



Australia & NZ weekly

Week beginning 6 February 2012

- Reserve Bank likely to cut cash rate by 25bps.
- Australia: Dec and Q4 retail previewed, RBA SoMP due.
- NZ: labour market data in focus.
- Central banks: BoE to expand QE; ECB on hold.
- Key economic & financial forecasts.

Information contained in this report was current as at 3 February 2012

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Reserve Bank likely to cut cash rate by 25bps next week

The Board of the Reserve Bank meets on February 7 next week. In July last year Westpac forecast that the next easing cycle would total 100bps beginning near year's end. Subsequently, the Board decided to ease the overnight cash rate by 25bps in both November and December. Based on current information, we continue to expect a further 50bps of easings in this cycle with the next move at the February 7 meeting and another to follow in May.

The case supporting a rate cut next week is strong. Market pricing is certainly arguing for a move: current pricing puts an 85% probability on a 25bp cut.

Clearly, a key factor used by the Board to justify the decision to cut rates in December hinged around Europe and funding conditions. The RBA Governor on December 6 noted, "Financial markets have experienced considerable turbulence and financing conditions have become much more difficult".

It is reasonable to argue that financial market conditions have improved since the December meeting. In the Board minutes it was noted, "Australian banks had found long-term debt markets dislocated" and "wholesale debt markets appeared to be closed to many financial institutions".

The December meeting preceded the ECB's Long Term Refinancing Operation (LTRO) which allowed 529 European banks to borrow around €500bn for up to 3 years using an expanded list of collateral at 1% pa. That decision significantly eased European sovereign debt financing conditions with banks now likely to be supporting the short maturities to arbitrage the attractive funding provided by the ECB. For example, the Italian 1, 3, and 10 year bond yields were around 5.3%; 6%; and 6% respectively on December 7 compared to current rates of 2.3%; 3.8% and 5.7% respectively. Another LTRO window is set to open in late February with market expectations of a facility as large as €1trn. Because these facilities are 'non sterilised' they are increasingly being assessed as a quasi-QE from the ECB although the facility will be much less effective in allowing sovereign issuers to go out along the maturity curve.

Conditions have therefore improved but the pressures being faced, for instance, by Australian banks are still extreme. A year ago Australian banks issued bonds at around 75-00bps over swap in the 3-4 year maturities. Australian banks recently issued covered bonds at 165-175bps over swap in the domestic market, suggesting a theoretical spread on domestic unsecured paper at around 200-210bps over swap in the 5 year maturity. This pricing is consistent with issues now being mooted for Australian banks in the global markets. That is an improvement on December when markets were virtually closed making pricing comparisons hard given thin trading and a dearth of issuance. Using CDS as a guide and given the recent covered bond issuance volumes and subsequent performance, there are tentative signs of funding stresses easing but pressures overall remain intense.

Note also that, after adjusting for a general fall in rates due to a weakening growth outlook, the European sovereign rates have only improved marginally at the long end. Sovereigns will have to manage the maturity structure of their borrowings and really only an unexpected sharp improvement in the outlook for sovereign risk or a decision by the ECB to enter into genuine Quantitative Easing (where it purchases sovereign debt outright on an unsterilised

basis) will provide sustained support to the long end of sovereign yield curves.

With the growth outlook for the European region pointing to recession we doubt whether the Board will derive sufficient comfort from these liquidity measures from the ECB to no longer see the need for another cut.

On the domestic front the case for a rate cut remains sound.

The 2.4% rise in the Westpac-Melbourne Institute Index of Consumer Sentiment in January was disappointing. Despite the Reserve Bank having cut rates in both November and December by 25bps and the banks passing these moves on in full to new and existing mortgage borrowers, the Index is still slightly below the level it registered before the first rate cut in November.

That read represents the sixth out of the last seven months where pessimists have outnumbered optimists. The average read over the last seven months is 96.0, only 1.1% below the current level and 8.8% below the average for the previous seven months.

Labour market conditions are also softening. The loss of 29,300 jobs in December likely overstates the weakness - we suspect the high degree of seasonality in December has exaggerated the move. This would explain the puzzling fall in the unemployment rate, from 5.3% to 5.2% which was driven by a sharp fall in the participation rate from 65.5% to 65.2% - the lowest level since May 2010. The participation rate is very important for the unemployment rate - if, for instance, it had not fallen, then the unemployment rate would have printed 5.6%.

We expect the participation rate to bounce back in January. A structural fall in the participation rate, along the lines we are seeing in the US, usually reflects a discouraged worker effect. However, that is likely to only be a factor when the level of the unemployment rate is much higher. Seasonal volatility is a much more likely explanation.

Setting these issues aside, the bigger picture for the labour market is clear from the annual figures for 2011: the economy added zero jobs for the year as a whole, compared to 367,000 in 2010. We remain comfortable with our view that the unemployment rate will reach 5.7% by mid 2012.

Also, inflation pressures have remained benign. The key average of the Reserve Bank's two underlying measures printed 0.6% (seasonally adjusted), up from 0.3% in the third quarter of 2011. That sees the annual average RBA core at 2.6%, comfortably within the Bank's target zone. With 0.8%qtr reads dropping out of the core measures for both the March and June quarters, near term inflation prospects are encouraging. The result for the December quarter will do nothing to change the Bank's inflation forecasts which indicate that - carbon tax effects aside - inflation can be expected to remain firmly within the 2-3% target band. Consequently inflation will not represent a constraint to targeting policy at the risks associated with difficult global financial markets; weak global growth outlook; and deteriorating prospects for Australia's labour market.

Bill Evans, Chief Economist

Data wrap

Dec private sector credit

- Credit to the private sector advanced by 0.3% in December, a gain in line with the average monthly pace over the last year.
- For 2011, credit growth came in at 3.5%. This was all but unchanged from the 3.4% rise through 2010, but an improvement from a rise of only 1.6% through 2009. The persistence of sub-par credit growth is more protracted than in past cycles.
- There was a shift in the mix of credit growth during 2011. Housing lost momentum, growth through 2011 was 5.4%, down from 7.2% for 2010, while business credit turned the corner but remained weak, advancing by 1.4% through 2011 following a decline in 2010 of -2.2%.
- The housing sector faces a number of headwinds. Monthly housing credit growth slipped to just 0.36% in December, from 0.44% for November. Most likely many people maintained the level of their mortgage payments despite the reduction in interest rates. Weakness in the investor housing market is also notable. The current three month pace for investor credit is just 3.9% annualised, compared with 5.4% for owner-occupiers.
- Business credit turned the corner during 2011 but remained weak and growth is well below that of business investment. At this stage, firms have largely relied upon internal funds to finance a lift in business investment expenditure.
- Looking ahead, interest rate reductions will provide some relief to the housing market, however a strong upswing is unlikely. That points to a firming of general economic conditions and credit growth from around mid-2012.

Dec NAB business survey

- Business confidence and conditions ended 2011 / entered 2012 on a mixed note. The confidence index was in the positive zone in December at +3, a reading all but unchanged from the previous two months but well up from the low of August (though below the average read of +6). The conditions index was +1, unchanged from November and a fractional improvement from the average over the three months to October, of -0.4. The current reading of +1 is in line with its historic average.
- Note, while this is the December reading the survey was conducted from 9 to 13 January. The backdrop was one of weakness in Europe, a strong AUD and declining interest rates, with further rate cuts ahead. Interest rate reductions appear to have provided some support to business confidence in the face of global difficulties and the high currency. Although, as noted above, the confidence index is below its historic average.
- By industry, the conditions divide has narrowed between mining and the non-mining sectors. By state, it still remains the case that of the four major states business conditions are strong only in WA.
- The growth divide between sectors and states has significant implications for the labour market. With growth concentrated in the mining sector the expansion is less job intensive. Hence, jobs growth is undershooting that implied by the business conditions index.

Q4 house price index

- The preliminary estimate of the ABS Established House Price Index showed a 1.0% fall in the final quarter of 2011 to be down 4.8%yr. While the quarterly result was only marginally below the consensus forecast, sizeable back revisions have taken the annual rate of decline 1.1% below where it would otherwise have been.
- The detail had few positives. While every capital city recorded improvements on the downwardly revised Q3 results, only Perth showed an outright price gain in the quarter (+0.5%qtr but still down 4.9%yr). Sydney was the clear outperformer in 2011 with prices slipping just 2.7%yr, all of that decline coming in the second half of the year. Melbourne and Brisbane remain the worst performers with prices down 6.1%yr and 6.7%yr respectively.
- The ABS index is only one of many measures in Australia and despite the 'official' tag is not necessarily the best. Initial estimates are preliminary and revised as more data becomes available, often substantially. Moreover, the ABS index only covers detached homes, excluding apartments, townhouses and terraces etc, which recorded much milder price declines over 2011. The ABS method also struggles when there are large changes in the composition of activity (e.g. FHBs).
- The bottom line is that the ABS price measure is somewhat limited with private sector measures – some of which are released monthly and all of which are more timely – tending to pick shifts more clearly and earlier on. Indeed, private sector measures suggest housing markets posted a considerably better finish to 2011 suggesting we may see upward revisions to the ABS number.

Dec dwelling approvals

- Dwelling approvals dipped 1%mt in Dec to be down nearly a quarter on Dec 2010. That was marginally below expectations of a 2% gain although prior estimates were marked up 1.2%.
- The detail continues to give tentative indications that the pace of the underlying trend decline in approvals is moderating.
- Private sector house approvals edged 0.2%mt higher, and are tracking basically flat in trend terms. Private sector unit approvals, which have driven much of the recent volatility and sharp drop since mid-2011, were comparatively stable with a 2%mt fall in Dec.
- Volatility remains problematic for the state data, particularly Vic where approvals have seen 13 to 40% deviations in each of the last four months. However, private sector house approvals suggest flat activity in NSW, a moderating decline in Vic, and a pick-up in Qld.
- Renovation activity is showing signs of turning up with the value of renovation approvals rising at a 5% annual pace in trend terms. The trend decline in non res building also moderated slightly although.
- Dec is too early for interest rate moves to take effect. Unfortunately the Jan low season means we will really need to wait until the release of Feb data (due April 2) to get a read on

Data wrap

how rate moves are impacting. Westpac expects recent moves and additional rate cuts in Feb and May will be enough to stabilise approvals and drive a modest recovery over the course of 2012. That said, dwelling construction is still expected to decline by around 5% over the year as last year's drop-off in approvals flows through to activity.

Dec trade balance, AUDbn

- Australia's trade surplus was relatively resilient in the final month of 2011, widening a little to \$1.7bn, up from \$1.3bn for November and exceeding expectations (market median \$1.2bn).
- Imports advanced by 1.0% in the month. Exports, however, defied a weakening international backdrop, rising by 2.3%.
- For the December quarter as a whole, the trade surplus narrowed, despite the slight improvement in the December month. The sum of seasonally adjusted balances for the 3 months to December was a surplus of \$4.5bn, down from \$6.2bn from the 3 months to September. However, applying the quarterly seasonal factors, the surplus for Q4 was \$3.96bn, down from \$6.64bn.
- The terms of trade declined in the quarter as weaker global conditions triggered a fall in commodity prices. We suspect that the narrowing of the trade position was largely due to the terms of trade fall, which we estimate to be around -3.8%.
- Net exports were most likely less negative in Q4 than Q3, when they subtracted 0.6ppts from GDP growth. We calculate that net exports were growth neutral in Q4.
- The current account deficit is set to widen in the December quarter. A deficit of around \$8½bn (-2.3% of GDP), up from \$5.6bn for Q3, appears likely.

Round-up of local data released over the last two weeks

Date	Release	Previous	Latest	Mkt f/c
Tue 31	Dec private sector credit	0.3%	0.3%	0.3%
	Dec RP Data-Rismark home price index	0.4%r	-0.2%	-
	Dec NAB business survey	1	1	-
Wed 1	Q4 house price index	-1.9%r	-1.0%	-0.7%
	Jan AiG PMI manufacturing	50.2	51.6	-
Thu 2	Dec dwelling approvals	10.1%r	-1.0%	2.0%
	Dec trade balance, AUDbn	1.3r	1.7	1.2

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New Zealand: week ahead & data wrap

Changing of the watch

This week, RBNZ Governor Alan Bollard announced he will not seek reappointment when his current term expires on the 25th of September. The change of Governor complicates the timing of interest rate moves and, at the margin, is one reason we now expect rate hikes will be delayed until December. Next week's labour market data will probably be a continuation of recent themes: unemployment is set to remain elevated and there is little upward pressure on wages.

This week we pushed out our call on the start date for RBNZ rate hikes from September to December. With inflation pressure subdued, last week's off the cuff comments by Governor Bollard that he is broadly comfortable with current market pricing for no hikes or cuts in the next year was an important development. Further supporting a later start date was Monday's announcement by Dr Bollard that he wouldn't be seeking a third term as Governor in September. Although a rate hike at either the end of Dr Bollard's tenure in September or the start of the new Governor's reign in October aren't impossible, they're probably not ideal either. That said we do expect the delay to mean there will be some catching up to do in the early stages of the cycle – we expect an OCR of 3.25% by March next year.

The announcement of an impending change in Governor also ignited speculation in some quarters that the changeover might be used as an opportunity to make modifications to the RBNZ's duties and/or structure. But in our view a major change by September is very unlikely. Both the Prime Minister and the Minister of Finance have poured cold water on the notion in recent days. Key commented that he was broadly comfortable with the current 1-3% target band, while English remarked that he saw no reason to change the way interest rates were set from a single decision maker to a committee. But quite aside from the apparent lack of political support for any major changes, practical difficulties would make it very difficult to push through any legislative changes as early as September. That's not to rule out any changes all together, but anything that does happen is more likely to be in the first few years of the new Governor's tenure.

While the focus over recent days has been on the man at the helm of the RBNZ, what really matters for the economy is not who is making the decisions but what those decisions are. In this regard it's well recognised that no matter who that might be, the next move in the OCR will be up. Two factors critical to the timing of these interest rate hikes are the international outlook (in particular Europe's debt problems) and reconstruction activity in Canterbury.

Repair work in the region is currently gaining momentum. Fletcher EQR (the company responsible for managing EQC repairs of between \$10,000 and \$100,000) reports it has completed over 8000 repairs and has a further 27,500 in progress. However,

many repair jobs (unlike complete rebuilds) are unlikely to require a consent. Despite this, consent issuance in Canterbury was up a touch in December (in seasonally adjusted terms), contributing to a small rise in nationwide consent issuance during the month. Issuance has gradually trekked higher from very weak levels over the second half of 2011 with the pickup in issuance most apparent in Canterbury and Auckland – regions where the squeeze on housing has been most acute. We expect it will be residential building activity in these two regions which will lead the way in a major increase in construction activity, albeit off a very weak base, over the coming year.

Such an increase in activity in a relatively labour intensive industry will provide a boost to jobs growth. But this is a story for the coming year. We don't expect next week's labour market report to look much rosier than what we saw over during the 6 months prior – that is, moderate jobs growth and a fairly flat unemployment rate (we expect it remained at 6.6% in the December quarter). For now the labour market remains balanced in employers' favour. The latest Quarterly Survey of Business Opinion showed a small increase in the number of businesses saying that staff have become easier to find and surveys suggest households also thought jobs were harder to get in December quarter. And with both headline inflation and inflation expectations heading south we think wage growth will be a bit below average in the December quarter. The spongy labour market will also be doing little to deter the ongoing flow of New Zealanders heading across the Tasman. While we continue to expect fading employment prospects in Australia (and improving prospects in New Zealand) to eventually reduce the flow of New Zealanders into Australia, there was no sign of this happening in December. Migration data showed New Zealand experienced a net outflow of close to 2000 people over the course of 2011 – the biggest since 2001.

In contrast to the outlook for the construction sector, we think the coming months will be more challenging for the exporters as slower global growth not only Europe but also in Asia puts further downward pressure on commodity prices (the Asian outlook is particularly important given the region's importance in driving global demand for food). New Zealand's export commodity prices are already down around 9% from their mid-year peaks – even though data out this week showed they edged up a little in January (up 1.2%) as markets of most persuasions started off the year viewing the glass as half full. More recently, this week's fortnightly GlobalDairyTrade auction saw dairy prices soften a little. We expect that lower commodity prices will in turn put downward pressure on the NZD over the coming months. However our expectation is of a dip in commodity prices, not a disaster. Asia's central banks should be quick to ride to the rescue with looser monetary policy and consequently demand for commodities should rebound later this year.

Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Tue 31	Dec building consents	-6.2%	2.1%	8%
	Oct National Employment Indicator	-0.1%	-0.2%	-
Thu 2	Jan ANZ commodity price index	-0.8%	1.2%	-
Fri 3	Dec net migration s.a.	-100	-520	-

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Data previews

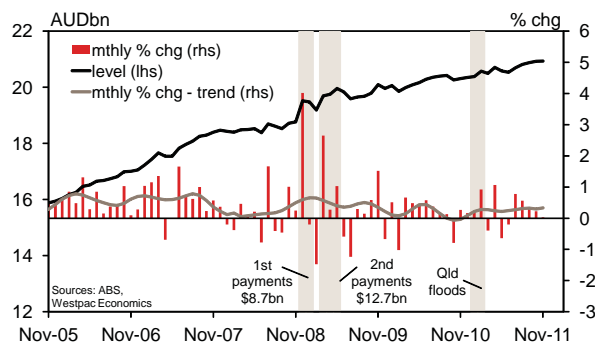
Aus Dec retail trade

Feb 6, Last: flat, WBC f/c: 0.2%

Mkt f/c: 0.2%, Range: -0.2% to 0.5%

- Retailers had a flat Nov with sales unchanged nationally after a surprising four-month run of gains that came despite some very weak reads on consumer sentiment. Though unexpected, that brief spending burst did little to alter the bigger picture of sub-par sales growth with the flat Nov result raising the spectre of a relapse into modest sales decline.
- Dec could be an interesting month. Despite a second rate cut from the RBA, sentiment fell sharply in the month on concerns about Europe and job security. With 30k jobs actually lost in Nov-Dec, household incomes were also under pressure. Christmas was reportedly a fizzer for most retailers although Boxing Day sales apparently did well (though likely at the 'cost' of heavy discounting). Wet weather has not helped either. Overall, we expect the Dec retail figures to post a tepid 0.2% mth gain with risks to the downside.

Monthly retail sales



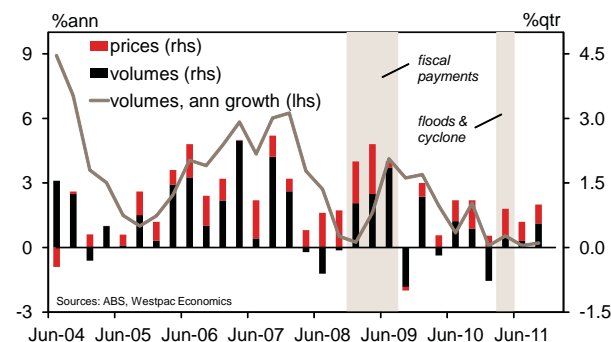
Aus Q4 real retail sales

Feb 6, Last: 0.6%, WBC f/c: 0.4%

Mkt f/c: 0.6%, Range: 0.2% to 1.3%

- Real retail sales rose 0.6% in Q3, but were up just 0.2% yr – a weaker annual growth rate than that seen in 2008 and a contraction in per capita terms. The quarterly detail was mixed to say the least with a horrific three months for clothing retailers, a difficult time for department stores but strong gains for basic food retail, household goods, 'other retail' and cafes & restaurants – consumers it seems are becoming much more discretionary with their discretionary spending.
- We expect Q4 to show a 0.4% qtr gain in real sales with prices accounting for 0.3% of a 0.7% nominal rise in the quarter. Expect another mixed bag though with a less dire (though still poor) performance from clothing and department stores offset by a likely moderation in the Q3 spending 'flourish' on food, restaurants and household goods.

Quarterly retail sales: volumes and prices



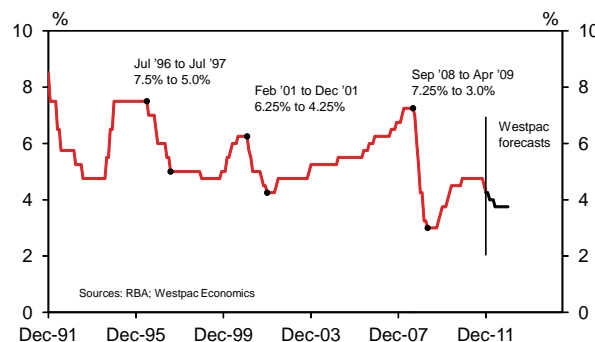
Aus RBA policy announcement

Feb 7, Last: 4.25%, WBC f/c: 4.00%

Mkt f/c: 4.00%, Range: 4.00% to 4.25%

- The Reserve Bank Board cut the cash rate by 25bps at its Dec meeting – the second cut in as many months. The meeting minutes indicate that downside risks around the situation in Europe were the primary concern with an improved inflation outlook affording scope for a modest reduction in the cash rate.
- We expect a similar decision in Feb with ongoing concerns over Europe, a softer picture domestically and confirmation of a benign inflation backdrop prompting another 25bps reduction by the RBA (see p2 for a full discussion).
- The RBA also releases its full Statement on Monetary Policy on Friday. The Bank is unlikely to alter its forecast for inflation but it will be interesting to see how its views on Europe, China, the local jobs market and the risks to the outlook have evolved.

RBA cash rate: easing cycles



Data previews

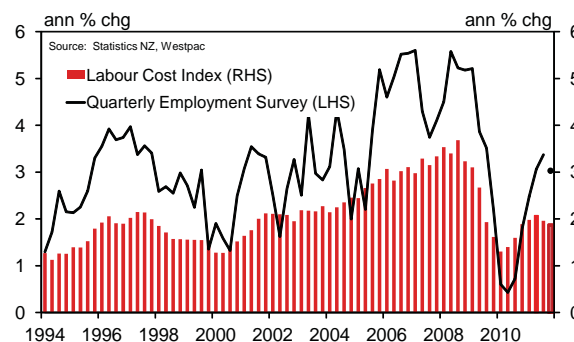
NZ Q4 wages

Feb 7, LCI Last: 0.6%, WBC f/c: 0.5%, Mkt f/c: 0.5%

QES Last: 1.3%, WBC f/c: 0.3%, Mkt f/c: 0.5%

- Wage growth has been subdued to date. With unemployment still high and inflation expectations having plateaued, we don't expect that to change in the December quarter.
- Accordingly our picks (for private ordinary time measures) are softer than average for the quarter. The LCI is seasonally strong in the December quarter as more people get pay reviews in the second half of the year, whereas the QES average wage is seasonally weak as low-paid summer jobs enter the mix.
- QES full-time equivalent employment can be a useful guide to HLFSS employment. But the QES is sampled mid-November and won't capture any Rugby World Cup effects.

NZ LCI and QES wages



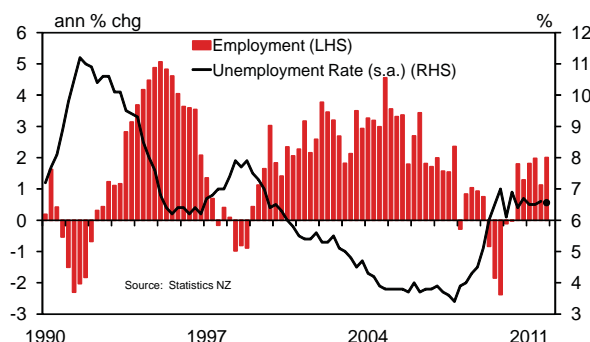
NZ Q4 HLFSS employment and unemployment

Feb 9, Employment Last: 0.2%, WBC f/c: 0.5%, Mkt f/c: 0.4%

Unemployment rate Last: 6.6%, WBC f/c: 6.6%, Mkt f/c: 6.5%

- The labour market recovery has been disappointing to date, with employment growth low and unemployment stubbornly high.
- Businesses' reported hiring picked up in the December quarter, and we expect to see employment growth lift from recent lows.
- But we don't expect that to translate into a lower unemployment rate just yet: businesses aren't finding staff harder to get than three months ago, and households continue to think that jobs are scarce.

Household labour force survey

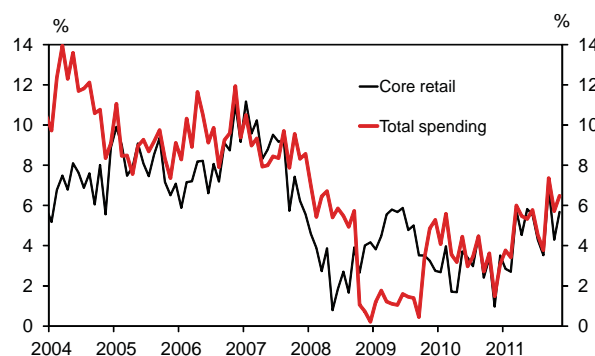


NZ Jan electronic card spending

Feb 10, Last: -0.2%, WBC f/c: 0.5%

- Electronic card spending in November and December held surprisingly close the Rugby World Cup-boostered levels seen in October. And with consumer prices falling through the December quarter, this implies another quarter of solid growth in retail sales volumes.
- At this stage we have no guidance on this early economic indicator, but we're assuming a modest gain for January in line with the recent 6%-ish annual growth pace. Higher petrol prices favour a rise in nominal spending for the month.

Card transactions, annual % change



Data previews

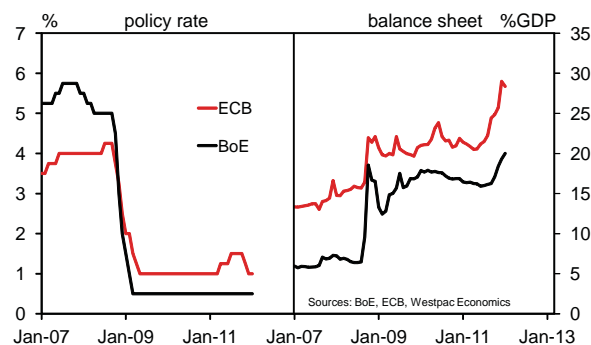
ECB on hold, BoE to announce further QE

Feb 7, BoE Last: 0.5%, WBC f/c: 0.5%

Feb 7, ECB Last: 1.0%, WBC f/c: 1.0%

- The BoE announced the £75bn extension to the asset purchase program that had been suspended in early 2010, at the Oct meeting. Even so the Bank's Nov central projection showed CPI below the 2% target and subsequent minutes included discussion about yet more QE beyond the £275bn now in the bag. With downside risks crystallising (including Q4's 0.2% GDP fall) we expect a further £50bn extension at the Feb meeting.
- Q4 GDP data on 15/2 will indicate the Euroland recession has begun. Materialising downside risks and growth/inflation forecast downgrades in Dec prompted the ECB to cut rates 50bp in late 2011, and to provide banks half a trillion euro of cheap 1-3 yr funding (LTRO - the ECB's version of quantitative easing). We expect a further quarter point cut in Mar, after another €1 trn LTRO on Feb 29, but nothing at the Feb 7 meet.

ECB & BoE policy rates and balance sheets



Key data & event risk for the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
Aus	Jan ANZ job ads %mth	-0.8%	-	-	Total job ads are now down 3% through the year to Dec.
	Jan TD-MI inflation gauge %mth	0.5%	-	-	Through the year pace bottomed at 2.1% in Nov; rose to 2.4%yr in Dec.
	Dec retail trade	flat	0.2%	0.2%	Most retailers reported disappointing Christmas sales ...
	Q4 real retail sales	0.6%	0.6%	0.4%	... with sluggish volumes despite aggressive discounting
NZ	Waitangi Day	-	-	-	Market closed.
Idr	Q4 GDP %yr	6.54%	6.45%	-	Resilient to real economy stresses seen elsewhere.
Eur	Feb Sentix investor confidence	-21.1	-	-15.0	If ZEW in Jan is anything to go by, Sentix should look less negative.
Ger	Dec factory orders	-4.8%	1.0%	-2.0%	Down in four of last five months.
US	Fedspeak	-	-	-	Bullard on inflation targeting; Fisher on economy.
Can	Jan Ivey PMI sa	63.5	57.0	-	At 7 month high in Dec.
Tue 07					
Aus	RBA policy decision	4.25%	4.00%	4.00%	Despite some improvement in EU, balance of risks still argue for rate cut.
NZ	Q4 labour cost index	0.6%	0.5%	0.5%	Wage growth to remain subdued.
	Q4 quarterly employment survey	1.3%	0.5%	0.3%	A less informative wage inflation measure than the LCI.
Inr	Q1 GDP %yr	6.9%	-	-	Sharp drop a distinct possibility.
Ger	Dec industrial production	-0.6%	flat	-0.6%	Orders downtrend suggests output to weaken further.
UK	Jan BRC retail survey	2.2%	-	-	Like for like sales; Dec 2011 boosted by snow in Dec 2010.
US	Feb IBD-TIPP economic optimism	47.5	48.1	-	First read on confidence in Feb after CB index slipped in Jan.
	Dec consumer credit \$bn	20.7	7.0	-	Dec credit jump – how sustainable?
Can	Dec building permits	-3.6%	-	-	Nov fall led by non-residential permits.
Wed 08					
Jpn	Jan bank lending %yr	0.4%	0.6%	-	Loan demand increasing as reconstruction moves forward.
	Dec current account ¥bn sa	480.4	625.3	-	Trade in deficit, income surplus cramped by weak global asset markets.
Ger	Dec exports	2.5%	-0.5%	-	Nov rise did not reverse Oct export fall.
UK	Jan shop price index	1.7%	-	-	Guide to part of the CPI basket.
US	Fedspeak	-	-	-	Williams on economy.
Can	Jan housing starts	7.9%	-	-	Dec housing starts lifted by multiples.
Thu 09					
NZ	Q4 HLFS employment	0.2%	0.4%	0.5%	Business surveys point to a pickup.
	Q4 HLFS unemployment	6.5%	6.5%	6.6%	Signs of labour market slack persist.
Chn	Jan producer prices %yr	1.7%	0.6%	-	Non-fuel raw materials prices have come off sharply.
	Jan consumer prices %yr	4.1%	4.1%	-	All major components have seen their cycles peak.
Jpn	Dec machinery orders %mth	14.8%	-5.0%	-	IP expectations for Jan/Feb are good.
Kor	Bank of Korea decision	3.25%	3.25%	3.25%	Weak IP and export data will have the BoK increasingly uncomfortable.
Idr	Bank Indonesia decision	6.00%	6.00%	6.00%	A minority expect a cut, a reasonable position, but March more likely.
Eur	ECB rate decision	1.0%	1.0%	1.0%	Further rate cut still likely but not yet.
UK	Dec industrial production	-0.7%	0.2%	-0.2%	Dec PMI suggested ongoing decline but Jan PMI back above 50.
	Dec trade balance £bn	-8.6	-8.7	-	Recent big swings in deficit including sizeable revisions.
	BoE rate decision	0.5%	0.5%	0.5%	Rates firmly on hold but further extension to asset purchase program likely to be announced.
	BoE asset purchase target £bn	275	325	325	
US	Initial jobless claims w/e 4/2	367k	-	370k	New sub 400k trend now clearly in place.
	Dec wholesale inventories	0.1%	0.5%	-	Guide to Q4 GDP revision.
Can	Dec new house price index %yr	2.5%	-	-	Slight uptrend emerged later in 2011.
Fri 10					
Aus	RBA Statement on Monetary Policy	-	-	-	How has the view evolved since Nov? e.g. on jobs, inflation, EU, China?
NZ	Jan Card Spending	-0.2%	-	0.5%	Spending growth stabilising after Rugby World Cup boost.
Chn	Jan trade balance USDbn	16.5bn	10.40bn	-	Work day effect to weigh down yoy growth in trade.
	Jan new loans RMBbn	640	1000	1300	Tentative date. 1.3trn min. required Jan outlay to hit 8½ trn in the year.
	Jan M2 money supply %yr	13.6%	13.7%	-	Tentative date. Capital inflows will have boosted deposit growth.
Jpn	Jan domestic CGPI %yr	1.3%	0.8%	-	Strong yen, weaker commodity prices, but supply disruptions counter.
Inr	Dec industrial production %yr	5.9%	-	-	Infra. subset slowed in Dec, but the PMI has rebounded from its lows.
Sing	Q4 GDP %yr second estimate	3.6%	-	-	Tentative date. Base effects highly onerous for next few quarters.
UK	Jan PPI %yr	3.0%	-	-	Core output index.
US	Dec trade balance \$bn	-47.8	-48.5	-48.0	Exports unlikely down three months running. Import may gain further.
	Feb UoM consumer confidence prelim	75.0	74.0	73.5	Jan CB index suggests sentiment may be wavering.
	Jan federal budget \$bn	-49.8	-65.0	-	Mkt expecting deficit size equivalent to Jan 2009.
Can	Dec trade balance C\$bn	1.07	0.65	-	Sep and Nov saw first trade surpluses since Jan.

Economic & financial forecasts

Interest rate forecasts

	Latest (Feb 3)	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
Cash	4.25	4.00	3.75	3.75	3.75	3.75
90 Day Bill	4.29	4.25	4.00	4.00	3.90	3.90
3 Year Swap	3.83	4.20	4.60	4.60	4.60	4.70
10 Year Bond	3.71	4.20	4.40	4.50	4.70	4.90
10 Year Spread to US (bps)	188	200	200	200	210	220

International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.83	2.20	2.40	2.50	2.60	2.70
US Fed balance sheet USDtrn	2.97	3.06	3.21	3.36	3.51	3.51
ECB Repo Rate	1.00	0.75	0.75	0.75	0.75	0.75

New Zealand

Cash	2.50	2.50	2.50	2.50	2.75	3.25
90 day bill	2.73	2.70	2.70	2.80	3.20	3.50
2 year swap	2.78	2.90	3.20	3.50	3.90	4.20
10 Year Bond	3.78	4.00	4.10	4.20	4.50	4.70
10 Year spread to US	196	180	170	170	190	200

Exchange rate forecasts

	Latest (Feb 3)	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
AUD/USD	1.0679	1.02	0.96	0.99	1.03	1.05
NZD/USD	0.8308	0.79	0.74	0.76	0.79	0.81
USD/JPY	76.197	77	77	78	81	84
EUR/USD	1.3134	1.26	1.20	1.23	1.26	1.28
AUD/NZD	1.2854	1.29	1.30	1.30	1.30	1.30

Australian economic growth forecasts

	2011			2012				Calendar years			
	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2010	2011f	2012f	2013f
GDP % qtr	1.4	1.0	0.7(f)	0.5	0.6	0.9	0.9	2.6	2.0	3.0	3.5
Annual change	1.9	2.5	2.3(f)	3.6	2.8	2.7	3.0	-	-	-	-
Unemployment rate %	4.9	5.2	5.3	5.5	5.7	5.7	5.5	5.2	5.1	5.6	5.4
CPI % qtr	0.9	0.6	0.0	0.7	0.5	1.1	0.7	-	-	-	-
Annual change	3.6	3.5	3.1	2.2	1.8	2.3	2.7	2.7	3.1	2.7	2.3
CPI underlying % qtr (ex tax)	0.8	0.3	0.6	0.7	0.5	0.5	0.7	-	-	-	-
ann change	2.7	2.5	2.6	2.4	2.1	2.2	2.3	2.4	2.6	2.3	2.4

New Zealand economic growth forecasts

	2011			2012				Calendar years			
	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	2010	2011e	2012f	2013f
GDP % qtr	0.7	0.1	0.8	0.4	0.7	0.8	0.9	-	-	-	-
Annual avg change	1.2	1.1	1.3	1.6	1.8	2.2	2.4	1.3	1.6	2.8	3.8
Unemployment rate %	6.5	6.5	6.6	6.6	6.3	6.2	6.0	6.7	6.6	5.9	5.1
CPI % qtr	0.8	1.0	0.4	-0.3	0.6	0.4	0.8	-	-	-	-
Annual change	4.5	5.3	4.6	1.8	1.7	1.1	1.5	4.0	1.8	2.2	2.4

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.