Global Markets Research

Economics: Perspective

27 January 2012

The Week Ahead

- EU leaders will discuss the new fiscal compact and the European Stability Mechanism (ESM) at their first 2012 summit.
- US payrolls data is expected to show a small rise but beware the benchmark revisions. The ISM could grind higher.
- In Australia credit growth, building approvals, international trade and the Ai Group services sector index are released.

International financial markets remained relatively stable over the past week. Volatility measures are lower and that is helping the Australian dollar drift higher as the USD weakens. Sovereign bond auctions in the EU went relatively well and deliberations over the Greek debt "haircut" continue. The US markets took heart from the FOMC's new commitment to keep official interest rates near zero until late 2014. Currency markets saw the news as dovish the US dollar and sold it. US data over the past week has supported the view that a gradual improvement in overall , not just business, outcomes is more likely than not over 2012. The big question is whether US jobs growth will be sufficient to reduce the unemployment rate significantly and lift consumer and business confidence. Friday's January payrolls data is an important "status update". The IMF released its new growth forecasts during the week. Our international economist, Martin McMahon, discusses their outlook in one of our articles inside.

The international data flows in the coming week will be interesting for the markets. The EU leaders' summit on 30 January will involve all 27 members. On the agenda are the details of the proposed new EU fiscal compact and the triggers for the activation of the European Stability Mechanism (ESM). Under discussion also will be the penalties for breaches of the fiscal compact. We may hear some more about the Greek debt restructure. It is an essential step for more financial assistance.

In the US, Friday's non-farm payrolls are expected to show another reasonable rise of 150k for January, following December's 200k addition. But the benchmark revisions to the jobs and unemployment numbers could be more important. The week begins with US consumer confidence. Mid-week the ISM data will, hopefully, show another rise and confirm the improving US industrial performance. Fed Chairman Ben Bernanke will give testimony to the House Budget Committee on Thursday.

In Australia we had confirmation this week that inflation readings are not a barrier, in our view, to another RBA rate cut. The December quarter CPI was flat, with the annual rate easing to 3.1%. Core inflation, at 2.6%pa, is in the middle of the RBA's target band. The CPI details are discussed inside in an article by Senior Economist, Michael Workman. We expect the RBA to cut the cash rate to 4.0% at their next Board meeting on 7 February. Markets are also expecting a rate cut.

In New Zealand the Reserve Bank left the Overnight Cash Rate at 2.5%, in line with market expectations. We expect the RBNZ to remain on the sidelines in 2012, as long as the inflation numbers stay tame.

Australian data in the coming week will cover RBA credit growth, house prices, building approvals, international goods and services trade and the CBA/Ai Group Performance of Services Index. We expect a rebound in the volatile building approvals numbers for December. Australia's trade surplus is expected to stay above $1bn in December. House prices will be keenly watched for signs of further slippage in the December quarter.

China's PMI data will be closely watched for signs of further slowing, especially any move into "contractionary" territory.

This edition of the Weekly includes the following articles.

"Safety Valve – increased migration easing the skills squeeze", by Economist James McIntyre;

"Fragile outlook keeps Reserve Bank of New Zealand on hold' by FX Economist Chris Tennent-Brown; and

"Global recovery stalls, downside risks intensify" – the IMF trims its global growth forecasts by International Economist Martin McMahon.

The weekly calendar, data reviews and the economic, currency and financial forecasts are also included.

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Australian Economic Perspective

Inflation Benign, RBA Rate Cut Likely.

CPI December Quarter 2011

- The CPI was unchanged in QIV to be 3.1% higher over the past year, the lowest annual rate since June 2010.
- Core inflation rose by 0.6% to be 2.6% higher over the year, near the middle of the RBA's target band.
- We expect another RBA rate cut on 7 February. Markets also see it as highly likely.
- The big falls in fresh fruit and vegetable prices offset price rises for local holidays, phone equipment, beer and petrol.
- Locally produced goods and services prices are 3.9% higher over the year, driven by higher services.
- Internationally traded goods and services prices are 1.8% higher over the year. The higher AUD is a major influence.
- Inflation was 3.6% in Adelaide and Canberra over the past year, but only 2.4% in Brisbane and Darwin.

The case for another RBA rate cut is compelling. Inflation, on today's result, is well under control. And the downside risks to world and domestic growth are rising with every failed EU summit. Expectations of more rate cuts will be driven by the EU debt issues and by trends in the local jobs and retail trade numbers.

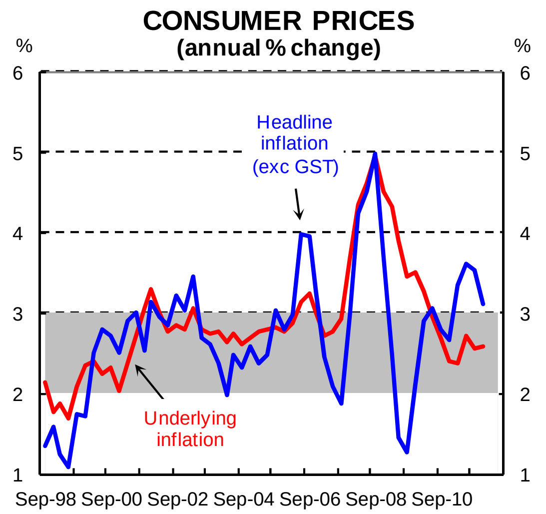
Looking across the CPI categories the big price falls were as expected, in fresh fruit and vegetables. Supplies have returned to normal after the shortages caused by floods and Cyclone Yasi.

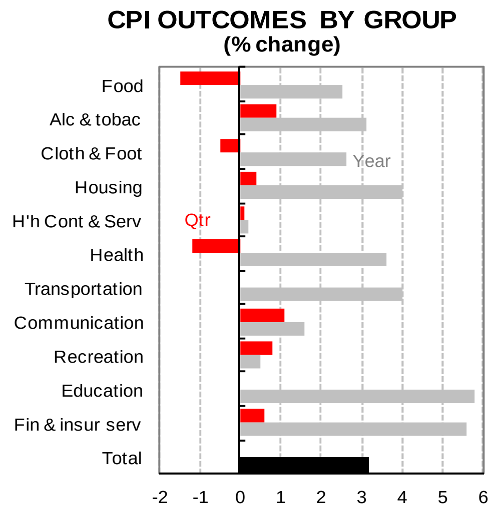
The surprise was the 1.2% fall in health charges, as prices of pharmaceuticals (-5.6%) and hospital services (-0.2%) fell. Price rises did occur. Beer prices rose 1.2% in QIV as did domestic holiday travel, up 7.3%. The transport category was flat, with the rise in petrol prices offset by lower new car prices. Note that prices fell in only three categories and rose in the eight others.

Internationally traded goods and services prices, which are about 40% of the CPI, fell 1.2% in QIV to be 1.8% higher over the past year. Tradable goods prices fell 1.1%, while tradable services fell 1.9%, driven by lower priced international travel and accommodation.

The inflation pressures in the economy are in the locally produced goods and services, or non-tradables segment which is about 60% of the CPI. It rose 0.7% in QIV to be 3.9% higher over the past year. Local goods prices rose 0.3% in QIV, while local services were up 0.9%.

The core inflation measures rose by 0.6% to be 2.6% higher over the past year, just above the mid-point of the RBA's target band. In six month annualised terms it is running at 1.9%pa, the lowest for twelve years. The core rate looks like it will stay near the midpoint over the next few quarters. We expect the RBA to cut the cash rate to 4% on February 7.





The QIV outcome

The QIV CPI was flat (0.0%) and rose by 3.1%pa.

The headline CPI posted a flat result which was more benign than market expectations of a 0.2% lift after QIII's 0.6% rise. The annual CPI rate tracked lower to 3.1% from 3.5%pa in QIII. Note that the new seasonally adjusted headline rate was 0.2% and 3.0%pa. The ABS introduced new backdated seasonally adjusted measures and new weights in the QIII release.

The significant price rises in QIV occurred in: domestic travel and accommodation (+7.3%); rents (+1.0%); telecommunication equipment and services (+1.1%); beer (+1.2%); and automotive fuel (+0.7%).

The significant price falls were for: fruit (-13.4%) which was driven by a 46% drop in the price of bananas; pharmaceutical products (-5.6%); vegetables (-5.0%); audio, visual and computing equipment (-3.4%); international travel and accommodation (-1.9%); and motor vehicles (-1.2%).

Goods prices fell by 0.6% while services prices rose by 0.8%.

Splitting the CPI between goods and services shows **goods** prices falling by 0.6% in QIV to be 2.1% higher over the year. **Services** prices rose by 0.8% in QIV and were 4.4% higher over the year.

Services prices can be seen as more reflective of the pressures in an economy running close to full employment. There are quite a few areas of the economy where (services) price rises are running well above the "moderate" inflation rate of 2.5%pa.

The impact of the high AUD on local inflation outcomes can be seen in the CPI's international trade series. Tradables' inflation (40%of the weight of the headline CPI) dipped by 1.2% and was up a very tame 1.8% in annual terms. In contrast, the non-tradables component was much less benign lifting by 0.7% in QIV to be running at 3.9%pa.

Communications group and alcohol and tobacco posted largest rises.

Across the categories, the communication segment posted the largest rise of 1.1%, followed by the alcohol and tobacco group which rose by 0.9%. Housing which has the largest weighting in the new CPI, at 22.3%, rose by a more modest 0.4% in QIV. The rise in this category was driven by a 1% lift in rents, reflecting low vacancy rates and heavy demand for rental accommodation across the nation.

Core measures rose by 0.6%.

Both the core inflation measures remained moderate in QIV in line with expectations. The trimmed mean measure rose by 0.6% to be up 2.6%pa while the weighted median measure lifted by 0.5%, giving an annual rise of 2.6%. The RBA are likely to characterise the underlying inflation

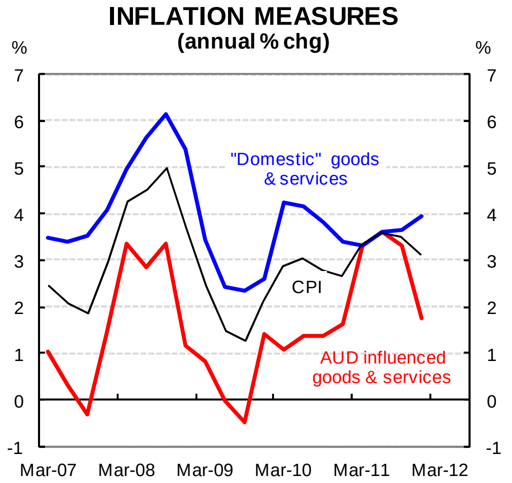
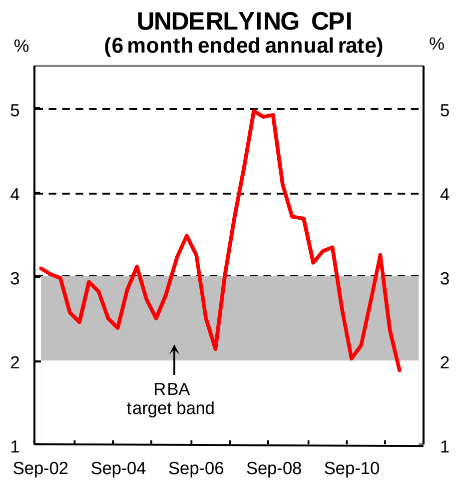


Table: CPI Components – QIV 2011

	% ch	%pa	Contrib (ppts)
CPI (nsa)	**0.0**	**3.1**	~
Food & non alc bev	-1.5	2.5	*-0.44*
Alcohol & tobacco	0.9	3.1	*0.11*
Clothing & footwear	-0.5	2.6	*-0.04*
Housing	0.4	4.0	*0.19*
Furnishings etc	0.1	0.2	*0.01*
Health	-1.2	3.6	*-0.12*
Transport	0.0	4.0	~
Communication	1.1	1.6	*0.06*
Recreation & culture	0.8	0.5	*0.17*
Education	0.0	5.8	~
Insurance & fin serv	0.6	5.6	*0.07*
Goods	-0.6	2.1	*-0.63*
Services	0.8	4.4	*0.62*
Underlying measures			
Wgtd median (sa)	0.5	2.6	
Trimmed mean (sa)	0.6	2.6	
Ex volatiles (nsa)	0.3	1.9	*0.5*



rate as runnning at 2.6%. That is, close to the middle of the 2-3% target zone. In six month annualised terms, the core inflation rate was running below the target zone at 1.9%, a very benign outcome indeed. This is the lowest outcome on this measure since December 2000 and a level that would leave the RBA very comfortable about cutting local rates again in the near term.

The capital cities CPI outcomes were mixed.

The picture was mixed across the nation with various capital cities recording rises and falls. In QIV the rises were posted in: Canberra (0.3%); Perth (0.2%); Melbourne (0.1%); and Hobart (0.1%). CPI falls were recorded by: Sydney (-0.1%); Brisbane (-0.2%); Adelaide (-0.1%); and Darwin (-0.4%).

In annual terms, the capital city CPIs ranged from a low 2.4% in Brisbane and Darwin to a high of 3.6% in Adelaide and Canberra.

Upstream price pressures.

Market pricing.

Financial markets received the inflation data they wanted today. It is now clear that inflation pressures are sufficiently benign to support another RBA rate cut. Note that the markets are still expecting a reasonably serious downturn to occur here. They expect the cash rate to be cut to 3.25% in late 2012.

Underlying inflation at 2.5%pa.

We expect the RBA to describe the underlying inflation rate in QIV at 2½%pa. On a six-month-ended basis, the QIV underlying CPI was running at an annualised rate of only 1.9%.

Wages are a significant source of upstream price pressures. But they may be assisting the RBA to give the green light to rate cuts.

Wages tends benign.

The wages trends are being driven by rising concerns over unemployment. In an economy with unemployment rate just above 5% there appears to be an unusually significant amount of consumer, and employee, caution about the economic outlook.

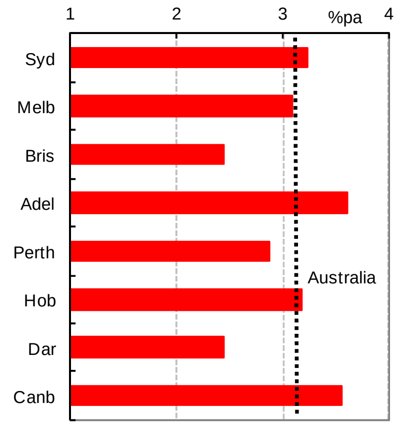
Unemployment rate rising to 5.5% in 2012.

We expect the unemployment rate to shift slightly higher over 2012, to around 5.5%. It is likely to be lower in the mining States of Queensland and WA, than the other States. Some regions with higher exposures to domestic tourism, like south east Queensland, may continue to experience much weaker jobs markets than others. That will drive more mobility across the workforce as people try to enter the resources and related sectors.

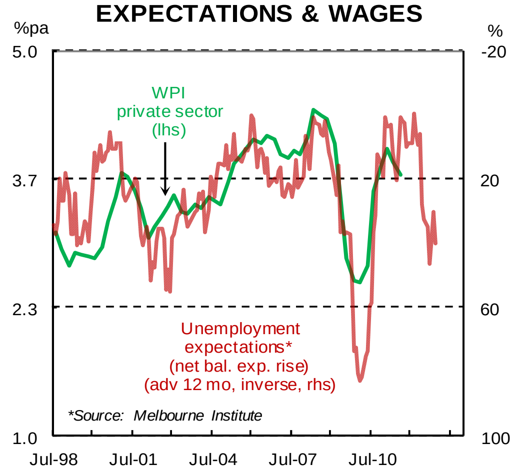
Most surveys of households indicate that they are concerned about their financial and employment outlooks. The CBA survey of consumer perceptions, for example, shows that the majority of respondents feel their personal circumstances are worse than six months ago.

The net proportion expecting some improvement in the next six months is low. Australian

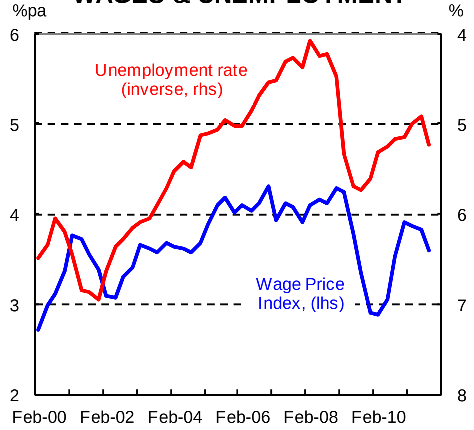
STATE CPI INFLATION



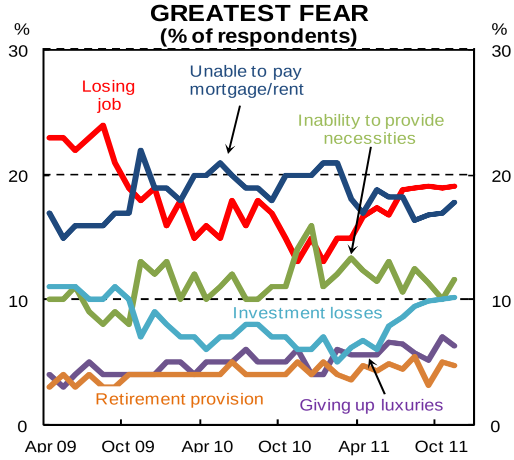
EXPECTATIONS & WAGES



WAGES & UNEMPLOYMENT



GREATEST FEAR
(% of respondents)



Source: CBA Viewpoint

Strong income growth has allowed consumers to spend more, save more and pay off debt.

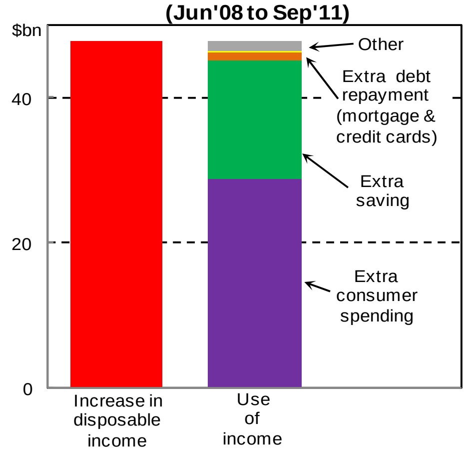
households have pulled off the nice trick of consuming at “normal” rates while simultaneously lifting saving and debt repayment.

Strong national income growth makes normal consumption and higher savings possible. In the period since Lehman’s went under in 2008, household disposable income has grown at an annualised pace of more than 7%. Of the $48bn rise in disposable income over the period:

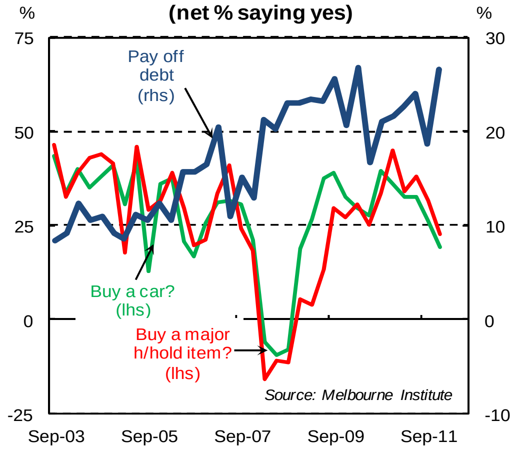
- 60% went on additional consumer spending;
- 34% was saved; and
- 6% went to other uses including additional principal repayments on household debt.

The uncertainty over their finances that faces households in the first few months of 2012 is likely to mean continued caution over debt levels and spending.

USE OF INCOME
(Jun'08 to Sep'11)



IS NOW A GOOD TIME TO ...
(net % saying yes)



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Australian Economic Perspective

Safety Valve – increased migration easing the skills squeeze

- Australia's construction intensive mining boom is ramping up, and will place heavy demands on the economy in 2012.
- Skilled visa data shows that some of the construction boom labour demands are being accommodated from offshore.
- A lift in skilled migration, and migration more broadly, is likely to see a turnaround in working age population growth.
- Slower working age population growth has helped contain unemployment rate rises in the face of weak jobs growth.
- But that protection looks to be fraying, leaving greater scope for policy easing if jobs growth fails to materialise.

Amongst other challenges, Australia has a major construction boom to accommodate over the course of the next few years. The boom in construction activity is being dominated by the resources sector, with activity dominated by engineering construction in Western Australia and Queensland.

How the economy would be able to accommodate this boom without has been a concern over the past few years. Arguably, the desire to get in front of the boom – and prevent wage inflation spilling over to other sectors in what was then a tightening labour market – was a factor in the RBA's move to get monetary policy "ahead of the curve" in late 2010.

Most analysis of the boom points out the potential inflation challenges. A slowing in migrant inflows and working age population growth have rung alarm bells in this regard.

However, recent data on skilled worker visas and monthly arrivals and departures suggests that the early stages of "Mining Boom Mark II" are being accommodated more easily, thus far. Additionally, there is tentative evidence that the net overseas migration cycle may be turning. These two factors should result in an increase in labour supply, easing pressures arising from the major FDI inflow into the Australian resources sector. It goes without saying that there are other factors at play as well. In particular, weakness in other sectors of construction and greater use of imported content in major projects are two factors in particular that are also assisting.

However, the surge in temporary skilled worker visas is a noteworthy trend. Particularly in the construction sector. Skilled worker (457) visas for the construction sector have surged since the middle of 2011. They are now equivalent to 1% of construction employment. In WA in particular construction 457 visas are now equivalent to 3% of WA's construction jobs.

Whilst important for some sectors, and materially so at particular skill points within them, 457 visas are still a small proportion of the labour market. More broadly, signs that total net overseas migration flows may be picking back up are more promising from an economy-wide perspective. Australia's relative economic strength may be a factor in fewer permanent departures and an increase in permanent arrivals. Recent weaker net overseas migration has been a factor in the recent slowdown in working age population growth in Australia. The subsequent weaker growth in the supply of labour has been a key factor in the unemployment rate remaining subdued in the face of weak jobs growth.

Both 457 and net overseas migration trends will go some way to easing concerns about a tight labour market and wages pressures. At the margin, a "looser" labour market reduces one concern for policy – the potential for spillover wage inflation. But it does present a risk in the other direction. In the absence of a pickup in employment, stronger migrant inflows will remove one of the protections the labour market has enjoyed over the course of 2011. The risk lies with a quicker lift in the unemployment rate.

Combined with recent weaker CPI outcomes, and ongoing global uncertainties, potentially greater slack in the labour market is a further support for easier monetary policy.

Adding to a crowded project pipeline

Further project announcements are swelling the construction boom.

The latest reading on Australia's minerals and energy major project pipeline reported a 36% increase in the value of advanced projects to $231.8bn. This is equivalent to more than 16% of GDP, as at QIII 2011, and more than three years of engineering construction activity at current rates of spending.

The impacts of the capital spending boom, which is still in its early stages, is set become more noticeable over the course of 2012.

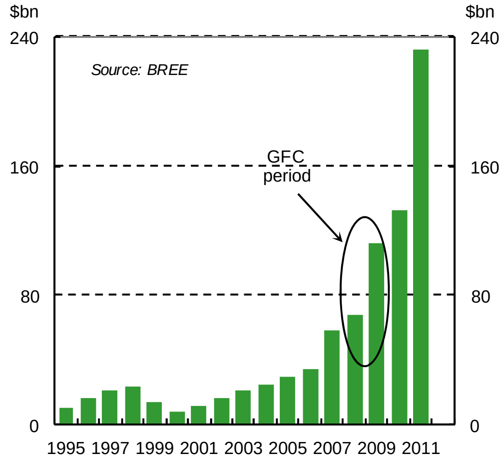
However, over the summer period that project pipeline received another major boost. A final investment decision approval was announced for the US$34bn Ichyths LNG project. The two-train project is Australia's second-largest announced LNG project, behind the A$43bn Gorgon investment.

Estimates of work in the pipeline are yet to include projects like Olympic Dam.

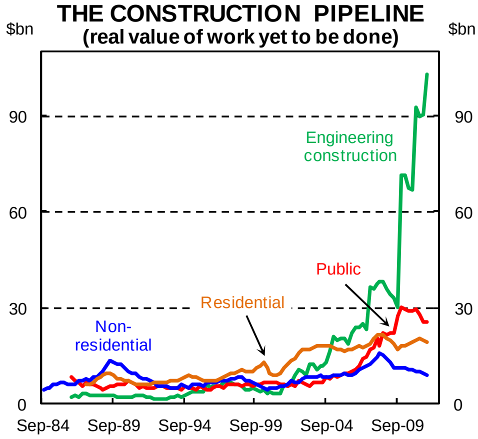
Additionally, major export infrastructure proposals have advanced further. And the $30bn Olympic Dam project is heading for a final investment decision in 2012.

New project approvals, and commencements of projects that were approved in 2011, is set to further boost the construction pipeline. The value of work yet to be done on projects that have already started rose to a new record of $104bn in QIII 2012.

ADVANCED MINING PROJECTS



THE CONSTRUCTION PIPELINE
(real value of work yet to be done)



Cost blowouts and delays a concern

Skills shortages, cost blowouts and schedule remain a concern.

The size and scope of the current wave of construction activity has raised concerns about cost overruns and schedule slippages.

Some projects have already suffered from both, particularly the Pluto LNG project.

The lift in construction activity in "Mining Boom Mark I" resulted in significant upward pressure on construction prices. Particularly in engineering construction, the category which encompasses most mining related expenditures. Engineering construction costs rose at a double digit pace in 2006/07.

Broad measures of construction prices are contained, for the moment.

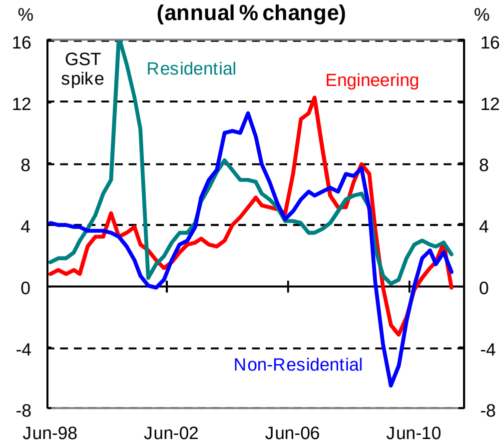
However the most recent QIII 2011 reading shows engineering construction costs falling by 0.2% over the year.

The higher Australian dollar is likely to have assisted, particularly given the increasing proportion of major project inputs being imported. Softening in activity in other sectors of construction is also likely to have eased the pressure somewhat.

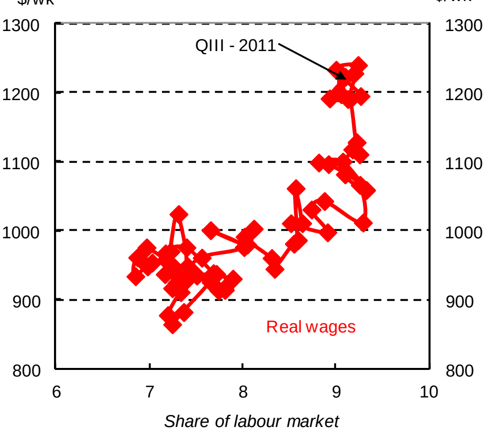
Price and availability of skilled labour a concern.

This is less likely to be the case on the labour front. The significant increase in construction activity over the past decade has predominantly been driven by increases in labour inputs.

CONSTRUCTION INFLATION
(annual % change)



CONSTRUCTION WAGES



Productivity gains have been limited. Construction employment has grown by 50% over the decade to November 2011. Employment in other sectors increased only 24% over the same period.

As construction's share of the labour force has risen, wages have increased in order to compete for workers from other sectors. Higher wages also induce some workers to retrain. But in the absence of productivity gains, higher wages increase construction costs.

Migration flows a safety valve

Surge in skilled visas easing some labour pressures.

Increase migrant inflows appear to have offered somewhat of a safety valve on wage pressures stemming from the construction boom.

Recent developments suggest that the boom in resources-related construction may be accommodated more easily than in the period prior to the GFC. The use of temporary skilled workers is increasing.

The number of 457 visas (temporary skilled workers) has surged since the middle of 2011. The number of primary visas in operation has risen 15% (+11.2k) since June 2011. Applications are around record highs.

Construction visas are surging, as firms look overseas for labour.

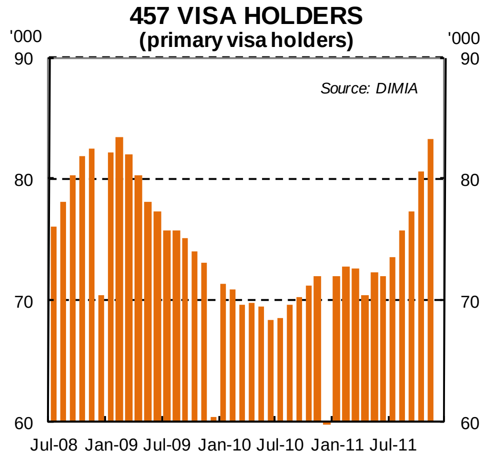
This is especially the case in the construction sector. Construction industry 457 visa applications, and grants, have spiked. The number of construction 457 visas in operation has risen by 25% since June 2011.

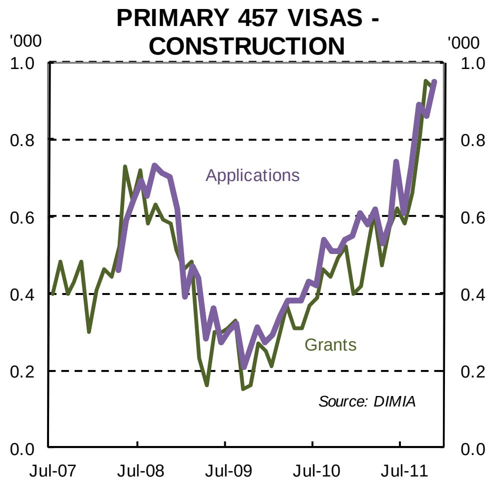
Unsurprisingly, the location of construction 457 visa grants is aligned with the regional dimensions of the resources boom. Queensland and WA account for 31% of total employment. The two major resource states account for 40% of 457 visa grants. However, 68% of construction 457 visa grants are for Queensland and WA. Nearly half of all temporary skilled construction workers are bound for WA!

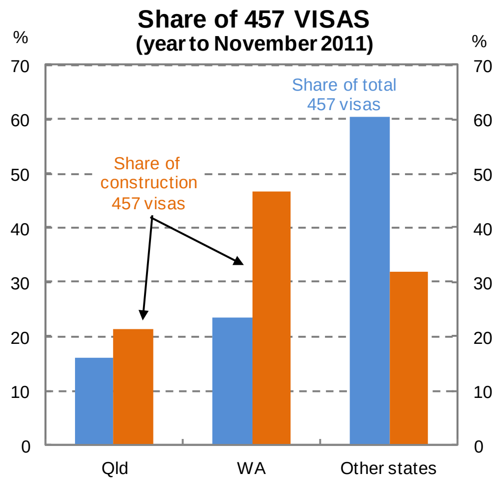
Temporary skilled workers now account for 1% of construction jobs.

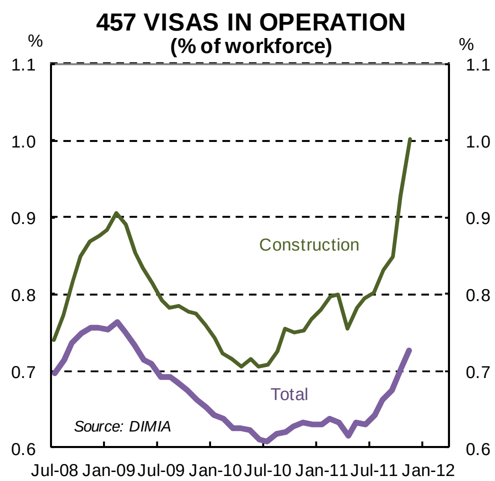
Across the economy the number of 457 visas in operation is a very small proportion of the workforce. The 83k 457 visa holders is equivalent to just 0.7% of total employment. However in the construction sector they are a more significant force. In November 2011 457 visa holders accounted for 1% of construction sector jobs. As the chart illustrates, the share of 457 visas in the construction workforce has risen significantly since the middle of the year.

In WA, the number of construction 457 visas in operation was equivalent to 3.1% of construction sector jobs at November 2011. We would not be surprised to see the share of 457s in Queensland's construction sector lift as major coal, LNG and infrastructure projects proceed through the construction process.









Migration cycle turning?

Turn in migration cycle also likely to ease labour market pressures.

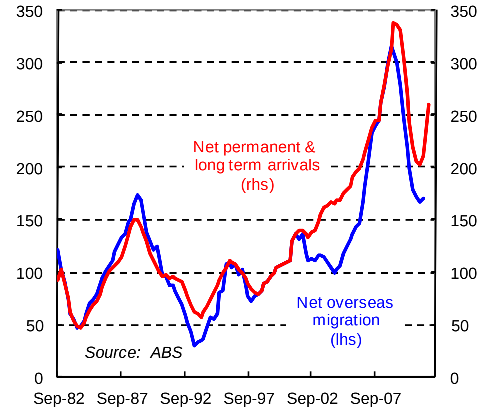
Whilst 457s have been increasing, there are signs that the migration cycle more broadly may be turning in a way that is favourable to labour supply.

Net overseas migration flows have fallen significantly from the peaks in late 2008. Over the year to June 2011 net overseas migration added 170k persons to the population. This is down from 300k over the year to June 2009.

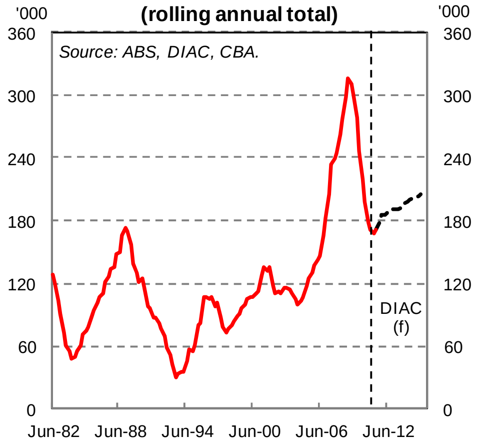
The population figures are published with a lag. Recent trends in monthly arrivals and departures figures suggest that net migration may have picked back up over the second half of 2011. Net permanent and long term arrivals have been increasing, and departures declining.

This is consistent with the move recent outlook for net overseas migration from the Department of Immigration and Citizenship (DIAC). DIAC is projecting a recovery in net overseas migration, with an increasing skilled proportion.

NET OVERSEAS MIGRATION & ARRIVALS
(rolling annual total)



NET OVERSEAS MIGRATION
(rolling annual total)



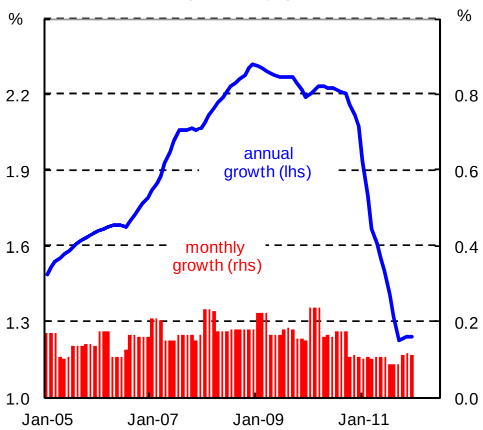
Policy implications

Weak jobs growth, skills imports, and stronger migration ease wage inflation concerns.

Concerns about potential labour shortages, and wage pressures flowing over from the mining boom, were part of the picture in the RBA's quest to move monetary policy "ahead of the curve" in late 2010.

At that time, the backdrop of declining net overseas migration was also having an effect on labour supply. In the background, demographic trends mean that the number of 15-19 year olds entering the workforce is set to decline over the next few years. The combination of those two factors resulted in working age population growth falling dramatically. This has, to date, muted the impact of weak jobs growth on the unemployment rate.

WORKING AGE POPULATION
(% change)



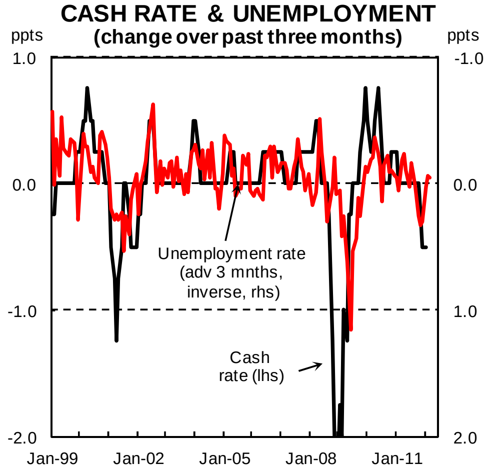
However, greater utilisation of 457 workers to meet skills shortages, and an increase in net overseas migration is likely to erode that benefit. Stronger labour supply, and potentially less risk of a construction sector wages blowout, reduces pressure on inflation.

More "relaxed" labour market increases flexibility to cut rates.

Along with recent weaker CPI outcomes, and ongoing global uncertainties, a more "relaxed" labour market is a further support for easier monetary policy.

In the absence of a pickup in jobs growth, the trends we have identified here present upside risk to the unemployment rate. And movements in the unemployment rate have provided a strong guide to the direction of monetary policy in the past. Weaker non-mining confidence suggests the risks to monetary policy lie with a lower cash rate.

CASH RATE & UNEMPLOYMENT
(change over past three months)



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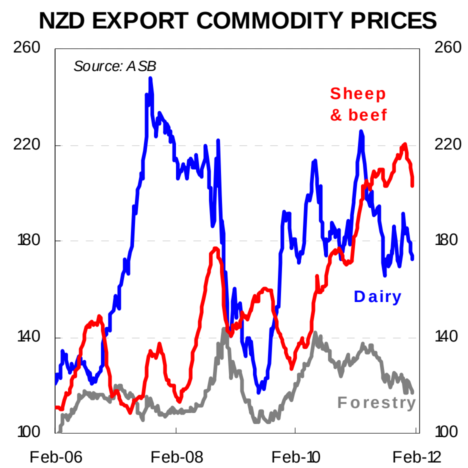
New Zealand Economic Perspective

Fragile outlook keeps OCR on hold

- The OCR remained on hold at 2.5%, as widely expected.
- RBNZ noted improved market sentiment offshore, but downside risks to domestic economy.
- We continue to expect the OCR to remain on hold until December 2012.

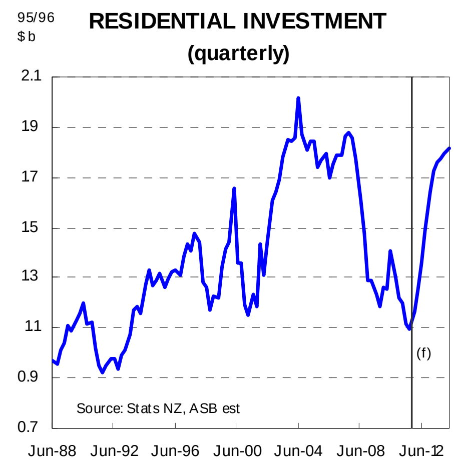
The statement was brief, reflecting the fact that there has been no material change in the economic outlook. The RBNZ appeared slightly more upbeat on the international front, noting the improved sentiment. However, the RBNZ was more wary on local developments, noting the high NZD weighing on export returns and highlighting the likelihood of further delays to Canterbury rebuilding. We continue to expect the RBNZ will wait until at least December 2012 before lifting the OCR.



Two threats to domestic growth

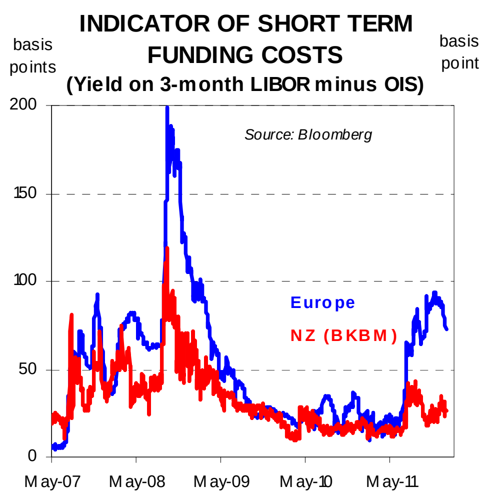
High NZD is creating a headwind for exporters.

The RBNZ did highlight a couple of threats to domestic growth. The first is the high NZ dollar, which has risen quite strongly since the previous statement and is therefore reducing returns to exporters. Much of NZ's economic growth over the past 2 years has been underpinned by a recovery in export incomes. The Eurozone debt crisis and impact on global growth present downside risks to NZ's export outlook. To date, some NZ export commodity prices, such as dairy and meat, have held up relatively well in USD terms. However, the high NZD is creating an additional headwind to other exporters which are more sensitive to global growth. In particular, manufacturing, forestry and tourism operators will face challenging conditions over 2012.



Canterbury rebuild may be delayed further following recent spate of aftershocks.

The second risk the RBNZ noted was the possibility the Canterbury rebuild may be further delayed by the recent aftershocks, which would push back the significant chunk of economic activity that it is expected to generate. Currently, we are expecting rebuilding activity to pick up in the second half of 2012, but would agree that the risk is that work gets pushed back if strong aftershocks continue. So far we have seen little construction activity coming through in forward-looking activity indicators.

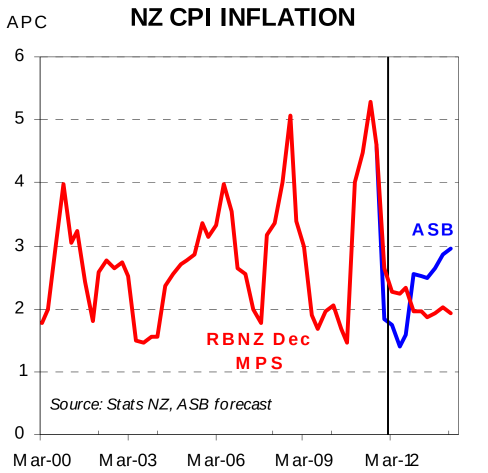


Household sector showing some signs of recovery

Household spending and the housing market show signs of slow recovery.

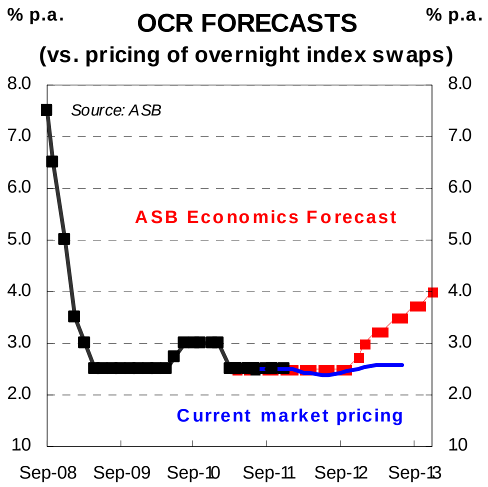
On the positive side, the statement points to a 'limited' recovery in household spending and the housing market. This was not mentioned in the previous statement, so the RBNZ looks to be more optimistic on this sector of the economy. That would generally tally with what we have seen in recent data.

Seasonally-adjusted housing turnover has been picking up, rising by 6.2% in November and a further 5.0% in December. Meanwhile, the supply of houses coming onto the market remains low, with the tight conditions underpinning a lift in house prices.



International funding costs are likely to rise for NZ banks.

Unsurprisingly the statement points to risks in the outlook for the global economy, stemming from Europe. Following on from recent statements, the RBNZ notes that this will increase the cost of international funding for NZ banks. Governor Bollard also nodded towards the policy responses of the ECB, saying that liquidity has improved in European markets since the December statement.



Inflation is not a concern

RBNZ notes that inflation pressures remain well contained.

The RBNZ looks to be very comfortable on the inflation front, noting that inflation pressures remain well contained. This is unsurprising in light of the decline in the Q4 CPI, which indicated that subdued inflation was broad-based across the NZ economy. In particular, there is little sign construction costs are picking up, reflecting continued weakness in construction activity. Recent inflation indicators also point to inflation pressures remaining contained. Recent businesses surveys showed a continued easing in pricing intentions and cost expectations, while medium-term inflation expectations have moderated.

Implications

OCR to remain on hold until December 2012.

There were no surprises from the RBNZ's January OCR review, as it stuck to the same punch line from December. The RBNZ appeared slightly more upbeat on the international front, noting the improved sentiment. However, the RBNZ was more wary on local developments noting the high NZD weighing export returns and the likelihood of further delays to Canterbury rebuilding. These are key factors that will be underpinning NZ's economic recovery over the coming years, and in light of weakness in these areas it is likely the RBNZ is reassessing the timing of OCR increases (its December MPS forecasts were consistent with a mid-2012 start). We continue to expect the RBNZ will wait until at least December 2012 before lifting the OCR. There is no urgency to lift interest rates on the domestic front, and the RBNZ needs to remain wary of the risks around the Eurozone debt crisis and global economic outlook.

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International Economic Perspective

“Global recovery stalls, downside risks intensify” – the IMF trims its global growth forecasts

- The IMF lowered its global growth forecasts to 3.3% in 2012 and 3.9% in 2013.
- Downward revision to Eurozone forecasts were the key driver of the more subdued assessment, particularly in 2012.
- “*Decisive and consistent policy action is urgently needed*” as “*the current environment provides fertile ground for self-perpetuating pessimism* .”

IMF lowers global growth forecasts in 2012 and 2013

The IMF followed the lead of other official agencies and significantly reduced its global GDP growth forecasts for 2012 and 2013 today. Last week the World Bank cut its global growth forecasts for 2012 to 3.4%, roughly in line with our own view of 3.5% global expansion. Today the IMF followed suit, lowering its forecast for this year to 3.3%. A modest re-acceleration to 3.9% is then expected in 2013.

The previous expectation of IMF economists had been for expansion of 4.0% in 2011 and 2012, accelerating to 4.5% in 2013. But the September 2011 World Economic Outlook titled “*Slowing Growth, Rising Risks*“ included plenty of qualifications and discussion of risks around the central case projections.

Risks back then were already perceived to be to the downside and intensifying, with potentially “*severe*” repercussions if European leaders failed to contain the developing crisis. As we have seen over the past few months, the crisis has not yet been contained and many of these downside risks have started to materialise. In the words of today’s World Economic Outlook Update, “*Financial conditions have deteriorated, growth prospects have dimmed and downside risks have escalated.*”

Expected Euro-zone recession a key cause of softer global performance in 2012

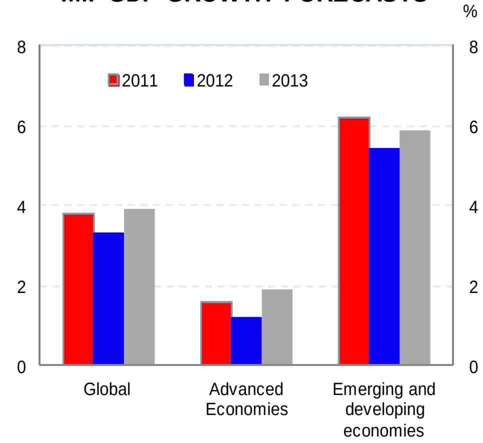
World growth slowed sharply through Q4 so that full year expansion for 2011 undershot the 4.0% that the IMF forecast back in September. A 3.8% 2011 number is now assumed by the IMF. Moreover, growth prospects have also dimmed sharply as the Eurozone crisis escalated.

The new full-year forecasts for 2012 are 0.7% lower at 3.3%. Unsurprisingly the most significant downward revision was to Eurozone growth prospects in both 2012 and 2013. The Eurozone economy is expected to enter a mild recession in 2012 as a result of the rise in sovereign yields through Q4, the effects of bank de-leveraging on the real economy and accelerated and additional fiscal consolidation.

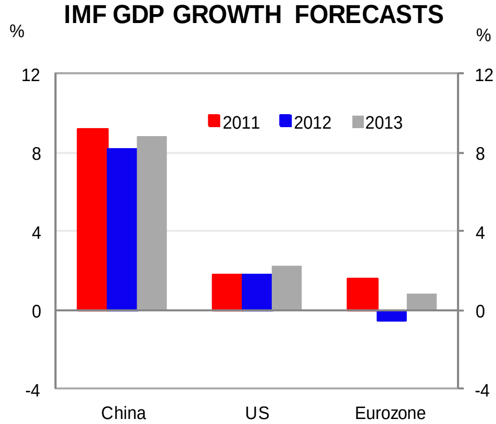
Eurozone GDP growth estimates were lowered by a full 1.6% for 2012, with the IMF now expecting contraction of 0.5% this year. This is significantly lower than official European forecasts from the ECB or European Commission who both expect shallow positive performance in 2012. Eurozone economic growth should then re-accelerate to 0.8% in 2013, also significantly below the previous estimates of 1.5%.

Within Europe expected performance in Italy and Spain has been hit the hardest, with full-year 2012 forecasts revised lower by 2.5% and 2.8% respectively. Both economies are expected to contract in 2012 and 2013. In Northern Europe, however, France and Germany are forecast to expand both years keeping aggregate Eurozone performance

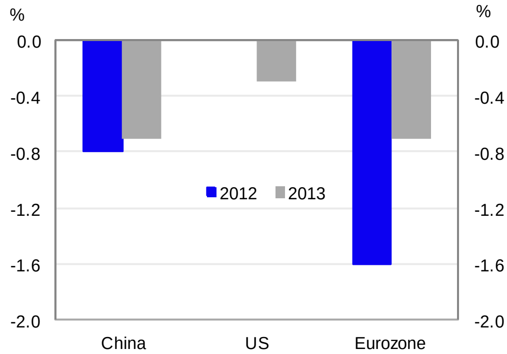
IMF GDP GROWTH FORECASTS



IMF GDP GROWTH FORECASTS



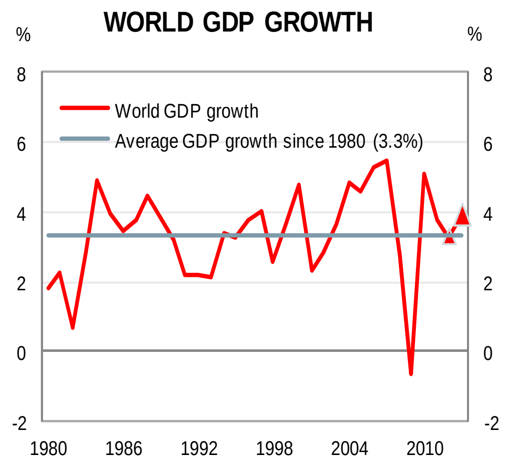
IMF GDP GROWTH FORECAST REVISIONS SINCE SEPTEMBER 2011



respectable.

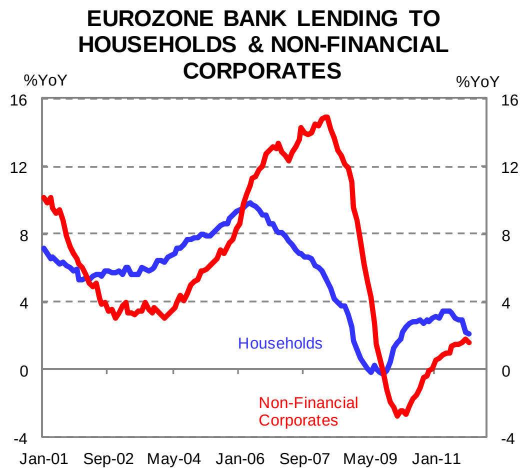
No change to US GDP forecasts in 2012, but still not quite reaching trend growth

Interestingly there is no change to the IMF's views of economic growth in the US in 2012. Expansion of 1.8% in 2011 will be matched in 2012, before modest acceleration takes US growth in 2013 up to 2.2%. Improving domestic demand dynamics are expected to offset any spill - overs from the Eurozone crisis via trade or financial linkages. Clearly this performance is far superior to the expected European outlook, both in absolute terms and relative to trend. However, the IMF is forecasting that the US economy will again fail to reach trend rates of expansion in the next couple of years, suggesting that further Fed monetary policy easing may still be needed in 2012.



Global growth still around average rate of the past 30 years

Clearly the scale of the forecast revisions was significant. However, GDP growth of 3.3% if delivered this year is not bad by the standards of the past 30 years. In fact it is roughly in line with average expansion over this period, so reasonable just not bumper.



But the general message from the IMF remains familiar, namely that the composition of global growth is again skewed more favourably towards the BRIC, Asian and emerging market economies. Growth in the advanced economies is forecast to total 1.2% in 2012 before accelerating to 1.9% in 2013. Expansion in the emerging and developing economies on the other hand will be 5.4% and 5.9% respectively. China is forecast to expand by 8.2% in 2012 and then 8.8% in 2013.

These numbers have also been trimmed since September, aggregate emerging market forecasts by 0.6% and 0.7% in 2012 and 2013, Chinese ones by 0.7% and 0.8%. The worsening external environment inevitably has some impact on growth prospects in the emerging economies. But easing internal demand is also at play.

Still plenty of risks

In the view of the IMF there are still plenty of risks to this more subdued view of global growth prospects. Unsurprisingly, the Eurozone debt crisis remains centre stage. The most immediate risk is "*intensification of the adverse feedback loops between sovereign and bank funding pressures in the euro area, resulting in much larger and more protracted bank deleveraging and sizeable contractions in credit and output.*" The current environment of fragile financial systems, high public deficits and debt and near-zero interest rates, provides "*fertile ground for self-perpetuating pessimism and the propagation of adverse shocks.*"

There are three requirements for a more resilient recovery in the view of the IMF. First, sustained but gradual adjustment. Second, ample liquidity and easy monetary policy. Third, restored confidence in policymakers' ability to act. Progress has been made on the first two. But confidence is all.

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Calendar - Australasia, Japan and China

Date	Time AEST	Econ	Event	Period	Unit	Last	Forecast Market	Forecast CBA
31 January	08:45	NZ	Building Permits	Dec	m%ch	-6.4	~	~
	10:30	JN	Jobless Rate	Dec	m%ch	4.5	4.5	~
	10:30	AU	RPData-Rismark House Prices	Dec	m%ch	0.1	~	~
	10:50	JN	Industrial Production	Dec P	y%ch	-4.2	-5.0	~
	11:30	AU	NAB Business Conditions	Dec	Index	1	~	~
	11:30	AU	NAB Business Confidence	Dec	Index	2	~	~
	11:30	AU	Private Sector Credit	Dec	m%ch	0.3	~	0.3
	11:30	AU	Private Sector Credit	Dec	y%ch	3.5	~	3.6
	15:00	JN	Vehicle Production	Dec	y%ch	4.5	~	~
1 February	09:30	AU	AiG Performance of Manufacturing Index	Jan	Index	50.2	~	~
	11:30	AU	ABS House Price Index	QIV	q%ch	-1.2	~	~
	11:30	AU	ABS House Price Index	QIV	y%ch	-2.2	~	~
	12:00	CH	PMI Manufacturing	Jan	Index	50.3	49.6	~
	13:30	CH	HSBC Manufacturing PMI	Jan	Index	48.7	~	~
2 February	11:30	AU	Building Approvals	Dec	m%ch	8.4		10.0
	11:30	AU	Building Approvals	Dec	y%ch	18.9		-16.0
	11:30	AU	Trade Balance	Dec	AUD bn	1.4		1.2
3 February	08:45	NZ	Net Migration	Dec	~	-50		~
	09:30	AU	AiG Performance of Service Index	Jan	Index	49.0		~
	12:00	CH	China Non-manufacturing PMI	Jan	Index	56.0		~
	13:30	CH	China HSBC Services PMI	Jan	Index	52.5		~

Calendar – North America & Europe

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

Date	UK Time	Econ	Event	Period	Unit	Last	Forecast Market	Forecast CBA
30 January	10:00	IT	Italy bond auction					
	10:00	EZ	Eurozone Consumer Confidence	Jan F	Index	-20.6	-20.6	~
	13:30	US	Personal Income	Dec	m%ch	0.1	0.4	~
	13:30	US	Personal Spending	Dec	m%ch	0.1	0.1	~
	13:30	US	PCE Core	Dec	y%ch	1.7	1.7	~
	14:00	EZ	EU Leaders Hold Summit in Brussels					~
	14:00	FR	France bill auction					
	15:30	US	Dallas Fed Manufacturing Activity	Jan	Index	-3	~	~
	~	GE	CPI - EU Harmonised	Jan P	y%ch	2.3		~
31 January	00:01	UK	GfK Consumer Confidence Survey	Jan	Index	-33	-32	~
	08:30	EZ	EU's Barroso Speaks at Think Tank Conference					
	08:55	GE	Unemployment Rate	Jan	%	6.8	6.8	~

	10:00	EZ	Eurozone Unemployment Rate	Dec	%	10.3	10.4	~
	10:30	BE	Belgium bill auction					
	13:30	CA	Gross Domestic Product	Nov	m%ch	0.0	0.2	~
	14:00	US	S&P/CaseShiller Home Price Index (20 city)	Nov	y%ch	-3.4	-3.2	~
	15:00	US	Consumer Confidence	Jan	Index	64.5	68.0	~
	23:00	EZ	ECB publishes bank lending survey					
1 February	08:15	SZ	Retail Sales	Dec	y%ch	1.8	~	~
	08:30	SZ	PMI Manufacturing	Jan	Index	50.7	51.0	~
	08:55	GE	PMI Manufacturing	Jan F	Index	50.9	50.9	~
	09:00	EZ	PMI Manufacturing	Jan F	Index	48.7	48.7	~
	09:30	UK	PMI Manufacturing	Jan	Index	49.6	49.8	~
	10:00	EZ	Eurozone CPI Estimate	Jan	y%ch	2.8	2.7	~
	10:15	GE	Germany bond auction					~
	13:15	US	ADP Employment Change	Jan	'000	325	185	~
	13:30	US	Fed's Plosser Speaks on Economy in Gladwyne, Pa.					
	15:00	US	ISM Manufacturing	Jan	Index	53.9	54.5	~
	16:20	EZ	ECB's Weidmann speaks in Dusseldorf					
2 February	07:00	SZ	Trade Balance	Dec	CHF bn	2.95	~	~
	09:30	UK	PMI Construction	Jan	Index	53.2	~	~
	10:00	FR	France bond auction					
	10:00	EZ	Eurozone PPI	Dec	y%ch	5.3	4.4	~
	13:30	US	Initial Jobless Claims	Jan	'000	~	~	~
	14:00	US	Fed's Evan speaks in Chicago					
	15:00	US	Fed's Bernanke testifies before House Budget Committee					
3 February	00:15	US	Fed's Fisher Speaks in Austin, Texas					~
	09:00	EZ	PMI Composite	Jan F	Index	50.4	~	~
	09:00	EZ	PMI Services	Jan F	Index	50.5	50.5	~
	09:30	UK	PMI Services	Jan	Index	54.0	53.0	~
	10:00	EZ	Eurozone Retail Sales	Dec	y%ch	-2.4	~	~
	12:00	CA	Unemployment Rate	Jan	%	7.5	7.5	~
	13:30	CA	Net Change in Employment	Jan	'000	17.5	22.3	~
	13:30	CA	Participation Rate	Jan	%	66.6	~	~
	13:30	US	Unemployment Rate	Jan	%	8.5	8.5	~
	13:30	US	Change in private payrolls	Jan	'000	212	168	~
	13:30	US	Change in non-farm payrolls	Jan	'000	200	150	~
	15:00	US	ISM Non-Manufacturing Composite	Jan	Index	52.6	53.3	~
	15:00	US	Factory Orders	Dec	m%ch	1.8	1.2	~

JAN F

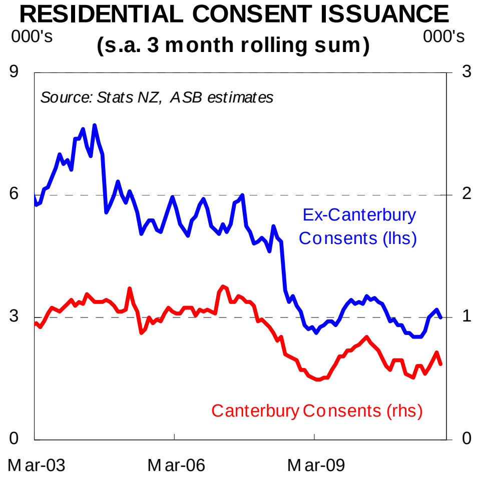
Calendar – Key Events To Watch

Australia and New Zealand

Tuesday 31 January

NZ Building Consents, Dec, m/y%ch, (-6.4/-5.9 prev)

Residential dwelling consent issuance continues to languish at very low levels, falling 6.4% over November. Excluding the volatile apartment series, residential consents fell 2.5%. The trend in consent issuance has showed a very gradual pick up in demand for housing construction outside of Canterbury. Nonetheless, overall consent issuance remains very low and points to ongoing weakness in construction activity over the start of 2012. Over recent months, Canterbury consent issuance has started to lift off lows but still remains below pre-quake levels. It remains too early to see a meaningful pick-up in earthquake reconstruction activity.

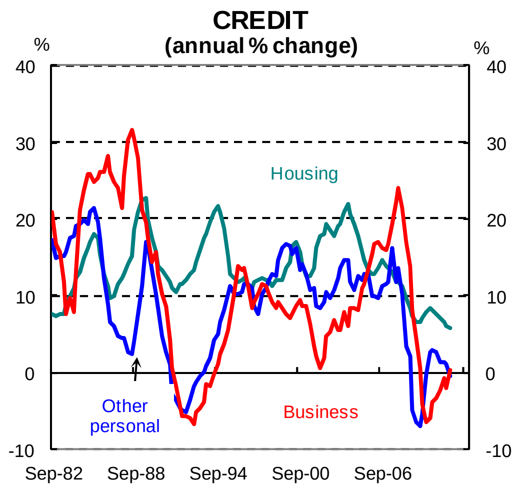


There are signs of some recovery in non-residential consent issuance, particularly for private non-residential investment. Nonetheless, commercial construction intentions results have been mixed in recent business confidence surveys, suggesting a degree of caution remains amongst businesses.

Tuesday 31 January

AU Private Sector Credit, Dec, m/y%ch, (f) 0.3/3.6 (0.3/3.5 prev)

Credit growth remains relatively soft. In November, annual credit growth stood at 3.5%, comparatively weaker to nominal spending growth of 5.5%p.a. The uncertain future economic outlook is keeping households and business from lifting their debt levels as they remain cautious about the future. However, business lending does seem to be in a very subdued recovery, with the annual growth rate in November being the highest since May 2009. We expect continued weakness in credit growth on the back of volatile market activity and weakened consumer and business sentiment.

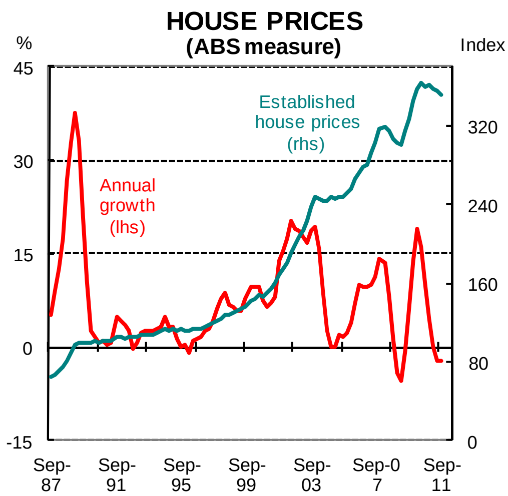


Wednesday 1 February

AU House Prices, QIV, q/y%ch, (-1.2/-2.2 prev)

Australian house prices have been at weak levels over 2011. They have declined whilst other prices and income levels have continued to rise. In November, the RP-Riskmark measure of dwelling values recorded its first gain in capital city home values since December. 2010. Regional home values also recorded their strongest rise in November since December 2010. We expect QIV house prices to be relatively weak, but showing signs of stabilisation.

However, we expect the overall relative weakness in house prices over HII to be reflected in the QIV data.



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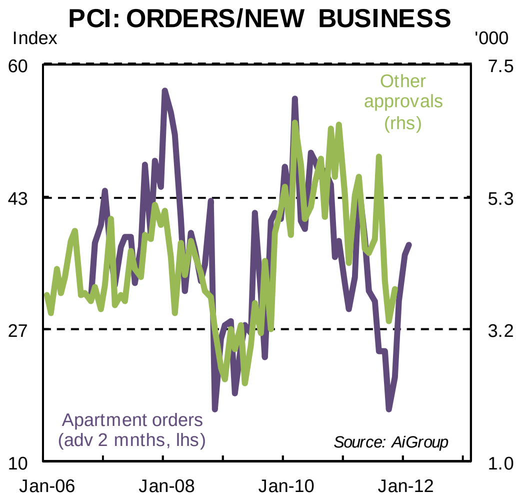
Thursday 2 February

AU Building Approvals, Dec, m%ch, (f) 10.0, (8.4 prev)

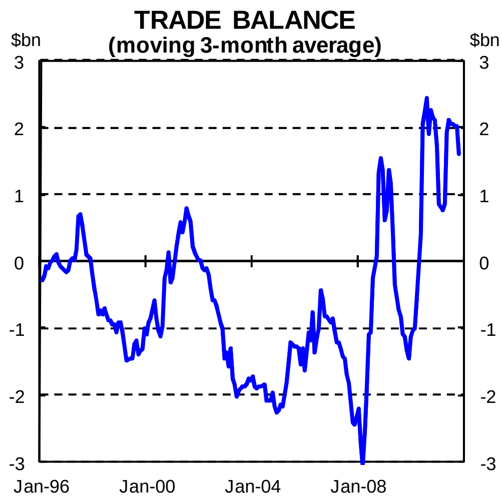
Building approvals recovered in November, after reporting their weakest levels since March 2009 in the preceding month. The November and December RBA interest rate cuts should flow through to housing loan approvals (a historically interest rate sensitive area) and be reflected in the December figure. However, non-residential approvals still remain at exceptionally weak levels. And, a strong Australian dollar is not assisting areas outside of the mining sector. The Performance of Construction Index (PCI) reported a rise in December new construction orders. Historically, a correlation between the PCI and approvals has been observed. We expect building approvals to rise 10% in December.



Thursday 2 February

AU Trade Balance, Dec, AUD bn, (f) 1.2, (1.4 prev)

The goods and services trade surplus contracted marginally in November. Export growth looks to have peaked in QIII 2011 and should move lower over the coming months. In particular, slower growth by Australia's major trading partners (especially China) looks likely throughout 2012. Imported capital goods related to the mining sector are currently particularly strong on the back of the commodities boom. Preliminary indicators for the December trade figure show imports improving marginally and export growth flat, despite weaker prices. Queensland port data in particular suggests very strong growth in coal exports over December. We expect the trade balance to be around A$1.2bn for December.

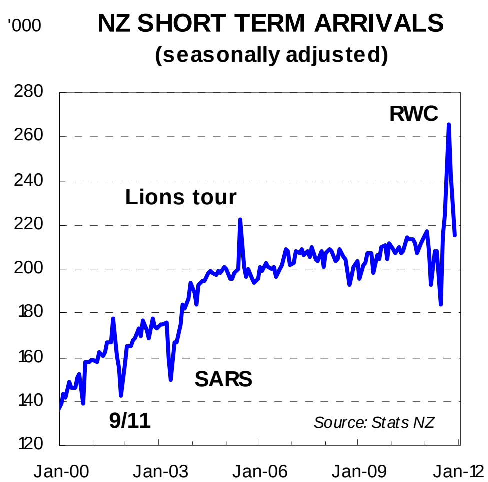


Friday 3 February

NZ Net Migration, Dec

The boost in short-term international visitor arrivals from the Rugby World Cup has understandably been short-lived, with the number of visitors declining since October. This underlines the challenging conditions for the NZ tourism industry. We expect the number of international visitors will remain subdued over December given the ongoing uncertainty globally.

Meanwhile, there was a small net outflow of migrants over November, such that the annual total loss is the highest since the September 2001 year. However, a recovery in permanent long-term migration looks to be slowly taking place. In particular, permanent long-term departures to Australia continue to ease. We expect this will continue over the coming months as the Australian labour market continues to slow.



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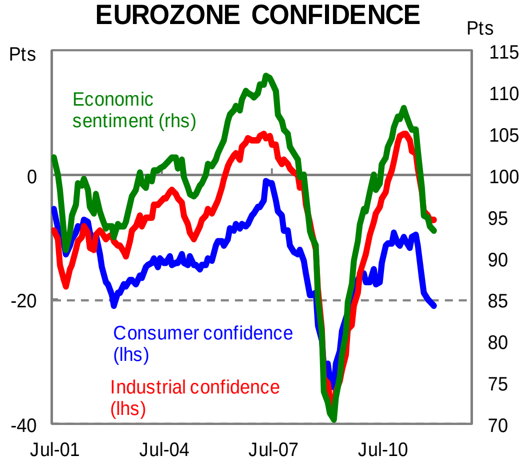
International

Monday 30 January

EZ Economic Confidence Indicators, Jan, Index

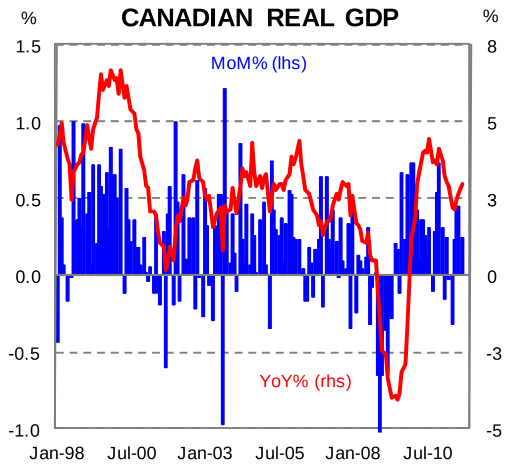
Aggregate Eurozone confidence readings across consumer, industrial and service sectors are released for January. Most of the readings stabilised in late 2011, some such as the aggregate business climate indicator edging higher for the first time in a year, others just levelling off. The advance estimate of consumer confidence for the Eurozone has already been released and edged higher to -20.6 from -21.3 in January. Further stabilisation and even modest gains look likely across the suite of sentiment readings in January, mirroring the pattern seen in various surveys already released so far this year.



Tuesday 31 January

CA GDP, Nov, m/y%ch, (0.0/2.7 prev)

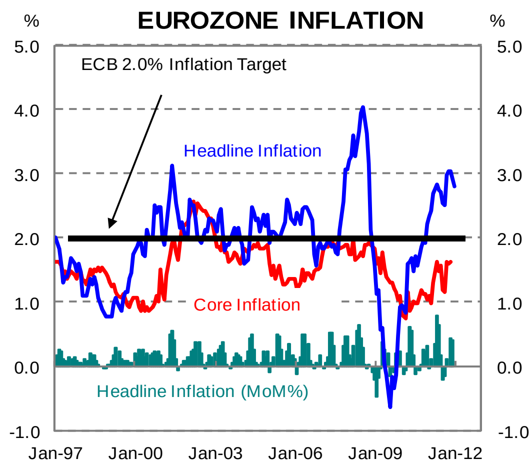
GDP data showed the Canadian economy expanded by a robust 0.9% (QoQ) during QIII, but growth was flat in the monthly series over October. Over the third quarter, better than expected exports offset subdued domestic demand. The BoC expects the QIII situation to reverse somewhat, with net exports contributing little to future growth "*reflecting moderate foreign demand and ongoing competitiveness challenges, including the persistent strength of the Canadian dollar*". The BoC expects favourable financing conditions to support consumer spending and housing activity. For the year ahead, a key assumption within both the BoC's and our outlook is that the Eurozone crisis will be contained. The risk is a more severe EU crisis which has a major impact on global growth and the Canadian economy.



Wednesday 1 February

EZ CPI, Jan, y%ch, (2.8 prev)

Eurozone CPI inflation dipped to 2.8% (YoY) in December, still comfortably above target, but nudging back under 3.0% for the first time in four months. Base effects from energy and food prices should ensure that inflation drops lower through 2012. While the ECB expects inflation to remain above target well into 2012, current elevated CPI inflation readings did not deter the ECB from easing monetary policy in late 2011. Interestingly, measures of inflation expectations such as 5yr/5yr forward breakevens have been drifting higher over the past couple of months. It will be interesting to see whether ECB President Draghi refers to this development at the next ECB meeting press conference.



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Wednesday 1 February

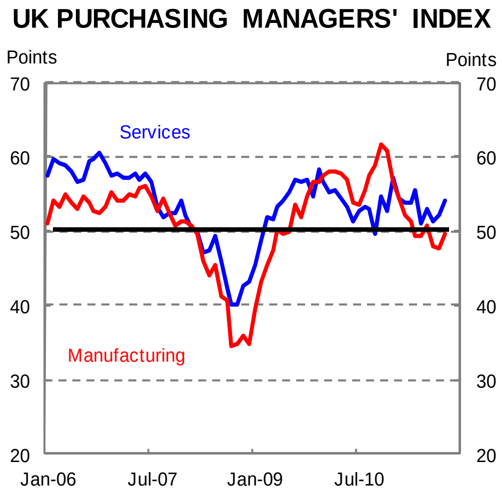
UK PMI Manufacturing, Jan, Index, (49.6 prev)

Friday 3 February

UK PMI Services, Jan, Index, (54.0 prev)

UK manufacturing and service sector PMI's ticked up in late 2011 in tandem with their Eurozone equivalents. The manufacturing reading remains sub-50 and indicative of modest contraction, the service sector reading is holding up better at 54. Further small gains in January would not be a surprise given evidence of improvement in the Eurozone and US.

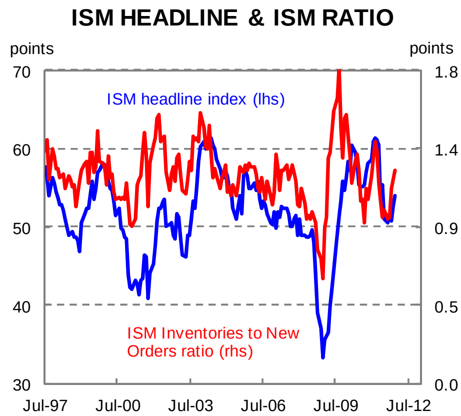
Preliminary estimates of QIV GDP suggested that output of the manufacturing industries contracted by 0.9% in the final three months of 2011, while service sector output was flat on the quarter. Aggregate GDP numbers showed a modest contraction of 0.2%. But as the Bank of England Monetary Policy Committee minutes from the January meeting pointed out, there were "some positive" developments over the month to early January. UK economic performance is likely to be soft in QI, but it is still an open question whether there will be a technical recession.



Wednesday 1 February

US ISM Manufacturing, Jan, Index, (53.9 prev)

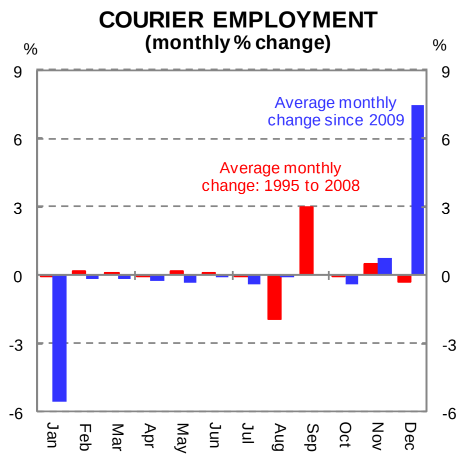
We project the January ISM to lift to a solid level near 54. Our inventories-new orders indicator suggests that demand is running ahead of production and causing inventories to fall. While exports are not the driver of US manufacturing, in contrast to parts of Asia, export orders have lifted in recent months despite the stronger USD. In addition, employment in US manufacturing is increasing, suggesting that businesses are preparing to increase production.



Friday 3 February

US Change in Non-farm Payrolls, Jan, '000, (200 prev)

We think the risks lie with a weak payrolls report for January. Our favourite payrolls indicator, temporary workers, has shown an unambiguous weakening the past three months. Jobless claims have been more volatile than usual in recent months. We do not rely on jobless claims when they are volatile. Another downside risk to payrolls is a projected fall in 'courier and messenger' employment. Courier jobs surged by 8% (42,000) in December 2011. We expect December's lift to unwind in January 2012. It appears the BLS is not adjusting courier employment properly to account of a structural shift towards online retail and consequent increase in seasonal demand for couriers. The BLS reports courier employment increased by 7%, on average, in the past three Decembers followed by an average 6% decrease in Januarys.



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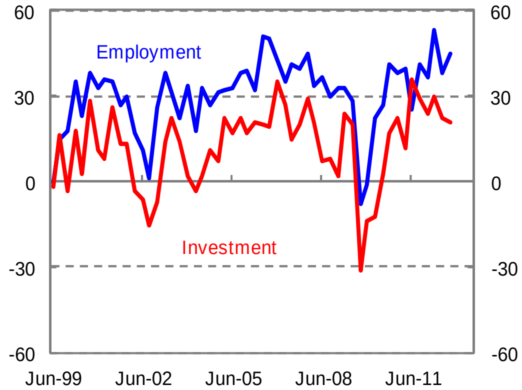
Friday 3 February

CA Net Change in Employment, Jan, '000, (17.5 prev)

Canada's unemployment rate rose to 7.5% in December, up from 7.4% in November. Although the number of people employed rose by 17,500, jobs growth trailed the growth in the size of the labour force. Employment growth has been volatile from month to month, but the trend has been weak over the second half of 2011, with the number employed only lifting by 7,400 over the last six months.

One encouraging sign came in the Bank of Canada's Winter Business Outlook Survey, where the survey showed the majority of businesses continue intending to increase investment and employment over the year ahead. We expect weak employment growth to continue over early 2012, and for the unemployment rate to remain around 7.5% over the coming months.

BANK OF CANADA BUSINESS OUTLOOK SURVEY
(Employment & Investment Balance)



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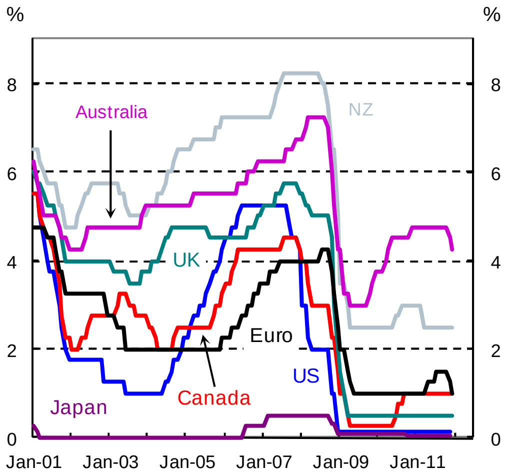
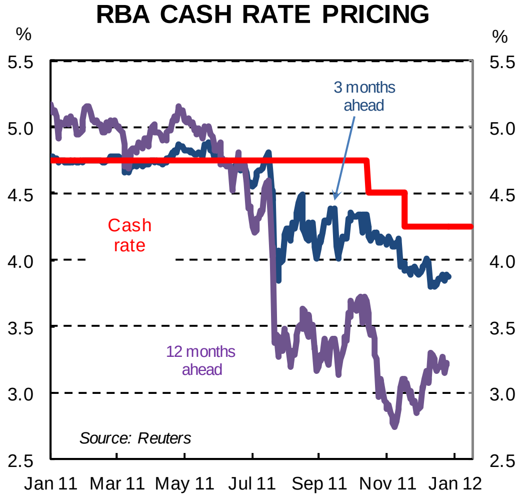
Monetary Policy





Country	Last Move	Next Meeting and Forecast	Mar '12	Jun '12	Sep '12	Dec '12	CBA View
Australia (RBA)	25bpt cut to 4.25% on 5 December 2011.	7 February 2012	4.00%	4.00%	4.00%	4.00%	The RBA has moved to a more neutral policy stance. We think a further cut is likely in February 2012. However, if offshore risks abate, the medium-term outlook still favours higher interest rates.
US (FOMC)	75-100bpt cut to 0-0.25% on 16 December 2008.	13 March 2012	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. There is a risk of further asset purchases towards mid-2012.
Eurozone (ECB)	25bpt cut to 1.00% on 8 December 2011.	9 February 2012	0.75%	0.50%	0.50%	0.50%	The recent deterioration in Eurozone economic indicators has resulted in the ECB continuing to reduce its refi rate. We expect the ECB to cut rates further in HI 2012.
UK (MPC)	50bpt cut to 0.5% on 5 March 2009.	9 February 2012	0.50%	0.50%	0.50%	0.50%	With the risks to the UK economy skewed to the downside, we now expect the BoE to raise the asset purchase target up to the £350-400bn area in 2012.
NZ (RBNZ)	50bpt cut to 2.5% on 10 March.	8 March 2012	2.50%	2.50%	2.50%	2.75%	We have pushed out the timing for RBNZ to lift the OCR to December 2012, from June 2012, largely because of further escalation of the Eurozone debt crisis.
Canada (BoC)	25bpt rise to 1.00% on 8 September 2010.	9 March 2012	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.
Japan (BoJ)	0-10bpt cut to 0-0.1% on 5 October 2010.	14 February 2012	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.

Forecasts - Economic

	Fiscal Years						Calendar Years						
	2008/09 (a)	2009/10 (a)	2010/11 (a)	2011/12 (f)	2012/13 (f)	2013/14 (f)	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (f)	2012 (f)	2013 (f)
Economic Activity													
Private final demand	**0.1**	**1.0**	**3.3**	**6.2**	**5.0**	**5.2**	**6.9**	**3.0**	**-0.4**	**2.0**	**5.3**	**5.3**	**5.3**
Of which: Household spending	0.1	2.5	3.1	3.5	3.0	3.3	5.6	1.9	1.0	2.9	3.5	3.0	3.2
Dwelling investment	-1.5	1.2	0.9	-0.7	0.7	3.0	2.0	2.7	-4.4	4.2	-1.5	0.1	2.2
Business investment	2.2	-5.2	6.5	19.2	12.6	11.8	14.9	9.4	-4.7	-1.3	16.3	14.5	13.0
Public final demand	**3.7**	**6.6**	**3.1**	**-1.2**	**0.4**	**0.9**	**3.4**	**6.8**	**0.7**	**8.7**	**-0.5**	**-0.3**	**0.6**
Domestic final demand	**0.9**	**2.3**	**3.2**	**4.4**	**3.9**	**4.3**	**6.1**	**3.9**	**-0.2**	**3.6**	**3.9**	**3.9**	**4.3**
Inventories (contrib to GDP)	-0.7	-0.1	0.6	0.0	0.1	0.0	0.8	-0.3	-0.7	0.4	0.4	0.1	0.0
GNE	**0.2**	**2.3**	**3.9**	**4.4**	**4.0**	**4.3**	**6.9**	**3.5**	**-0.9**	**4.0**	**4.3**	**4.1**	**4.3**
Exports	1.7	5.3	0.2	5.0	7.1	6.6	3.2	3.8	2.1	5.8	-1.6	8.5	6.7
Imports	-3.3	5.6	10.4	12.0	8.8	10.8	12.6	11.2	-8.6	14.1	11.3	9.0	10.7
Net exports (contrib to GDP)	*1.0*	*-0.1*	*-2.0*	*-1.6*	*-0.7*	*-1.3*	*-1.6*	*-1.4*	*2.2*	*-1.5*	*-2.7*	*0.0*	*0.0*
GDP	**1.4**	**2.3**	**1.9**	**3.2**	**3.4**	**3.1**	**4.7**	**2.5**	**1.4**	**2.6**	**2.0**	**3.7**	**3.2**
Prices & Wages													
CPI	**3.1**	**2.3**	**3.1**	**2.7**	**3.2**	**2.7**	**2.3**	**4.4**	**1.8**	**2.8**	**3.4**	**2.6**	**3.0**
Underlying CPI	4.4	3.3	2.6	2.6	3.4	2.9	3.0	4.6	3.7	2.8	2.6	3.0	3.2
AWOTE	5.5	5.6	4.1	4.3	3.1	3.9	4.8	4.8	5.7	4.9	4.5	3.4	3.5
WPI	**4.1**	**3.0**	**3.8**	**3.6**	**3.9**	**4.0**	**4.0**	**4.2**	**3.6**	**3.3**	**3.7**	**3.8**	**3.9**
Real h/hold disposable income	7.4	1.0	3.8	3.7	2.6	2.7	7.5	4.2	5.9	1.0	4.6	2.8	2.5
Labour Market													
Employment	1.6	1.4	2.9	0.7	1.3	1.9	3.1	2.8	0.7	2.7	1.7	0.7	1.9
Unemployment rate	4.9	5.5	5.1	5.3	5.4	5.0	4.4	4.3	5.6	5.2	5.1	5.5	5.1
External Accounts													
Current Account: $bn	**-37.0**	**-56.1**	**-33.5**	**-29.9**	**-39.9**	**-49.0**	**-69.8**	**-53.3**	**-53.2**	**-38.5**	**-29.2**	**-39.4**	**-40.4**
% of GDP	*-2.9*	*-4.3*	*-2.4*	*-2.0*	*-2.5*	*-2.9*	*-6.2*	*-4.3*	*-4.2*	*-2.8*	*-2.0*	*-2.6*	*-2.5*

Forecasts - Financial

End Period		Interest Rates					Exchange Rates				
							USD versus				
End Period		Cash Rate	90-day Bank Bill	180-day Bank Bill	3-year Bond	10-year Bond	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		4.25	4.50	4.40	3.00	3.90	1.02	76.9	1.30	1.55	0.78
Mar-12	**Forecast**	4.00	3.80	3.60	2.70	3.80	0.98	76.0	1.30	1.50	0.75
Jun-12	**Forecast**	4.00	3.80	3.70	2.70	3.80	0.95	75.0	1.27	1.48	0.73
Sep-12	**Forecast**	4.00	3.95	3.90	2.90	3.90	0.97	77.0	1.28	1.49	0.75
Dec-12	**Forecast**	4.00	4.10	4.10	3.10	4.00	1.00	78.0	1.30	1.50	0.78

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

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