fast, especially for motor vehicles, as domestic demand finds its feet again.

All up, Q2 increasingly looks like it was the trough in economic activity. The economic vibe is changing, with forward-looking indicators suggesting growth has resumed in Q3. Even so, this does not mean interest rate hikes are coming soon. The level of activity has fallen so far over the past 18 months that it will take time before the recovery generates any significant inflationary pressure. That means the OCR can remain low for some time yet.

Round-up of local data released last week

Date	Release	Previous	Latest
Mon 14 Sep	Aug REINZ house prices %yr	1.0%	1.2%
	Jul retail sales	-0.1%	-0.5%
Tue 15 Sep	Q2 real manufacturing sales	0.0%	1.8%

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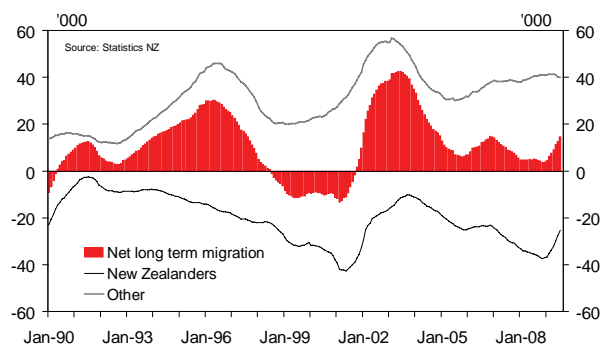
Data previews

NZ Aug external migration ann.

Sep 21, Last: 14,488, WBC f/c: 16,300

- Net migration is on a sharply rising trend as poorer job prospects abroad keep kiwis at home, boosting the NZ economy and housing market.
- Last month net migration was exceptionally strong; we may see some payback but the trend should stay intact on its way to perhaps 25,000+ per annum by early next year.
- Visitor arrivals are suffering from the global downturn but a great snow season compared with Australia is providing some offset.

NZ net migration

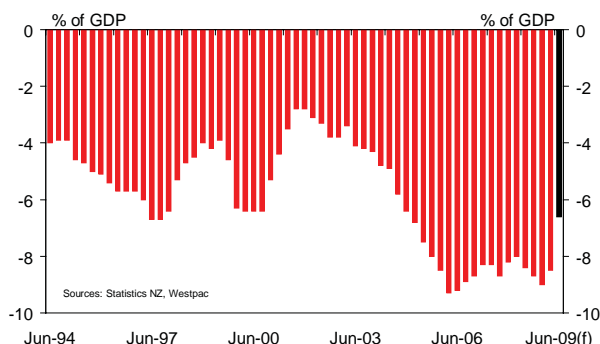


NZ Q2 current account deficit NZDm s.a.

Sep 22, Last: -2,693, WBC f/c: -1,320

- We estimate that the annual deficit narrowed from 8.5% to 6.6% of GDP in the June quarter. This is still high by world standards, but would be the lowest for New Zealand since December 2004.
- The trade balance is likely to have improved despite the stronger NZ dollar. Export volumes were very strong in Q2 as milk powder that was stockpiled at the end of last year was sold down, and the bumper ski season provided some respite for tourism earnings. Import volumes remained subdued even with vehicles rebounding from their Q1 lows.
- Investment income outflows continued to fall as a result of lower interest rates and falling profits for overseas-owned firms. A few one-off factors mean that the extent of the improvement in the deficit is likely to be exaggerated for Q2.

NZ annual current account deficit

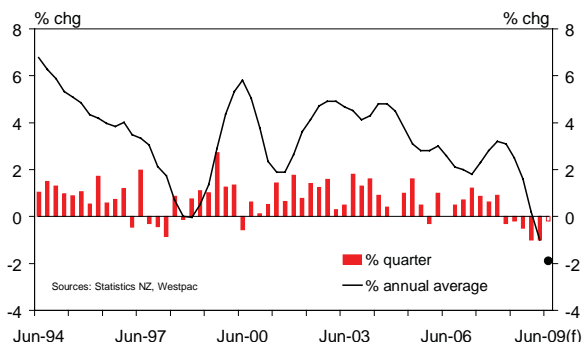


NZ Q2 GDP

Sep 23, Last: -1.0%, WBC f/c: -0.2%, mkt f/c: -0.1%

- The recession is nearing its end. There is a chance it ended in Q2 given our -0.2% estimate and the error bounds around this estimate. We have settled on a forecast of -0.2% despite the detailed industry indicators pointing to a small positive result. This is due to a technicality with unallocated items and the s.adj balancing item. This and the forecast large sector movements this quarter brings a bigger-than-usual margin for error.
- High level indicators like consumer confidence and production indicators from business surveys suggest a small negative to flat result.
- Manufacturing, construction, and wholesale trade are expected to fall, while real estate, energy, government spending and exports are forecast to rise. We expect a large inventory unwind that will set the stage for future growth as stocks are replenished when demand recovers.

NZ GDP growth



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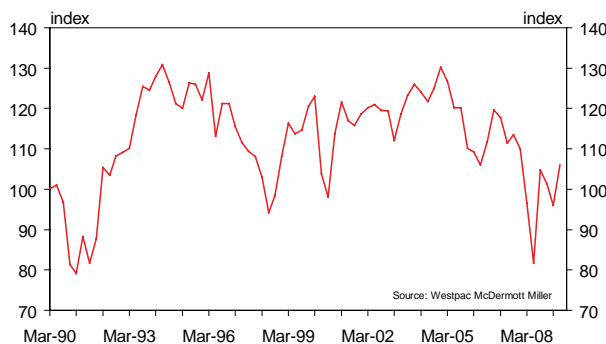
Data previews

NZ Q3 consumer confidence

Sep 23, Last: 106.0

- The Westpac McDermott Miller Consumer Confidence Index pushed back into positive territory in 2009Q2 as consumers once again heaved a collective sigh of relief. At the time, the Index was at 106.0 – an eighteen month high.
- Since June, the economic news internationally and locally has been far more appealing. On the global front, most commentators now agree that a turning point has been reached. The debate now lies largely around the shape and longevity of the recovery.
- In NZ, the economic data continue to trace out a gradual path of recovery. Business confidence has surged, the housing market is showing solid momentum in activity and prices, consumer spending has picked up pace, and Fonterra's last two auctions revealed a massive 56% increase in whole milk powder prices.

NZ Consumer Confidence

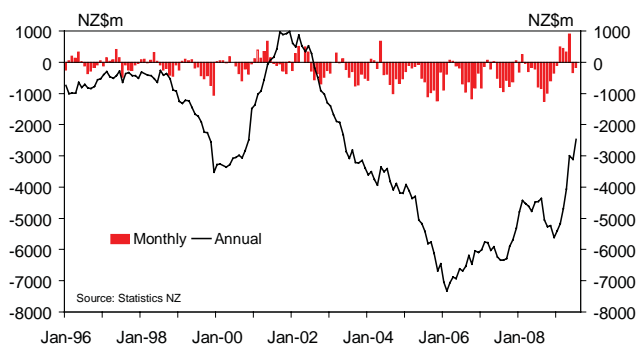


NZ Aug merchandise trade NZDm

Sep 25, Last: -163, WBC f/c: -350

- The merchandise trade balance rose sharply in late-2008 and early-2009, as import volumes fell and export price declines were offset by the falling exchange rate. For the past five months in a row, both imports and exports have exceeded the market expectation, as import volumes have rapidly recovered and export prices have risen. The balance between the two has seen the trade balance slipping downwards.
- Our forecast represents a continuation of the recent trends. The predicted deficit is the smallest for August since 2003, but in s.adj terms is larger than recent months.
- Imports are rebounding fast, especially for motor vehicles. Export prices are also rising fast, but this is offset to some degree by the rising exchange rate. It is too early for recent strength in spot dairy prices to show up as higher export receipts in the trade data.

NZ merchandise trade balance

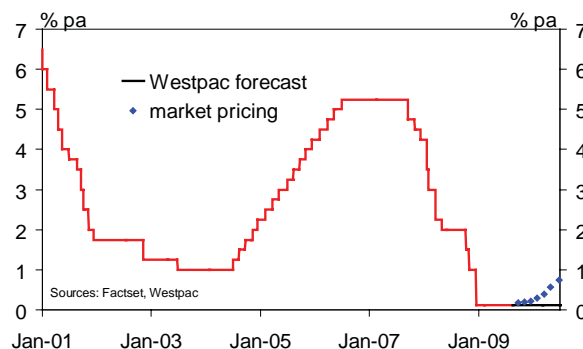


US FOMC rate decision

Sep 23, Last: 0-0.25%, WBC f/c: 0-0.25%

- On Aug 12, the FOMC noted "improved" conditions in financial markets, and expected "a gradual resumption of sustainable economic growth", in response to the considerable fiscal and monetary stimulus already in place. Hence the Fed kept rates at 0-0.25% and made no adjustments to the size of the quantitative easing (asset purchase) program. However to promote a smooth transition in markets, it was decided to gradually slow the pace of these transactions, with the program to be wound down by the end of October.
- We expect a similar outcome following the Sep 22-23 meeting, with no change to these policy arrangements likely. Despite rumours about a uber-hawkish minority on the FOMC, the commitment to maintain "exceptionally low levels of the federal funds rate for an extended period" should be reiterated.

Fed funds target rate



Data previews

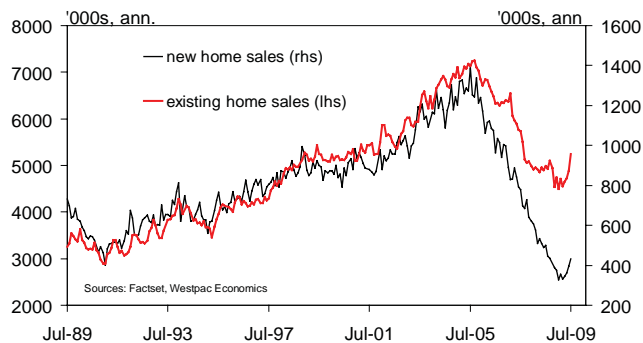
US Aug existing & new home sales to post gains

Sep 24, Existing home sales: Last: 7.2%, WBC f/c: 3.0%

Sep 25, New home sales: Last: 9.6%, WBC f/c: -2.5%

- US housing is showing signs of strengthening on all indicators: starts, permits, prices, homebuilder sentiment and of course sales of both existing and new dwellings.
- In Jul, existing home sales surged 7.2% to be up nearly 17% from their Jan low. Even so they continue to lag behind pending home sales which purport to measure the same transactions (but earlier in the sale process), and which are up 21% since the start of the year. So we expect a further 2% gain, which would be the fifth consecutive monthly rise.
- New home sales soared nearly 10% in July making it four gains in a row. In-roads are being made into the stock of unsold new homes, at least in part due to the sharply lower prices and tax credits to encourage first home buyers. We expect a small fall in Aug to restore a more realistic pace of up-trend.

US housing sales

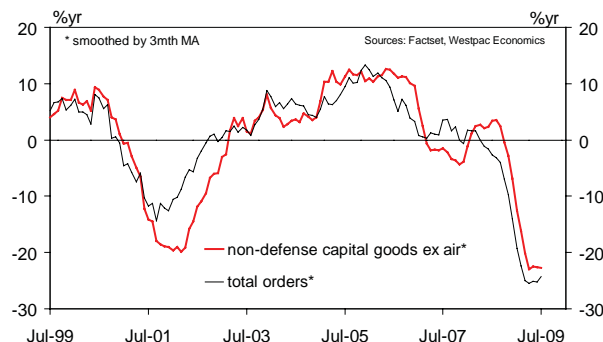


US Aug durable goods orders to rise again

Sep 25, Last: 5.1%, WBC f/c: 1.5%

- Durable goods orders posted a renewed and sharp gain in July, boosted by defence (15%), autos (0.9%, with more to come in August thanks to 'cash for clunkers') and especially civilian aircraft orders, which more than doubled. The surprise, which adds a further positive note, was that core capital goods orders posted the mildest of declines (just -0.3%) in July, after back-to-back monthly gains in May-June worth a cumulative 8%.
- August orders should post a further but less impressive gain. The Aug ISM factory index orders component surged from 55 to 65; factory production rose 0.6%, with autos up again; business equipment output posted back-to-back gains in Jul-Aug. But, Boeing had fewer, less valuable orders in Aug, and auto orders will have fallen away sharply late month, after the 'cash for clunkers' program closed. Overall we expect Aug orders to rise 1.5%, ahead of a probable auto-driven fall in Sep.

US durable goods orders



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 21					
Aus	Aug motor vehicle sales	-6.9%	-	-1.0%	Tax-break induced surge in business sales still unwinding.
NZ	Aug external migration ann.	14,488	-	16,300	Grounded Kiwis causing net migration to soar.
	Aug credit card transactions	1.0%	-	-	Moderate rise expected in August, as consumer confidence returns.
UK	Sep house prices %yr	-3.1%	-	-	Tentative date for Rightmove index.
US	Aug leading index	0.6%	0.7%	1.0%	Equities, claims, permits, orders all +ve. Heading for 5th consec rise.
Tue 22					
NZ	Q2 current account deficit NZDmn s.a.	-2,693	-1,980	-1,320	Weak import demand and falling investment income outflows.
US	Sep Richmond Fed factory index	14	16	18	The first to turn positive, back in May.
	Jul house prices	0.5%	0.5%	-	Lesser watched FHFA series.
Can	Jul retail sales	1.0%	0.5%	1.0%	Strong boost from auto sales.
Wed 23					
NZ	Q2 GDP %qtr	-1.0%	-0.2%	-0.2%	Contraction abating as policy starting to take effect.
	Q3 consumer confidence	106.0	-	-	Monthly surveys suggest confidence remains buoyant.
Twn	Aug industrial production %yr	-8.1%	-6.3%	-	Needs to rise 1.5% mth plus to beat market: far from impossible.
	Aug export orders %yr	-8.8%	-8.8%	-	Port through-put peaked in Aug 08: base effects easy from next month.
Eur	Sep PMI factory advance	48.2	49.8	49.0	The Euroland economy looks like it is just expanding in Q3, by about 0.1%, so the PMIs should be hovering around 50+ to be consistent.
	Sep PMI services advance	49.9	50.4	50.5	
	Jul industrial orders	3.1%	2.0%	2.5%	German orders known up 3.5%.
UK	Sep BoE minutes	-	-	-	Interesting to see if any still voting for further QE extension.
	Aug BBA mortgage lending £bn	38.2	-	-	New bank mortgage lending has more than doubled since Nov 2008.
US	FOMC rate decision	0-0.25%	0-0.25%	0-0.25%	Firmly on hold despite reports some FOMC members want to hike.
Thu 24					
Aus	RBA Financial Stability Review	-	-	-	Detailed assessment of the state of the financial system.
Jpn	Aug trade balance ¥bn s.a.	195	187	-	Imports rose more than 3% in July as exports fell. Payback on the way.
Twn	CBCT polity decision	1.25%	1.25%	1.25%	Dovish tendencies need no explanation in the current climate.
Ger	Ifo business climate index	90.5	92.0	92.0	Rising as outlook shifts from Armageddon to recession to sluggish grth.
US	Initial jobless claims w/e 19/9	545k	546k	550k	Possible correction from possible distortion from Labor Day holiday!
	Aug existing home sales	7.2%	2.1%	3.0%	Pending home sales figures point to further gain in existing home sales.
	Fedspeak	-	-	-	Evans on asset prices and regulation.
Fri 25					
NZ	Aug merchandise trade NZDm	-163	-329	-350	Imports rebounding fast, export prices rising, exchange rate rising.
Jpn	Aug Bank of Japan minutes	-	-	-	Expect cautious commentary on post-stimulus state of play.
	Aug corp. services prices %yr	-3.4%	-3.5%	-	Collapse in int. freight rates is huge, but non-traded prices also weak.
Sing	Aug industrial production %yr	12.4%	6.5%	-	Inflated by pharma. Elecs. a better read on demand at -5.6%.
Eur	Aug money supply M3 %yr	3.0%	2.7%	2.7%	In Jul credit growth to private sector was slowest on record.
UK	Q2 business investment final	-10.4% a	-	-10.4%	Q2 is one of the weakest qtrs on record for capital spending.
US	Aug durable goods orders	5.1%	0.1%	1.5%	Business surveys strong, autos a positive, Boeing numbers down.
	Aug new home sales	9.6%	2.2%	-2.5%	Very strong up-trend, but due for a modest correction lower.
	Sep UoM consumer sentiment final	70.2 a	70.1	71.0	Equities solid and gasoline prices edging lower since prelim survey.
	Fedspeak	-	-	-	Gov Warsh in Chicago.
Sun 27					
NZ	Daylight Savings begins	-	-	-	Clocks go forward 1 hour.

Economic & financial forecasts

Interest rate forecasts

	Latest (Sep 18)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Cash	3.00	3.00	3.25	3.50	3.75	4.00
90 Day Bill	3.41	3.40	3.75	4.00	4.25	4.50
3 Year Swap	5.24	5.25	6.00	6.50	6.75	6.80
10 Year Bond	5.29	5.50	5.80	6.25	6.25	6.35
10 Year Spread to US (bps)	190	210	205	225	200	185

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.39	3.40	3.75	4.00	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	2.79	2.80	2.80	2.90	3.60	4.60
2 year swap	4.05	4.10	4.30	4.60	5.00	5.40
10 Year Bond	5.66	5.80	5.90	6.00	6.20	6.30
10 Year spread to US	227	240	215	200	195	180

Exchange rate forecasts

	Latest (Sep 18)	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
AUD/USD	0.8715	0.80	0.83	0.85	0.87	0.89
NZD/USD	0.7106	0.67	0.70	0.72	0.74	0.76
USD/JPY	91.22	90	93	96	99	103
EUR/USD	1.4723	1.40	1.42	1.44	1.46	1.49
AUD/NZD	1.2264	1.19	1.19	1.18	1.18	1.17

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

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