



## The Week Ahead

- Markets have reacted positively to the news out of Europe. The road ahead remains rocky, but anxiety has eased.
- The RBA meets on Tuesday. Given the positive news out of Europe we expect the RBA to remain on hold.
- The FOMC and ECB meet. No policy change is expected from either. The G20 meeting may add to the “relief” rally.

Focus remained on Europe this past week. The EU leaders’ summit was eagerly anticipated. Expectations around the announcement were tempered early in the week by various comments from prominent policy makers. However, the Europeans delivered. In the early hours of the Brussels morning it was announced: (a) private holders of Greek debt would “voluntarily” accept a 50% haircut; (b) banks would be recapitalised; and (c) the European Financial Stability Facility would be leveraged by 4-5 times. In unison, participants appeared to breath a sigh of relief. The removal of near-term uncertainty resulted in a significant rally across risk classes. Will the positive outlook continue? That remains to be seen. There are a number of implementation hurdles to be overcome. However it does appear that the Europeans are moving in the right direction. Our Head of International Economics Richard Grace and our FX Economist Peter Dragicevich take an in-depth look at the European policy decision from page two.

The Australian data calendar is a busy one next week. Private sector credit data for September is the first cab off the rank, with another subdued outcome expected. House price data for September (Rismark-RP Data on Monday, ABS on Tuesday) is also likely to show subdued outcomes, and potentially a continuation of recent weak declines. We expect the soft tone to continue on Wednesday when the building approvals data for September is released. We are forecasting a fall of 5%, which only partially reverses the 11.4% jump in August. The other major pieces of economic data are the retail sales figures for September and the CBA-Ai-Group Performance of Services Index (PSI). The retail sector has strung together solid increases over the past two months, despite weaker consumer confidence and the heightened uncertainty following the US debt ceiling standoff and the European sovereign debt crisis. We are expecting another solid increase in retail sales, with the quarterly volume data likely to show a 1.0% increase for QIII.

Regardless of the data, the main focus for Australia in the week ahead revolves around the Reserve Bank. There has been considerable debate about the potential for a Melbourne cup day rate cut. Indeed, the RBA noted in its October meeting statement that an improved inflation outlook would increase the scope for rate cuts, should that prove necessary. The CPI figures delivered, with subdued inflation evident in QIII. But the case for a rate cut was more than one dimensional. A policy outcome in Europe and evidence that a rate cut was necessary were the two other hurdles. Those last two are likely to be the sticking points. Thus far the European announcement has received a positive reception from markets. And the tone of domestic data since the last board meeting has been better than expected. We are expecting rates to remain on hold following Tuesday’s RBA Board meeting, and the statement on monetary policy inflation outlook to be revised. Our Chief Economist, Michael Blythe reviews the CPI outcome and rates outlook from page five.

Elsewhere on the central bank front there are two meetings next week. The Federal Reserve’s FOMC meets on Wednesday (Thursday morning Sydney time), with Chairman Bernanke holding a press conference afterwards. Significantly, the FOMC releases a new set of economic forecasts in November. We are expecting the FOMC to downgrade its outlook for growth and inflation. That being said, we do not expect the FOMC to alter policy in November. In our view, additional policy easing by the FOMC is unlikely until early 2012. The ECB meets on Thursday. This will be the first meeting with new ECB President Mario Draghi at the helm. Rates are likely to remain unchanged. However, given the recent market turmoil and softness in the Eurozone economy, there is a risk the ECB discusses the prospect of a rate cut. Economic policy is likely to remain in focus later in the week as the G20 leaders meet in Cannes. The European policy response is likely to be a major point of discussion. The G20 meeting is also an appropriate forum for the IMF to indicate that it may look to take a more prominent role in the European policy response. On the data front, the major US focus will be on the ISM index and the non-farm payrolls report. In the UK the September quarter GDP figures are released. The start of the month also brings the release of the PMI manufacturing and service indices, which will be closely scrutinised to ascertain whether the recent economic momentum/trajectory will continue.

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## International Economic Perspective

### The latest “final” European plan to tackle the debt crisis

- European policy makers have finally delivered their latest “hopeful” set of policy initiatives.
- The three-pillar strategy is complex, but has enough substance to appease fragile market sentiment for now.
- A relief rally should develop. But sovereign issues will remain in the not-too-distant background. Our forecasts remain unchanged.

#### Summary

The eagerly anticipated and crucial EU leaders’ summit aimed at stemming the debt crisis, the 14<sup>th</sup> in 21 months, has been laid out.

In the short-term, we would expect markets to take the announcements as a positive. A relief rally is expected in global equity markets. We would also expect to see AUD trade towards 1.0700, and the EUR up towards 1.4300. But we don’t expect these rallies to be sustained, and still look for 1.0400 AUD at year-end and 1.3900 EUR at year-end. A major point of near-term uncertainty which has clouded market sentiment appears to have been removed by today’s announcement.

However hurdles remain. As participants digest the information markets may start to once again grind lower. The underlying Eurozone economy has softening markedly in recent months and some of the announced measures will take some time to implement. The risk of ECB rate cuts, in an effort to promote growth remains.

#### What has been announced?

The announcement by the European officials may be summarized as a three-pillar strategy.

#### Pillar 1: Private Sector Involvement

Private holders will undertake a “*voluntary bond exchange with a nominal discount of 50% on notional Greek debt*”. A discount of this magnitude equates to approximately €100bn. The exchange of the bonds is expected to be implemented at the start of 2012.

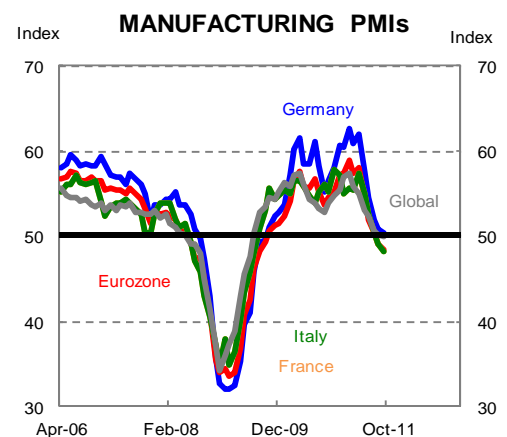
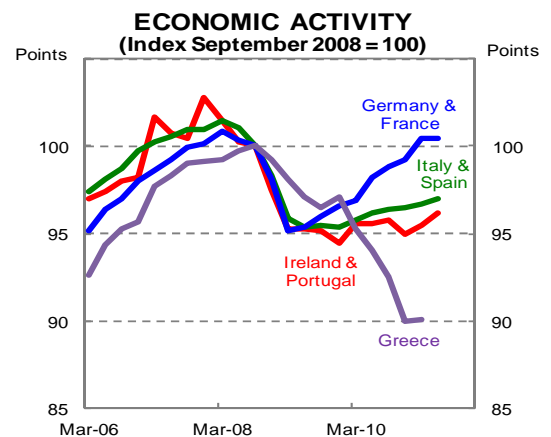
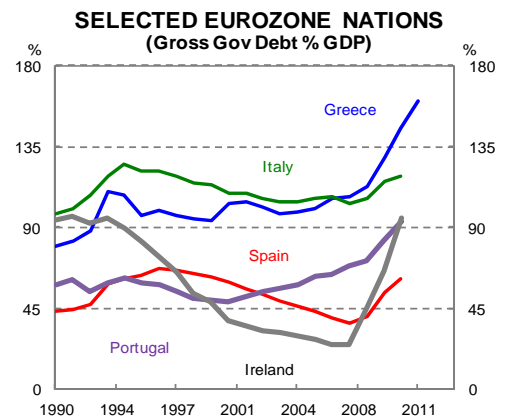
The “haircut” measure is largely in line with the recommendation of the “Troika” (ECB/EU/IMF). According to the “Troika”, a 50% write-down of Greece’s debt would lower Greece’s debt to GDP ratio to “*just above 120%*” by end-2020 from its current debt to GDP ratio of around 160%.

#### Pillar 2: Bank recapitalisation

There was a broad agreement requiring banks to lift their Tier 1 core capital ratios to 9% by end-June 2012 from their current levels of around 5%. This is expected to insulate the banks from a range of shocks, while still maintaining adequate capital.

The bank recapitalisation process outlined may prove to be one of the pitfalls of the announcement. The drawn out process of recapitalisation requires three stages: (a) utilise private sources of capital by going to the market for capital raisings; (b) if unable, banks should approach national governments for support; and (c) if necessary, bank “*recapitalisation could be funded via a loan from the EFSF*”.

The risk is that participants become “fatigued” by the process. In addition, the ability of the banking sector to access fresh capital may prove difficult. According to the European Banking Authority (EBA), the 70 major banks tested across 20 Eurozone nations will require €106.4bn in fresh core Tier 1 capital by end-June 2012. The EBA indicated that banks in Greece and Spain require the most capital, €30bn and €26bn,





respectively. The EBA stated that it expects to disclose the final capital shortfall position at some point in November, as per bank holdings at 30 September 2011.

One of the risks associated with higher bank capital ratios is the potential implications on credit growth in the fragile Eurozone economy. However, according to the statement national supervisory authorities “*must ensure that bank plans to strengthen capital do not lead to excessive de-leveraging*”. According to the European officials this should include the maintenance of credit flow to the real economy.

A degree of market scepticism may arise regarding the size of the recapitalisation plan, as indicated by the EBA. Recently, IMF officials had indicated that European bank recapitalisation requirements may be closer to €200bn.

### Pillar 3: Maximising the resources of the EFSF

Two methods were identified which could be implemented to expand the resources of the EFSF, possibly in combination (see below). These methods are designed to stem the threat of contagion across the European financial system. The leverage effect of the two options will vary, based on “*their specific features and market conditions*”. The apparent aim of the enhancement is to increase the resources of the EFSF by 4-5 times. We estimate, based on the uncommitted funds left within the EFSF, a 4-5 times enhancement equates to €1-1.36 trillion.

On the face of it, the size of the enhanced EFSF may not prove large enough to back stop all of the Greek, Irish, Portuguese, Spanish and Italian maturing debt (which currently totals €2.73 trillion excluding future interest payments on that debt). However, the key to the announced measures appears to be the creation of a “ring fence” around the troubled nations of Greece, Ireland and Portugal. The objective continues to be to prevent contagion. In total, the assisted nations of Greece, Portugal and Ireland have approximately €508bn worth of maturing debt (excluding future interest payments on the debt), which is within the parameters of the enhanced EFSF at €1-1.36 trillion.

According to the European announcement, the aim is to finalise the terms and conditions of the EFSF enhancement in November. In a significant step forward, cooperation with the IMF is being sought to enhance the EFSF. According to reports, the IMF, sovereign wealth funds and non-European nations appear willing to contribute. The forthcoming 3-4 November G20 summit appears to be a forum for an announcement by the IMF.

In addition to the enhanced EFSF, an additional layer of support will be afforded by the European Stability Mechanism (ESM), the permanent successor of the EFSF which is currently scheduled to take over from the EFSF in mid-2013. Reports suggest that there is a growing push to bring forward the start date of the ESM to mid-2012.

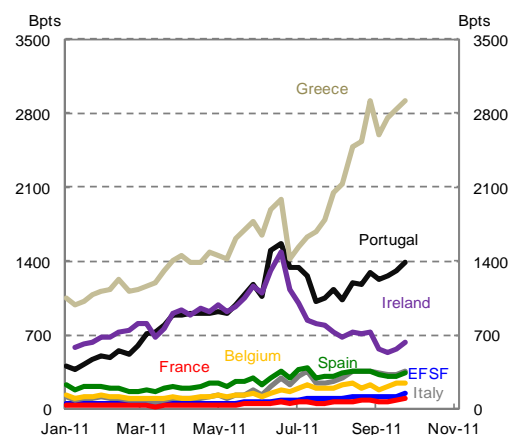
The ESM itself has an additional €500bn in lending capacity, which potentially could be added to the enhanced EFSF, generating a total pool of funds equal to €1.5-1.86 trillion. The ESM would afford an additional layer of support to the fragile European financial system. The ESM itself needs to be ratified by the nations of the Eurozone, in a similar manner to the recent ratification process undertaken for the EFSF. But, based on recent commentary this is a likely outcome. However, a hurdle remains. In order for the lending capacity of the EFSF and ESM to be combined, Article 34 of the ESM treaty needs to be removed or amended. Article 34 stipulates that the overall lending capacity (during the transition process from EFSF to ESM) may not exceed €500bn. Reports indicate that a revised treaty, which removes this stipulation, is due to be signed off by the end of November.

The details of the two methods used to enhance the EFSF are provided

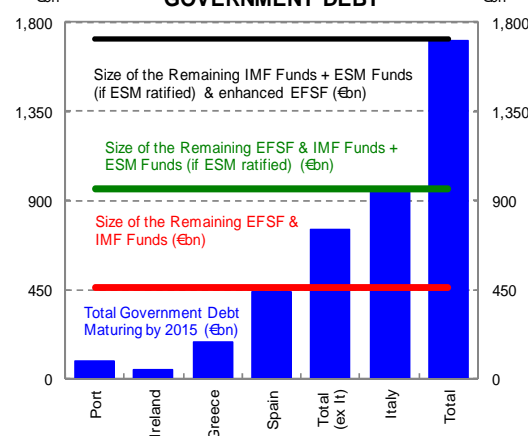
Capital Requirements	
Nation	EUR bn
Greece	30.0
Spain	26.2
Italy	14.8
France	8.8
Portugal	7.8
Germany	5.2
Belgium	4.1
Other	9.5

source: European Banking Authority

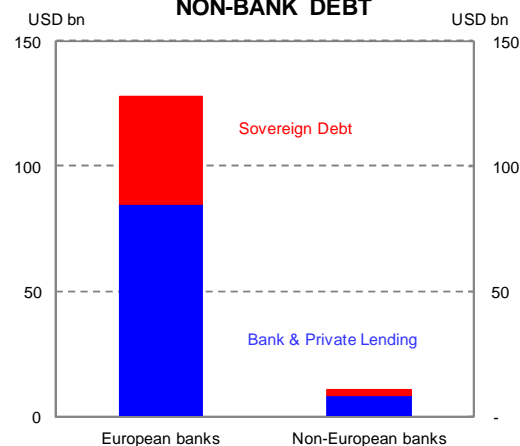
### SPREAD TO 5-YEAR GERMAN BUNDS



### ASSISTANCE MECHANISMS & MATURING GOVERNMENT DEBT



### FOREIGN BANK EXPOSURE TO GREEK SOVEREIGN, BANK & NON-BANK DEBT





below:

(1) Credit enhancement

Provide a “credit enhancement” on new debt issued by Eurozone sovereigns. The credit enhancement is generated by the creation of a “partial protection certificate”. This certificate is attached to new issues of bonds by member states, and is designed to lower the risk premium yield on the new issues and be separately traded. The certificate is held separately in trust and surrendered in the event of a default. This is aimed to increase demand for new issues and reduce the funding costs of the sovereign. The potential risk with this option is that the guarantees on the newly issued bonds could create a two-tier bond market.

(2) Special Purpose Investment Vehicle (SPIV)

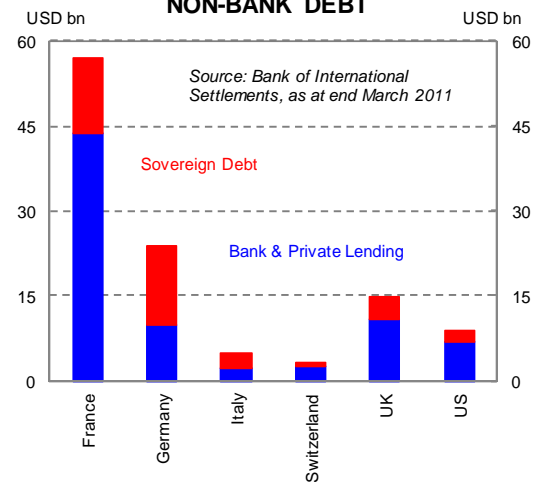
The SPIV's are designed to combine public and private capital to enlarge the EFSF. Within the SPIV three different classes of bonds would be available; senior debt (separately traded), junior debt and EFSF debt. The EFSF debt would absorb any losses on the senior and junior debt.

Importantly, the two measures are designed to expand resources “*without extending the guarantees underpinning the EFSF*”. Various Eurozone lawmakers have expressed concern that increased commitments may place their public finances and ultimately their respective credit ratings (and in turn the AAA-rating of the EFSF) under pressure. The German government has been particularly vocal against increasing its direct commitment. The German parliament has stressed that there needs to be strict adherence to the EFSF's current guarantee framework. Following the recent EFSF ratification process (please see *FX Strategy – An update on Europe – the options and the timing*, published 30 September 2011), Germany's guarantee commitment has risen to €211bn, roughly 29% of the EFSF's total commitments. Putting that into context, Germany's commitment to the EFSF equates to 8.4% of German GDP. Some of the smaller nations are committed to providing a greater proportional amount. Slovakia, Slovenia, Malta and Estonia are committed to funds which equate to more than 10% of their respective GDP's. Furthermore, it appears that neither option requires a change to the legal framework of the EFSF. Hence, the lengthy ratification process of the EFSF by various governments participants were recently subjected to would not need to be repeated.

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### FOREIGN BANK EXPOSURE TO GREEK SOVEREIGN, BANK & NON-BANK DEBT





## Australian Economic Perspective

### Post CPI wrap: Where to from here?

- The QIII CPI figures remove one of the hurdles standing in the road of a rate cut. But the question of necessity remains.
- Markets sentiment has improved markedly following the announcement of the European policy response.
- Structural inflation pressures, and lacklustre productivity are likely to limit the downside to new RBA inflation forecasts.

**Financial markets.** There was really only one question financial markets wanted answered by this week's QIII CPI numbers. Were they good enough (ie low enough) to get a November rate cut over the line?

**Underlying inflation at 2.5%pa.** We expect the RBA to characterise the underlying inflation rate in QIII at 2½%pa. On a six-month-ended basis, that smooths out some of the quarterly volatility and gives a better feel for turning points, the QIII underlying CPI was running at an annualised rate of only 2¼%.

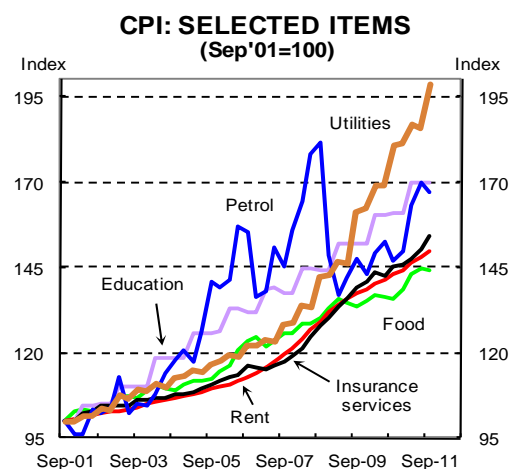
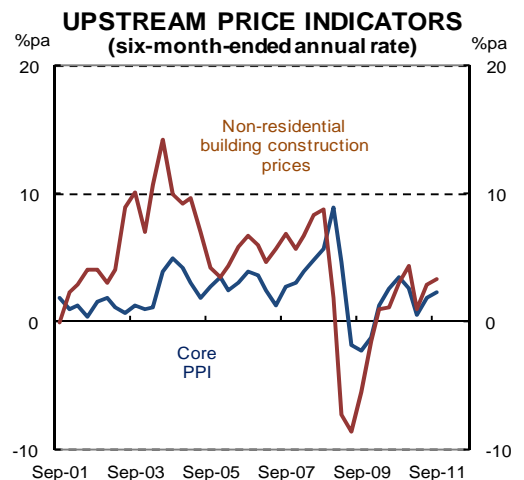
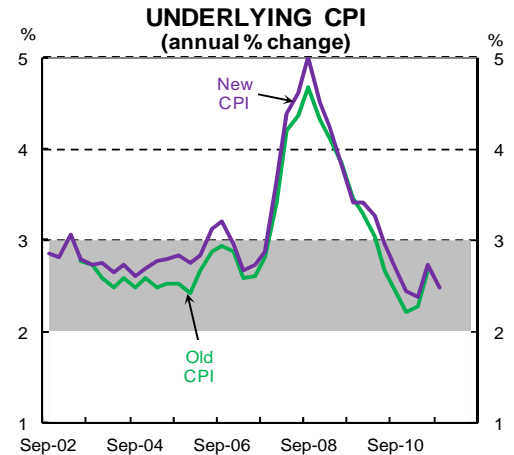
These sorts of numbers indicate that the near-term inflation outlook would not prevent the RBA cutting rates if it was thought necessary.

**Odds on rate cut have risen.** Clearly the odds on a rate cut next month have gone up a long way. But the policy decision is more complicated than just assessing one number. RBA Deputy Governor Battellino stressed yesterday that the Bank looks at a range of indicators when determining the policy stance. And the key question is whether the economy needs some additional support?

The recent run of domestic data suggests some reasonable economic momentum. There has already been some easing in financial conditions – fixed lending rates are lower, discounts on home loan rates are higher and the Aussie is below its recent extreme peaks.

**Inflation pressures persist.** And the inflation story is unchanged in some important respects:

- The underlying inflation rate has bottomed.
- The headline inflation rate, which is the RBA target variable, is running at 3.5%pa.
- Key upstream price measures have turned up.
- The economy is still close to full employment.
- The economy is still trying to absorb the income boost from a high terms of trade and the stimulus from an unstoppable mining boom.
- Structural inflation pressures are still playing out in areas like rents, utilities, education and insurance services.
- A dismal productivity performance is still





pushing up unit labour costs at a rapid rate.

These factors we suspect would make the RBA reluctant to cut rates in normal times. But clearly these are not normal times. The rates call is dependent on the credibility attached to the rescue package for their financial system crafted by the Europeans. Thus far the response in markets has been positive. The substance of the package appears to meet, and in some cases exceed, expectations. Some of the finer details remain to be finalised, but the move by the Europeans looks to have removed the case for a cup day rate cut.

Inflation starting point lower.

The QIII CPI numbers will kick off the usual reassessment of the inflation outlook. The starting point is clearly better than expected. The new seasonal adjustment process has, however, made analysis more difficult. The historical data is now subject to revision. The QII core measure, for example was revised up from 0.6% to 0.8%.

Beyond the technicalities, better inflation outcomes over the medium term will require signs of weaker global and domestic growth actually coming through.

Recent data flow better.

The recent data flow, US and domestic, has calmed some of the more urgent fears of recession. But European fears remain intense. Sentiment readings are at depressed levels across business and consumer sectors. And there are some indications of a lessening in inflation risks as a result.

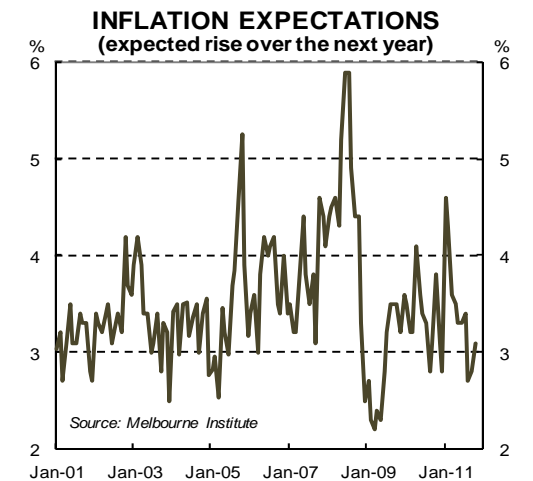
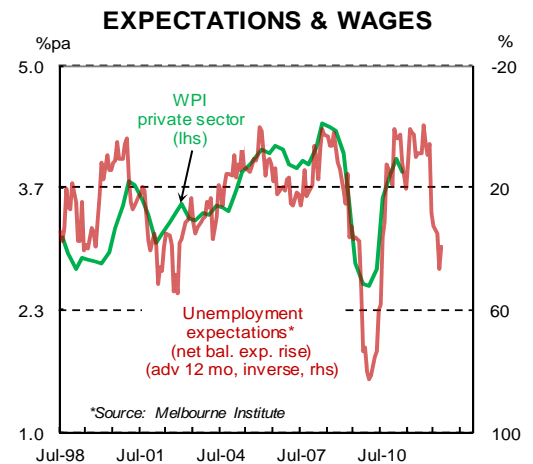
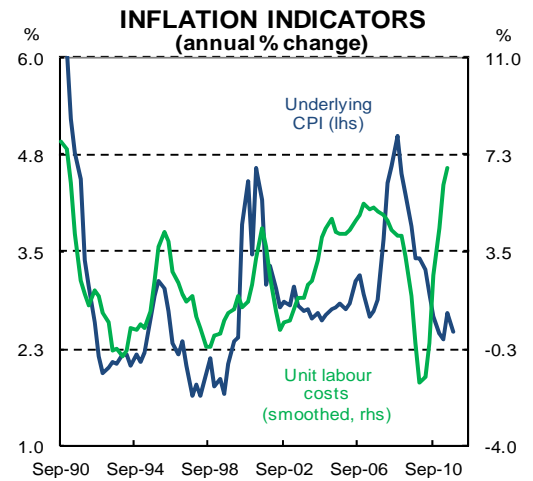
- Job security fears are at levels consistent with some slowing in wages growth.
- The same fears mean consumer inflation expectations are well contained.
- Business expectations for price rises have also eased.

RBA may lower its inflation forecasts.

Based on these observations, we would expect new RBA forecasts for the next few quarters to show significant downward revisions to annual CPI growth rates relative to expectations in August. But further out the numbers should show inflation lifting again. Such a profile would be consistent with an ongoing reluctance to change interest rates.

Revised RBA forecasts are due in the *Statement on Monetary Policy* on 4 November.

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## New Zealand Economic Perspective

### RBNZ keeps key messages the same.

- The RBNZ held the Official Cash Rate at 2.5%, and retained the same key messages from the previous Review.
- Global developments remain the dominant factor in the RBNZ's monetary policy outlook.
- We continue to expect the RBNZ will keep the OCR on hold at 2.5% until March 2012.

RBNZ kept OCR on hold at 2.5%

The RBNZ left the Official Cash Rate (OCR) at 2.5%, as widely expected. In the statement, the RBNZ notes the softness seen in the recent NZ data, and continues to highlight the risks in Europe as a key consideration for keeping the OCR on hold. The message in today's OCR Review is very similar to that of the September Monetary Policy Statement, with global developments continuing to be the dominant factor in the RBNZ's monetary policy outlook.

We continue to expect the RBNZ to remain on hold until March 2012.

We continue to expect the RBNZ will remain on hold until March next year, given little in the way of concrete signs that the European leaders are making significant progress in coming up with a comprehensive resolution to the debt crisis. Beyond the 25 basis point OCR increase in March, we expect a steady series of 25 basis point OCR increases at the subsequent meetings until the OCR reaches a peak of 4%. Recent developments skew the risk to a later start, and the potential for pauses at some point in the tightening cycle.

NZ growth comments softened slightly.

The RBNZ kept the statement brief to reflect the lack of material change in the rate outlook, given the continued uncertainties weighing from offshore. Domestic economic developments have been slightly weaker over recent weeks, particularly with the weaker QII GDP result. However, the RBNZ merely noted that business confidence had 'fallen back somewhat', and continued to emphasise the stimulus earthquake reconstruction would bring in coming years.

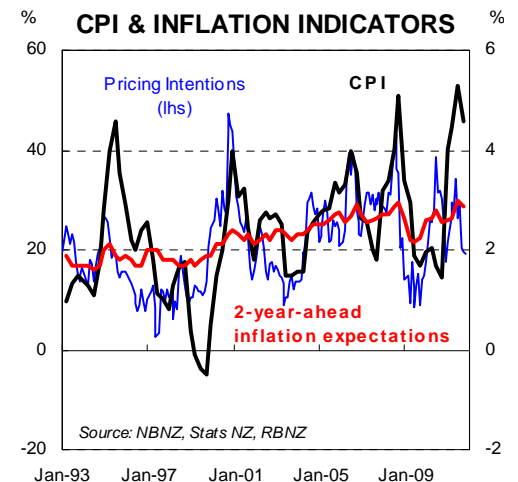
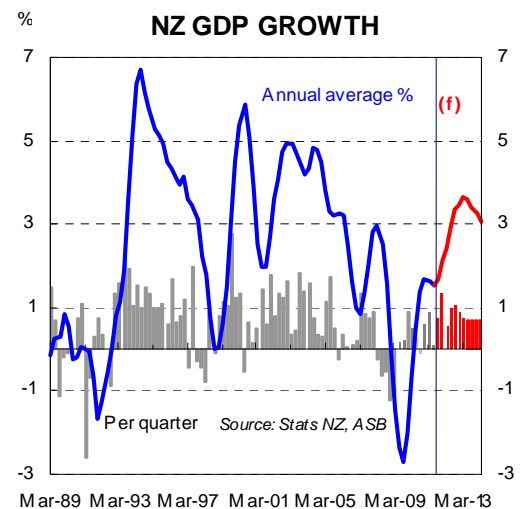
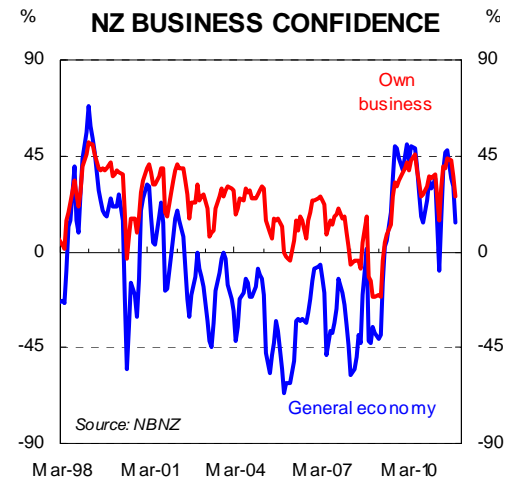
Brief statement suggests RBNZ's outlook similar to September's view.

Overall, the brief statement suggests the RBNZ central scenario for the domestic outlook is largely unchanged from September. We expect reconstruction activity will pick up from mid-2012, and this will underpin the recovery in the NZ economy.

Global developments are very important.

On global developments, again there was nothing new to report, with the RBNZ continuing to highlight the downside risks stemming from the potential mismanagement of the European sovereign debt crisis. The Bank remained wary of a potential impact on bank funding costs over the coming year. This was the same message from the September statement.

There is ongoing volatility in global markets. At the moment, the focus is on whether European leaders will be able to come up with a





Inflation message similar.

comprehensive resolution to the debt crisis.

In regards to inflation, the RBNZ retains a very similar message. While noting the current high rate of headline inflation, the RBNZ sees underlying inflation as settling at close to the middle of its target band of 2% once the raft of Government charges implemented over the past year is stripped out.

The QIII CPI and inflation indicators released recently suggest the RBNZ has plenty of breathing space on the inflation front at the moment. In particular, there is little sign of a pick-up in construction cost inflation, which should be of comfort to the RBNZ.

No fresh implications.

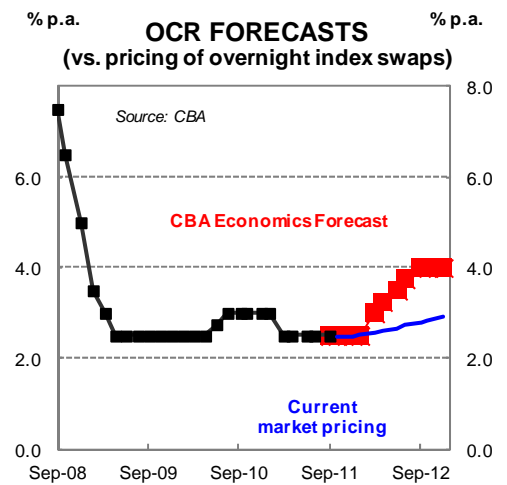
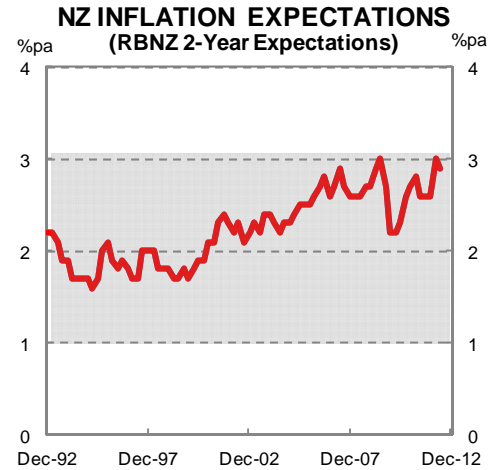
There are no fresh implications from the OCR Review. The RBNZ has highlighted the downside risks in a similar fashion to the September Monetary Policy Statement. While the risks are there, the RBNZ will wait and see. If the European debt crisis appears to have little effect on NZ then the RBNZ's attention will increasingly swing back to its view that inflation pressures are set to rise over time.

We expect the RBNZ will remain on hold until March, when we expect it to start a steady series of 25bp OCR increases to a peak of 4%. The risks to that view are a later and/or more gradual tightening cycle. At this point it is hard to see a hike earlier than March.

Market pricing reflect more pessimistic expectations, relative to our forecasts. Markets have currently priced in less than 50 basis points of OCR increases by the end of 2012, reflecting the extremes in potential outcomes between mild and catastrophic.

Market reaction suggests participant's expected a more downbeat message.

Markets were braced for a slightly more downbeat statement in the wake of weak NZ and Australian CPI results. The NZD squeezed higher from USD0.7940/50 to over 0.8000 following the release and swap rates moved around 4bp higher across the curve.



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## Calendar - Australasia, Japan and China

Date	Time			Period	Unit	Last	Forecast	
	AEST	Econ	Event				Market	CBA
Mon 31 Oct	08:45	NZ	Building permits	Sep	m%ch	12.5	~	~
	09:30	AU	Ai Group performance of construction index	Oct	Index	30	~	~
	10:30	AU	RP data-Rismark median city values s.a.	Sep	m%ch	-0.4	~	~
	11:30	AU	Private Sector Credit	Sep	m%ch y%ch	0.2 3.0	~ ~	~ ~
	13:00	NZ	Money supply M3	Sep	y%ch	5.5	~	~
	16:00	JN	Construction orders	Sep	y%ch	9.3	~	~
	16:00	JN	Housing starts	Sep	y%ch	14.0	7.6	~
Tue 1 Nov	08:45	NZ	Average hourly earnings	QIII	q%ch	1.2	~	~
	08:45	NZ	Private wages excluding overtime	QIII	q%ch	0.5	~	~
	08:45	NZ	Private wages inc overtime	QIII	q%ch	0.5	~	~
	09:30	AU	Ai Group Performance Manufacturing Index	Oct	Index	42.3	~	~
	11:30	AU	House price index	QIII	q%ch y%ch	-0.1 -1.9	~ ~	~ ~
	12:00	CH	PMI manufacturing	Oct	Index	51.2	51.8	~
	14:30	AU	RBA Cash Target	Nov	%	4.75	4.50	4.75
Wed 2 Nov	10:50	JN	Monetary base	Oct	y%ch	16.7	~	~
	11:30	AU	Building approvals	Sep	m%ch y%ch	11.4 -5.5	~ ~	-5.0 ~
Thu 3 Nov	08:45	NZ	Unemployment rate	QIII	%	6.5	~	~
	08:45	NZ	Employment change	QIII	q%ch y%ch	0.0 2.0	~ ~	~ ~
	08:45	NZ	Participation rate	QIII	q%ch	68.4	~	~
	09:30	AU	CBA/Ai Group PSI	Oct	Index	50.3	~	~
	11:30	AU	Retail sales	Sep	m%ch	0.6	~	0.5
	11:30	AU	Retail sales ex inflation	QIII	q%ch	0.3	~	1.0
	12:00	CH	China non-manufacturing PMI	Oct	Index	59.3	~	~

## Calendar – North America &amp; 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 31 Oct	00:01	UK	Lloyds business barometer	Oct	Index	7	~	~
	08:00	SZ	Swiss Central Bank publishes balance sheet data					
	09:30	UK	Net consumer credit	Sep	£bn	0.5	0.4	~
	09:30	UK	M4 money supply	Sep	y%ch	-0.6	~	~
	10:00	EC	Euro-Zone CPI estimate	Oct	y%ch	3.0	2.8	~
	10:00	EC	Euro-Zone unemployment rate	Sep	%	10.0	10.0	~
	11:02	GE	Retail sales	Sep	m%ch	-2.7	1.0	~
	12:30	CA	GDP	Aug	m%ch	0.3	0.2	~



	13:45	US	Chicago purchasing managers index	Oct	Index	60.4	59.0	~
Tue 1 Nov	07:00	UK	Nationwide house prices	Oct	m%ch	0.1	0.0	~
	08:15	SZ	Retail sales (real)	Sep	y%ch	-1.9	~	~
	08:30	SZ	PMI manufacturing	Oct	Index	48.2	~	~
	09:30	UK	PMI manufacturing	Oct	Index	51.1	50.0	~
	09:30	UK	GDP	QIII A	q%ch	0.1	0.3	~
					y%ch	0.6	0.3	~
	14:00	US	ISM manufacturing	Oct	Index	51.6	52.3	~
	14:00	US	ISM prices paid	Oct	Index	56.0	55.0	~
Wed 2 Nov	09:00	EC	PMI manufacturing	Oct F	Index	47.3	47.3	~
	09:30	UK	PMI construction	Oct	Index	50.1	~	~
	12:15	US	ADP employment change	Oct	'000	91.0	101.0	~
	16:30	US	FOMC rate decision	Nov	%	0.25	0.25	0.25
	18:15	US	Bernanke speaks at Fed press conference					
Thu 3 Nov	~	~	G20 Summit in Cannes					
	~	SZ	SNB's Danthine speaks in Geneva					
	09:30	UK	PMI services	Oct	Index	52.9	52.0	~
	12:30	US	Fed's Lockhart opens Emory economic conference in Atlanta					
	12:30	US	Initial jobless and continuing claims	Nov	'000	~	~	~
	12:45	EC	ECB announces interest rates	Nov	%	1.5	1.5	1.5
	13:30	EC	Draghi speaks at ECB Monthly News Conference					
	14:00	US	ISM non-manufacturing composite	Oct	Index	53.0	54.0	~
	14:00	US	Factory orders	Sep	m%ch	-0.2	-0.1	~
Fri 4 Nov	~	~	G20 Summit in Cannes					
	08:00	SZ	Foreign currency reserves	Oct	CHF bn	282.4	~	~
	09:00	EC	PMI composite	Oct F	Index	47.2	~	~
	09:00	EC	PMI services	Oct F	Index	47.2	47.2	~
	10:00	EC	Euro-Zone PPI	Sep	y%ch	5.9	5.8	~
	11:00	GE	Factory orders	Sep	m%ch	-1.4	0.0	~
	11:00	CA	Unemployment rate	Oct	%	7.1	7.2	~
	11:00	CA	Net change in employment	Oct	'000	60.9	20.0	~
	12:30	CA	Building permits	Sep	m%ch	-10.4	~	~
	12:30	US	Change in non-farm payrolls	Oct	'000	103.0	100.0	~
	12:30	US	Change in private payrolls	Oct	'000	137.0	125.0	~
	12:30	US	Unemployment rate	Oct	%	9.1	9.1	~
	17:00	US	Fed's Tarullo speaks in Washington					



## Calendar – Key Events To Watch

### Australia and New Zealand

#### Monday 31 October

##### NZ Building Consents, Sep, m/y%ch, (12.5/22.8 prev)

There was further improvement in residential consent issuance over August. Excluding apartments, which tend to be volatile, core residential consent issuance increased by a robust 16.9%. The increase in residential consent issuance was seen in both Christchurch and the rest of NZ. This suggests an underlying improvement in construction demand, beyond the rebuilding in Christchurch. Meanwhile, residential consent issuance in Canterbury exceeded pre-quake levels over August.

The improvement over July and August follows a sustained period of weak consent issuance since 2009. Construction activity is currently at extremely weak levels. However, we expect to see a pick up in construction activity over the coming year, due to earthquake rebuilding in Canterbury and an increase in underlying demand elsewhere.

#### Monday 31 October

##### AU Private Sector Credit, Sep, m/y%ch, (0.2/3.0 prev)

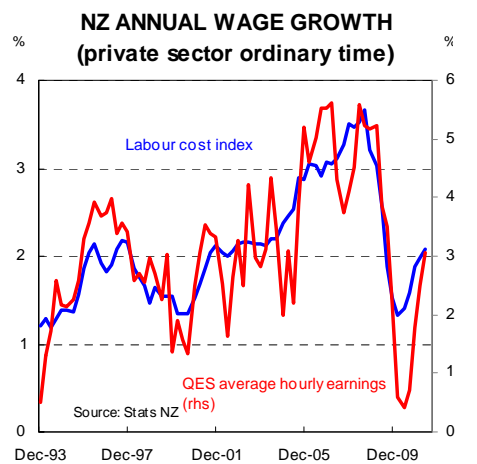
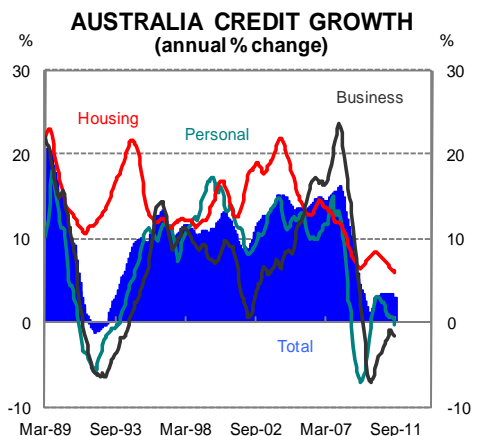
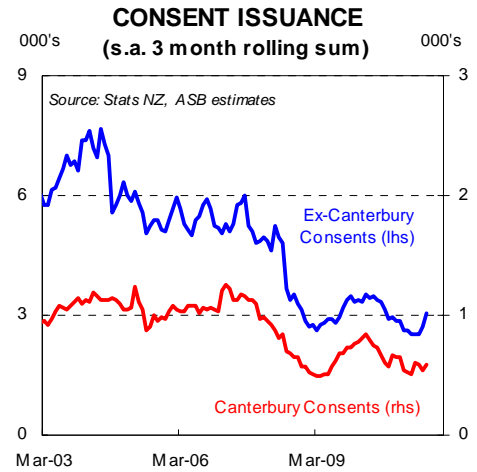
Credit growth remains relatively weak in the Australian economy. Private sector credit rose by 0.2% in August, being 3.0% higher than a year ago. Housing credit is continuing at a modest pace of growth, driving the overall credit lift in August. Business credit growth continued its weakness in August, being flat for a second consecutive month. The current trend for business recapitalisation, as they source funding directly from capital markets combined with the recent heightened financial market turmoil is likely to impact the September credit growth outcome.

#### Tuesday 1 November

##### NZ Labour Cost Index and Quarterly Employment Survey, QIII

- LCI Private Sector Ordinary Time, q%ch, (f) 0.5, (0.5 prev)
- QES Average Hourly Earnings: Private Sector Ordinary Time, q%ch, (f) 0.5, (1.2 prev)

Wage growth has now recovered and we expect that annual wage growth will stabilise around current levels for the next 12 months. Nonetheless, the pace of growth will remain relatively subdued. This reflects reduced profitability as the economic recovery remains gradual. In addition, softer wage growth reflects the degree of slack in the labour market as the unemployment rate remains elevated. From mid-2012, a pickup in reconstruction efforts will result in skill shortages becoming more acute, and we expect wage growth will accelerate. Over QIII we expect (LCI) labour costs to increase 0.5%, with the annual rate to remain relatively steady at 2.0%. The QES wage measures tend to be more volatile as the survey does not adjust for compositional shifts in the work force. We expect a 0.5% (QoQ) increase in average hourly earnings.

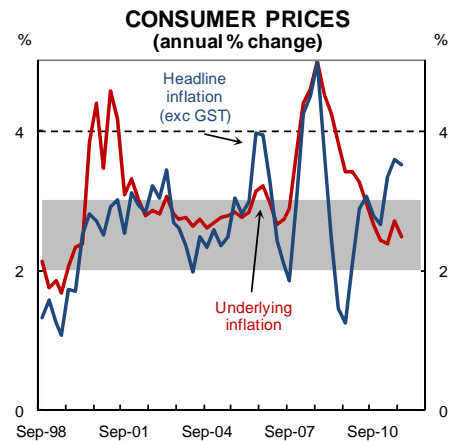




**Tuesday 1 November**

**AU RBA Cash Rate, Nov, %, (f) 4.75 (4.75 prev)**

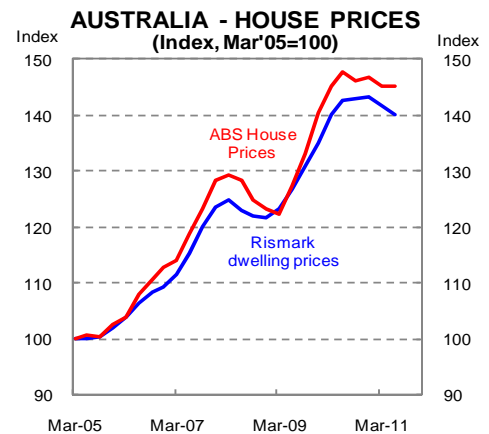
The eagerly awaited CPI data released on 26 October saw the headline inflation figure rise 0.6% in QIII, with the annual inflation rate at 3.5%, in line with market expectations. The unexpected result of an underlying inflation rate of 0.3% in QIII, have caused markets to lean towards expecting a Melbourne Cup Day rate cut. The new weighting pattern and seasonal adjustment series that the ABS has introduced from QIII going forward has meant that inflation analysis and forecasts are difficult. The revised RBA forecasts for inflation are due on the 4 November in the *Statement of Monetary Policy*. The inflation pressures on the Australian economy that we have previously mentioned are still persistent, which in our belief will cause the RBA to keep rates on hold in November. Furthermore, the announced European policy measures appear to be a satisfactory response, for now, and therefore have removed a large extent of the near-term uncertainty.



**Tuesday 1 November**

**AU House Prices, QIII, q%ch, (-0.1 prev)**

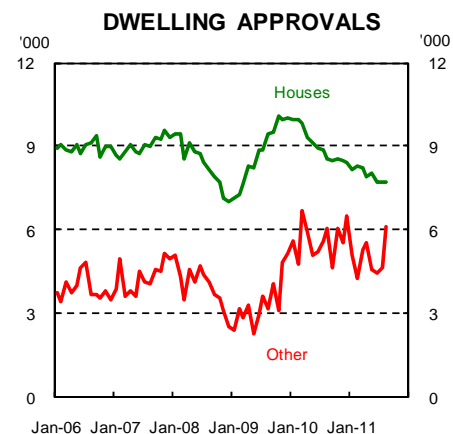
House prices continued their decline in QII, with real house prices falling more than 5% over the year to QII 2011. In nominal terms, the ABS measure was relatively flat, falling 0.1% in QII. Nominal adjustments to housing prices tend to be quite small, which we have observed to be the trend in recent periods. The Australian housing story continues to show underlying housing demand which exceeds housing supply. This limits the potential downside price risk.



**Wednesday 2 November**

**AU Build approv, Sep, m%ch, (f) -5, (11.4 prev)**

Building approvals jumped 11.4% in August, but still remained well below the August 2010 figure. The private sector approvals drove the increase in August, with the volatile "Other Dwellings" driving the rise, increasing 35.1% in August. The financial market weakness that has driven down consumer sentiment is likely to have affected September's building approvals, which we expect to have fallen by 5%.





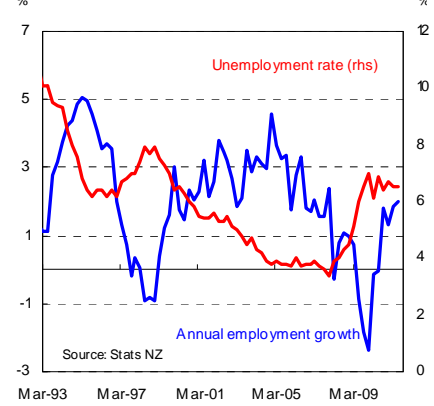
**Thursday 3 November**

**NZ Household Labour Force Survey, QIII**

- **Employment Growth, q%ch, (f) 0.6, (0.0 prev)**
- **Unemployment Rate, %, (f) 6.2, (6.5 prev)**

Employment growth was strong over the first half of 2011, with strong increases across the country providing offset to declines in employment in Canterbury as a result of February's earthquake. Employment is likely to have stabilised in Canterbury over QIII, although it will be too soon to see a meaningful recovery with the CBD still closed over the quarter. Throughout the rest of the country we expect employment to continue to recover in line with the gradual pickup in underlying demand. The national employment indicator points to fairly robust employment growth over August, although some of the pick up in jobs growth over QIII may be related to the Rugby World Cup and, if so, is likely to be temporary. A solid 0.6% increase in employment should result in the unemployment rate falling to 6.2%, from 6.5%.

**EMPLOYMENT & UNEMPLOYMENT**



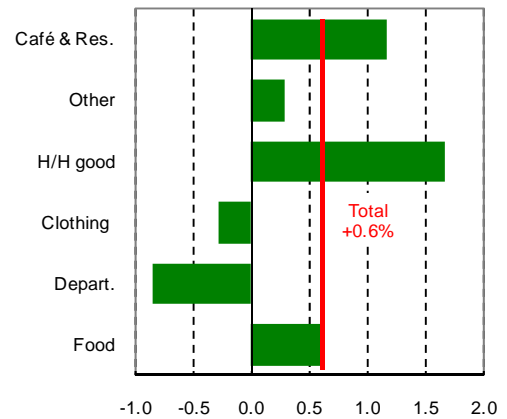
**Thursday 3 November**

**AU Retail Trade, Sep, m%ch, (f) 0.5, (0.6 prev)**

**AU Retail sales ex inflation, QIII, q%ch, (f) 1.0, (0.3 prev)**

Retail sales reported two solid increases in the first two readings of the September quarter. While retail sector growth remains relatively weak on an annual leave, we are beginning to see a pickup in the sector. The recent consumer trend has been a shift in spending from the retail sector towards discretionary services and durable goods. This indicates that consumption remains resilient. We expect retail trade to increase 0.5% in September, and retail sales excluding inflation to have risen 1.0% in QIII.

**RETAIL SALES BY INDUSTRY (monthly % change)**

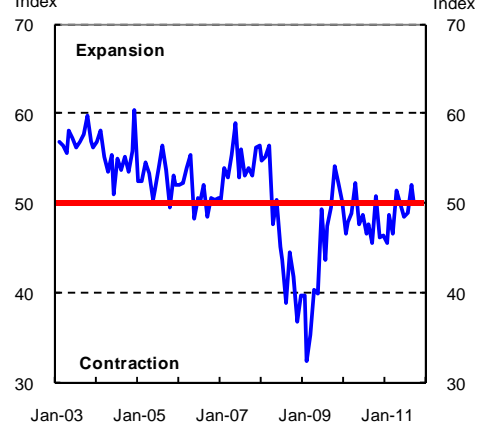


**Thursday 3 November**

**AU CBA/Ai-Group Perf of Services, Oct, Index, (50.3 prev)**

The Australian Performance of Services Index has hovered above the 50-point level over the past two months. A result of above 50 is an indication of resilience in the services sector. While we have observed weakness in consumer-related services, driven by the recent global events, business-related services have shown some strength. The uncertainty surrounding global markets, in particular the Eurozone, will be an important influencing factor on the October PSI.

**CBA - Ai GROUP PSI**





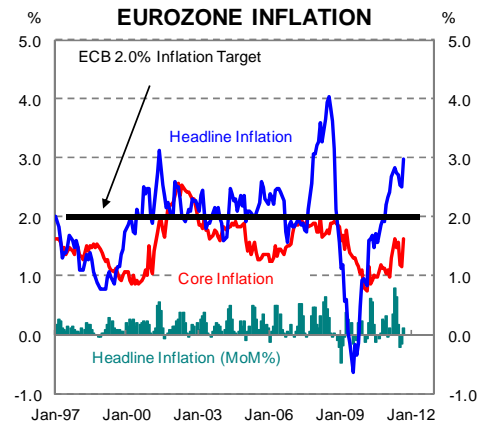
## Calendar – Key Events To Watch

### International

**Monday 31 October**

**EZ CPI, Oct, y%ch, (3.0 prev)**

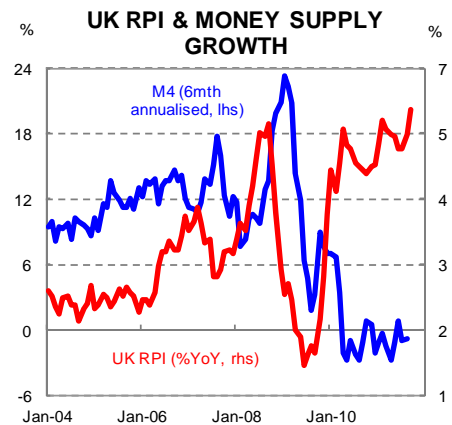
Flash estimates of Eurozone CPI inflation are expected to show a slight moderation in the annual rate of inflation to 2.8% (YoY) from 3.0% (YoY). The unexpected spike higher to 3.0% (YoY) in September was driven primarily by a rebound in the Italian CPI reading following a sharp fall lower earlier in the summer. The flash German CPI reading has already slipped a fraction from 2.9% (YoY) to 2.8% (YoY) in October.



**Monday 31 October**

**UK M4 Money Supply, Sep, m/y%ch, (-0.2/-0.6 prev)**

UK broad money growth contracted by 0.6% (YoY) in the 12 months to August, ongoing evidence that the ultra-loose stance of monetary policy has not generated any actual monetary expansion in the UK. Lending remains very soft, partly as banks are rebuilding their balance sheets and not passing on ultra-low interest rates and partly because households already have over-extended balance sheets. Either way, there has been little monetary expansion and the Bank of England is now embarking on another round of QE.

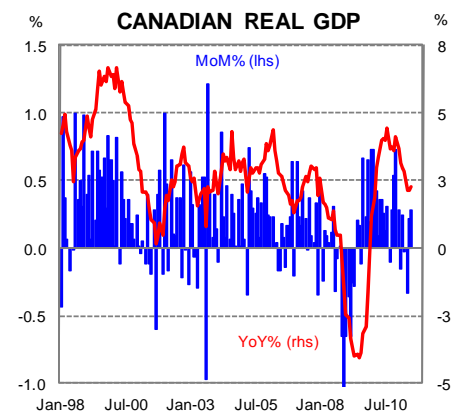


**Monday 31 October**

**CA GDP, Aug, m%ch, (0.3 prev)**

The Canadian economy contracted in QII, after seven consecutive quarters of expansion. QII GDP dipped 0.1 % (QoQ), or -0.4% at a seasonally adjusted annualised rate. Monthly GDP expanded 0.3% in July, and very modest monthly GDP growth is expected over the coming months.

We see significant downside risks to medium-term Canadian growth. US weakness is likely to weigh on Canada, via the export sector. Canada sends around 75% of exports to the US, and exports account for 38% of Canadian GDP. In addition to the downside risks to the export sector, there is a risk private consumption, which accounts for 63% of Canadian GDP, continues to grow only modestly in the months ahead.





**Tuesday 1 November**

**UK GDP, QIII, q/y%ch, (0.1/0.6 prev)**

UK GDP growth is expected to rebound a little in QIII following the very soft QII reading. Consensus is looking for a 0.3% (QoQ) expansion. If anything, this may be a little on the low side. There were a number of one-off factors depressing economic activity in QII including the Royal Wedding, Olympic ticket sales, supply chain disruptions due to the Japanese earthquake and un-seasonally warm weather. The NIESR rolling three-month estimate of UK GDP growth suggests that the economy expanded by 0.5% in the three-months to September (i.e. Q3). While not always 100% accurate, the NIESR has become a reasonable guide to official GDP growth out-turns in recent years.



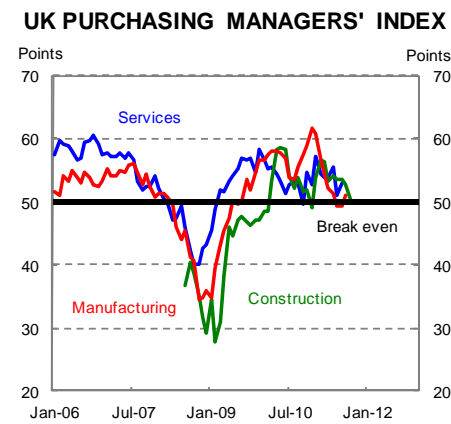
**Tuesday 1 November**

**UK Manufacturing PMI, Oct, Index, (51.1 prev)**

**Thursday 3 November**

**UK Services PMI, Oct, Index, (52.9 prev)**

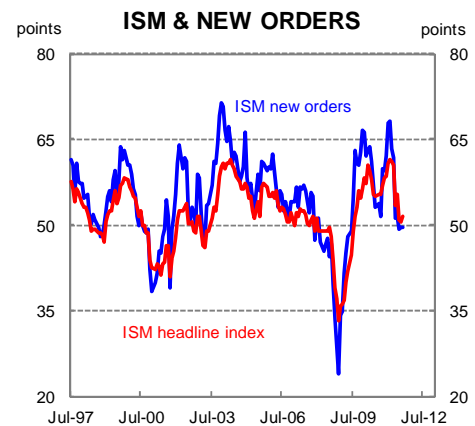
Both UK manufacturing and service sector PMIs were slightly over the 50 mark in September, indicative of positive, but modest activity. While the numbers can be volatile on a monthly basis, the message in October is likely to remain roughly similar, of modestly expanding activity, but not by much. The CBI quarterly business optimism balance dropped to -30 in October, a low since QII 2009. This suggests that risks to the manufacturing PMI are to the downside and that risks are for a very soft QIV GDP number in the UK.



**Tuesday 1 November**

**US ISM Manufacturing, Oct, Index, (51.6 prev)**

The national accounts for the third quarter showed the US economy picked up some momentum. By contrast, the widely followed ISM manufacturing survey eased considerably in the third quarter. The new orders index of the ISM survey has been just below 50 points for three consecutive months. We think the risk to the headline index for the ISM lie with a modest drop in October, but still remain over 50 points, compared to the modest increase expected by US economists.



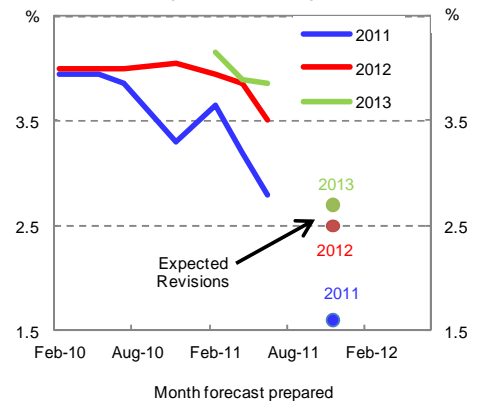


### Wednesday 2 November

#### US FOMC Rate Decision, Nov, %, (f) 0-0.25 (0-0.25 prev)

This policy meeting will be a two-day meeting with a press conference to follow the meeting. We expect no change in policy. However, in our view, there is a small risk the FOMC decide to change their future guidance over the funds rate. For example, the FOMC may decide to elaborate on their mandate. FOMC participants will also provide their up to date forecasts for unemployment, inflation and economic growth. We expect a significant cut to GDP growth for the next few years, weaker inflation and higher unemployment.

#### EVOLUTION OF FED'S FORECASTS (GDP forecasts)

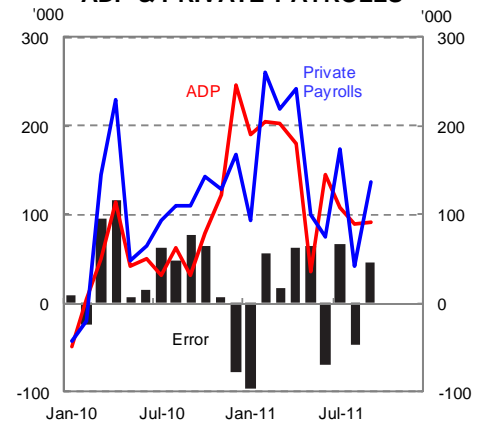


### Wednesday 2 November

#### US ADP Employment Change, Oct, '000, (91 prev)

We like the ADP employment survey as an indicator of trends in the US labour market. However, we do not think ADP is a reliable predictive tool for estimating the private component of non-farm payrolls. The error between ADP and private payrolls can be quite significant near 100,000 jobs (black line in chart). US economists predict ADP employment to increase by around 100,000 in October. An increase in employment of this magnitude is too weak to push the unemployment rate down on a sustained basis.

#### ADP & PRIVATE PAYROLLS

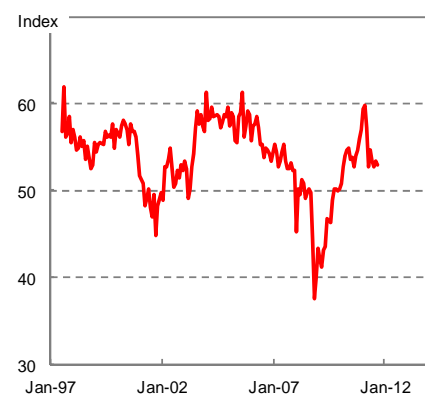


### Thursday 3 November

#### US ISM Non-Manufacturing, Oct, Index, (53 prev)

The services part of the US economy slowed in the first half of 2011. The ISM survey suggests some stabilisation of the services economy at solid rates. The pick-up in the US economy in the second half of 2011 is likely to be modest though. The US economy is still suffering from a number of headwinds: credit constraints, particularly for households with an 'underwater' mortgage; an oversupply of housing; budget cuts from US state and local governments; and reluctance by US businesses to lift employment despite higher productivity.

#### US ISM NON-MANUFACTURING

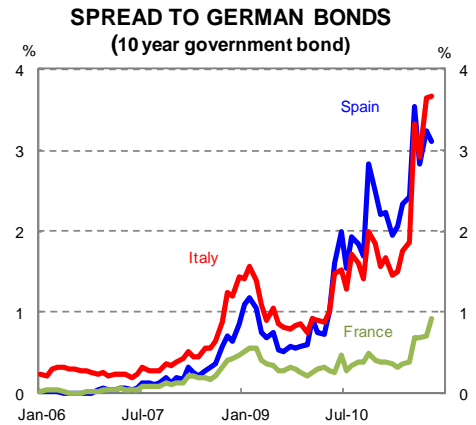




**Thursday 3 November**

**EZ ECB Interest Rates, Nov, %, (f) 1.50 (1.50 prev)**

ECB President Draghi presides over his first meeting as the new head of the ECB. We do not expect any change to monetary policy at the November meeting, or for that matter any additional special measures likely to be announced. Rather the post-meeting press conference is likely to be most interesting to see how Mr Draghi performs in his first outing as President and whether he gives any hints as to the stance of monetary policy to come. The ECB Governing Council is likely to want to see how the EU leaders' crisis fighting strategy announced this week impacts on financial markets.

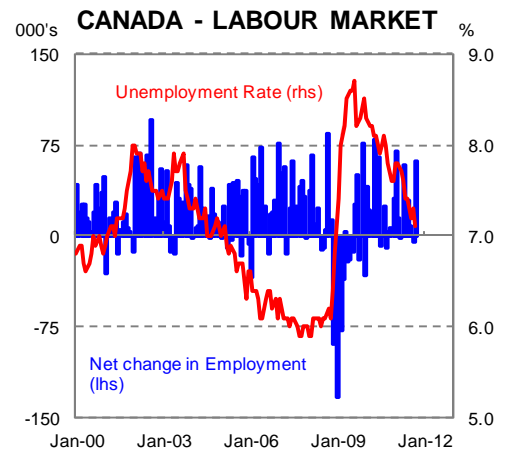


**Friday 4 November**

**CA Net Employment Change, Oct, '000, (60.9 prev)**

**CA Unemployment Rate, Oct, %, (7.1 prev)**

Employment in Canada unexpectedly spiked by 60,900 in September, as full-time employment rose 63,800 while part-time employment fell by 2,900. The spike in employment comes after a surprise decline in employment in August. The unemployment rate eased from 7.3% to 7.1%. We expect the labour market will be relatively weak over the coming months. Risks to the Canadian economy are largely external, but are heavily to the downside. The export sector outlook is vulnerable, due to the heavy exposure to the US economy. There is also risk that the strong growth in services employment eases over the coming months.



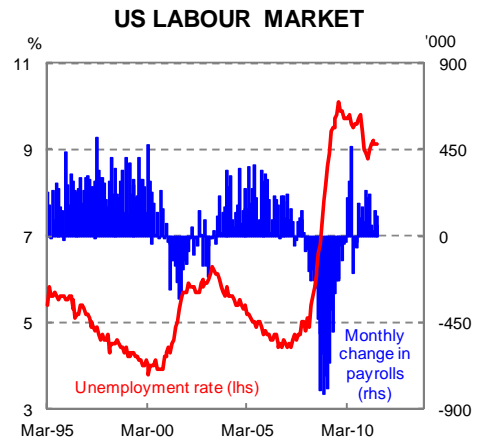
**Friday 4 November**

**US Change in Nonfarm Payrolls, Oct, '000, (103 prev)**

**US Change in Private Payrolls, Oct, '000, (137 prev)**

**US Unemployment Rate, Oct, %, (9.1 prev)**

The high unemployment rate is a major headwind to the US economy. Expectations for payrolls are near 100,000. If delivered, jobs growth is not going to be enough to push the US unemployment rate down sustainably. Dallas Fed President Fisher has blamed the reluctance of US businesses to expand hiring on uncertainty about the future fiscal and regulatory policy. If the US labour market remains weak, consistent with consensus forecasts, further policy easing by the FOMC will remain a risk.





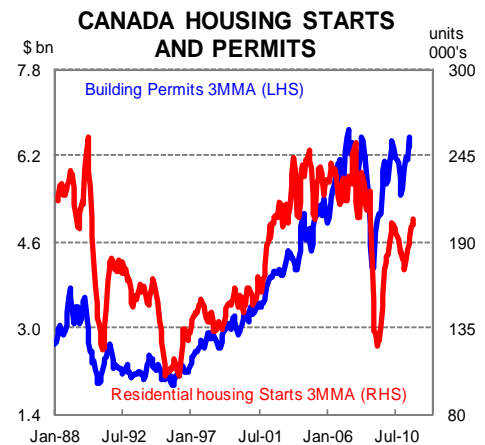
## Friday 4 November

### CA Building Permits, Sep, m%ch, (-10.4 prev)

The value of Canadian building permits fell 10.4% in August to C\$5.9bn. Residential permits fell 6.6% over August after lifting in the previous three months. Non-residential consents fell 16.6% in August.

The Bank of Canada (BoC) cut its growth outlook significantly in its October Monetary Policy Report. The weakness in building consents in the last two months is consistent with the BoC's subdued outlook for next year. The recovery in actual housing starts has been more muted than the level of consents suggested over the last year, and overall construction remains lower than the levels recorded prior to the global financial crisis.

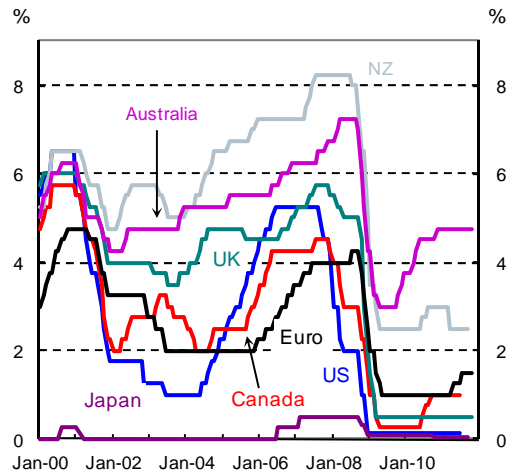
We expect residential and non residential construction growth to remain low, and accordingly expect only weak growth in the value of building permits over the coming months.



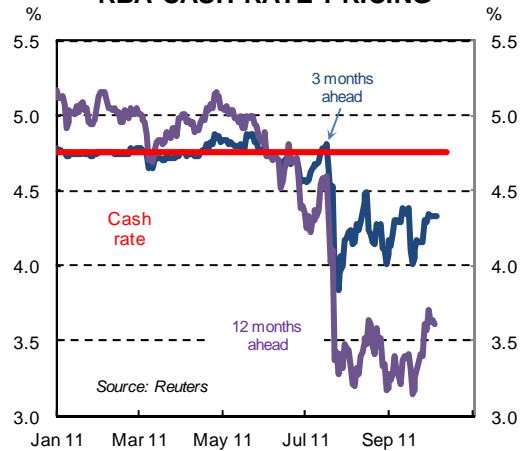


## Monetary Policy

**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.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>1 November, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '12</td> </tr> <tr> <td>4.75%</td> <td>4.75%</td> <td>4.75%</td> <td>4.75%</td> </tr> </table>	Next Meeting and Forecast				1 November, 2011				Dec '11	Mar '12	Jun '12	Sep '12	4.75%	4.75%	4.75%	4.75%	We expect the RBA to remain on hold at 4.75% over 2012. In our view, the near-term rate cut case is incomplete. But the medium-term outlook still favours higher interest rates.
Next Meeting and Forecast																			
1 November, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
4.75%	4.75%	4.75%	4.75%																
US (FOMC)	75-100bpt cut to 0-0.25% on 16 December 2008.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>2 November, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '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>	Next Meeting and Forecast				2 November, 2011				Dec '11	Mar '12	Jun '12	Sep '12	0-0.25%	0-0.25%	0-0.25%	0-0.25%	Given the loss of momentum in the US economy, we expect the Fed to initiate more policy easing in 2012. Policy easing is first likely to take the form of enhanced guidance.
Next Meeting and Forecast																			
2 November, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
0-0.25%	0-0.25%	0-0.25%	0-0.25%																
Eurozone (ECB)	25bpt rise to 1.50% on 7 July 2011.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>3 November, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '12</td> </tr> <tr> <td>1.50%</td> <td>1.50%</td> <td>1.50%</td> <td>1.50%</td> </tr> </table>	Next Meeting and Forecast				3 November, 2011				Dec '11	Mar '12	Jun '12	Sep '12	1.50%	1.50%	1.50%	1.50%	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.
Next Meeting and Forecast																			
3 November, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
1.50%	1.50%	1.50%	1.50%																
UK (MPC)	50bpt cut to 0.5% on 5 March 2009.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>10 November, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '12</td> </tr> <tr> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> </tr> </table>	Next Meeting and Forecast				10 November, 2011				Dec '11	Mar '12	Jun '12	Sep '12	0.50%	0.50%	0.50%	0.50%	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.
Next Meeting and Forecast																			
10 November, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
0.50%	0.50%	0.50%	0.50%																
NZ (RBNZ)	50bpt cut to 2.5% on 10 March.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>8 December, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '12</td> </tr> <tr> <td>2.50%</td> <td>2.75%</td> <td>3.25%</td> <td>3.75%</td> </tr> </table>	Next Meeting and Forecast				8 December, 2011				Dec '11	Mar '12	Jun '12	Sep '12	2.50%	2.75%	3.25%	3.75%	Overseas events are dominating the RBNZ's outlook. We expect the RBNZ will leave the OCR on hold until March. We expect a 25bpt OCR increase in March.
Next Meeting and Forecast																			
8 December, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
2.50%	2.75%	3.25%	3.75%																
Canada (BoC)	25bpt rise to 1.00% on 8 September 2010.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>7 December, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '12</td> </tr> <tr> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> </tr> </table>	Next Meeting and Forecast				7 December, 2011				Dec '11	Mar '12	Jun '12	Sep '12	1.00%	1.00%	1.00%	1.00%	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 early 2013 before it embarks on a slow and steady removal of policy accommodation.
Next Meeting and Forecast																			
7 December, 2011																			
Dec '11	Mar '12	Jun '12	Sep '12																
1.00%	1.00%	1.00%	1.00%																
Japan (BoJ)	0-10bpt cut to 0-0.1% on 5 October 2010.	<table border="1"> <tr> <th colspan="4">Next Meeting and Forecast</th> </tr> <tr> <td>16 November, 2011</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Dec '11</td> <td>Mar '12</td> <td>Jun '12</td> <td>Sep '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>	Next Meeting and Forecast				16 November, 2011				Dec '11	Mar '12	Jun '12	Sep '12	0-0.10%	0-0.10%	0-0.10%	0-0.10%	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.
Next Meeting and Forecast																			
16 November, 2011																			
Dec '11	Mar '12	Jun '12	Sep '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	3.1	3.5	3.5	2.3	4.4	1.8	2.8	3.5	3.1
Underlying CPI	3.9	4.3	3.3	2.4	3.1	3.1	3.0	3.0	4.6	3.8	2.8	2.7	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	4.92	4.68	3.61	4.24	0.97	77.1	1.34	1.56	0.76
Dec-11	4.75	4.70	4.60	3.70	4.40	1.04	77.0	1.39	1.60	0.82
Mar-12	4.75	4.70	4.60	3.70	4.40	1.07	77.0	1.43	1.62	0.83
Jun-12	4.75	4.80	4.80	3.85	4.50	1.08	77.0	1.44	1.64	0.84
Sep-12	4.75	4.90	4.90	4.10	4.60	1.08	78.0	1.44	1.64	0.84
Dec-12	4.75	4.90	5.00	4.40	4.80	1.08	79.0	1.43	1.62	0.84

Forecast



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