

Australian Markets Weekly

Friday, 13 August 2010

NAB forecasts revised: World & Aus recovery set to continue

- Markets starting to price double-dip recession fears
- NAB Survey solid but forward indicators softer
- NAB still forecasting solid global recovery with Australia gradually picking up speed
- Highlights for the week ahead: Wage cost index; RBA Minutes; & Glenn Stevens' speech

Double dip recession fears sank stocks over the week

It has been a down week for stock markets with all major indices suffering sizeable falls since last Friday. The Australian ASX 200 was down by 3% from the close last Friday 13th August. America's S&P 500 has risen somewhat over the past week, indicative of investors becoming more risk averse about buying equities. The US dollar index is up by 2½%, commodities are generally lower and the AUD is off its highs, trading at a touch over 90US¢ in Friday afternoon trade.

This reason for this pull-back in investor confidence can be put down to global growth fears.

The rot set in last Friday in the wake of the US July labour market report, which showed a bigger than expected fall in employment of 131K (although Private Sector jobs growth remained positive for the seventh month in a row).

Then, on Tuesday, the Federal Reserve downgraded its growth outlook for the US saying the "...recovery is likely to be more modest in the near term than had been anticipated". In response, it announced it would not allow its holdings of securities to run off but would reinvest the proceeds from maturing debt held on its balance sheet, an effective easing in policy from what otherwise be the case, albeit a rather 'token' gesture.

Adding to fears of a double dip recession were softer industrial production numbers out of China and late in the week increased layoffs figures from America

Australian economic indicators also disappointing

The news on the Australian economy tended to confirm that the pace of growth has slowed down into the middle of 2010.

Chart: Investors wary of global economic slowing



Weekly Highlights

- **NAB forecasts:** Markets starting to price double-dip recession fears. NAB Survey solid but forward indicates softer. NAB still forecasting solid global recovery with Australia gradually picking up speed. Wage cost index; RBA Minutes & Glenn Stevens' speech highlights in week ahead. [...read more](#)
- **International Economic Roundup:** A week highlighted by rising concerns about the pace of the global recovery. FOMC downgraded its assessment of the economy and increased its quantitative easing. Bank of England revised lower its growth and inflation projections. Chinese data confirms growth is slowing from the heated pace in early 2010. [...read more](#)
- **Offshore next week:** USA: empire Manufacturing, PPI, Housing Starts, Industrial Production, Philly Fed Survey. UK: CPI, Retail Sales, BoE Minutes. Europe: CPI, Current Account, ZEW Survey. Japan: GDP. NZ: PPI, Services PMI, Credit card Spending [...read more](#)
- **Foreign Exchange:** A modest pullback in AUD/USD looks underway with the RBA on hold; uncertainty over the Chinese economic outlook continuing; and our assumption of no double-dip US recession prompting full-blown quantitative easing by the Fed. But the likelihood of Australia's economic growth continuing to outstrip the US suggests that AUD/USD could spend much of 2011 between 0.90 and 0.95. [...read more](#)
- **What to Watch Australia:** RBA Board Minutes, July (Tue, 11.30). Wage Cost Index, June Quarter (Wed, 11.30) [...read more](#)
- **Calendar:** Upcoming events for the week ahead [...read more](#)
- **Forecasts:** Economic, Interest Rate and Exchange Rate Forecasts [...read more](#)

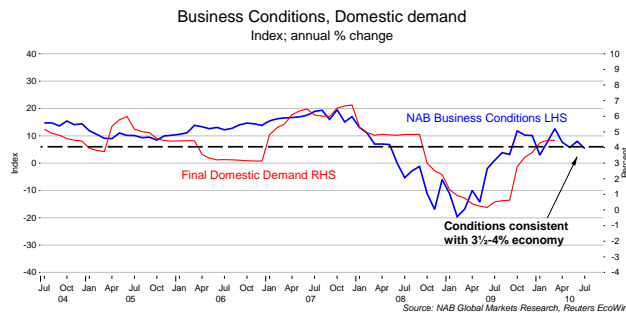
Targets - Rates & Currencies

	13-Aug	Dec-10	Mar-11	Jun-11
RBA cash	4.50	4.50	4.75	5.00
3 month bill rate	4.75	4.9	5.1	5.4
3 year swap rate	5.00	5.2	5.5	5.6
AUD/USD	0.9009	0.90	0.92	0.91

NAB forecasts revised: World & Aus recover set to continue solidly (cont'd)

Our NAB Business Survey for July showed that Conditions had slipped back by 3 index points to 5, a level which is just a touch below the long run average for the series. Conditions are still pointing to an economy growing at around 4% or a touch lower.

Chart: NAB Conditions and Domestic Demand



While activity seems to be holding up, using the Conditions indicator as a guide, business people are becoming more worried about the future. Business Confidence, a measure of what respondents expect to happen to output of their industry over the coming period, fell a further 2 points to an index number of 2, a level well below the long run average of 7.

Another worrying aspect of the Survey was a big drop in Forward Orders. This measure fell by 14 points -8, well below to long run average of 1. While the level of orders is still consistent with GDP growth of 2-2½%, we would not like to see this downturn continue. Otherwise, the Orders numbers will be pointing to a downgrade for our Australian GDP growth outlook.

These moderating activity measures in our Business survey are consistent with the RBA remaining on hold for some time ahead.

However, a couple of Survey indicators were a reminder that there will be growing risks of higher inflation, as the economy continues to recover. Our measure of Labour Costs jumped to a quarterly rate of 2.2% in July.

It is tempting to view this jump in Labour Costs as a one off catch-up in wages at the start of the new financial year so that future monthly readings will ease back. Still, annualising the quarterly result gives a figure of around 9% (sic) so we will be waiting for the next reading with some trepidation.

The rise in Labour Costs was associated with an unchanged reading on our Employment series. Taken together, the two indicators could be indicative of labour hoarding on the part of firms, with memories of the widespread skills shortages of a couple of years back still front of mind for many employers.

Accelerating labour costs are a pointer to the eventual need for the RBA to tighten policy ahead.

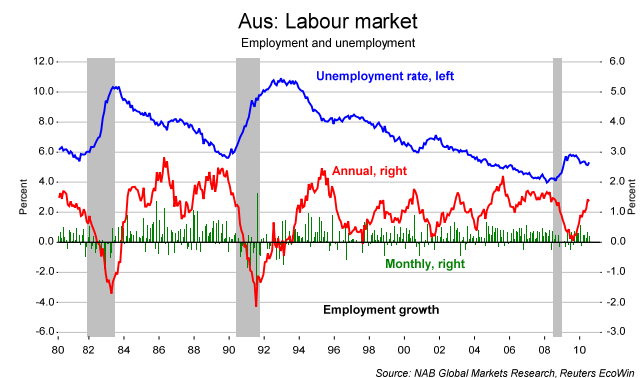
Jobs market still strong

Following on from the solid results for the labour market indicators from the NAB survey, the official Australian Bureau of Statistics Labour Force report showed an ongoing solid labour market.

The report showed jobs growth of 23.5K in July, in line with expectations of 20K. The June figure was revised down to a still strong 37.4K from 45.9K.

Unemployment rose to 5.3% from 5.1%. Trend unemployment has been at 5.2% for the past three months, from 5.4% in Jan. It peaked out at 5.8% in the September quarter of 2009.

Chart: Jobs market trend recovery continues



Causing the rise in the unemployment rate was a jump in the participation rate to 65.5% from 65.3% (revised up from 65.2% previously).

The jump in the part rate indicates that previously discouraged workers rejoined the workforce, a sign that the populace in general is feeling more optimistic about Australia's current economic conditions and prospects. (This lines up with strong W-MI Consumer Sentiment for August also released this week.)

Returning workers add to the labour supply, working against a sharp drop in the unemployment rate. This is exactly what the RBA wants to see. If the unemployment rate falls too rapidly, this could trigger strong competition for labour between employers and excessive wages growth. Increasing labour supply and the trend flattening out of the unemployment rate is a better outcome, in terms of the inflation outlook, and argues in favour of the RBA remaining on hold ahead.

Forecasts Update

This week, after the release of our Business Survey for July, we released a revised set of global and Australian forecasts (see our Weekly Forecasts table at the end of this report for the current forecasts). The revised forecasts are the product of a comprehensive review of our outlook. Some key points from this review are as follows

- USA for 2010 cut back to 3% from 3¼% but we see only a modest risk of a double dip recession. 2011 cut back to 2¾% from 3%
- China maintained at 10.5% for 2010, with a gradual slowing to 8% by 2012 – still very positive for Australia
- For 2010: UK upgraded to 1.5% from 0.7%; Japan lifted to 3.1% from 2.2%; Latin America 6.5% (from

3.6%, predominantly Brazil). All of these revisions were mainly due recent stronger than expected data releases

- The net effect was to lift global GDP to 4.6% this year from our previous estimate of 4.1%
- Australian GDP was upgraded to 3% this year, due to an upward revision to our Q2 forecast to 1% from 0.6% due to the way above forecasts June trade surplus. Our Australian GDP forecast for 2010 has been revised up from 2¾% in 2010 as a result
- Given the expected near term softness in the economy and the on-target Q2 underlying inflation result, plus our expectation that underlying inflation will remain on target for the rest of the year, we have pushed out our Reserve Bank rate hike profile into 2011 – no more rate hikes this year. But we still see a peak in rates of 5.5% by the end of 2011, as the RBA instigates a moderately contractionary policy setting, as the labour market and industrial capacity progressively tightens over the months ahead
- For the US, the recent plateauing in growth is likely to see the Fed on hold until the second half of 2011 and we have the first tightening in the Federal Reserve's funds rate in Q3 of next year

The Wage Price Index (Q2, Wed) is likely to show a rise of 0.5%, according to our own and the median market forecast, in line with the Q1 result. This would see the annual rate up a tick to 3.1%.

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Table: Latest global forecasts

Summary World Economic Forecast Table

annual % change	2008	2009	2010 (f)	2011 (f)	2012 (f)
Australia	3.1	1.3	3.0	3.8	4.3
New Zealand	-0.2	-1.6	2.8	3.4	1.7
US	0.5	-2.4	3.1	2.8	3.2
Japan	-1.2	-5.2	3.1	2.5	2.5
UK	0.5	-4.9	1.5	2.1	2.3
Eurozone	0.6	-4.1	1.6	1.5	1.5
India	7.3	5.7	8.4	7.8	7.3
China	9.6	9.1	10.5	9.1	8.0
Non-Japan Asia	2.0	-1.0	5.6	5.2	4.5
Latin America	4.3	-2.0	6.5	5.0	4.0
World	3.0	-0.7	4.6	4.2	4.0

Source: NAB Group Economics

Week Ahead for Australia

There are three key events over the coming week in Australia. One is the release of the RBA Minutes from the August meeting on Tuesday. Given the release of the 60 pages of quarterly Statement on Monetary Policy since the August Board meeting, it is hard to imagine the RBA has much more to say. Still, since the market now has no further tightening in the cash rate priced in until December 2011, the Reserve might want to send a message that it might not all be over yet. Having said that, with the RBA apparently quite comfortably on hold, the Minutes might this time go straight through to the keeper without a stroke being played.

The second major event is Glenn Stevens' speech in Perth on Tuesday. This speech will give the Governor the opportunity to express any fresh ideas he has on the outlook. This is the Ed Shann memorial lecture. The Governor's title is "The role of Finance".

International Economic Roundup

- **A week highlighted by rising concerns about the pace of the global recovery**
- **FOMC downgraded its assessment of the economy and increased its quantitative easing**
- **Bank of England revised lower its growth and inflation projections**
- **Chinese data confirms growth is slowing from the heated pace in early 2010**

US

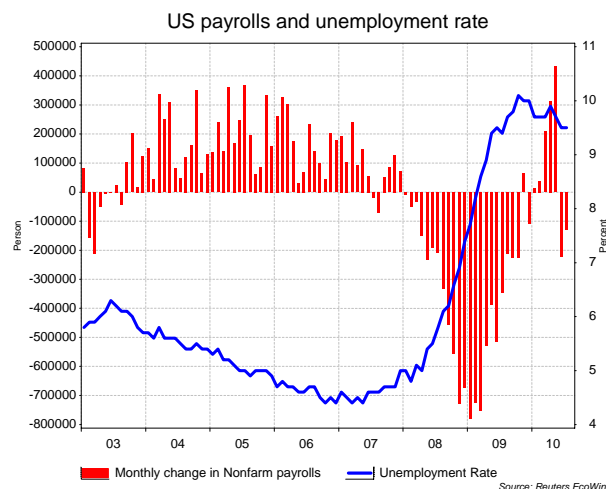
The US Federal Reserve downgraded its economic assessment at this week's FOMC Meeting, and also modestly increased its quantitative easing.

The Federal Reserve announced it would keep securities holdings at their current level, rather than let the stock of quantitative easing and the balance sheet gradually shrink as bonds mature. The Fed will reinvest principal payments from agency debt and agency mortgage-backed securities in longer-term Treasuries, and roll over Treasury holdings as they mature.

On the economic outlook, the FOMC said that "the pace of recovery in output and employment has slowed in recent months" (in June the FOMC said the economy was "improving gradually") and in the near term the pace of growth will be weaker than had been anticipated. High unemployment, tight credit and little income growth continue to constrain households, and housing starts and investment in non-residential structures remains weak.

With inflation trending lower and likely to be subdued for some time, no surprise that the FOMC maintained the line that economic conditions "are likely to warrant exceptionally low levels of the federal funds rate for an extended period".

The data over the past week backed up the Fed's assessment. The non-farm Payrolls for July were worse than expected, falling 131K after 143K temporary Census jobs were shed. June was revised down by 96K to -221K. Unemployment was unchanged at 9.5%. Private sector payrolls rose 71K, with June revised down by 52K to 31K. Disappointing, but rising private jobs argues against a double-dip recession.



Q2 GDP looks like it will be revised significantly lower. The US trade deficit widened to \$49.9bn in June, much worse

than the median \$42.1bn forecast, following the \$42bn gap in May. The advance estimate of Q2 US GDP was 2.4%, and the trade data alone would take off around ½%.

UK

The Bank of England's Inflation report was dovish. In its two-year outlook, inflation conditioned on movements in market rates is forecast to be around 1.5%, well below the 2% target. That is slightly lower than the May projection for the same period. At the three-year horizon inflation is expected at around 1.7%, compared to something closer to 1.9% in the May Report.

Forecasts for GDP were also revised lower. In the May Report output growth reached a year-on-year rate of 3.5% in 2011 Q3, remaining at that rate throughout most of the next two years. By contrast, the Bank's August Report marks growth down, so that in 2011 Q3 it is expected to be growing just below 3.0% and in 2012 Q3 the central case is for growth of around 3.0%.

Europe

The Q2 eurozone GDP data are released tonight, with the market looking for a 0.7% rise. But there will be great disparity between the individual nations. Germany is expected to grow by 1.3% in the quarter, driven by strong export growth. In contrast, Greece has reported a fall of 1.5% in Q2 GDP, the seventh consecutive decline. Growth is down 3.5%yoy, while the latest Greek unemployment figures saw a rise to 12% in May from 11.9% in April.

China

The July monthly Chinese data produced no surprises, but confirmed that growth is slowing from the heated pace earlier this year. Industrial production slowed to 13.4%yoy in July, as expected, from 13.7%yoy in June. That implies a fall of around 1¼% in the month of July compared with an increase of 2.0% in June. Retail spending slowed to 17.9% in July from 18.3%, while fixed asset investment is running at a still solid 24.9% annual pace so far this year.

On prices, consumer prices rose to 3.3%yoy from 2.9%yoy as expected. The increase was driven almost entirely by food which increased by 0.9 per cent in the month; non-food inflation was up by only 0.1 per cent.

Momentum in the Chinese economy slowed in the June quarter but fears of a downturn remain overstated. The slowing in activity reflects the natural evolution of the economic cycle and deliberate attempts by authorities to control the expansion. We still expect GDP growth to average over 10 per cent in 2010.

Offshore next week

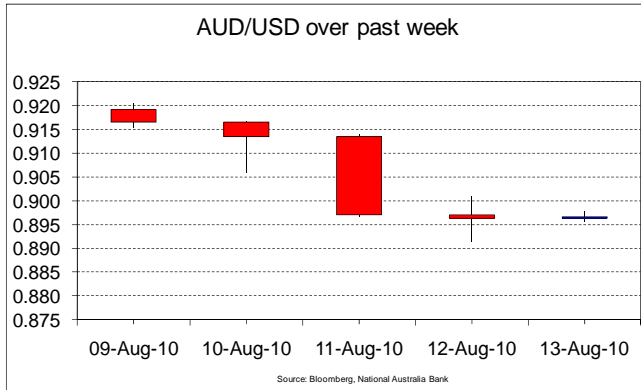
- **USA: empire Manufacturing, PPI, Housing Starts, Industrial Production, Philly Fed Survey**
- **UK: CPI, Retail Sales, BoE Minutes**
- **Europe: CPI, Current Account, ZEW Survey**
- **Japan: GDP**
- **NZ: PPI, Services PMI, Credit card Spending**

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Market Strategy

Foreign Exchange

- A modest pullback in AUD/USD looks underway with the RBA on hold; uncertainty over the Chinese economic outlook continuing; and our assumption of no double-dip US recession prompting full-blown quantitative easing by the Fed.
- But the likelihood of Australia's economic growth continuing to outstrip the US suggests that AUD/USD could spend much of 2011 between 0.90 and 0.95.



A bout of risk-aversion triggered by renewed global growth concerns knocked stock markets and commodity prices lower this week prompting traders to buy the "safe haven USD in response, trimming a large speculative short USD position. Our risk-appetite index fell to 51.4% from 62%. AUD/USD started the week above 0.9200 but slumped to below its 200-day moving average of around 0.8960, a 3% peak-to-trough decline (0.8914 has been the low).

Wednesday's slew of Chinese economic reports did suggest that growth continued to moderate in July, perhaps a more rapid deceleration than expected. There were clear concerns over the Asian growth outlook, with China slowing and moderating growth in the US expected to weigh on regional exports.

News from Europe wasn't comforting, a noticeable change from the past month. The Bank of England's August Inflation Report cut its growth forecast, citing weaker growth in the Euro-area and concerns that tight lending conditions will restrain growth. Meanwhile, market chatter about sovereign debt difficulties in Ireland resurfaced and the ECB was rumoured to be buying Irish government bonds. Greece's GDP fell by more-than-expected in Q2 and the unemployment rate rose to 12% in May (a fall to 11.6% was forecast). The rise in bond yields in the Euro-zone periphery (they were up in Spain, Greece, Portugal and Ireland this week) suggests that the euro may have peaked. EUR/USD fell from a three-month high of 1.3334 on August 6 to a low of 1.2781 this week, a decline of 4%.

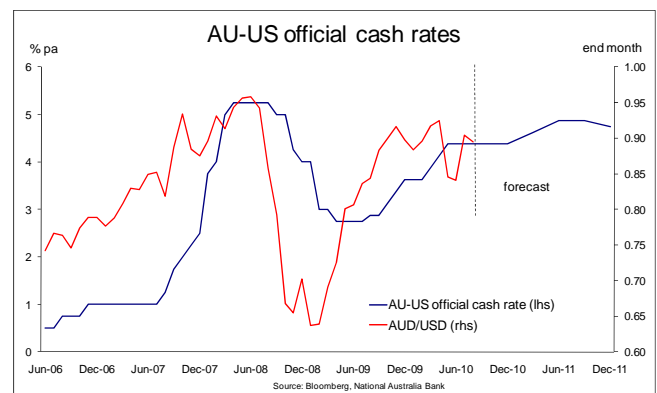
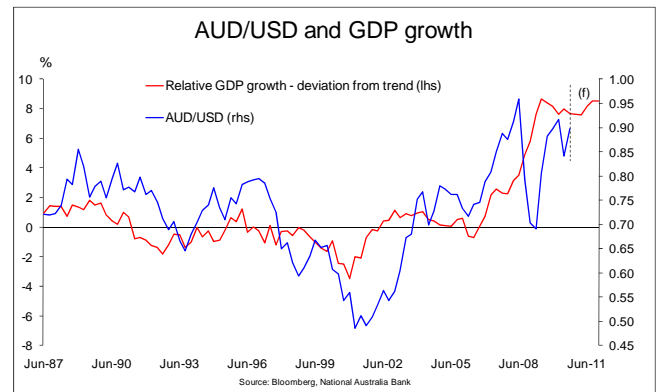
The USD was also boosted by the US Fed stopping short of re-starting quantitative easing which would have led to a further sharp fall in the 2-year bond yield to fresh record lows (instead it has risen to 0.54% from 0.51% last Friday) and a rally in stock prices and risk-appetite. Instead the Fed announced it would keep its balance sheet steady at around US\$2.05trn by re-investing payments from agency debt and

agency mortgage-backed securities in longer-term Treasury securities to the tune of just US\$20bn per month. This not a renewal of quantitative easing.

We have been forecasting a modest pullback in AUD/USD over the next month or so and its fall this week looks to be the start of this correction. Our end-September forecast is 0.86. This forecast reflects the RBA remaining on hold (the rise in the unemployment rate to 5.3% from 5.1% would support this policy stance); uncertainty over the Chinese economic outlook continuing; and our assumption of no double-dip US recession prompting full-blown quantitative easing by the Fed.

Our model's "fair value" estimate is currently 0.8830 down from 0.9060 a week ago. Another 5% fall in the JoC industrial metals price index, 5 percentage point decline in our risk-appetite index and 10bps narrowing in the Australia-US 2-year swap yield spread would knock "fair value" down to below 0.8600.

However, the likelihood of Australia's economic growth continuing to outstrip the US and the Fed keeping interest rates low for longer suggests that AUD/USD could spend much of 2011 between 0.90 and 0.95 (see charts below). This suggests a fall in AUD/USD to 0.86 over the next month or so would provide a good medium-term buying opportunity.



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What to Watch Australia

RBA Board Minutes, July (Tue, 11.30)

The RBA left interest rates comfortably on hold at its July meeting, the Statement suggesting that inflation was panning out pretty much as expected.

Subsequent to the release of the post-meeting statement by the Governor, the RBA released its quarterly Statement on Monetary Policy, which at 60 pages, was a pretty comprehensive wrap on the economy and markets.

Importantly, the RBA left its outyear forecasts for inflation and GDP unchanged, which means they will need to tighten further eventually. But for now, the RBA seems unlikely to adjust policy until next year. The Minutes might not contain much in the way of new information or colour on what we already know.

Note that RBA Governor Glenn Stevens is giving the Ed Shann memorial lecture on *The Role of Finance* in Perth on Tuesday, which will give the Governor the opportunity to drop any hints about fresh thinking, if he has anything he wishes to put into the mix

Wage Cost Index, June Quarter (Wed, 11.30)

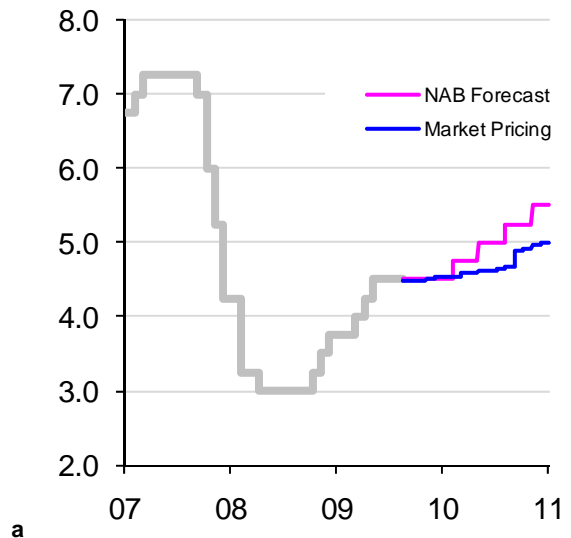
Wage costs accelerated in the March quarter of 2010 coming in with a rise of 0.9% after readings of 0.6% and 0.7% for the preceding two quarters. This took the annual growth rate of the index up to 3%.

Although a gradual tightening in the labour market has been in progress since the last quarter of 2009, with unemployment fairly static over the past quarter, it seems likely wages growth did not accelerate in the June quarter, although the risk is clearly for some pick up on the first quarter result.

Looking ahead, we expect a sharp lift in wages growth in the September quarter, as our Business Survey for July showed a spike in labour costs.

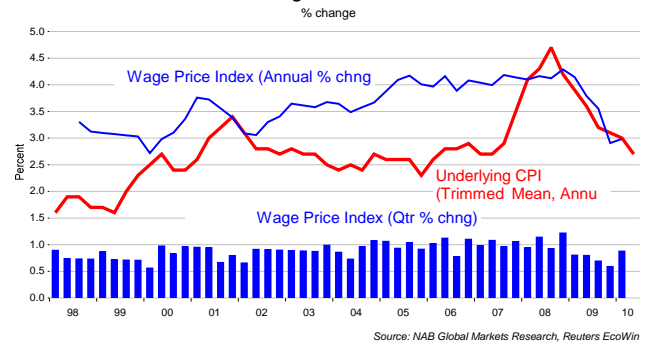
L: 0.9% or 3%yoy; (Q1); F 0.9% or 3.1%yoy(Q2)

RBA



a

Aus: Wages and Inflation



Source: NAB Global Markets Research, Reuters EcoWin

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Weekly Calendar of Global Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	BST	AEST
Friday 13 August 2010								
NZ	REINZ Home Sales/Prices	JUL					23.00	8.00
NZ	Retail Sales (MoM/Q vols)	JUN/Q2	0.6%/0.1%	0.4%/0.2%		0.4%/0.2%	23.45	8.45
GE	GDP s.a. (QOQ/YoY)	2Q P		1.3%/2.4%		0.2%/1.6%	7.00	16.00
FR	GDP (QoQ/YoY)	2Q P		0.4%/1.4%		0.1%/1.2%	7.45	16.45
EC	Euro-Zone Trade Balance sa	JUN		-2.0B		-3.0B	10.00	19.00
EC	Euro-Zone GDP s.a. (QoQ/YoY)	2Q A		0.7%/1.4%		0.2%/0.6%	10.00	19.00
US	Consumer Price Index (MoM/YoY)	JUL		0.2%/1.2%		-0.1%/1.1%	13.30	22.30
US	Advance Retail Sales	JUL		0.5%		-0.5%	13.30	22.30
US	Retail Sales Less Autos	JUL		0.3%		-0.1%	13.30	22.30
US	U. of Michigan Confidence	AUG P		69.0		67.8	14.55	23.55
US	Business Inventories	JUN		0.2%		0.1%	15.00	0.00
Monday 16 August 2010								
NZ	BNZ Services PSI	JUL				55.7	23.30	8.30
JN	Gross Domestic Product (QoQ)	2Q P		0.6%		1.2%	0.50	9.50
AU	New Motor Vehicle Sales MoM	JUL				-1.2%	2.30	11.30
EC	Euro-Zone CPI (MoM/YoY)	JUL		-0.4%/1.7%		0%/1.4%	10.00	19.00
US	Empire Manufacturing	AUG		8.5		5.1	13.30	22.30
US	Net Long-term TIC Flows	JUN				\$35.4B	14.00	23.00
US	NAHB Housing Market Index	AUG		15		14	15.00	0.00
Tuesday 17 August 2010								
AU	Reserve Bank's Board August Minutes	AUG					2.30	11.30
EC	ECB Euro-Zone Current Account SA	JUN				-5.8B	9.00	18.00
EC	Euro-Zone Current Account nsa	JUN				-16.7B	9.00	18.00
UK	CPI (MoM/YoY)	JUL		-0.2%/3.1%		0.1%/3.2%	9.30	18.30
UK	Core CPI YOY	JUL				3.1%	9.30	18.30
EC	ZEW Survey (Econ. Sentiment)	AUG				107	10.00	19.00
GE	ZEW Survey (Econ. Sentiment)	AUG		20.6		21.2	10.00	19.00
GE	Zew Survey (Current Situation)	AUG		24.0		14.6	10.00	19.00
US	Producer Price Index (MoM/YoY)	JUL		0.2%/4.2%		-0.5%/2.8%	13.30	22.30
US	PPI Ex Food & Energy (MoM/YoY)	JUL		0.2%/1.3%		0.1%/1.1%	13.30	22.30
US	Housing Starts	JUL		560K		549K	13.30	22.30
US	Building Permits	JUL		576K		586K	13.30	22.30
US	Industrial Production	JUL		0.5%		0.1%	14.15	23.15
US	Capacity Utilization	JUL		74.5%		74.1%	14.15	23.15
Wednesday 18 August 2010								
AU	Westpac Leading Index (MoM)	JUN				0.2%	1.30	10.30
AU	DEWR Skilled Vacancies MoM	AUG				0.3%	2.00	11.00
AU	CBA/HIA House Affordability	2Q					2.00	11.00
AU	Wage Cost Index QoQ/YoY	2Q	0.9%/3.1%	0.9%/3.1%		0.9%/3.0%	2.30	11.30
NZ	NBNZ Regional Trends	Q2				0.9%	4.00	13.00
UK	Bank of England Releases Monetary Policy Committee Minutes						9.30	18.30
US	MBA Mortgage Applications	Aug-13				0.6%	12.00	21.00
Thursday 19 August 2010								
NZ	Producer Prices- Outputs/Inputs	2Q	0.7%/1.1%	0.9%/1.2%		-0.5%/+0.6%	23.45	8.45
NZ	Capital Goods Price Index	2Q				-0.4%	23.45	8.45
AU	Average Weekly Wages (QoQ/YoY)	MAY		1.2%/5.6%		1.1%/5.8%	2.30	11.30
NZ	ANZ Consumer Confidence Index	JUL				115.6	4.00	13.00
US	Fed's Bullard Speaks on U.S. Economy in Rogers, Arkansas (V)						5.00	14.00
UK	Retail Sales w/Auto Fuel (MoM)	JUL		0.4%		0.7%	9.30	18.30
UK	Public Finances (PSNCR)	JUL				20.9B	9.30	18.30
UK	Public Sector Net Borrowing	JUL				14.5B	9.30	18.30
UK	CBI Trends Total Orders	AUG					11.00	20.00
US	Initial Jobless Claims	Aug-14		480K		484K	13.30	22.30
US	Philadelphia Fed.	AUG		7.5		5.1	15.00	0.00
US	Leading Indicators	JUL		0.1%		-0.2%	15.00	0.00
Friday 20 August 2010								
NZ	Net Migration SA	JUL				+70	23.45	8.45
NZ	Credit Card Billings (YoY)	JUL				1.0%	4.00	13.00
Canada	CPI (MoM/YoY)	JUL				-0.1%/1.0%	12.00	21.00
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		2-Sep	1.00%	1.00%		1.00%		
UK BOE		9-Sep	0.50%	0.50%		0.50%		
Australia, RBA		7-Sep	4.50%			4.50%		
Japan, BoJ		7-Sep	0.10%	0.10%		0.10%		
Canada, BoC		8-Sep				0.75%		
New Zealand, RBNZ		16-Sep	3.25%	3.25%		3.00%		
US Federal Reserve		21-Sep	0%-0.25%	0%-0.25%		0%-0.25%		

FOMC Member voting status: V=voter, NV=non-voter, Alt=Alternate FOMC member r = revised

Forecasts NB These are indicative forecasts, some of which are still under review

Economic Forecasts

Australia Forecasts	2008	2009	2010	2011	2009				2010				2011			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP - quarter %					0.6	0.8	0.3	1.1	0.5	1.0	0.6	0.7	0.7	1.3	1.2	1.0
Real GDP - annual %	2.3	1.3	3.0	3.7	1.0	0.7	1.0	0.9	2.7	2.9	3.3	2.9	3.1	3.4	3.9	4.2
Household Consumption	1.9	1.6	2.8	3.4	0.3	1.3	0.3	0.9	0.6	0.7	0.6	0.9	0.6	1.1	0.9	1.0
Business Investment	12.6	-1.3	1.4	12.0	-2.5	0.2	-3.3	4.4	-3.3	2.6	0.8	3.0	2.1	4.5	3.5	3.9
Residential Construction	2.6	-4.6	2.9	12.1	-2.5	-5.9	7.7	1.3	-1.0	-0.7	1.5	1.9	3.4	4.2	4.2	3.6
Government Spending	6.6	3.7	8.9	-1.1	-0.7	1.5	3.2	3.9	3.9	0.2	-0.3	-0.6	-0.6	-0.3	0.3	0.3
Exports	3.1	1.4	6.4	8.2	1.6	2.0	-1.7	2.0	-0.5	5.8	1.9	1.3	1.6	2.0	1.9	1.9
Imports	3.1	1.4	14.2	10.5	-7.6	0.9	4.2	8.1	1.8	2.8	1.5	2.3	2.0	3.5	3.1	3.2
Net Exports*	-1.7	2.0	-1.6	-0.7	1.9	0.2	-1.2	-1.3	-0.5	0.5	0.1	-0.2	-0.1	-0.4	-0.3	-0.4
Inventories*	-0.1	-0.8	0.4	0.1	-0.1	-0.4	0.9	0.1	0.0	-0.2	0.0	0.0	-0.1	0.1	0.1	0.0
Domestic Demand - qtr%					-0.5	0.9	0.7	2.1	0.6	0.8	0.5	0.9	0.8	1.5	1.4	1.5
Dom Demand - annual%	4.3	1.3	2.4	4.2	2.6	1.0	0.3	0.6	4.4	4.3	4.1	2.8	3.0	3.7	4.7	5.3
Australia Other																
CPI headline - quarter%					0.1	0.5	1.0	0.5	0.9	0.6	0.7	0.8	0.9	0.7	0.7	0.5
CPI headline - annual %	3.7	1.8	2.9	3.1	2.5	1.5	1.3	2.1	2.9	3.0	2.8	3.1	3.1	3.2	3.2	2.8
CPI underlying - qtr%					1.1	0.8	0.8	0.6	0.8	0.5	0.7	0.8	0.9	0.6	0.7	0.5
CPI underlying - annual %	4.5	3.7	2.8	3.0	4.2	3.9	3.5	3.3	3.1	2.7	2.5	2.8	2.9	3.1	3.1	2.7
Wages (Pvte WPI - qtr%)					0.7	0.6	0.6	0.6	0.8	0.6	1.0	1.2	0.7	0.7	0.8	0.8
Wages (Pvte WPI - ann %)	4.3	3.3	3.0	4.5	4.0	3.5	3.1	2.5	2.6	2.6	3.0	3.6	4.1	4.6	4.7	4.6
Unemployment Rate (%)	4.5	5.6	5.0	4.4	5.4	5.7	5.7	5.6	5.2	5.1	4.8	4.7	4.5	4.5	4.4	4.4
Terms of trade	14.3	-8.6	11.5	11.6	-8.1	-7.4	0.7	3.3	4.2	4.8	0.9	6.8	2.3	1.9	1.4	-0.6
Current Account (% GDP)	-4.4	-4.1	-3.4	-1.8	-2.1	-4.1	-4.4	-5.8	-5.2	-3.4	-3.2	-2.1	-1.7	-1.7	-1.6	-2.0

	2008	2009	2010	2011	2012
Australia	2.3	1.3	3.0	3.7	4.3
US	0.5	-2.4	3.1	2.8	3.2
Eurozone	0.6	-4.1	1.6	1.5	1.7
UK	0.5	-4.9	1.5	2.1	2.3
Japan	-1.2	-5.2	3.1	2.5	2.5
China	9.6	9.1	10.5	9.1	8.0
India	7.3	5.7	8.4	7.8	7.3
New Zealand	-0.2	-1.6	2.8	3.4	1.7
World	3.0	-0.7	4.6	4.2	4.0

*Contribution to real GDP

Interest Rate Forecasts

	13-Aug	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Australia											
RBA Cash rate	4.50	4.50	4.50	4.75	5.00	5.50	5.50	5.50	5.50	5.50	5.50
3 month bill rate	4.75	4.8	4.9	5.1	5.4	5.7	5.7	5.7	5.7	5.7	5.7
3 Year Swap Rate	5.00	5.0	5.2	5.5	5.6	5.7	5.7	5.7	5.7	5.7	5.7
10 Year Swap Rate	5.49	5.6	5.8	5.9	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Offshore Policy Rates											
US Fed funds	0.25	0.13	0.13	0.13	0.13	0.50	0.75	1.00	1.50	2.00	2.50
ECB refi rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.00
BoE repo rate	0.50	0.50	0.50	0.50	0.75	1.00	1.50	1.75	2.00	2.25	2.50
BoJ overnight call rate	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
RBNZ OCR	3.00	3.25	3.75	4.00	4.25	4.75	5.25	5.50	5.50	5.50	5.50
China 1yr rate	5.31	5.31	5.31	5.31	5.31	5.31	5.31	5.58	5.58	6.12	6.12
10 Year Benchmark Bond Yields											
Australia	5.05	5.15	5.35	5.45	5.65	5.65	5.65	5.65	5.65	5.65	5.65
United States	2.74	2.80	3.00	3.25	3.50	3.75	4.00	4.25	4.25	4.25	4.25
Europe	2.42	2.60	2.80	3.00	3.20	3.40	3.60	3.80	4.00	4.00	4.00
UK	3.12	3.30	3.50	3.80	4.10	4.40	4.60	4.75	4.75	4.75	4.75
Japan	1.00	1.10	1.20	1.30	1.35	1.40	1.50	1.50	1.50	1.50	1.50
New Zealand	5.23	5.50	5.90	6.30	6.60	6.70	6.80	7.00	7.25	7.50	7.50

Exchange Rate Forecasts

	13-Aug	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Majors											
AUD/USD	0.9009	0.86	0.90	0.92	0.91	0.89	0.87	0.87	0.87	0.86	0.86
NZD/USD	0.7142	0.71	0.73	0.72	0.71	0.69	0.68	0.69	0.69	0.69	0.68
USD/JPY	85.94	96	100	101	103	105	106	107	108	109	110
EUR/USD	1.2865	1.20	1.21	1.22	1.23	1.25	1.25	1.26	1.26	1.24	1.24
GBP/USD	1.5659	1.46	1.51	1.52	1.55	1.58	1.60	1.55	1.54	1.53	1.52
USD/CNY	6.7940	6.70	6.55	6.32	6.24	6.12	6.02	5.90	5.78	5.64	5.55
USD/CAD	1.0375	1.02	0.98	0.97	0.99	1.00	1.00	1.02	1.02	1.03	1.04
Australian Cross Rates											
AUD/JPY	77.42	83	90	93	94	93	92	93	94	94	95
AUD/EUR	0.7003	0.72	0.74	0.75	0.74	0.71	0.70	0.69	0.69	0.69	0.69
AUD/GBP	0.5753	0.59	0.60	0.61	0.59	0.56	0.54	0.56	0.56	0.56	0.57
AUD/NZD	1.2614	1.21	1.23	1.28	1.28	1.29	1.28	1.26	1.26	1.25	1.26
AUD/CNY	6.1207	5.76	5.90	5.81	5.68	5.45	5.24	5.13	5.03	4.85	4.77
AUD/CAD	0.9347	0.88	0.88	0.89	0.90	0.89	0.87	0.89	0.89	0.89	0.89

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