



# Australia & NZ weekly

## Week beginning 30 January 2012

- The key issues for Europe.
- Australian data: house prices & approvals, private credit, trade balance.
- NZ: building consents, migration data.
- US: ISMs, payrolls.
- Key economic & financial forecasts.

Information contained in this report was current as at 27 January 2012

Economic Research

Sydney +61 2 8254 8720

[economics@westpac.com.au](mailto:economics@westpac.com.au)

New Zealand +64 4 470 8255

London +44 20 7621 7061

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# The key issues for Europe

It is our view that in the long run a currency union cannot survive without a complementary fiscal union.

The Euro flourished over the pre GFC decade due to an excessive build up in debt in the European region. Cheap credit fuelled real estate bubbles; consumer spending booms; fiscal profligacy; and lack of necessary structural reform. Only Germany, in the region, embraced reform during that period and that has now resulted in a wide disparity in productivity and competitiveness between Germany and the rest of the region.

The Global Financial Crisis exposed the excessive debt levels in the European periphery and the private sector in the region is now going through an inevitable and painful deleveraging process. In addition, to restore competitiveness the usual mechanism of competitive devaluation is not available to the periphery so painful internal devaluation (including wage cuts) is the only path towards improved competitiveness.

The urgency for Germany to embrace structural reform during that period was brought about by the excessive build up of sovereign debt during the 1990's as it dealt with reunification.

The austerity required to close competitive gaps and deal with excessive debt in the periphery will be too painful and eventually lead to both social chaos and a very messy demise of the Euro unless the region adopts a fiscal union. That will require substantial fiscal transfers from Germany to the periphery. In return, the periphery will have to adopt major structural reform and transfer significant effective power to "the centre". Unfortunately for them "the centre" is likely to be dominated by Germany.

Another dimension of the problem is the fervour with which banks are embracing Basel 3 which requires European banks to achieve a 9% tier 1 capital ratio. Banks have committed to setting out plans to achieve these targets by mid 2012 in order to assuage concerns about their solvency. With new capital being too expensive, banks will only really be able to achieve that objective by shrinking their balance sheets (in effect – a credit crunch).

The combination of austerity; private sector deleveraging; a credit crunch; painful but necessary structural reform and no flexibility on the exchange rate poses severe challenges to the near term growth outlook for the periphery.

Westpac is forecasting that the European economy will experience a recession in 2012, contracting by 1%.

Growth is required to manage the sovereign debt problem. Sovereigns need to borrow at rates below the rate of nominal income growth to stabilise their debt to income ratio. In the absence of fiscal surpluses low growth rates require even lower funding costs for debt stability.

However, markets are aware of the €1.4tr which European governments will be required to borrow in 2012 to cover maturing debt and accumulating budget deficits.

In late 2011 the rates at which Italy/Spain/France borrowed in the bond market were the key drivers of global market sentiment.

With long term Italian and Spanish bond rates in the 6–7% range (3–4ppts above nominal income growth) and fiscal deficits accumulating, markets watched the debt positions of these countries deteriorate.

Consequently, with growth certain to stall under the weight of the austerity/deleverage/credit crunch/restructuring forces borrowing rates need to be contained.

Periphery countries have an additional dimension to their funding challenges. In Japan, the US and UK we saw that countries with large funding tasks and suffering recession at least benefitted from falling bond rates as their domestic investors were forced to buy bonds. In Europe domestic investors in the periphery are able to buy German bonds without incurring a currency risk exacerbating the periphery's limited access to funding.

Initiatives with the EFSF (a fund which is designed to issue its own bonds and reinvest in periphery bonds) have stalled with the Fund being downgraded due to the multiple downgrades of the European countries (ex Germany) which guarantee the fund's bonds. The EFSF has only actually borrowed around €5bn at this stage.

German fears of the inflationary risks associated with "printing money", conditions which are embedded in the Maastricht Treaty, restrict the European Central Bank from purchasing sovereign bonds on a non sterilised basis (the style of Quantitative Easing which the US Federal Reserve, the Bank of England and the Bank of Japan have adopted) – i.e. if the ECB purchases a sovereign bond in the market it must offset it by issuing another security.

**The biggest short term threat to the stability of the Euro is the assessment by the market that the sovereign debt problem for the periphery is spiralling out of control. The key signal will be if the funding costs of the new issuance significantly exceed nominal GDP growth.**

A major relief in this regard has been the introduction in December of the Long Term Refinancing Operation (LTRO). In that operation the ECB offered unlimited 3 year funding to banks against an expanded list of collateral (which includes peripheral sovereign bonds). The offer was taken up by 523 banks for €493bn.

This facility has allowed the ECB to support the sovereign bond market without breaching Maastricht with banks now bidding in bond tenders for short term maturities and funding them with the ECB at around 1%.

This initiative has allowed considerable relief, particularly at the short end of the yield curve.

For example, secondary market yields for six month Italian debt have come down from 6.5% in November last year to 2.2%. Even in the 5 years there has been some discernible improvement – down from 7.5% in November to 5% in current markets; 10 years down from 7.2% to 6.2% compared to 4.8% at the beginning of 2011.

Conditions for Spanish bonds have also improved. Six month bond rates are down from 2% in November to 1.2% today, with 5 year rates down from 6% to 4%.

Clearly banks will be much less willing to purchase long term paper due to the default risks which of course become greater as the maturity of the bond increases. For example, if a bank purchased a five year Italian bond at, say 5%, and funded it through the LTRO facility it could repo it for 1% for three years but would still be required to repurchase the bond after three years with two more years to maturity – by then, as we are seeing with Greek bonds, the two year Italian bond might be trading at a huge discount with the 4% pa carry trade advantage being insufficient compensation. Nevertheless market pricing suggests that some banks are being attracted to the 12% (3 x 4%) carry profit.

Another LTRO is scheduled for February, providing further general relief for bank funding and specific assistance for short term sovereign debt in particular.

However sovereigns will not be able to rely on only short term issuance. Liability maturity structures need to be risk managed.

**In our view the LTRO facility needs to be complemented by a genuine Quantitative Easing initiative from the ECB where it buys sovereign debt, unsterilised, on a full term to maturity basis.**

The emergence of a huge new investor in that market would quickly bring down yields and "buy" the market considerable time to address the key issue of a full scale fiscal union, including structural reform which will be "growth negative" in the short term but "growth positive" over the long term (as we have seen with Germany which introduced "painful" structural reform in the first years of the current century).

It is not clear how long QE from the ECB could be sustained to buy time for the fiscal union. The ECB's balance sheet (€2.7tr) is already around 30% of European GDP compared with the Fed's balance sheet of 20% of GDP and the Bank of Japan's 30%.

The risk of ongoing expansion of the central bank's balance sheet comes from the eventual recovery in the money multiplier and a take off of inflation. There is little risk of that as growth in the European region (with deleveraging; austerity; and credit crunch) is already in negative territory. Output gaps are already widening and inflation risks are receding.

The deleveraging process has years to run in Europe and the size of the ECB's balance sheet should not pose a threat to inflation. The Germans, who are the major hurdle to the ECB adopting QE should look at the inflation records of US and Japan who have adopted QE with no threat from rising inflation.

Other issues such as credit concerns with the ECB itself (negative mark to market of its portfolio of periphery bonds might overwhelm actual capital base although the present value of the profits of the monopoly of providing central banking services should also be taken into account) and the expected difficulty in shrinking the balance sheet at the appropriate time, should not affect current decisions. Nevertheless these issues are likely to constrain the pace at which the balance sheet will be allowed to expand.

However, we believe that is the only viable solution to keep the euro in place during the transition period to full fiscal union.

**Without that fiscal union, in the long term, the currency union will eventually fail.**

However the barriers to establishing a functioning fiscal union are huge.

Germany would have to sign up for necessary fiscal transfers; the peripherals would have to effectively abrogate sovereignty on most fiscal matters (e.g. retirement ages, tax rates, industry policy, health care policy etc); and Germany would have to pay more to borrow given that each member of the union would borrow through a single "Euro bond" where rates would be significantly higher than the Bund rate.

**For the periphery, such an arrangement is probably by far the most efficient route to genuine structural reform – the restoration of growth through competitive devaluation will not be as easy as it was in the 1990's since it will be occurring in an environment of deleveraging by the private sector and a credit crunch.**

Progress towards the fiscal union is going to need a total change of mindset. Policies need to be adopted which will encourage growth – structural change is required.

Germany's current position seems to be a balancing act of withholding fiscal support to emphasise the need to avoid moral hazard (easy bail out of offenders) against recognition that, at some stage, it will have to act.

The Fiscal Pact which was adopted in December was limited to austerity and deficit rules – no initiatives to foster growth and in due course, is certain to require some "growth enhancing" amendments.

Considerable attention is also required for the banking system. The implementation of Basel 3 needs to be delayed to avoid a credit crunch; adequate funding from the ECB is not sufficient to spur the banks to support growth if they are focussed on shedding assets for regulatory reasons.

There is also the lack of confidence which banks have in lending to each other with the preference being for the ECB to "wash" the credit risk. EUR 493 bn is held on deposit by banks with the ECB.

**Only growth (and therefore improved risk environment) will restore banks' confidence in other banks.**

We have seen in Japan and US that banks are unlikely to expand their lending despite adequate liquidity from the central bank if there is no confidence. That will only be restored with improving economic growth which in turn must evolve from structural reform and an easing in austerity measures.

Results will be slow, inevitably because of the ongoing deleveraging process, but this appears to be the only answer for an "unlucky" Europe which has been unfortunate enough to be faced with this currency crisis just as the Great Debt Super Cycle has come to an end.

**Bill Evans**, Chief Economist

# Data wrap

## Nov Westpac-MI Leading Index

- The annualised growth rate of the Westpac–Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, was 1.6% in November 2011, below its long term trend of 2.9%. The annualised growth rate of the Coincident Index which gives a pulse of current activity was 3.0%, around its long term trend of 3.1%.
- The growth rate in the Index has slowed from the 4.5% which was reported for August and is now well below trend. It appears that the boost to above trend growth we saw in July and August has quickly faded and the outlook has evolved into a "below trend" story.

## Q4 PPI

- The December PPI was close to market expectations rising 0.3%qtr vs. the median forecast of 0.4%qtr. The main upside surprise for Westpac (our forecast was -0.6%qtr) was the core measures ex construction (both import & domestic) rising more than we expected.
- But the modest fall in the final consumer PPI, softer than expect dwelling construction prices and falling food prices suggest the risks to our CPI forecasts are slightly tilted to the downside.
- However, the changes to these component forecasts have just a small impact on our aggregate forecasts; a rounding down of around 0.1ppt for both the headline and core forecasts. As such, have left our Q4 CPI forecast at 0.2%qtr/3.3%yr and the average of the core measures at 0.6%qtr/2.5%yr.

## Q4 CPI

- The fear of many, not shared by Westpac, that inflation was about to boil over due to the mining boom MkII has proved to be unfounded. Headline inflation was flat in the December quarter taking the annual pace down to 3.1%yr from 3.5%yr in Q3 and a recent peak of 3.6%yr in Q2.
- As expected the moderation was due, in part, to seasonal factors (health is a big seasonal negative in Q4) but the drop off in the annual pace, and the 0.2%qtr rise in the seasonally adjusted CPI, highlights a real moderation in the pace of inflation.
- The main surprise in Q4 was the 1.2%qtr fall in motor vehicles. Most other components were broadly in-line with our expectations and if there was a variation it was, on average, a touch softer than what we were expecting.
- The main upside surprise was a 7.3%qtr rise in domestic holiday travel & accommodation (we had pencilled in +3.75%qtr) but this was countered to some extent by a 1.9% fall in international holiday travel & accommodation.
- The effect of the strong AUD is coming through. Tradable inflation dipped to 1.8%yr (was 3.3%yr in Q3) compared to 3.9%yr for non-tradable inflation.
- The core measures, which are seasonally adjusted and trim out the largest positives and negatives, rose a modest 0.6%qtr on average (0.5%qtr weighted median, 0.6%qtr for trimmed mean) which saw the annual pace rise very slightly to 2.6%yr from 2.5%yr.
- Core inflation continues to hug the mid point of the RBA inflation target band and the outlook is for it to moderate to the lower end of the band by mid 2012 (excluding the impact of the introduction of the carbon tax).

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

Date	Release	Previous	Latest	Mkt f/c
Mon 23	Q4 PPI	0.6%	0.3%	0.4%
Wed 25	Q4 CPI	0.6%	flat	0.2%
	Q4 core inflation (avg RBA)	0.3%	0.6%	0.5%
	Nov Westpac-MI leading index	2.3%	1.6%	-

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# New Zealand: week ahead & data wrap

## A tale of two policies

The market reception to the Reserve Bank's latest OCR review was swamped by the reaction to the US Federal Reserve's review just a few hours earlier. Yet we can still find some interesting parallels with the two central banks' approaches: both have been helped by an easing in inflation pressures, both signalled a longer period of interest rates at record lows, but the tone of their messages reflected their very different circumstances.

As was widely expected, the RBNZ struck a more conciliatory tone in this week's OCR review. The key change was in the last line of the press release: while the December release noted that it remained prudent "for now" to keep the OCR on hold, those two words were absent this time. That communicated a later start to the projecting timing of rate hikes, without getting into the specifics – but certainly later than the June start that was implied in the December *Monetary Policy Statement*.

The Q4 inflation figures published the previous week were significantly lower than market and RBNZ expectations, and a stark change from the inflation pressures that seemed to be escalating in the first half of last year. Both headline inflation and the RBNZ's suite of 'core' measures now sit close to the middle of the 1-3% target range. It's notable that the RBNZ described the easing in inflation pressures as "reassuring" rather than concerning; with inflation now well within target, it has the freedom to wait and see how two of the biggest uncertainties around growth – Europe's debt woes and the pace of reconstruction in Canterbury – pan out.

In contrast, the Fed made a sizeable and very explicit change to its stance on interest rates compared to its December review. With its key policy rate effectively at zero, the Fed has tried to influence market interest rates lower by signalling how long the policy rate is expected to remain at zero. That timing was changed from "at least through mid-2013" in the December review to "at least through late 2014" this time – more than an extra year of rates at rock-bottom levels. Like the RBNZ, the Fed has been given some relief on the inflation front, which means that for now there is no real conflict between its dual mandate of low inflation and full employment – of which the latter remains a very distant prospect.

Interestingly, the Fed statement included for the first time the range of interest rate projections among the policy committee members, on top of the economic projections that are already published. This included projections for the policy rate over an undefined 'longer run', which we could read as being their estimates of the long-term neutral rate. These ranged from 3.75%

to 4.50%, with a median of 4.25% – which is pretty much where the neutral rate was considered to be before the financial crisis. That's a stark difference from the debate in New Zealand, where there is a near-consensus (though one we don't share) that the neutral level of the OCR has fallen sharply and permanently as a result of the crisis.

The prospect of easy money for longer in the US sent the US dollar lower, while boosting risk-sensitive assets like the New Zealand dollar, which was launched back to a three-month high after the statement. Consequently, it's hard to distinguish the market's read on the RBNZ's review, although the fact that interest rate pricing for the next year hardly budged suggests that the tone of the statement was broadly as expected.

RBNZ Governor Bollard gave some elaboration on the policy outlook in a speech on Friday titled "A tale of two crises" – referring to the European sovereign debt crisis and the Canterbury earthquakes. On the first matter, we've been pointing out the implications for New Zealand for many months: weaker activity in Europe, spilling over into the Asia-Pacific region; weaker export prices (partly offset by a lower NZD); and upward pressure of bank funding costs, which could lead to higher retail interest rates independently of the OCR. The OCR review statement last week actually noted that conditions in Europe have improved slightly, though they remain fragile.

On the second matter, the most noteworthy point was that in light of the latest swarm of aftershocks in Canterbury just before Christmas, the RBNZ has pushed out its projections for the timing of reconstruction activity. However, the change in assumptions may not prove to be as dramatic as has been reported. The pace of acceleration in activity has been slowed relative to the previous forecast, but repairs and infrastructure work are now expected to reach a still chunky 0.75% of potential GDP by the end of this year, compared to 1% of GDP previously.

Outside of the official text of the speech, RBNZ Governor Bollard said that he was broadly comfortable with market pricing for no hikes or cuts in the next year. But assumptions about Canterbury's recovery are still very fluid at the moment, not just around the pace of rebuilding, but the degree of inflation pressure that it will generate. And as Dr Bollard stated, "we will need to keep monitoring this to judge whether the level of the OCR continues to be appropriate" – hardly a sign that rate hikes have been taken off the table. Based on the OCR review and this speech, our best guess is that the RBNZ is currently eyeing a return to hikes in December, depending on developments in Europe and Canterbury.

## Round-up of local data released last week

Date	Release	Previous	Latest	Mkt f/c
Thu 26	RBNZ Official Cash Rate	2.50%	2.50%	2.50%
Fri 27	Dec merchandise trade balance	-\$307m	\$338m	-\$50m

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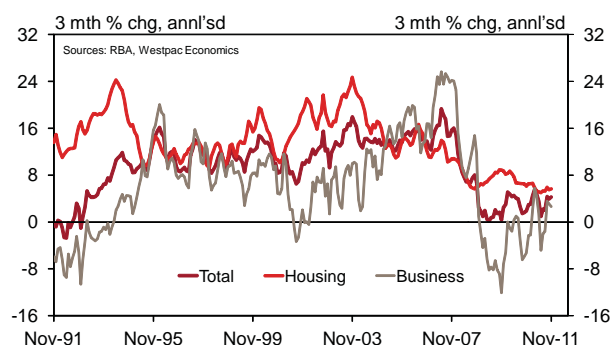
# Data previews

## Aus Dec private credit

Jan 31 Last: 0.3%, WBC f/c: 0.3%  
Mkt f/c: 0.3%, Range: 0.1% to 0.5%

- Credit to the private sector is expanding at a modest pace. The rise for the year was 3.5%, unchanged from the annual pace of a year-ago. We're forecasting credit to advance by 0.3% in December, a repeat of the November outcome.
- Note, the data should incorporate revisions to the housing figures (as was the case with the latest housing finance). This points to a slight downward revision.
- Business credit, following a modest decline through 2010, stabilised during 2011. We're anticipating a broadly flat result for December, following two flat months.
- Housing credit growth is subdued reflective of the headwinds facing the sector. Annual growth has slowed to 5.7%, down from 7.1% a year-ago.

## Credit momentum

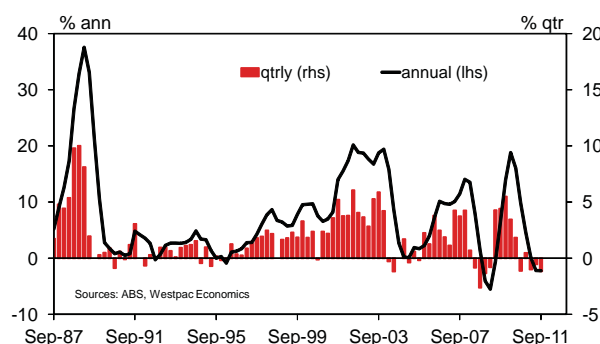


## Aus Q4 house price index

Feb 1, Last: -1.2%, WBC f/c: -1.0%  
Mkt f/c: -0.7%, Range: -1.2% to 0.1%

- The preliminary estimate of the ABS House Price Index showed a 1.2% fall in 2011Q3 to be down 2.2%yr and 3.3% from the indexes June 2010 peak.
- Private sector measures suggest this weakness extended into the December quarter albeit with some hints that conditions were starting to stabilise towards the end of the year. The ABS measure covers detached houses only (i.e. excluding townhouses, terraces and units). For Q3, our preferred private measures of this part of the market showed moves of -1.5%qtr, -3.5%yr (Residex); flat qtr, -3.5%yr (APM) and -1.0%qtr, -4.3%yr (RP Data-Rismark, figures for Oct-Nov).
- Overall, we expect the ABS series to show a 1% fall in Q4 bringing the annual decline to -3.7%yr. Revisions may see this come via a flatter Q4 result but weaker prior quarters.

## Established house prices, ABS measure

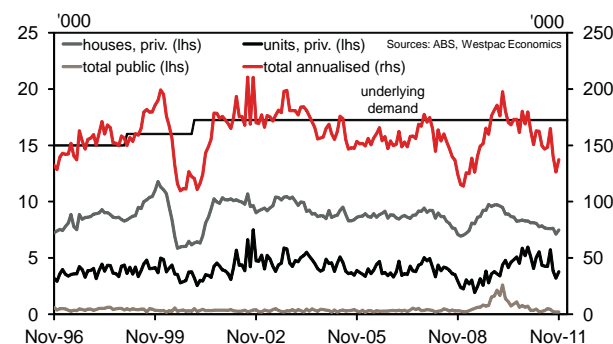


## Aus Dec dwelling approvals

Feb 2, Last: 8.4%, WBC f/c: 2.0%  
Mkt f/c: 2.0%, Range: -5% to 10%

- The 8.4% bounce in dwelling approvals in Nov was a welcome relief, removing much of the downside risk that had emerged from a very weak Oct read. The bounce reversed about half of the July-Oct decline with most of the detail positive as well. That said, the Nov gain still leaves a firm downtrend in place.
- Housing markets were starting to show some tentative signs of stabilising in late 2011 with auction clearance rates ticking up, prices steadying, finance approvals firming and consumer sentiment towards buying a dwelling improving. Despite this Dec is still too early for an unambiguously positive response to rate cuts. Even in interest rate sensitive sectors like housing these usually take several months to impact. Patchy sentiment and consumer caution will also tend to inhibit the response. Overall, we expect a 2% rise in Dec, another positive but only enough to lessen, not break, the downtrend.

## Dwelling approvals



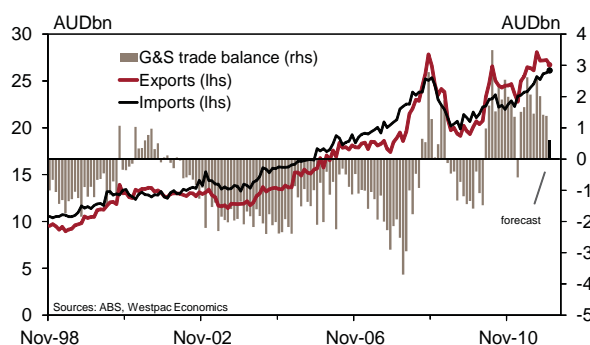
# Data previews

## Aus Dec trade balance, AUDbn

Feb 2 Last: 1.4, WBC f/c: 0.6  
Mkt f/c: 1.2, Range: 0.5 to 2.0

- The trade surplus most likely narrowed in December, potentially to the smallest balance since February, and before that since March 2010.
- We're forecasting a surplus of \$0.6bn, down from \$1.4bn.
- Exports were hit by weaker global commodity prices, as the world economy slowed further. Volumes were most likely mixed, with coal expected to be up but iron ore down due to weaker demand. On balance, we expect the value of exports to fall by around 2%.
- Imports, by contrast, are expected to rise, up a forecast 1%. Volumes are trending higher to meet rising domestic demand. This is reinforced by the high Aussie dollar, which is encouraging a switching towards imports.

## Trade surplus: to narrow

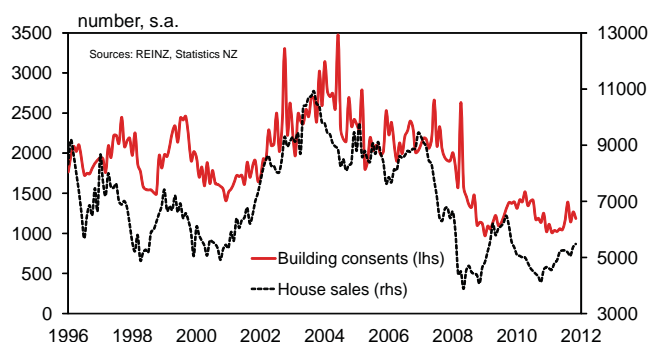


## NZ Dec building consents

Jan 31, Last: -6.4%, WBC f/c: 0.0%

- The choppiness in building consent issuance continued in November as issuance fell 6.4%. Our forecast is for flat consent issuance in December (though the risk is that we see a stronger rebound). This would be broadly consistent with the temporary lull in house sales in the three months to September (building consent issuance broadly follows housing turnover with a lag). But given the renewed momentum in the housing market of late, in addition to the massive rebuilding task in Canterbury, we would expect consent issuance to continue trending higher in the new year.
- We think there is already some repair work going on in Canterbury. However in this early phase of reconstruction much of this repair work won't have required a consent (painters, plasters and bricklayers are the professions in greatest demand right now). In November, the bulk of explicitly quake-related consents were for non-residential work.

## NZ Housing activity

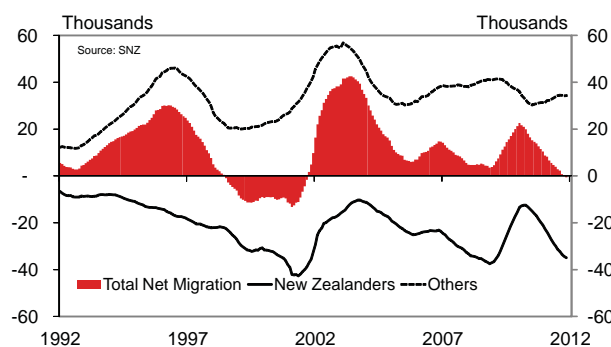


## NZ Dec net migration

Feb 3, Last: -50, WBC f/c: -150

- Permanent and long-term net migration has been negative for 8 out of the past 9 months. The Christchurch earthquake has played a role, but the main factor has been the strong Australian economy attracting NZ workers.
- We expect another mildly negative net migration print in December. However, NZ departures have started to come off in the past few months, and over the coming year net migration should turn positive as the Australian labour market softens and New Zealand employment prospects improve.
- The Christchurch Boxing Day aftershocks may lead to another near-term spike in departures (this didn't happen after the June aftershocks) but we would expect the impact on the December figures to be limited.

## NZ annual net migration



# Data previews

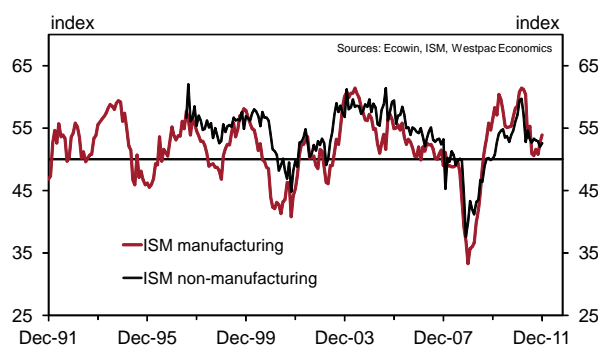
## US Jan ISM manufntg/non-manufntg reports

**Feb 1, Man Last: 53.9, WBC f/c: 54.5**

**Feb 3, Non-man Last: 52.6, WBC f/c: 52.5**

- The factory ISM hit 61.4 in Feb last year, close to three decade highs. By Jul it had plunged to 50.9, and it hovered around there until rising 3.1pts in Nov-Dec, indicating some renewed life in the industrial sector, reflected also in late 2011 factory output. The regional factory surveys for Jan included mostly favourable orders, shipments and jobs detail so the composite ISM factory index is likely to post a further gain.
- The non-manufacturing ISM in Dec at 52.6 was in the middle of its 52.0 to 53.3 range recorded since June last year. This index just hasn't captured the renewed optimism showing up in other surveys since Q4 last year. That's a reason to question the sustainability of those other survey rises, especially if Jan comes in little changed at 52.5 as we forecast.

## US ISMs

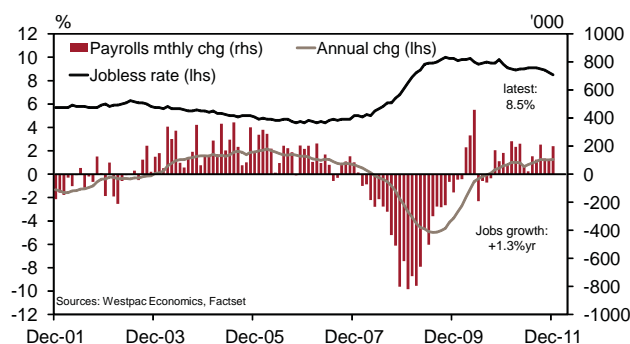


## US Jan non-farm payrolls to rise 150k

**Feb 3, Payroll employment: Last: 200k, WBC f/c: 150k**

- Payrolls rose 200k in Dec, although there was an 8k downward revision to the first two months of Q4, after solid upward revisions in the previous 3 reports. That took the monthly average gain in Q4 to 137k, softer than Q3's 147k but still a little better than the 131k average through H1 2011.
- Forecasting Jan payrolls is always difficult because of the annual seasonal adjustment revision which rewrites history. Dec was boosted by a 42k surge in courier jobs; last year a similar rise dropped out in Jan but the new seasonals may better account for increased internet shopping courier jobs in Dec. The economy accelerated in Q4 which suggests jobs growth; initial claims have been noisy but hint at less layoffs since late 2011.
- Our Jan forecast: 150k payrolls gain and a moderate (30k) downward revision to the Dec outcome.

## US payrolls



# Key data & event risk for the week ahead

		Market	Westpac	
		Last	median	forecast
				Risk/Comment
<b>Mon 30</b>				
NZ	Auckland Anniversary Day	-	-	- Partial public holiday.
Php	Q4 GDP %yr	3.2%	3.8%	- Consensus implies a decent acceleration in the pulse. Looks optimistic.
Eur	Jan business climate index	-0.31	-	- ZEW survey in Germany soared, other surveys more pessimistic, may reflect the survey timings pre/post S&P action etc.
Ger	Jan economic confidence	93.3	93.4	- Decelerating.
UK	Jan CPI %yr	2.1%	2.0%	- Hometrack series.
US	Jan house prices %yr	-2.1%	-	- Retail sales were sluggish in Dec but hours worked and earnings rose so savings rate may have picked up in Dec. Old news given Q4 release.
	Jan personal spending	0.1%	0.1%	0.2%
	Jan personal income	0.1%	0.4%	0.5%
	Jan core PCE deflator	0.1%	0.1%	0.1%
	Jan Dallas Fed factory index	-3	-	0 Less upbeat than other regional Fed surveys.
<b>Tue 31</b>				
Aus	Dec private sector credit	0.3%	0.3%	0.3% Modest growth. Housing subdued, business flat.
	Dec RP Data-Rismark home price index	0.1%	-	- Registered its only monthly gain in 2011 in Nov, but only just.
	Dec NAB business survey	1	-	- Conditions index up a touch to +1 in Nov, in line with historic avg.
NZ	Dec building consents	-6.4%	-	0.0% Monthly lumpiness but trend is improving.
	Oct National Employment Indicator	-0.1%	-	- Monthly filled jobs a cross-check on official employment data.
Jpn	Jan Markit PMI manufacturing	50.2	-	- Thai disruptions may be a factor this month.
	Dec overall household spending %yr	-3.2%	-	- Real measure. Very weak, well below income growth (greater contraction).
	Dec jobless rate	4.5%	4.5%	- Job-to-applicants ratio at 0.69. Participation trending lower.
	Dec industrial production	-2.7%	3.0%	- Consensus f/c would put output back around June levels.
	Dec construction orders %yr	21.0%	-	- Fiscal impetus hitting in early 2012.
	Dec housing starts %yr	-0.3%	-1.5%	- 854k annualised level - reconstruction in train
Kor	Dec industrial production %yr	5.6%	6.1%	- Exports under pressure, hurting manufacturers.
Twn	Q4 GDP %yr	3.42%	2.8%	- Activity likely flat after Q3 contraction.
Myr	BNM policy decision	3.00%	-	2.75% A cut to come at this meeting or next.
Thai	Dec total exports %yr	-13.1%	-	- Supply constraints to show up strongly again.
Eur	Dec unemployment rate %	10.3%	10.4%	10.3% German jobless rate fell to 6.8% offsetting rises elsewhere.
Ger	Jan unemployment change	-22k	-5K	- Offsetting rising joblessness elsewhere in Europe.
UK	Jan GfK consumer confidence	-33	-32	- Back at the level when the 2008 recession started.
	Dec net consumer credit £bn	0.4	-	- Credit to households grows most months but at a very slow pace and may turn negative again as recession bites.
	Dec net mortgage lending £bn	0.6	-	- M4 ex OFC is at 3.7% yr.
US	Dec M4 money supply %yr	-2.6%	-	0.6% Stalled benefits growth in Q3 unlikely to persist in Q4.
	Q4 employment cost index	0.3%	0.4%	- S&P Case Shiller 20 city index.
	Nov house prices %yr	-3.4%	-3.2%	60.0 Chicago seems to always read strong these days while Milwaukee is in an uptrend after stumbling earlier in 2011.
	Jan Chicago PMI	62.5	63.0	60.0 UoM index suggests another rise likely but risk on jobs mkt sentiment.
	Jan Milwaukee NAPM	57.8	-	67.5 Energy prices the driver in Nov.
	Jan consumer confidence	64.5	68.0	- Q4 had soft start in Oct but Nov looks stronger.
Can	Dec industrial product prices	0.2%	-	
	Nov GDP	0.0%	0.2%	
<b>Wed 01</b>				
Aus	Q4 house price index	-1.2%	-0.7%	-1.0% Despite the 'official' badge, monthly private measures are a better guide.
	Jan AiG PMI manufacturing	50.2	-	- Index surprised, up 2.4pts in Dec (avg'd 45.7 over 2011H2).
Chn	Jan PMI manufacturing	50.3	49.6	- Our s/adj estimate of Dec was 50.9. Seasonality a big issue in Jan.
	Jan HSBC manufacturing PMI	48.8	-	- Less optimistic than the official PMI in Dec, no bounce in flash estimate.
Jpn	Dec labour cash earnings %yr	-0.2%	-	- Not supportive of consumption growth.
Inr	Jan Markit manufacturing PMI	54.2	-	- Surprise bounce in December despite weakness in IP, capex, autos.
Kor	Jan consumer price index %yr	4.2%	3.6%	- Core is at 3.6%. Inflation no constraint on
Eur	Jan PMI factory final	48.7	48.7	- Indicating mild recession so far.
	Jan CPI flash %yr	2.8%	2.7%	- Downtrend emerging.
UK	Jan PMI factory	49.6	49.8	- Contracting for five of the past six months.
	Jan house prices %yr	-1.3%	-	- Tentative date for Halifax index due 1-8/2
US	Jan ADP private payrolls ch	325k	185k	150k Strongest ever but probably distorted by seasonal factors as in 2010.
	Dec construction spending	1.2%	0.7%	1.0% Housing the driver, looking up from a very low base it seems.
	Jan ISM manufacturing	53.9	54.5	54.5 Regional surveys suggest some strength.
	Jan auto sales mn annualised	13.5	13.6	- Late 2011 sales pick-up may dissipate in 2012.
	Fedspeak	-	-	- Plosser on the economy.
<b>Thu 02</b>				
Aus	Dec dwelling approvals	8.4%	2.0%	2.0% Nov bounce reversed half of Jul-Oct slump - phew - but downtrend remains.
	Dec trade balance, AUDbn	1.4	1.2	0.6 Exports -2% (hit by global downturn), imports +1%.
NZ	Jan ANZ commodity price index	-0.8%	-	- High Kiwi to depress NZD export prices this month.
Sing	Jan manufacturing PMI	49.5	-	- Electronics sub-index at 49.7. Manufacturing essentially becalmed.
Eur	Dec PPI %yr	5.3%	4.4%	- Decelerating.
UK	Jan PMI construction	53.2	-	- Still growing at a modest pace.
US	Jan layoff announcements %yr	30.6%	-	- Uptrend has slowed.
	Q4 productivity % annualised	2.3%	1.0%	- Has been patchy over 2011 with Q3's outcome offset H1's weakness.
	Q4 unit labour costs	-2.5%	0.8%	- Expect modest rebound after sizeable Q3 decline.
	Initial jobless claims w/e 28/1	377	-	- Erratic in recent months; has made this indicator less useful.
	Jan chain store sales %yr	3.5%	-	- Guide to official retail data.
<b>Fri 03</b>				
NZ	Dec net migration	-50	-	-150 New Zealand departures to Australia high for now.
Inr	Jan market services PMI	53.0	-	- December was the best reading since July.
Eur	Jan PMI services final	50.5	50.5	- Indicating mild recession so far.
	Dec retail sales	-0.8%	-	- Annual pace of contraction -2.5%, weakest since 2009 recession.
UK	Jan PMI services	54.0	53.0	52.0 If UK is in recession this should be lower.
US	Jan non-farm payrolls change	200k	150k	150k Annual benchmark revisions; seasonal courier hiring; noisy claims; generally upbeat surveys: factors at play. See text box.
	Jan unemployment rate %	8.5%	8.5%	8.6% Never reflected the more upbeat economic vibe in late 2011.
	Jan ISM non-manufacturing	52.6	53.3	52.5 Durables known +3.0%; ex transport, durables rose +2.1%.
	Dec factory orders	1.8%	1.2%	- Jobs growth trend stalled to 1k per month in H2 from 33k in H1 2011.
Can	Jan employment change	18k	22.3k	

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# Economic & financial forecasts

## Interest rate forecasts

	Latest (Jan 27)	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
Cash	4.25	4.00	3.75	3.75	3.75	3.75
90 Day Bill	4.40	4.25	4.00	4.00	3.90	3.90
3 Year Swap	4.00	4.20	4.60	4.60	4.60	4.70
10 Year Bond	3.87	4.20	4.40	4.50	4.70	4.90
10 Year Spread to US (bps)	194	200	200	200	210	220

## International

Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.93	2.20	2.40	2.50	2.60	2.70
US Fed balance sheet USDtrn	2.96	3.06	3.21	3.36	3.51	3.51
ECB Repo Rate	1.00	0.75	0.75	0.75	0.75	0.75

## New Zealand

Cash	2.50	2.50	2.50	2.75	3.00	3.25
90 day bill	2.77	2.70	2.80	3.00	3.30	3.60
2 year swap	2.81	3.00	3.30	3.70	4.10	4.40
10 Year Bond	3.92	4.10	4.20	4.30	4.60	4.80
10 Year spread to US	199	190	180	180	200	210

## Exchange rate forecasts

	Latest (Jan 27)	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
AUD/USD	1.0630	0.99	0.93	0.97	1.01	1.02
NZD/USD	0.8220	0.76	0.72	0.75	0.78	0.80
USD/JPY	77.40	77	77	78	81	84
EUR/USD	1.3100	1.26	1.20	1.23	1.27	1.28
AUD/NZD	1.2930	1.30	1.29	1.29	1.29	1.28

## Australian economic growth forecasts

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

## New Zealand economic growth forecasts

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

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