



Westpac Regional Economic Report

Volume One 2009



The most up to date trends
and economic forecasts in
Australian agriculture

Contents

Overview	3
Macro overview	
Global economic outlook	4
Australian economic outlook	6
Australian interest rates	8
Australian dollar	10
Commodity outlooks	
Wheat and oilseeds	12
Sugar and cotton	14
Sheep and wool	16
Dairy and beef	18
Oil	20
Summary forecast tables	
Australia – financial	22
Australia – economic	23
Commodity prices	24
Summary of world output	25

The Westpac Regional Economic Report is a quarterly publication produced by Westpac Economics

Editor:

Andrew Hanlan, Senior Economist
Email: economics@westpac.com.au
Internet: www.westpac.com.au
Email: economics@westpac.com.au

This issue was finalised on 17 February 2009

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141. Information current as at date above. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Westpac's financial services guide can be obtained by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is regulated for the conduct of investment business in the United Kingdom by the Financial Services Authority. If you wish to be removed from our e-mail, fax or mailing list please send an e-mail to economics@westpac.com.au or fax us on +61 2 8254 6934 or write to Westpac Economics at Level 2, 275 Kent Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2009 Westpac Banking Corporation. Past performance is not a reliable indicator of future performance. The forecasts given in this document 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 ultimate outcomes may differ substantially from these forecasts.

Global recession sets the tone

The backdrop for the Australian economy, including the regions, the farm sector and global rural commodity markets, is a particularly challenging one at the moment. In this, our first Westpac Regional Economic Report for 2009, we assess the international environment and provide an update on conditions and prospects in light of this.

The severe deterioration in the world economy late in 2008, as the global financial turmoil intensified, is the dominate development. The abrupt and widespread slowdown of the world economy is apparent from the downward revisions to growth forecasts, downgrades of unprecedented magnitude. The International Monetary Fund (IMF) in July was forecasting world growth to be 3.9% in 2009, they now expect growth of 0.5% and we expect no growth at all.

Against the backdrop of what will be the weakest performance for the world economy in at least sixty years, the Australian economy will experience a significant negative shock. This will impact across all states, including the once booming resource rich states of Western Australia and Queensland. The regions throughout Australia will also feel the fallout. We assess that a period of contraction in the Australian economy, the first since 1991, is inevitable. We're forecasting the economy to contract by 0.7% in 2009, a more downbeat view than the latest consensus forecast of 0.3% growth.

Economic downturns do not last forever of course. So the debate turns to the likely speed and magnitude of the world recovery. Understandably there is a great deal of uncertainty given the unusual and extreme events of the last year. The IMF expects a recovery to emerge later this year and for growth to improve to 3.0% in 2010, a pace that is still below trend. We see the risks to the downside. This global recession was triggered by a banking crisis and will require significant balance sheet repair by the banks, households and corporates. By its very nature, balance sheet repair takes time. We would expect the recovery in the OECD region to be particularly muted in 2010.

The risk of a more protracted global recession and muted rebound in the early stages of recovery is critically important to the outlook for the Australian economy and to global commodity markets. If, as we expect, international demand remains weaker for longer, then expectations of a recovery in markets will be met with disappointment in the early stages.

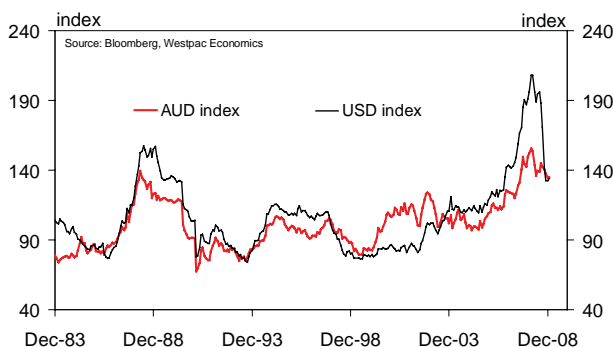
Commodity prices generally fell sharply late in 2008 in response to the weakening demand environment and as a massive deleveraging of commodity markets unfolded. A positive in this cycle is that commodity prices, coming from record highs, in many cases are still above historic averages. Also, the sharp fall in the Australian dollar has cushioned the downturn.

So what of recent commodity price movements, the outlook and some of the variations from commodity to commodity? Encouragingly, prices of a number of rural commodities have stabilised, or even rebounded a little from an oversold position last November. However, the weak demand environment suggests this will prove to be a temporary rebound. A recovery in commodity prices will emerge, but not just yet in our view. As for supply conditions, tightness in some rural commodity markets, such as sugar and lamb, is mitigating the impact of the global recession. Some commodities, such as cotton and wool, are more demand sensitive and have been hit hard by the global downturn.

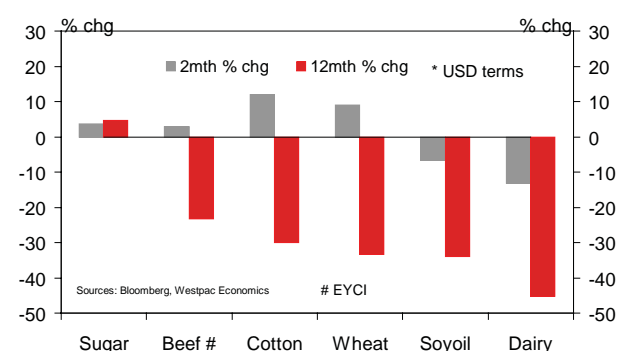
Government intervention in markets, including rural commodity markets, is another theme. We would highlight that intervention comes in various guises and hence the price impact also varies. In the dairy market, subsidies are sending prices even lower, while government buying of cotton is supporting prices for now - but setting the scene for downward price pressure down the track. Also, activist policies boosting ethanol usage is supporting sugar prices, with flow on effects to feed grain prices.

Andrew Hanlan, Senior Economist

Westpac-NFF rural commodity price index



Selected commodity price movements *



Global growth: a modest recovery in 2010

US de-leveraging process has much further to run ...

The US is in the middle of a long, drawn-out process of de-leveraging. Households are at its centre and face the most difficult task. After a long period of debt accumulation, falling house prices and now, falling incomes resulting from mounting job losses, are forcing households to reduce debt. Net equity in housing is falling at a 20% annual pace. Households have responded by taking equity out of housing (at a pace of 4% of disposable income in 2006) to injecting it in at almost 7% of disposable income, the largest injection ever seen in the data. But given the magnitude of the problem, this is just a start on what looks set to be a very drawn out process. If you overlay the balance sheet adjustments facing US financials and corporates the scale and duration of the de-leveraging task becomes even more formidable, especially in an environment of declining credit, falling demand and sinking asset values.

... particularly for households with little prospect of house prices stabilising.

Can we see an end to de-leveraging? As it started in housing so we believe it will end there. Reinhart and Rogoff (2009) estimate that on average, a banking crisis results in house prices falling by 35.5% over six years. US house prices have been falling for almost two years now so on this metric we may not even be half way. And if you compare the downturn in housing starts to what happened in the Great Depression, the last major US banking crisis and with a similar profile to date it suggests this decline could continue another three years. Current events will unfold differently to the 1930s due to the speed and magnitude of fiscal and monetary responses this time, but house prices could easily continue falling though this year and next due to the ongoing glut of unsold houses. Therefore, household de-leveraging is unlikely to end any time soon. The massive US\$825bn stimulus package (6% of GDP) may prevent the economy falling off a cliff but much of the damage has already been done and only time can heal households indebtedness wounds. Hence we are not just revising growth forecasts for 2009 (-2.5% from -1.8%) but also in 2010 (0.5% from 1.4%)

The trade hit looks eerily similar to the 1930s though without the tariff war.

So how do these revisions affect the rest of the world? Imports tend to be the first port of call to answer this question raising questions about the growth prospects for the export leveraged economies. So far, the hit to US imports has been mild, especially compared to the events of the 1930s. The 75% collapse in imports back then had more to do with the trade war that followed the passing of the Smoot-Hawley Tariff Act than underlying economic fundamentals. But we should not be too blasé. As highlighted in our commodities review (page 7), trade PMIs slumped in November, especial in Asia and the US. Some of this appears due to a collapse in trade finance. Since then, the indexes for Asia and US have recovered but are still significantly contractionary, while those for Europe and the UK continue to weaken. We may avoid a trade war, but global trade has been significantly hampered by the banking crisis.

Export shock has precipitated big downgrades to Asian growth prospects.

The result is that the banking crisis has hit those nations we thought would be fairly immune. Chinese industrial production collapsed in November as trade stopped. It has since recovered a little but electricity production remains well down in the year. We are still waiting to see how quickly domestic demand can replace export demand in China. For this reason we have downgraded Chinese growth from 8.3% and 9.2% for 2009 and 2010 to 6.7% and 7.5% respectively. We have also had to make a meaningful downgrade to the Japanese growth forecast, as exports are now a larger drag on their economy. Japanese GDP is forecast to fall 2.6% in 2009 and grow just 0.6% in 2010. We were forecasting -1.8% and +1.4% previously. Overall East Asia ex China is now forecast to contract 1.2% in 2009 and grow just 2.8% in 2010. We had been looking for growth to be back to 4.1% by 2010.

Europe's large banking exposure to the developing world could be the next link to go.

A region with more downside risk than we first appreciated is Europe. To date banking losses in Europe, US\$295bn, are swamped by the US trillion plus losses. However, while there are more US losses to come, the risks to the European banks should not be understated. Eurozone lending exposure to Eastern Europe exceeds \$1.2trn, dwarfing any other major inter-regional lending outstanding. This was fine when regional growth was robust and investors piled into potential candidates for convergence with the Europe. However, taking liberal use of Warren Buffet's observation, the tide is going out and many of those investments are now looking decidedly naked with Iceland-style current account deficits in Bulgaria, Latvia, Romania and Lithuania. And the German economy is clearly exposed to a collapse in global trade. So we have downgraded growth in 2009 to -2.2% and just 0.3% for 2010. We had been looking for -0.9% and 0.9%.

Still 'range-finding' on the scale of the recession.

This has led to a significant downward revision to world growth in 2009 and 2010. This year will be as good as flat (1.3% previously) while 2010 has been downgraded from 3.4% to 2.2%

Global growth: a modest recovery in 2010

Chart 1.

Falling net equity a drain on cash

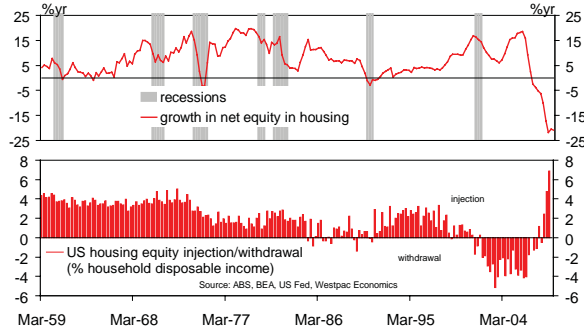


Chart 2.

US housing path is on par with 1929

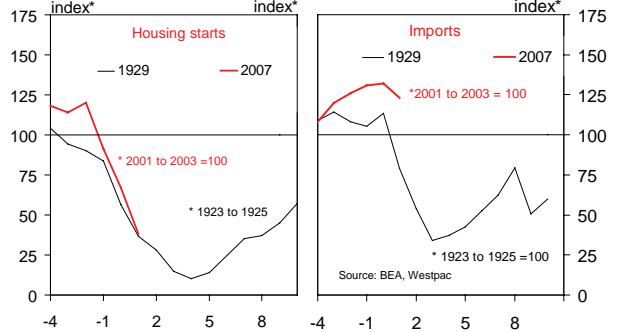


Chart 3.

Chinese electricity and industrial prod.

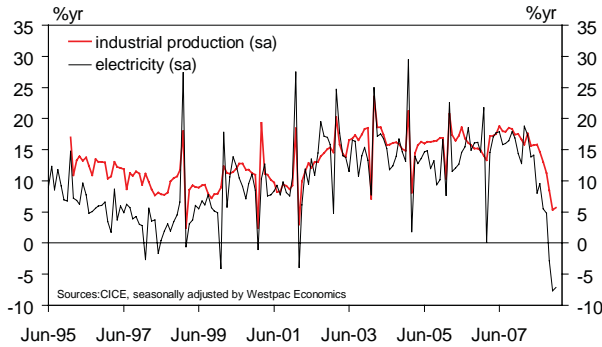


Chart 4.

Current global leading indicators

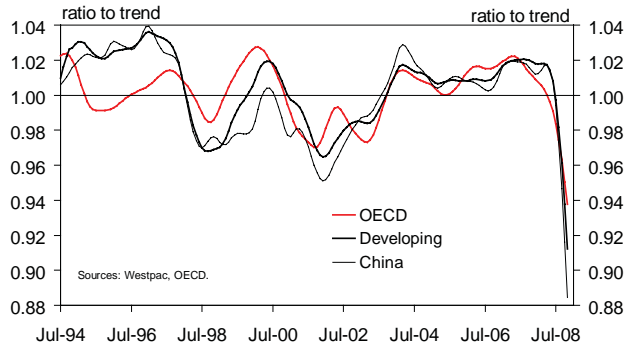


Chart 5.

Contributions to world growth

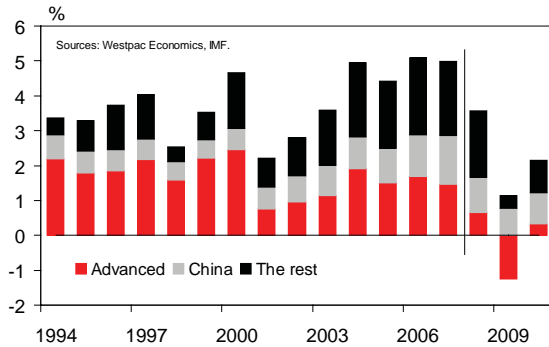
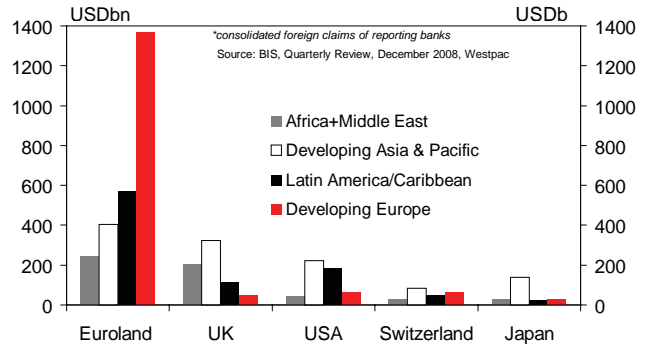


Chart 6.

Banking sector exposure to emerging markets



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.

Australian economy to contract in 2009

Australian economy, hit by severe global shock, ...

With the world economy in 2009 to be the weakest in at least sixty years, Australian GDP is likely to contract in our view. We forecast the economy to decline by 0.7% in 2009 and then rebound modestly to expand by 1.5% in 2010, a still sub-par pace. The Consensus view that the economy will grow by 0.3% in 2009 is too optimistic in our view. We are mindful that the non-farm economy contracted by 0.3% in the September quarter and may well have contracted further in the December quarter.

... is likely to contract in 2009.

Confidence and prospects for growth in Australian domestic demand have been dealt a blow by a combination of events. In particular, last year's financial turmoil, a severe global downturn (which has extended to China, one of our key trading partners) and substantial falls in commodity prices are major near-term negatives. The fall out from these events became much more apparent in the December quarter and has set the tone for 2009. Weak conditions will be widespread in the Australian economy, particularly the first half of the year.

Cautious consumers watching their spending ...

Consumers will be cautious and spending will be subdued, with annual growth expected to be around 1½% to 2% over 2009 and 2010. That would be an improvement from a stalling of spending over the six months to September, in the wake of the RBA's aggressive tightening of monetary policy in late 2007 and early 2008. That was the weakest six month outcome since the early 1990s recession. The Westpac-MI Consumer Sentiment Index provides some key insights into the consumer mood. It reveals that households acknowledge an improvement in "current conditions", with interest rates now sharply lower, petrol off record highs and the Commonwealth Government providing billions in cash handouts. However, household "expectations" have deteriorated sharply and to low levels as they become less secure about their employment prospects. That points to households cutting back on spending and boosting savings in the near-term and, as 2009 progresses, household income coming under pressure as the labour market weakens.

... at a time of rising unemployment ...

Recent labour market figures highlight how conditions in the economy have deteriorated nationally and how conditions have altered on a state by state basis. The labour market first hit the wall in NSW, with the state the financial hub of the nation. NSW employment contracted at a 2.1% annualised pace over the six months to September, but since then has (temporarily) stabilised. The Victorian labour market also lost momentum over the second half of 2008. The labour markets in the resource rich states of Queensland and Western Australia took a turn for the worse from September. That coincided with the sharp negative shock to world growth from the intensification of the global credit crisis. The deterioration in WA has been particularly dramatic, with employment falling 1.1% over the five months to January. We expect the national unemployment rate, which has increased from a low of 4% early in 2008 to 4.8% at the start of 2009, to rise to 6.25% by year end and to 7.25% by the end of 2010.

... as business cuts spending and hiring plans.

Business investment and hiring plans are in the process of adjusting to the recessionary environment, with surveys reporting a collapse in business confidence since last September. While business investment increased by a very healthy 12.5% in the year to September 2008, we suspect that a decline began in the December quarter. A total fall in investment of 25% over the next two years appears likely in our view, a fall that would be in line with past recessions. Compounding the spending cut back in this cycle is the global credit crisis. While the Australian banking system is sound and still profitable, business surveys reveal that firms are finding "finance more difficult to obtain". There is no doubt that lending standards have tightened and there is the risk that foreign banks which operate in Australia begin to ration credit.

But, economic downturns don't last forever the economy will recover.

So what of the positives? Economic downturns don't last forever of course. Forces that will contribute to the upturn are being put in place. The combination of very expansionary monetary and fiscal policies now in place, as well as the substantial depreciation of the currency, will help to cushion the Australian economy from the contractionary forces coming from abroad and to bring forward the recovery. The housing construction sector will benefit from lower rates and, unlike in some other economies, the bulk of reductions in official rates are being passed through to mortgage rates. A partial rebound in the demand for housing finance is already evident. Fiscal policy is able to play a major role, aided by Australia's very low level of public debt. The Commonwealth Government's recently announced \$42 billion fiscal package represents 3.5% of GDP spread over four years, with the spending front loaded. More generally, while the near-term outlook is weak, the longer term underlying fundamentals of the Australian economy are generally positive, just as they were prior to the global downturn.

Australian economy to contract in 2009

Chart 1.

Economic growth: Australia vs G7

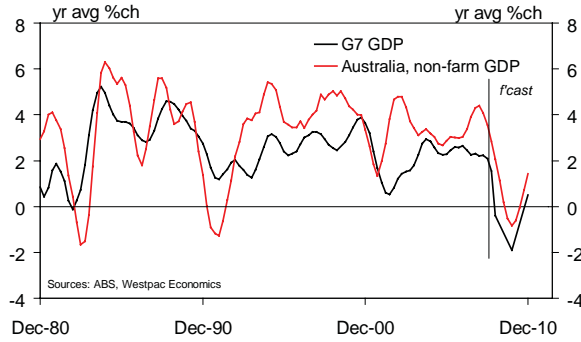


Chart 2.

Australia: the growth mix

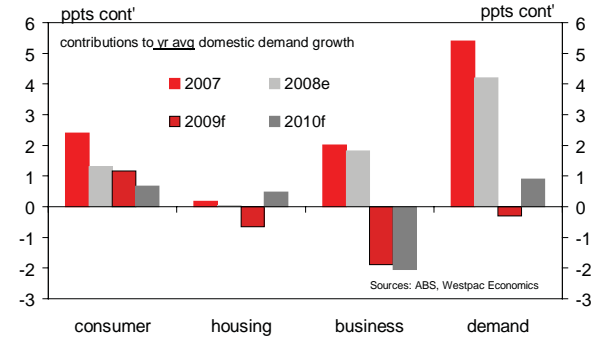


Chart 3.

Sentiment towards housing vs jobs

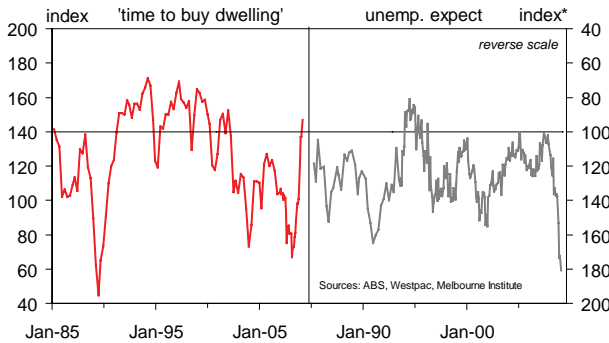


Chart 4.

Jobs growth by state

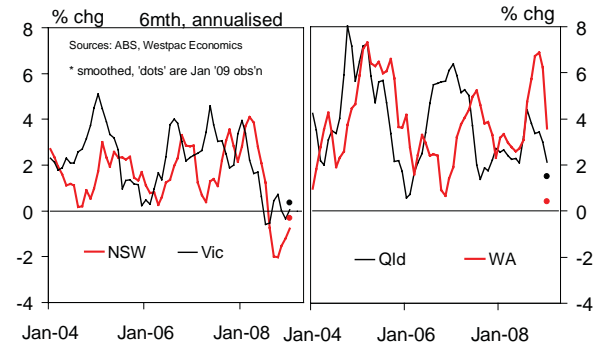


Chart 5.

Availability of labour & finance

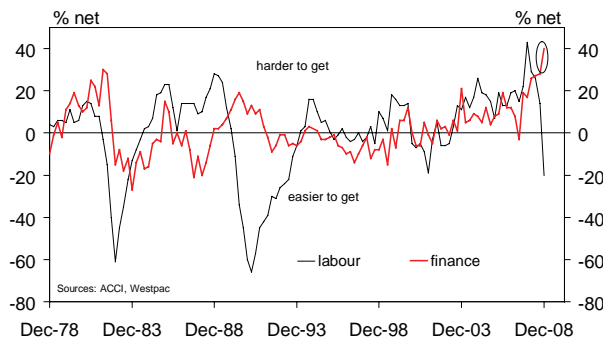
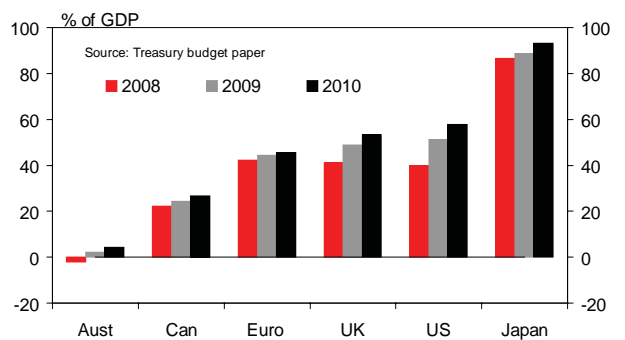


Chart 6.

Net government debt: selected countries



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.

Australian interest rates: further falls

Another 100bp cut from the RBA ...

As we predicted, the Reserve Bank cut the overnight cash rate by a further 100bp to 3.25% on February 3. This is the first move since the last Board meeting on December 2, and hence reflects the Bank's assessment of the global growth environment over the last two months. It appears that it has been surprised by the severity of the downturn in the global economy over that period. For example, in the December Statement, the Governor referred to "the likelihood of below-trend growth in the global economy". In the February Statement, he refers to "a significant deterioration in world economic conditions" and "a significant downturn in demand around the world".

... as the world outlook deteriorates, pointing to more easing ahead ...

The final paragraph of the latest Statement notes that significant stimulus has been given to the Australian economy. However, given the decision to make another large cut was almost entirely due to the deteriorating world economic outlook, we think there are more rate cuts to come.

... we think to a terminal cash rate of 2%; at which point banks will find it hard to pass on further cuts.

We now expect the low point for the policy cycle to be an overnight cash rate of 2.00%, achieved in the June quarter. The choice of 2% is driven off the assessment of the likely limited effectiveness of pushing cash rates even lower, given the importance of the links between the cash rate and private sector interest rates. When interest rates fall this low banks' margins are squeezed as very low interest rate deposit products lose their relative value. Unlike the US and UK banks, Australian banks have been very responsive to easing monetary policy, with the reductions in housing and business loan rates a key way in which monetary policy affects the economy. The Reserve Bank would need to make an assessment as to how far the banks could be expected to squeeze margins in an effort to maintain the effectiveness of monetary policy.

RBA will remain anxious to get there quickly given the scale of the negative shock from abroad and the worsening situation in Asia.

Given the reasonable view that 2% would mark the level below which monetary policy would lose its effectiveness, the debate is how quickly would the Reserve Bank move to that 2% target. We disagree with the view that the Bank will defer further action until it has the time to assess the impact of its 400 basis point action so far. That approach misinterprets the objective of current policy. Monetary policy is currently being used to buffer the Australian economy against the current global turmoil. A rethink would only be made if there was some perception that the turmoil was easing. In fact it has instead been intensifying, especially across the Asian region. Our interpretation of the Chinese data is that industrial production and electricity demand in China has actually contracted in the last months of 2008 in contrast with the accepted 15-20% annual growth rates. The rest of Asia which is leveraged to the US and European demand as well as inter-regional trade is collapsing. The message is clear for the Reserve Bank: ease as much as possible as quickly as possible to maximise Australia's chances of weathering the storm.

We think they'll get there by April.

Consequently, we anticipate a 75bp cut following the March Board meeting, and a final 50bp cut in April.

The dominance of balance sheet concerns globally ...

On pages 8-11 we discuss our big picture view of the current world environment. We characterise it as a balance sheet recession for the corporate and financial sectors with a number of household sectors – the US; Europe (ex Germany); and the UK – also now focussed on repairing balance sheets. Those countries with growth models based around leveraging external demand – Japan; Germany; China; and most of the rest of Asia – are also deteriorating sharply as global demand collapses.

... and risk of similar adjustments occurring locally ...

We confidently expect the Australian corporate sector to focus on balance sheet repair rather than growth and a key question for Australia is whether the household sector also moves toward reducing debt rather than raising expenditure. Recent evidence points to a sharp move by Australians to raise their savings rates. Lower interest rates and fiscal largesse are assisting in this respect and are helping contain an even sharper cut back in spending (in an effort to reduce debt) but the net result is that economic growth remains weaker for longer.

... points to an extended period of very low rates.

Balance sheet repair is a long process. With that dynamic remaining the dominant global force, central banks are unlikely to detect any need to start withdrawing stimulus before the end of 2010. Consequently we expect the Reserve Bank and the US Federal Reserve to remain on the sidelines for the remainder of 2009 and 2010. If we are wrong and the global economy recovers with the usual speed then expect some very aggressive tightening by the Reserve Bank and the Fed in 2010.

Beware of false dawns.

Markets are likely to experience a number of false starts over that period as traders react to short term recovery in some of the data. Nevertheless we expect that the constraints of the balance sheet recessions will disrupt any sustainable recovery.

Australian interest rates: further falls

Chart 1.

Trading partners' growth collapses

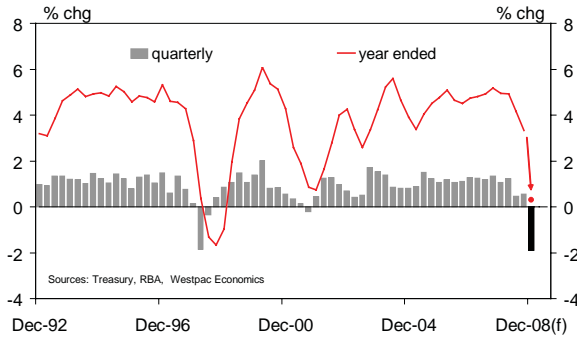


Chart 2.

Confidence: consumer & business

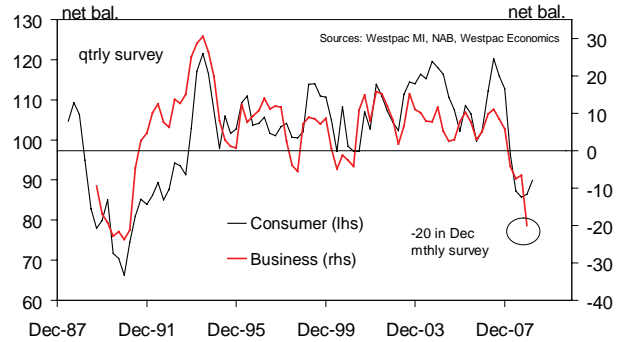


Chart 3.

Westpac-MI unemployment expectations

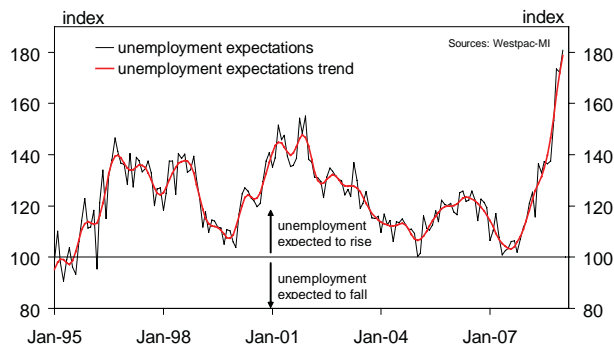


Chart 4.

RBA rate cuts flowing through

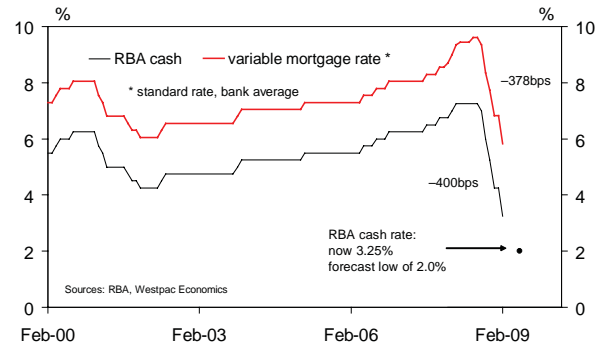


Chart 5.

Cash rate & term deposit rates

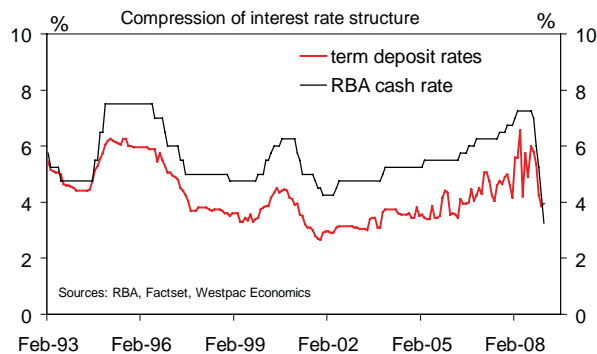
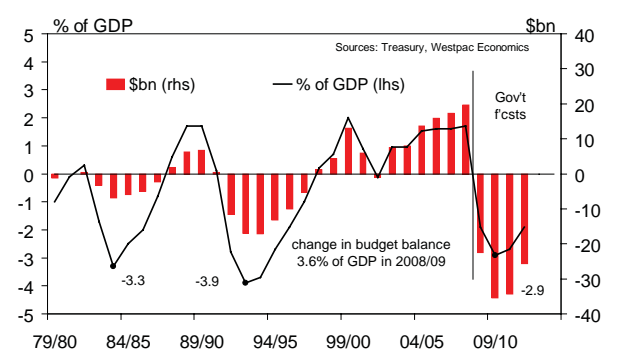


Chart 6.

Federal budget moves into deficit



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.

Australian dollar cushions downturn

Our view of a second half rally in the AUD ...

Since our last Report on December 8 the AUD has traded in a relatively narrow range (until recently) of between USD0.66 and USD0.72. At no time during that period did we feel the need to change our view that AUD would fall back to USD0.64 by March and reach USD0.60 by June 2009 before moving higher through to USD0.70 by the middle of 2010.

... predicated on fiscal expansion and easing credit conditions successfully spurring a global recovery by mid-2009 ...

That view was built around our outlook for world growth and the forces associated with risk. In general we expected that given the suite of aggressive fiscal policies being embraced by governments and some encouraging evidence that credit conditions have improved, particularly in response to the use of government guarantees, that world economic conditions would be on the mend from the middle of 2009.

... has been slashed on signs that a more damaging 'balance sheet' recession is taking hold.

That relatively positive outlook has changed. On pages 8-11 we set out our view of the major forces shaping the global economy. We assess that the world is rapidly moving into a period of balance sheet recession. These recessions are unusual with the Great Depression in the 1930s and Japan's 'lost decade' in the 1990s the prime examples. They are characterised by firms and households focussing on repairing balance sheets rather than growth. Excess cash flow is used to reduce debt and firms are accordingly reluctant to invest and employ. Households choose to reduce debt rather than raise expenditure and economies contract. Governments are required to offset this contraction by ramping up expenditure with reduced borrowing by the private sector replaced by increased borrowing by the public sector. The financial sector is also caught up in the balance sheet adjustment, magnifying the damage to the real economy.

This type of recession renders monetary policy ineffective.

In this environment monetary policy is not effective since firms are not attracted by lower rates to borrow and improved cash flows are used to pay down debt. The financial system itself is also badly impaired. However interest rates still need to be lowered as far as possible to assist the process of balance sheet repair.

Balance sheet 'ugliness' differs across countries and sectors ...

Naturally some countries will face more 'acute' versions of this environment than others. In the case of the US all sectors are focussing on balance sheet issues; similarly for most of Europe although the balance sheets of the German household sector are in reasonable shape. For Australia the corporate sector seems certain to go that way although financials, banks in particular, have avoided the worst of the problems encountered by their US and European peers. The evidence from the household sector is also pointing to a sharp increase in savings although again, the balance sheet problems facing Australian consumers are small compared to those in the US and parts of Europe. Indeed, we were somewhat surprised by the extent to which households saved the recent \$8.7bn package of government payments. We estimate that only \$700mn was used to boost retail sales.

... but the consequences are unambiguously negative for Aus and NZ ...

An extended period where debt stands at the centre of economic decisions; the advanced economies contract; and the developing economies prove to be unsuccessful in diversifying growth away from advanced world and inter-regional trade does not augur well for a growth recovery or commodity prices. And it doesn't augur well for small countries with excessive foreign debt, i.e. Australia and New Zealand. Even the large interest rate differentials that have supported their currencies are falling quickly as central banks try to stimulate domestic demand.

... pointing to further falls: AUD to 55¢; NZD to 41¢ (AUD/NZD cross 1.35).

Those arguments point to a 'weaker for longer' scenario for the AUD and the NZD. Accordingly, we have pushed our low point for the AUD into 2010 with a target of USD0.55 in H1. Pressures will be even more brutal for NZD which is expected to fall significantly against the AUD: 1.35 is our new target for the cross. Although we do not expect convincing evidence of a global recovery anytime soon, the country we expect to lead the way – China – will be starting to show some signs of improvement by 2009H2. However this will not be spectacular in the usual China way. China needs to re-orient growth to domestic drivers rather than foreign demand. That will take time, but currency markets will be sufficiently excited to give the AUD some support. If we are wrong it is more likely to be to the downside rather the upside.

Fiscal freedom favours USD vs Euro; intervention likely to curb any Yen/RMB appreciation.

Our growth recovery view still relies strongly on fiscal policy. We assess that the US will be much more flexible in this respect than European countries where the Maastricht Treaty is still in place. Hence we are reasonably constructive about the USD. While Japan and China should focus on restoring domestic demand that would normally require further appreciation, we expect that policy intervention will disrupt that process.

Australian dollar cushions downturn

Chart 1.

Fed doing in months what BoJ did in years

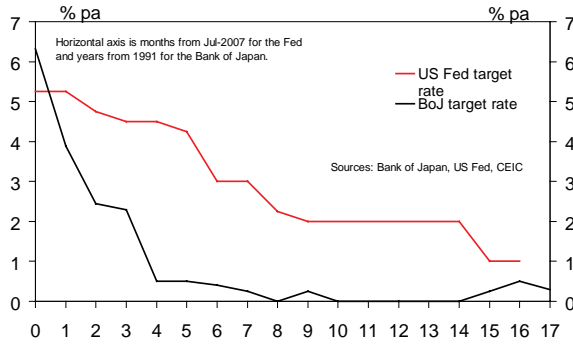


Chart 2.

US credit standards tightening less

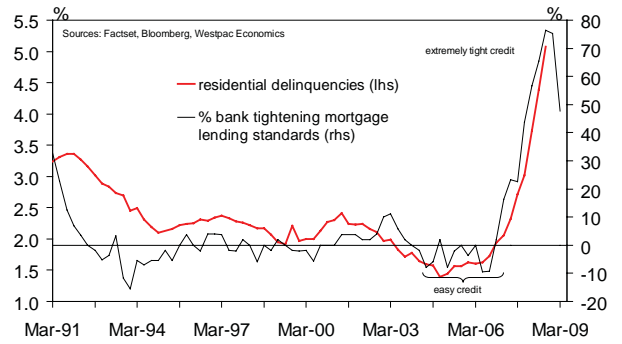


Chart 3.

Credit crunch just starting for SMEs

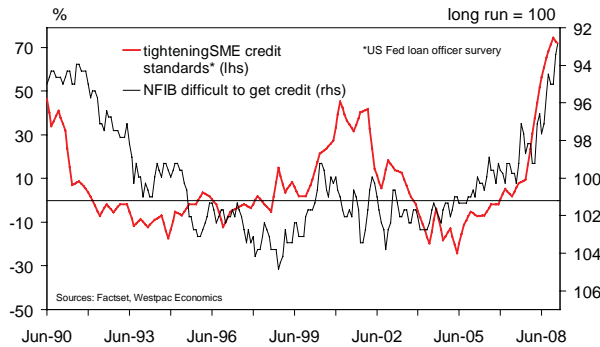


Chart 4.

AUD: actual versus our model

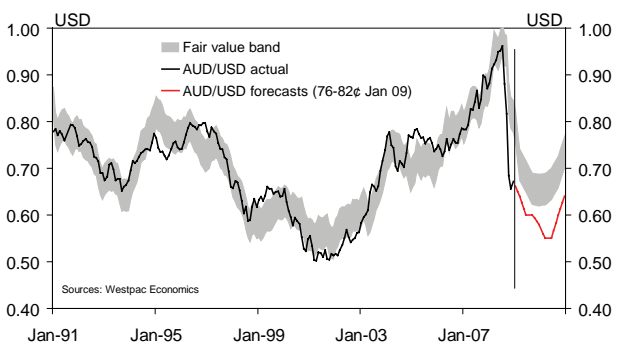


Chart 5.

AUD/USD & AUD/JPY

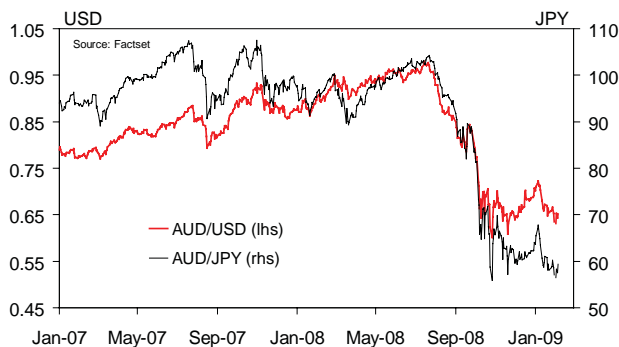
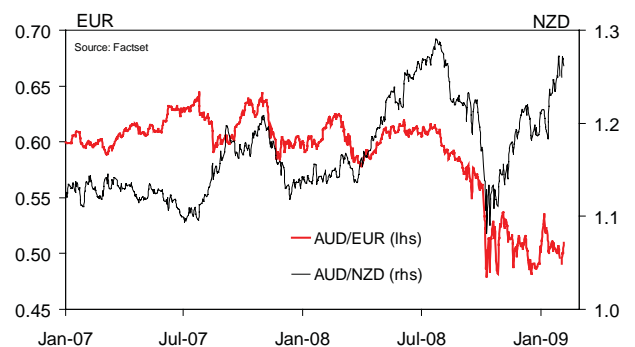


Chart 6.

AUD/EUR & AUD/NZD



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.

Wheat and oilseeds

Grain prices down sharply

...

So what of the impact on the grains market from the global economic crisis? On the price front, two key developments generally evident are: first, a very sharp reduction in global grain prices from the peaks of earlier this decade and second, notwithstanding the sharp decline, prices remain above historic averages. As for global oil prices, the collapse has been spectacular, a tumble that has been echoed in the oilseeds sector.

... but still above historic averages.

More recently, on the climatic front, reports of severe drought conditions have emanated from China, with the authorities stating that about 40% of the crop is under drought pressure. North East China, where the greatest moisture deficiency exists, is significant for corn and soybeans, but is not a major wheat producing region. As always, timely rain will be important but at this stage we are mindful that drought conditions in China are evident nearly every winter.

Record wheat production ...

Wheat

The 2008/09 year was a record one for wheat production, both domestically and the world. Farmers responded to sky high prices and a generally excellent season did the rest. World production increased to a record 684Mt, up 12%. This sharp lift in production has contributed to downward pressure on prices, as has the massive deleveraging of commodity markets.

... and weaker demand ...

Early estimates suggest that world production will moderate in the season ahead, falling back to around 640Mt, with reduced planting and assuming a return to more normal yields.

... drive prices lower ...

It hasn't been all downward pressure on wheat prices. In early 2009 they have moved off the lows of late 2008. After slumping to US530¢/bu, there was a move back up to the 600¢ mark on support from dryness concerns in the US and China. The markets will increasingly focus on climatic concerns in the US over February and March.

... with feed grain prices also moving lower.

The increased domestic wheat supplies will place downward pressure on average pool returns, but the lower Aussie dollar is supporting export prices. ABARE forecasts a 25% drop in the 2008/09 pool return to \$317 a tonne for premium white wheat.

Wheat exporters have been confronted with bottlenecks at the ports. With the monopoly export system scrapped, there has been a rush by farmers to get their wheat to market. This, at a time of a big crop, has resulted in vessels reportedly queuing off the Western Australian coast - the nation's biggest exporting state.

Domestically, there has been downward pressure on feed grain prices. Significant rainfall during the wheat harvest further increased feed grain availability. That came on top of increase in barley production of around 7%. ABARE expects Australian feed barley prices to fall by 45% to \$168 a tonne and malting barley to fall by 14% to \$229 a tonne.

Soyoil prices take their cue ...

Oilseeds

The oilseed market continues to trade like the energy sector. What a wild ride it has been over the last couple of years for crude oil prices and oilseeds.

Soyoil prices tumbled over the second half of 2008, falling by 50% to around US31¢/lb in December - returning to prices prevailing in early 2007, ahead of the sharp run-up. Prices have subsequently formed a base in 2009, as has crude oil.

... from tumbling crude oil.

While the world economy has slid into recession, the demand for biodiesel will continue to be supported by government mandated targets. World industrial use of vegetable oils (primarily biodiesel) is expected to increase by around 6% in 2008/09. Even so, production more than kept up with demand in 2008/09, boosting stocks and placing downward pressure on prices. World oilseed production in the year was a record, increasing by an estimated 7%.

Canola prices also plunged 50% over the second half of 2008. More recently, canola prices bounced off their December lows. Interest from China was a factor lifting prices, as the New Year celebrations steadily increased demand. While there is a large crop coming out of Canada, as long as concerns remain over South America's problem weather, there should be a tendency for price stability. Australian canola exports will be up strongly in 2008/09, by around 10%, as increased production adds to exportable supplies.

Wheat and oilseeds

Chart 1.

Wheat prices

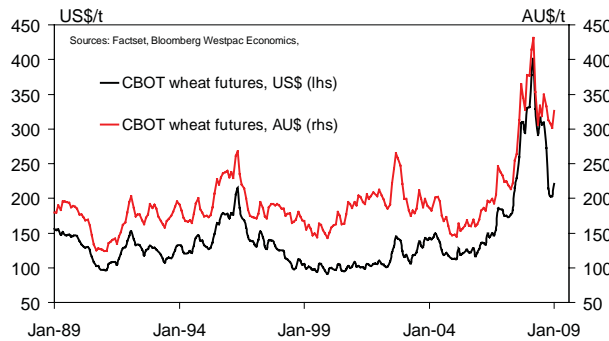


Chart 2.

Supply surge drives down prices

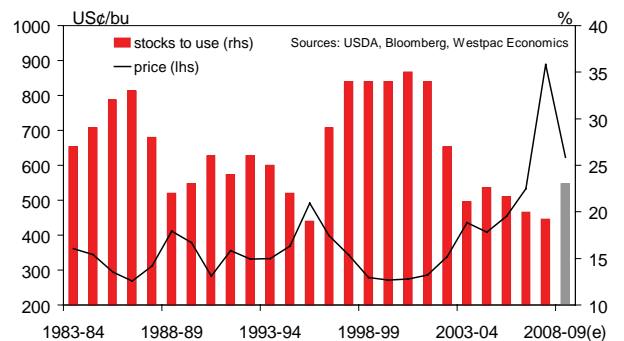


Chart 3.

World corn and barley prices

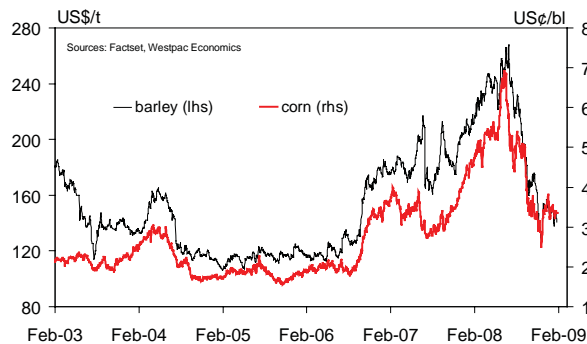


Chart 4.

World canola & soybean prices

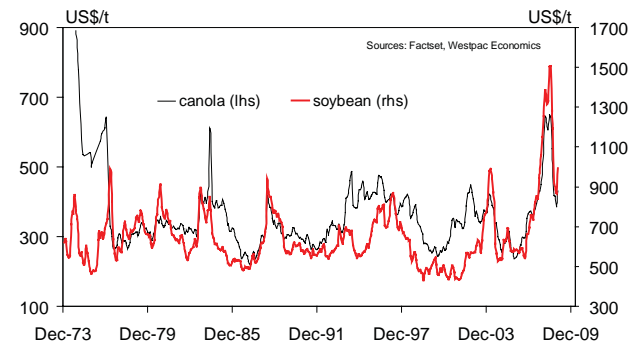


Chart 5.

Ethanol spread to gasoline

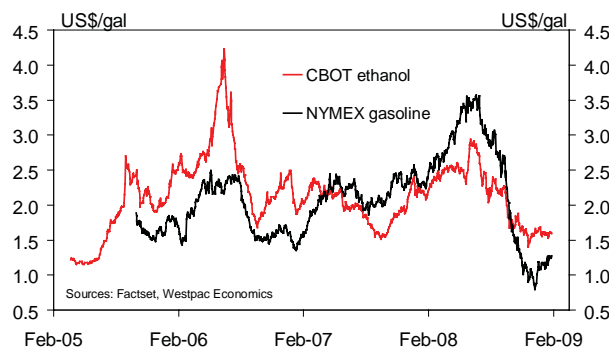
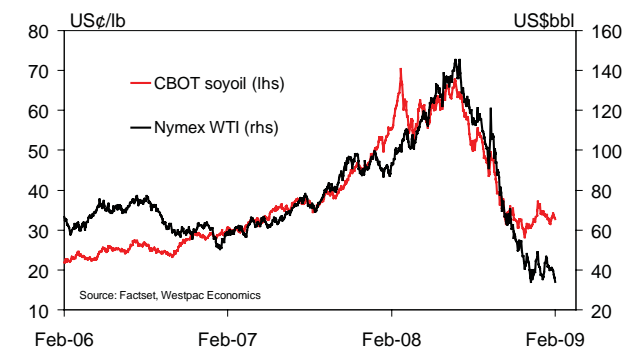


Chart 6.

Soyoil & crude take the elevator down



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.

Sugar and cotton

The sugar and cotton markets reveal contrasting price movements, a reminder that the global economic recession impact varies across commodities and in turn producers. At one end are sugar prices which are proving to be resilient, while downward pressure on cotton prices is evident. Here we assess the conditions for these two markets.

Sugar

Sugar defies downturn

The sugar price has defied the world economic recession and in doing so also provides a contrast to developments for vegetable oils, where soy/oil prices have moved lock step with crude. In early 2009, world sugar prices were trading around US12.50¢/lb. That is up a little from the December lows but still down around 14% from the August peak.

Back in mid-2008 the sugar market fundamentals were not very exciting. Demand was growing but supply was surging as producers responded to the higher prices back of 2005/06. More recently, a tightening of the world sugar market has been evident.

... as supply tightens ...

World demand for sugar tends to be less responsive to changes in income than for many other commodities. In addition, active policies to encourage ethanol use have boosted world consumption of sugar. International demand for sugar strengthened in January, while supplies remained tight. That boosted prices by about 6%.

Brazil looks set to harvest a boom crop – despite heavy rain early in February. This may put pressure on global prices in coming months. Mitigating the impact is a rising proportion of Brazil's cane production going to ethanol production.

... with active policies boosting ethanol use.

In Australia, sugar cane production was down, with an estimated decline of around 7%. Production has declined in each of the past four years due to a variety of reasons: including weather related and increased use of rotation crops, such as soybeans. The sharp drop in the Australian dollar means that prices are very strong in Australian dollar terms. ABARE expects the average price paid to cane growers for their sugar to rise by about 10% to around \$28 a tonne.

Cotton

Cotton demand sensitive to global downturn.

Cotton tends to be a very early indicator of economic health. It comes as no surprise then that the cotton market is suffering from the global recession, with prices tumbling through 2008.

Weaker global demand conditions and great uncertainty has reduced demand for all textile fibres. The decline in cotton prices over late 2008 was largely matched by declines in the prices of competing artificial fibres, most importantly polyester. The fall in world oil prices is a contributing factor, with oil derivatives used in the production of artificial fibres.

Governments of cotton producing nations respond ...

However, government intervention is boosting world cotton prices in early 2009. The rub of course is that higher prices now because of market distortions will tend to delay or limit the rebound in prices as fundamentals improve.

... buying up stock ...

For the first time in history, major cotton growers India, Pakistan, China and the US have all had their cotton prices supported by government programs. Indeed, the biggest buyers in the cotton market early in 2009 have been the government sponsored schemes. The Chinese and Indian governments have committed to buying up to 50% of the 2008 crops. This would see these governments end up owning more than 20% of global cotton production in 2008.

... to support prices - for now.

The intervention boosted cotton prices, with a 9% rise in January to US49.7¢/lb. To place that in perspective, prices slumped in 2008 from a peak of US80¢/lb in March. Moreover, in an historical context, prices are still 10% below the average price so far this decade and are well down on the levels of the 1990s.

For Australian cotton producers, the irrigation water situation has improved substantially. The area planted in 2008/09 is estimated to be around 154,000 hectares – a 144% jump on last year. Even so, that is still well below the 1998/99 season peak of 562,000 hectares.

Sugar and cotton

Chart 1.

Sugar prices resilient

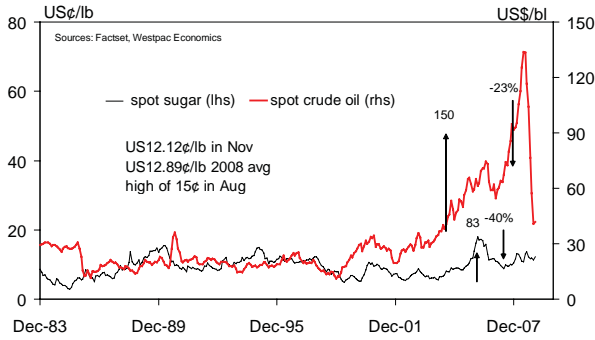


Chart 2.

Global sugar market tightens

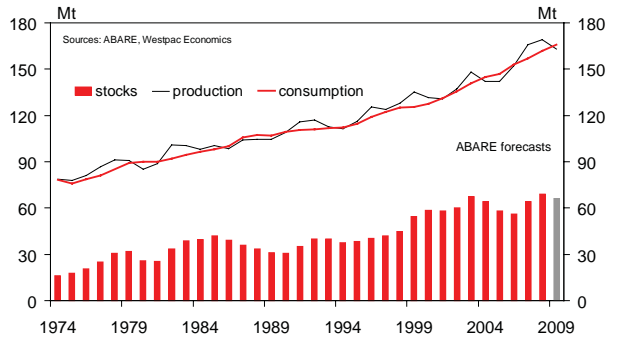


Chart 3.

World sugar prices & stocks

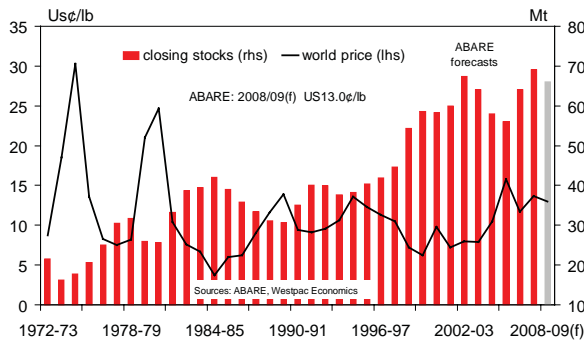


Chart 4.

Cotton prices

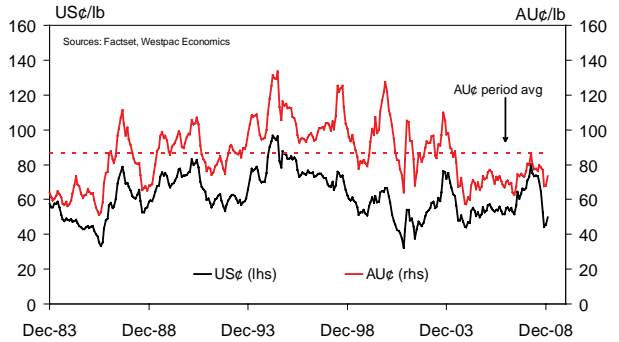


Chart 5.

Production of cotton textiles

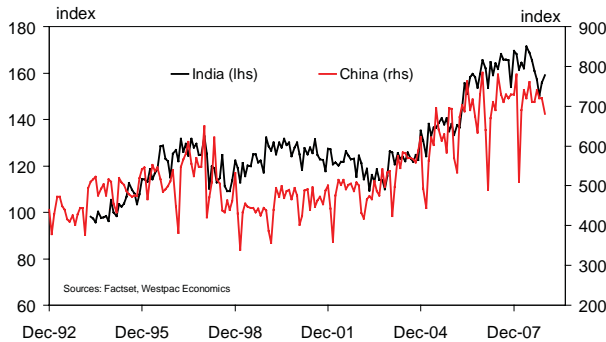
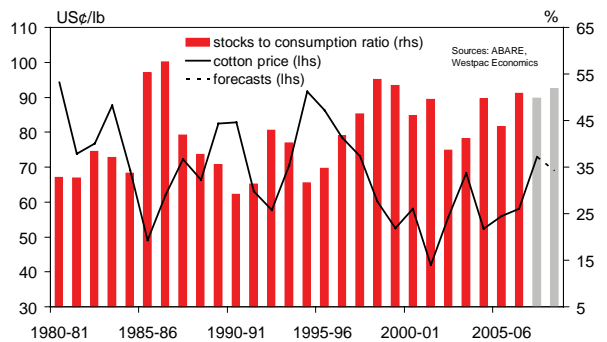


Chart 6.

Rising cotton stocks undermine prices



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.

Dairy and beef

Dairy prices retreat sharply ...	<p>Dairy</p> <p>Dairy product prices on international markets were on a rollercoaster through 2007 and 2008. Rising very sharply through 2007 and then falling even faster in 2008. The very weak outlook for world economic growth, including slower growth in the emerging markets, is expected to translate into soft demand for dairy products through 2009 and into 2010. Lower crude oil prices will also dampen dairy demand from key oil producing nations.</p>
... as market hit by weak demand and supply glut ...	<p>There is a current glut in world dairy product supplies, adding to downward pressure on prices in 2009. NZ production will be well up on last year's drought affected output and Australian production is showing some signs of growth, albeit off an extremely depleted base. Relatively high farm-gate prices for milk in 2008/09, an expected small increase in dairy cow numbers and improved seasonal conditions underpin the rise in Australian production. However, less growth is expected from the US given relatively high feed costs. Still, the USDA forecasts US milk production in 2009 to be 0.9% above 2008 levels, less than half the 1.9% growth in the previous year. Milk supply in Europe is expected to be constrained by lower milk prices. Although some growth is likely in 2009, it is not likely to reflect the increase in quota over the past two years given many quotas are not binding across member states.</p>
... and the rise of intervention.	<p>Market interventions are on the rise again. The EU has brought back export subsidies in January, while storage programs in the EU and US are coming back on stream. The reintroduction of EU export subsidies will likely put downward pressure on international prices as they encourage more product onto the world market than would be determined by economic conditions. In contrast, the EU and US storage programs may not necessarily push prices lower in the short term but as the inventory hangs over the market such programs will tend to delay any price recovery.</p> <p>The impact of global economic weakness and market intervention has had a significant impact upon dairy prices early in 2009. Our dairy indicator price fell 10% in Aussie dollar terms in January to be down almost 25% from October</p>
Beef demand softens ...	<p>Beef</p> <p>The outlook for international beef prices has weakened substantially as the world recession reduces demand. Asian demand has eased and the outlook appears soft. Russian demand, a key positive influence over recent times, has softened with trade and credit difficulties causing further disruption.</p>
... and consumers trade down.	<p>Consumers are 'trading down' to cheaper product. This was apparent in demand from Korea and Japan for the lunar New Year celebrations. Also, Australian exports to the US are increasing for lower grade beef and demand is declining for the higher end beef products at both a restaurant and grocery level.</p>
Supply side providing some support ...	<p>Some support may be coming from the supply side. US cow and calf slaughter was high in 2008, relative to inventory. The US cow slaughter has started to ease, giving some support to prices. Beef heifer retention was 2.2% less than last year, pointing to smaller calf drops over the next few years. Fewer cattle will be a support to prices later in 2009 and beyond, although subsidised dairy cow cull may put downward pressure on prices in the short term.</p>
... while Aussie exporters face increased competition.	<p>The re-entry of US beef into north Asian markets is expected to continue putting downward pressure on prices as the US competes for market share. To date, re-entry has been patchy and US exports to the key Asian markets remain well below pre-BSE levels. A gradual increase in US exports to Asia is expected through 2009.</p> <p>The good news is that the export price index in Aussie dollar terms has held steady since October and is up more than 10% on a year ago. However, we expect downside to international beef prices in the short term on weaker demand and high inventories of frozen meat (including large US pork and poultry stocks, which will also keep downward pressure on the protein market in the short term). Tightening supply will help later in 2009, but a true recovery is not expected until 2010.</p>

Dairy and beef

Chart 1.

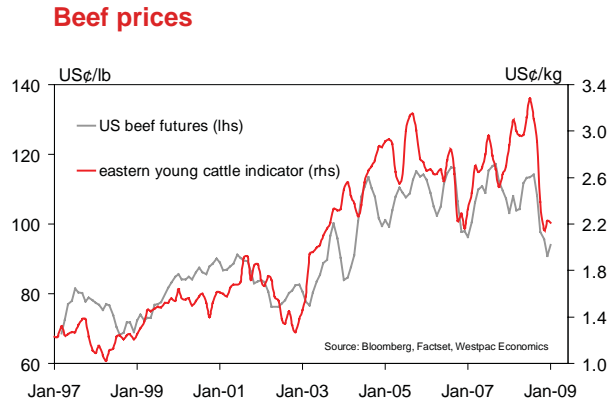


Chart 2.

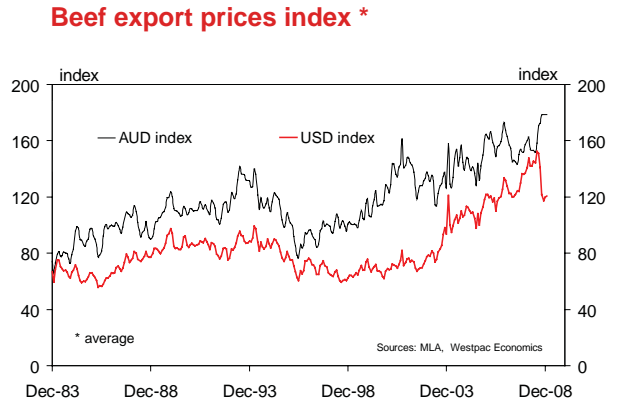


Chart 3.

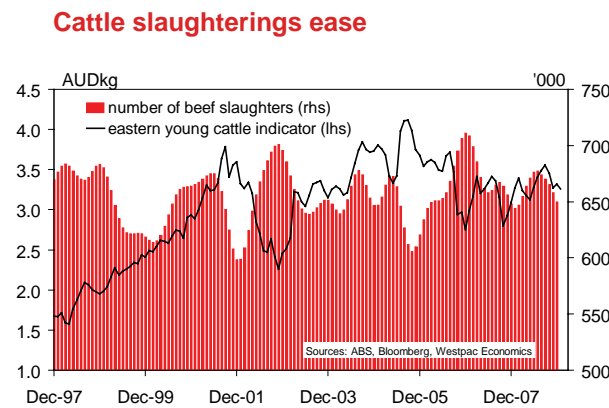


Chart 4.

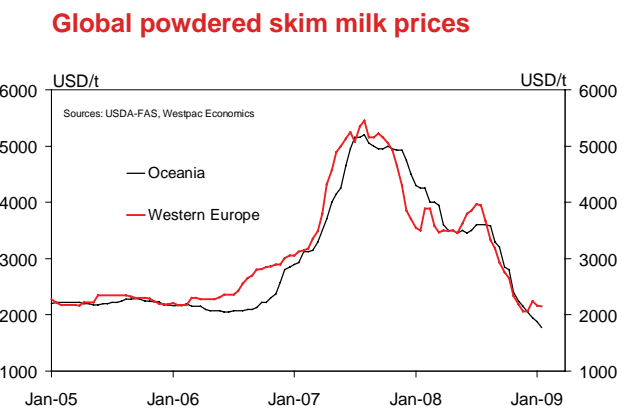


Chart 5.

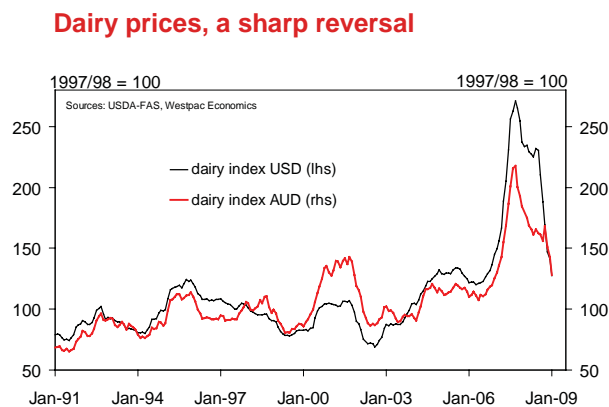
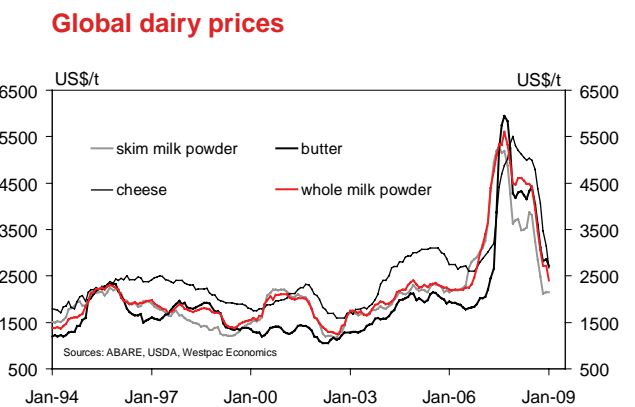


Chart 6.



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.

Sheep and wool

Sheep

The shrinking sheep flock ..

Supply is a major story in the lamb market. Notably, all major producing nations have seen a decline in their flock. In New Zealand, for instance, there is 23% less lamb for export in 2008/09 because of last years' drought. Australia has the lowest number of sheep since 1916.

... limits impact of weak demand.

The international demand environment is weak, as you would expect in the current global environment. Weak demand is true for the key New Zealand markets of the UK and Europe, both of which are in recession. For Australia's key market of the US, the picture is no better. During the second half of 2008, total Australian lamb exports were down more than 20% on a year ago, reflecting lower lamb production and declining demand. Exports to the US were down 40% at one stage. The significant depreciation of the Aussie dollar has provided a much needed competitive boost, limiting the fall in exports to the US by late 2008 to around 15% down on 2007 levels.

Middle East market a bright spot in 2008 ...

One key export market for Australia that has been bucking the trend is the Middle East region, which continued to perform strongly. The MLA reported in 2008 7% growth in mutton and a 14% increase in lamb, while live sheep exports to the region were estimated to be up around 9%. However, one downside is that the strength could in part be the result of harsh seasonal conditions across prime sheep areas which resulted in some product being unsuitable for premium markets.

... but outlook dims.

International demand is unlikely to improve during 2009 given the prospects of the severe global downturn continuing for sometime. Even in the Middle East markets, with oil prices now just a fraction of their early 2008 levels, demand is likely to moderate. In addition, lamb faces competition from substitutes such as chicken and beef, where frozen meat stocks are high.

Domestically, lamb sales late in 2008 and early 2009 have seen quality take a step backwards because of hot and dry conditions. Even so, prices have held reasonably given the supplies of diminishing future supplies.

Wool

Wool prices slump ...

The wool market has, as is no surprise, been hit by the global economic recession. The fortunes of the wool industry remain closely linked to prosperity in the industrialised world. Europe went into recession last Easter and conditions took a further turn for the worst in the December quarter.

... with industries fortunes tied to global demand.

The start of 2009 has not been positive for wool, with prices down 2% in January to A754¢/kg. The first sales of the year indicate that interest and prices are down. Finer wool is bearing the biggest falls, with Italy showing little interest in the market. Chinese buyers are showing some interest in lower grade wool to use for blending with already stocked higher quality wool. The announcement of economic stimulus packages in China and the US are positive developments that will tend to support buyer demand over the second half of 2009. Even so, prospects of a meaningful recovery in demand is some way off. While world growth is forecast to improve to 2.2% in 2010, the recovery in the OECD zone - which is more important for wool - is expected to be more muted, with 2010 growth forecast to be only 0.8%.

An emerging concern for the wool industry is the government intervention in the cotton sector. The buying up of cotton now by Government's of cotton producing nations will lead to some future stock piles which overhang not just the cotton market but textiles in general.

Low stocks mitigating the downside.

A factor mitigating the downside to wool prices is the low level of wool stocks. World stocks declined significantly in 2007 and again in 2008. Even in the current environment, ABARE expects stock levels to decline a little further. This is against the backdrop of declining flocks globally. As noted earlier, Australia alone has the lowest number of sheep since 1916. In addition, the changing enterprise mix in Australia between wool and sheep meat and mixed weather conditions in the wheat-sheep zone, shorn worn production is expected to fall by almost 10% in 2008/09.

Recessionary demand conditions have wool prices down sharply from the peak of a year ago, with a decline of 30%. However, in an historical context the current price is only 9% below the average of the last twenty five years.

Sheep and wool

Chart 1.

Lamb prices and slaughtering

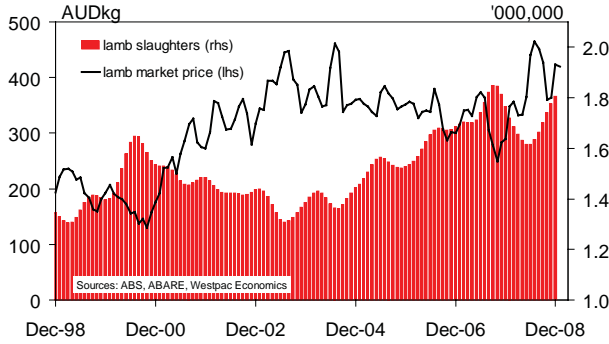


Chart 2.

Australian sheep numbers

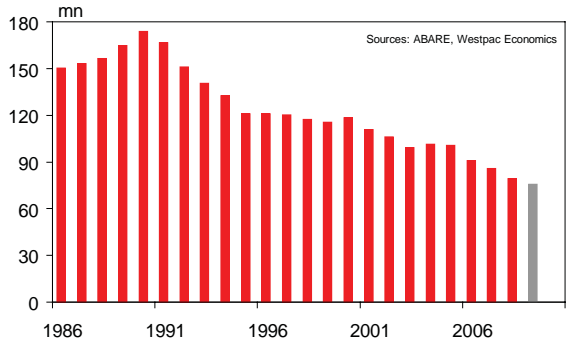


Chart 3.

Wool prices tied to global demand

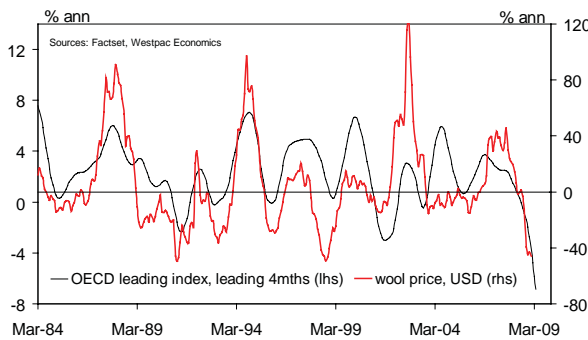


Chart 4.

Wool more competitive relative to cotton



Chart 5.

Wool stocks remain supportive of prices

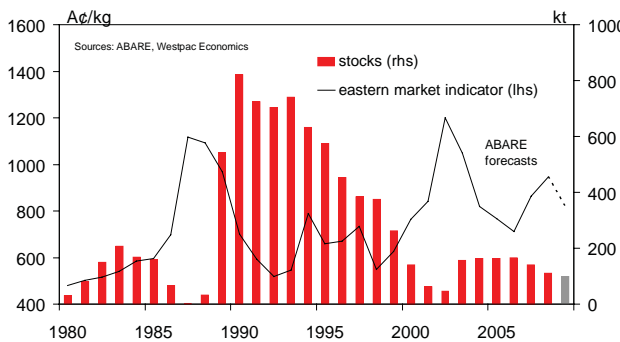
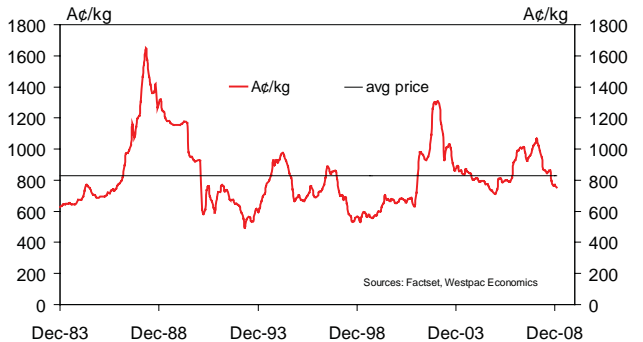


Chart 6.

Wool prices down but not out ...



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.

Oil prices hit as OECD demand collapses

Oil price have fallen 76% from the 2008 peak.

Oil prices have continued to decline. At the time of writing the report oil prices, as measured by the West Texas Intermediate (WTI traded at NYMEX but more on that later), hit a low of US\$34 barrel, a 63%yr fall and 76% lower than the all time peak of US\$145bbl in July 2008.

The unfolding recession has crushed OECD demand...

The bursting of the commodity bubble, associated with the unfolding global recession, has seen oil demand retract in a significant way. The collapse in OECD industrial production while quite rapid to date pales in the face of the rate of decline in OECD oil demand. To October, industrial production had fallen 5%yr from the peak (and clearly accelerated in November and December) but oil demand has fallen 3.8 million barrels per day (mbpd) over the last 12 months to be down 8%yr year. Oil demand has been declining for over two years now as oil prices rose but the loss in overall income and economic activity in the OECD has outweighed any boost to demand that recent lower prices may generate.

...with no sight of a recovery until well in 2010.

For the medium term, while we may be near terminal velocity for the OECD in terms of its rate of decline, we cannot see a meaningful recovery in growth from this region until well into 2010. Even then, we are forecasting economic growth to average just 0.8% in 2010, hardly a spectacular base for rapid recovery in prices.

Chinese and developing world demand has continued to grow...

But as we all know by now the OECD is only a part of the global growth and energy demand story. All through 2008 oil demand from China, and the rest of the emerging world, continued to grow but only by 1.1mbpd over the last year, no where near enough to offset the fall in demand from the OECD. As such, global demand has fall 2.7mbpd over the last 12 months. Given that global production has been broadly stable over the period, it is no surprise that the market has moved from extreme undersupply to a surplus with a resulting rise in inventories.

...but not by enough to offset lost OECD demand.

This fall off in demand is even more dramatic if you consider that Q4 coincides with the start of the northern hemisphere winter so is a seasonally strong quarter. As such, developments would have caught producers - starting with seasonally high inventories - at a very bad point.

Falling demand has lead to rising inventories and falling prices.

The relationship between demand/supply and price is highlighted in the chart with change in US crude oil inventories and change in WTI price. Except for the period from 2003 to 2006, when oil prices continued to rise even when crude inventories where rising, there is a fair negative relationship between the two. So with US inventories up almost 10%yr at least a 60 fall in the WTI is to be expected.

Chinese oil demand has clearly moderated with the volume of crude oil and petroleum imports down 15% in the last six months. But still, as oil imports are broadly flat compared to a year early, you could argue that Chinese oil demand has flattened and not fallen. China, and to a lesser extent the rest of the developing world, are forming a base for oil demand.

Oil forward curve has never before been as steep as it is currently...

What is also very interesting is what the financial markets may be telling us about dynamics of the oil market. Spot WTI is currently 25% lower than the 3rd contract and a massive 70% less than the 33rd contract, the steepest slope we can find in the history of the WTI forward curve. But it does appear that there is something special about WTI compared to other oil grades. Firstly, the WTI is currently trading at a US\$6 discount to Brent when it normally trades close to a \$2 premium. The only other time WTI was cheaper than Brent was back in the first half of 2007 when oil prices started the explosive rally.

...but local market issues explain a significant proportion of this.

The second point is that the WTI forward curve is much steeper (that is, expecting larger price future price increases) than Brent's curve. In fact the WTI 3/1 spread is US\$5 higher than Brent 3/1 spread suggesting the market is pricing WTI to rise by US\$5 more than the in Brent over the next three months. For the 12/1 curve it is more than US\$6. The reconciling factor to this anomaly is reports of the lack of storage at Cushing in the US mid West, where WTI is stored. As there is nowhere to store WTI, more is being sold on the market, thereby suppressing near term prices.

So we caution that WTI prices below US\$40bbl may have more to say about the lack of storage capacity in the mid West than the global demand conditions.

Oil prices hit as OECD demand collapses

Chart 1.

OECD oil demand has been smashed

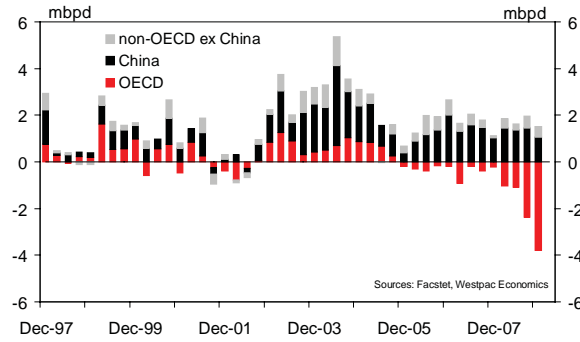


Chart 2.

Demand now below supply

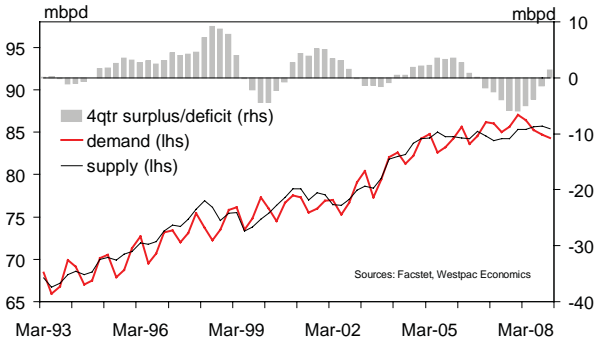


Chart 3.

Demand is normally strong in winter

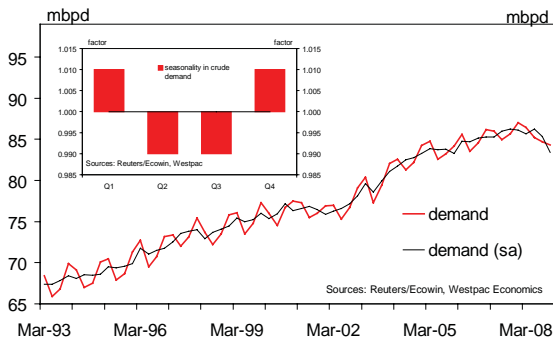


Chart 4.

US oil inventories are rising rapidly

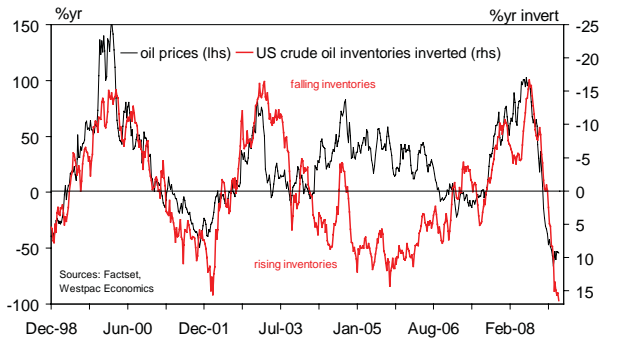


Chart 5.

Chinese imports have not collapsed

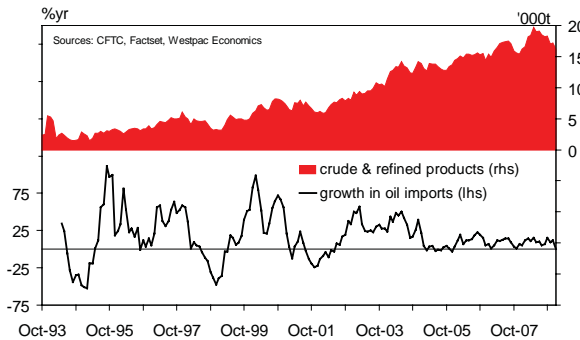
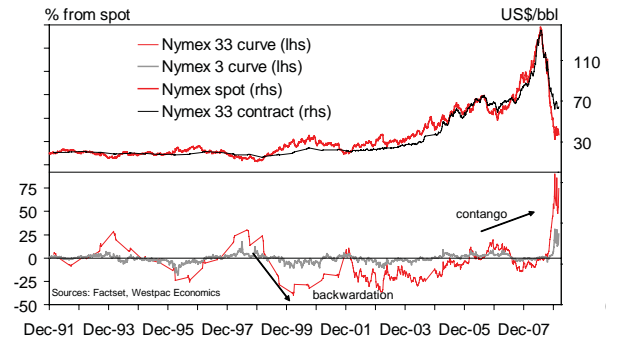


Chart 6.

Oil curve's record contango continues



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.

Financial forecasts – Australia

Interest rate forecasts

	Latest (Feb 17)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Cash	3.25	2.50	2.00	2.00	2.00	2.00
Market implied*	na	2.52	2.20	2.28	na	na
90 Day Bill	3.09	2.30	2.30	2.30	2.30	2.30
3 Year Swap	3.50	3.50	3.25	3.00	3.15	3.25
3 Year Bond	3.12	3.00	2.80	2.60	2.80	2.80
10 Year Bond	4.27	3.80	3.50	3.50	3.75	4.00
10 Year Spread to US (bps)	146	130	125	100	100	100

* Market implied rate is the anticipated target rate in the OIS market. Sources: Bloomberg, Westpac Strategy.

Currency forecasts

	Latest (Feb 17)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
AUD vs						
AUD index*	100	98	92	92	89	84
USD	0.6426	0.64	0.60	0.60	0.58	0.55
USD forward^	na	0.64	0.63	0.63	0.63	0.63
JPY	59.47	58	53	52	48	44
EUR	0.5080	0.51	0.49	0.52	0.52	0.50
NZD	1.2553	1.28	1.30	1.35	1.35	1.34
CAD	0.8028	0.78	0.78	0.78	0.77	0.76
GBP	0.4517	0.44	0.41	0.43	0.42	0.41
CHF	0.7544	0.79	0.79	0.83	0.83	0.80
DKK	3.7990	3.81	3.66	3.89	3.86	3.73
SEK	5.4991	5.63	5.16	5.22	5.18	5.00
NOK	4.4579	4.76	4.55	4.70	4.66	4.38
ZAR	6.3898	6.53	6.61	6.61	6.50	6.30
SGD	0.9789	0.96	0.89	0.88	0.85	0.79
HKD	4.9828	4.97	4.66	4.65	4.50	4.26
PHP	30.70	30.55	28.79	28.49	27.68	25.98
THB	22.66	22.46	20.87	20.68	19.96	18.49
MYR	2.3342	2.27	2.13	2.13	2.06	1.92
CNY	4.3921	4.37	4.10	4.10	3.96	3.71
IDR	7664	7640	7583	7343	6866	6483
TWD	22.10	21.26	19.79	19.64	18.92	17.58
KRW	928	778	702	666	585	537
INR	31.31	31.20	28.99	28.86	27.83	26.26

*Nominal trade weighted index, with latest data compiling the base. Weights from Reserve Bank of Australia. A reading above (below) 100 indicates a rise (fall) in the AUD. ^Approximate market forward price for AUD/USD, not a forecast. Sources: Bloomberg, Westpac Economics.

Economic forecasts – Australia

Activity*

% change	2008		2009				Calendar years				
	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2007	2008f	2009f	2010f
Private consumption	-0.1	0.1	1.2	0.8	1.0	-0.8	0.4	4.3	2.4	2.2	1.2
Dwelling investment	1.0	0.2	-5.6	-9.1	-1.0	3.0	3.5	2.7	0.5	-11.3	9.2
Business investment*	4.1	1.8	-3.0	-4.2	-4.8	-4.6	-4.1	13.5	11.3	-11.0	-13.5
Private demand *	0.8	0.2	-0.3	-1.0	-0.4	-1.3	-0.3	5.9	3.6	-2.0	-1.1
Government*	1.9	1.1	1.1	1.3	1.5	1.9	2.1	3.2	5.7	6.0	7.5
Final demand	1.0	0.4	0.0	-0.5	0.0	-0.6	0.3	5.4	4.1	-0.3	0.9
Stock contribution	-0.4	0.2	-0.2	-0.1	-0.4	0.0	0.0	0.6	-0.2	-0.6	0.3
GNE	0.6	0.5	-0.2	-0.6	-0.3	-0.6	0.3	5.9	3.9	-0.8	1.2
Exports	3.1	0.0	-7.4	-0.5	-0.5	-0.6	0.6	3.3	3.3	-6.0	3.8
Imports	3.3	1.6	-6.4	-1.2	-1.2	-2.0	0.5	11.4	10.4	-6.0	2.6
Net exports contribution	-0.2	-0.4	0.0	0.2	0.2	0.3	0.0	-1.7	-1.7	0.3	0.1
GDP (1)	0.4	0.1	-0.2	-0.5	-0.2	-0.3	0.4	4.0	2.2	-0.7	1.5
annual chg	2.9	1.9	0.8	-0.2	-0.7	-1.1	-0.6	-	-	-	-

Other macroeconomic variables

Employment (1)	0.4	0.2	0.2	-0.2	-0.1	-0.2	-0.2	2.8	2.3	-0.1	-0.7
annual chg	2.5	2.2	1.6	0.7	0.1	-0.3	-0.7	-	-	-	-
Unemployment rate % (1)	4.3	4.2	4.4	4.8	5.1	5.5	6.0	4.4	4.2	5.4	6.8
Wages (WPI) (sa) (2)	1.1	0.9	1.3	0.7	1.0	0.8	1.3	-	-	-	-
annual chg	4.1	4.1	4.3	4.1	4.0	4.0	3.9	4.2	4.3	3.9	3.6
CPI Headline (2)	1.5	1.2	-0.3	0.5	0.6	0.4	0.6	-	-	-	-
annual chg	4.5	5.0	3.7	2.9	2.0	1.2	2.1	3.0	3.7	2.1	2.4
CPI average RBA core	1.1	1.2	0.7	0.7	0.6	0.6	0.6	-	-	-	-
annual chg	4.4	4.7	4.4	3.8	3.3	2.7	2.5	3.6	4.4	2.5	2.4
Current account AUDbn	-14.0	-9.7	-6.6	-7.3	-15.3	-19.5	-20.0	-68.2	-50.1	-62.0	-85.0
% of GDP	-4.8	-3.2	-2.2	-2.4	-5.1	-6.6	-6.8	-6.3	-4.3	-5.2	-7.0
Terms of trade annual chg (1)	13.4	20.6	25.0	20.8	-3.3	-15.9	-21.2	4.6	15.2	-6.1	-11.1

Calendar year changes are (1) period average for GDP, employment and unemployment, terms of trade (2) through the year for inflation and wages.

* GDP & component forecasts are reviewed following the release of quarterly national accounts.

** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

Monthly data	2008											2009
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Employment '000	0.7	36.5	-24.1	20.9	13.9	11.2	-7.8	32.7	-17.4	0.0	1.2	
Unemployment rate %	4.1	4.3	4.3	4.3	4.3	4.1	4.3	4.4	4.5	4.5	4.8	
Westpac-MI Consumer Sentiment	88.6	87.4	89.8	84.7	79.0	86.2	92.2	82.0	85.5	92.0	89.9	
Retail Trade %mth	0.2	-0.2	0.7	-1.0	1.9	0.5	-1.6	1.0	0.4	3.8	-	
Dwelling approvals %mth	-6.4	9.9	-9.8	3.4	-1.5	-6.1	-5.7	-3.4	-10.2	-2.9	-	
Private sector Credit %ann	15.1	14.2	13.3	11.8	11.2	10.4	10.0	9.6	8.2	6.7	-	
Trade balance AUDbn	-2.43	-0.33	-1.06	0.02	-0.71	1.26	1.49	2.58	0.98	0.59	-	

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.

Commodity price forecasts

annual averages	latest***	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
all commodities index#	260	245	182	174	172	173	171	178
bulk commodities index#	479	461	289	277	275	275	265	270
iron ore (USD/t)*	84	85	60	60	60	60	55	55
coal (USD/t)*	173	163	95	89	88	88	87	90
WCFI**#	157	154	151	145	143	145	147	156
crude oil (USD/bbl) NYMEX	41	42	40	37	35	35	37	40
gold (USD/oz)	947	900	950	900	900	875	850	825
base metals index#	108	107	102	101	100	100	101	111
copper (USD/t)	3,369	3,200	3,100	3,050	3,025	3,000	3,050	3,250
aluminium (USD/t)	1,347	1,270	1,250	1,225	1,200	1,200	1,210	1,400
nickel (USD/t)	10,273	11,000	10,500	10,300	10,250	10,200	10,300	11,500
zinc (USD/t)	1,132	1,100	1,050	1,025	1,020	1,015	1,025	1,075
lead (USD/t)	1,148	1,100	1,000	1,010	1,020	1,040	1,050	1,150
rural commodities index#	90	88	85	82	82	87	90	96
wool AU¢/kg	743	750	775	783	879	1,018	1,055	1,017
wheat US¢/bu	550	535	525	500	490	490	500	550
sugar US¢/lb	13	13	12	11	11	11	11	11
cotton US¢/lb	46	47	45	43	42	60	65	63

annual averages	levels				% change			
	2007	2008	2009	2010	2007	2008	2009	2010
all commodities index#	212	285	193	178	12.8	34.3	-32.3	-7.9
bulk commodities index#	224	417	326	272	2.3	85.9	-21.9	-16.5
iron ore (USD/t)*	51	82	66	56	17.0	60.4	-19.0	-15.1
coal (USD/t)*	69	142	108	90	-6.3	104.7	-23.6	-17.4
iron ore lump contracts (US\$/t)##	103	202	145	135	7.7	96.5	-28.1	-6.9
coal coking contracts (US\$/t)##	97	305	120	120	-16.0	215.7	-60.7	0.0
WCFI**#	259	263	148	156	20.6	1.8	-43.8	5.3
crude oil (USD/bbl) NYMEX	73	100	39	42	7.7	37.6	-61.4	8.4
gold (USD/oz)	703	875	913	844	15.3	24.6	4.2	-7.5
base metals index#	277	210	102	108	22.9	-24.1	-51.3	5.6
copper (USD/t)	7,121	6,912	3,094	3,200	6.3	-2.9	-55.2	3.4
aluminium (USD/t)	2,653	2,597	1,236	1,328	2.6	-2.1	-52.4	7.4
nickel (USD/t)	36,600	21,224	10,513	11,125	55.4	-42.0	-50.5	5.8
zinc (USD/t)	3,260	1,896	1,049	1,091	0.3	-41.9	-44.7	4.1
lead (USD/t)	2,569	2,095	1,033	1,110	100.5	-18.4	-50.7	7.5
rural commodities index#	112	128	84	94	32.1	14.0	-34.2	11.2
wool AUD¢/kg	988	889	797	1,015	21	-10	-10	27.3
wheat USD¢/bu	640	806	513	535	54	26	-36	4.4
sugar USD¢/lb	10	13	12	11	-32	27	-9	-4.3
cotton USD¢/lb	59	66	44	63	10	12	-33	41.8

Chain weighted index: weights are Australian export shares. * Average Australian export prices fob – Source ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for bulks. Sources for all tables: Westpac Economics, Bloomberg, ABS.## through the year (%yr) changes Q4/Q4

Commodity futures contracts

Future contracts	latest***	3rd	6th	9th	12th	18th	24th
crude oil (USD/bbl) NYMEX	41	49	53	56	58	63	67
gold (USD/oz) COMEX	947	771	776	782	789	849	n/a
aluminium (USD/t) LME	1,347	1,619	1,665	1,708	1,747	1,814	1,876
copper (USD/t) LME	3,369	3,383	3,408	3,436	3,462	3,517	3,569
nickel (USD/t) LME	10,273	9,349	9,440	9,530	9,638	9,855	10,053
zinc (USD/t) LME	1,132	1,137	1,156	1,174	1,191	1,223	1,253
lead (USD/t) LME	1,148	1,020	1,031	1,041	1,050	n/a	n/a

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.

Summary of world output

Economic growth forecasts#

Real GDP %ann	2004	2005	2006	2007	2008(e)	2009(f)	2010(f)
World	4.9	4.5	5.1	5.0	3.6	-0.1	2.2
United States	3.6	2.9	2.8	2.0	1.3	-2.5	0.5
Japan	2.7	1.9	2.4	2.2	-0.5	-2.7	0.6
Euro zone	1.9	1.8	3.0	2.6	0.8	-2.2	0.3
Group of 3	2.9	2.4	2.8	2.3	0.8	-2.4	0.5
United Kingdom	2.8	2.1	2.8	3.0	0.7	-2.8	0.6
Canada	3.1	2.9	3.1	2.7	1.8	-2.7	0.5
Australia	3.9	2.8	2.7	4.2	2.4	-0.7	1.5
New Zealand	4.5	2.7	1.9	3.2	0.3	-1.3	3.1
OECD total	3.2	2.6	2.8	2.5	1.0	-2.2	0.8
China	10.1	10.4	11.6	13.0	9.0	6.7	7.5
Korea	4.7	4.2	5.1	5.0	4.6	-2.5	2.5
Taiwan	6.2	4.2	4.9	5.7	4.3	-3.0	2.5
Hong Kong	8.5	7.1	7.0	6.4	4.0	-3.0	2.0
Singapore	9.0	7.3	8.2	7.7	3.8	-4.0	2.7
Indonesia	5.0	5.7	5.5	6.3	5.9	2.0	2.7
Thailand	6.3	4.5	5.1	4.8	4.8	-1.0	2.7
Malaysia	6.8	5.3	5.8	6.3	5.5	-1.0	3.0
Philippines	6.4	5.0	5.4	7.2	5.0	-1.0	3.0
Vietnam	7.8	8.4	8.2	8.5	7.1	3.0	5.5
East Asia	8.3	8.2	9.2	10.2	7.4	3.8	5.8
East Asia ex China	6.0	5.1	5.6	5.9	5.0	-1.2	2.8
NIEs*	5.9	4.8	5.6	5.6	4.4	-2.8	2.5
India	7.9	9.1	9.8	9.3	8.2	4.5	5.5
Russia	7.2	6.4	7.4	8.1	7.3	-0.7	1.3
Brazil	5.7	3.2	3.8	5.4	5.0	0.7	2.7
South Africa	4.9	5.0	5.4	5.1	3.3	-0.8	1.0
Mexico	4.0	3.1	4.9	3.2	2.8	-1.5	1.7
Argentina	9.0	9.2	8.5	8.7	6.5	0.8	2.0
Chile	6.0	5.6	4.3	5.1	5.0	0.5	2.0
CIS^	8.2	6.8	8.2	8.6	7.4	1.0	2.0
Middle East	5.8	5.7	5.7	5.9	6.2	2.8	2.5
C & E Europe	6.9	6.1	6.7	5.7	3.8	-0.2	1.5
Africa	6.5	5.8	6.1	6.3	6.6	1.0	2.0
Emerging ex-East Asia	6.6	6.1	6.7	6.7	5.9	1.2	2.6
Other countries	9.9	7.2	7.5	4.2	5.0	0.4	2.0
World	4.9	4.5	5.1	5.0	3.6	-0.1	2.2

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2005 benchmark revisions. Adding ½ppt to the global headline approximates growth under the prior weighting system * "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia. Sources: IMF, Westpac Economics.

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.

Corporate directory

Westpac economics

Sydney

Level 2, 275 Kent Street
Sydney NSW 2000
Telephone (61-2) 8254 8372
Facsimile (61-2) 8254 6934

Bill Evans

Global Head of Economics

Andrew Hanlan

Senior Economist

Matthew Hassan

Senior Economist

Huw McKay

Senior International Economist

Justin Smirk

Senior Economist

Anthony Thompson

Senior Economist

Westpac regional and agribusiness banking

Sydney

Level 29, Westpac Place
275 Kent Street
Sydney NSW 2000
Telephone (61-2) 9220 1083
Facsimile (61-2) 8253 0955

Graham Jennings

Chief Executive, Regional and Agribusiness
Banking
Telephone (61-2) 9220 1083

Barry Ruddy

National Manager, Agribusiness Banking
Telephone (61-2) 6363 7601

Rick Aylett

Regional General Manager, Regional and
Agribusiness Banking VIC/TAS
Telephone (61) 427 249 059

Rodney Kelly

Regional General Manager, Regional and
Agribusiness Banking QLD/NT
Telephone (61-7) 4688 6063

Ben Marini

Regional General Manager, Regional and
Agribusiness Banking WA/SA
Telephone (61-8) 9426 2831

Steve Hannan

Regional General Manger, Regional and
Agribusiness Banking NSW/ACT.
Telephone (61-2) 6584 3263

Peter Willshire

Head of Regional Business Services
Telephone (61-8) 9426 2565

This issue was finalised on 17 February 2009

Publication enquiries, Economics, Telephone (61-2) 8254 8720, economics@westpac.com.au

