

## The Week Ahead

- Headlines out of Europe should continue to drive sentiment and market direction. Volatility is unlikely to dissipate.
- The September FOMC meeting minutes should provide more detail on the Fed's outlook for the US economy & policy.
- Australian labour force data, and the Chinese trade balance and inflation data are key points of focus next week.

Market sentiment and direction continues to be dictated, to a large extent, by the outlook for the Eurozone sovereign debt issue. No concrete announcements were made by the European officials last week, but the hints dropped by some of the heavy hitters have helped ease concerns. The discussions around a possible plan to re-capitalise the European banks has been the catalyst for the bounce across global equity markets, and growth linked currencies, such as the AUD. But now the questions become, will the rebound last? When or if will an announcement be made? If, or in our view when, Greece restructures its debt (i.e. an orderly default), what will be the fallout? The medium-term outlook remains cloudy.

Scepticism remains in some markets. Looking at the glass half empty, the continued volatility and headline trading appears eerily similar to the action in 2008-09. As mentioned above, no specific announcements from the European's have been made. The degree of recent optimism may appear unfounded. Over the past few months (and years) European officials have quite often talked the talk, but rarely have they walked the walk in a timely manner. Markets have often been pushed to the brink before action is taken. Furthermore, the questions over the relatively limit size of the assistance vehicle, the European Financial Stability Facility (EFSF), remain. In addition, the EFSF is yet to be formally ratified. The major stumbling block, Slovakia, is the remaining voter and this is only scheduled for 11 October. Moreover, talk of leveraging the EFSF via the ECB in an effort to increase its firepower has also been dismissed.

But, looking at the glass half full, the tone of the recent comments from European officials may illustrate the urgency participants have been waiting for. Officials from the European Commission, the IMF, and even the normally reserved German Chancellor Angela Merkel, have expressed a need to re-capitalise troubled financials and create a "firewall" to avert possible contagion. Such a move, if undertaken in a coordinated, broad and swift manner would likely further stabilise the volatile markets and ease concerns. The next European leader's summit, scheduled for 17-18 October, appears to be the most likely date and forum for when and where such a coordinated announcement could be made.

Although it can be argued that the European leaders are dragging their feet, the major European Central Banks have stepped up their efforts. At their respective October policy meetings, the ECB and Bank of England (BoE) announced additional measures. Although the ECB left interest rates unchanged at 1.5%, it appears to have left the door open for a cut in the coming months, depending on the data flow. While no change was made to interest rates, the ECB did announce measures designed to provide additional liquidity, and to free up European bank balance sheets in an effort to encourage lending into the fragile European economy. By contrast, the BoE took it up a level, announcing a further £75bn worth of asset purchases. The new program will be completed by February 2012 and will add to the £200bn worth of UK gilts purchased by the BoE in 2009. Our European Economist, Martin McMahon, provides further detail on the ECB and BoE decisions from page two. Apart from the headlines out of Europe, a key focus next week should be the minutes from the September FOMC meeting (released on Tuesday). Further clarity on the Fed's outlook for the US economy, and other policy measures discussed, in addition to the enacted "Operation Twist", should keep market volatility elevated.

Closer to home, the Reserve Bank of Australia (RBA) appears to have surprised participants somewhat by its rather dovish tone. The RBA appears to have opened the door to policy easing. This is a large shift. As recently as August the RBA had considered raising rates. The global uncertainty, in both the US and Europe, is undoubtedly having an impact on the domestic economy and this is obviously concerning the RBA. That being said, some of the more recent domestic data has positively surprised and outlines the robustness of the underlying domestic economy. Our Economist, James McIntyre, takes a more detailed look at the resilience in parts of the Australian economy from page seven. In addition to the external factors, two upcoming domestic data points are likely to have added importance in the RBA's thinking, Thursday's labour force data and the 26 October released QIII CPI data. In its October statement, the RBA stated that "*an improved inflation outlook would increase the scope for monetary policy to provide some support to demand, should that prove necessary*".

**James McIntyre** Economist T. +612 9118 1100 E. james.mcintyre@cba.com.au

**Joseph Capurso** Currency Strategist T. +612 9118 1106 E. joseph.capurso@cba.com.au

**Peter Dragicevich** FX Economist T. +612 9118 1107 E. peter.dragicevich@cba.com.au

**Andy Ji** Asian Currency Strategist T. +65 6349 7056 E. andy.ji@cba.com.au

**Martin McMahon** Economist Europe T. +44 20 7710 3918 E. martin.mcmahon@cba.com.au

**Jane Turner** Economist T. +64 9374 8185 E. jane.turner@asb.co.nz

**Luke Mathews** Agri Commodities T. +612 9118 1098 E. luke.mathews@cba.com.au



## International Economic Perspective

### Bank of England Monetary Policy Update

- The Bank of England announced today that it was expanding its asset purchase program by £75bn to £275bn.
- The justification was straightforward. The MPC sees inflation undershooting the 2% target in the medium-term.
- In the view of the MPC, the weaker outlook for and downside risks to “*output growth mean that the margin of slack in the economy is likely to be greater and more persistent than previously expected.*”
- The asset purchases will take four months to complete, with the “*scale of the program kept under review.*”

The Bank of England has altered the stance of its monetary policy for the first time since late-2009. The MPC voted to expand the size of its asset purchase program by £75bn to £275bn. The purchases of gilts are financed by the issuance of central bank reserves, or monetary expansion.

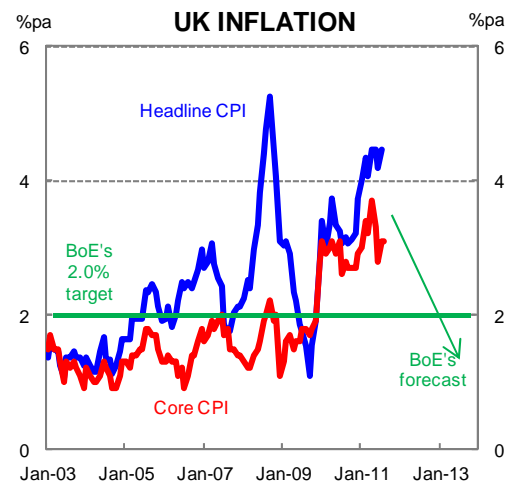
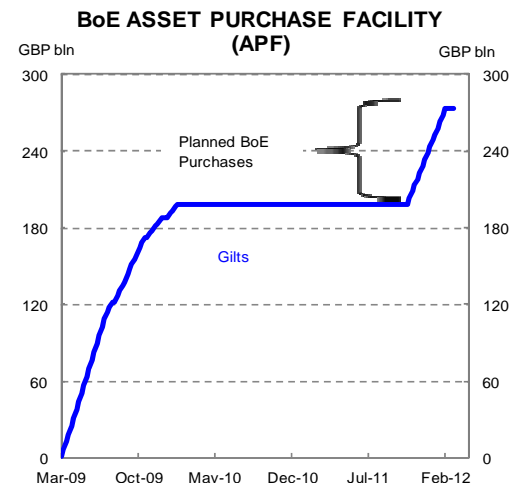
The justification for the decision was fairly straightforward. The MPC believes that the deterioration in the economic outlook makes it more “*likely that inflation will undershoot the 2% target in the medium term.*”

Reasons cited by the accompanying statement cover both global and domestic developments. On the former, the pace of global expansion has slackened, particularly in the UK’s “*main export markets*”, i.e. Europe.

Vulnerabilities associated with the fiscal situation in various European sovereigns are creating severe strains in bank funding markets, which in turn create tensions in the global financial markets. These in turn impact on the global economy.

In the domestic economy, the weaker outlook for growth and increased downside risks to growth mean that the margin of slack in the economy is likely to be greater and more persistent than previously thought. In short the growth and inflation outlooks and the balance of risks to that outlook have shifted, prompting the need for additional monetary policy stimulus.

The asset purchase program is expected to take four months to complete, with purchases of gilts spread evenly across short, medium and long dated maturities. The scale of the program will be kept under review. The announcement was a little more dove-ish than expected, partly because the increase was larger than had been generally assumed by consensus. An expansion of around £50bn had been widely suggested. Many market participants had also assumed that the BoE might wait until November, although that there would be additional stimulus was no longer in question. At this stage, we expect the BoE to complete its asset purchases as indicated, but not extend the program.



**Martin McMahon** Economist Europe T. +44 20 7710 3918 E. martin.mcmahon@cba.com.au



## International Economic Perspective

### ECB Monetary Policy Update

- The ECB Governing Council left the stance of monetary policy unchanged at what was ECB President Trichet's last meeting in charge. However, the ECB did discuss the possibility of cutting interest rates.
- The message on growth and inflation was little changed. Growth will be very moderate in the second half of 2011 and the economy faces "*intensified downside risks.*" But the ECB still views risks to inflation as "*broadly balanced.*"
- The ECB did announce further liquidity provision measures for the European banking system. There will be two new LTROs, while current full allotment lending will be extended until at least July 2012.
- The ECB will also resume purchases of covered bonds from November, albeit only with €40bn planned for now.

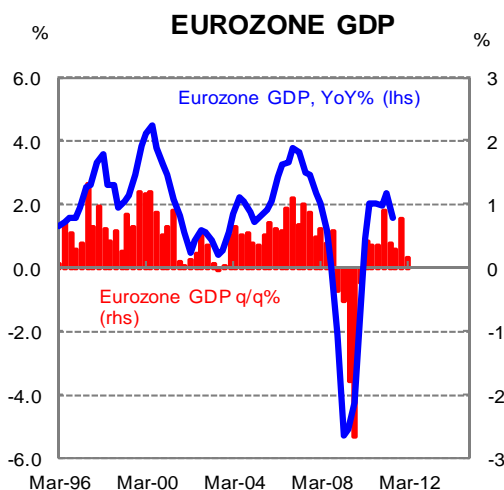
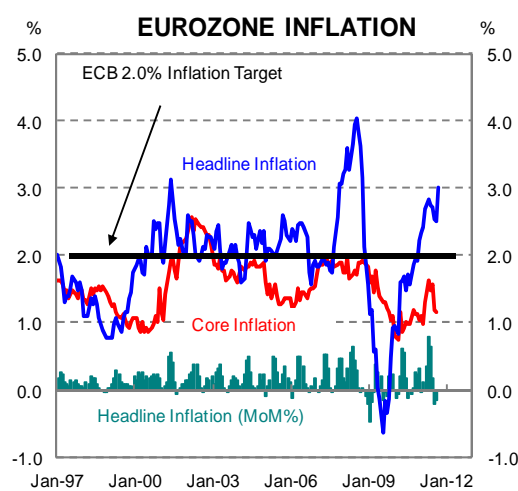
ECB President Trichet's last ever press conference at the helm of the ECB passed off without any change to monetary policy. There was little new in the ECB's official views on growth or inflation, perhaps President Trichet's language was modestly more downbeat than a month ago, but only a touch.

Of course, that is not to say that the general message was not downbeat. On growth, the outlook for H1 2011 was "*very moderate*" with the economy facing "*intensified downside risks.*" President Trichet acknowledged that tensions on the sovereign debt markets would hurt growth and reiterated that the economic outlook was subject to "*high uncertainty*". But this was all familiar stuff, there was little incremental.

The ECB did discuss the possibility of an interest rate cut. But, importantly on inflation there was no change of stance. In the view of the ECB Governing Council, risks to inflation are still "*broadly balanced*", *i.e.* there is no need to adjust the stance of monetary policy at the moment. However, this may change in the near-term..

President Trichet did however have plenty to announce in his last outing. Specifically, the ECB again focused on non-standard measures and liquidity provision. The ECB President announced two new LTROs, a 12-month and 13-month operation, to be held in October and December. In addition, the current special 3-month LTROs will be continued at least to mid-2012, with regular MROs to continue as fixed rate, full allotment tenders to July 2012.

In short, the ECB appears to be doing everything that it can to ensure that there is abundant liquidity for the European banking sector. In terms of bank capital, President Trichet commented that banks should turn to the market if required and take full advantage of government support, following the lead of German Chancellor Merkel. But this is out of the scope of ECB's policy. However, the ECB also announced a new program of covered bond purchases with an intended amount of €40bn to help free up bank balance sheets and facilitate mortgage lending.



**Martin McMahon** Economist Europe T. +44 20 7710 3918 E. martin.mcmahon@cba.com.au



## International Economic Perspective

### Commodities crumble in a crisis...

Agricultural commodity markets have slumped.

The S&P GS commodity price index is down 10% over the past month alone and more than 20% lower over the past six months. Similarly, the CBA rural commodity price index is down 21% over the past six months in USD terms, and in AUD terms, the CBA index is off 15%. Clearly, the slumping Aussie dollar has not been sufficient to hold local prices steady.

The past month has been particularly cruel. US corn and soybean prices have been the worst performers, falling 19% and 18% respectively. But they were not alone. Of the 12 global agricultural commodities presented in Figure 1, only US live cattle prices rose over the past month. Other commodity types have slumped also. Copper is off nearly 20% over the month, crude oil prices have fallen 4% (down 14% just a few days ago) and gold, the so-called 'safe-haven', has seen its value decline by 9.5%.

The USD has surged more than 3.5% and the value of the Aussie dollar has crumbled 8.4%. These are huge moves in the currency market.

#### A falling tide sinks all boats...

Clearly the ag markets are not alone in the current market turmoil. All risk assets have fallen in tandem as the European debt crisis has intensified. A Greek default is seemingly inevitable, and the market was unimpressed with a lack of European policy action during September. More concerted policy action over the past few days in Europe has calmed market fears, for now.

The financial troubles seem to be spreading into the real economy, and widely followed analysts have begun to revise lower their global economic growth forecasts. Europe may fall into a recession according to some analysts, and the risks of a US recession have increased. The world is worried that GFC Mark II is just around the corner.

#### Despite tight agriculture commodity supplies...

The sharp losses across ag prices occurred despite extraordinarily tight supplies for many key commodities.

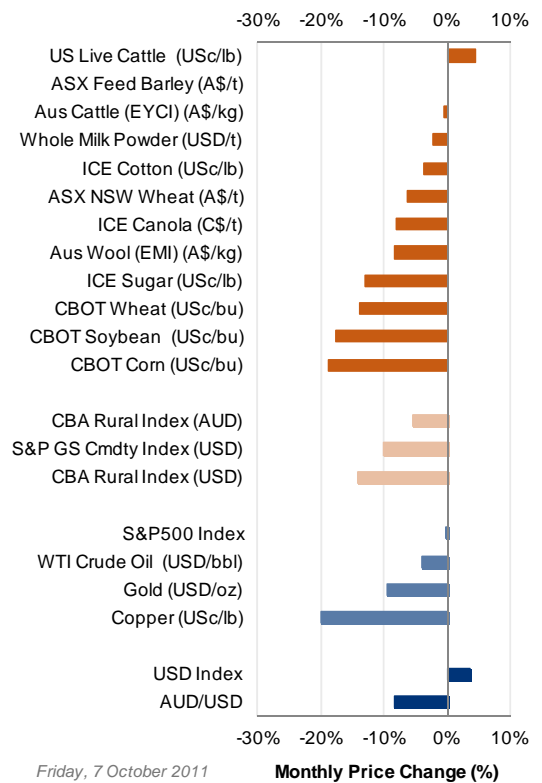
As we outlined in our 30<sup>th</sup> August [Agri Updates report](#), global feed grain supplies may fall to their tightest levels since 1973. US corn stocks may fall to near their second tightest level on record. But still, corn prices have tumbled 19% over the past month, at a time when grain production uncertainty in the US, South America and Europe has risen. But as we also stated in the August report, "if the global economy spirals out of control, ag commodities, no matter how tight their supplies, will get caught in the storm." The economic uncertainty has currently taken precedence over the tight supply situation

#### What's next?

It is important to note that CBA's Economics Research team is not forecasting either a European, or global, recession. But nonetheless, in this paper we discuss why agricultural commodity prices crumble in a crisis, and provide a snapshot of how far values fell in GFC Mark I.

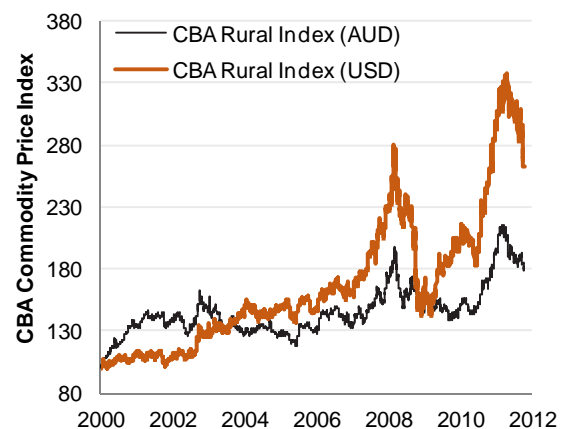
#### Commodities in a crisis

**Figure 1: Monthly movers (price change, 30 days)**



Source: Bloomberg and CBA

**Figure 2: CBA Commodity Price Index**



Source: CBA

**Figure 3: Revisions to the USDA's 2008/09 global commodity consumption estimate**



We have previously outlined that agricultural commodity prices slump during a crisis for two main reasons. These are:

■ Agricultural commodities are risky assets

Agricultural commodity demand suffers as incomes decline, despite the common misconception that demand is stable because “people still have to eat”. During the 2008/09 GFC global dairy consumption fell 0.6% year-on-year, beef consumption fell 0.3%, and cotton consumption fell 11%. People still have to eat, they just eat less.

In addition, prior expectations of agricultural commodity demand get revised lower as economic conditions deteriorate. For example, as the GFC unfolded, the USDA began slashing their estimates of commodity demand for the 2008/09 season. Figure 3 indicates that from October 2008 to April 2009, the USDA revised its estimate of 2008/09 global wheat consumption lower by 1.4%, coarse grain consumption lower by 2.4%, oilseed consumption lower by 2.2% and cotton consumption lower by 10%.

The large declines in agriculture markets over the past month are, in part, because the market currently fears demand destruction. And the latest USDA Quarterly Grain Stocks report (30<sup>th</sup> September) suggests these fears are vindicated. Figure 4 indicates that the implied disposal of US corn from June-August 2011 fell to 2.54 billion bushels, down 2.3% from the 2.6 billion used a year earlier. Similarly, soybean disposal during the same period fell 4% from a year earlier, and US wheat consumption fell 2% year-on-year. Consequently, US grain inventories at 1 September 2011 were not as tight as originally feared. US corn stocks officially printed at 1.13 billion bushels, 19% above trade estimates. Wheat stocks were officially forecast at 2.15 billion bushels, 6% above trade estimates.

■ The flight to safety causes the USD to appreciate

The USD surges during a financial crisis as US investors repatriate their funds. And a higher USD has a negative valuation impact on USD denominated commodity prices. This is logical considering most globally traded agricultural commodities are denominated in USDs, the US is the most significant producer and exporter of a host of key agricultural commodities, and the foremost agricultural commodity futures exchanges are located in the US.

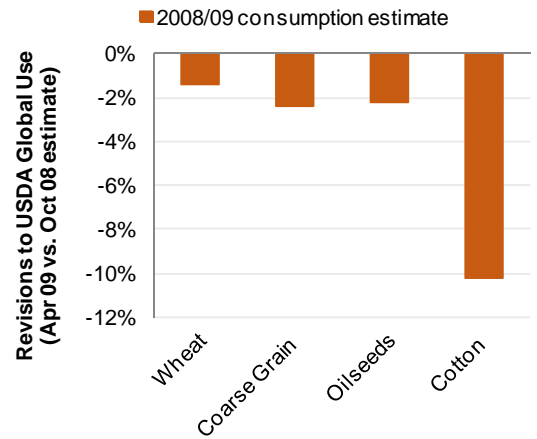
Figure 5 indicates the inverse relationship that exists between the USD and agricultural commodity prices, in USD terms. The following table indicates that since 2005, the correlation between the USD and USD denominated commodity prices has been -75%. Furthermore, the correlation between AUD commodity prices and the AUD/USD has a positive correlation of 73%, refuting the common saying of “a high AUD is bad for Australian commodity prices”. In fact, a high AUD is good for Australian agricultural commodity prices. How low can we go?

Correlations	1997 to Current	2005 to Current
Rural Price index (USD) : USD Index	-79%	-75%
Rural Price index (AUD) : AUD/USD	59%	73%
AUD/USD : USD Index	-91%	-79%

The 2008 GFC provides a recent precedence of the magnitude of price declines in the agricultural commodity complex during times of crisis. The statistics are sobering.

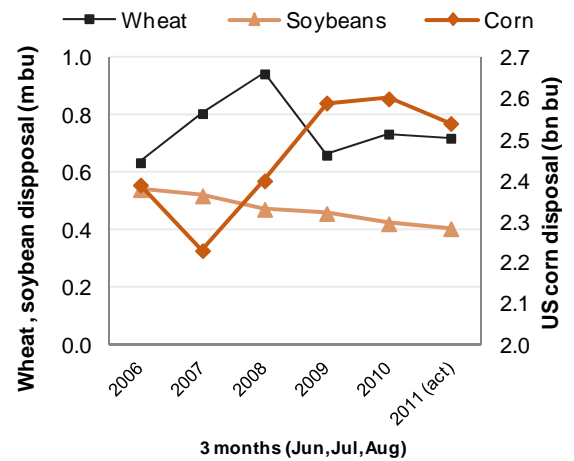
In the 12 months from July 2008 to July 2009, the peak to trough price movements include:

- Corn prices down 61% to US\$293/bu



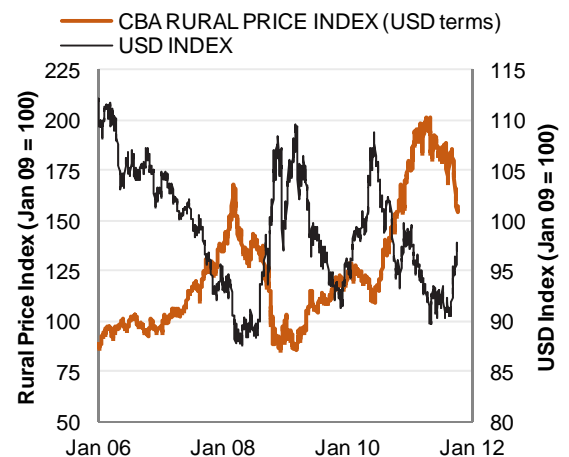
Source: USDA and CBA

Figure 4: US corn, wheat and soybean disposal



Source: USDA and CBA

Figure 5: Rural commodity price index vs. USD



Source: Bloomberg and CBA

Figure 6: GFC lows vs. current spot price



- Wheat prices down 64% to US\$475/bu
- Soybean prices down 53% to US\$783/bu
- Cotton prices down 56% to US\$39.14/lb
- Sugar prices down 44% to US\$9.52/lb.
- Whole milk powder prices down 61% to US\$1850/t
- Australian wool prices down 31% to A\$7.71/kg
- Australian beef prices down 18% to A\$2.98/kg
- The CBA rural price index (USD) down 49%
- The CBA rural price index (AUD) down 26%

Despite the big losses observed across agricultural markets over the past few months, these GFC lows remain massively below the current spot prices. Figure 6 indicates that cotton and sugar prices could slump a further 62% from current levels before the GFC lows are reached. The corn market can fall a further 52% and the US wheat market can fall another 27%. Overall, the rural price index would need to fall another 45% in USD terms and 20% in AUD terms before the GFC lows are reached.

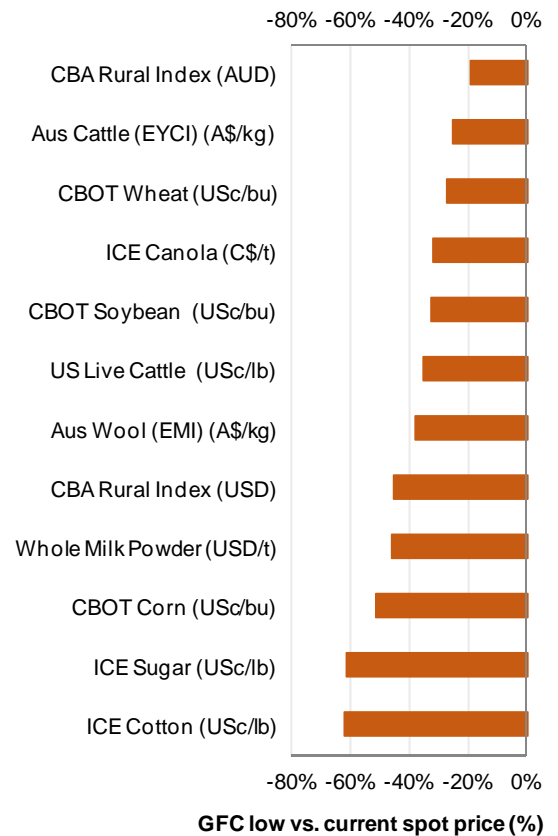
**Where to next?**

It is extraordinarily difficult to predict how these current financial and economic ructions will play out.

If the world remains intact and a European/US recession is avoided, which remains the CBA Economics Research team’s forecast, the agricultural market will return its focus to the fundamental outlook. Here the market will see near-record tight world coarse grain supplies, tightening oilseed supplies and uncertain 2012 grain and oilseed production prospects in the face of another La Nina. These factors are solid grounds for much higher grain and oilseed prices.

But if the global economy does implode, ag commodities, no matter how tight their supplies, will get caught in the storm. The GFC provides a sobering reminder of what can happen.

**Luke Mathews** Agri Commodities T. +612 9118 1098 E. luke.mathews@cba.com.au



Source: Bloomberg and CBA



## Australian Economic Perspective

### Signs of resilience, but will it last?

- Domestic data has, recently illustrated that activity in the Australian economy is holding up, despite global uncertainty.
- Evidence that momentum in parts of the economy remains robust raises the bar for a November rate cut.
- Consumers appear to have responded to jawboning, in both directions. Barring a meltdown, our view remains that talk of rate cuts is an exercise in jawboning. Jawboning that may not be acted on if current resilience is sustained.

#### Summary

While the focus of markets has been on growing uncertainty in Europe, recent Australian economic data has displayed a surprising degree of resilience.

Recently released measures of confidence and activity have held up well. Consumer sentiment rose in September, and the measure of service sector activity, the CBA-AiGroup PSI, reported that a larger number of industry sectors expanded in the month. Retail sales were again stronger than expected in August (particularly on discretionary goods and services), and building approvals surged on a jump in medium density approvals.

Evidence of resilience in the Australian economy appears to have raised the bar for a Melbourne Cup day rate cut, as is currently priced by markets. Next week's data will be important in assessing the 'necessity' for the RBA to provide additional support to demand. Our leading indicator suggests that housing finance approvals for August are likely to show continued upward momentum. And the underlying strength in labour demand (as evidenced by hours worked) is likely to see employers unable to sustain their apparent hiring freeze at some point.

Monetary policy, as always, is a balancing act. In the post-GFC period, RBA Governor Glenn Stevens took the (until then) unprecedented step of appearing on breakfast television in an effort to jawbone against speculation on house prices, as the RBA sought to balance the macro-prudential risks of potential runaway asset price growth as it cautiously removed policy accommodation. In August, following stronger than expected QII inflation, the RBA Board statement made it clear that a rate hike had been contemplated.

But the growing international uncertainty has reached the point where the spectre of near-term rate cuts is again circulating. In our view, this, along with reductions in borrowing rates, term deposit rates, and, recently, the AUD, has delivered an easing in financial conditions. As a result, consumer sentiment has lifted. The RBA added momentum to the rate cut story in their October post-meeting statement. In our view, this appears to be a prudent insurance measure, on a number of levels.

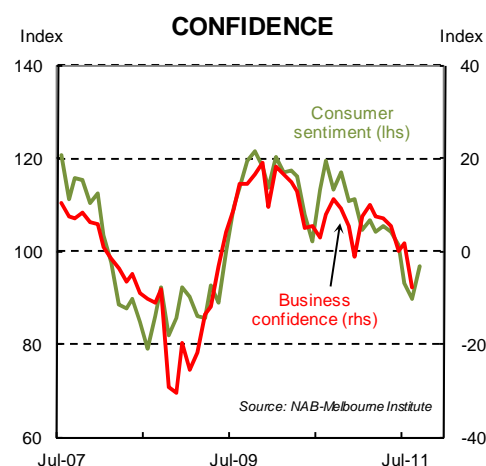
By suggesting interest rates could be cut, if necessary, the RBA is likely to have bolstered the nascent recovery in consumer sentiment. Next week's October consumer sentiment survey should reveal whether this has worked. If the situation in Europe deteriorates to the point that the global financial system once again moves to the brink, then the RBA has taken an important step in readying consumers, businesses, and markets for a potential shift in policy direction.

However, our view remains that a meltdown scenario in Europe is likely to be avoided. While a Greek default appears inevitable, confidence is building that European authorities will act to limit the damage to the banking sector and prevent contagion. In this case, in our view, the RBA's insurance is unlikely to be needed. Policy jawboning works in both directions, and unless the September labour force figures (released on Thursday) and the QIII CPI outcome (26 October) are sufficiently weak, an RBA rate cut doesn't appear necessary. We think that the combination of domestic resilience and a swift resolution in Europe could see the RBA raising rates as soon as the first half of 2012.

Global concerns have cast a pall over domestic confidence.

Concerns about slower global growth, and the potential ramifications of sovereign failures on the global financial system, have cast a significant cloud over the global and domestic economic outlook. And rightly so. The risks to the Australian economy, which at present is heavily skewed towards resource and energy sector investment, are significant.

Typically, heightened risks tend to hit business and consumer confidence, and this has the potential to translate into reductions in real economic activity. However, the economic data to date suggests a degree of underlying momentum remains in the economy. Consumer confidence recovered some lost ground in





September.

However, weaker confidence has thus far failed to dent economic activity.

Economic data for August offers an initial read on how the Australian economy is responding to the recent volatility and elevated risks. Thus far, the data has been more favourable than expected.

This week's retail sales data are a case in point. Following on from weakness in May and June, the retail figures for July and August were both been stronger than expected.

Retail sales rose strongly, particularly discretionary.

In particular, the August retail outcome was driven by strong rises in household goods (+1.7%), and cafés, restaurants and takeaway food (+1.2%). Consumer spending on discretionary goods and services (outside of department stores) has risen strongly over the past two months. The lift has occurred despite the decline in consumer confidence between April and August.

Building approvals data for August was also stronger than expected, surging 11.4% (mom). There was a slight decline in private house approvals, but the especially sensitive, and volatile, private sector 'other' approvals category jumped 35.1%. Private 'other' approvals have been recovering strongly on the back of strengthening investor demand and improved access to finance. The relatively weak NSW residential construction sector recorded the largest rise in approvals, with the level surging to levels not seen since July 2004.

Service sector activity continued to expand, and broaden.

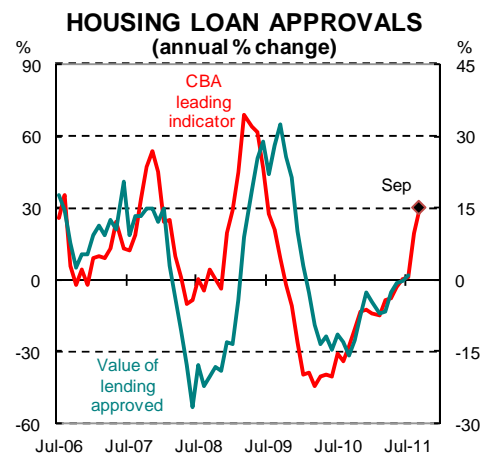
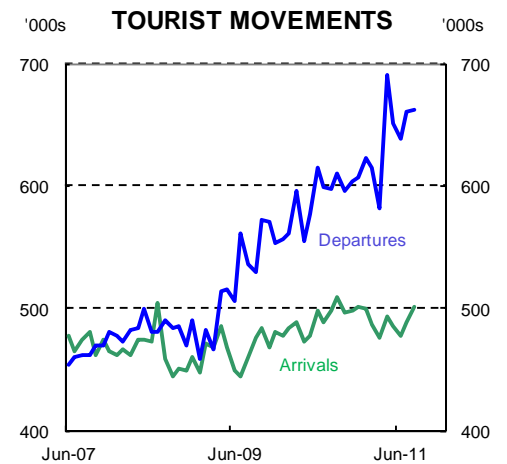
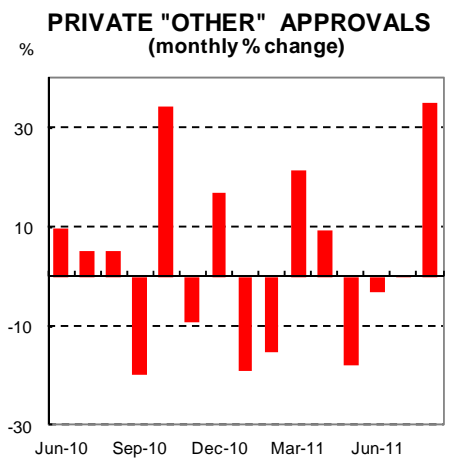
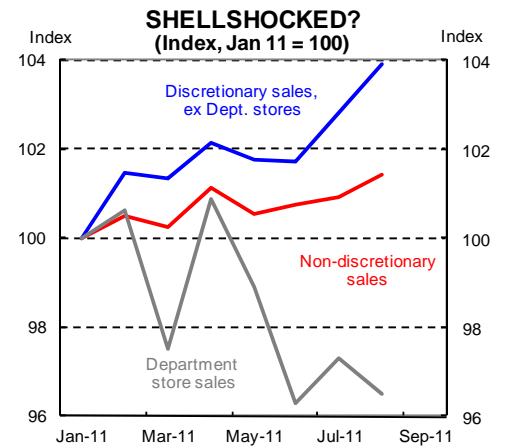
Retail and building approvals aren't the only data points which have signalled underlying momentum in the economy. The service sector has also been strengthening. The CBA-Ai-Group Performance of Services Index (PSI) moved into positive territory in August, and remained there in September. The August/September period was the first back to back expansion in the index since the end of 2009. Five out of the nine industry indices signalled expansion in September. Business related sectors were particularly strong,

Despite the perceived weakness in the economy, and subdued consumer sentiment, short-term tourist departures continue to rise. The number of Australians heading overseas rose 0.2% in August, to be 10.7% higher than a year ago. Over the past 12 months, a record number of Australians (7.54mn out of 22.73mn) have found themselves cashed up enough to head overseas.

Key data in the week ahead could confirm resilience.

Whether the recent signs of economic resilience are broad based and enduring will be tested in the week ahead by two key data releases.

Housing finance figures for August are due, and are expected to signal a continued willingness by households to make significant commitments despite the uncertain global





backdrop. Our leading indicator of trends in housing finance suggests that the recent momentum in housing finance approvals is set to continue in August. We are forecasting a 2.0% increase in loan approvals.

Labour demand remains strong, behind headline weakness.

The labour market data is by far the most important release next week. Contrary to the weak headlines, increases in hours worked over the past few months illustrate that demand for labour remains solid. We have previously highlighted that employers may have eased back on hiring additional workers over recent months, and have instead increased output by providing additional hours to existing workers.

To some extent this reflects a reversal of the reduction in hours worked experience during the GFC, and represents a return to more "normal" levels. However, the extent to which this trend may continue is limited by how far existing workers can be stretched. For every additional 0.1 hour (6 minutes) per week worked by the existing pool of employees, approximately 25k additional jobs are foregone.

While the recent economic data points to solid underlying momentum, current uncertainty may be helping to alleviate inflationary pressures in the economy. Consumers' expectations for the unemployment rate, and inflation, fell in August and September. This could help contain wage pressures.

The capex boom was strengthened by the \$29bn Wheatstone LNG approval.

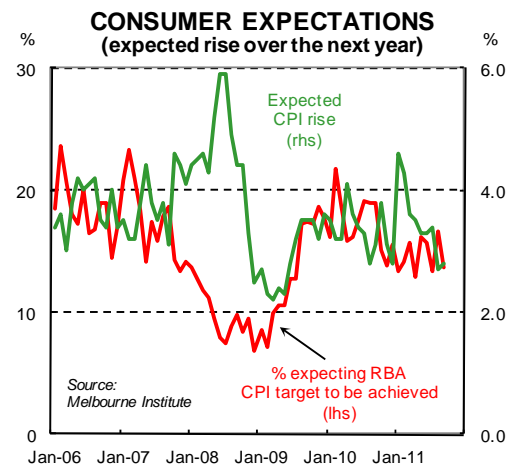
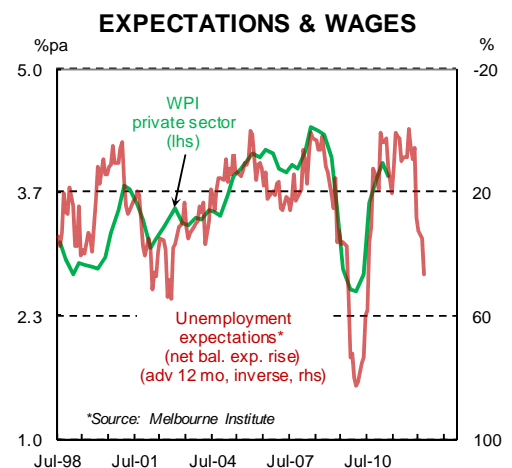
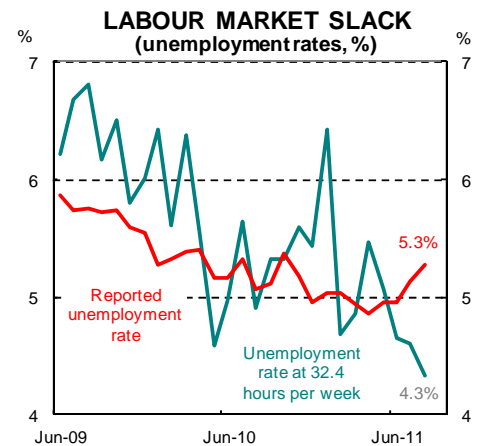
For the RBA, the activity that has mattered most to the medium term economic outlook in recent times is the mining capex boom. An additional \$29bn of investment was added to the mix last week, through the announcement of the Wheatstone LNG project. It is too early to tell if capex spending plans are being curtailed in response to global growth concerns. And for now, demand in developing Asia remains strong, and prices for our key bulk commodities have held up whilst exchange traded commodity prices, such as copper, have weakened.

For now, we think that it may be wise for the RBA to jawbone the non-mining side of the economy. Revealing that the potential for a future interest rate cut was discussed at the October meeting was, in our view, prudent preparation for an unlikely eventuality in the global economy, and a signal to encourage non-mining activity as a potential insurance buffer.

Barring a meltdown, jawboning of the economy is unlikely to deliver a rate cut if resilience continues.

Barring a total meltdown in Europe, we remain of the view that the QIII CPI and the September labour market data will need to be significantly weak in order to get a Melbourne cup day rate cut across the line. Particularly when movements in the exchange rate, and interest rates for housing and business loans have been declining. These falls have been delivering an easing in financial conditions. That easing, and some judicious jawboning, may be all that's required to see the economy weather the current period of uncertainty.

We remain of the view that the next move in rates is up, with the degree of fallout in Europe the major determinant of the next shift in rates (up or down).





## New Zealand Economic Perspective

### Domestic activity ambles on

- Headline business confidence falters in the face of increased uncertainty in global markets.
- But own activity indicators point to continued recovery in underlying activity in NZ economy.
- Construction cost inflation from the rebuilding in Christchurch will be a key development to watch.

The NZIER Quarterly Survey of Business Opinion showed a drop in headline business confidence over QIII, reflecting the effects of the heightened uncertainty in global markets. However, businesses' own activity indicators held up reasonably well, with businesses' experienced activity suggesting underlying growth will remain around 0.5% over QIII. This is in line with the recent results seen in monthly business surveys. We expect QIII GDP growth of 1%, aided by the start of the Rugby World Cup.

It appears the recovery in activity in Canterbury from the declines seen in the wake of the earthquakes is underpinning economic activity. In particular, there are signs of emerging capacity pressures in the building sector in the region as rebuilding activity picks up pace.

While today's result indicates a continued recovery in underlying activity in the NZ economy, the global financial market volatility continues to dominate the Reserve Bank of New Zealand's (RBNZ) outlook for now. We continue to expect the RBNZ will hold off raising the OCR until March 2012.

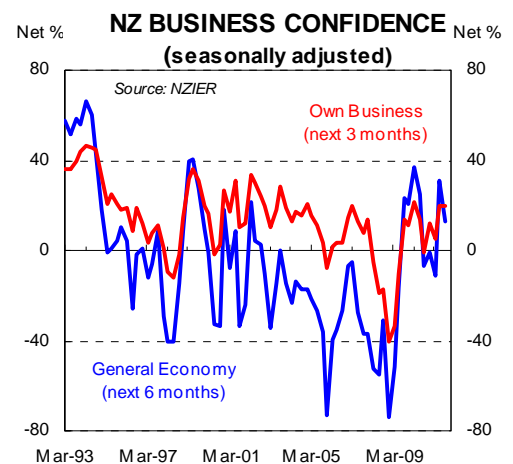
Businesses remain optimistic about own trading conditions ahead.

#### Overview

The NZIER survey asks a cross-section of questions pertaining to activity, profitability and pricing.

While businesses' perceptions of the general business environment have declined, businesses remain optimistic about their own trading conditions ahead. Both measures remain above their long-term averages.

Key growth indicators hold up above long-term averages.



GROWTH INDICATORS	Sep-11	Jun-11	Mar-11	10yr average
Business Confidence (seasonally adjusted)	12.6	30.9	-11.4	-15.8
Own Activity (expected, s.a.)	19.8	19.8	5.4	9.8
Investment Intentions (building)	-6.3	-3.8	-6.6	-9.3
Investment Intentions (plant)	5.8	9.2	-0.2	-0.4
Profitability (past 3 Months)	-14.4	-23.2	-28.1	-16.1
Profitability (next 3 Months)	10.2	-0.9	-22.2	-6.5

LABOUR MARKET INDICATORS	Sep-11	Jun-11	Mar-11	10yr average
Number Employed (Past 3 Months)	-4.3	-5.8	2.5	-0.9
Number Employed (Next 3 Months)	3.6	7.1	0.5	4.1
Labour Shortages (Skilled)	19.7	15.0	9.9	26.1
Labour Shortages (Unskilled)	-7.8	-10.6	-15.2	4.4
Factor Constraints (Labour)	5.9	5.4	4.3	13.2

INFLATION INDICATORS	Sep-11	Jun-11	Mar-11	10yr average
Capacity Utilisation (%)	89.6	88.7	89.4	90.8
Cost Prices (Past 3 Months)	29.7	37.0	38.5	34.6
Cost Prices (Next 3 Months)	28.3	40.1	44.5	34.2
Selling Prices (Past 3 Months)	18.2	16.1	11.2	18.8
Selling Prices (Next 3 Months)	22.4	31.3	14.5	25.2



Recovery in Canterbury provides boost to NZ economic activity.

Looking at the regional breakdown, activity indicators in Canterbury were stronger than the rest of NZ, reflecting the continued recovery in activity in the region from the declines seen in the wake of the earthquakes. In particular, it appears rebuilding activity is leading to capacity pressures in the building sector in the region.

Investment and hiring intentions indicate businesses still looking to expand.

Nationwide, while there has been some easing in investment and hiring intentions, the results indicate businesses still intend to put in place expansion plans. Business intentions for hiring and investment in plant and machinery are still positive and above their long-term averages. This suggests businesses remain confident about an improvement in demand ahead, and points to a continued recovery in employment and business investment over the coming year.

Manufacturing recovery shows signs of slowing.

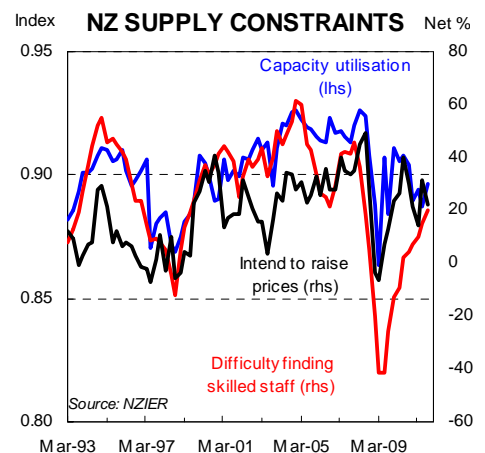
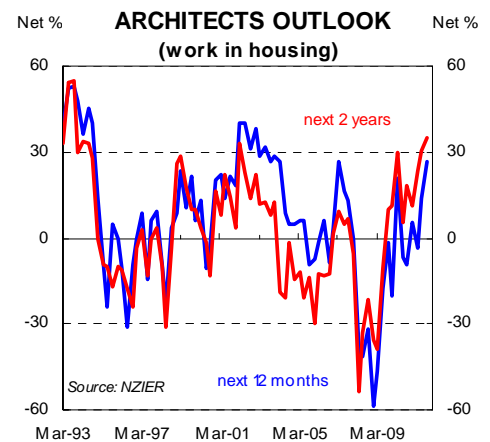
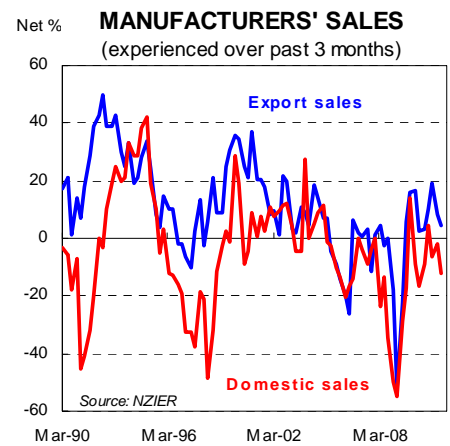
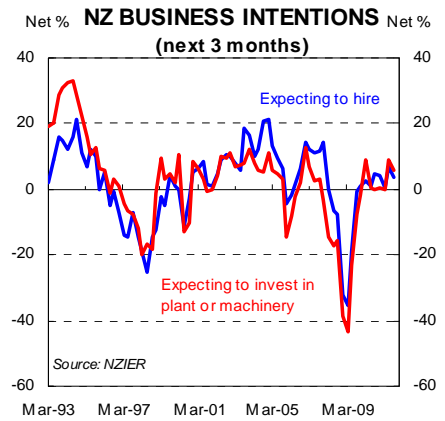
The survey points to a slowing in manufacturing activity, following some strong results earlier this year. Over the past year, there has been some divergence between domestic and export demand, with export orders holding up against a backdrop of weak domestic demand. This is likely to have reflected the high AUD/NZD and robust growth in the Australian economy; given Australia is a key customer of our manufacturing exports. However, export demand looks to have slowed more recently, and there has been further deterioration in domestic demand.

Architects' outlook improves.

Architects' outlook can often provide useful insight into construction activity over the coming years. Along with the improvement in activity reported in the building sector, there was a broad-based improvement in architects' outlook for both residential and commercial work. This rebound is likely to reflect the substantial amount of rebuilding work that will be required in Christchurch. The latest building consents data have shown an improvement in issuance for both residential and private non-residential consents. This suggests an underlying improvement in construction demand is taking place, which we expect to continue over the coming year.

Inflation indicators suggests breathing space for the RBNZ for now.

Inflation indicators within the survey were mixed, with capacity utilisation continuing to edge higher. This was particularly the case in the building sector. Meanwhile, there was also a tick-up in businesses highlighting capacity as a constraint. This has gained favour with the RBNZ in recent months as a measure of capacity pressures in the NZ economy. Businesses also report emerging skills shortages in light of the improvement in employment demand. However, there was a decline in both cost expectations and pricing intentions. Overall, these results suggest some breathing space on the inflation front for the RBNZ for now, although construction cost inflation will be a key development to keep an eye on.





Own activity indicators point to continued recovery in underlying activity in NZ economy.

Construction cost inflation will be key development to watch.

Global uncertainty continues to dominate RBNZ outlook for now.

### Implications

The decline in headline business confidence is understandable in light of the escalation in uncertainty in global markets. The fact that own activity indicators have held up reasonably well is encouraging, and points to a continued recovery in the NZ economy. Much of this reflects the boost from post-earthquake rebuilding in Canterbury, although retailers also anticipate a jump in sales possibly as a result of the Rugby World Cup.

While the mixed inflation indicators suggest there is some breathing space for the RBNZ on the inflation front for now, the rise in capacity pressures in the building sector highlight that construction cost inflation will be a key development to watch. We expect rebuilding activity from mid-2012 will underpin an increase in inflation pressures in the NZ economy.

Today's results add to the recent raft of encouraging domestic data. However, the heightened global financial market volatility dominates the RBNZ's outlook at the moment. We continue to expect that the RBNZ will wait until March 2012 to lift the OCR by 50bpt and for the OCR to peak at 4% by end-2012.

### Background to the data

The NZIER's Quarterly Survey of Business Opinion (QSBO) is New Zealand's longest running and most comprehensive business confidence survey. The survey samples manufacturers, builders, architects, wholesalers and retailers, and service sector firms regarding both their recent experience and their expectations for the next three to six months. The questions are focussed on general business conditions; output, sales and orders; costs, prices and profits; levels of investment; staffing levels; the difficulty finding skilled and unskilled labour; and constraints on production. The survey is a useful barometer of the current state of the economy. It is also useful in forecasting economic activity in the short-term by providing information on future plans, and the likely direction and composition of economic growth in coming quarters.

**Jane Turner** Economist T. +64 9374 8185 E. [jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)



## The Week Ahead

### Calendar - Australasia, Japan and China

Date	Time		Econ	Event	Period	Unit	Last	Forecast	
	AEST							Market	CBA
Mon 10 Oct	11:30	AU		ANZ job advertisements	Sep	m%ch	-0.6	~	~
Tue 11 Oct	08:45	NZ		NZ card spending – total	Sep	m%ch	-0.5	~	~
	10:50	JN		Current account total	Aug	¥bn	990.2	453.6	~
	10:50	JN		Trade balance - BOP basis	Aug	¥bn	123.3	-692.3	~
	11:30	AU		NAB business confidence	Sep	Index	-8.0	~	~
	11:30	AU		NAB business conditions	Sep	Index	-3.0	~	~
	16:00	JN		Bank of Japan monthly economic report					
	16:00	JN		Consumer confidence	Sep	Index	37.0	37.2	~
	17:00	JN		Eco watchers survey: outlook	Sep	Index	47.1	46.5	~
Wed 12 Oct	10:00	NZ		QV house prices	Sep	y%ch	0.1	~	~
	10:30	AU		Westpac Consumer Confidence s.a.	Oct	m%ch	8.1	~	~
	11:00	NZ		ANZ consumer confidence	Oct	m%ch	-0.6	~	~
	11:30	AU		Home loans	Aug	m%ch	1.0	1.1	2.0
	11:30	AU		Investment lending	Aug	m%ch	1.9	~	~
	11:30	AU		Owner-occupied home loan value	Aug	m%ch	1.4	~	2.0
	15:00	AU		RBA's Debelle gives speech to Forex market conference, Sydney					
Thu 13 Oct	08:30	NZ		Business NZ PMI	Sep	Index	52.9	~	~
	08:45	NZ		Food prices	Sep	m%ch	-1.3	~	~
	09:50	AU		RBA Luci Ellis speaks in Sydney					
	10:50	JN		BoJ to publish minutes of September 6-7 meeting					
	11:30	AU		Employment change	Sep	'000	-9.7	10.0	10.0
	11:30	AU		Unemployment rate	Sep	%	5.3	5.3	5.3
	11:30	AU		Full-time employment change	Sep	'000	-12.6	~	~
	11:30	AU		Part-time employment change	Sep	'000	2.9	~	~
	11:30	AU		Participation rate	Sep	%	65.6	65.6	65.6
	13:00	CH		Trade Balance	Sep	USD bn	17.8	16.9	~
	13:00	CH		Exports	Sep	y%ch	24.5	20.8	~
13:00	CH		Imports	Sep	y%ch	30.2	24.6	~	
Fri 14 Oct	10:50	JN		Japan buying foreign bonds	Oct	¥bn	972.8	~	~
	10:50	JN		Japan buying foreign stocks	Oct	¥bn	132.9	~	~
	10:50	JN		Foreign buying Japan bonds	Oct	¥bn	258.8	~	~
	10:50	JN		Foreign buying Japan stocks	Oct	¥bn	-169.3	~	~
	13:00	NZ		Non resident bond holdings	Sep	%	62.5	~	~
	13:00	CH		CPI	Sep	y%ch	6.2	6.1	~
	13:00	CH		Producer Price Index	Sep	y%ch	7.3	6.9	~

### Calendar – North America & Europe



Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	Time	Econ	Event				Market	CBA
Mon 10 Oct	00:01	UK	Lloyds employment confidence	Sep	Index	-66.0	~	~
	07:00	GE	Trade balance	Aug	€bn	10.4	8.2	~
Tue 11 Oct	00:01	UK	BRC sales like-for-like	Sep	y%ch	-0.6	~	~
	00:01	UK	RICS house price balance	Sep	%	-23.0	~	~
	09:30	UK	Industrial production	Aug	m%ch	-0.2	0.1	~
	09:30	UK	Manufacturing production	Aug	m%ch	0.1	-0.1	~
	13:15	CA	Housing starts	Sep	'000	184.6	186.1	~
	15:00	UK	NIESR GDP estimate	Sep	q%ch	0.2	~	~
	19:00	US	Minutes of September FOMC meeting					
Wed 12 Oct	09:30	EZ	ECB's Stark speaks in Riga					
	09:30	UK	Claimant count rate	Sep	%	4.9	5.0	~
	09:30	UK	Jobless claims change	Sep	'000	20.3	19.0	~
	09:30	UK	ILO unemployment rate (3mths)	Aug	%	7.9	8.0	~
	10:00	EC	Industrial production	Aug	m%ch	0.9	-0.7	~
	18:30	US	Fed's Plosser speaks on economy in Philadelphia					
	19:30	EC	ECB's Trichet speaks in London					
Thu 13 Oct	09:00	EC	ECB publishes October monthly report					
	09:30	UK	Visible trade balance	Aug	£mn	-8,922	-8,700	~
	13:30	CA	International merchandise trade	Aug	C\$bn	-0.75	-0.90	~
	13:30	US	Trade balance	Aug	US\$bn	-44.8	-46.0	
	13:30	US	Initial Jobless and continuing claims	Oct	'000	~	~	~
	19:30	US	Fed's Kocherlakota speaks in Sidney, Montana					
	/2011	EC	ECB's Constancio takes part in Brussels Roundtable					
Fri 14 Oct	10:00	EC	CPI - Core	Sep	y%ch	1.2	1.5	~
	10:00	EC	CPI	Sep	y%ch	2.5	3.0	~
	10:00	EC	Trade balance s.a.	Aug	€bn	-2.5	~	~
	13:30	US	Advance retail sales	Sep	y%ch	0.0	0.4	~
	13:30	US	Retail sales less autos	Sep	m%c	0.1	0.2	~
	14:55	US	University of Michigan confidence	Oct	Index	59.4	60.0	~
	15:00	US	Business inventories	Aug	m%ch	0.4	0.4	~



## Calendar – Key Events To Watch

### Australia and New Zealand

**Tuesday 11 October**

**NZ Electronic Card Transactions, Sep, m%ch**

- **Total, (f) -0.7**
- **Ex-auto, (f) -1.0**

The decline in electronic card spending over August follows some strong results in recent months. Beyond this monthly volatility, it appears a gradual recovery in retail spending is taking place. Consumer confidence has held up despite rising uncertainty in global financial markets, with households continuing to consider now as a good time to make a major household purchase.

Added to that is the expected boost to spending in the hospitality sector as a result of the Rugby World Cup. Recent anecdotes from restaurants have been mixed, suggesting there has been some displacement of activity as a result of the RWC, and the overall increase in spending is likely to be modest.

**Wednesday 12 October**

**AU Housing Finance, Aug m%ch**

- **# of Own-Occupied Loans, (f) 2.0 (1.0 prev)**
- **Value of Loans Approved, (f) 2.0 (1.4 prev)**

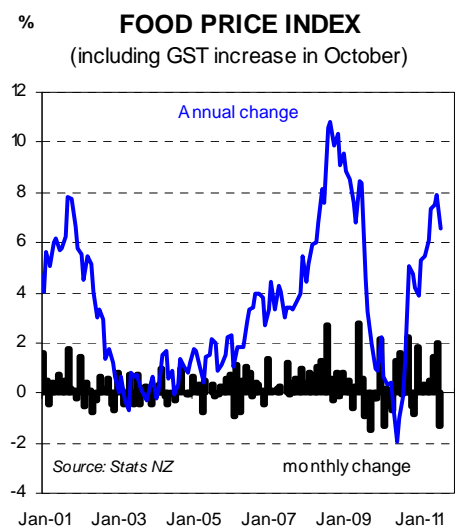
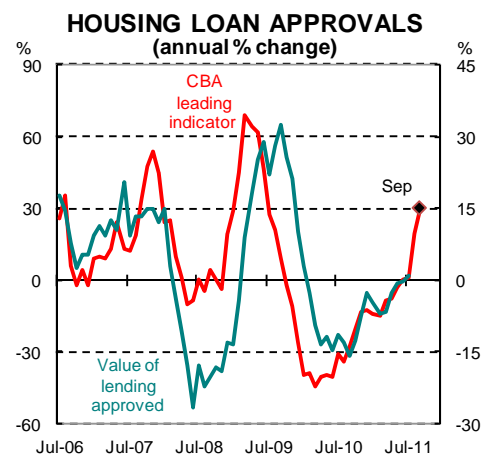
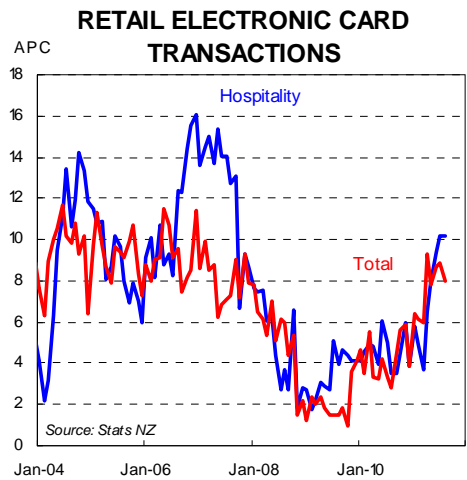
Housing finance approvals have been staging a modest recovery over the past few months. Finance for the construction of new dwellings experienced early gains. But the bulk of the upswing has been accounted for by established dwellings. The influence of past rate cuts, and the hangover from the boost to the first home buyers grant, is slowly passing. Sentiment surveys suggest consumer increasingly think that now is a good time to buy a dwelling. The prospect of rate cuts, and increased competition for borrowers, should see housing lending volumes pickup. We expect a further strengthening of housing loan approvals in August, despite the headwinds of weak consumer confidence and the uncertainty global economic environment.

**Thursday 13 October**

**NZ Food Price Index, Sep, m%ch, (-1.3 prev)**

There has been a moderation in food price inflation in recent months, partly reflecting the flow-on effects of an easing in global commodity prices to the retail level in NZ. In addition, prices for restaurants and takeaways have been surprisingly subdued. While part of this may be due to weak wage growth, given labour is a key input cost for restaurants and takeaways, it is also likely weak demand is weighing on prices in this category. Despite some recovery in consumer confidence households remain cautious, and this has meant discretionary spending remains soft.

We expect food prices to be broadly flat over the September month. This reflects our expectations that a small decline in fruit and vegetable prices will offset modest increases in the price of the other food categories. The release of the September food price data will allow us to finalise our QIII CPI forecast. For now, we expect CPI to have increase 0.9% over QIII.



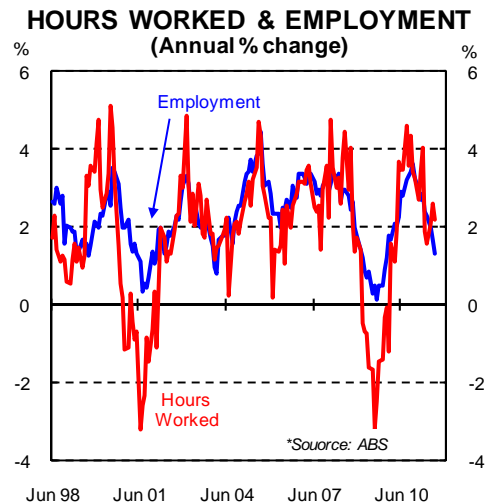


Thursday 13 October

### AU Labour Force, Sep

- **Employment, '000, (f) 10.0 (-9.7 prev)**
- **Unemployment rate, %, (f) 5.3 (5.3 prev)**
- **Participation Rate, %, (f) 65.6, (65.6 prev)**

Following on from this year's weak employment data, August saw employment falling by 9,700, despite the 30,000 workers hired to conduct the Census. However, despite weak headlines, demand for labour has remained strong, as evidenced by the 1.7% increase in hours worked over the past 4 months (5.0% annualised). In our view, weaker sentiment has seen employers freeze new hires, and instead adjust working hours for existing employees. Average weekly hours worked per employee have been rising steadily, with the August figure of 32.7 hours being the highest since December 2008. We expect jobs growth of 10,000 in September with the unemployment and participation rate remaining stable.



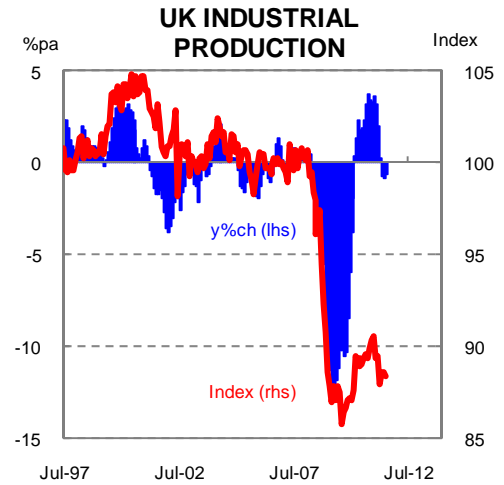


## International

**Tuesday 11 October**

### UK Industrial Production, Aug, m/y%ch, (-0.2/-0.7 prev)

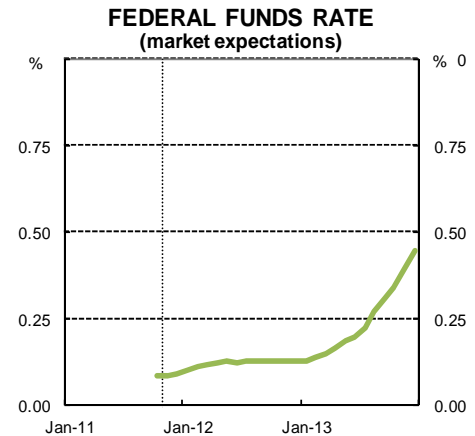
UK industrial production dipped fractionally, by 0.2% (MoM) in August, taking the annual rate of growth down to -0.7%. While performance in the manufacturing sector was a little stronger with numbers of 0.1% (MoM) and 1.9% (YoY), it hardly counts as brisk. UK manufacturing surveys remain subdued suggesting that more soft-ish out-turns can be expected in coming months. The aggregate industrial production numbers remain weaker than the manufacturing ones due largely to developments in the mining, quarrying and energy industries and also the utilities sector.



**Tuesday 11 October**

### US FOMC September Meeting Minutes

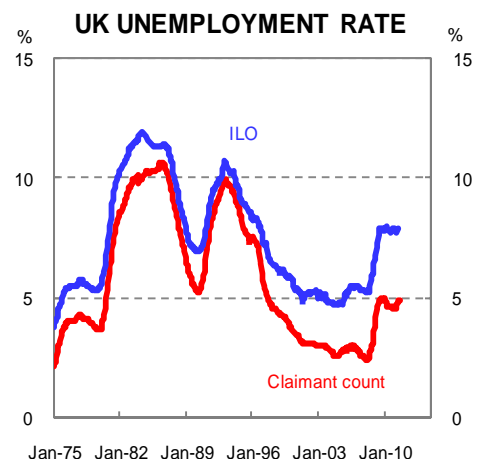
The latest edition of the FOMC minutes will cover the meeting that voted to start “Operation Twist”, the Fed’s duration extension program. The minutes will also cover the decision to reinvest maturities into Agency Mortgage-Backed Securities and Agency debt. Markets will be interested in what, if any, were the other policy options considered by the FOMC. These options may be executed in the future if the FOMC judges that the economic outlook is continuing to deteriorate. Markets will also be interested in clarification of the downside risks the FOMC see bearing down on the US economy.



**Wednesday 12 October**

### UK ILO Unemployment Rate, Aug, %, (7.9 prev)

The UK labour market continues to deteriorate, driven by the global soft patch and ongoing subdued UK economic performance. Jobless claims rose by another 20,300 in August, taking the three-month average up over 28,000. The claimant count unemployment rate has edged up to 4.9% from 4.5% over the past 6 months. The ILO measure has been more stable, but is relatively elevated at 7.9%. Average earnings growth remained subdued at 2.1% (YoY) excluding bonuses. With headline inflation drifting up towards 5%, real earnings are being squashed, explaining why times are so tough on the High Street.

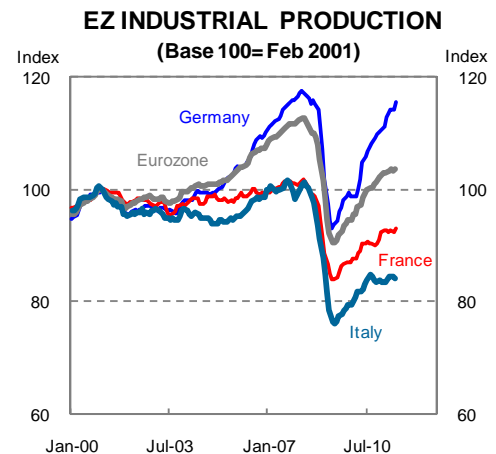




### Wednesday 12 October

#### EZ Industrial Production, Aug, m/y%ch, (1.0/4.2 prev)

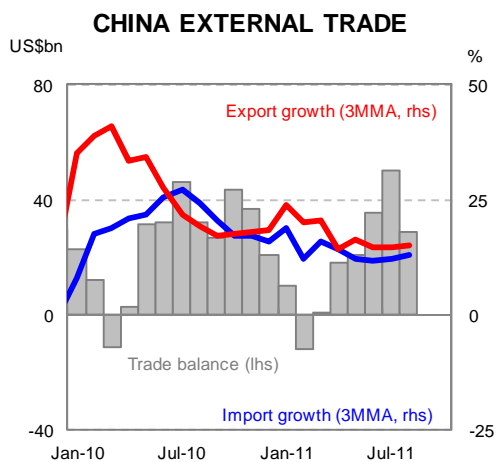
Eurozone industrial production bounced sharply in July due to the later-than-usual start of the summer holiday season in Germany. German industrial production surged by 4.0% (MoM) in July alone, taking the annual rate of increase back over 10% (YoY). How the aggregate Eurozone numbers evolve in August will to a large extent depend on what degree of payback there is in Germany in August versus September. Manufacturing PMIs more generally have continued to moderate through recent months suggesting that underlying activity is modest at best. There is fair chance of a negative monthly number in August.



### Thursday 13 October

#### CH Trade Balance, Sep, USD bn, (17.8 prev)

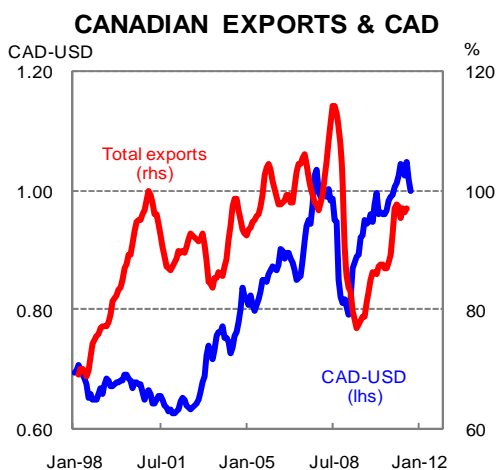
Exports rose by a stronger than expected 24.5% (YoY) in August, up from July's 20.4% (YoY). Intra regional demand, which accounts for 30% of China's total exports, has remained robust. In addition, demand from developed economies also rebounded in August. In particular, shipments to the US rose by 12.5% (YoY) in August, compared with the average pace of 8.8% (YoY) in the preceding three months. Robust export performance was matched with stronger imports. China's domestically driven economy has shown a continued healthy appetite for commodities. Year to date, iron ore imports rose by 10.6% in volume terms, or 52% in value terms, from the same period last year. As trade activity is usually more robust in July–August, we expect September export and import growth to slow to its trend rates of 21% and 19% respectively.



### Thursday 13 October

#### CA International Trade Balance, Aug, CAD bn, (-0.75 prev)

The risks to Canada's trade sector appear skewed to the downside. Canada has recorded a trade deficit in each month since February 2011. The headwinds faced by Canada's export sector appear to be two-fold. Economic growth in Canada's major trading partners is slowing. In total, Canada sends approximately 87% of its exports to moderating UK, US and EU economies. By contrast, Canada only sends about 5% to the robustly growing developing Asia region. Secondly, the relative CAD strength continues to hamper the competitiveness of Canadian exporters. In the year to August, the CAD, on a trade-weighted basis, rose by 7.4%. Although the CAD's relative strength has weighed on the export sector, imports continue to grind higher. In the year to August imports rose by 8%. The combination of a softer export environment, and stable to stronger imports, suggests that further trade deficits are likely.

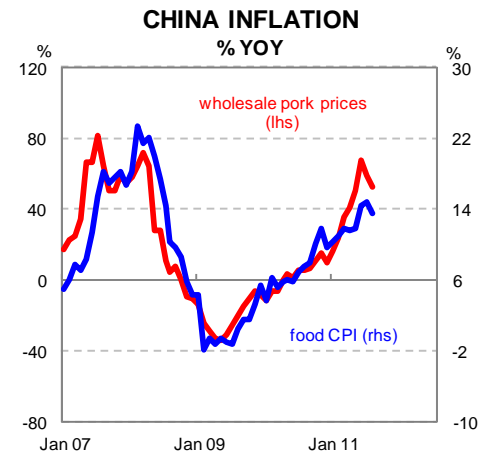




### Friday 14 October

#### CH CPI/PPI, Sep, y%ch, (6.2/7.3 prev)

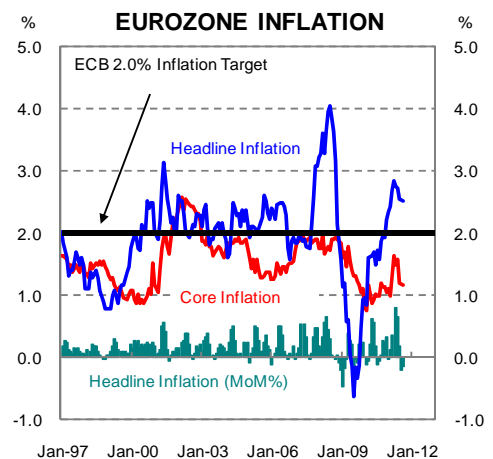
In August, China's headline CPI rose by 6.2% (YoY), down from June's 6.5% (YoY). The de-acceleration in food inflation to 13.4% (YoY) was largely responsible for the lower print. In particular, pork prices, which contributed to around one fourth of the rise in headline CPI in the last quarter, appear to have peaked in July. Base-effects have also started to contribute to the more marked fall in headline CPI. As we expect pork prices to moderate, the rise in food prices is likely to slow further, down towards to 12.7% (YoY) in September. As a result, we expect headline CPI to fall modestly to 6.0% (YoY).



### Friday 14 October

#### EZ CPI, Sep F, m/y%ch, (0.2/3.0 prev)

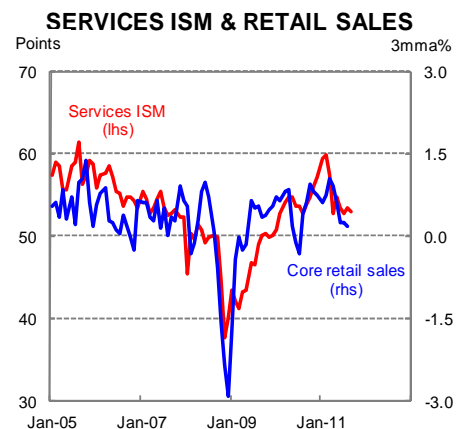
Final estimates of Eurozone CPI inflation are likely to confirm the surprisingly strong September outturn. According to flash estimates CPI inflation jumped to 3.0% (YoY) from 2.5% (YoY), largely on the back of a surprise surge in Italian CPI. The Italian CPI reading had been artificially depressed by the deeper than usual discounting of clothing and footwear prices earlier in the Italian summer. The 3% (YoY) flash CPI reading makes it very difficult for the ECB to cut interest rates, although inflation is still expected to drift back lower next year.



### Friday 14 October

#### US Retail Sales, Sep, m%ch, (0.0 prev)

Retail sales have remained weak since April. The non-manufacturing ISM survey released last week indicates retailers enjoyed little relief in September. Retail petrol prices eased only 4% in August, and a further 2% in September. In addition, consumer confidence remained very low in September. Overall, we expect retail sales to increase very modestly in September, though we would not be surprised if sales decreased.

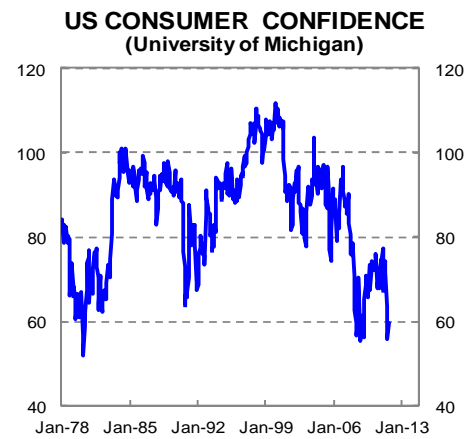




**Friday 14 October**

**US Uni. of Michigan Confidence, Oct P, Index, (59.4 prev)**

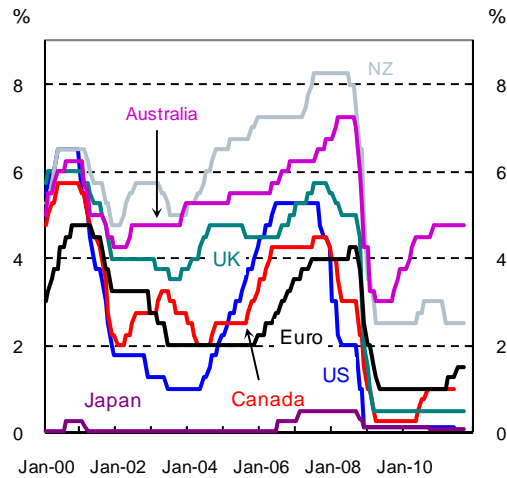
Consumer confidence recovered modestly in September bouncing from extremely low levels. The low level of confidence is consistent with weak growth in consumer spending. We expect a further rebound in confidence in October. Retail petrol prices decreased by 5% in October to the lowest level since February 2011. We would be worried if confidence did not lift in October because it would imply consumer spending, and the wider US economy, were stuck in a rut.



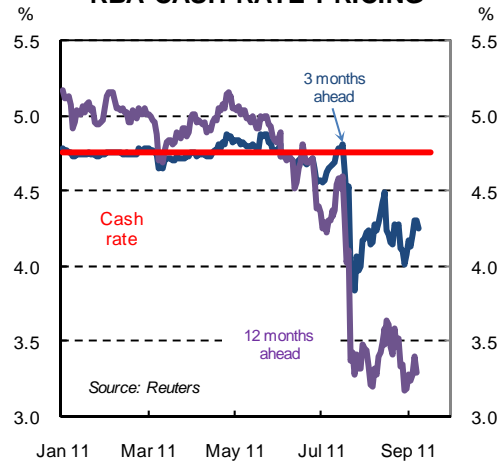


## Monetary Policy

**OFFICIAL INTEREST RATES**



**RBA CASH RATE PRICING**



Country	Last Move	Next Meeting and Forecast	CBA View								
Australia (RBA)	25bpt rise to 4.75% on 7 November 2010.	<p>■ 1 November, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>4.75%</td> <td>4.75%</td> <td>5.00%</td> <td>5.00%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	4.75%	4.75%	5.00%	5.00%	<p>The QII CPI confirmed the inflation trend has turned up. Rate rises are likely. We expect a rate rise in February. The cash rate is expected to reach 5.50% by 2013.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
4.75%	4.75%	5.00%	5.00%								
US (FOMC)	75-100bpt cut to 0-0.25% on 16 December 2008.	<p>■ 2 November, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0-0.25%	0-0.25%	0-0.25%	0-0.25%	<p>Given the loss of momentum in the US economy, particularly in the labour market, we expect the Fed to maintain the size of its balance sheet until early 2013. However, the risk of more easing is building.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
0-0.25%	0-0.25%	0-0.25%	0-0.25%								
Eurozone (ECB)	25bpt rise to 1.50% on 7 July 2011.	<p>■ 3 November, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>1.50%</td> <td>1.50%</td> <td>1.50%</td> <td>1.50%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	1.50%	1.50%	1.50%	1.50%	<p>The recent deterioration in Eurozone economic indicators has resulted in the ECB pausing its process of monetary policy normalisation. We expect the ECB to remain on hold until 2013. But the risk of a rate cut is building.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
1.50%	1.50%	1.50%	1.50%								
UK (MPC)	50bpt cut to 0.5% on 5 March 2009.	<p>■ 10 November, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0.50%	0.50%	0.50%	0.50%	<p>Ongoing deterioration in the UK economy has resulted in the BoE undertaking another round of asset purchases, lifting it to GBP275bn. However, if the UK economy continues to soften there is a risk of a further enlargement.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
0.50%	0.50%	0.50%	0.50%								
NZ (RBNZ)	50bpt cut to 2.5% on 10 March.	<p>■ 27 October, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>2.50%</td> <td>2.50%</td> <td>3.00%</td> <td>3.50%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	2.50%	2.50%	3.00%	3.50%	<p>The escalating debt crisis in Eurozone is dominating the RBNZ's outlook, and we expect the RBNZ will leave the OCR on hold until March next year. We expect a 50bpt OCR increase in March.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
2.50%	2.50%	3.00%	3.50%								
Canada (BoC)	25bpt rise to 1.00% on 8 September 2010.	<p>■ 25 October, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> <td>1.25%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	1.00%	1.00%	1.00%	1.25%	<p>Softness in the US economy is likely to affect the Canadian economy given the strong trade ties. We expect the BoC to remain on hold until mid 2012 before it embarks on a slow and steady removal of policy accommodation.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
1.00%	1.00%	1.00%	1.25%								
Japan (BoJ)	0-10bpt cut to 0-0.1% on 5 October 2010.	<p>■ 27 October, 2011</p> <table border="1"> <tr> <td>Sep '11</td> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> </tr> <tr> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> </tr> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0-0.10%	0-0.10%	0-0.10%	0-0.10%	<p>In response to the recent natural disasters, the Bank of Japan has implemented further quantitative easing measures. Monetary policy in Japan is likely to remain accommodative for some time.</p>
Sep '11	Dec '11	Mar '12	Jun '12								
0-0.10%	0-0.10%	0-0.10%	0-0.10%								



## Forecasts - Economic

	Fiscal Years						Calendar Years						
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2006	2007	2008	2009	2010	2011	2012
	(a)	(a)	(a)	(a)	(f)	(f)	(a)	(a)	(a)	(a)	(a)	(f)	(f)
<b>Economic Activity</b>													
<b>Private final demand</b>	6.4	0.1	0.8	3.5	4.8	5.2	3.6	7.1	3.1	-0.7	2.2	4.6	5.0
<i>Of which: Household spending</i>	4.7	0.2	2.1	3.3	2.8	3.1	3.4	5.5	1.9	1.0	2.8	3.1	2.9
Dwelling investment	1.2	-1.9	2.1	2.6	2.2	-1.1	-3.0	3.0	2.1	-4.2	4.2	3.3	0.0
Business investment	15.8	1.4	-4.9	6.2	13.4	14.2	8.5	16.1	9.6	-5.4	-0.1	11.6	14.1
<b>Public final demand</b>	4.2	3.6	6.7	4.5	1.5	-0.1	3.7	3.4	6.3	1.8	9.1	1.8	0.5
<b>Domestic final demand</b>	5.9	0.9	2.1	3.8	4.0	4.0	3.7	6.3	3.8	-0.1	3.8	3.9	3.9
Inventories (contrib to GDP)	0.0	-0.4	0.3	0.4	-0.2	0.1	-0.4	0.6	-0.3	-0.4	0.4	0.4	-0.3
<b>GNE</b>	5.9	0.4	2.4	4.1	3.8	4.0	3.2	6.9	3.5	-0.5	4.2	4.2	3.6
Exports	4.0	2.6	5.3	0.2	8.3	7.6	2.2	2.4	4.7	2.6	5.7	-0.1	10.4
Imports	14.6	-3.3	5.1	10.7	9.3	8.6	6.9	12.2	11.5	-9.0	13.7	10.1	8.6
<i>Net exports (contrib to GDP)</i>	-2.1	1.4	0.1	-2.4	-0.4	-0.4	-0.9	-2.0	-1.5	2.7	-1.6	-2.4	0.0
<b>GDP</b>	3.8	1.4	2.3	1.9	3.5	3.7	2.6	4.6	2.6	1.4	2.7	2.0	4.0
<b>Prices &amp; Wages</b>													
<b>CPI</b>	3.4	3.1	2.3	3.1	2.9	3.1	3.5	2.3	4.4	1.8	2.8	3.3	2.9
Underlying CPI	3.7	4.3	3.1	2.4	3.2	3.2	2.8	2.9	4.4	3.7	2.5	2.8	3.2
AWOTE	4.9	5.5	5.6	4.2	4.8	3.9	3.4	4.8	4.8	5.7	4.9	4.5	4.2
<b>WPI</b>	4.1	4.1	3.0	3.8	4.0	3.9	4.1	4.0	4.2	3.6	3.3	3.9	4.0
Real h/hold disposable income	3.0	8.6	0.9	5.2	2.9	2.8	5.6	6.3	4.9	5.8	2.1	4.8	2.4
<b>Labour Market</b>													
Employment	3.0	1.6	1.4	2.9	0.9	1.8	2.6	3.1	2.8	0.7	2.7	1.8	1.2
Unemployment rate	4.2	4.9	5.5	5.1	5.2	5.0	4.8	4.4	4.3	5.6	5.2	5.1	5.2
<b>External Accounts</b>													
<b>Current Account: \$bn</b>	-74.5	-38.5	-53.4	-33.8	-21.6	-23.1	-55.2	-70.3	-55.3	-52.9	-36.0	-29.6	-21.5
% of GDP	-6.3	-3.1	-4.2	-2.4	-1.4	-1.4	-5.3	-6.2	-4.5	-4.2	-2.7	-2.1	-1.4



## Forecasts - Financial

End Period	Interest Rates					Exchange Rates				
	Cash Rate	90-day Bank Bill	180-day Bank Bill	3-year Bond	10-year Bond	USD versus				
						AUD	JPY	EUR	GBP	NZD
Dec-07	6.75	7.24	7.36	6.80	6.33	0.88	111.7	1.46	1.98	0.77
Mar-08	7.25	7.86	7.96	6.16	6.05	0.91	99.7	1.58	1.98	0.79
Jun-08	7.25	7.84	7.96	6.72	6.45	0.96	106.2	1.58	1.99	0.76
Sep-08	7.00	7.32	7.04	5.07	5.40	0.79	106.1	1.41	1.78	0.67
Dec-08	4.25	4.15	0.00	3.29	3.99	0.70	90.7	1.40	1.46	0.58
Mar-09	3.25	3.14	3.06	3.37	4.42	0.69	99.0	1.33	1.43	0.56
Jun-09	3.00	3.19	3.31	4.75	5.52	0.81	96.4	1.40	1.65	0.65
Sep-09	3.00	3.38	3.78	5.04	5.36	0.88	89.7	1.46	1.60	0.72
Dec-09	3.75	4.28	4.47	5.06	5.64	0.90	93.0	1.43	1.62	0.72
Mar-10	4.00	4.49	4.76	5.39	5.78	0.92	93.4	1.35	1.52	0.71
Jun-10	4.50	4.92	5.00	4.56	5.09	0.84	88.4	1.22	1.49	0.68
Sep-10	4.50	5.01	5.20	4.82	4.96	0.97	83.5	1.36	1.57	0.73
Dec-10	4.75	5.04	5.23	5.30	5.55	1.02	81.1	1.34	1.56	0.78
Mar-11	4.75	4.93	5.01	5.07	5.49	1.03	83.1	1.42	1.60	0.76
Jun-11	4.75	5.03	5.07	4.78	5.21	1.07	80.6	1.45	1.61	0.83
Sep-11	4.75	4.80	4.70	3.80	4.40	0.97	77.1	1.34	1.56	0.76
Dec-11	4.75	4.90	5.00	4.50	4.70	1.04	77.0	1.39	1.60	0.82
Mar-12	5.00	5.10	5.20	4.65	4.70	1.07	77.0	1.43	1.62	0.83
Jun-12	5.00	5.20	5.30	4.90	4.80	1.08	77.0	1.44	1.64	0.84
Sep-12	5.25	5.40	5.50	5.05	4.90	1.08	78.0	1.44	1.64	0.84
Dec-12	5.25	5.50	5.60	5.15	5.00	1.08	79.0	1.43	1.62	0.84

Forecast



Please view our website at [www.research.commbank.com.au](http://www.research.commbank.com.au). The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

**US Investors:** If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

**European Investors:** This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

**Singapore Investors:** This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

**Hong Kong Investors:** This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

**All investors: Analyst Certification and Disclaimer:** Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material ([www.abs.gov.au](http://www.abs.gov.au)).



## Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Paul Hodsmen, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsmen@cba.com.au
Elise Aaternir	Mining & Energy Commodities	+613 9675 6202	elise.aaternir@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange and International Economics		Telephone	Email Address
Richard Grace	Chief Currency Strategist & Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Nick Tuffley	ASB Chief Economist	+649 301 5659	nick.tuffley@asb.co.nz
Jane Turner	Economist	+649 301 5660	jane.turner@asb.co.nz
Christina Leung	Economist	+649 301 5661	christina.leung@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	<b>Corporate</b>	<b>Telephone</b>
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145