

# Weekly Commentary

31 October 2011

## The more things change...

Last week was jam-packed with data and economic events in New Zealand, with Thursday's OCR Review by the RBNZ the headline act. As universally expected the Bank left the OCR unchanged at 2.5%. In the end, the short statement essentially reiterated their September view of the world although subtle changes included an acknowledgement of softer domestic data, falling business confidence and a change in tone on inflation.

With GDP growth a paltry 0.1% in the June quarter and some mixed growth signs since, it was probably no surprise that the RBNZ is now describing the domestic economy as expanding at "only a modest pace" rather than its previous "surprising on the upside".

Softer business confidence has also been evident since the September Monetary Policy Statement – including in last week's National Bank Business Outlook survey (NBBO). The NBBO registered its third consecutive monthly fall in business confidence in October. Headline confidence has now dropped to levels last seen at the tail end of the recession in June 2009. Although for the most part, own activity measures were a little more buoyant than the headline figures suggest, this may be a sign that recent turmoil in financial markets is having an effect on confidence here. This was certainly the case in Rabobank's quarterly Rural Confidence survey where net confidence fell from 42% to 25%, with 44% of farmers who expected the agricultural economy to worsen explicitly downbeat on overseas markets and economy, and 31% pinning their pessimism on falling commodity prices.

The surprisingly low CPI outturn earlier in the week also got an oblique mention. Underlying inflation was described as "settling" rather than "rising" around the mid-point of the 1-3% target band (the Bank's preferred measure of underlying inflation fell from 2.3% to 2.2% in September). The headline CPI rose just 0.4% in the September quarter (well below expectations) leaving the GST boosted annual rate at 4.6%. The causes of the surprisingly soft increase in inflation were largely on the stickier non-tradables side and in a number of cases stemmed from increased competition. Electricity prices registered a rare quarterly decline thanks to the recent campaign encouraging people to switch power suppliers. Telecommunication services fell a hefty 3.5% in the quarter, reflecting increased data caps for broadband and mobile phone internet packages.

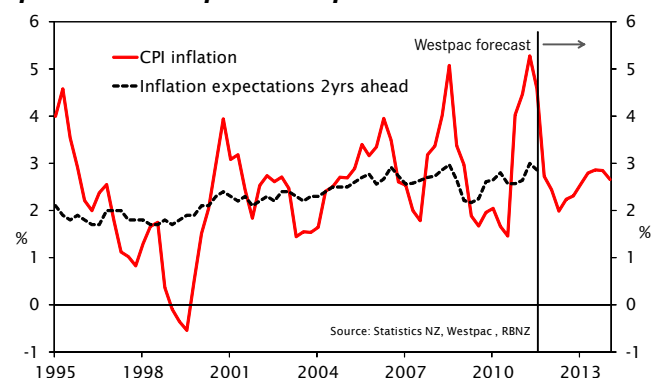
Following such a muted inflation outturn, falling business confidence and ongoing global uncertainty, the RBNZ's minor change in tone served as a mild surprise to markets who had priced in some possibility that the RBNZ would take the opportunity to signal a delay to the start of the tightening cycle.

But despite relatively little change in rhetoric from the RBNZ, we regard the softer inflation print as important new information which gives the RBNZ more breathing room on the inflation front. We're now forecasting inflation to fall to 2% next year, the middle of the RBNZ's target band. Surveyed measures of inflation expectations have also broadly eased. In the NBBO pricing intentions have been falling since a spike in May, suggesting firms have limited ability to pass on cost increases. Less inflation pressure gives us more confidence in our call that the RBNZ will wait until June next year before commencing hike rates.

Another important reason we suspect the start date for hikes will be later than the RBNZ has signalled is that we're more downbeat on global conditions. Despite the much anticipated announcement by European leaders last week, we suspect there is much water to go under the bridge yet before Europe returns to a sustainable positive growth path (in fact we're expecting the European economy to contract next year). Heightened global economic uncertainty (coupled with ongoing foreign exchange volatility) was also cited by Fonterra as the reason for lowering its payout forecast for the current season from \$7.15-\$7.25 to \$6.70-\$6.80/kgms. Our view is that NZ's key commodity export prices will come under continued pressure over the coming months as global growth (including growth in key Asian markets) slows. On a more positive note, dairy production is still running well ahead of last year's levels throughout the country.

Downside risks to global growth and their potential impact on the New Zealand economy were also explored by the Treasury as it opened up the Government's books in its Pre-Election Economic and Fiscal Update (PREFU) – a timely reminder that with the Rugby World Cup out of the

### Inflation and inflation expectations



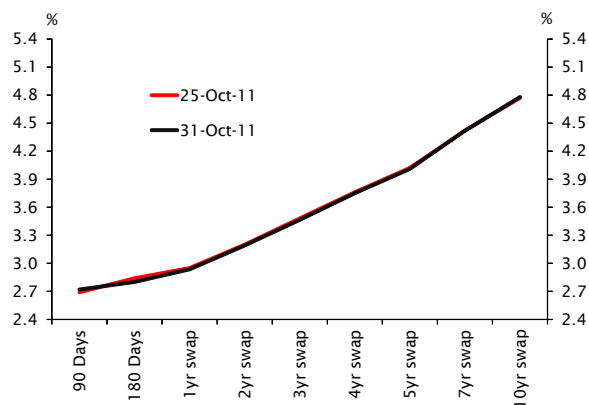
way, attention will now turn to the election on the 26th of November. Yet on balance there were few very changes in the Treasury's outlook since the May budget. A weaker view on the world was largely offset by a stronger than expected starting point for the economy, a larger and longer boost to growth from reconstruction in Christchurch, and lower world interest rates for an extended period, reducing debt financing costs for the Government - an assumption which may prove to be optimistic if interest rates move higher as we expect. The Treasury still expects a return to surplus in the June 2015 fiscal year and that net core crown debt will peak below 30% of GDP.

This week's data calendar will be dominated by the release of the suite of labour market indicators. We expect there was healthy employment growth in the September quarter, helped by temporary hiring associated with the Rugby World Cup (there was more than a hint of this in the new monthly national employment indicator which surged 1.1% s.a. in August). But the anticipated dip in the unemployment rate from 6.5% to 6.3% probably hasn't translated to significant pressure on wages. We expect pretty average growth in the labour cost index of 0.6% leaving labour costs 2.1% above levels of a year ago. Building consents data (out today) is also probably worth taking note of. Residential consent issuance has surged in recent months, posting double digit growth in both July and August. After such a burst we expect more modest growth in September, but we'll be watching this outturn carefully.

**Fixed vs floating:** Floating remains a relatively low-risk option for now, although fixing will be a consideration again by early next year. A softening global economy suggests little upward pressure on interest rates from offshore any time soon, and the RBNZ confirmed last week

that it will stay its hand while global financial conditions remain this uncertain. But rate hikes remain likely over the longer term, and if current conditions in offshore markets persist, higher bank funding costs could drive additional increases in future mortgage rates, independently of RBNZ action - indeed, our expectation for OCR hikes to be delayed until June 2012 is more a reflection of this risk than of the state of the local economy. Based on our latest forecasts and current market pricing, fixing for two or three years is likely to result in a lower interest bill than remaining on floating for the entire period.

### NZ interest rates



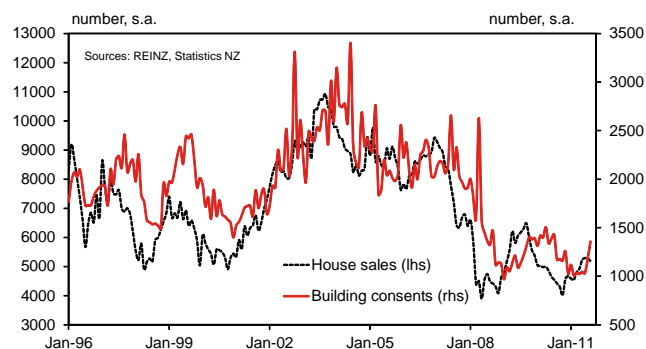
## Key Data Previews

### NZ Sep Building consents

Oct 31, Last: 12%

- After months in decline, residential building consent issuance has rebounded strongly over the last couple of months, posting double digit growth in both July (14.3%) and August (12.5%). But after such a strong burst and with the pace of house sales moderating of late, we expect building consents to take a breather in September.
- Regionally, issuance has increased in Auckland but there has also been a pickup in consent issuance in Canterbury. While Stats NZ has recorded just a handful of identifiable earthquake-related consents being issued in recent months we are suspicious that this understates the amount of earthquake related activity. Stats NZ also note that not all earthquake-related consents can be identified (e.g. it wouldn't be identified if the owners of a damaged house build a new house elsewhere).

### NZ Housing activity



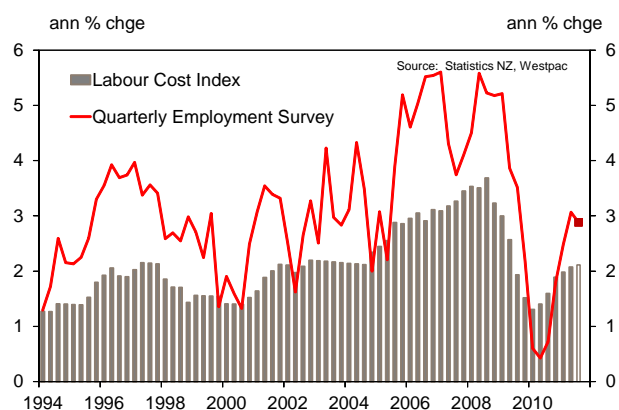
### NZ Q3 wages

Nov 1, LCI pvt ord time: Last: 0.5%, WBC f/c: 0.6%, Mkt f/c: 0.5%

QES pvt ord time: Last: 1.2%, WBC f/c: 0.8%, Mkt f/c: 0.9%

- Wage growth has remained subdued, despite early signs of rising construction sector wages (particularly in the Canterbury region).
- With unemployment still high, we don't expect that to change in the September quarter. Over the quarter, wage growth will be seasonally high as many people get their pay reviews in the second half of the year.

### Private sector earnings & labour cost



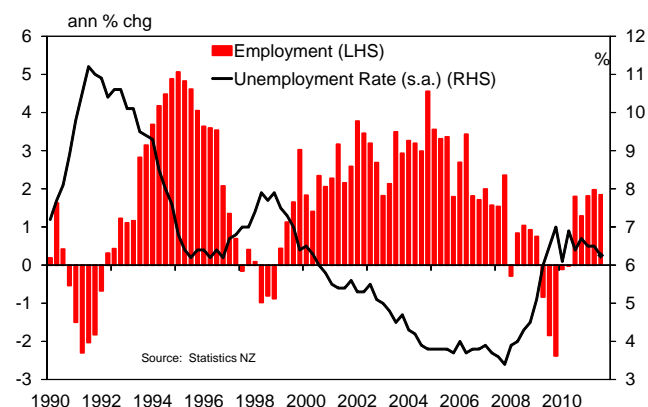
### NZ Q3 HLFS employment and unemployment

Nov 3, Employment: Last: 0.0%, WBC f/c: 0.8%, Mkt f/c: 0.4%

Unemployment: Last: 6.5%, WBC f/c: 6.3%, Mkt f/c: 6.4%

- The economy has slowed and firms have reported hiring at a slower pace than at the start of the year.
- But there are signs that Rugby World Cup related hiring has given an extra boost to employment, which our forecasts reflect.
- The size of that RWC boost is uncertain, but it should prove short-lived. We continue to expect a gradual decline in the unemployment rate from current levels as construction ramps up.

### NZ household labour force survey



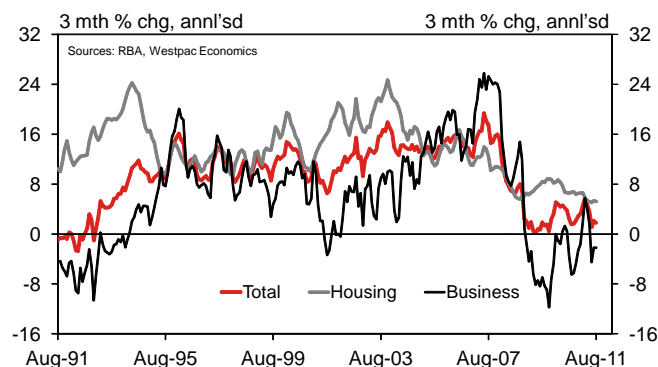
### Aus Sep private credit

Oct 31, Last: 0.2%, WBC f/c: 0.2%

Mkt f/c: 0.3%, Range: 0.1% to 0.4%

- Credit to the private sector is expanding, but at a slow pace. With consumer and business confidence weakening since mid-year, this is likely to remain the case.
- We're forecasting credit to rise by 0.2% in September, a repeat of the August outcome. This would see annual growth inch higher to 3.1%, from 3.0% - not greatly different from annual growth for September 2010, of 3.2%.
- Housing credit is relatively weak, and is evidence of the headwinds facing the sector. Growth was 0.4% in August and 5.2% annualised over the last three months.
- Business credit remains volatile around a weak trend. August was a flat month, as was July, following a -0.6% for June. We anticipate a broadly flat result for September.

### Aus credit momentum

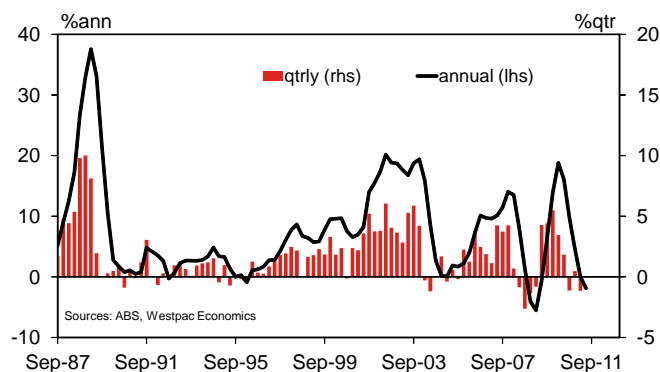


### Aus Q3 house price index

Nov 1, Last: -0.1%, WBC f/c: -1.5%  
Mkt f/c: -1.5%, Range: -2.0% to 0.2%

- The preliminary estimate of the ABS House Price Index showed a slight 0.1% drop in Q2 after a 1.1% fall in Q1 (revised up from -1.7% previously). Prices were down 1.9%yr.
- Private sector measures show a pick-up in the pace of price declines in Q3. The ABS measure covers detached houses only (i.e. excluding townhouses, terraces and units). For Q3, our preferred private measures of this part of the market showed moves of -1.6%qtr, -2.0%yr (Residex figures for July-August); -1.6%qtr, -3.5%yr (APM) and -1.7%qtr, -4.8%yr (RP Data-Rismark, figures are for July-August with September due out October 31).
- Overall, we expect the ABS series to show a 1.5% fall in Q3 which would be the biggest quarterly decline since Q3 2008.

### Aus established house prices, ABS measure

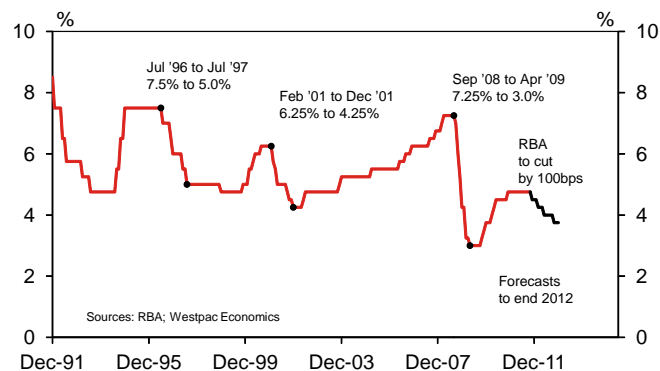


### Aus RBA policy decision

Nov 1 2:20pm, Last: 4.75%, WBC f/c: 4.50%  
Mkt f/c: 4.50%, Range: 4.50% to 4.75%

- The Minutes of the RBA's October meeting provided confirmation that the Board now sees scope for looser monetary policy. There was ample evidence that the Bank sees emerging weakness in the economy; the Minutes also highlighted how recent revisions to the CPI methodology had moderated the pace of underlying inflation for the year to Q2 2011.
- Since the release of the Minutes, we have received the Q3 CPI print. At 2.5%yr, underlying inflation came in well below expectations and the RBA's 2011 forecast of 3.25%. This makes a rate cut by year end almost certain - something that we have been forecasting since July 15. Given the strong case for a rate cut already in place and the RBA's record of moving rates every November for the last five years, the balance of probabilities now favours a 25bp November rate cut, versus our original December call.

### RBA cash rate: easing cycles

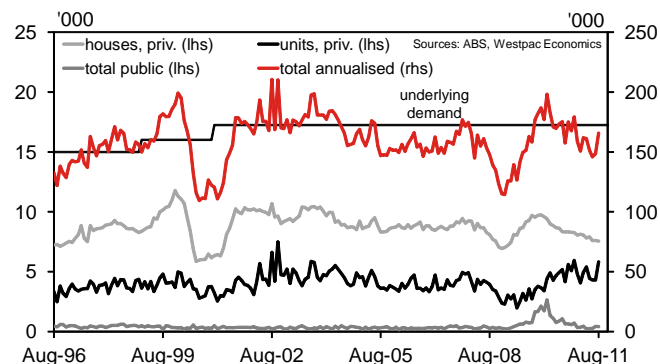


### Aus Sep dwelling approvals

Nov 2, Last: 11.4%, WBC f/c: -8.0%  
Mkt f/c: -5.0%, Range: -10.0% to 6.0%

- Dwelling approvals jumped 11.4% in August, led by a big spike in private sector units that is likely due to a few large projects (the detail shows two local areas in Sydney accounted for over half of the jump), and an expected policy-induced rebound in Qld (due to builders holding back projects to qualify for state government incentive payments). Conditions were decidedly softer outside these two influences.
- September is expected to see these boosts unwind with a sharp 8% fall. However, incentive effects may see Qld approvals hold up; recent firming in finance approvals for new dwellings, which includes 'off the plan' sales to owner-occupiers, suggests underlying conditions have improved slightly. Units also remain a wildcard with several large projects at various stages of development in NSW.

### Dwelling approvals



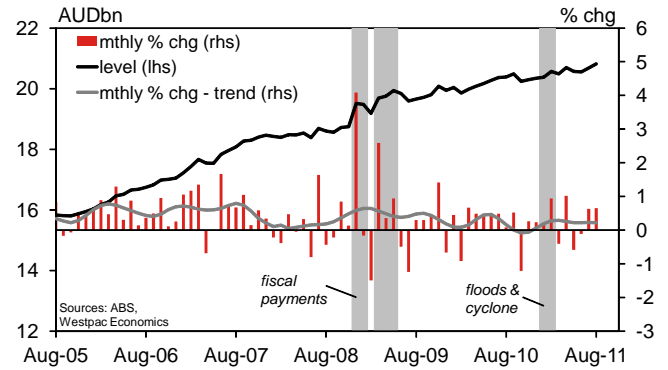
### Aus Sep retail trade

Nov 3, Last: 0.6%, WBC f/c: -0.3%

Mkt f/c: 0.4%, Range: -0.3% to 0.7%

- Retail sales were stronger than expected in August, with a 0.6% mth gain following a similar rise in July but falls over the previous two months (-0.6% in May, -0.1% in June). This was despite a slide in consumer sentiment through July-August to historical lows associated in the past with weakening expenditure.
- We continue to expect this fall in sentiment will translate into renewed weakness in retail sales with a -0.3% decline forecast for September. It should be noted that retail is coming from a weak starting point - even with the July-August rise, annual growth is running at just 2.1%yr. With consumers also showing growing concerns about job security and the weak housing market, unemployment trending up through Q3 and escalating turmoil in global financial markets, retail is likely to remain under intense pressure through the second half of 2011.

### Monthly retail sales



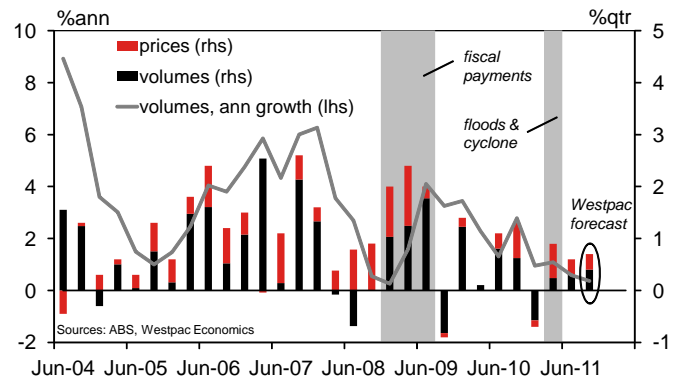
### Aus Q3 real retail sales

Nov 3, Last: 0.3%, WBC f/c: 0.4%

Mkt f/c: 0.6%, Range: 0.3% to 1.0%

- Real retail sales rose 0.3% in Q2, a soft outcome following the 0.2% rise in weather-disrupted Q1 and the 0.6% fall in Q4.
- We expect a similar result for Q3. Despite back-to-back gains in monthly sales, a soft September is expected to see nominal retail sales up 0.7%qtr, a similar gain to the 0.6% rise in Q2. Price moves are also expected to be similar with the detailed CPI data suggesting only a slight moderation in food prices offset by gains in other retail components like clothing. Overall we expect volumes to be up 0.4% for the quarter.

### Q3 retail: volumes & prices

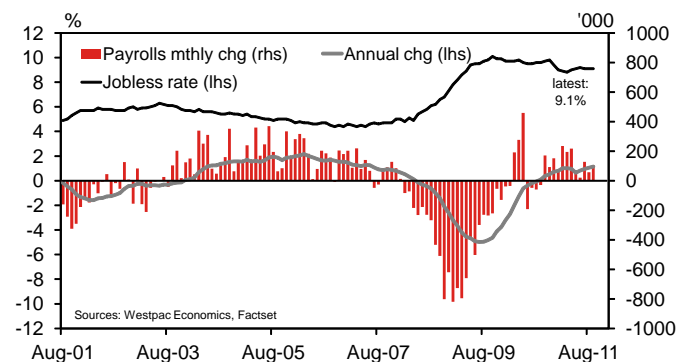


### US Oct non-farm payrolls to rise 65k

Nov 4, Payroll employment: Last: 103k, WBC f/c: 65k

- Payrolls rose 103k in Sep, and revisions added a further 99k jobs to the count earlier in Q3. That means the Q3 jobs growth pace was 96k per month, the same as in Q2 but still way down on the 166k average recorded in Q1 this year. Adjusted for Aug's Verizon strike and Minnesota's July state shutdown Jul-Aug-Sep would read 150k-79k-58k so underlying jobs growth slowed thru Q3.
- Partial data suggest Q3's GDP growth pickup was mostly late in the qtr, and some Oct business surveys found increased hiring. But the BLS report seems to alternate between finding fewer jobs/downward revisions one month, more jobs/upward revisions the next. If this pattern holds we are due a disappointment, so we forecast payrolls up just 65k (90k private) though it will probably be revised higher next month! Also a fall in household survey employment after a 729k gain over two months should nudge the jobless rate up to 9.2% in October.

### US payrolls

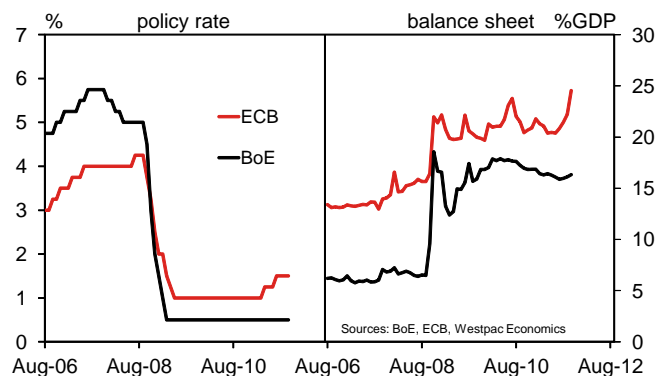


## ECB should cut rates immediately

Nov 3, ECB Last: 1.5%, WBC f/c: 1.25%

- The ECB's tightening bias, adopted in March and acted upon in April/July, was dropped in Sep, and risks to growth (but not inflation) were assessed to the downside. The Oct statement noted "intensified" downside risks to growth, dropped the "accommodative" description of policy and reintroduced non-standard measures including covered bond purchases to improve liquidity and facilitate policy transmission.
- Recent business/consumer confidence and retail sales falls mirror those in 2008 when the economy subsequently was revealed to be in recession. Industrial activity has held up due to prior orders strength but orders have now slowed to their pace at the start of the last recession. Recession is more than an intensified risk; it is base case. We expect 75bp of ECB rate cuts by the end of Q1 next year and the Oct 6 language tweaks were hopefully signalling the first in Nov.

## ECB & BoE policy rates balance sheets



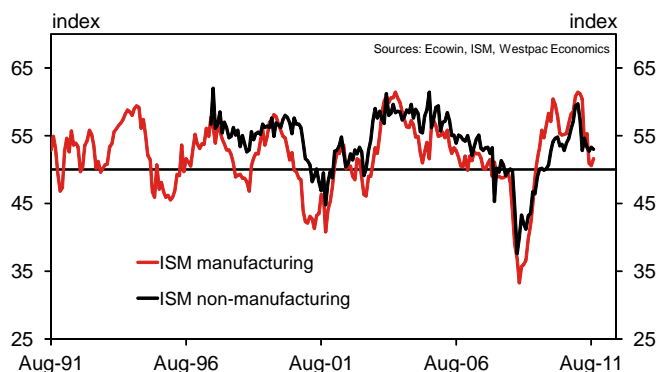
## US Oct ISM factory and non-manufacturing reports

Nov 1, Factory Last: 51.6, WBC f/c: 53.0

Nov 3, Non-manufacturing Last: 53.0, WBC 53.0

- The factory ISM hit 61.4 in Feb, close to three decade highs. By Aug it had plunged to 50.6, but it edged up to 51.6 in Sep, indicating close to stalled factory activity. Substantially improved orders, shipments and even jobs detail in some of the district Fed factory surveys suggest the Oct ISM headline (a composite of its key activity components) will recover further.
- The services ISM surged to a 6 year high in Feb, before falling 7 pts to 52.8 in Apr, its steepest decline since the Lehmans collapse. Ongoing cutbacks in state govt spending, gasoline price constraint on consumers, construction weakness, meagre household income growth, collapsed confidence and equities turmoil have failed to push the indicator lower since then. We expect a steady 53.0 in Oct, but risks are temporarily to the upside given that jobs and retailing picked up late in Q3.

## US ISMs

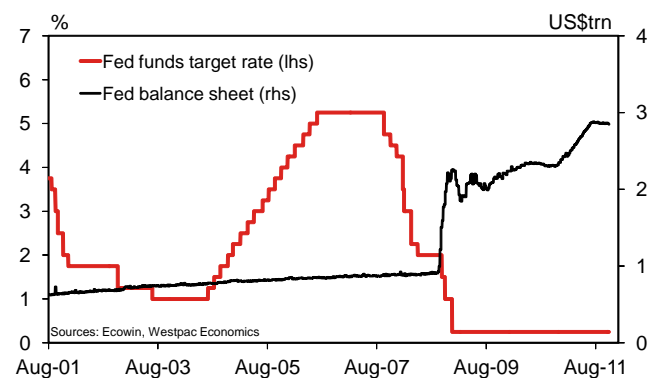


## US FOMC meeting & Bernanke press conference

Nov 2, Last: 0-0.25%, WBC f/c: 0-0.25%

- At the Aug FOMC the "extended period" low rates guidance was respecified as "at least through mid 2013". In Sep "operation twist" was announced, extending the duration of the Fed's balance sheet by \$400bn of long bond purchases, funded by selling shorter maturities. These actions were in response to downgraded assessments of the recovery/job market prospects.
- These decisions were not unanimous with three dissenters arguing at the meetings and publicly against making policy more accommodative. But the minutes show that there is also a body of opinion on the FOMC that favour yet further action. Vice chair Janet Yellen/Gov Tarullo hinted last week that unsterilized bond/mortgage backed security purchases might become appropriate again. The recent less weak jobs, retail and GDP data and some progress in Europe argue against any further action yet, but it remains our base case scenario for 2012.

## Fed funds target rate & balance sheet



## Key Data and Events

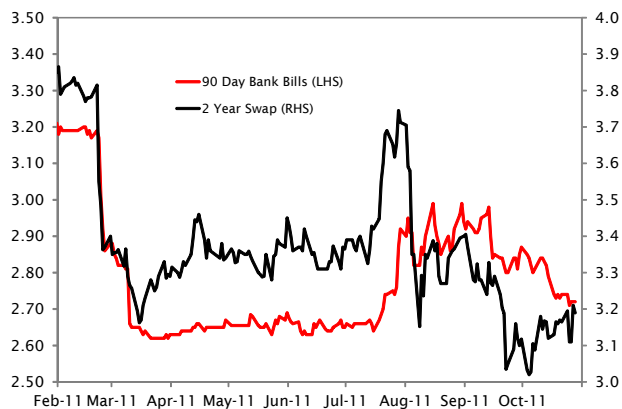
		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 31</b>					
NZ	Sep Building permits	12.5%		-2%	Due for a breather after strong gains in recent months.
Aus	Sep RP Data-Rismark home price index	-0.4%	-	-	Seas. adjusted, all dwellings tracking -3.2%yr; houses -3.9%yr.
Jpn	Sep private sector credit	0.2%	0.3%	0.2%	Expanding, but - weak pace - housing relatively weak, business flat.
	Oct Markit/JMMA manufacturing PMI	49.3	-	-	Short lived boost from return to respectable capacity utilisation.
	Sep construction orders %yr	9.3%	-	-	Reconstruction demand slowing, boosting industry order books.
	Sep housing starts %yr	14.0%	7.6%	-	As above.
Eur	Oct CPI flash estimate %yr	3.0%	2.8%	2.9%	German data suggest inflation might have peaked.
	Sep unemployment rate %	10.0%	10.0%	10.0%	German jobless rate fell in Sep, offsetting gains elsewhere.
Ger	Sep retail sales	-2.7%	1.0%	-	Tentative date, due by 2/11. Recently distorted by sample changes.
UK	Oct house prices %yr	-0.3%	0.5%	-	Nationwide index.
	Oct house prices %yr	-3.5%	-	-	Hometrack survey of real estate agents.
	Sep mortgage lending £bn	0.6	-	-	Growth in household loan outstandings remains slow reflecting weak
	Sep consumer credit £bn	0.5	-	-	credit demand, tighter lending conditions and slower economy.
	Sep M4 money supply %yr	-0.6%	-	-	Focus more on M4 ex OFCs at 2.3% yr in Aug.
US	Oct Chicago PMI	60.4	59.0	56.0	Index has a life of its own, so with other regional surveys stronger
	Oct Milwaukee NAPM	55.4	56.0	-	(especially in the detail), Chicago will probably decline. Milwaukee
	Oct Dallas Fed factory survey	-14.4	-2.5	-6.0	may be volatile, but Dallas tracks the other Fed surveys more closely.
<b>Tue 01</b>					
NZ	Q3 Labour Cost Index Pvt Ord Time	0.5%	0.5%	0.6%	Wage growth to remain subdued.
	Q3 QES Private Sector Ord Time	1.2%	0.9%	0.8%	QES will give advance read on Q3 employment.
	Oct ANZ Commodity prices	-1.3%	-	-	Further moderation expected but still at high levels.
Aus	Melbourne Cup	-	-	-	Public holiday in Victoria, markets open.
	Oct AiG PMI	42.3	-	-	Indicates manufacturing sector contracting. Well below 50 from July.
	Q3 ABS house price index	-0.1%	-1.5%	-1.5%	All private measures point to price decline in Q3.
	RBA policy decision, 2:30pm	4.75%	4.50%	4.50%	CPI removed a key hurdle to a cut, iron ore collapse likewise.
	Melbourne Cup	-	American	Dunaden	Hot on the heels of the RBA decision comes the cup.
Chn	Oct NBS PMI manufacturing	51.2	51.8	-	Seasonality is worth +2.3pts in October. Sep s/a est. was 50.1.
	Oct HSBC manufacturing PMI final	51.1	-	-	Flash estimate improved 1.1pts from Sep reading of 49.9.
UK	Oct PMI factory	51.1	50.0	49.5	German/French factory PMIs weak, BoE talking up risks to economy.
	Q1 GDP growth	0.1%	0.3%	0.4%	Weak bounce after Q2 constrained by parts shortages and extra holiday
	Oct house prices %yr	-2.3%	-	-	Tentative date for Halifax index, due 1-4/11.
US	Sep construction spending	1.4%	0.3%	0.6%	Sharp rise in starts suggests some spending, but watch for revisions.
	Oct ISM manufacturing	51.6	52.3	53.0	Detail in Philly and NY Fed surveys mostly stronger. See text box.
	Oct auto sales mn annualised	13.04	13.10	12.8	Catch-up sales after supply shortages likely to wane.
<b>Wed 02</b>					
Aus	Sep dwelling approvals	11.4%	-5.0%	-8.0%	Apartment spike & policy-related pull-forward in Qld to unwind.
Eur	Oct PMI factory final	47.3 a	47.3	47.0	In current environment, revisions likely to the downside.
Ger	Oct unemployment change	-26k	-	-5k	Slowing economy cannot sustain Sep's pace of jobless decline.
UK	Oct PMI construction	50.1	-	50.5	Steep declines usually followed by bounce.
US	Oct corporate layoff ann'ments %yr	211.5%	-	-	Sep boosted by Army cutbacks announced all at once.
	Oct ADP private payrolls change	91k	101k	90k	Not usually volatile; recent less weak GDP supportive of jobs.
	FOMC rate decision	0-0.25%	0-0.25%	0-0.25%	Followed by Bernanke press conference. See text box.
<b>Thu 03</b>					
NZ	Q3 HLFS Employment	0.0%	0.4%	0.8%	Rugby World Cup to boost employment.
	Q3 HLFS Unemployment	6.5%	6.4%	6.3%	Unemployment expected to fall modestly.
Aus	Sep retail sales	0.6%	0.4%	-0.3%	Sales to reflect mid-year sentiment slump - rising consumer caution,
	Q3 real retail sales	0.3%	0.6%	0.4%	giving another subdued quarter for sales volumes (up 0.6%yr to Q2)
Chn	Oct China HSBC services PMI	53.0	-	-	Tight monetary policy is bringing the economy to heel.
Eur	G20 leaders' summit	-	-	-	Europe at top of the agenda.
	Oct PMI services final	47.2 a	-	47.0	In current environment, revisions likely to the downside.
	ECB rate decision	1.50%	1.50%	1.25%	This is more advice than a forecast - see text box.
UK	Oct PMI services	52.9	52.0	51.8	Downtrend resumed.
US	Q3 productivity	-0.7%	2.5%	2.5%	Assumes 2.3% GDP growth in Q3 and similar non-farm growth.
	Q3 unit labour costs	3.3%	-0.4%	0.0%	Higher productivity growth means lower ULC gains, all else equal.
	Initial jobless claims	402k	-	406k	Hovering close to 400k per week for a month now.
	Oct ISM non-manufacturing	53.0	54.0	53.0	Levelling off, indicating slow growth persists.
	Sep factory orders	-0.2%	-0.1%	-0.5%	Durable orders known down 0.8%.
	Oct chain store sales %yr	5.5%	-	-	Guide to official retail data.
<b>Fri 04</b>					
Aus	RBA Statement on Monetary Policy	-	-	-	Expect big cut to RBA's inflation f/casts to 2½%yr; softer growth track.
Eur	Sep producer prices %yr	5.9%	5.8%	5.9%	German PPI steady at 5.5%yr in Sep.
Ger	Sep factory orders	-1.4%	0.0%	-0.5%	Three consecutive declines in orders would be strong recession signal.
US	Oct non-farm payrolls	103k	100k	65k	Stronger activity in late Q3 to keep private payrolls jobs growing but
	Oct unemployment rate	9.1%	9.1%	9.2%	the jobless rate risks ticking higher on household survey jobs fall.
Can	Oct employment change	61k	20k	-20k	Jobs trend may have picked up, but statistical correction lower likely.
	Sep building permits	-10.4%	-	-	Aug saw across the board declines in res (single/multiple) and non-res.
	Oct Ivey PMI sa	55.7	56.0	53.5	Downtrend in place since recent peak in March 2011.

## New Zealand Economic and Financial Forecasts

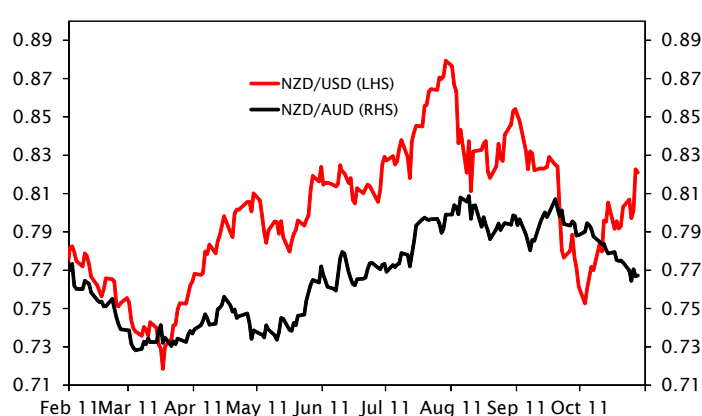
Economic Growth Forecasts	March years				Calendar years			
	2010	2011e	2012f	2013f	2010	2011f	2012f	2013f
% change								
GDP (Production) ann avg	-0.7	1.6	2.3	3.8	1.6	2.0	3.7	3.0
Employment	-0.1	1.8	1.6	2.9	1.3	2.5	2.8	2.0
Unemployment Rate % s.a.	6.1	6.5	6.1	5.0	6.7	6.3	5.2	4.5
CPI	2.0	4.5	2.4	2.6	4.0	2.7	2.3	2.8
Current Account Balance % of GDP	-1.9	-3.6	-4.6	-6.3	-3.5	-4.0	-6.1	-5.5

Financial Forecasts	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Cash	2.50	2.50	2.75	3.00	3.25	3.50
90 Day bill	2.80	2.80	3.00	3.30	3.60	3.80
2 Year Swap	3.30	3.50	3.80	4.10	4.40	4.60
5 Year Swap	4.00	4.30	4.50	4.70	4.90	5.10
10 Year Bond	4.50	4.50	4.60	4.70	4.80	4.90
NZD/USD	0.73	0.71	0.69	0.74	0.77	0.78
NZD/AUD	0.77	0.76	0.76	0.77	0.79	0.80
NZD/JPY	55.5	54.0	52.4	57.7	62.4	65.5
NZD/EUR	0.56	0.56	0.57	0.58	0.60	0.61
NZD/GBP	0.48	0.47	0.46	0.48	0.49	0.49
TWI	66.0	65.2	64.2	67.5	70.0	71.2

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



## NZ interest rates as at market open on Tuesday 31 October 2011

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.68%	2.70%	2.75%
60 Days	2.73%	2.78%	2.83%
90 Days	2.72%	2.79%	2.87%
2 Year Swap	3.19%	3.12%	3.12%
5 Year Swap	4.01%	3.91%	3.78%

## NZ foreign currency mid-rates as at Tuesday 31 October 2011

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.8199	0.8034	0.7618
NZD/EUR	0.5798	0.5792	0.5712
NZD/GBP	0.5083	0.5075	0.4898
NZD/JPY	62.027	61.854	58.712
NZD/AUD	0.7659	0.7774	0.7880
TWI	70.460	70.150	68.230

## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2007	2008	2009	2010	2011f	2012f
<b>Australia</b>						
Real GDP % yr	4.6	2.6	1.4	2.7	1.2	2.5
CPI inflation % annual	3.0	3.7	2.1	2.7	3.6	3.1
Unemployment %	4.4	4.3	5.6	5.2	5.1	5.6
Current Account % GDP	-6.3	-4.5	-4.2	-2.7	-2.2	-3.4
<b>United States</b>						
Real GDP %yr	1.9	-0.3	-3.5	3.0	1.6	1.3
Consumer Prices %yr	2.9	3.8	-0.3	1.6	3.1	2.0
Unemployment Rate %	5.8	5.8	9.3	9.6	9.1	9.4
Current Account %GDP	-5.3	-4.7	-2.7	-3.2	-3.4	-3.1
<b>Japan</b>						
Real GDP %yr	2.2	-1.5	-6.6	4.3	-0.4	3.2
Consumer Prices %yr	0.1	1.4	-1.3	-0.7	0.2	0.6
Unemployment Rate %	3.9	4.0	5.1	5.1	4.6	4.5
Current Account %GDP	4.8	3.3	2.8	3.6	2.0	2.1
<b>Euroland</b>						
Real GDP %yr	2.8	0.3	-4.0	1.7	1.6	-0.6
Consumer Prices %yr	2.1	3.3	0.3	1.7	2.5	1.0
Unemployment Rate %	7.5	7.5	9.5	10.0	10.3	11.0
Current Account %GDP	0.2	-0.8	-0.7	-0.5	-0.5	0.0
<b>United Kingdom</b>						
Real GDP %yr	2.7	-0.1	-4.9	1.4	0.8	0.3
Consumer Prices %yr	2.3	3.6	2.2	3.2	4.0	2.2
Unemployment Rate %	5.3	5.6	7.6	7.8	8.0	8.2
Current Account %GDP	-2.6	-1.6	-1.3	-2.4	-2.0	-1.5

Forecasts finalised 10 October 2011

Interest Rate Forecasts	Latest (Oct 25)	Dec-11	Mar-12	Jun-12	Sep 12	Dec 12
<b>Australia</b>						
Cash	4.75	4.50	4.25	4.00	3.75	3.75
90 Day Bill	4.75	4.50	4.25	4.00	3.75	3.80
10 Year Bond	4.62	4.30	4.30	4.40	4.50	4.70
<b>International</b>						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.38	2.10	2.20	2.40	2.50	2.60
ECB Repo Rate	1.50	1.00	0.75	0.75	0.75	0.75

Exchange Rate Forecasts	Latest (Oct 25)	Dec-11	Mar-12	Jun-12	Sep 12	Dec 12
AUD/USD	1.0217	0.95	0.93	0.91	0.96	0.98
USD/JPY	76.789	76	76	76	78	81
EUR/USD	1.3777	1.30	1.26	1.22	1.27	1.28
AUD/NZD	1.2893	1.30	1.31	1.32	1.30	1.27

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