

Global and Australian economic outlook

Presentation to
ANZ South East Asia clients

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Chief Economist
ANZ

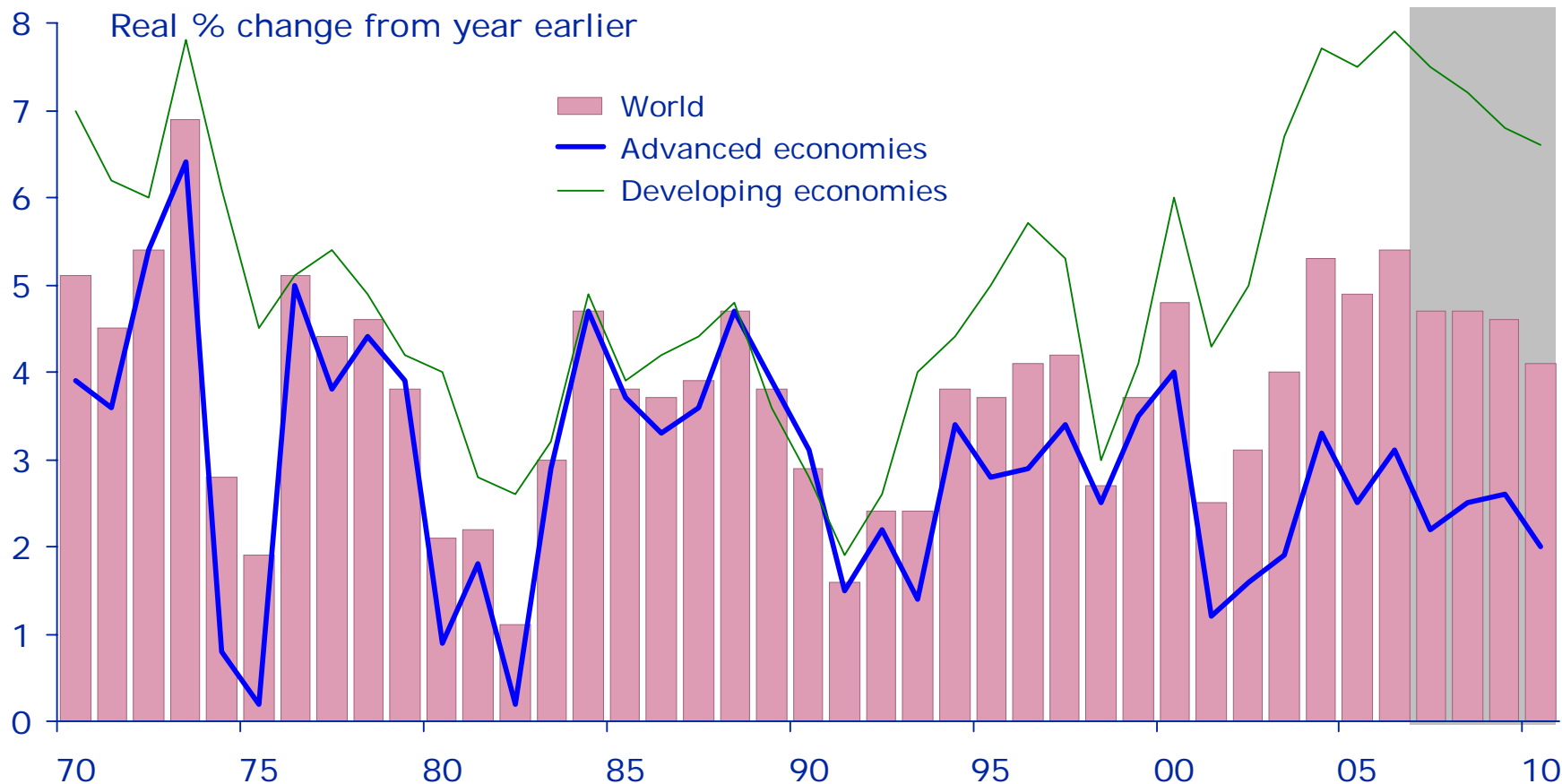
**Singapore, Kuala
Lumpur & Bangkok**
23-26th April 2007

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economics@

World economy in what is likely to be its longest period of above-trend growth in over 30 years

Global economic growth



Note: GDP is measured in US\$ at purchasing power parities.

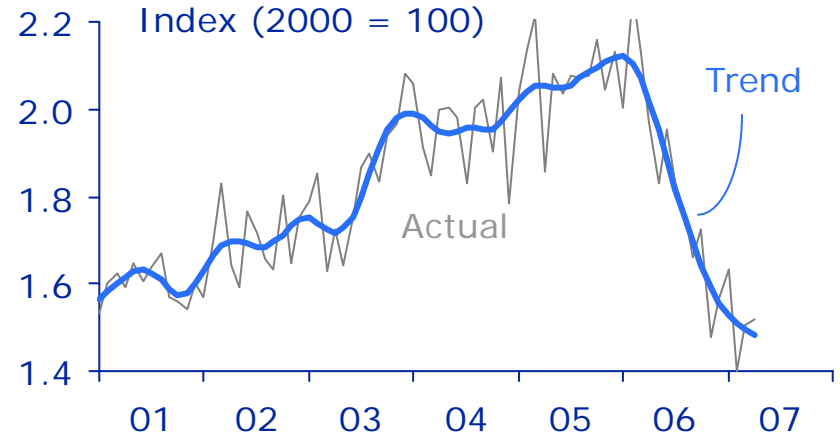
Source: IMF; Economics@ANZ.

The end of the housing boom in the United States ...

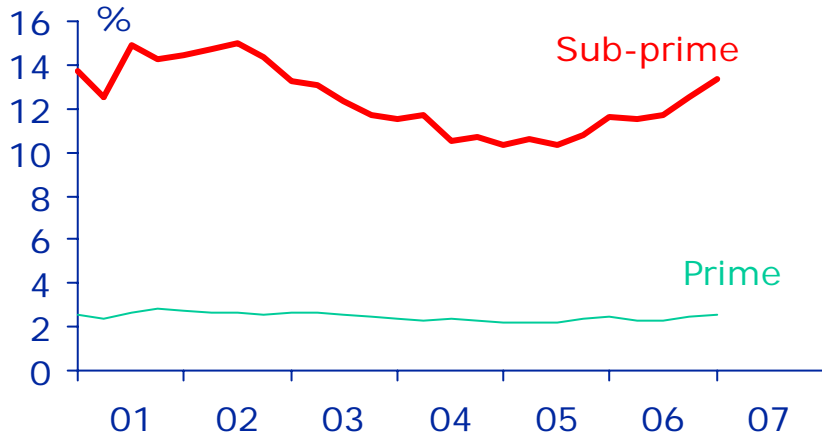
House prices



Housing starts



Mortgage delinquencies



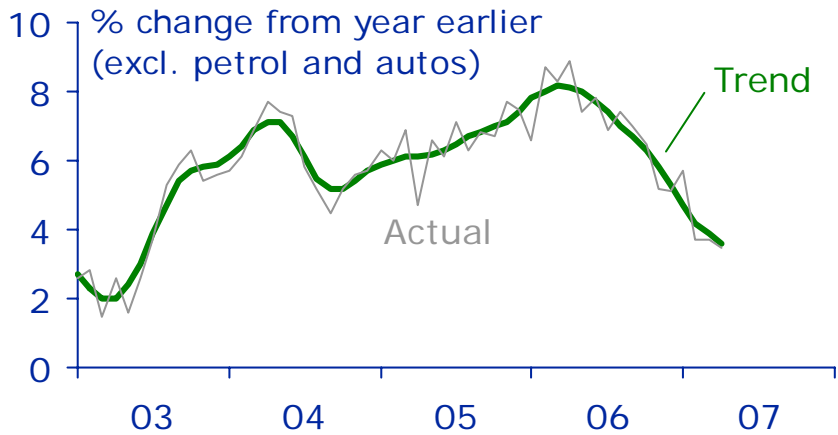
Unsold new housing stock



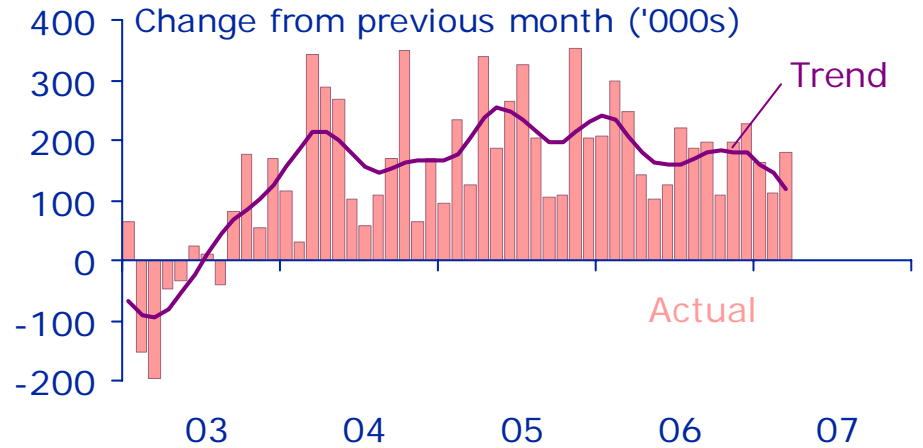
Sources: US Office of Federal Housing Enterprises Oversight; Mortgage Bankers' Association; Bureau of Economic Analysis; National Realtors' Association.

... is leading to slower growth in the broader economy

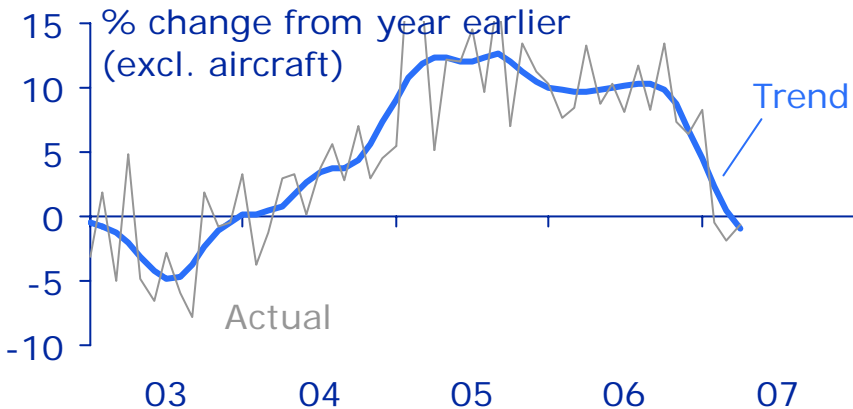
Retail sales



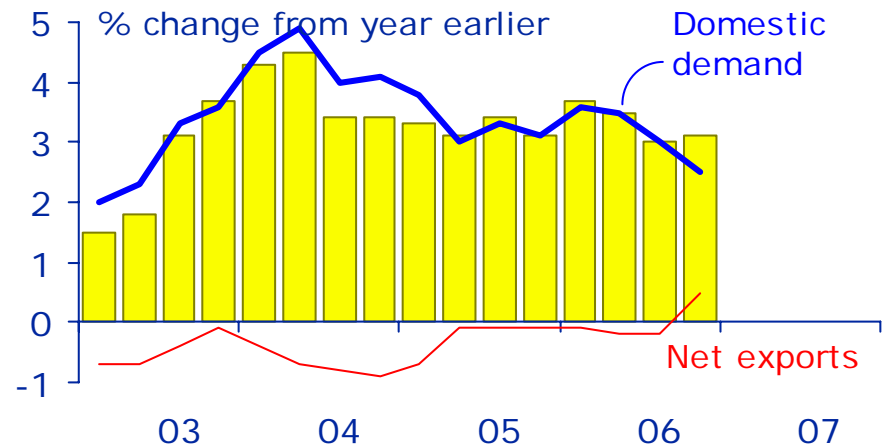
Non-farm employment



Non-defence capital goods orders



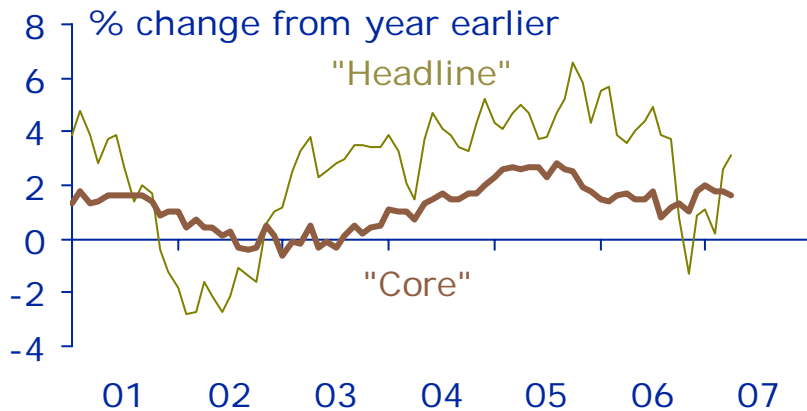
Real GDP



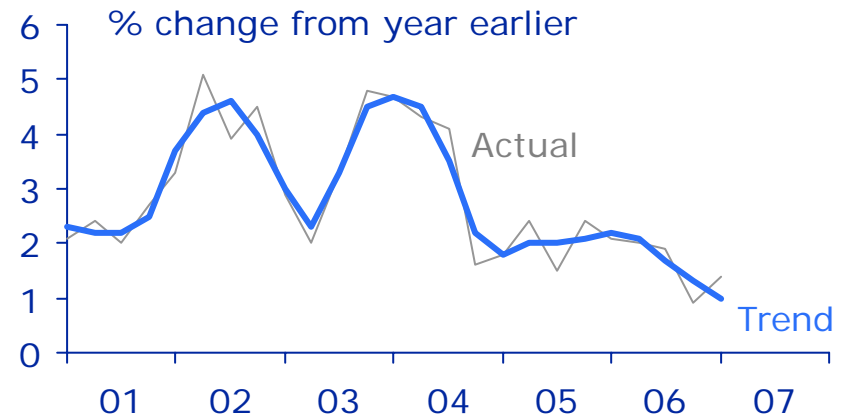
Sources: US Bureau of Economic Analysis and Labor Statistics;
US Commerce Department.

At this stage of the business cycle the Fed is still wary of inflation risks

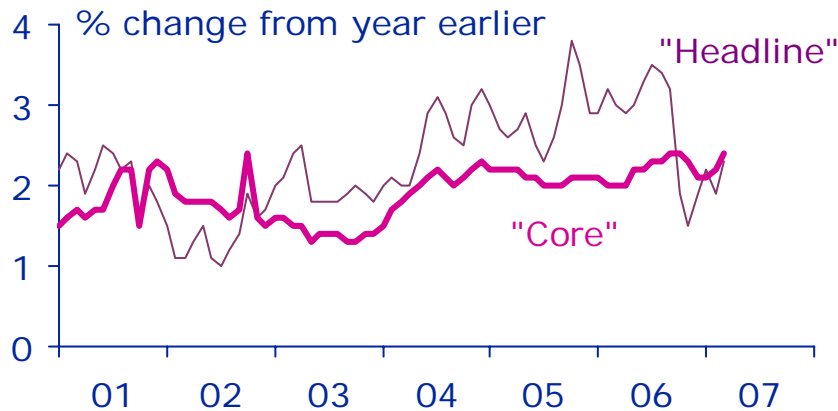
Producer prices – finished goods



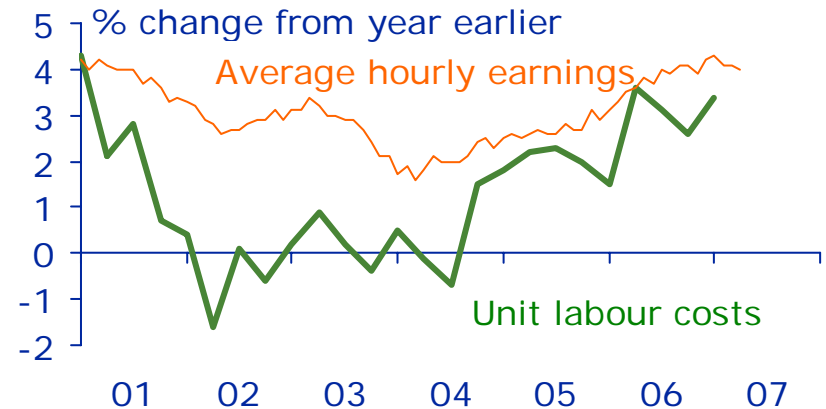
Productivity growth



Consumption expenditure deflator



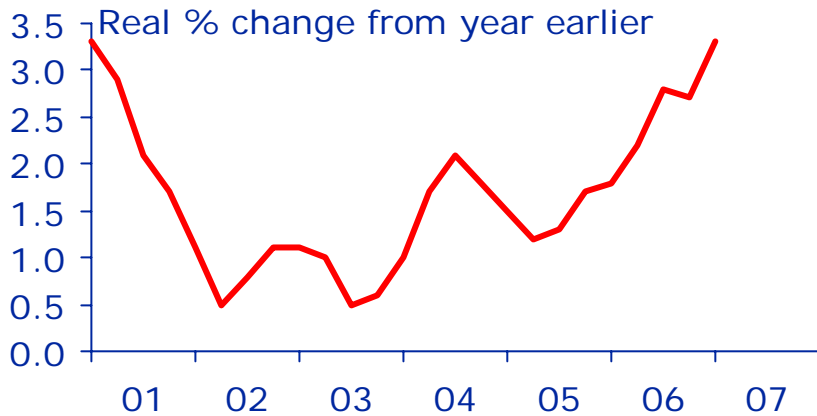
Labour costs



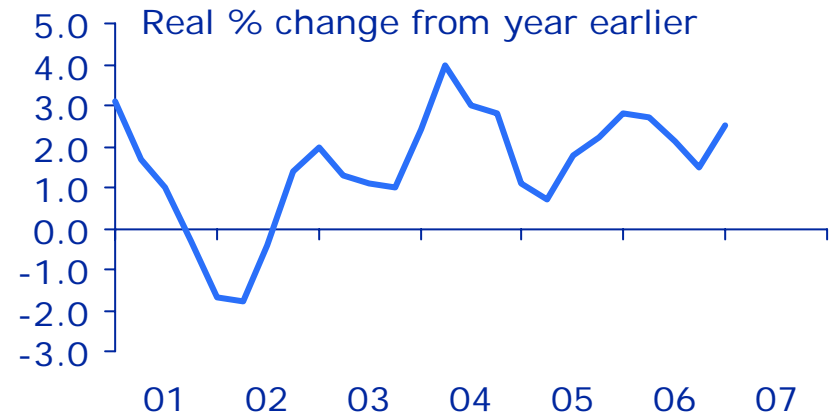
Note: 'core' means excluding food and energy.
Sources: US Bureau of Labor Statistics.

To some extent weaker US growth is being offset by stronger growth in Europe and Japan

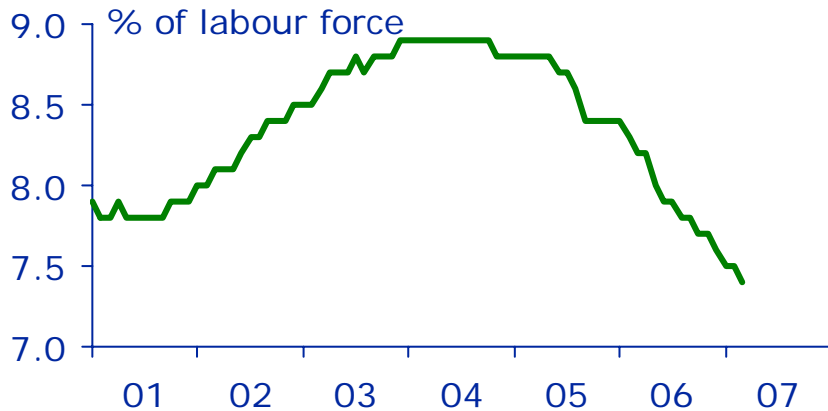
Euro area GDP growth



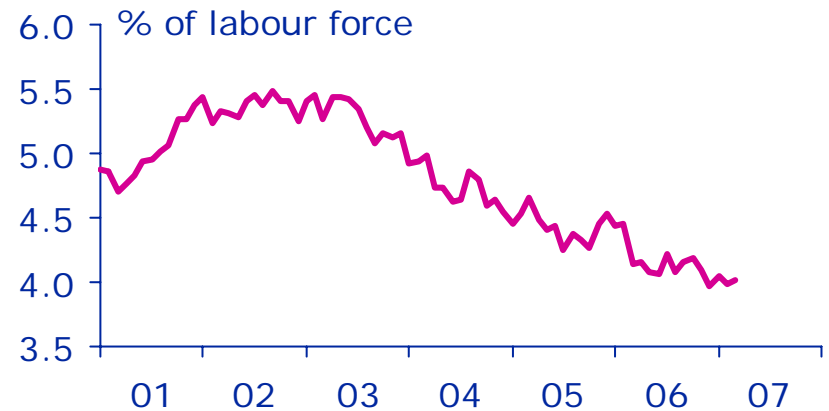
Japan GDP growth



Euro area unemployment



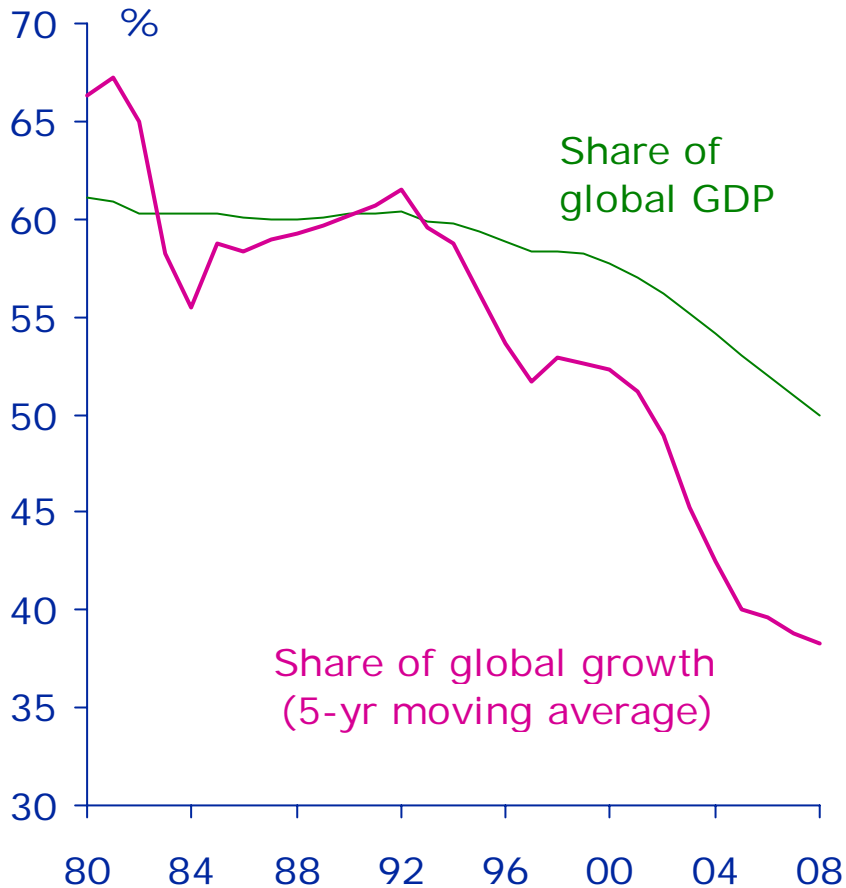
Japan unemployment



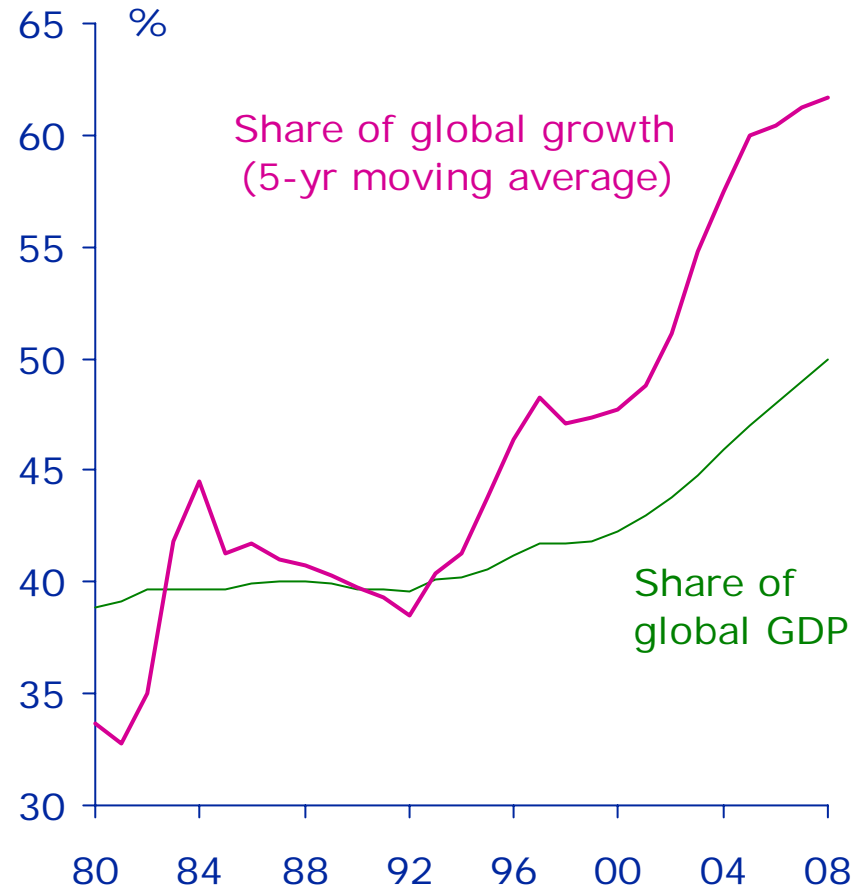
Sources: Eurostat; Japan Economic & Social Research Institute and Home Ministry.

Above-trend global growth is largely being driven by developing countries

Advanced economies



Developing economies

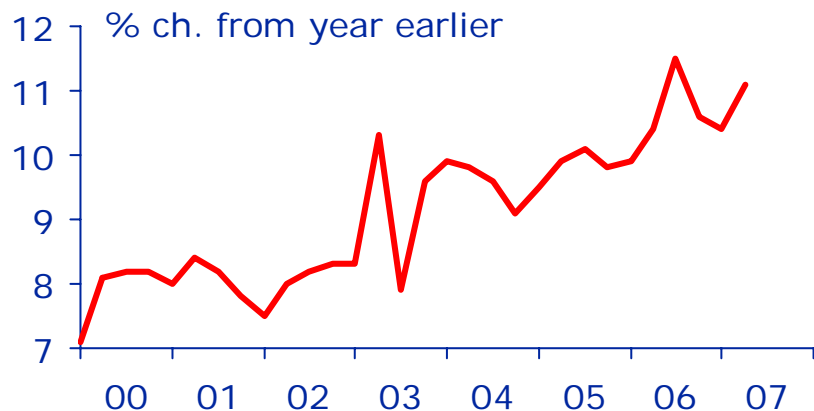


'Advanced' economies comprise the US, Western Europe, Japan, Canada, Australia, New Zealand, Korea, Taiwan, Hong Kong, Singapore and Israel.

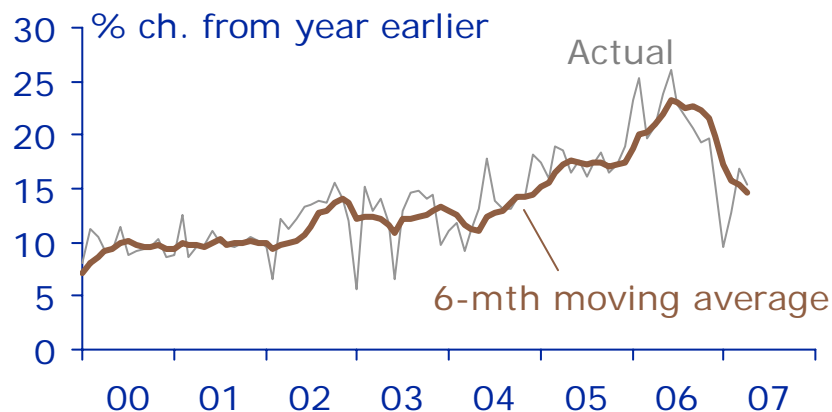
Sources: IMF, *World Economic Outlook*; Economics@ANZ.

China's strong Q1 GDP growth is inconsistent with other data suggesting modest slowing

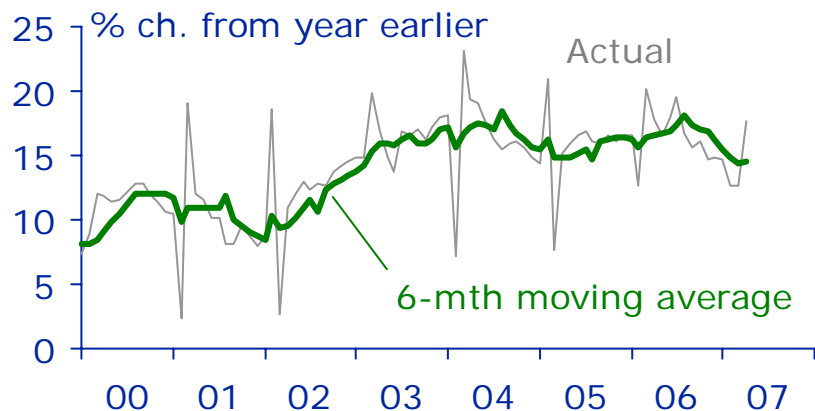
Real GDP



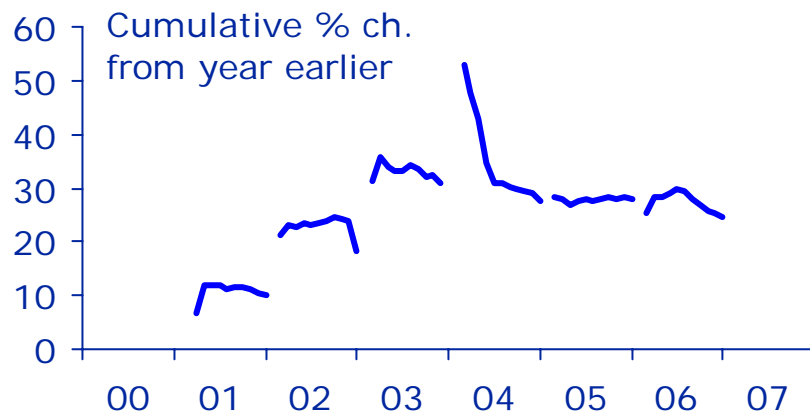
Retail sales



Industrial production



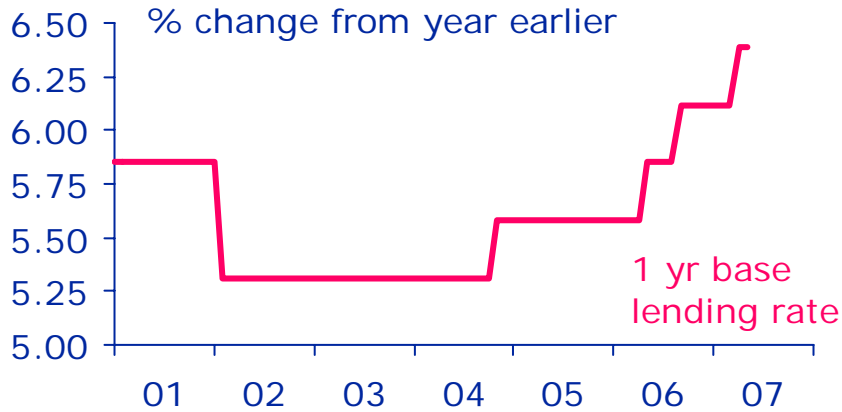
Fixed asset investment



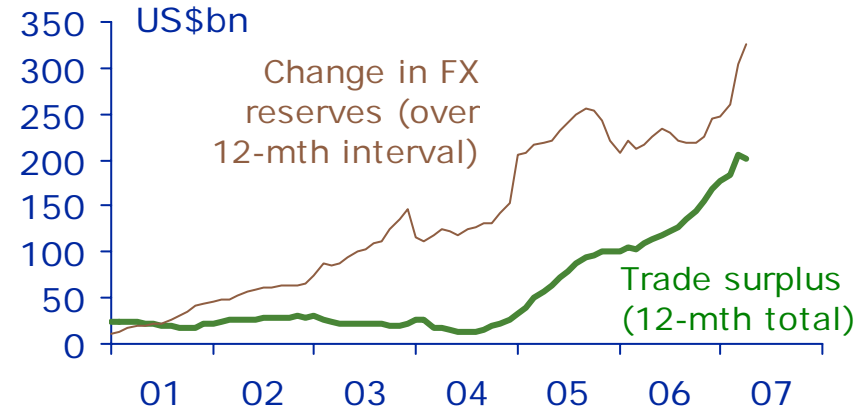
Source: China National Statistics Bureau

FX policy continues to fuel liquidity growth so that further PBoC tightening will be required

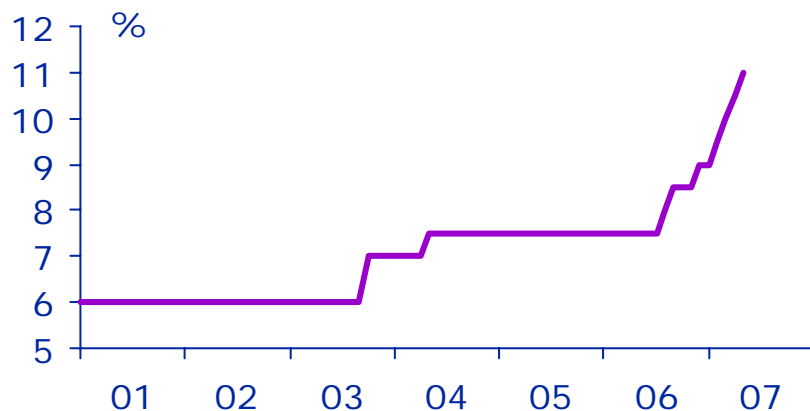
Interest rates



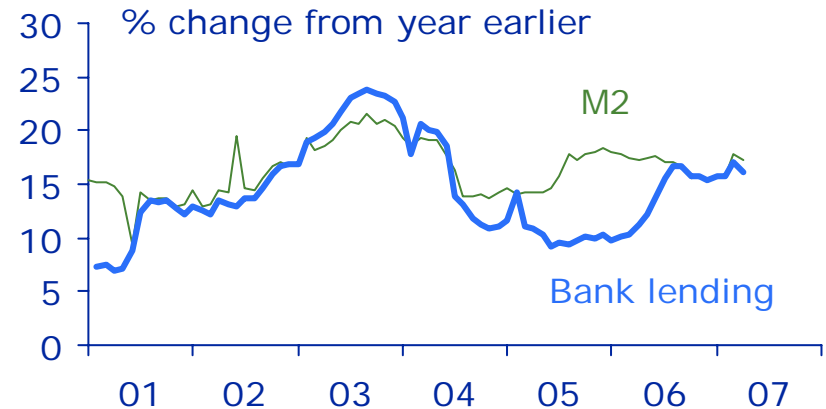
Increase in FX reserves



Banks required reserves ratio



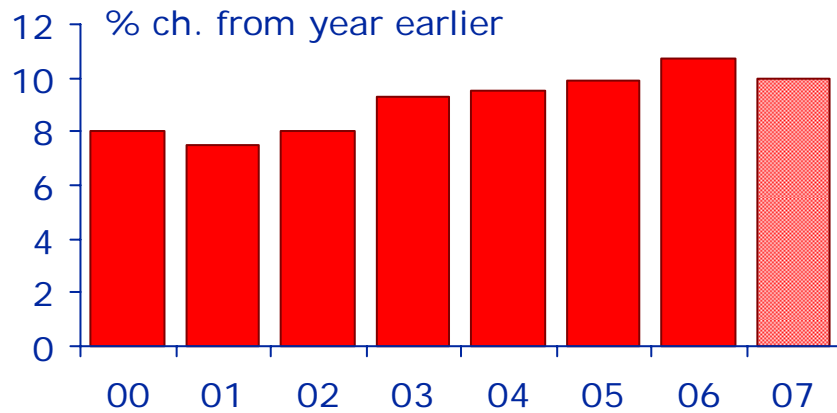
Money supply and bank lending



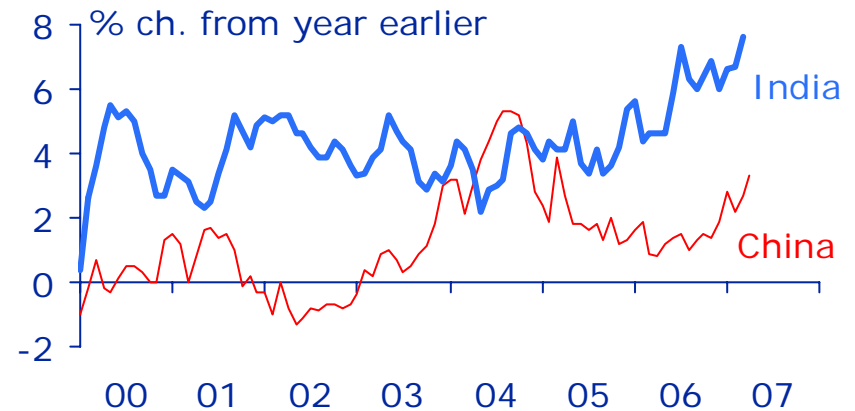
Source: China National Statistics Bureau; People's Bank of China; Thomson Financial Datastream.

India's economy has also been doing well – but India's 'speed limit' is lower than China's

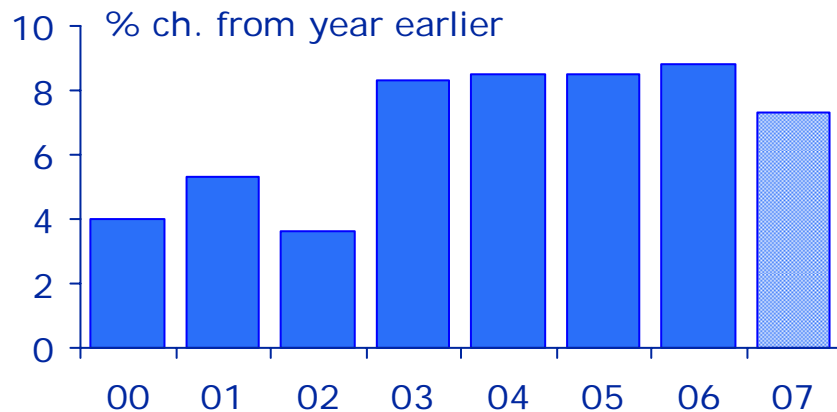
Real GDP - China



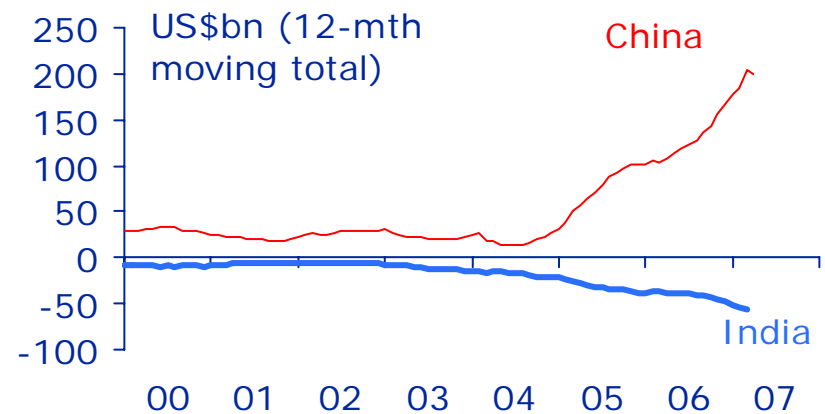
Inflation



Real GDP - India



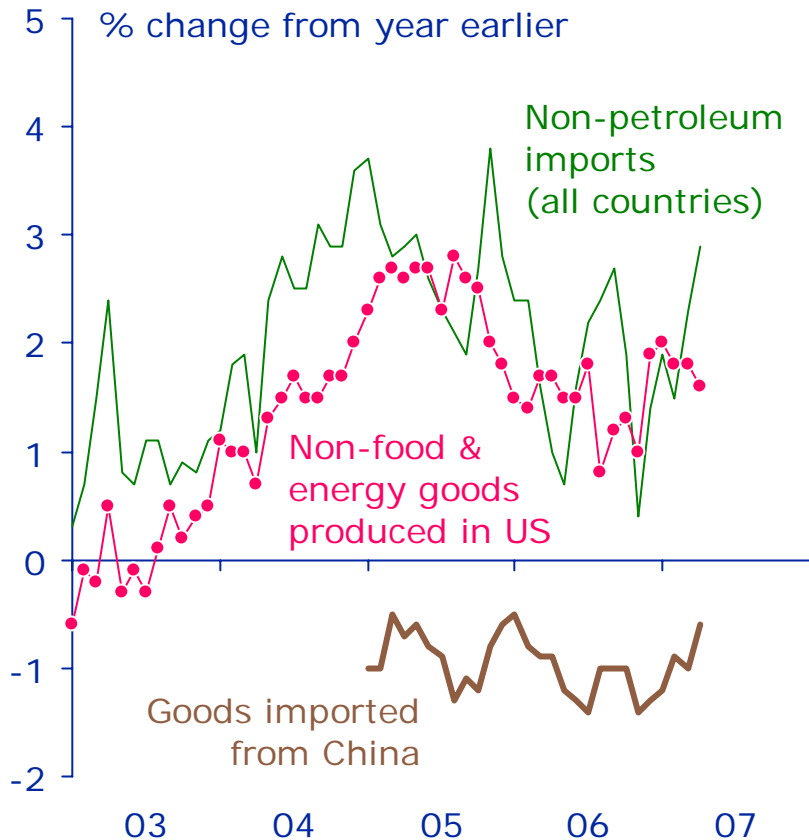
Trade balance



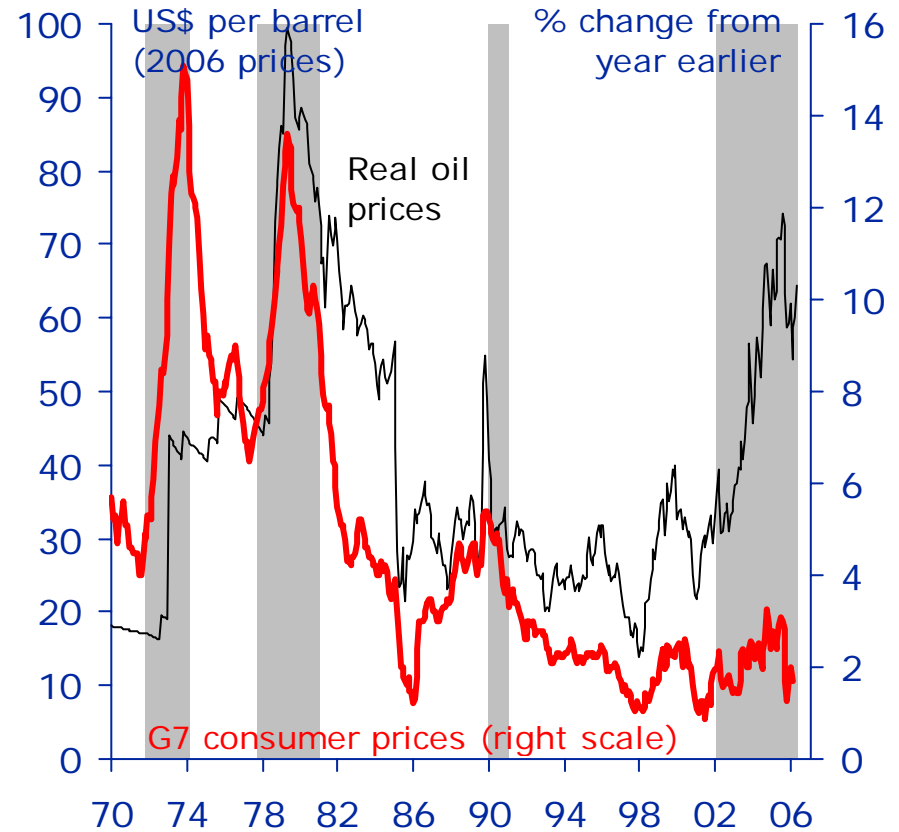
Source: China National Statistics Bureau;
India Department of Statistics; IMF.

Developing economies have provided a source of discipline on advanced economy prices and costs

Wholesale prices of goods in the United States



Oil prices and inflation

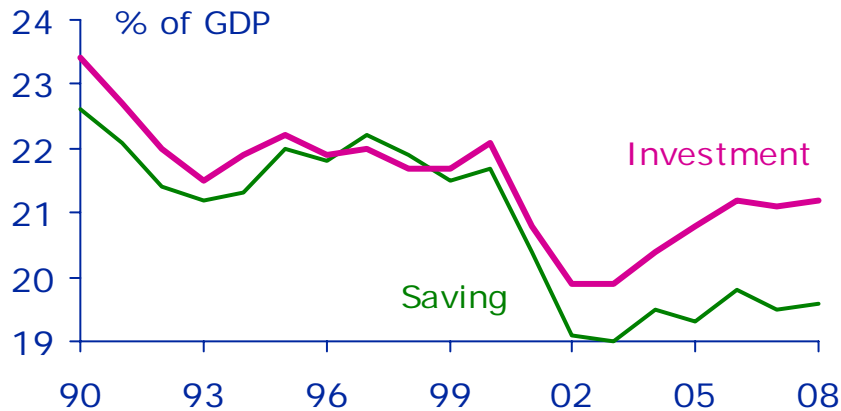


Sources: US Bureau of Economic Analysis; US Bureau of Labor Statistics; OECD; Datastream; Economics@ANZ.

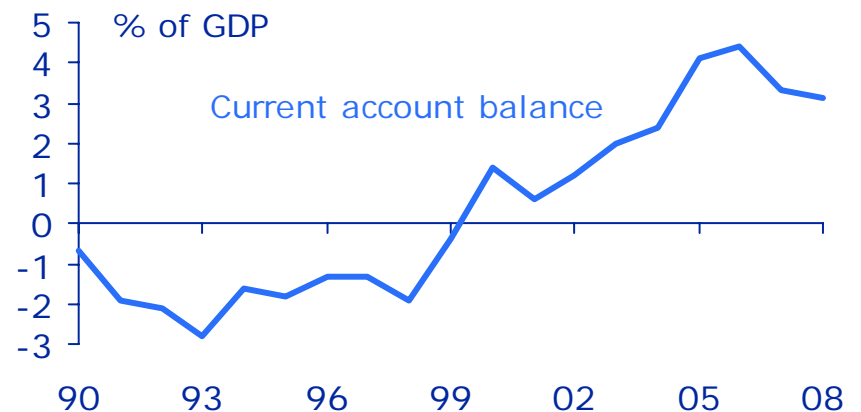
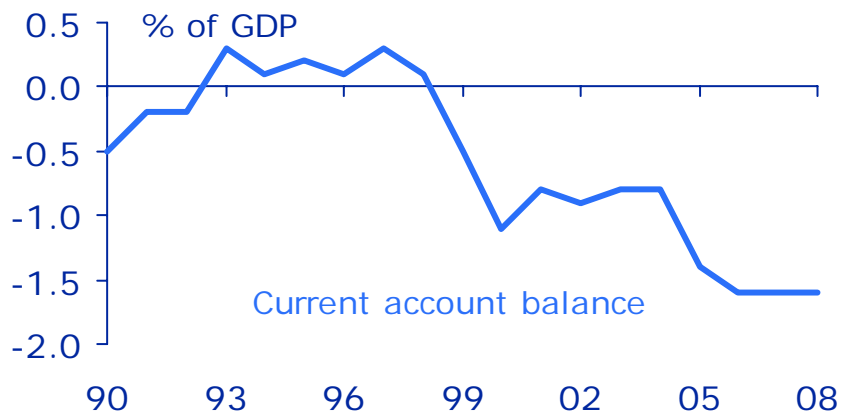
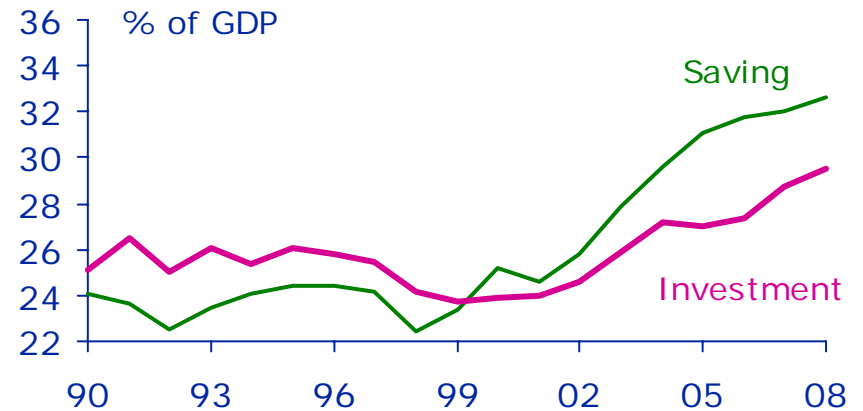
Since the late 1990s, capital has flowed from developing countries to advanced countries

Saving, investment and current account balances

Advanced economies



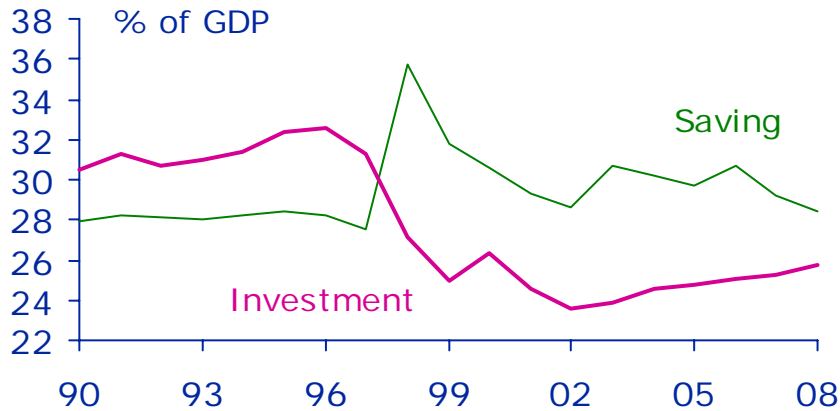
Developing economies



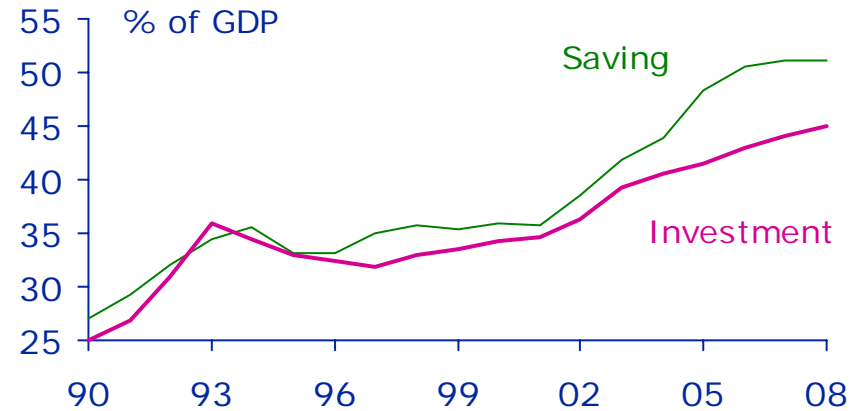
Note: In these charts, Korea, Taiwan, HK, Singapore & Israel are classed as 'advanced economies'. Sources: IMF, World Economic Outlook database (April 2007); Economics@ANZ.

Post-crisis collapse in Asian investment financing China's investment boom and the US saving deficit

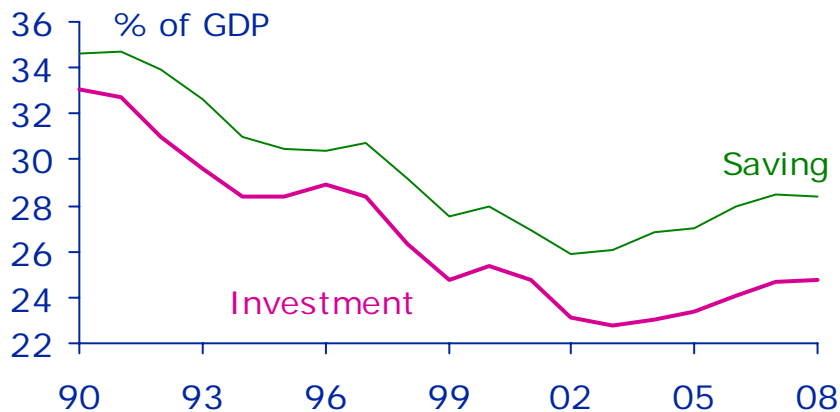
Asia excl Japan, China & India



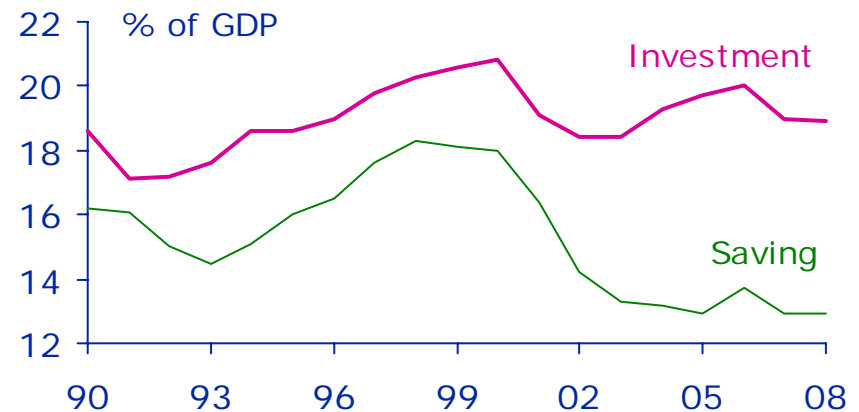
China



Japan



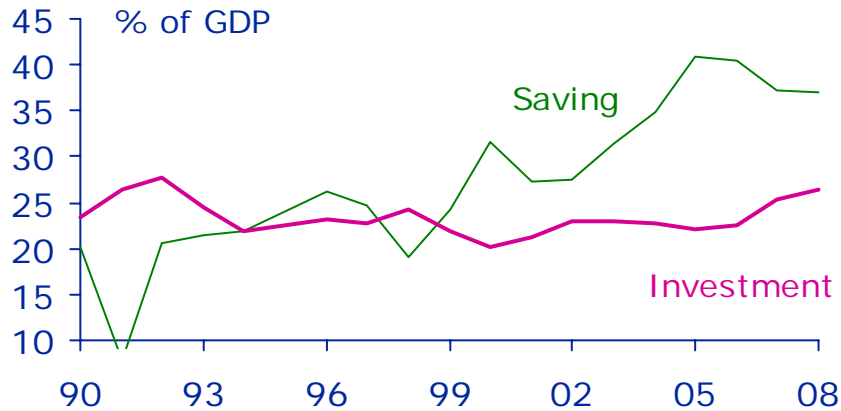
United States



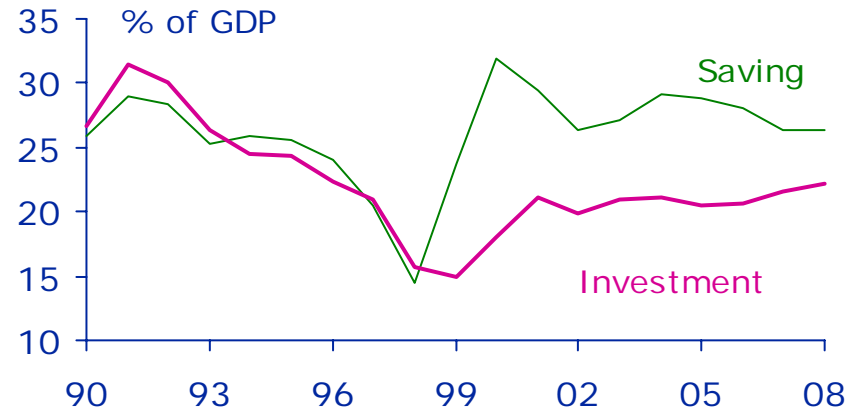
Sources: IMF, *World Economic Outlook* database (April 2007); Economist Intelligence Unit; Economics@ANZ.

Some other interesting trends in saving and investment around the world

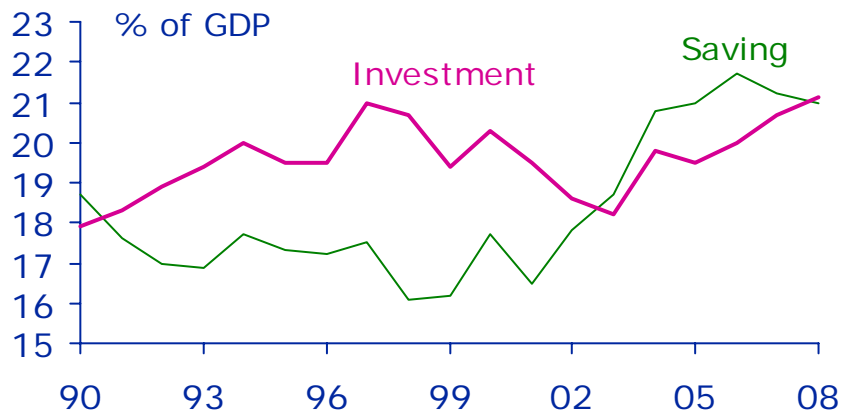
Middle East



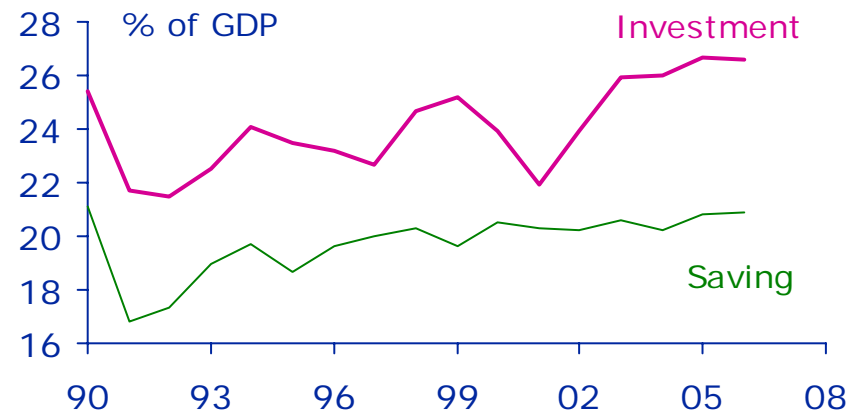
Former Soviet Union



Latin America



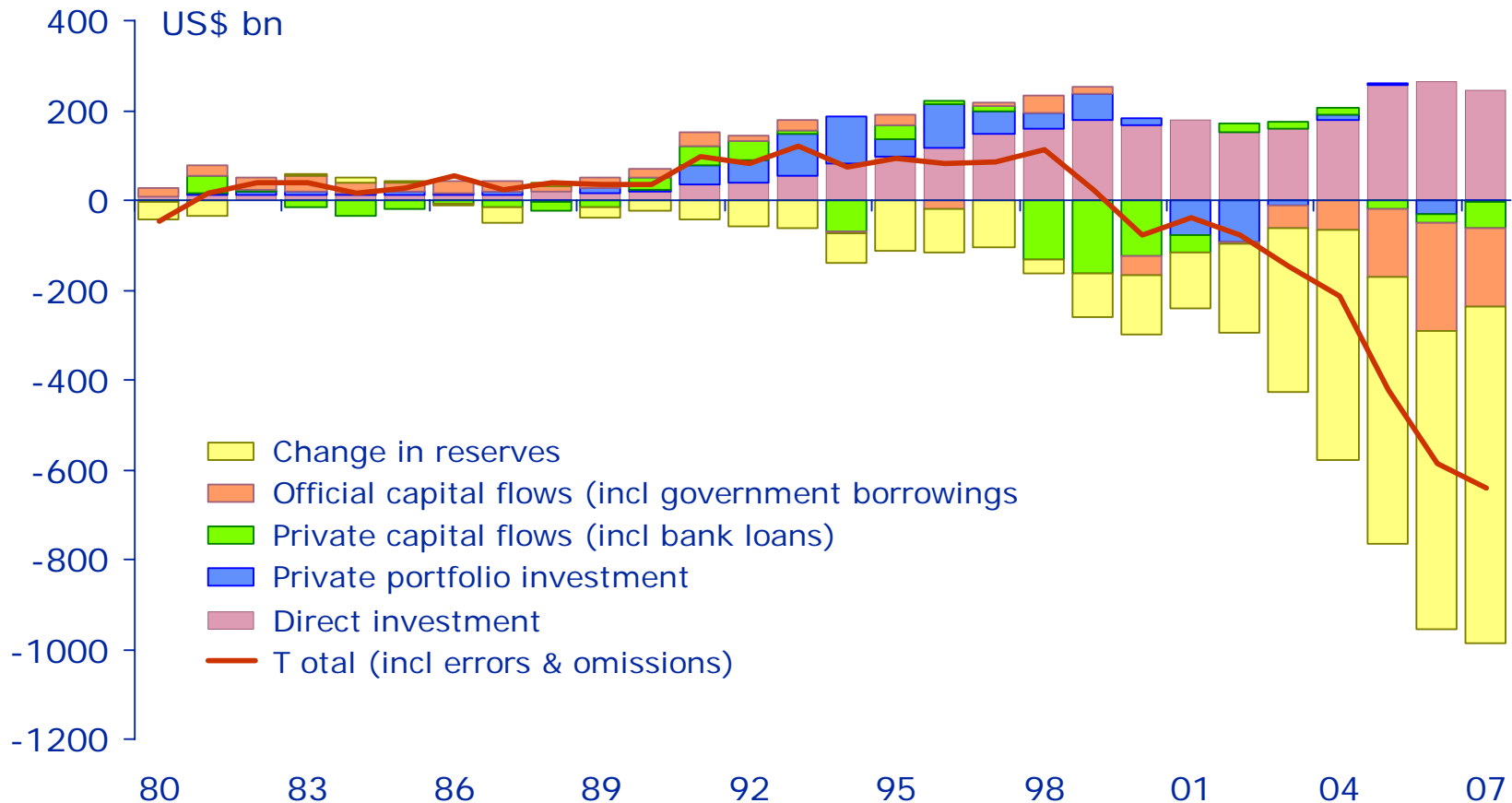
Australia



Sources: IMF, World Economic Outlook database (April 2007); ABS; Economics@ANZ.

Developing countries have exported massive amounts of capital to the industrialized world

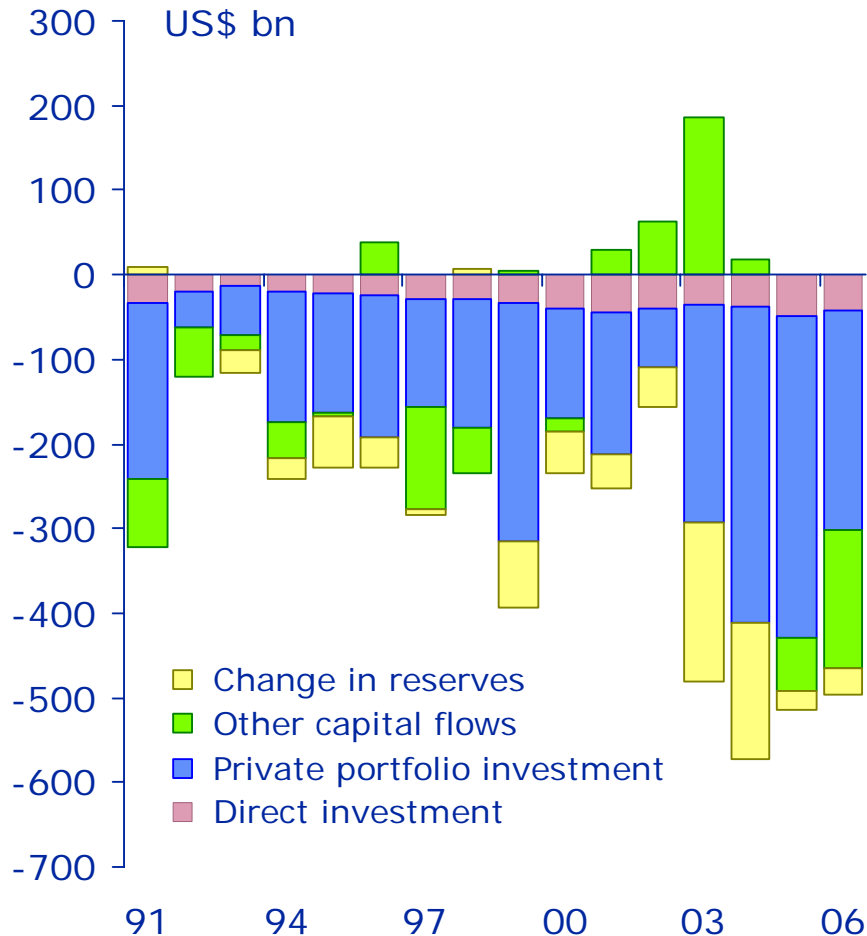
Capital flows to developing economies



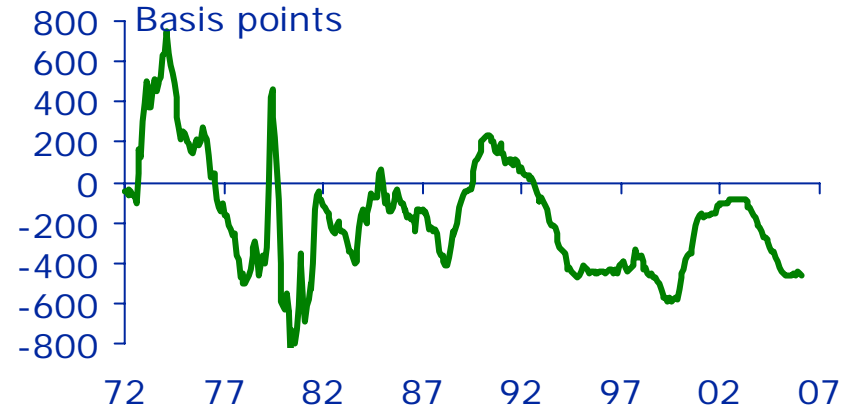
Note: 'Developing economies' in this chart includes Korea, Taiwan, Hong Kong, Singapore and Israel. All figures are net. Source: IMF; Economics@ANZ.

Japan is also exporting massive amounts of capital, keeping the yen weak

Capital flows from Japan



Japan-US interest rate spread



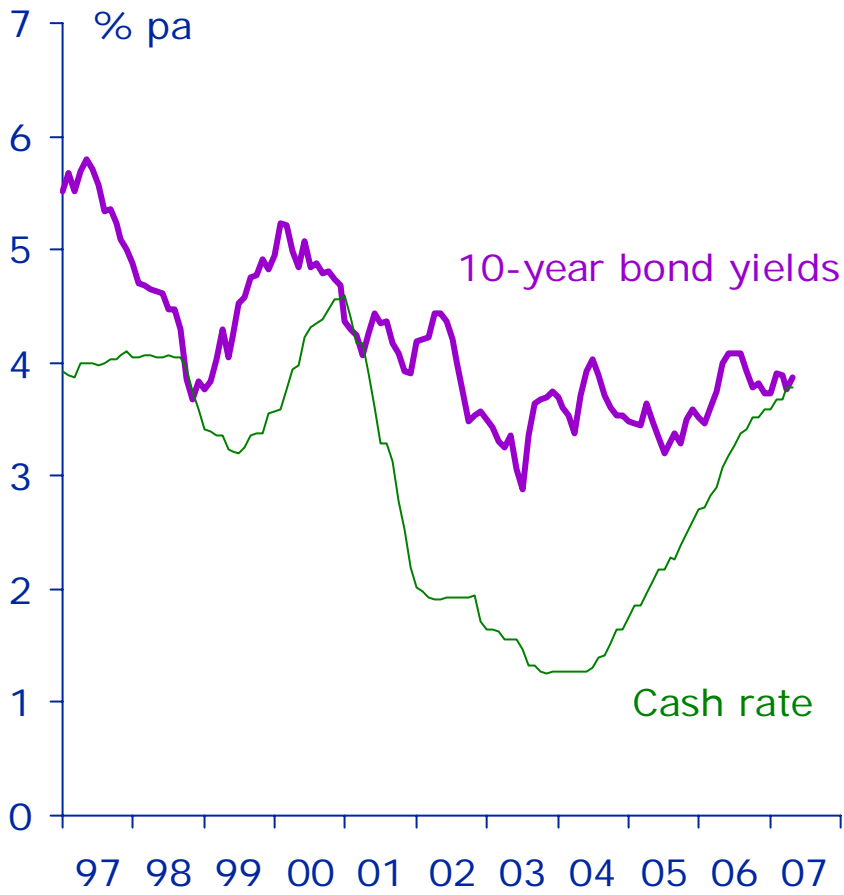
Real trade-weighted yen



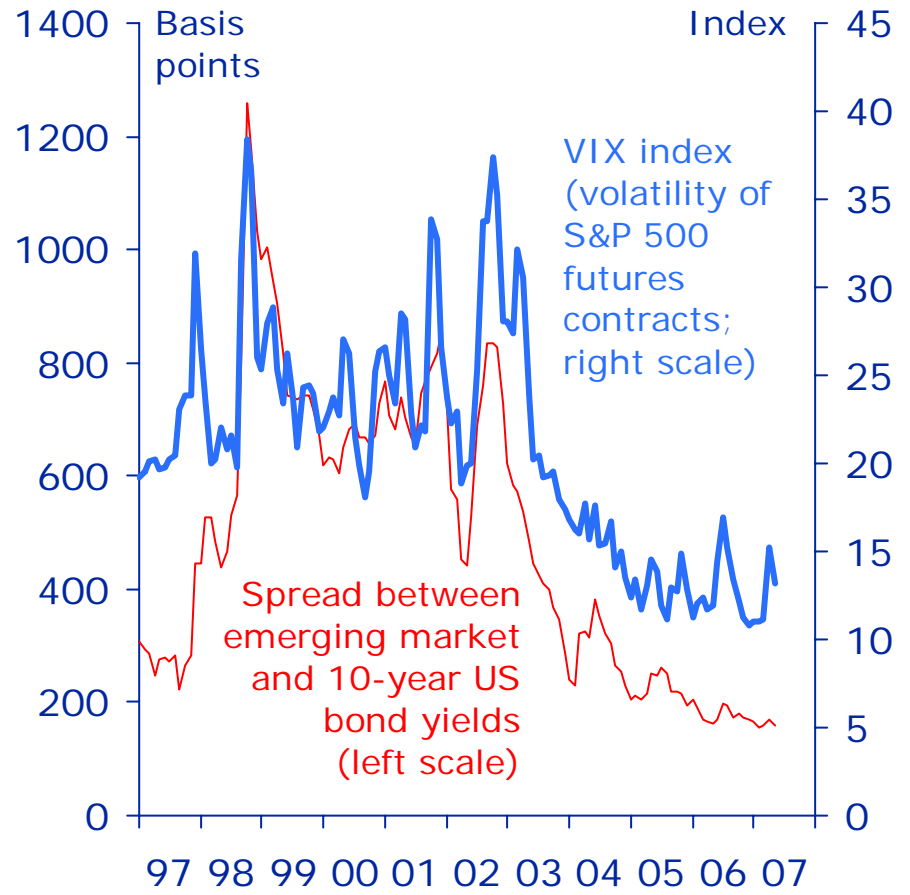
Sources: Bank of Japan; JP Morgan.

These capital flows are helping to keep long-term rates low and boosting investors' appetite for risk

G7 interest rates



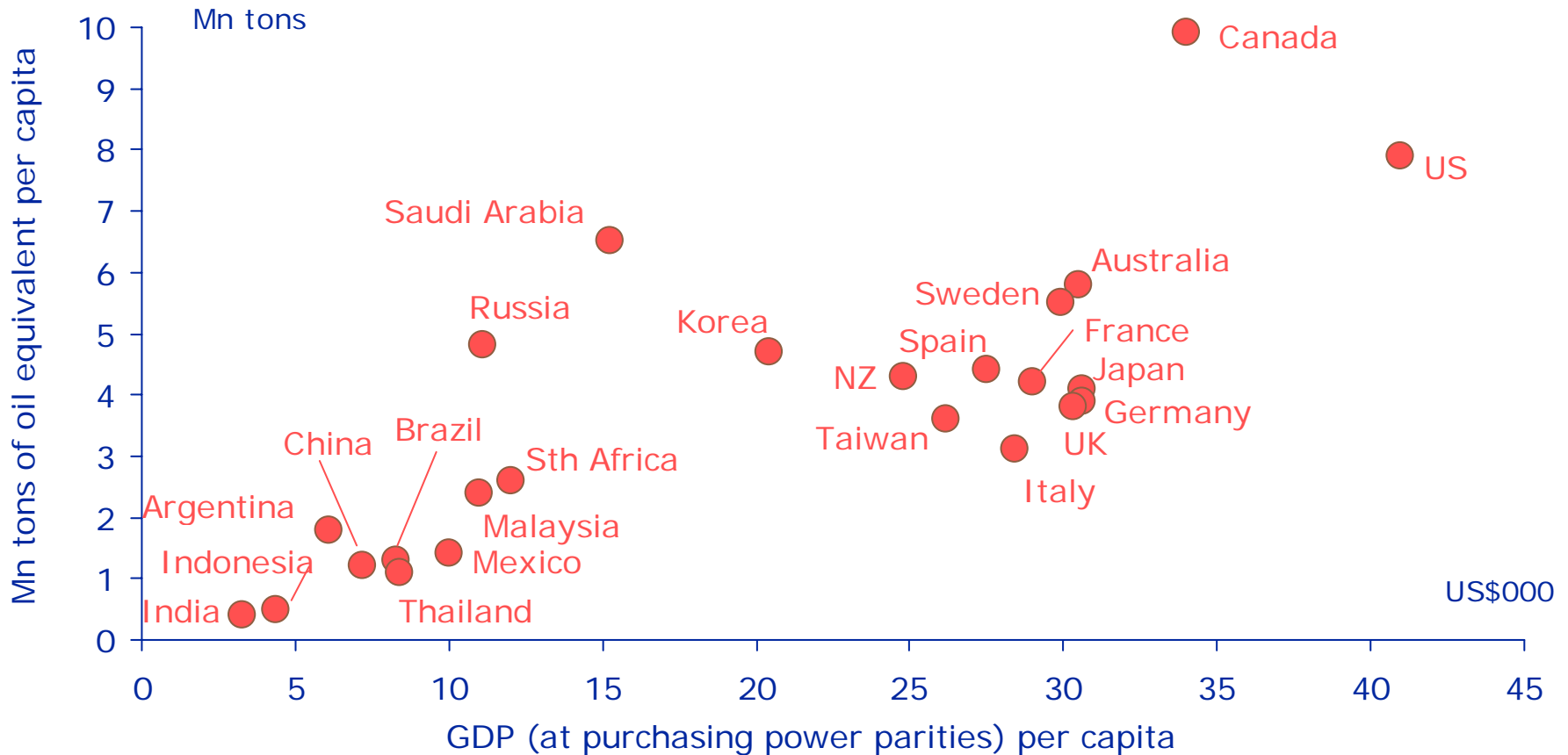
Indicators of investors' appetite for risk



Source: Thomson Financial Datastream.

Developing country energy consumption will rise faster than incomes for the next few decades

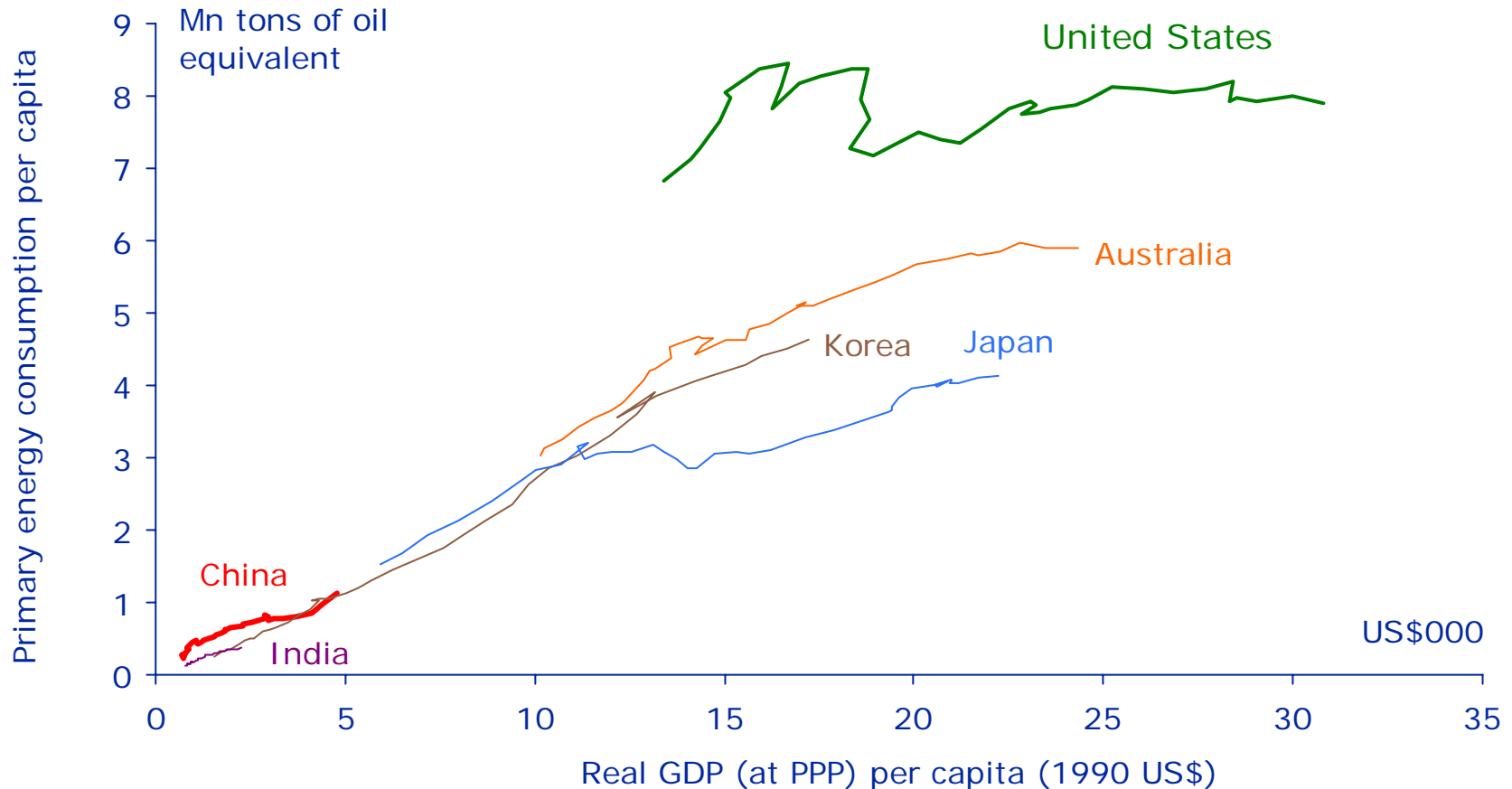
Primary energy consumption and GDP per capita, 2005



Sources: BP Statistical Review of World Energy 2005; IMF World Economic Outlook September 2006; Economics@ANZ.

Primary energy consumption in China, India etc will thus rise substantially

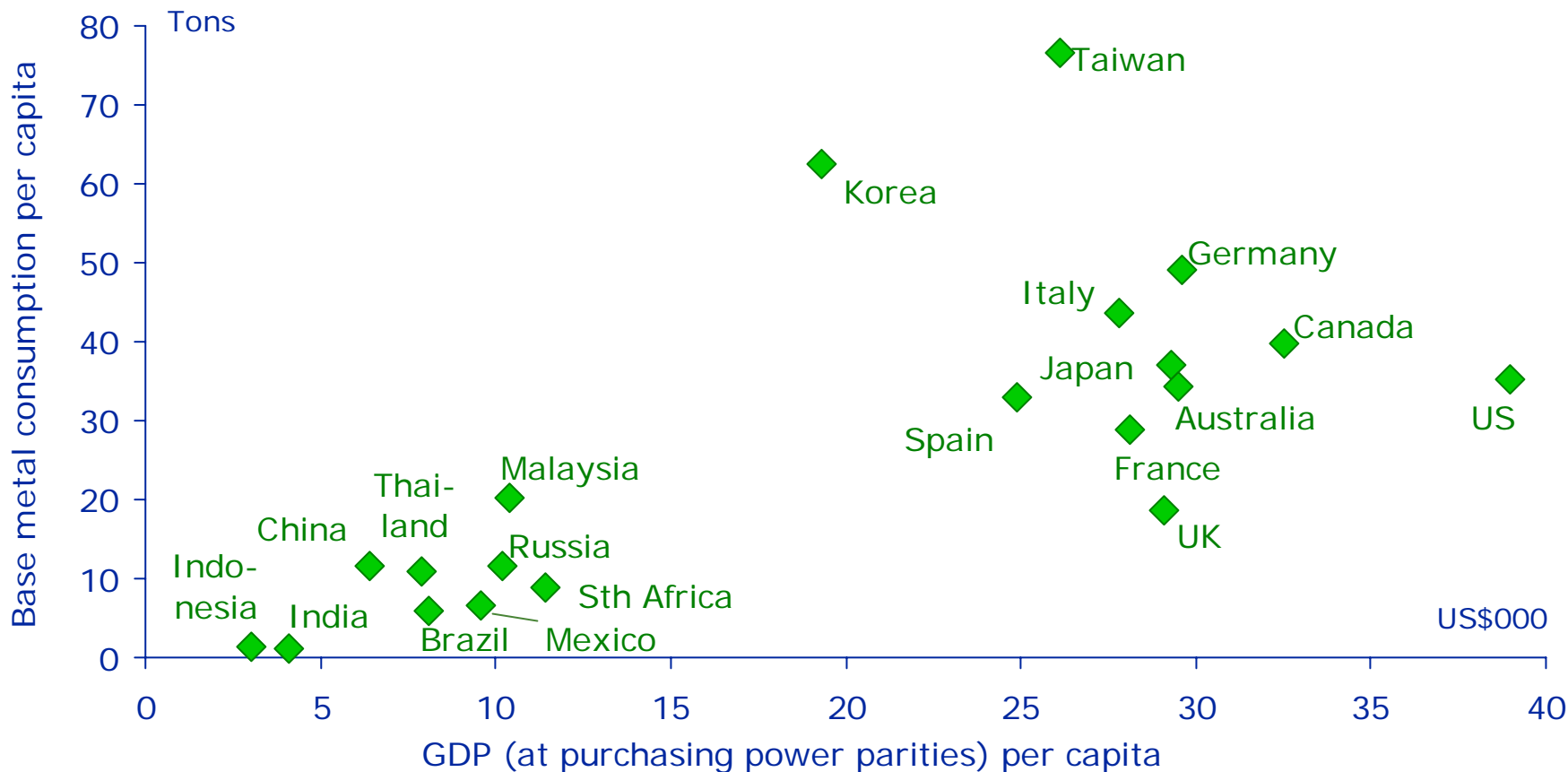
Primary energy consumption and GDP per capita, 1965-2005



Sources: Groningen Growth and Development Centre *Total Economy Database*; BP *Statistical Review of World Energy* (2006); Economics@ANZ.

The 'metal intensity' of developing country growth is likely to rise sharply

Base metal consumption and GDP per capita, 2004

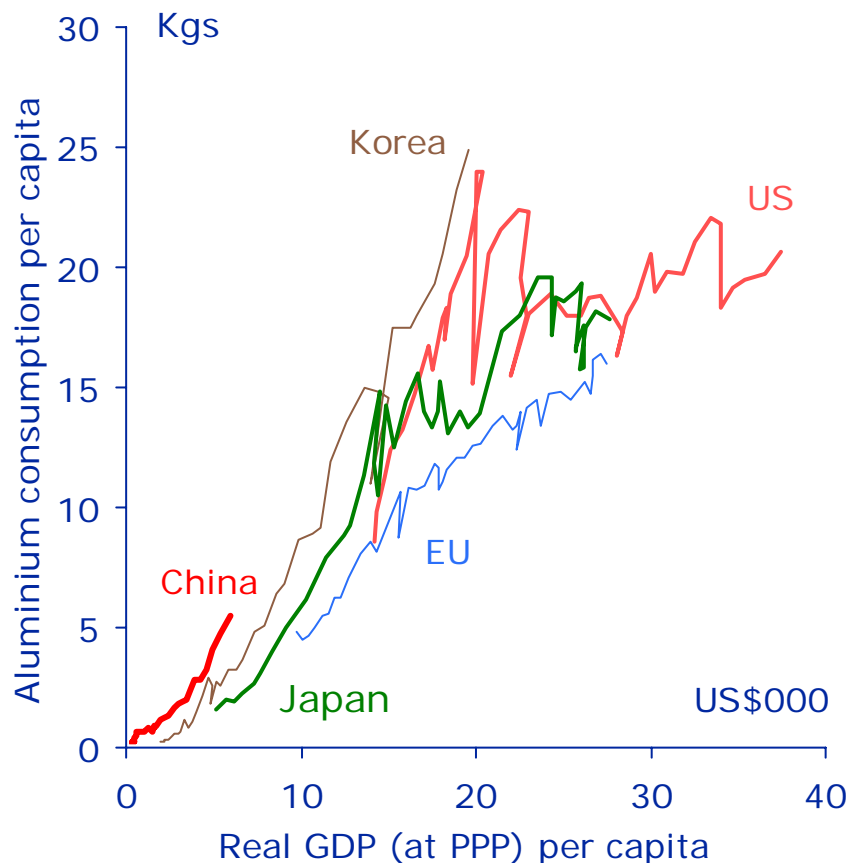


Sources: IMF World Economic Outlook September 2006; Economics@ANZ.

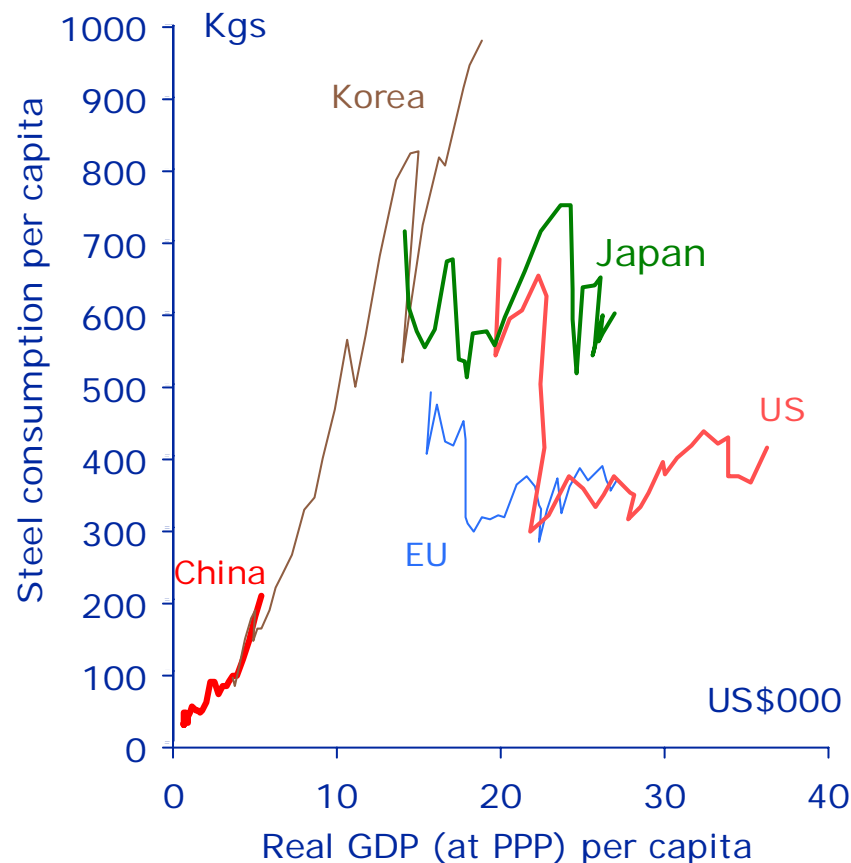
Metal demand from China (and other emerging markets) is likely to continue to grow rapidly

Metal consumption and GDP per capita, 1965-2005

Aluminium



Steel



Sources: IMF World Economic Outlook September 2006;
(Figure 5.7); Economics@ANZ.

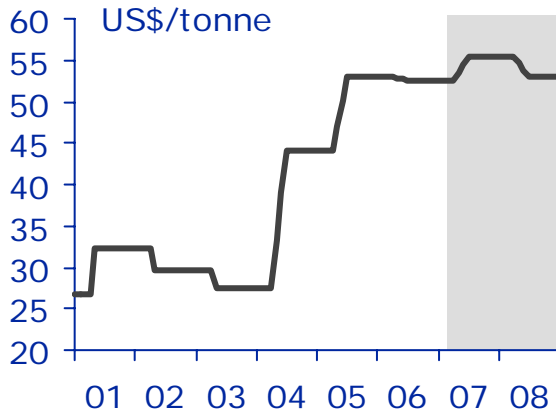
Mineral commodity supply is beginning to increase

	% change from previous year				
	1999-2004*	2005	2006 (e)	2007 (f)	2008 (f)
Coal	5.0	9.6	8	7½	6½
Iron ore [§]	5.9	11.1	5	8	7¾
Alumina	5.0	2.4	21	4¼	2¾
Aluminium	4.7	7.0	5½	8½	6½
Copper	1.7	5.2	4¾	6	5½
Lead	1.7	9.0	5¾	4¼	3¾
Nickel	3.3	3.4	4¼	6¼	6½
Zinc	4.0	-1.2	4¼	6	4½
Gold (mine)	-0.6	2.0	-2	2¾	¾

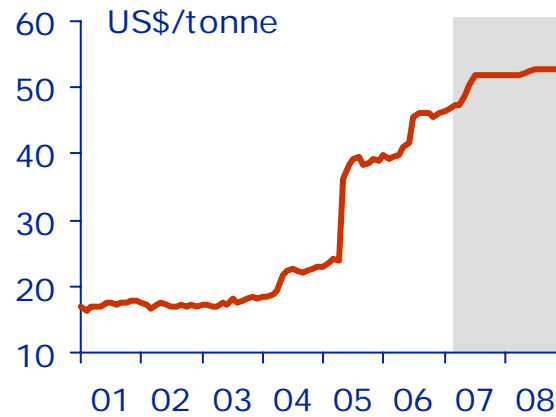
* Average annual rate. [§] Trade. Sources: ABARE, Australian Commodities March quarter 2007; Economics@ ANZ.

Commodity prices will thus remain high though easing as increased supply comes on stream

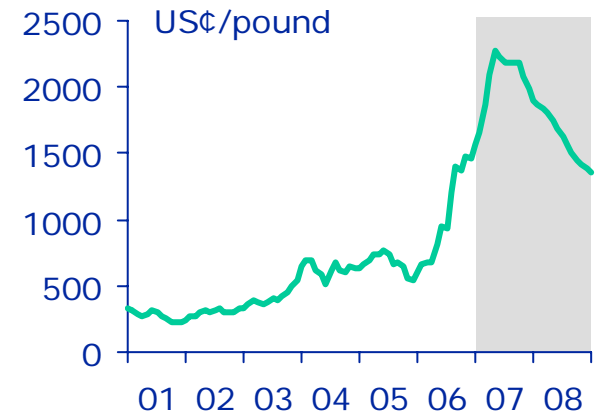
Thermal coal



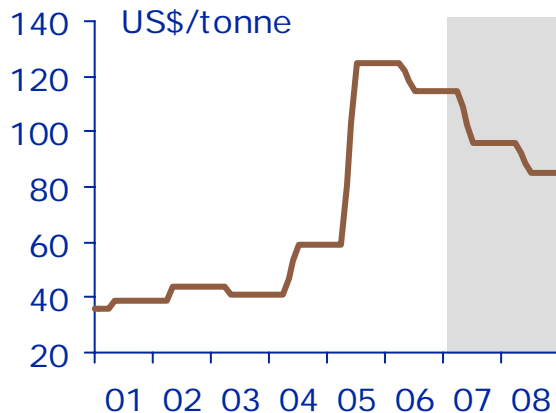
Iron ore



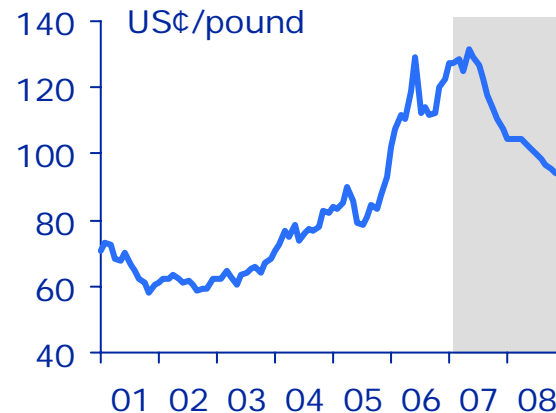
Nickel



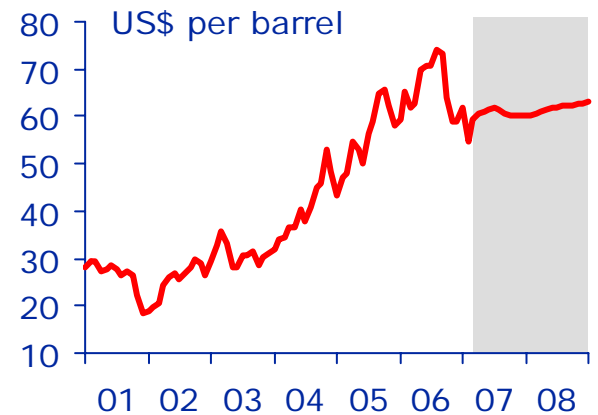
Coking coal



Aluminium

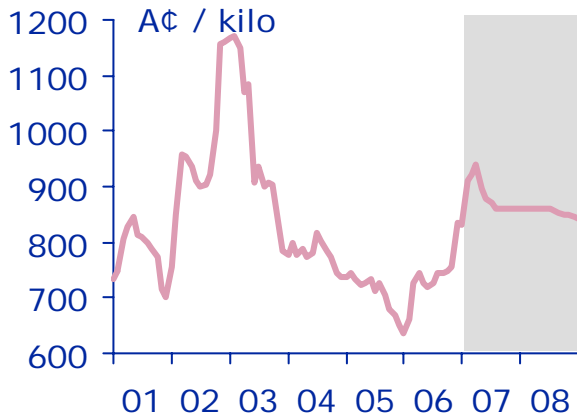


Oil

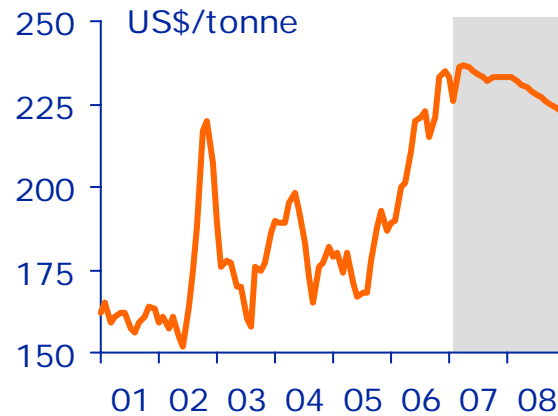


Agricultural commodity prices far less buoyant than minerals although grains are doing well

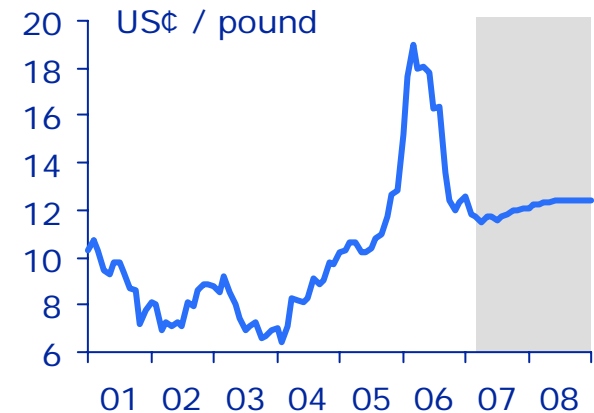
Wool



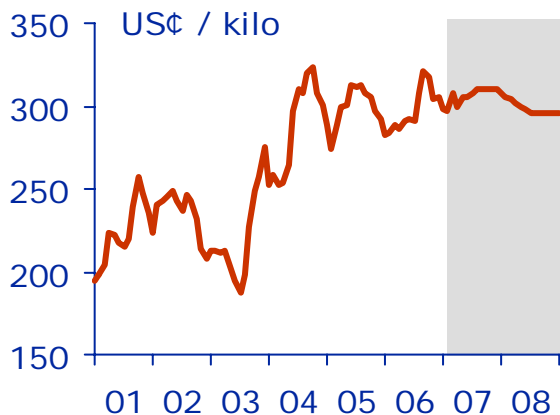
Wheat



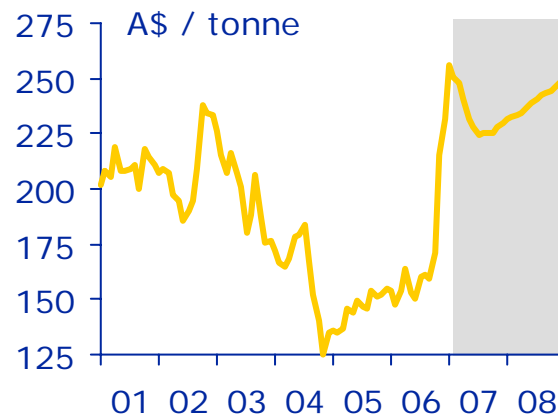
Sugar



Beef



Barley

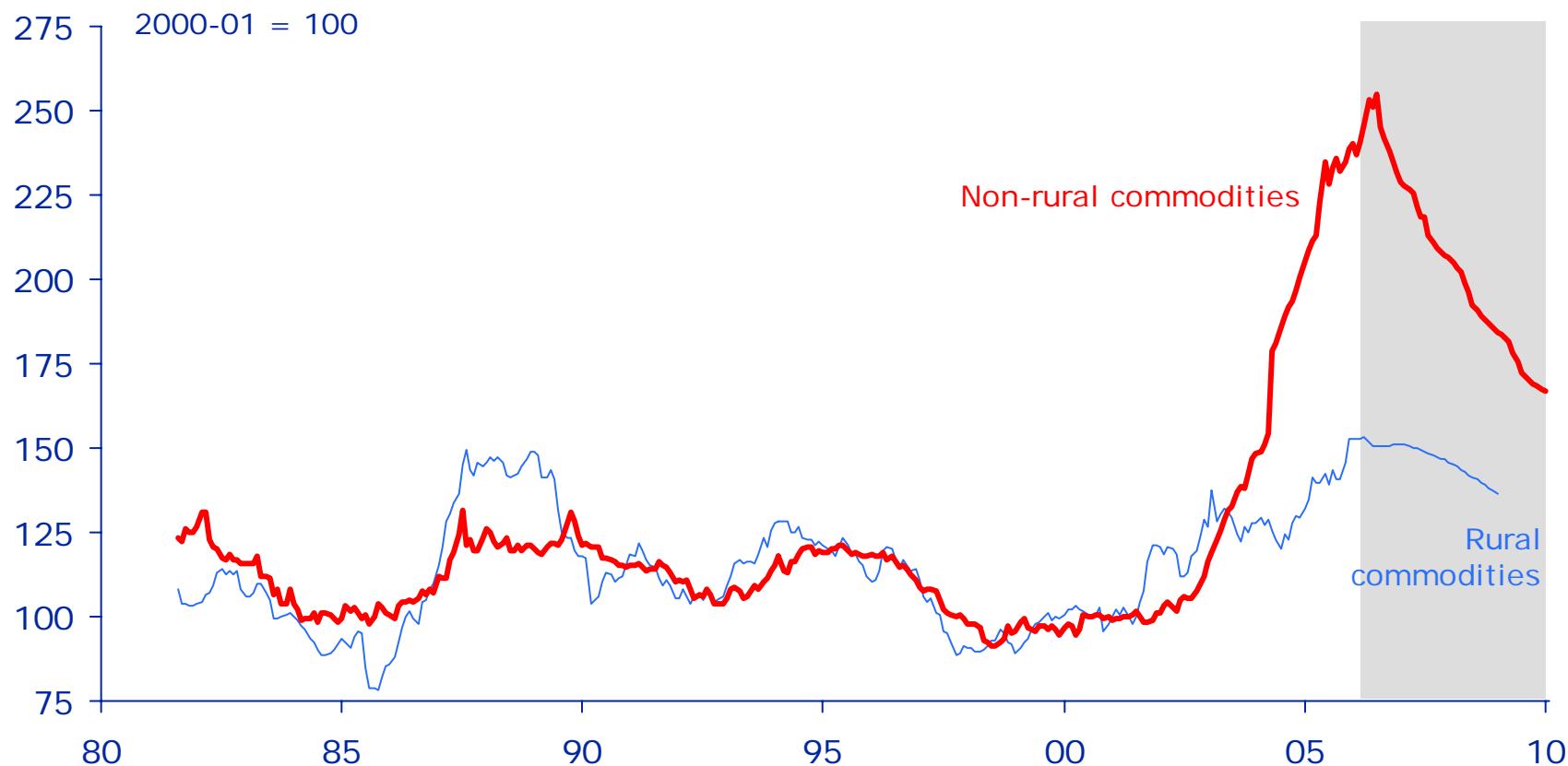


Cotton



Although commodity prices are close to peaking they will remain high by historical standards

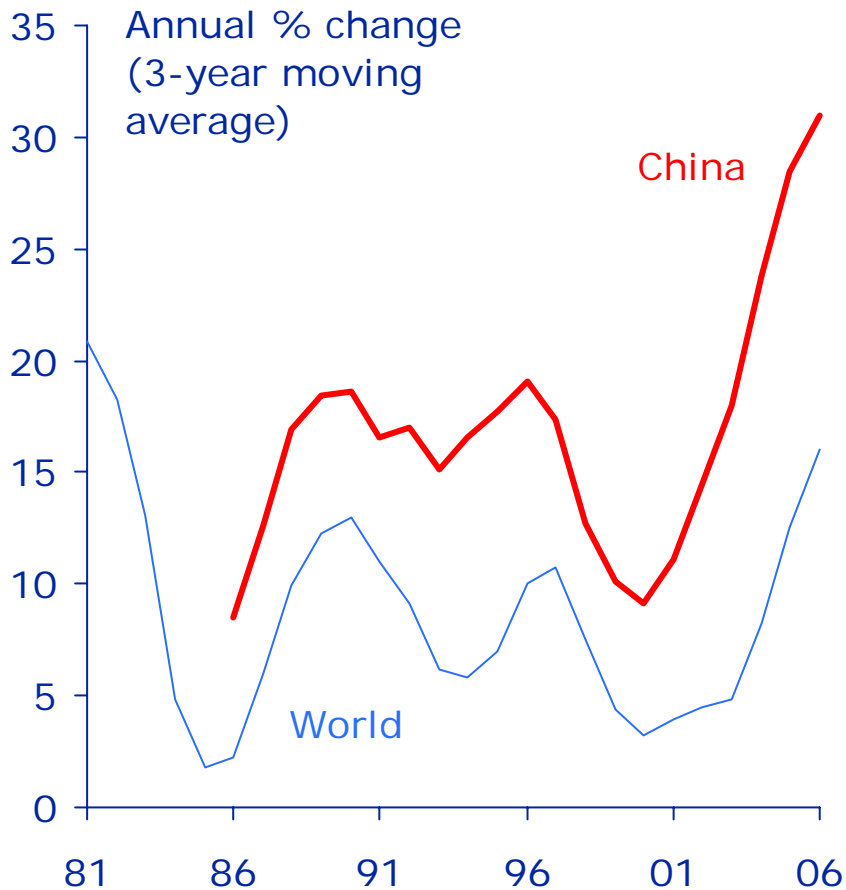
Australian export commodity prices in US\$ terms



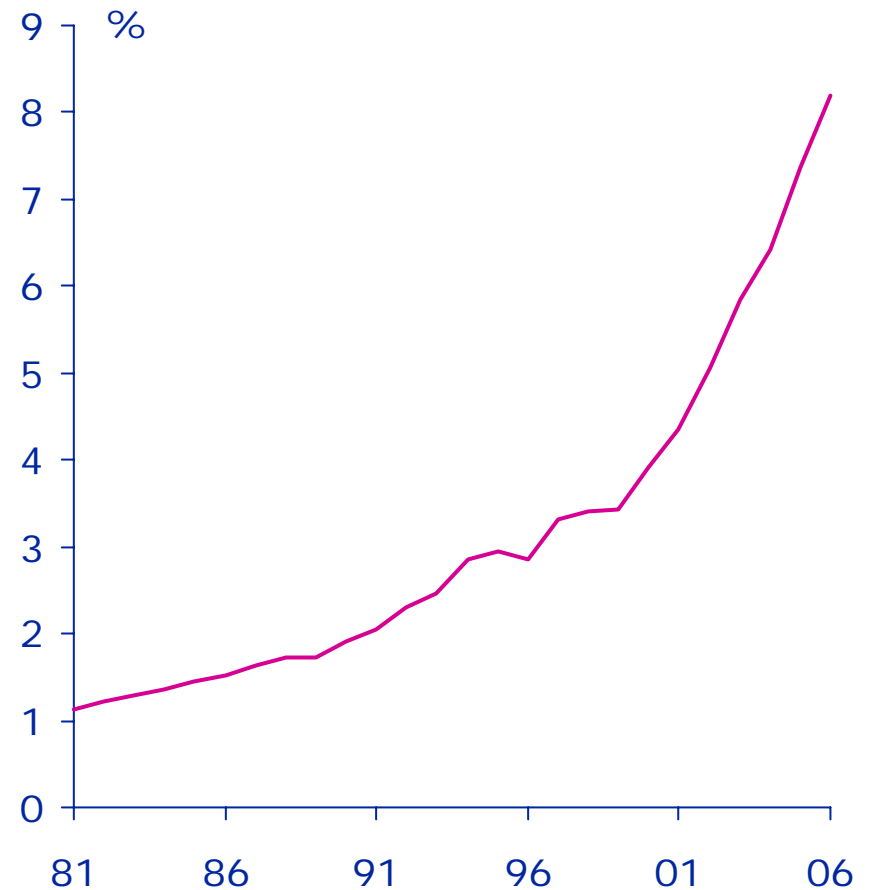
Sources: Reserve Bank of Australia; Economics@ANZ.

China's increasing share of global exports may trigger a protectionist backlash

Merchandise exports



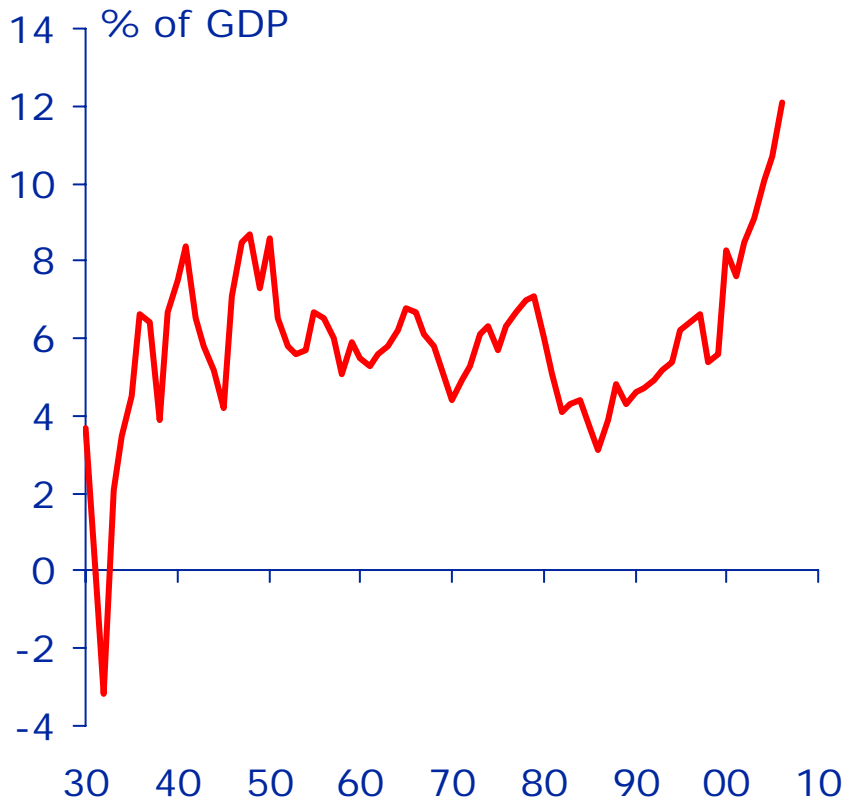
China's share of world exports



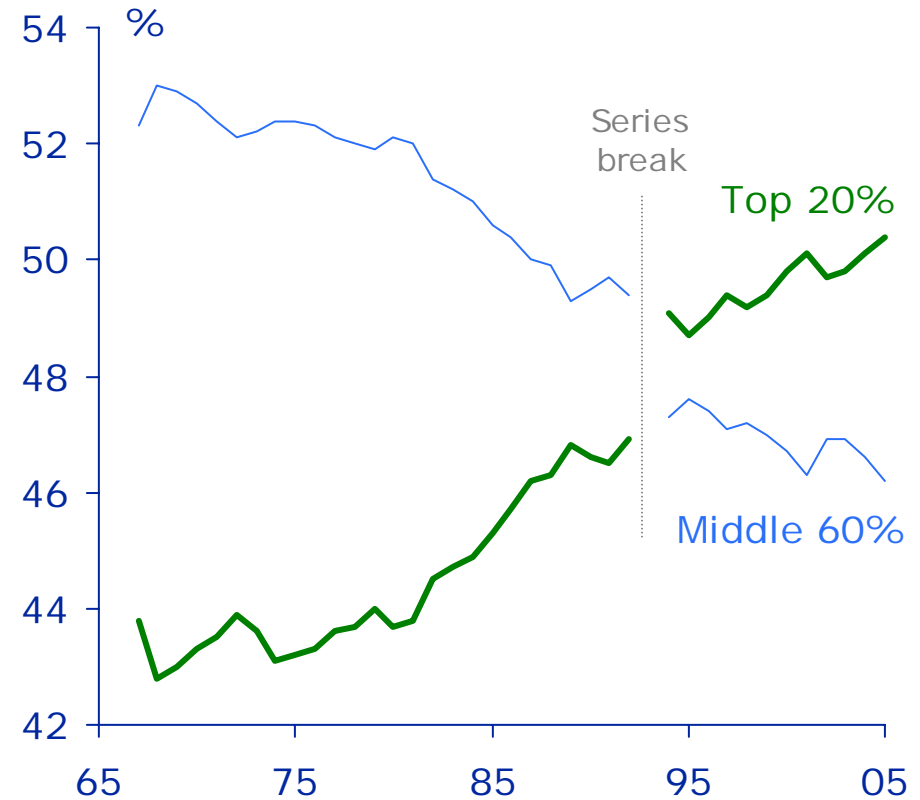
Sources: IMF, *Direction of World Trade Statistics*;
Economics@ANZ.

The risk of 'populist' policies in the US is heightened by trends in the distribution of income

US: after-tax 'book' profits as a share of GDP



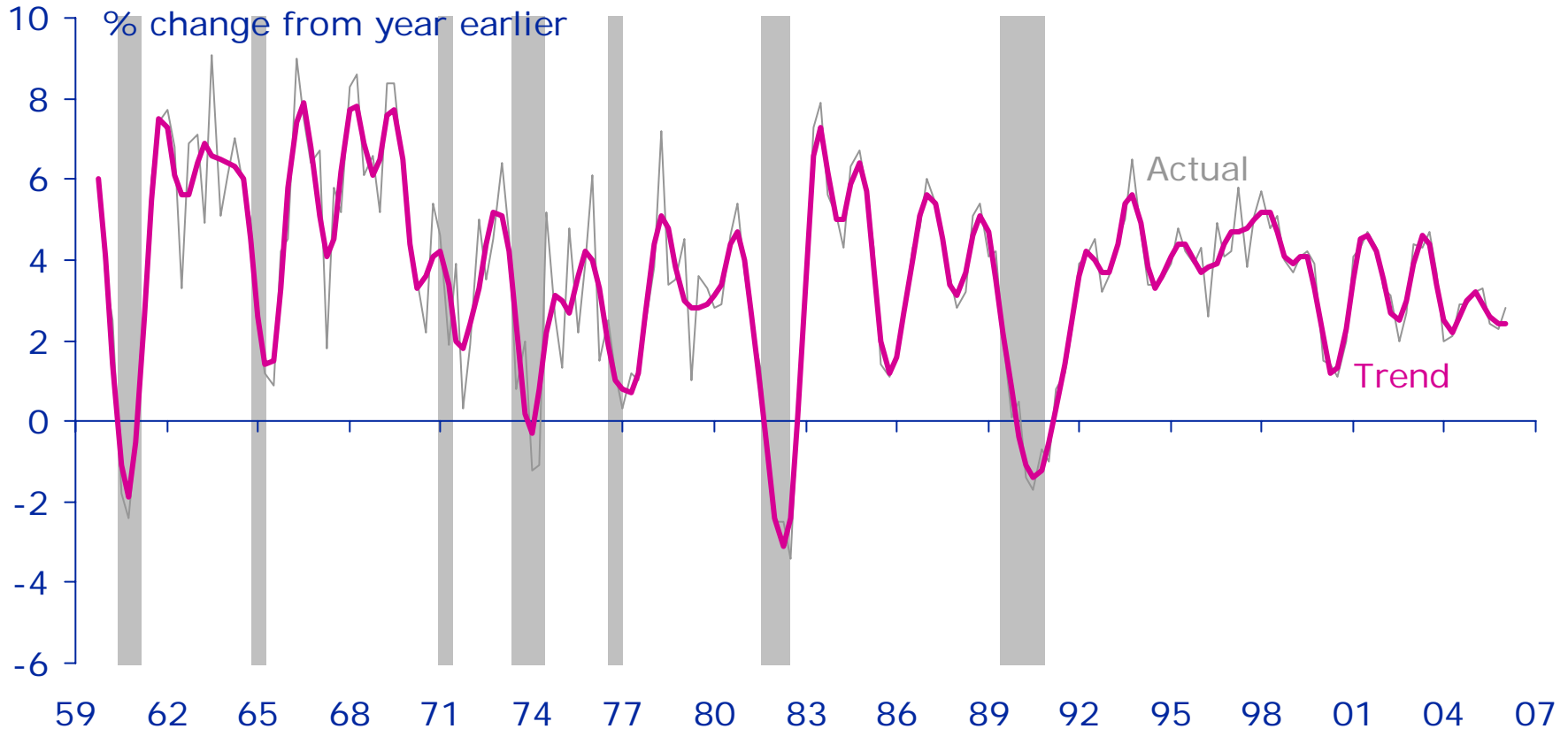
US: shares of selected income groups in total pre-tax income



Sources: US Bureau of Economic Analysis; US Census Bureau.

Australia has now gone more than 15 years without recession, the longest in its history

Real GDP growth



Note: shaded intervals denote periods in which real GDP growth was negative for two or more quarters, or during which real GDP declined from the year-earlier quarter.

Sources: Australian Bureau of Statistics; Economics@ANZ.

Unemployment is at a 30-year low, while a record proportion of the population is employed

Unemployment



Employment-to-population ratio



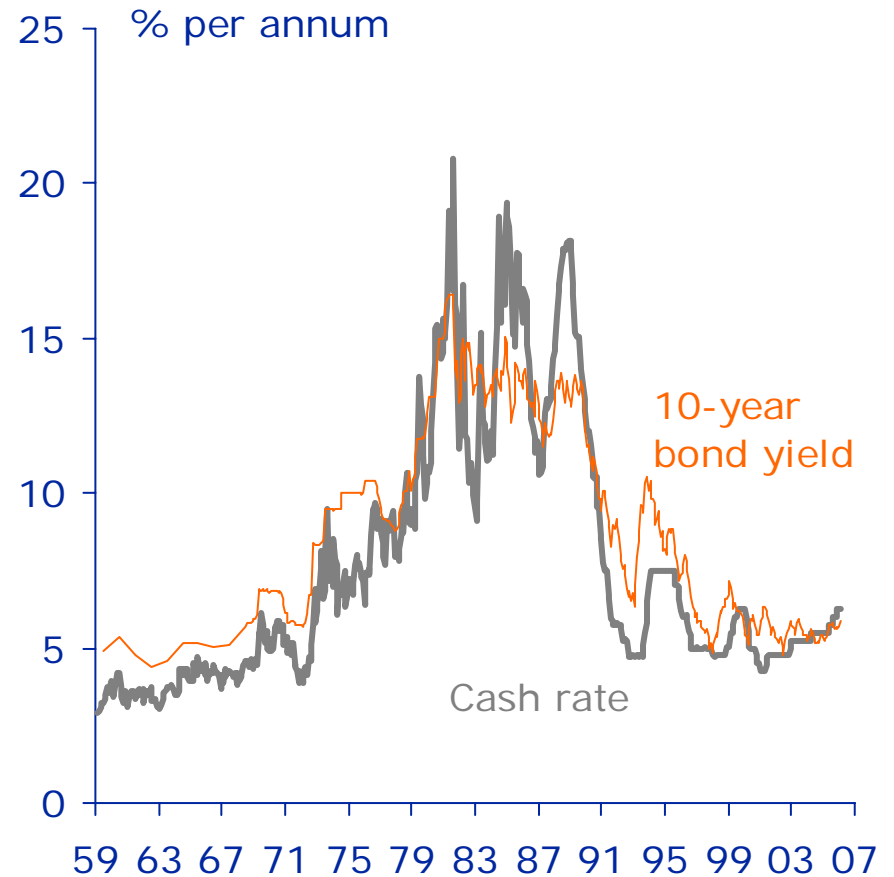
Sources: ABS; Economics@ANZ.

Inflation and interest rates, though rising, are still low by historical standards

Inflation



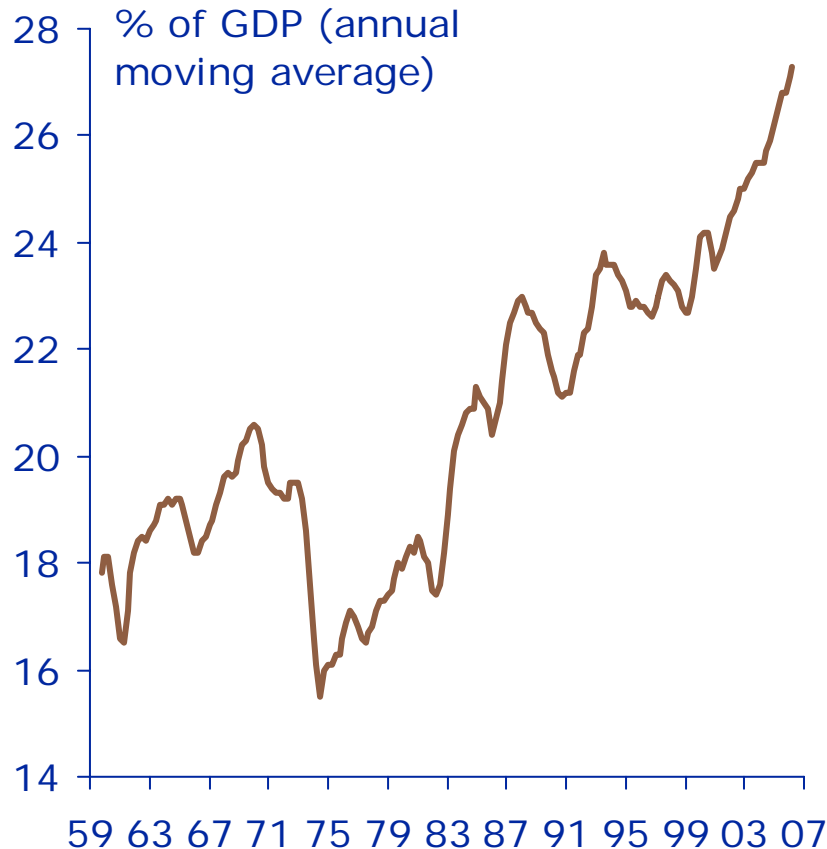
Interest rates



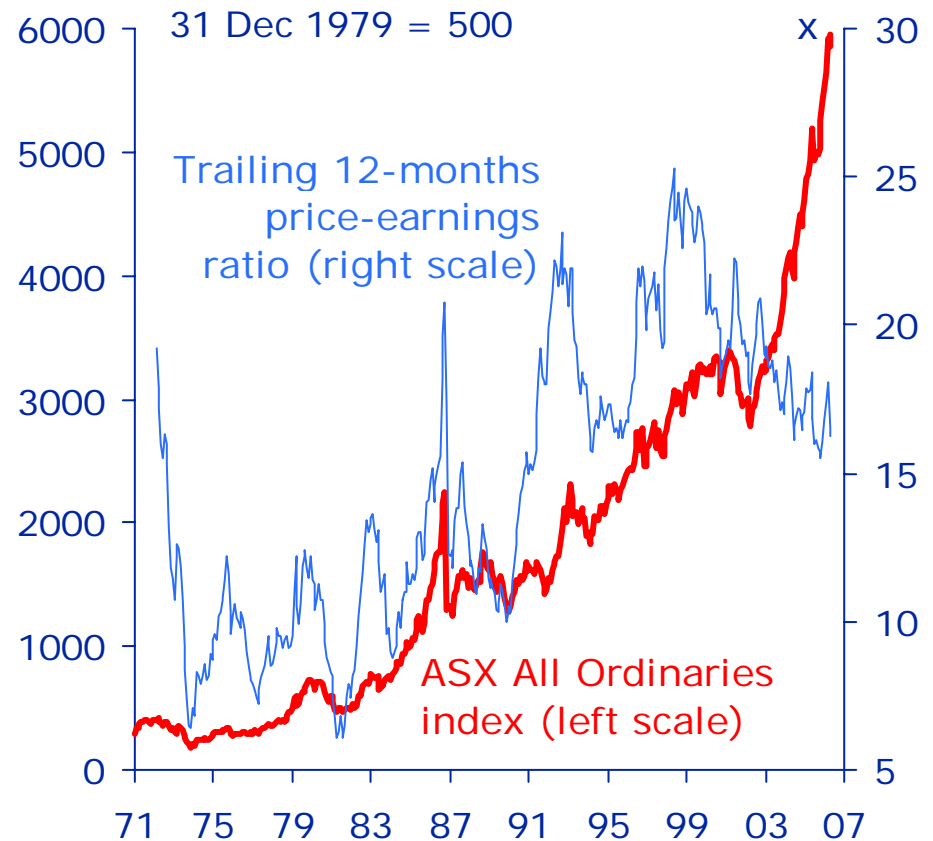
Sources: Australian Bureau of Statistics; Reserve Bank of Australia; Economics@ANZ.

Corporate profits and the share market are at record highs – but the market isn't 'over-valued'

Non-financial corporate gross operating surplus



Australian sharemarket



Sources: Australian Bureau of Statistics; Australian Stock Exchange; Thomson Financial Datastream.

Australian corporate finances are in a very sound condition compared with the 80s and early 90s

Non-financial corporate sector debt-equity ratio



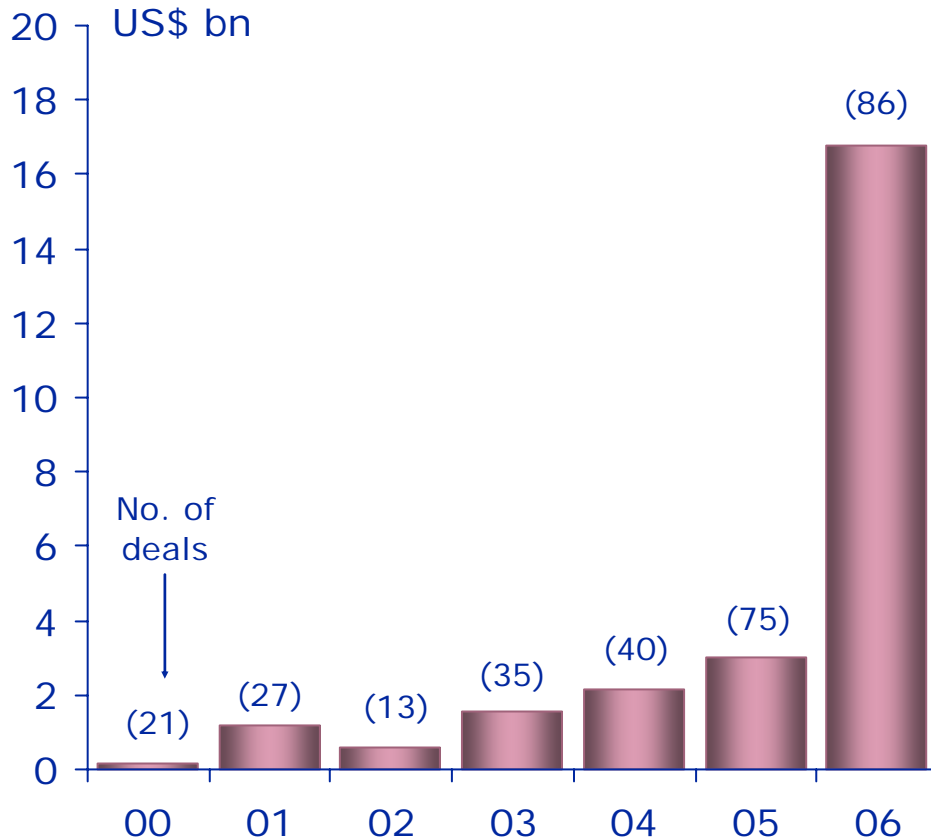
Non-financial corporate sector interest cover



Note: 'interest cover' is the ratio of gross operating surplus (roughly equivalent to EBITDA) to net interest paid. Sources: ABS; Economics@ANZ.

'Private equity' deals have mushroomed over the past year

Australian announced private equity deals



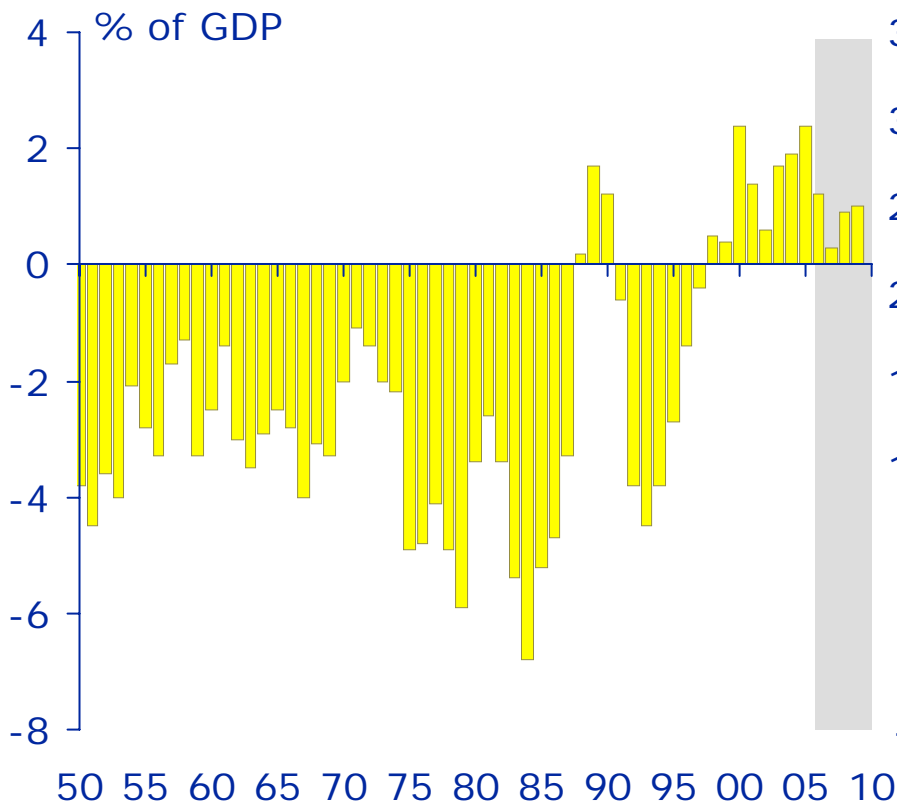
* Deals pending (including Qantas).

Sources: Thomson Financial Datastream; *Australian Financial Review*.

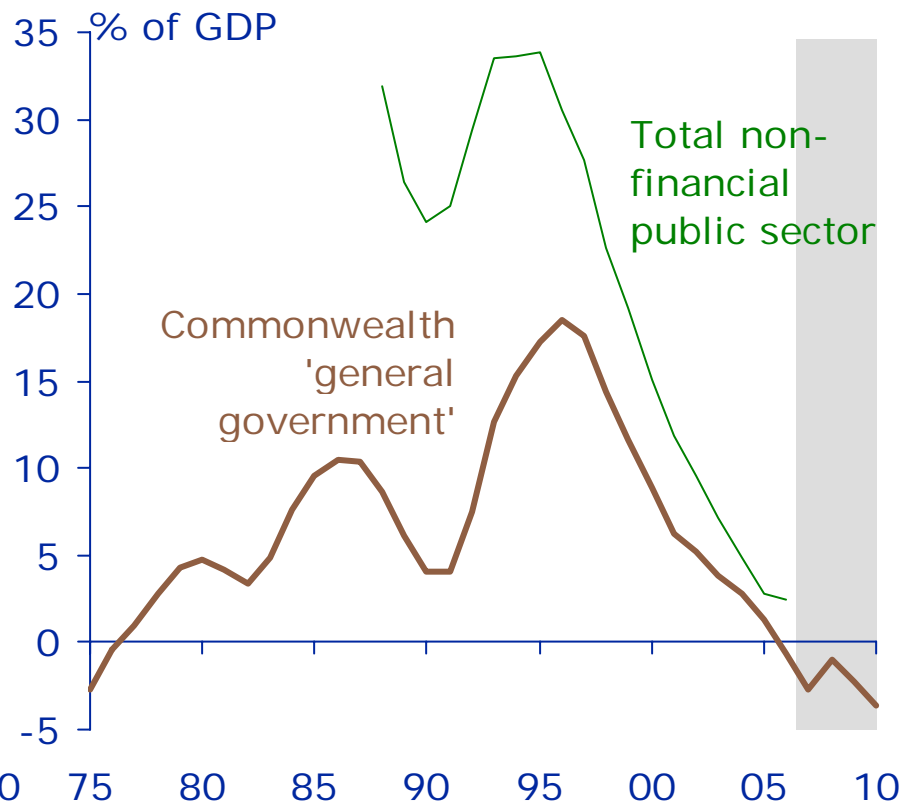
- In principle, there's little difference between today's 'private equity' deals and the 'entrepreneurial' takeovers of the 1980s ...
- ... except that today's bidders aren't crooks ... and they're not (so far it seems) being (largely) financed by domestic banks
- Reducing the regulatory burden on listed companies seems to be a factor in targets agreeing to deals
- Moreover the 'starting point' is a corporate sector in much better financial shape than it was in the 1980s ...
- ... although that could of course change if the private equity boom continued for a number of years

Australian public sector finances are among the strongest in the developed world

'General government' cash balance



Public sector net debt



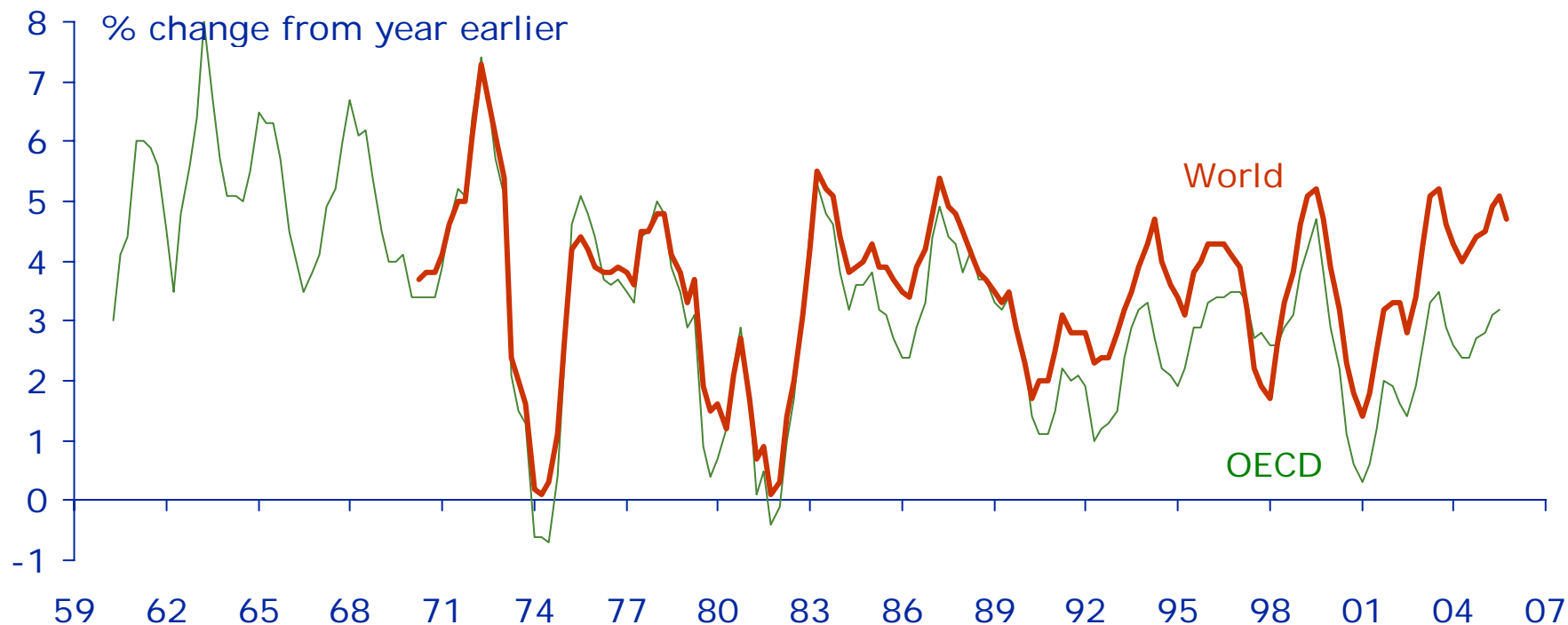
Note: Shaded areas denote official forecasts. Figures are for financial years ended 30th June.

Sources: 2006-07 Commonwealth Budget Paper No. 1, Statement 12;

Reserve Bank *Statistical Bulletin*.

Global economic growth has been stronger and less volatile since the early 1990s

Global real GDP growth

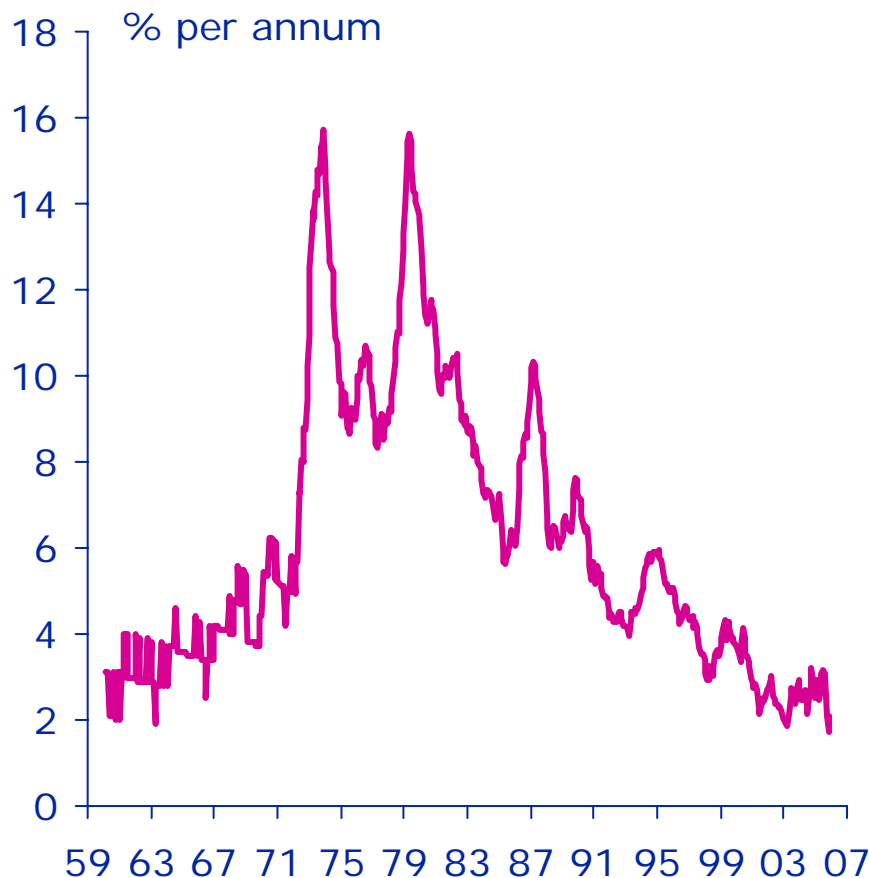


	Mean (% pa)				Standard deviation (pc pts)			
	1970s	1980s	1990s	2000s	1970s	1980s	1990s	2000s
OECD	3.4	3.0	2.6	1.8	2.0	1.4	0.9	0.9
World	2.9	2.8	3.2	3.4	1.7	1.4	1.0	1.2

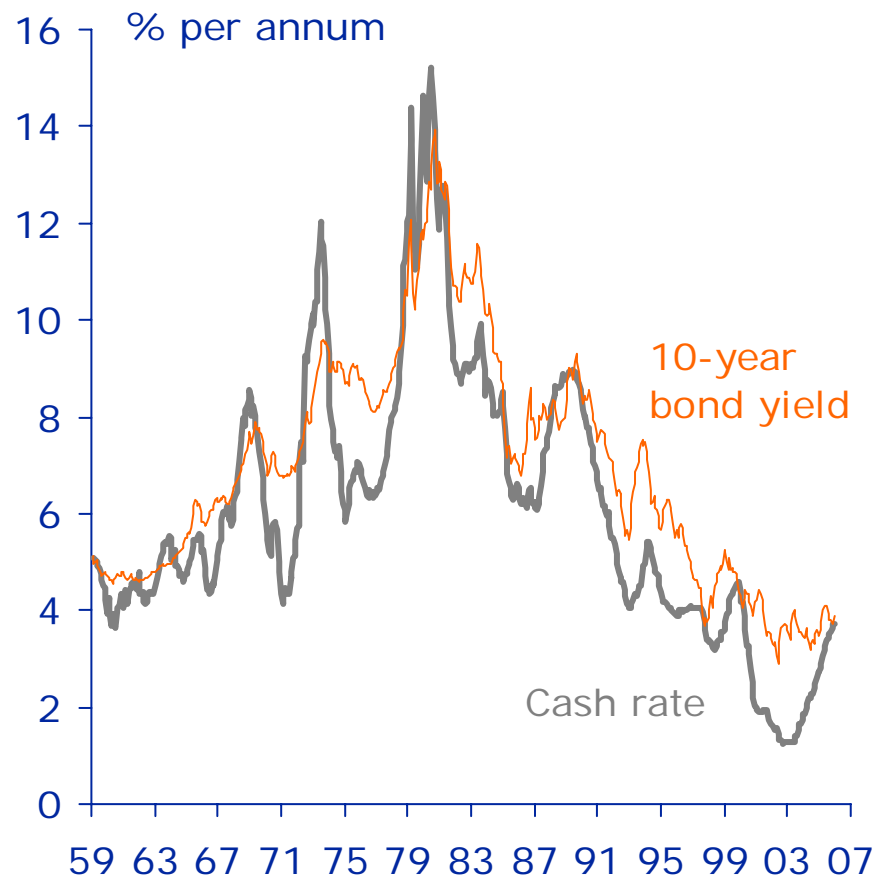
Sources: OECD; national statistical agencies and central banks; Thomson Financial Datastream; Economics@ANZ.

Inflation and interest rates have fallen around the world since 1990, not just in Australia

OECD inflation



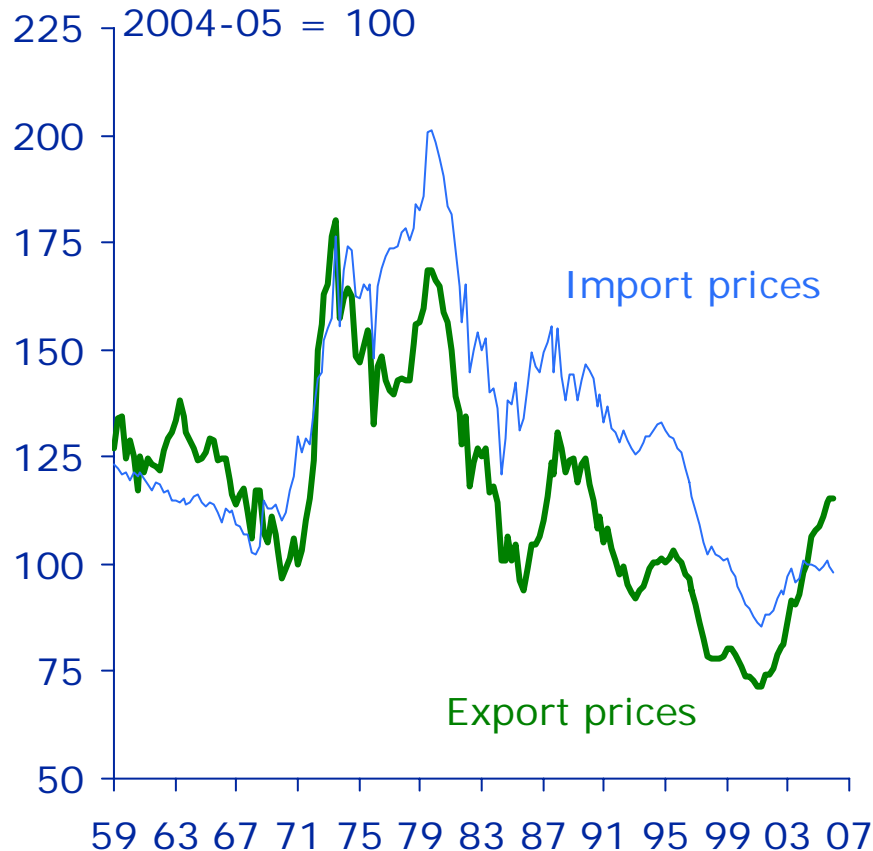
'G7' interest rates



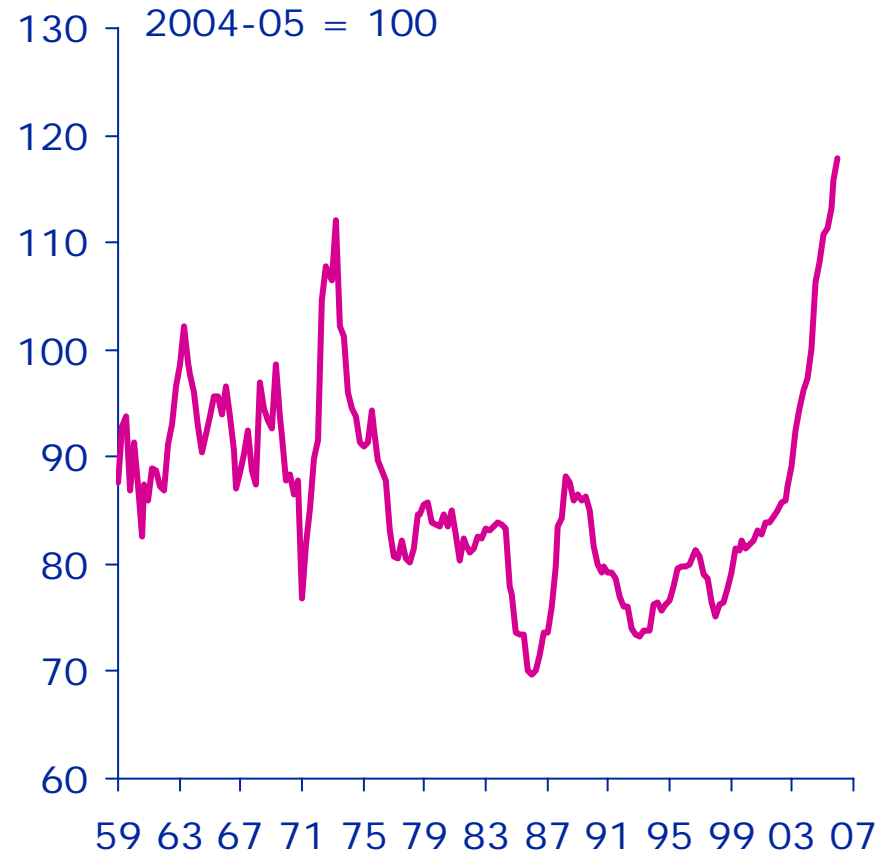
Note: G7 cash rate excludes France before January 1964; G7 bond yield excludes Japan before May 1966.
Sources: OECD; national central banks; Thomson Financial Datastream; Economics@ANZ.

Australia's terms of trade have improved since the early 90s, reversing the decline of the 70s and 80s

Australian export and import prices in real US\$ terms



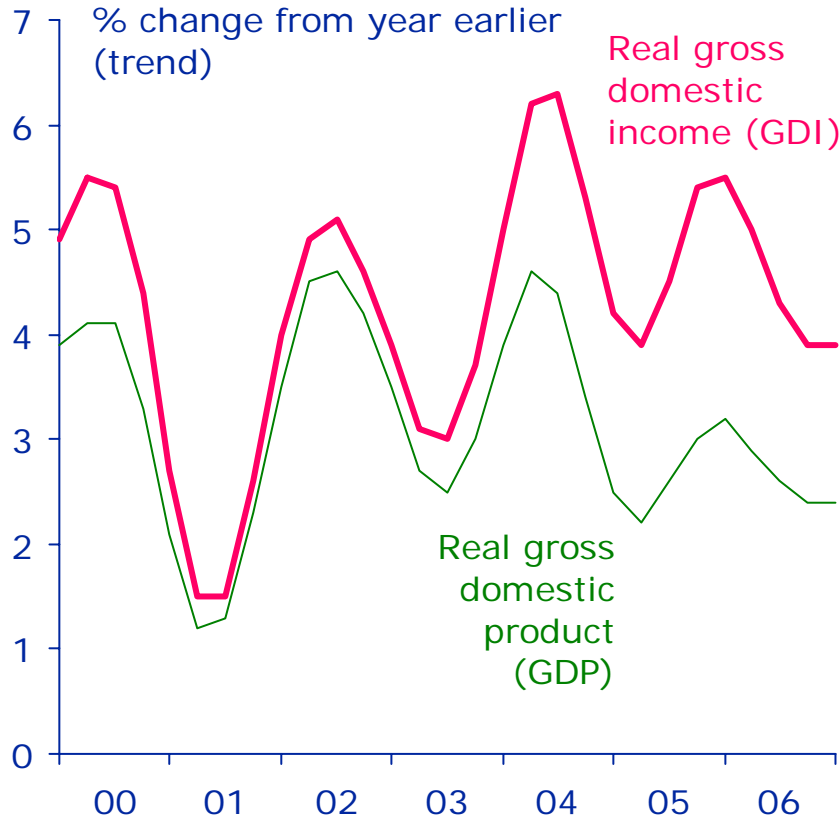
Australia's 'terms of trade'



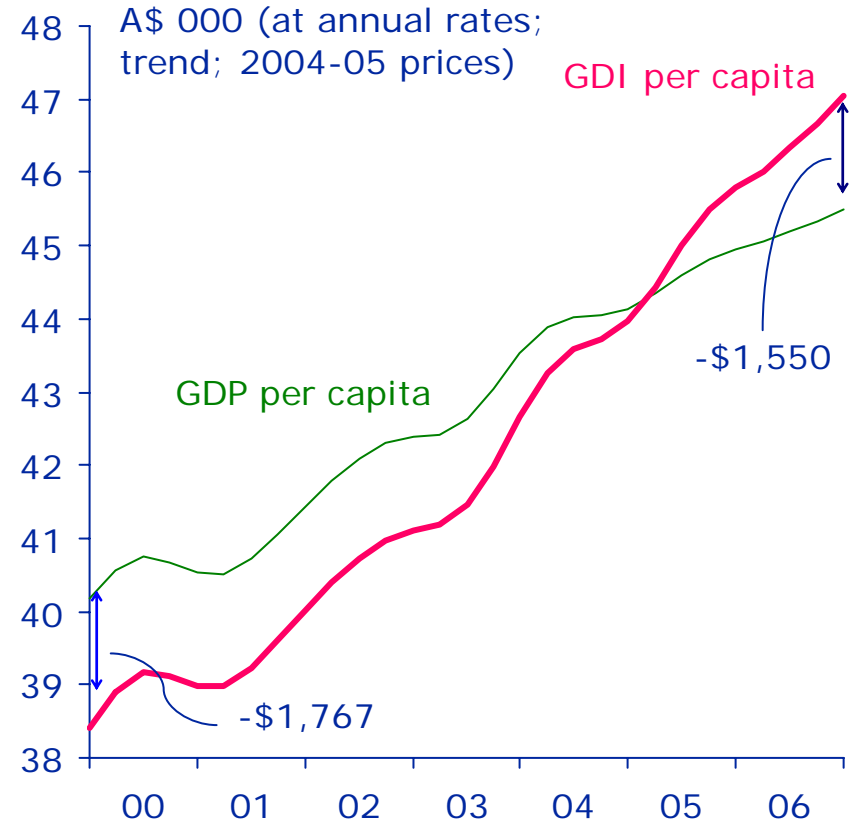
Sources: Australian Bureau of Statistics; US Bureau of Economic Analysis; Economics@ANZ.

'Terms of trade' gains since 1999 have been worth \$3,316 pa to each Australian, on average

Real gross domestic product and income



Real gross domestic product and income per capita

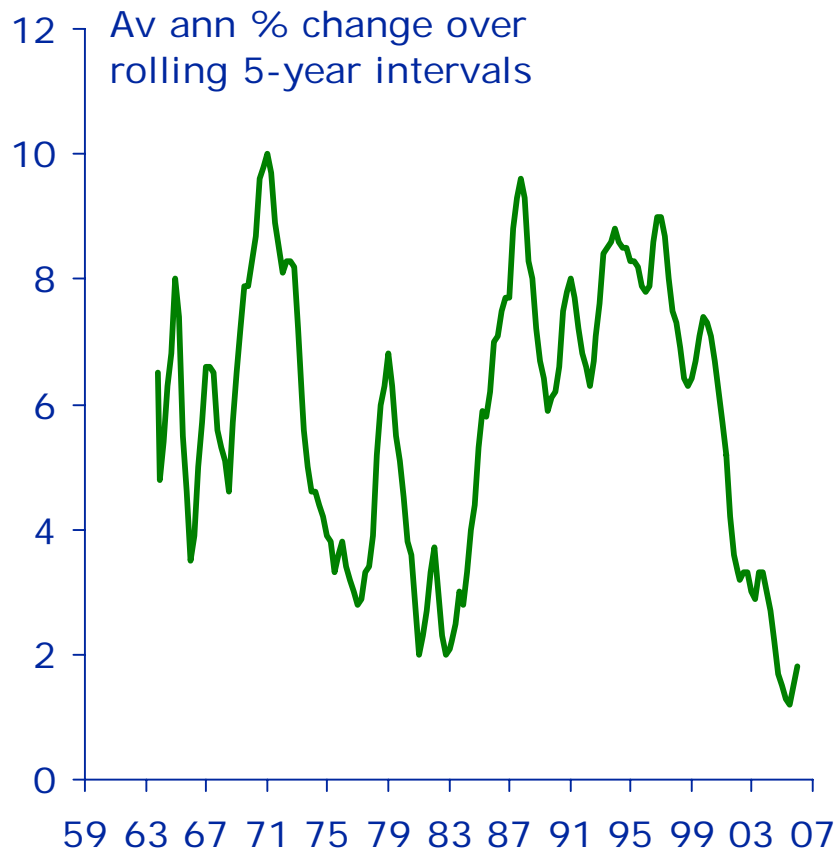


Note: Gross domestic income (GDI) is GDP adjusted for changes in the terms of trade (ratio of export to import prices).

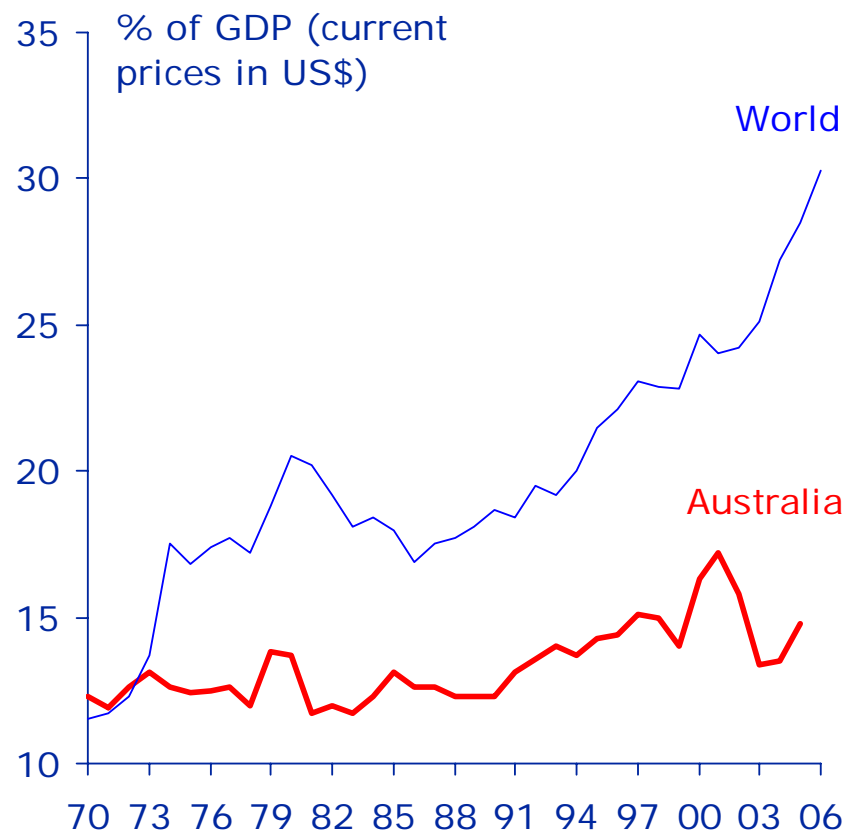
Sources: ABS; Economics@ANZ.

Australia's export performance since 2000 has been very poor

Export volumes



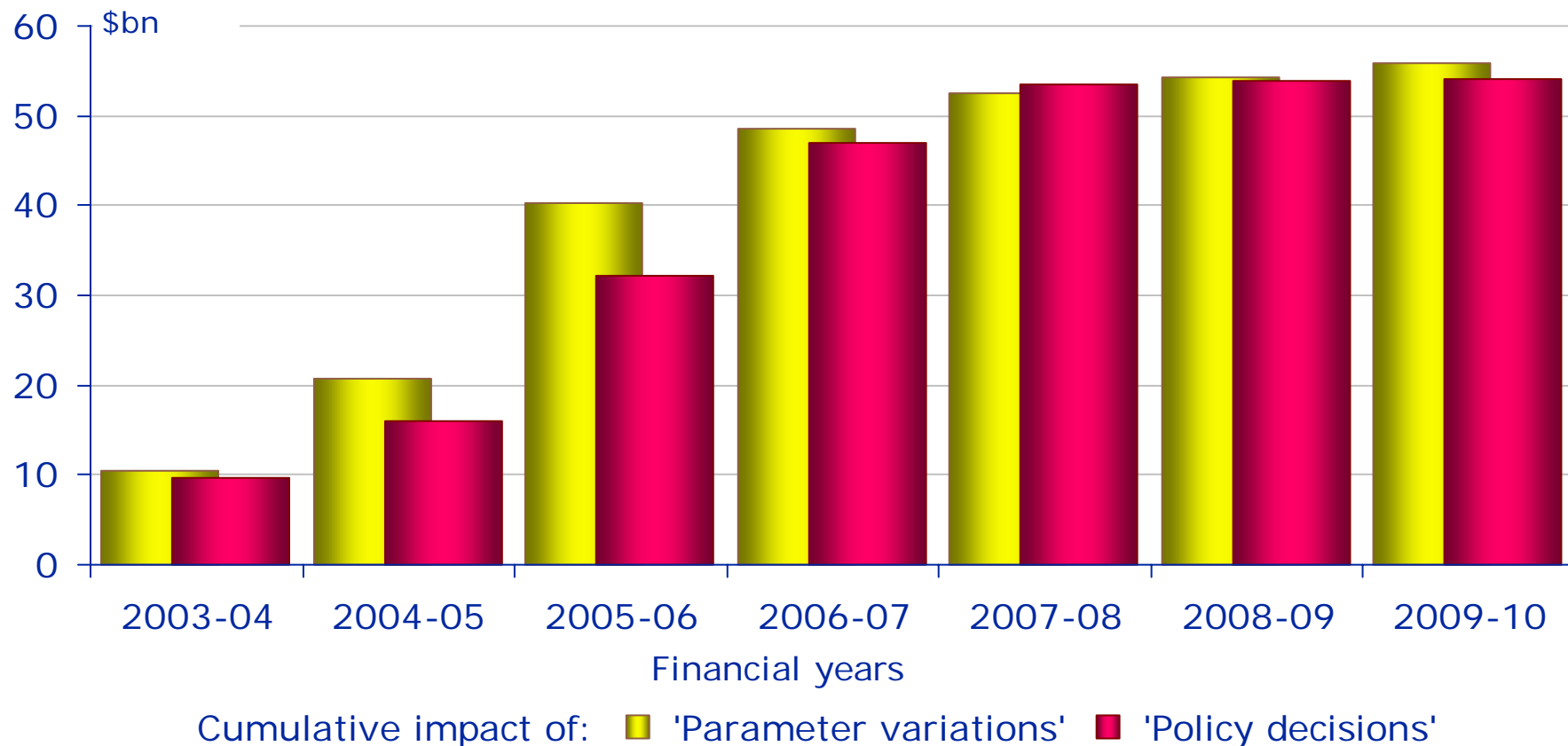
Exports as a pc of GDP



Sources: Australian Bureau of Statistics; International Monetary Fund *Direction of Trade Statistics* and *World Economic Outlook* database; Economics@ANZ.

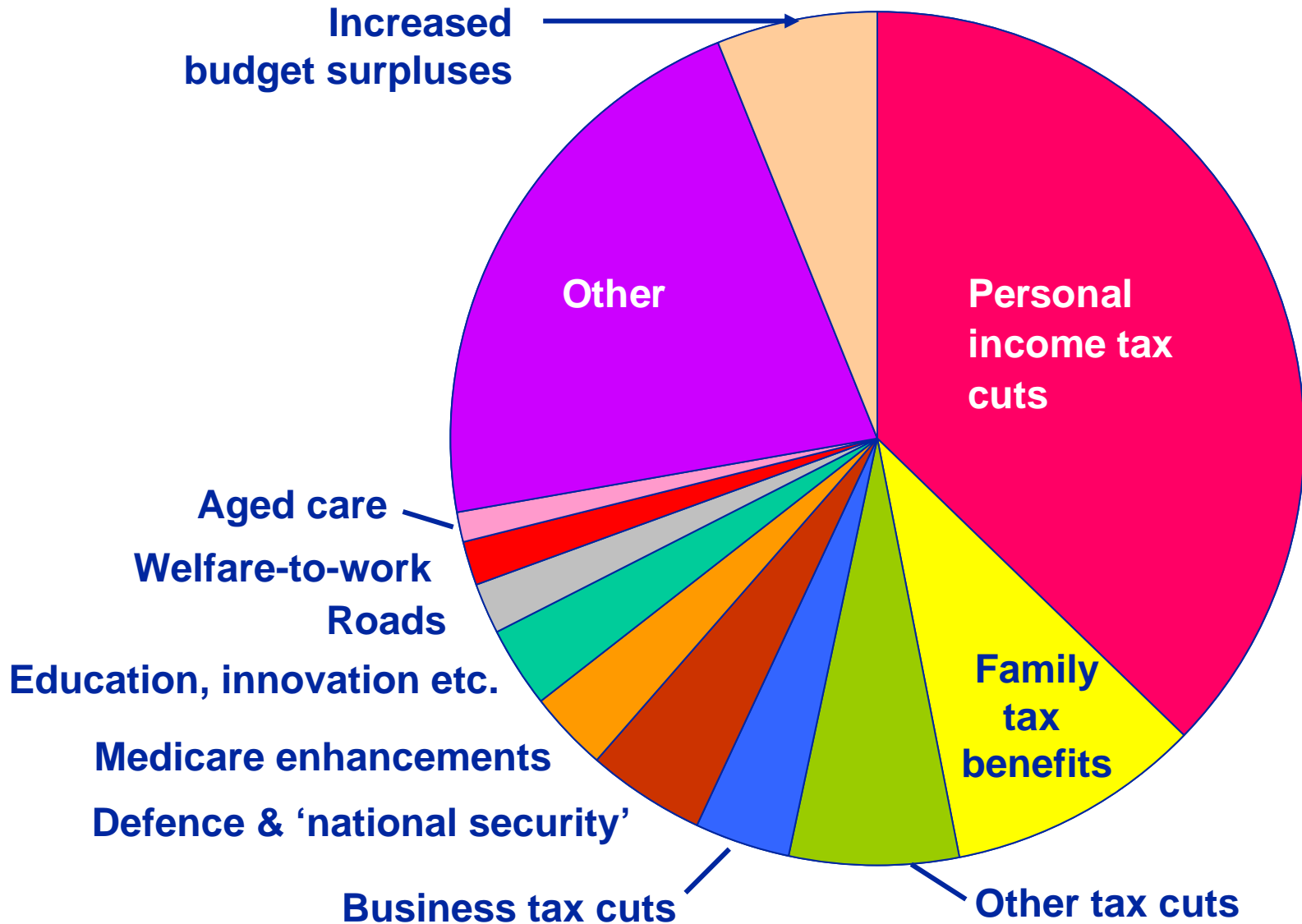
Nearly all of the revenue windfalls accruing from the commodities boom have been dissipated ...

Net 'bottom line' impact of 'parameter variations'
vs 'policy decisions' (tax cuts or spending increases)



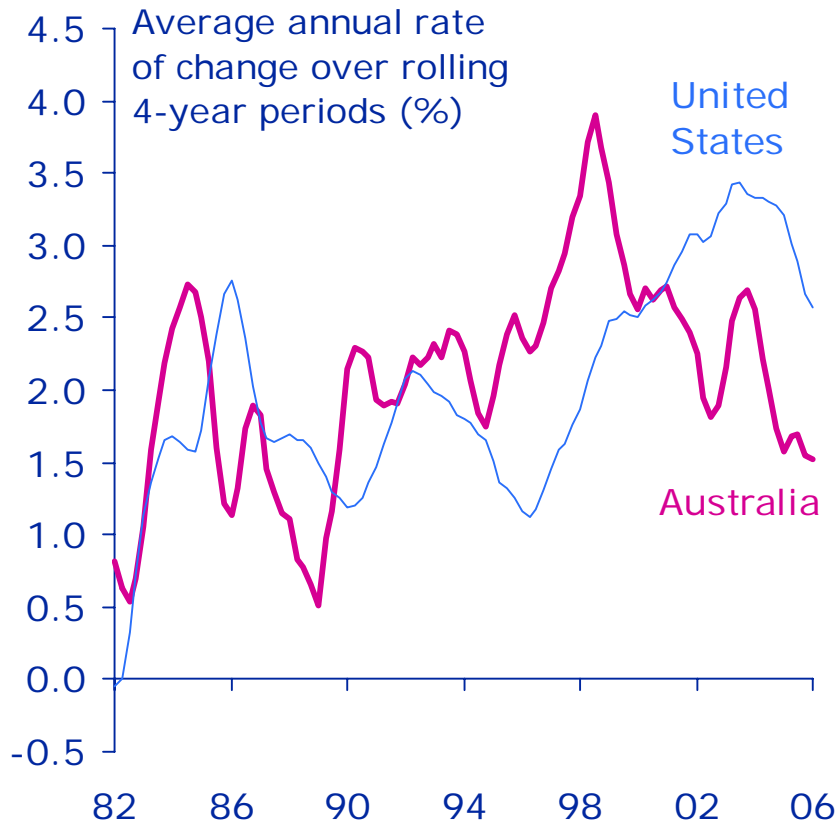
Sources: Budget Papers and Mid-Year Economic and Fiscal Outlook papers 2002-03 through 2006-07
And Economics@ANZ calculations.

... with little of lasting value to show for it

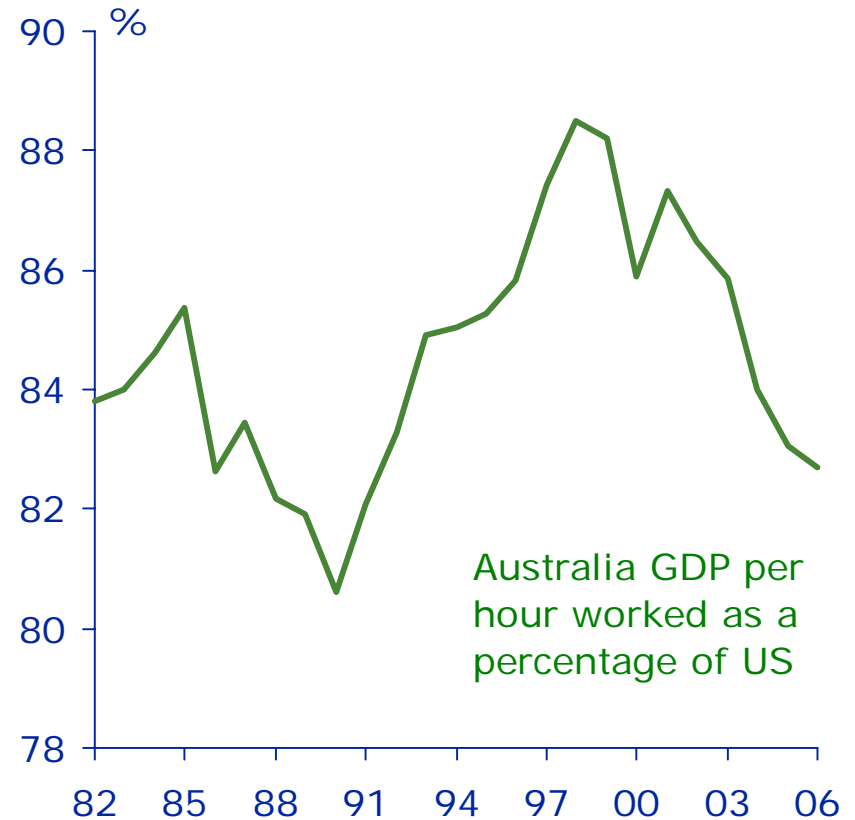


Australia's 'productivity miracle' appears to have evaporated

Labour productivity growth



Labour productivity level

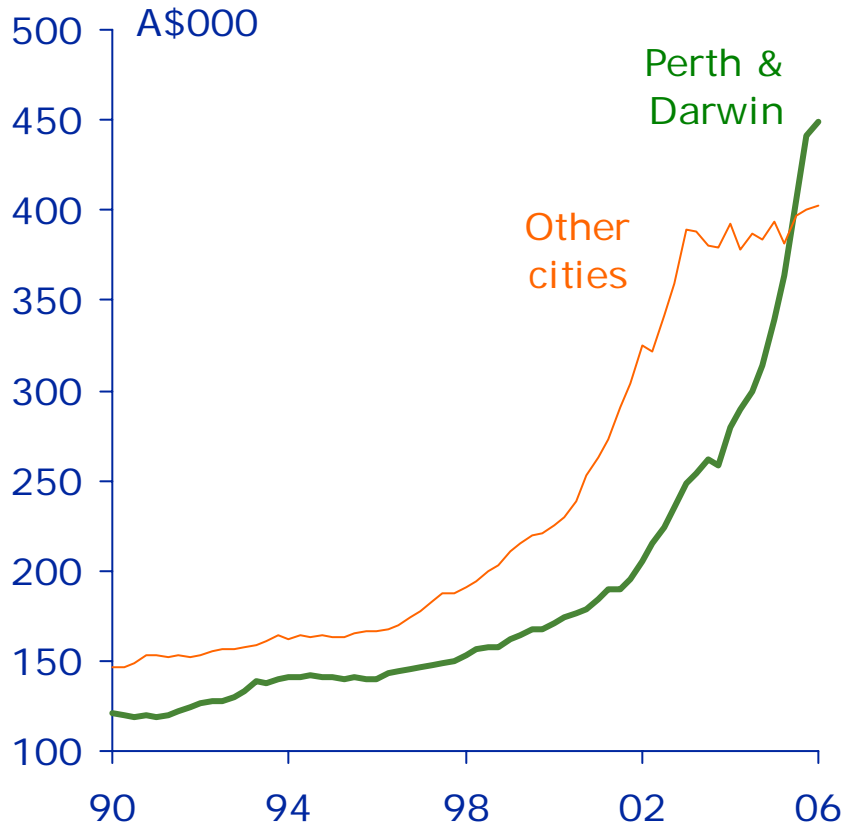


Note: labour productivity is output per hour worked in the non-farm business or 'market' sector.

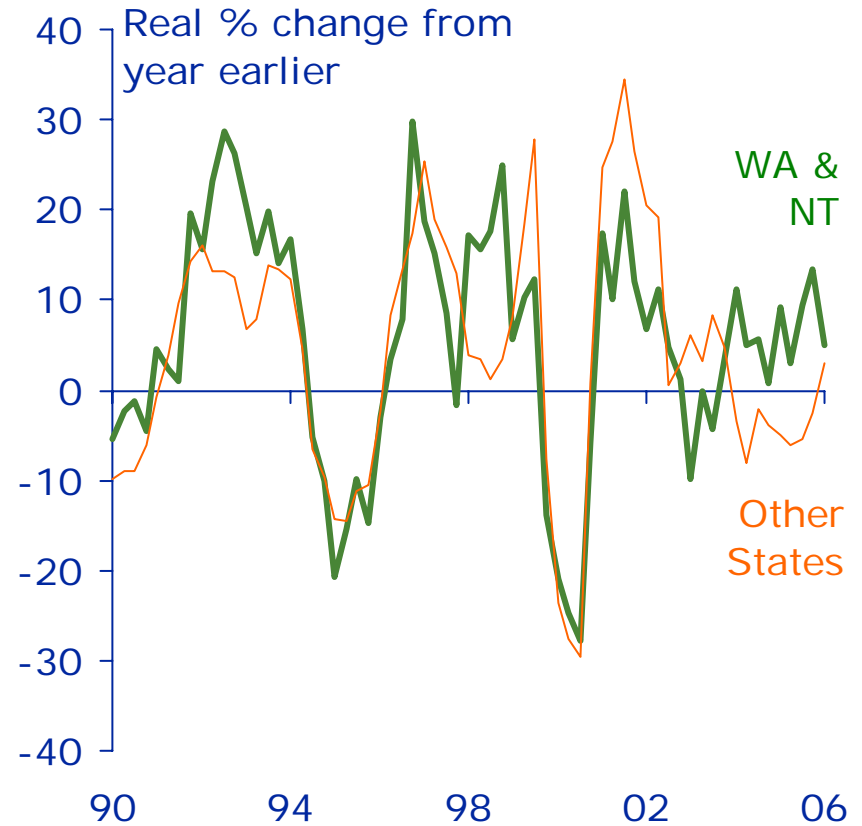
Sources: ABS; US Bureau of Economic Analysis; University of Groningen Growth and Development Centre *Total Economy Database* January 2007.

The housing boom is over, except in Western Australia and the Northern Territory

Established house prices



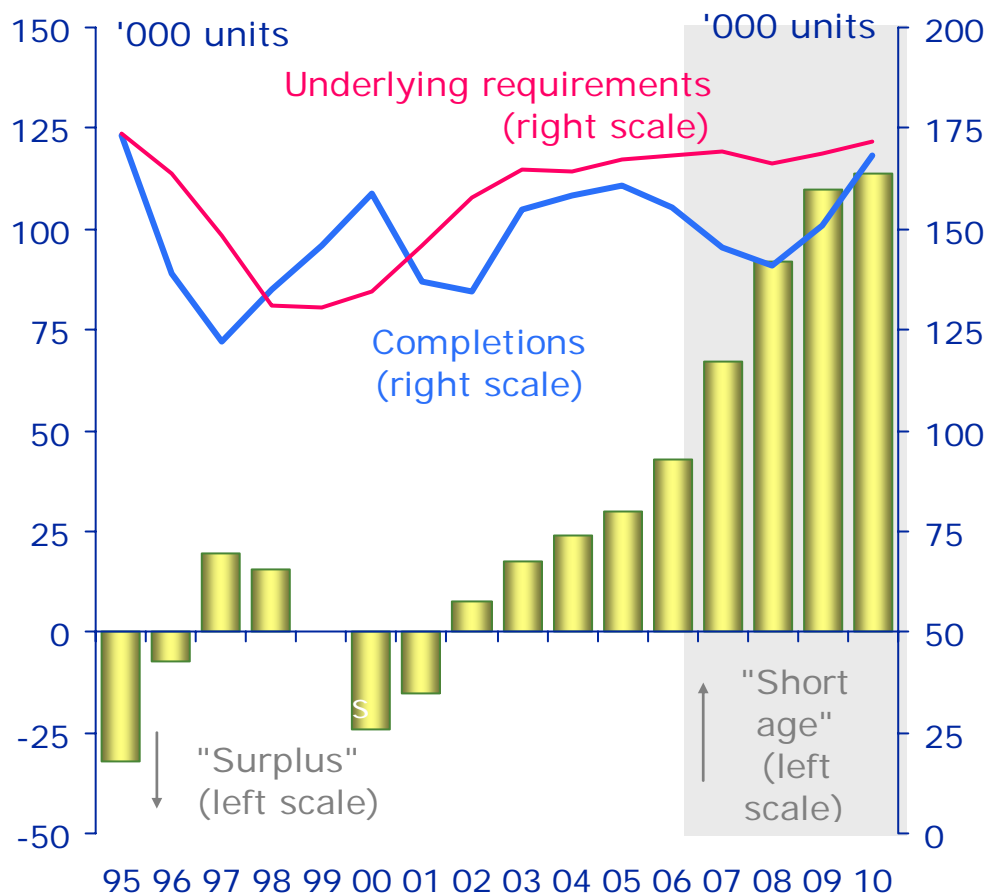
Dwelling construction



Sources: ABS; Economics@ANZ.

At current construction levels, the shortage of housing is likely to increase sharply

National housing market balance

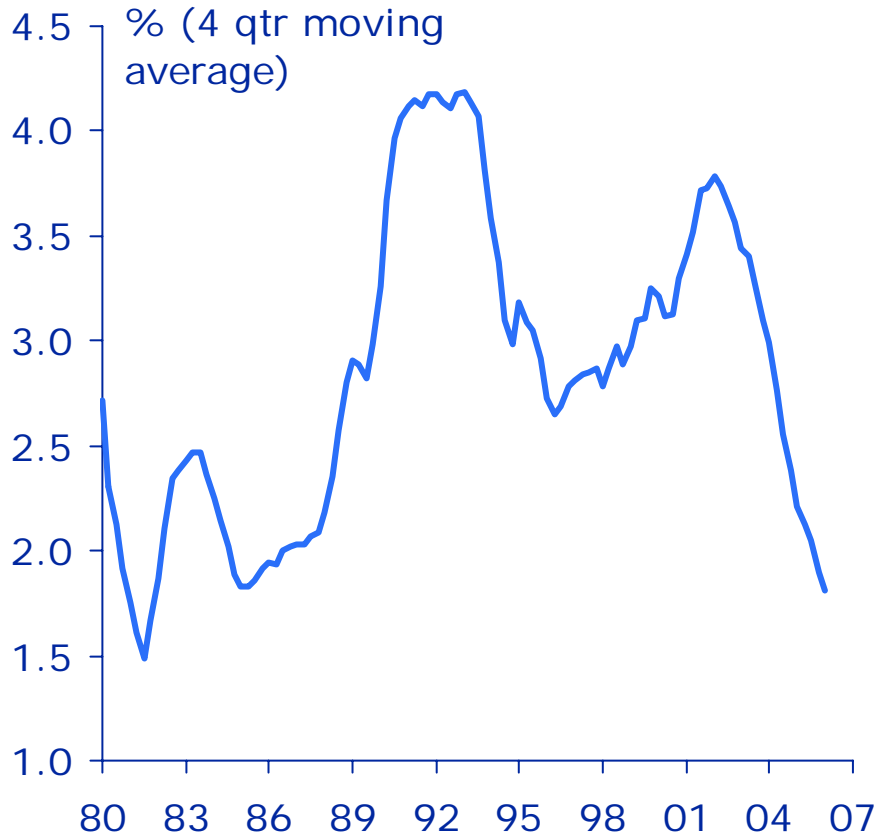


Note: 'Surplus' or 'shortage' is the cumulative difference between completions and underlying demand from an historical starting point. The direction of movements in this measure is more significant than the level. Sources: ABS; Economics@ANZ.

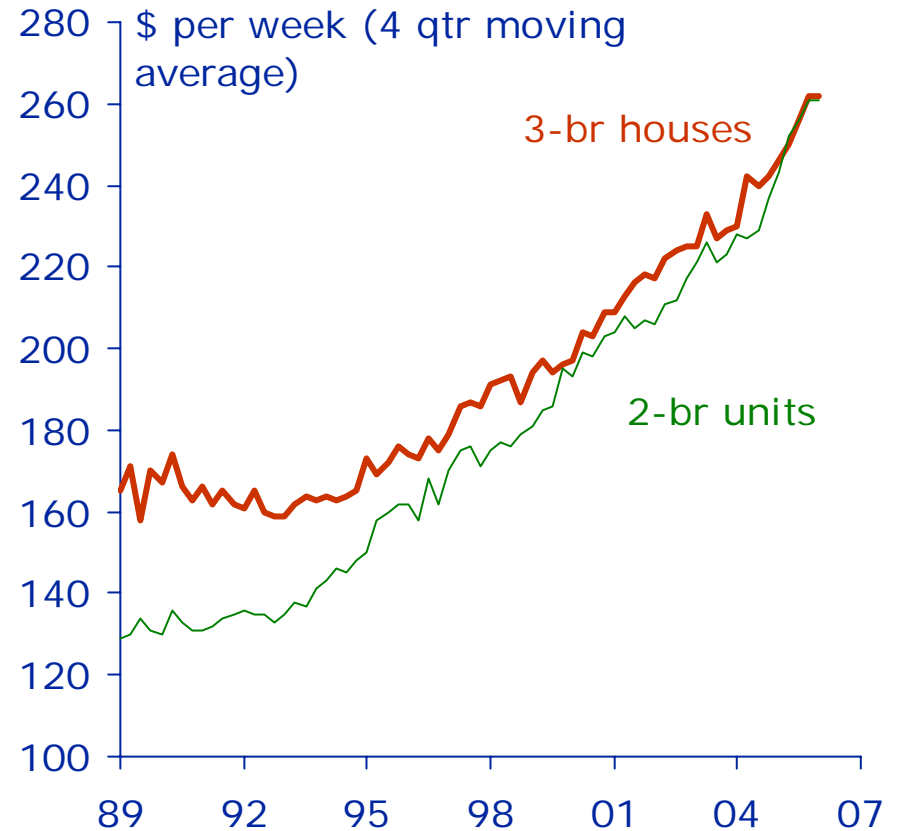
- Underlying demand for housing is running at around 165K units pa, driven by strong immigration and declining average household size
- Completions are likely to fall below 150K pa over the next 3 years
- So a significant shortage of housing is starting to develop
- Commencements need to pick up to over 170K pa to begin making meaningful inroads into this shortage

The 'net shortage' position is also apparent from falling vacancy rates and rising rents

Rental vacancy rate



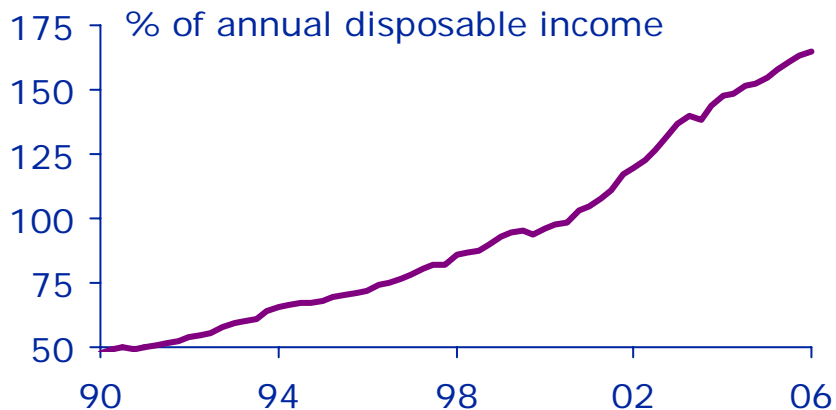
Median rents



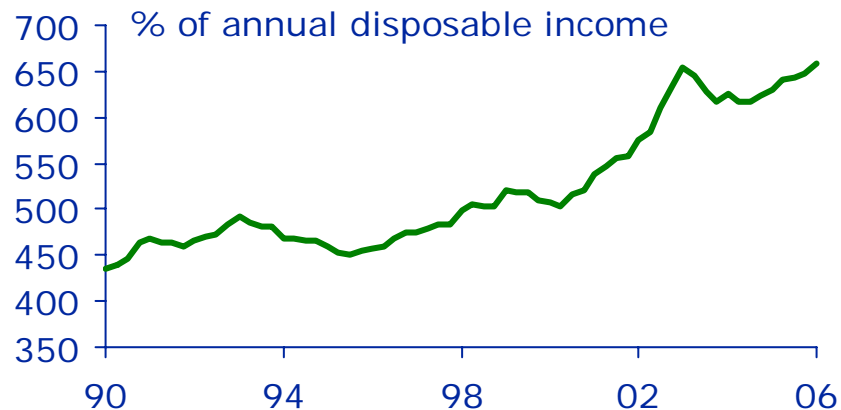
Note: data are weighted average of eight capital cities.
Source: REIA.

Higher interest rates and the end of the housing boom are making households more cautious ...

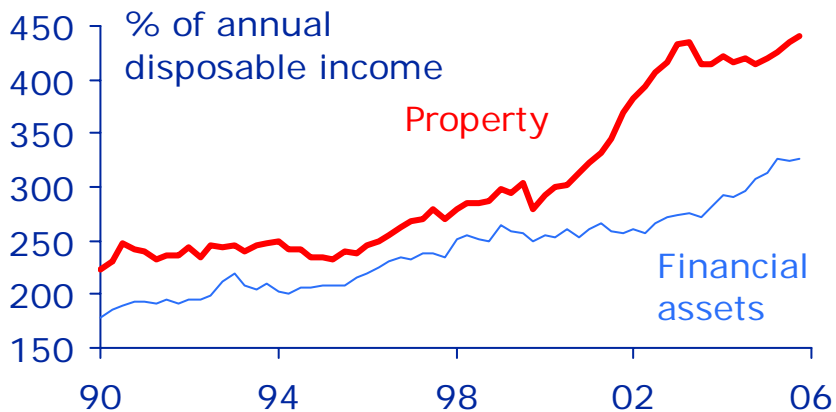
Household debt to income



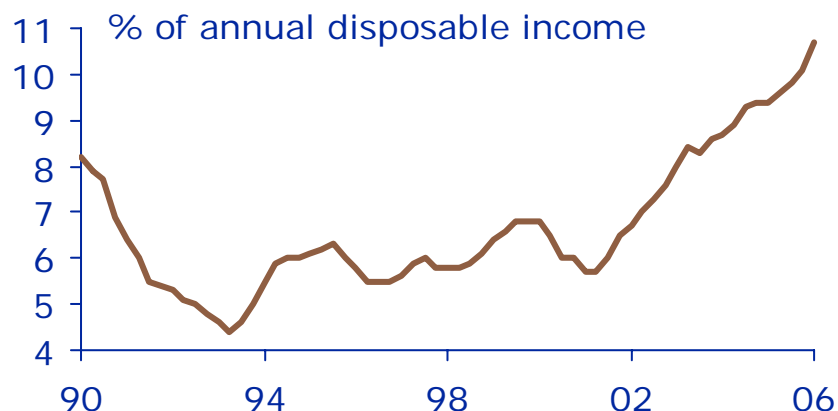
Household net worth to income



Household assets to income



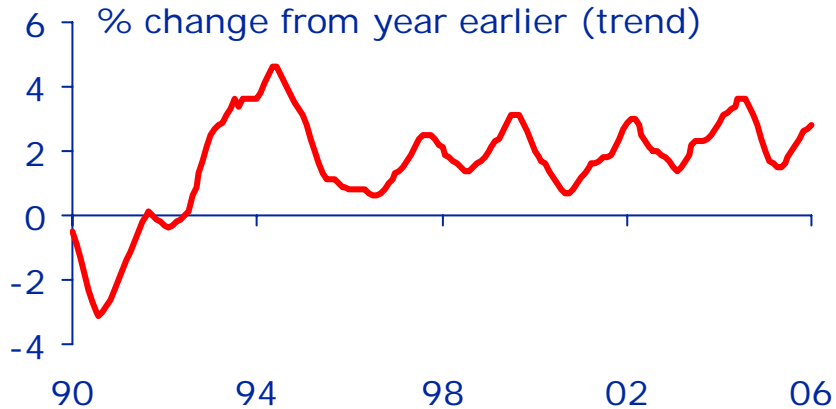
Interest payments to income



Sources: Australian Bureau of Statistics; Reserve Bank of Australia; Economics@ANZ.

... although strong employment growth and tax cuts have continued to support consumer spending

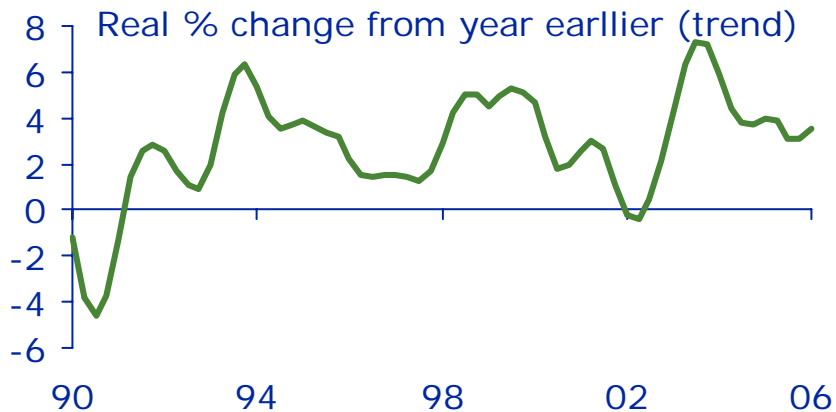
Employment



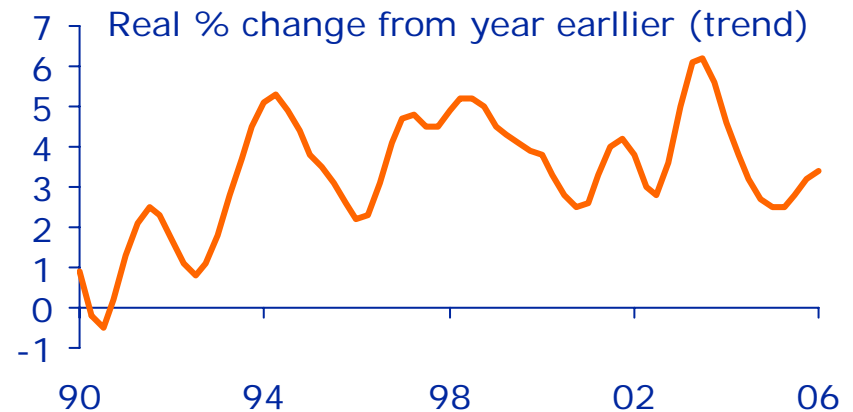
Household saving rate



Household disposable income



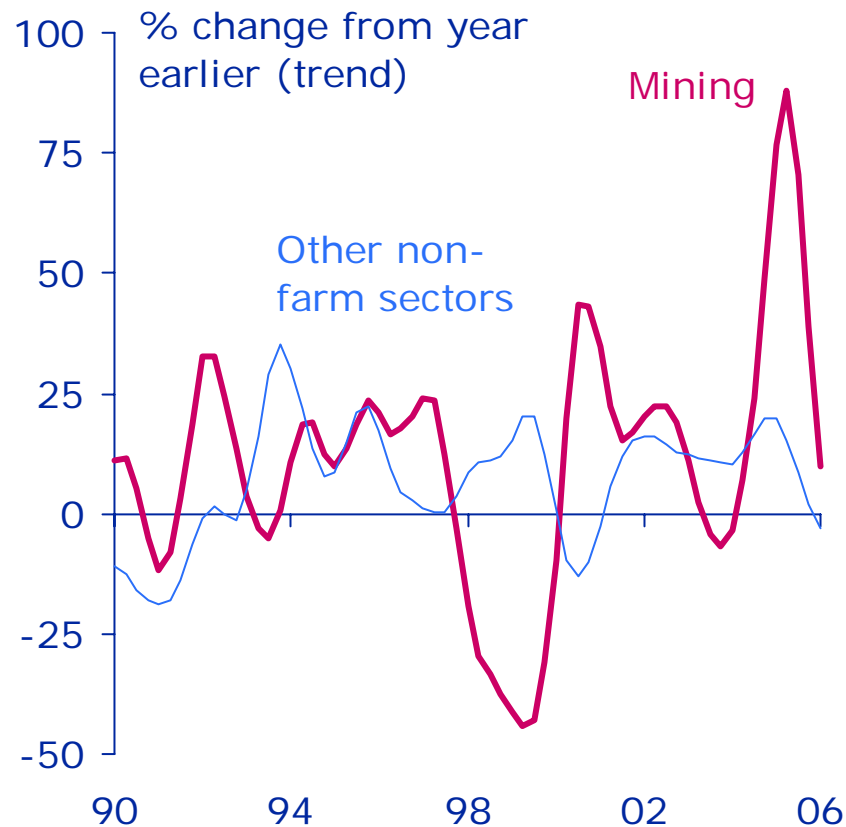
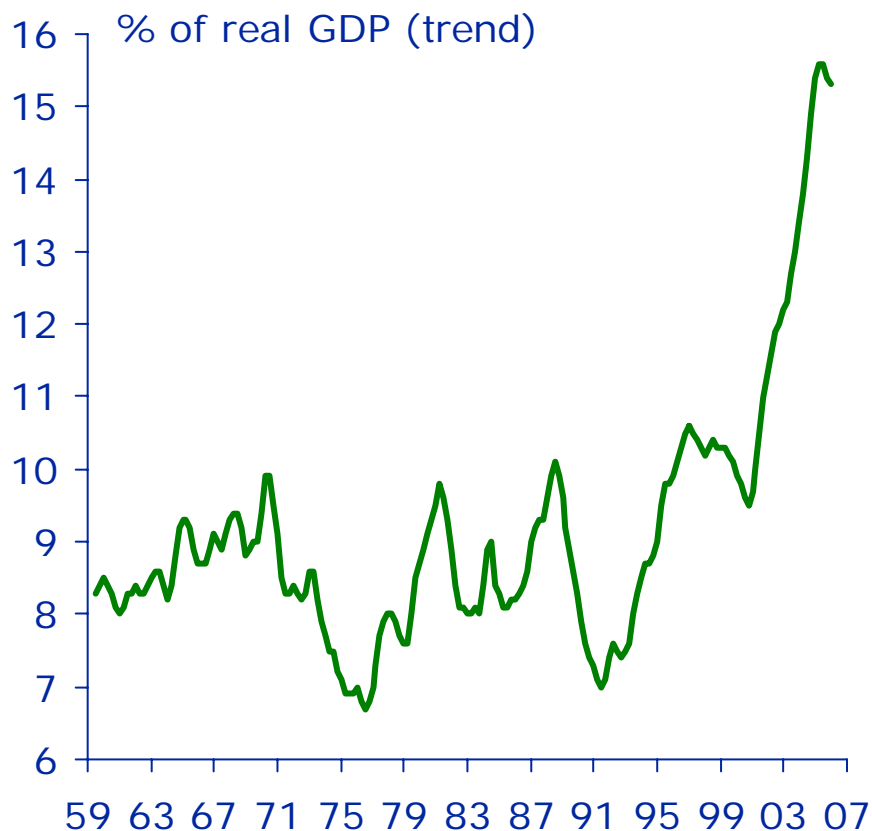
Consumer spending



Sources: Australian Bureau of Statistics;
Economics@ANZ.

The business investment boom also appears to have reached a peak

Business fixed capital expenditure



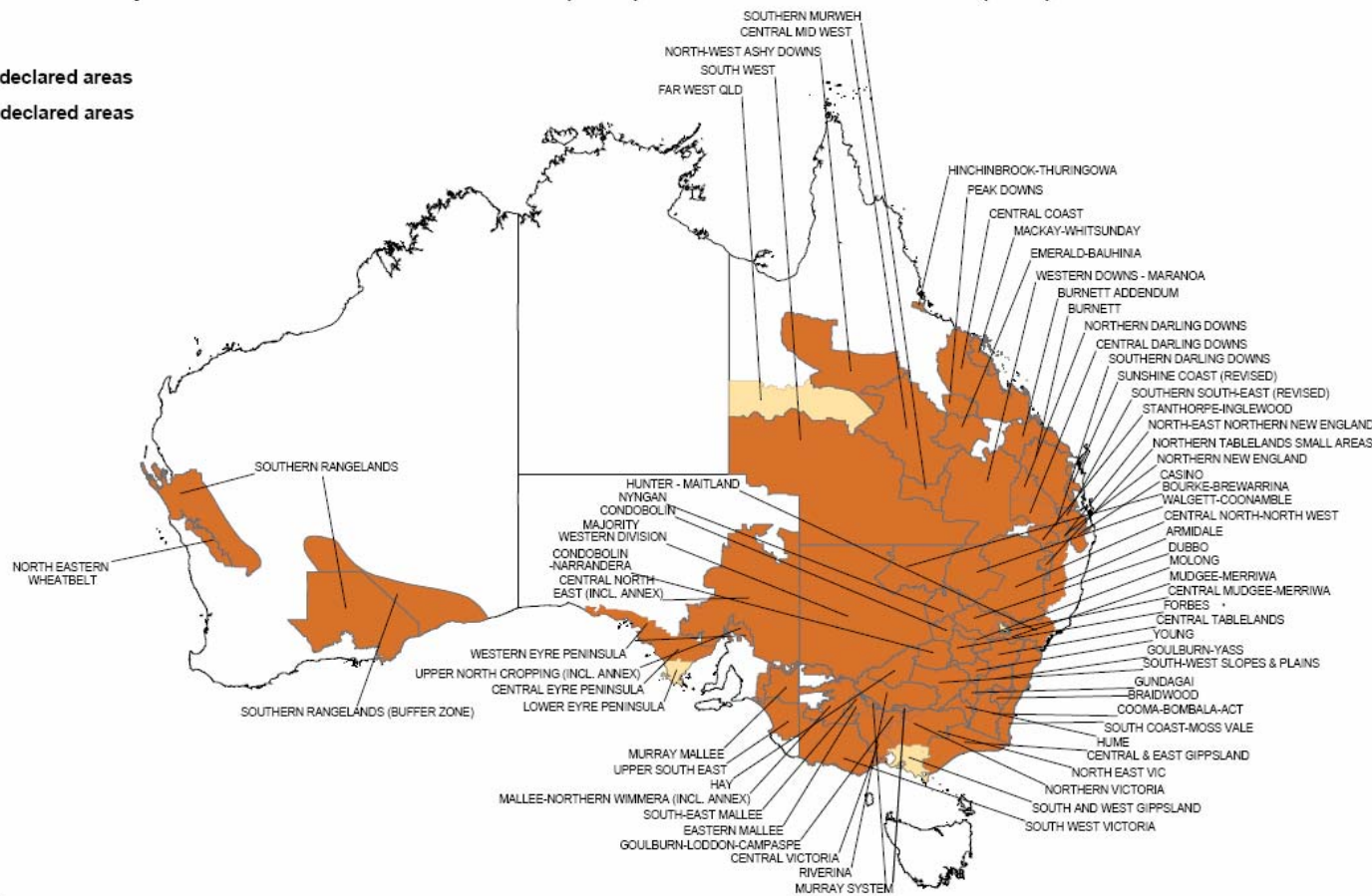
Sources: ABS; Economics@ANZ.

The drought is afflicting most of Australia's major cropping areas

Exceptional Circumstances (EC) and Prima Facie (PF) Boundaries

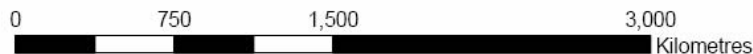
Legend

- EC declared areas
- PF declared areas



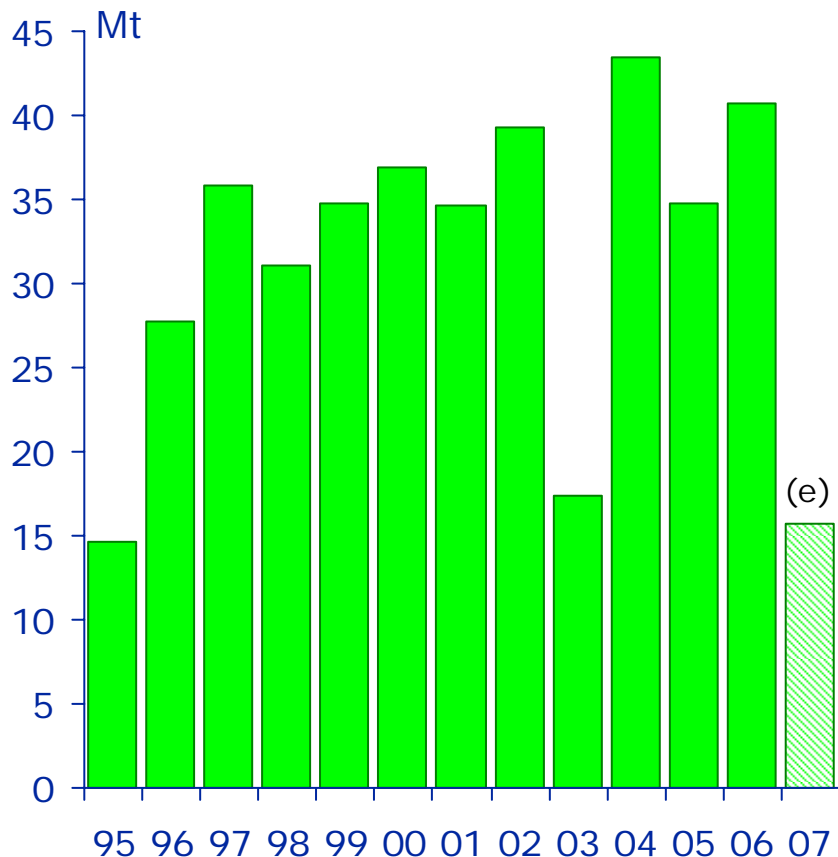
Australian Government
Bureau of Rural Sciences

Map produced by BRS on 23 March 2007

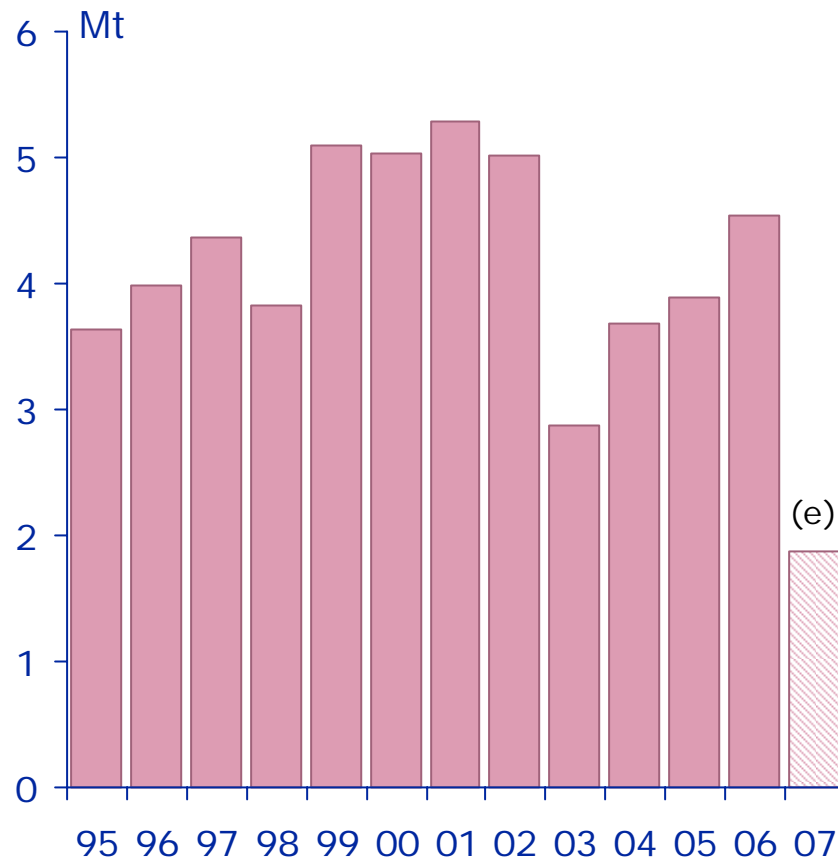


Both winter and summer crop production will fall by around 60% in 2006-07

Winter crop production



Summer crop production

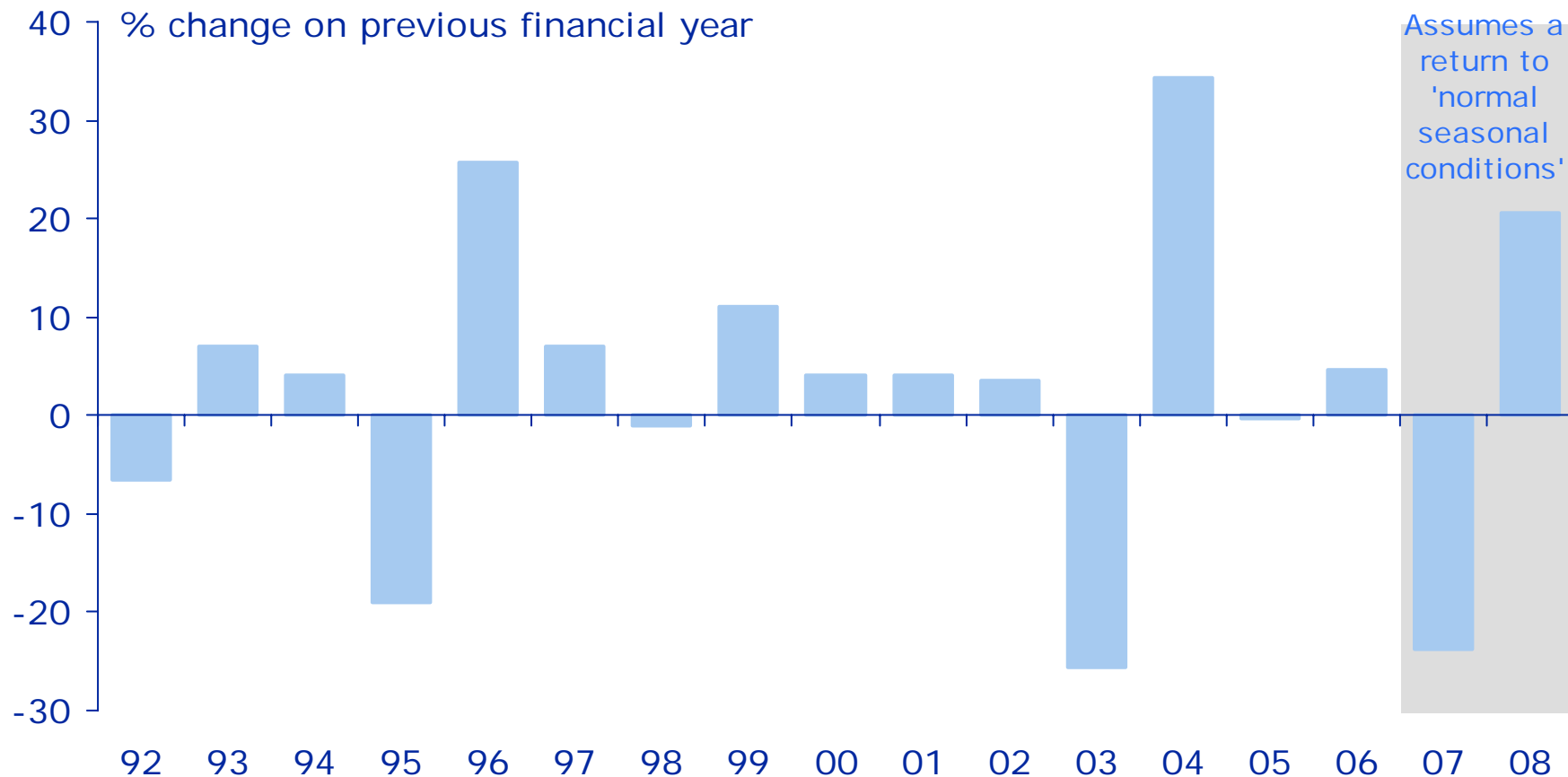


Note: data presented for fiscal years. 2006-07 are ABARE estimates.

Source: Australian Bureau of Agricultural and Resource Economics

Farm GDP will fall by over 20% in 2006-07, reducing total GDP growth by 0.7 pc pts

Farm GDP

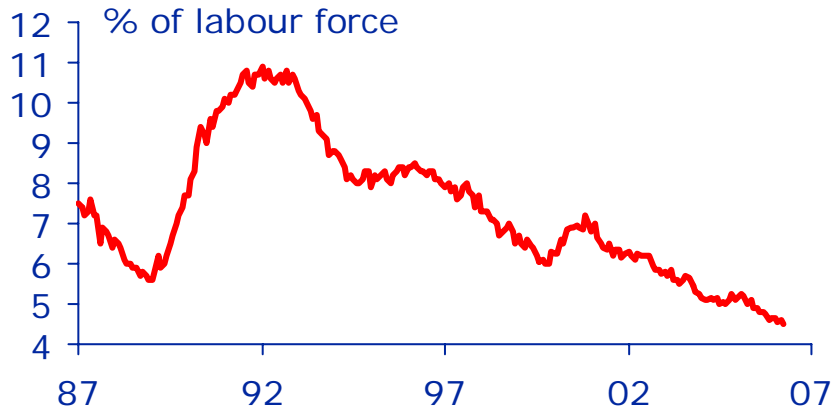


Note: data are presented on a financial year basis.

51 Sources: Australian Bureau of Statistics and Economics@ANZ

The Australian economy is bumping up against 'capacity constraints'

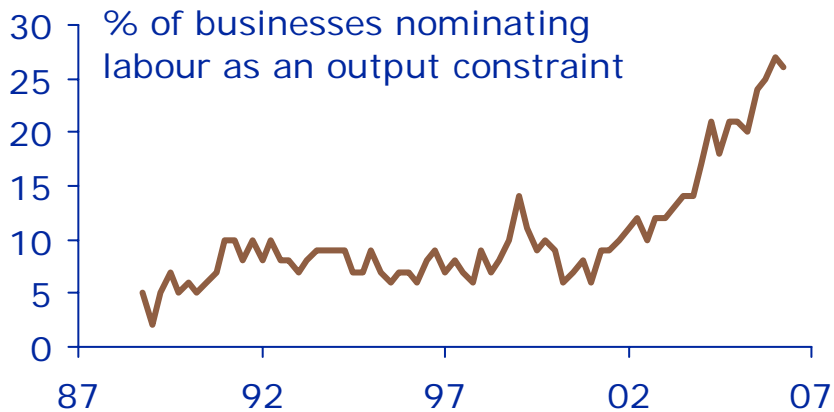
Unemployment rates



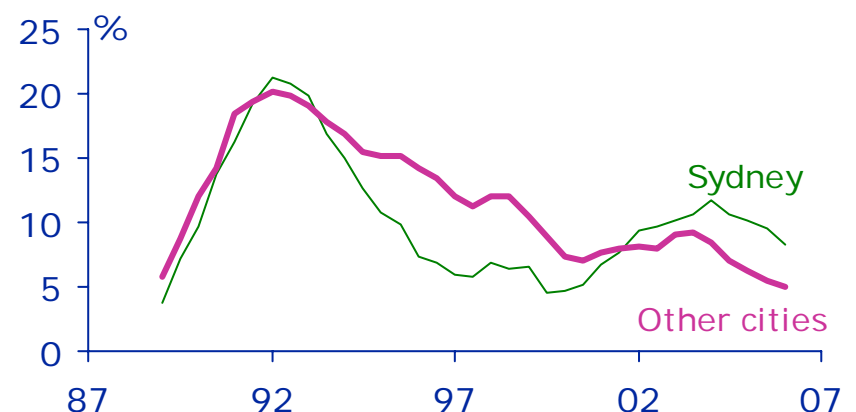
Capacity utilization



Labour shortages



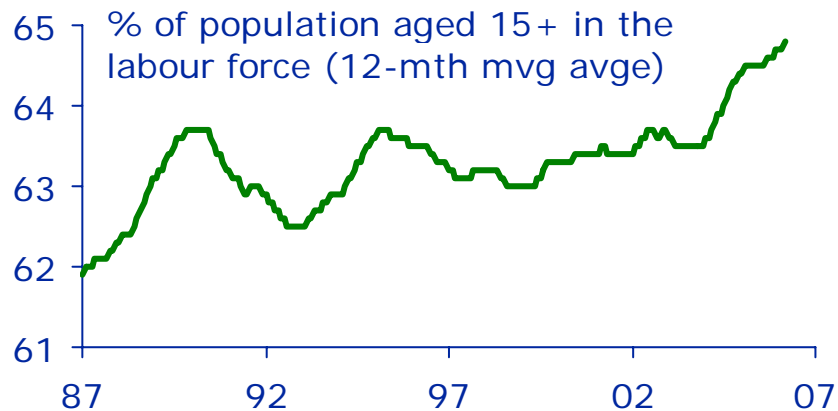
Office vacancy rates



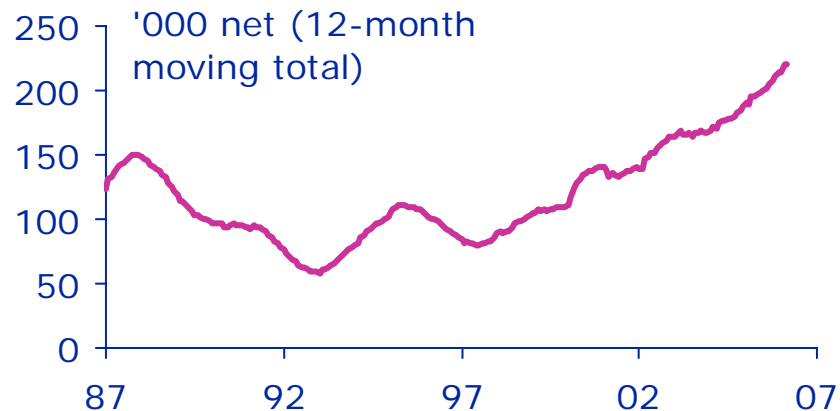
Sources: Australian Bureau of Statistics; National Australia Bank; Property Council of Australia.

A number of 'safety valves' have increased the elasticity of labour supply

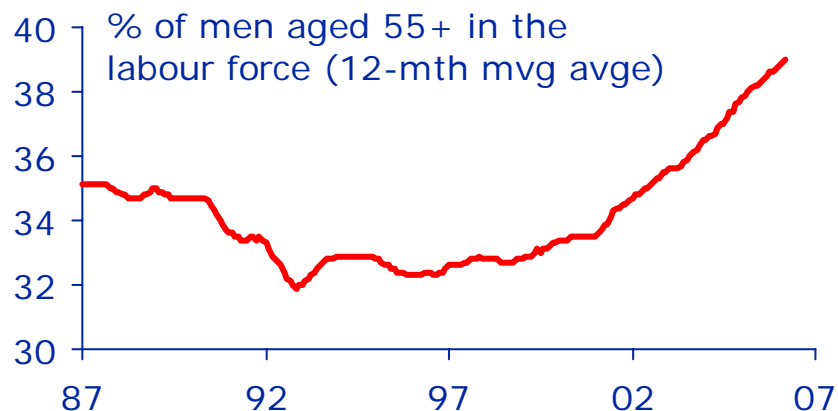
Labour force participation rate



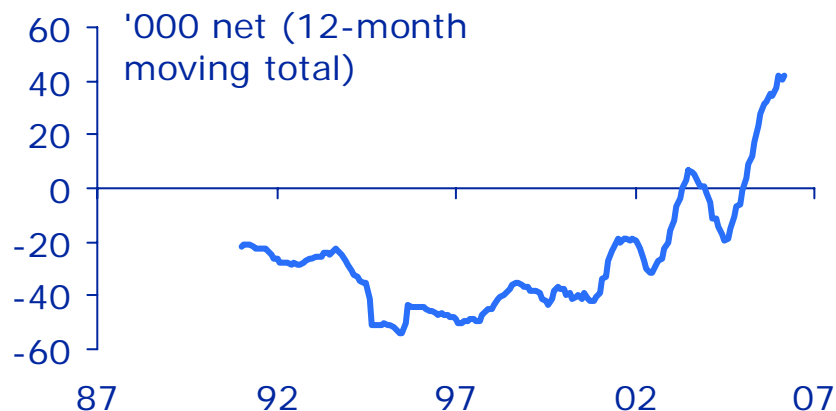
Permanent & long-term migration



Participation rate men over 55



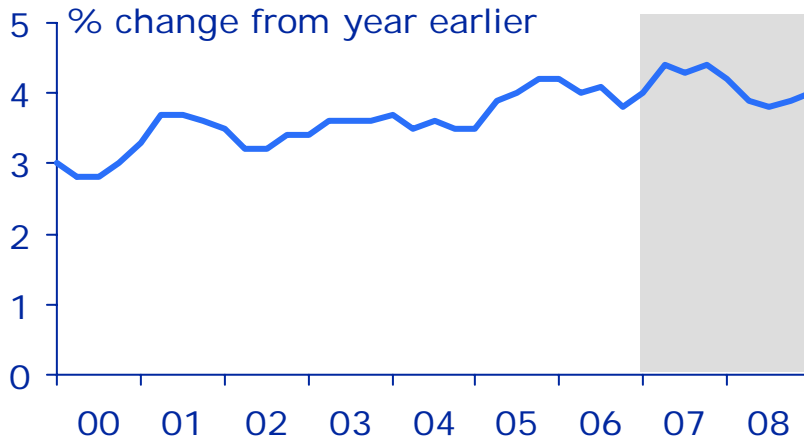
Temporary migration 'for employment'



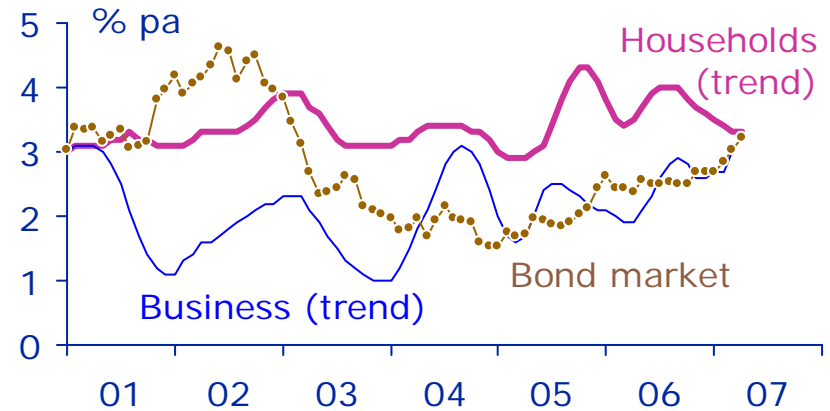
Sources: Australian Bureau of Statistics; Economics@ANZ.

The Reserve Bank will thus continue to be wary about the outlook for inflation

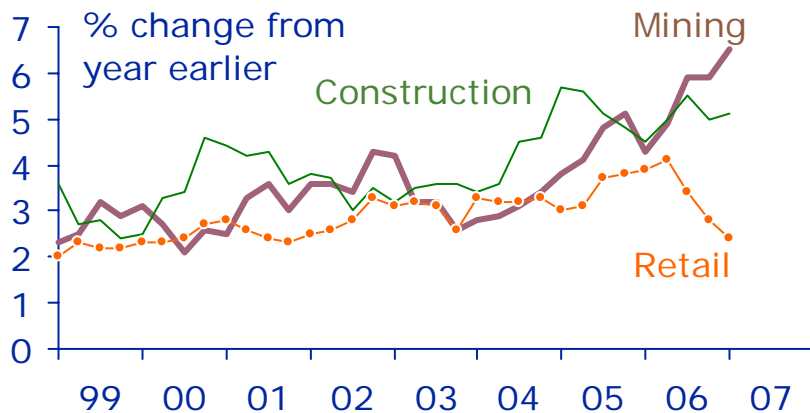
Wage cost index



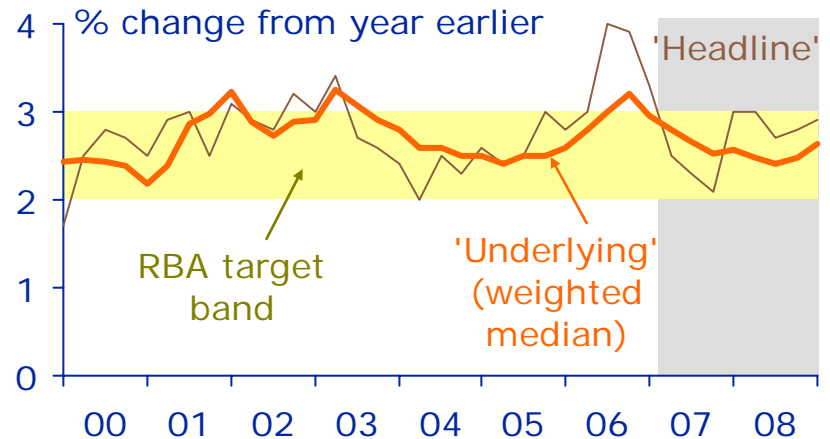
Inflation expectations



Wage costs: selected sectors



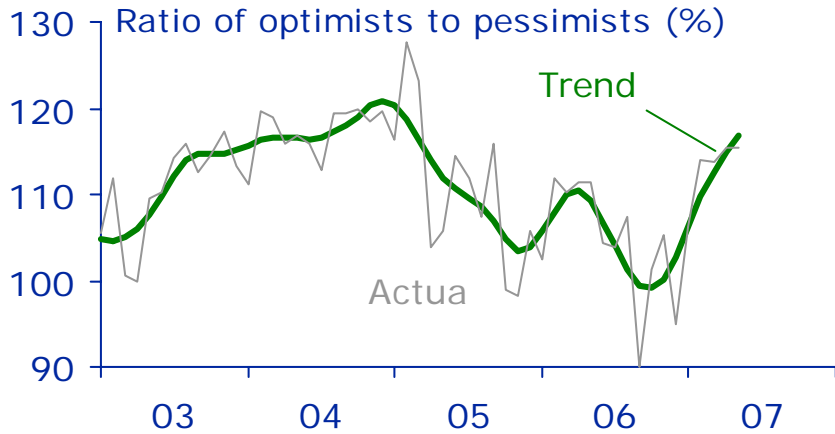
Consumer prices



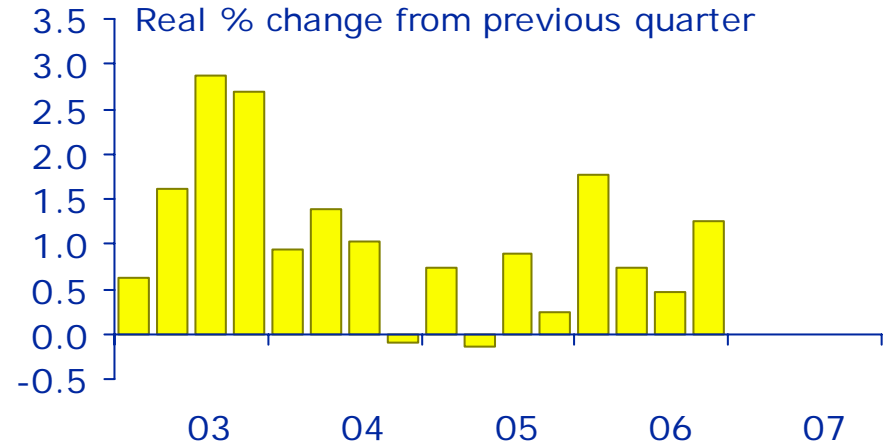
Sources: ABS; Westpac-Melbourne Institute; National Australia Bank; Bloomberg; Economics@ANZ.

There are signs that economic growth may be accelerating again (despite three rate hikes)

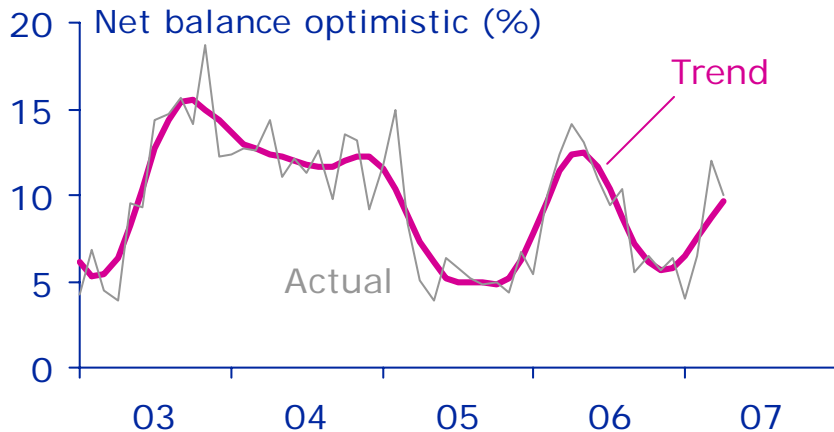
Consumer confidence



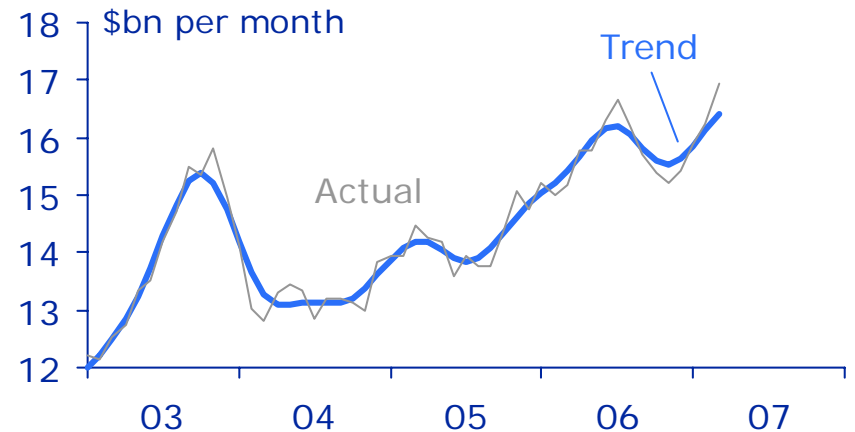
Retail sales



Business confidence



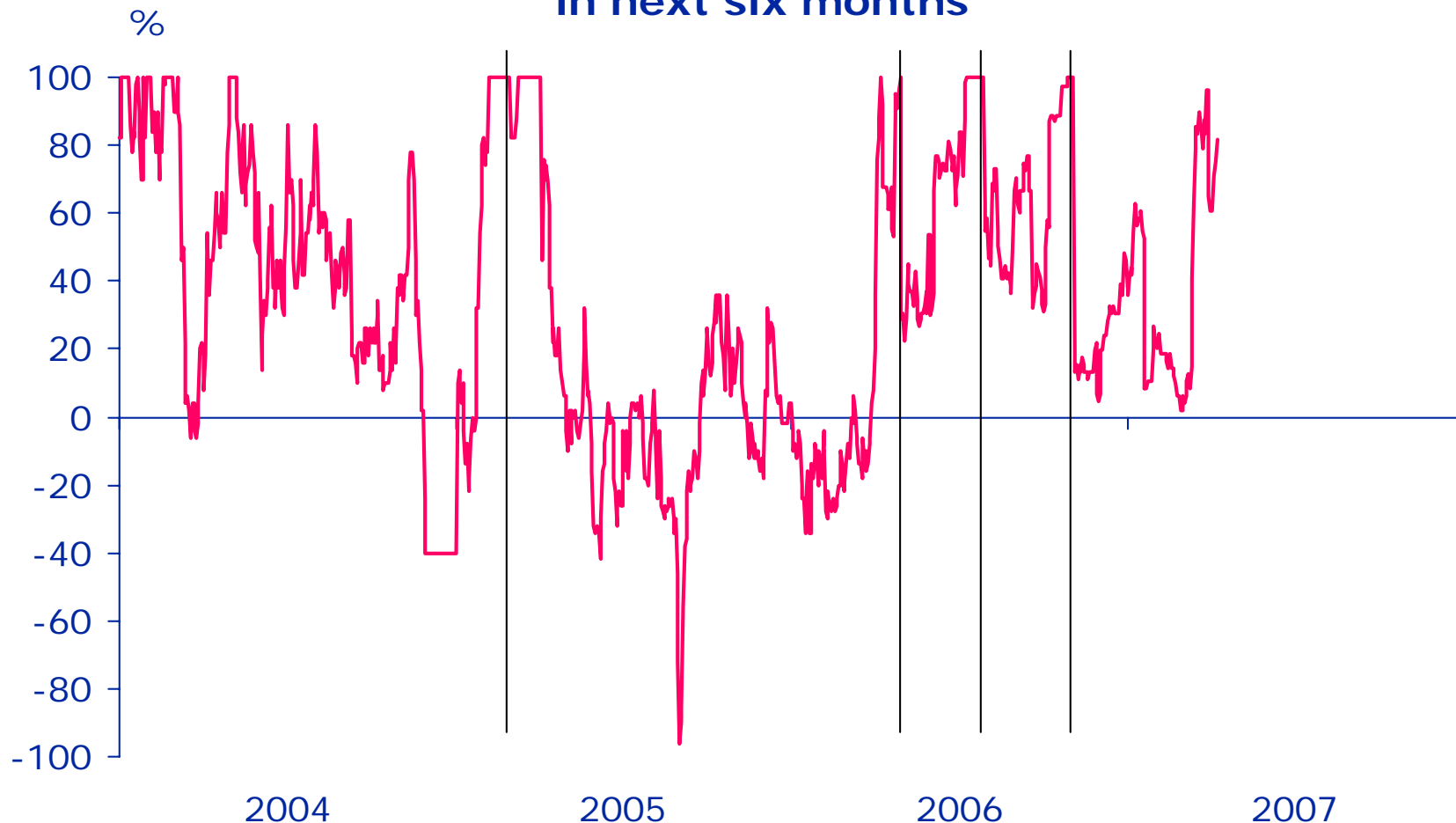
Housing finance commitments



Sources: Westpac-Melbourne Institute; National Australia Bank; ABS.

Financial markets are pricing a better-than-even chance that rates will rise again

Market implied probability of a 25 bp rate increase
in next six months

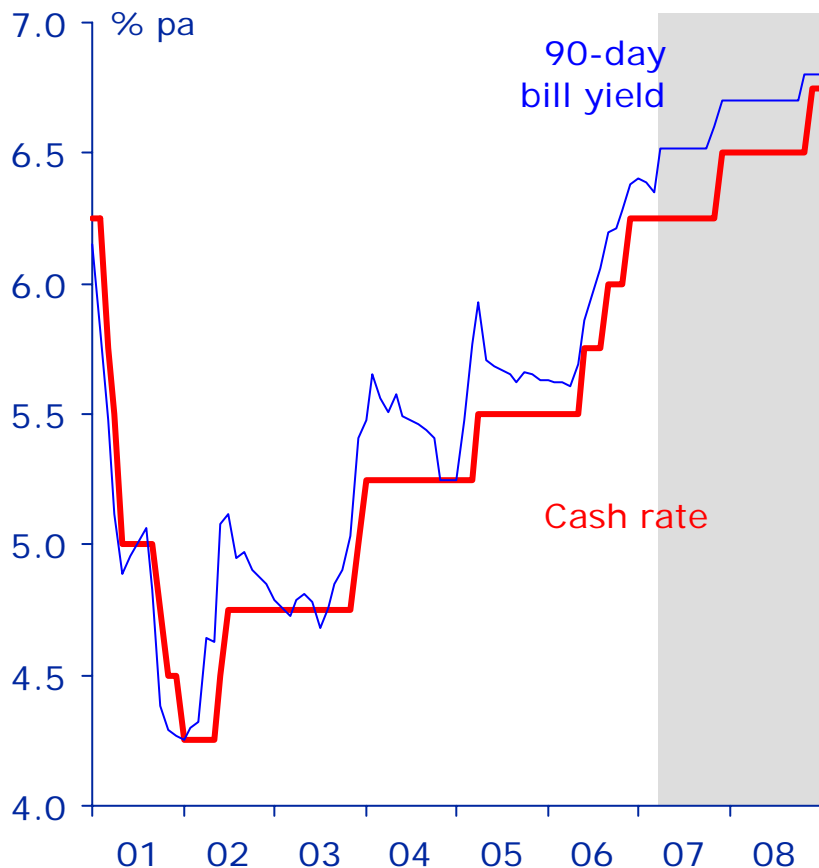


Note: vertical lines indicate date of increases in the cash rate.

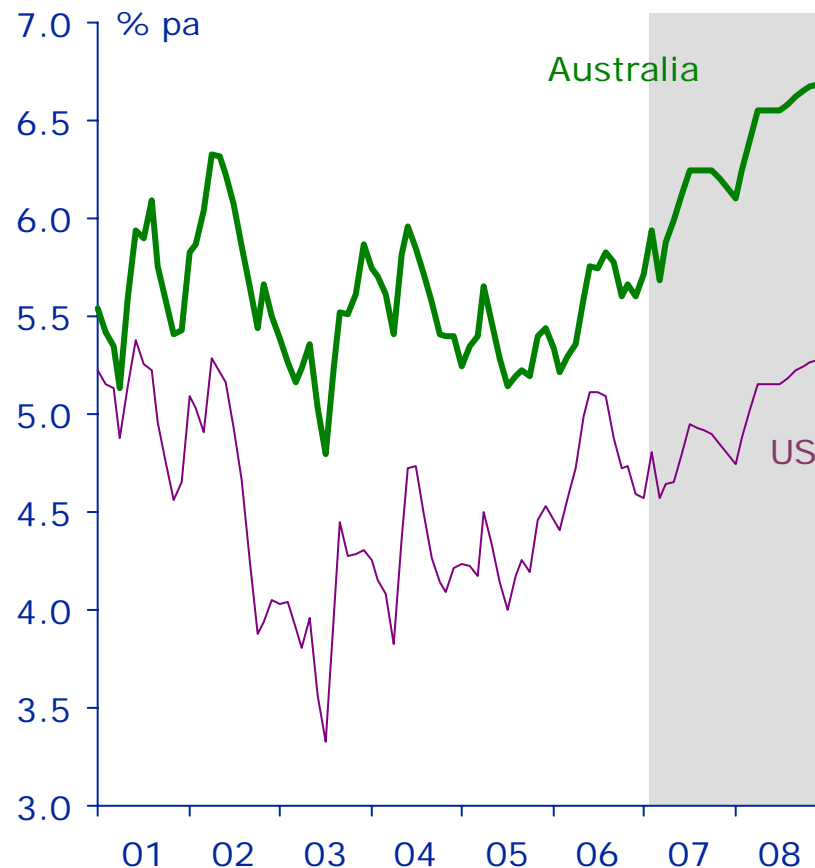
Sources: Bloomberg; Economics@ANZ (based on 30-day futures contracts) .

Although the RBA didn't raise rates this month the odds are that they will next month

Interest rates



Bond yields

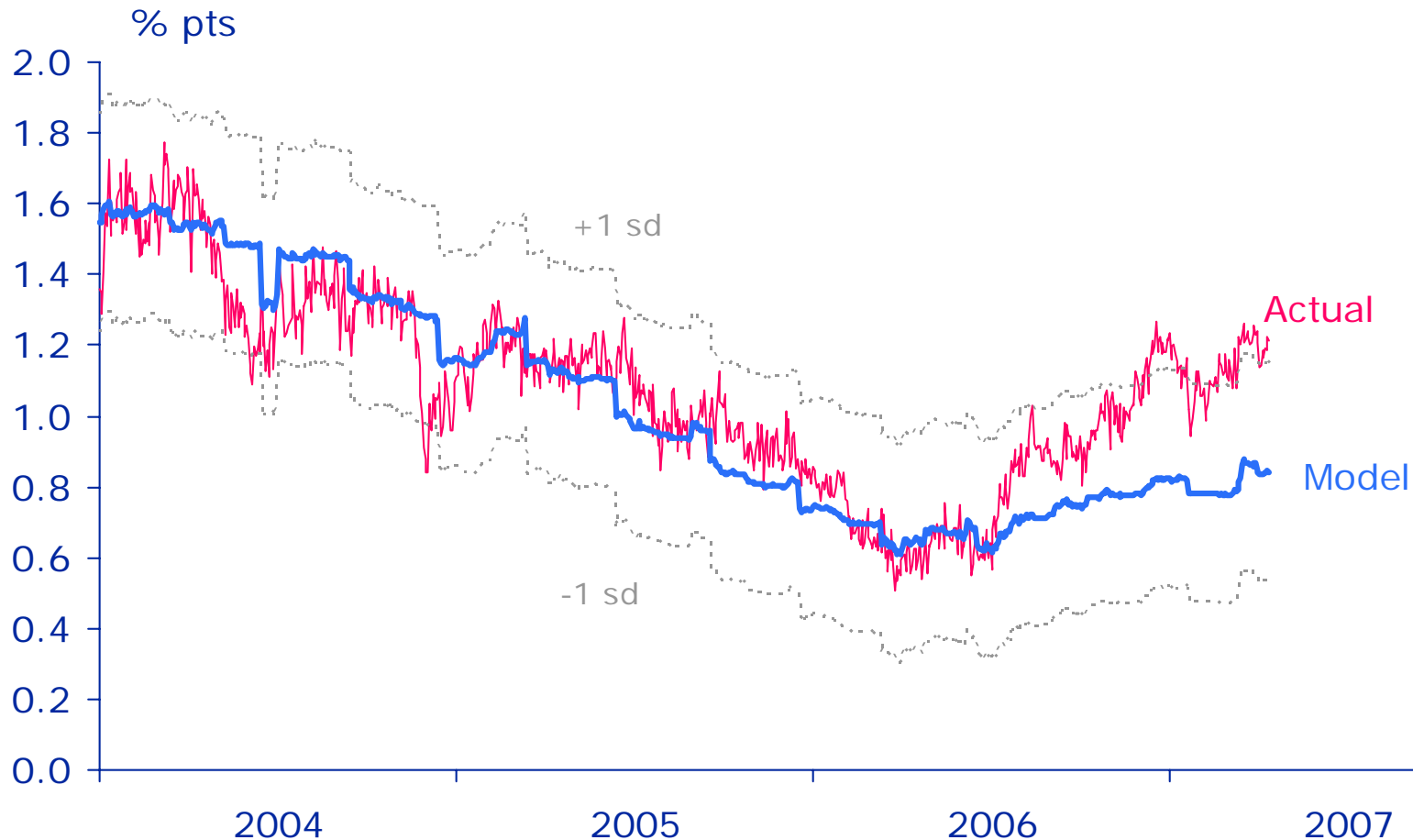


Shaded areas denote forecasts.

Sources: RBA; Datastream; Economics@ANZ.

Spreads between Australian and US 10-years look wider than justified by 'fundamentals'

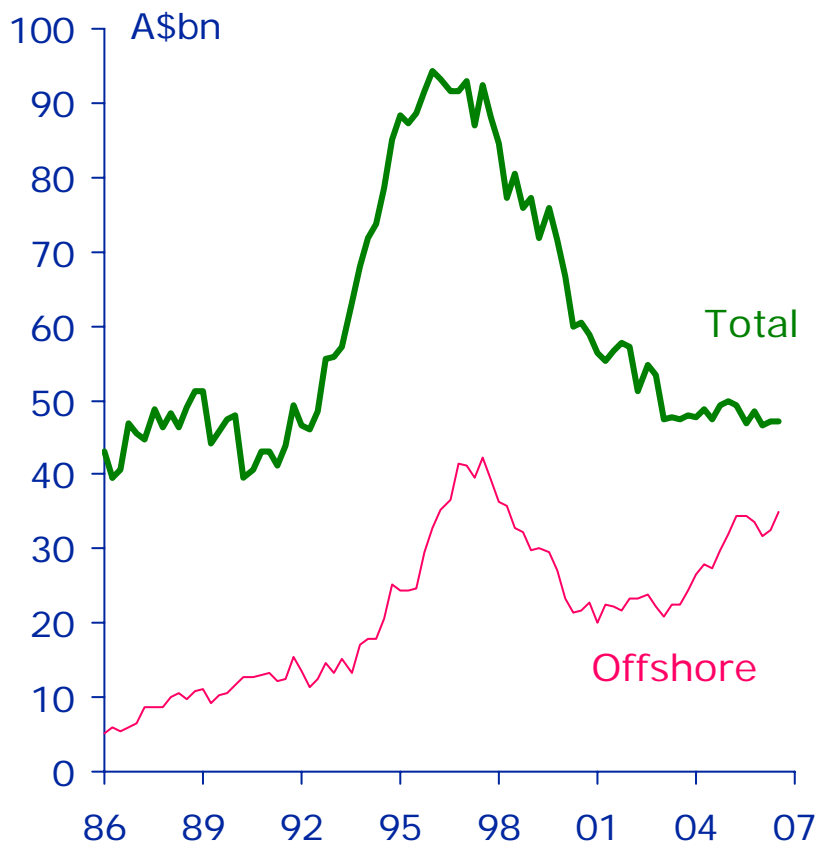
Model of Australia-US 10-year spread and actual



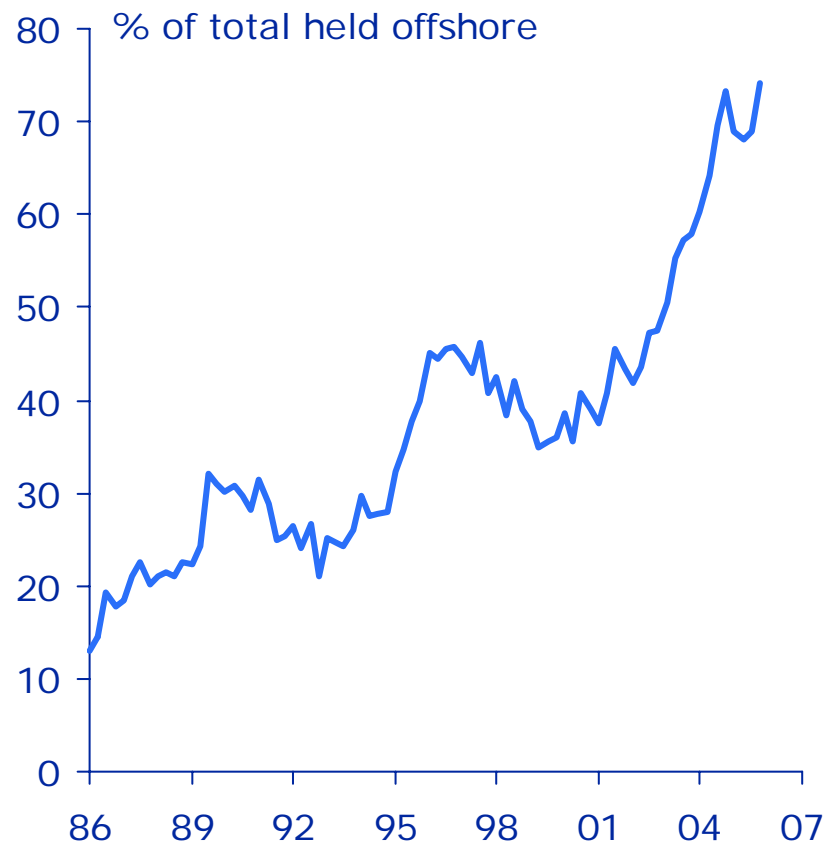
Sources: Bloomberg; ANZ Investment Bank Markets Research.

Almost three-quarters of Australian Commonwealth government bonds now held offshore

Commonwealth government bonds in 'non-official' hands



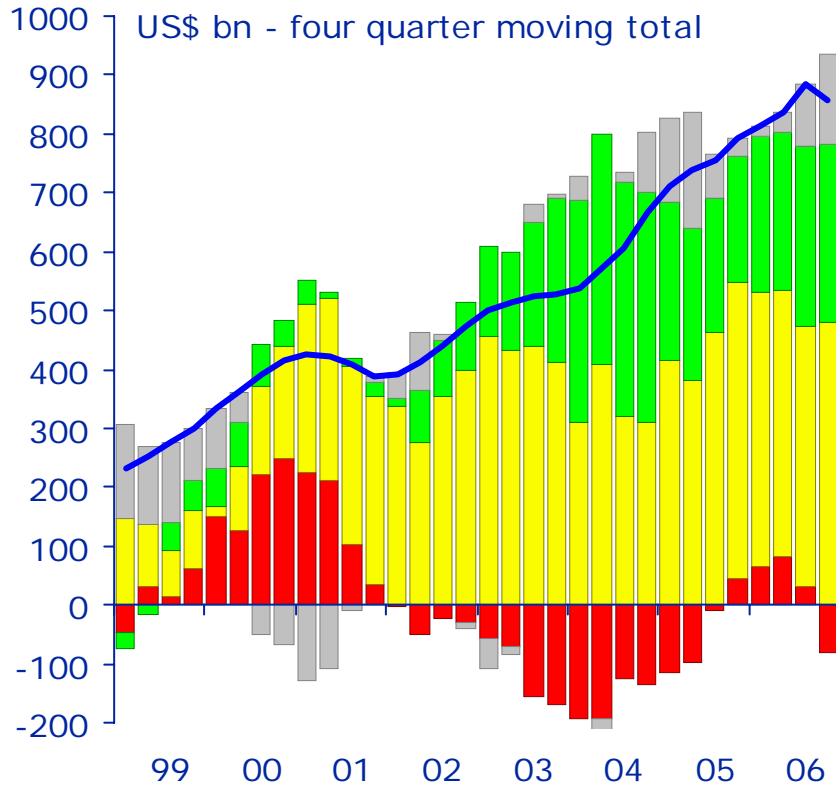
% of Commonwealth bonds held offshore



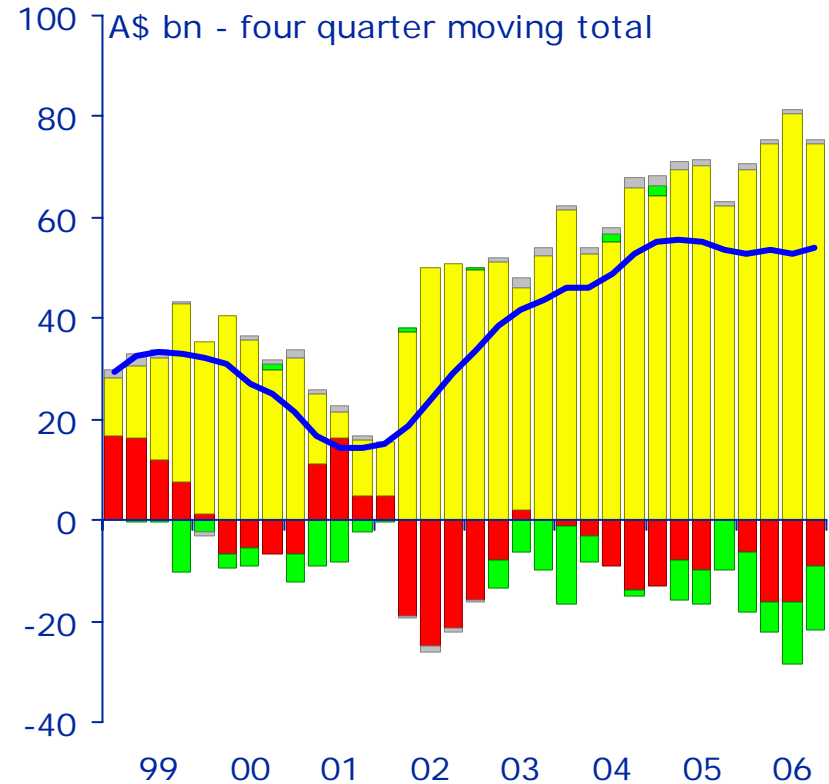
Source: RBA; ANZ Investment Bank Markets Research.

Unlike the US, Australia can't rely on foreign central banks to finance its external deficit

US current account deficit and its financing



Australia's current account deficit and its financing



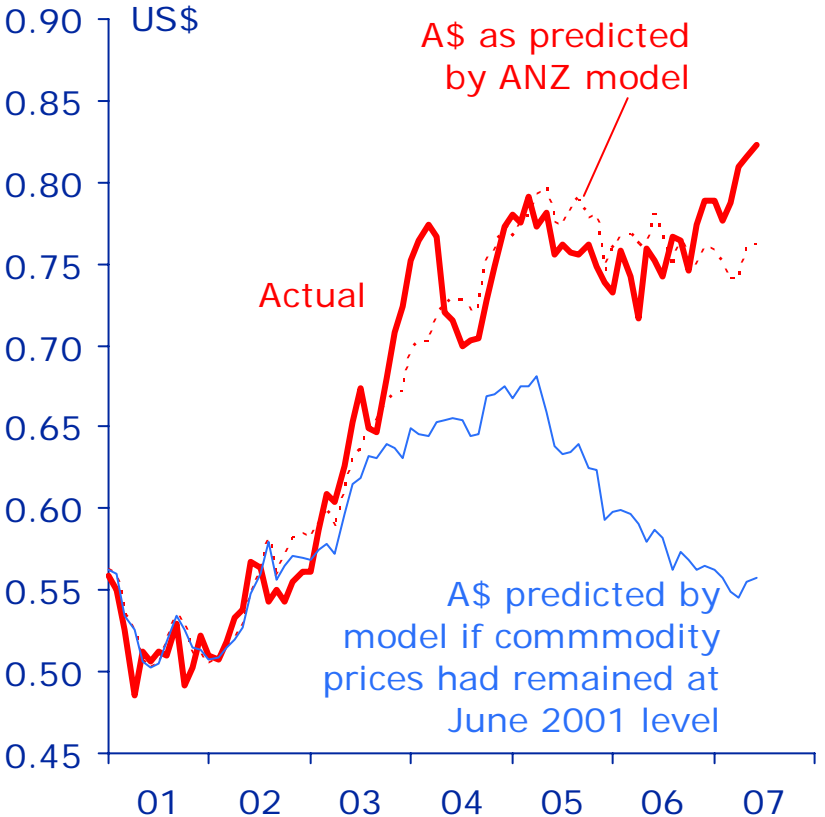
— Current account deficit
 ■ Net equity investment
 ■ Net borrowing
 ■ Official reserves
 ■ Other

Sources: US Bureau of Economic Analysis; Australian Bureau of Statistics; Economics@ANZ.

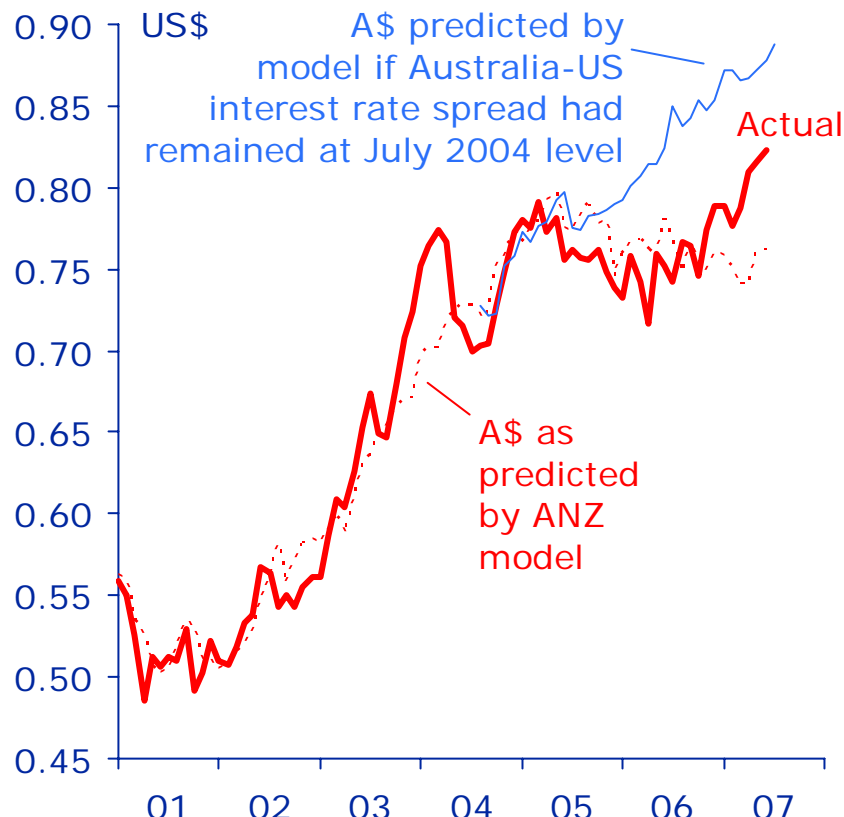
Commodity prices and interest rate differentials have been working in opposite directions on the A\$

Alternative hypothetical scenarios for the A\$

If commodity prices hadn't risen since June 2001



If the interest rate spread on the A\$ hadn't narrowed since July 2004

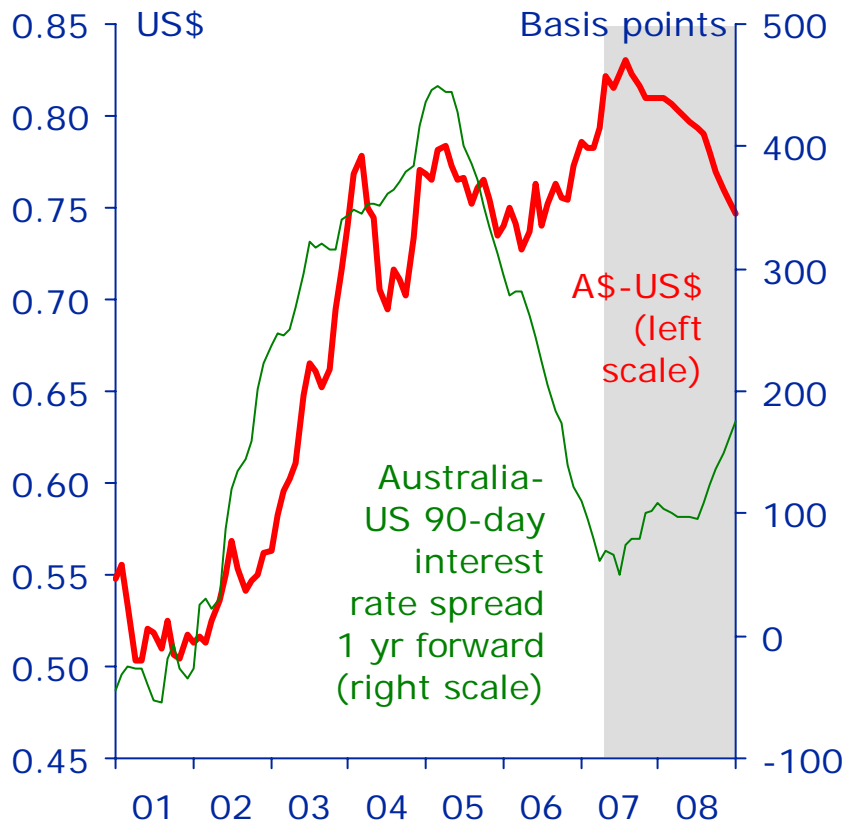


Sources: Datastream; Reserve Bank of Australia; Economics@ANZ.

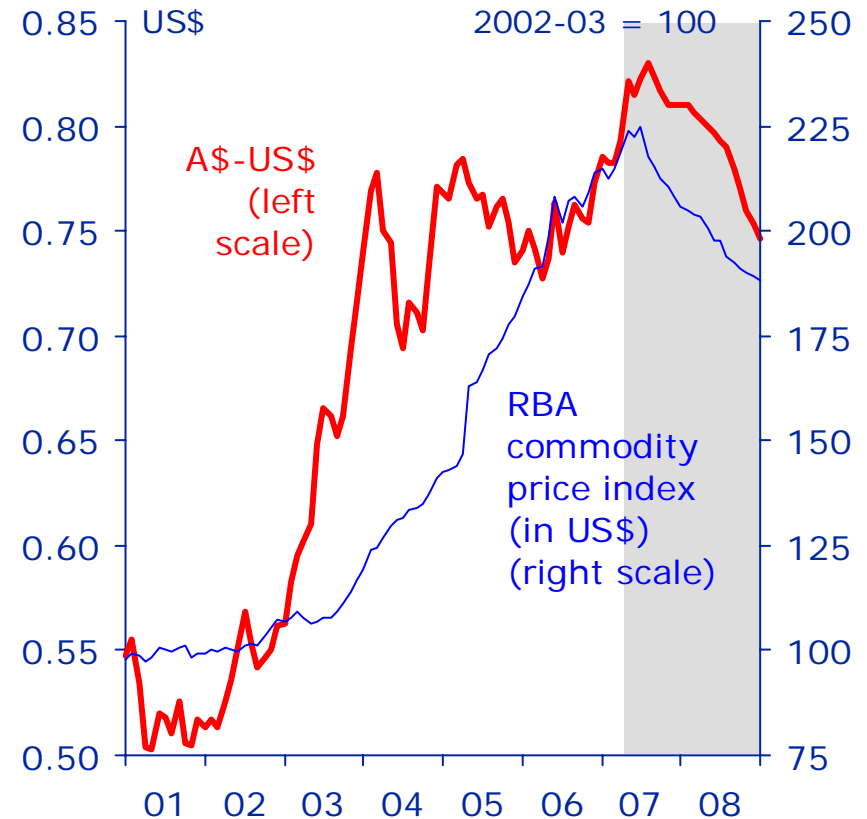
A\$ will ease in line with commodity prices though attracting some support from interest rate spreads

Economic influences on the value of the A\$

Interest rate spreads



Commodity prices

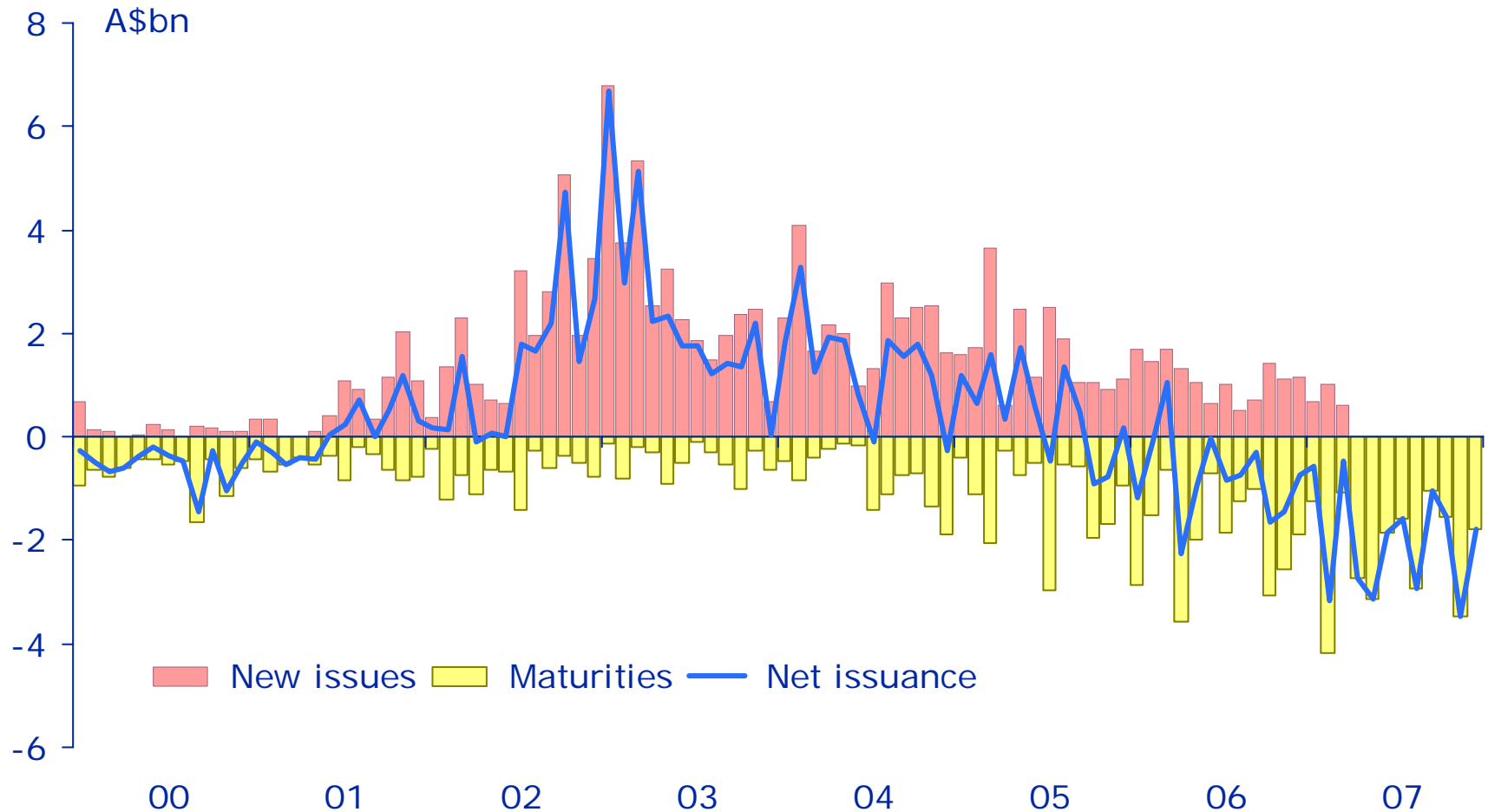


Shaded areas denote forecasts.

Sources: Datastream; RBA; Economics@ANZ.

Offshore bond maturities may weigh on A\$ over second half of 2007

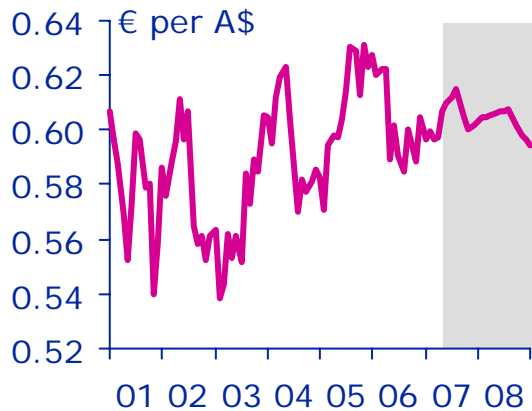
A\$ Euro-bond issuance



Note: Includes Uridashis. Sources: RBA; Bloomberg; ANZ Investment Bank Markets Research.

Assuming Asian currencies continue rising against US\$, A\$ will decline more on Asian crosses

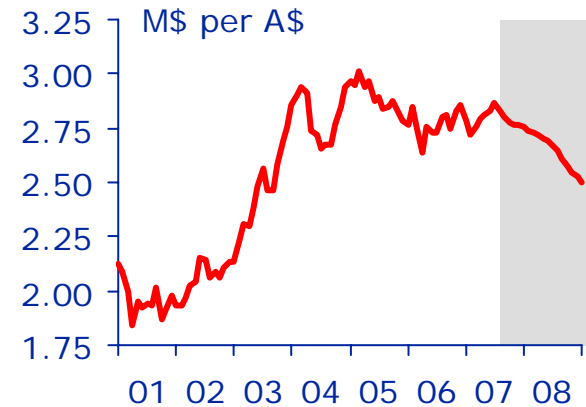
A\$ - Euro



A\$ - Yuan



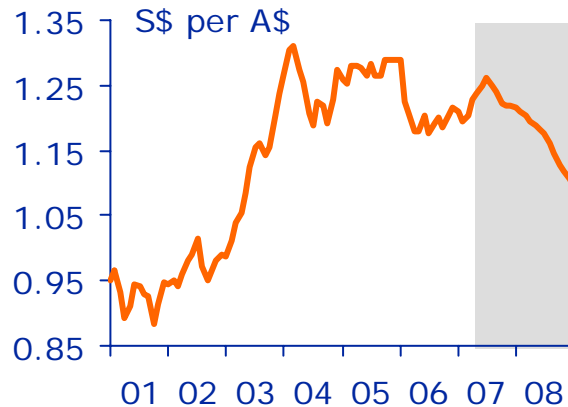
A\$ - M\$



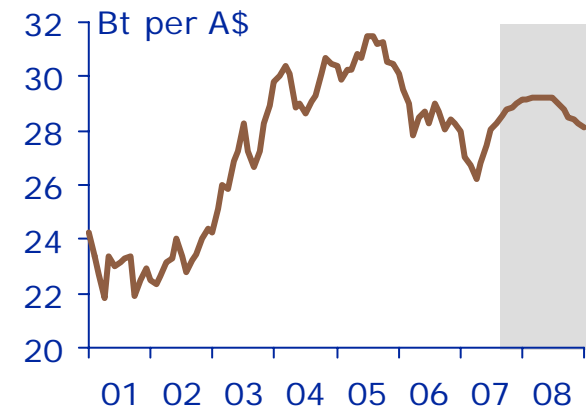
A\$ - Yen



A\$ - S\$



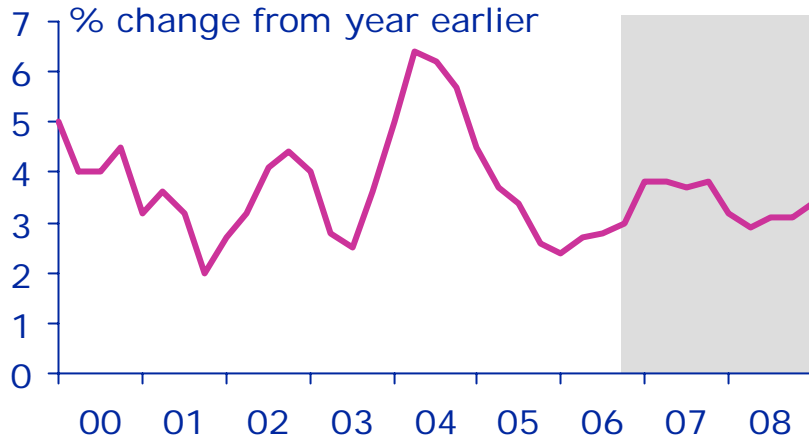
A\$ - Bt



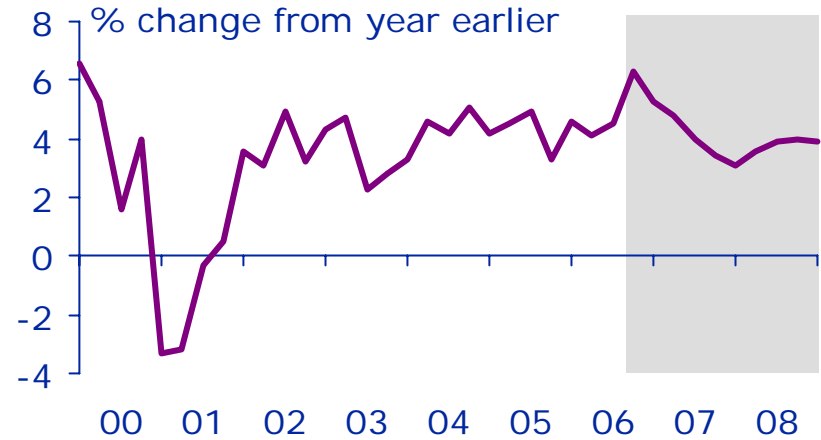
Sources: Thomson Financial Datastream; Economics@ANZ

Except for the long-awaited upturn in exports, growth is likely to be unspectacular

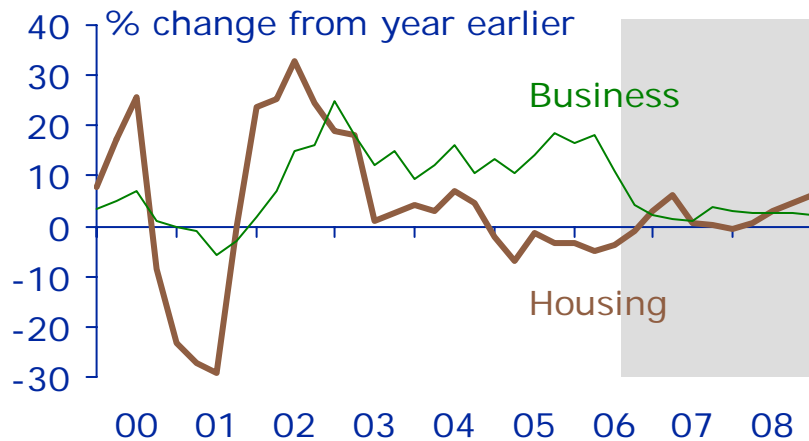
Household consumption



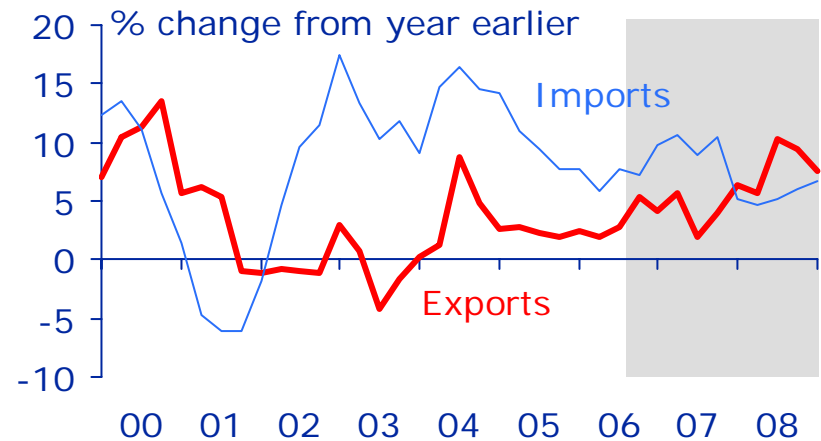
Public spending



Investment



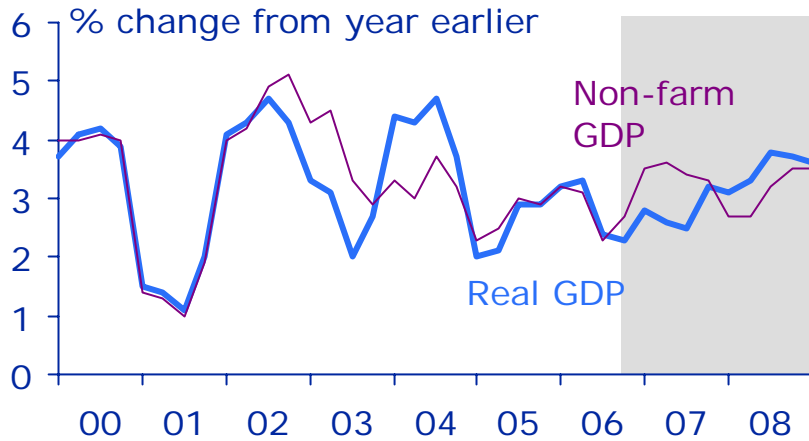
Exports and imports



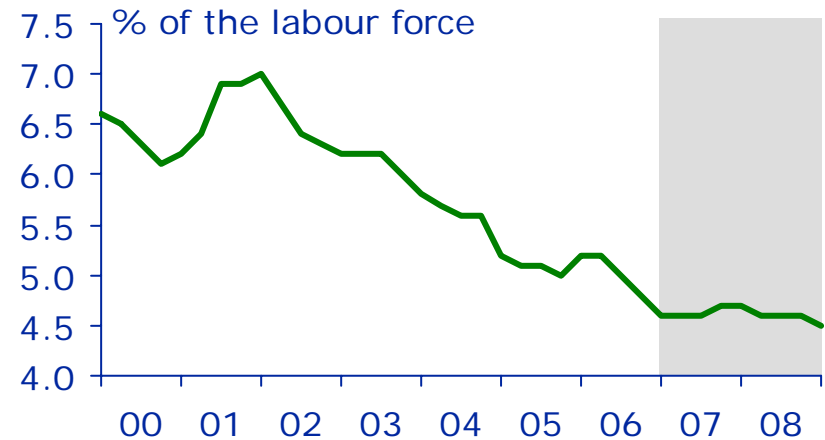
Sources: ABS; Economics@ANZ.

It will be difficult for the Australian economy to exceed its potential growth rate

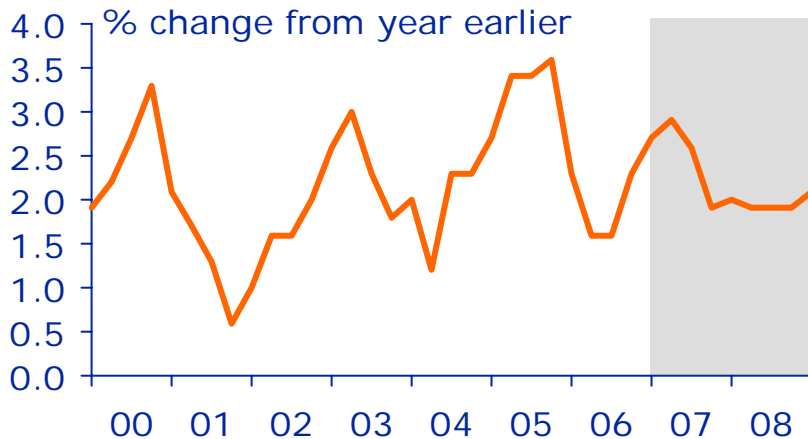
Real GDP growth



Unemployment



Employment



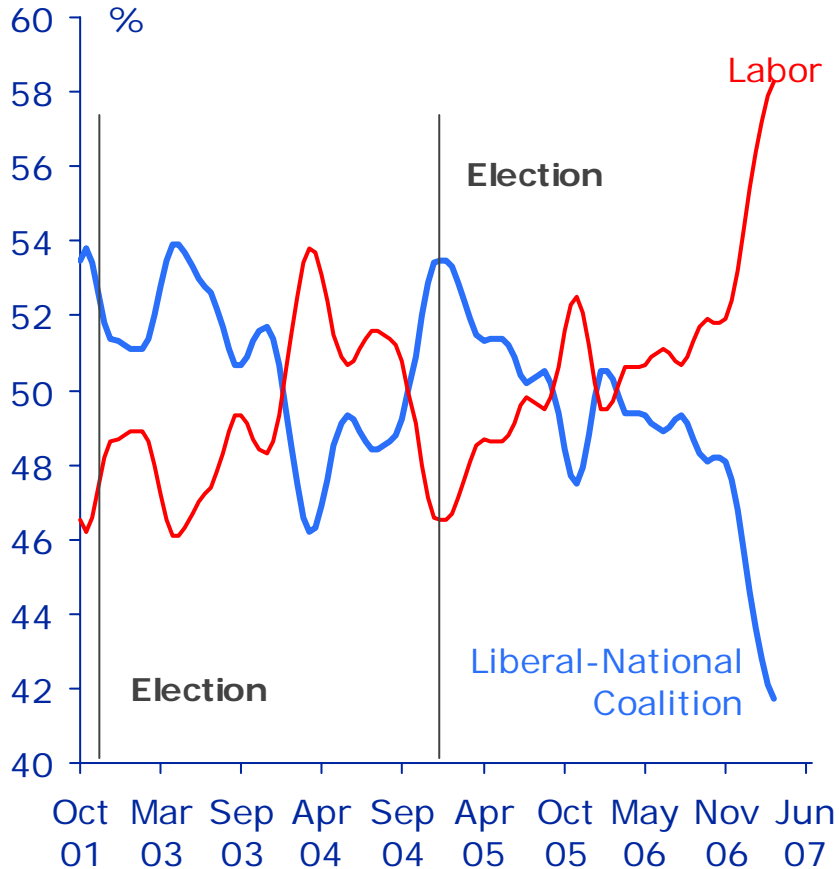
Current account balance



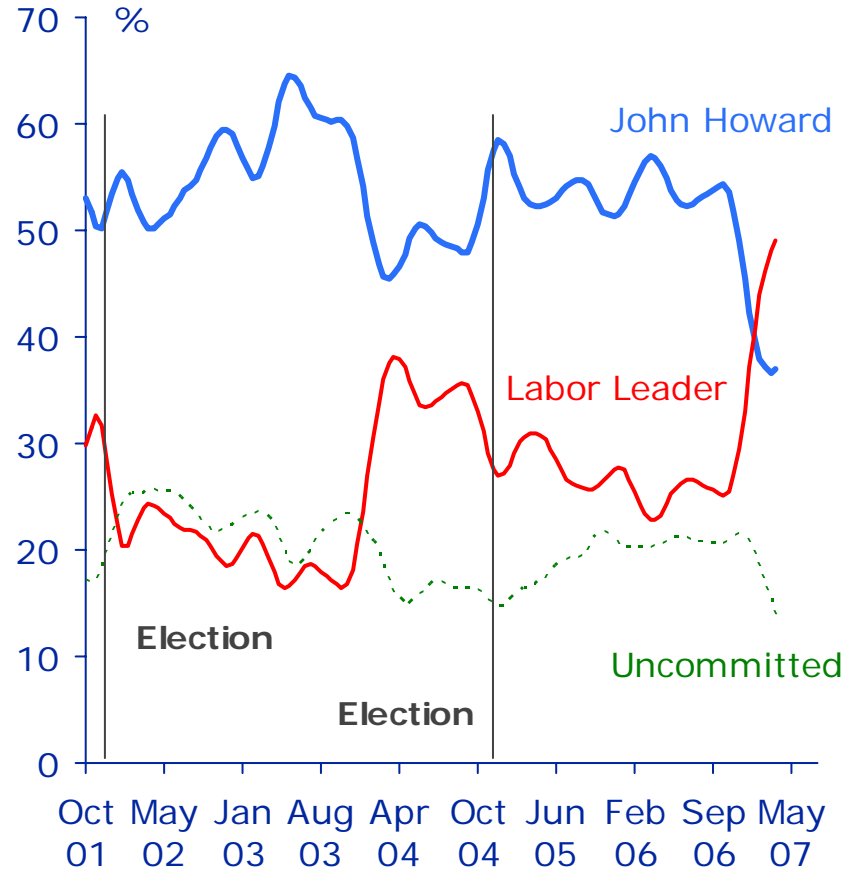
Sources: ABS; Economics@ANZ.

Opinion polls now point to a change of government later this year – but there’s a long time to go

**‘Two-party preferred’ vote
(as surveyed by Newspoll)**



**Preferred Prime Minister
(as surveyed by Newspoll)**



Note: Weekly data are ‘smoothed’ using a 13-term Henderson moving weighted average as used by the ABS to derive ‘trend’ data.

Source: Newspoll, Economics@ANZ.

How would a Rudd Labor Government differ from a Howard coalition government

Similarities

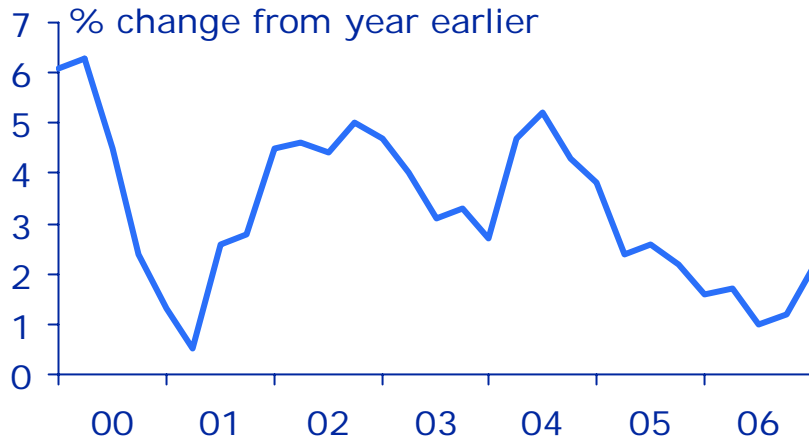
- Reserve Bank would remain independent as at present
- Budget to remain in surplus (of about 1% of GDP) whilst economy continues to grow
- Strong commitment to US alliance
- Strong commitment to engagement with Asia
- Vigorous support for multi-lateral trade negotiations
- Broadly similar aversion to tariffs and other trade barriers (despite some rhetorical differences)

Differences

- Industrial relations – a Labor government would re-instate 'unfair dismissals' laws, abolish 'Australian Workplace Agreements' and restore many functions of industrial tribunals
- Climate change – Labor favours mandatory (60%) target for reduction in greenhouse gas emissions
- Education – Labor likely to spend more
- Infrastructure – greater role for Federal government (incl provision of 'broadband')
- Bilateral trade deals – Labor less enthusiastic

NZ economy has slowed but earlier fears of a 'hard landing' haven't been realized

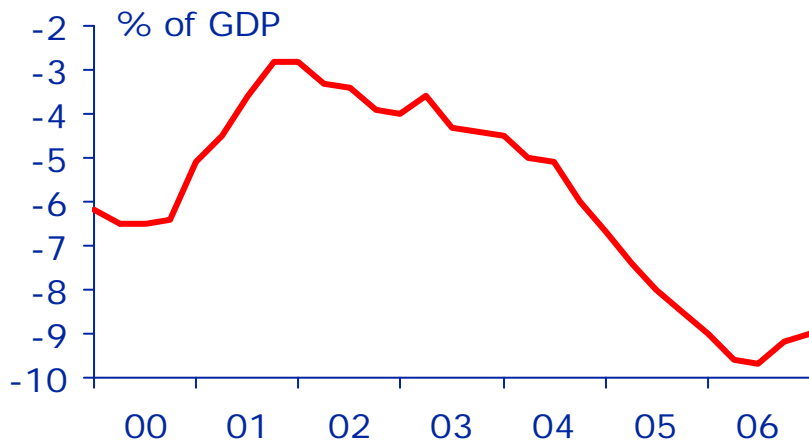
Real GDP growth



Unemployment



Current account balance



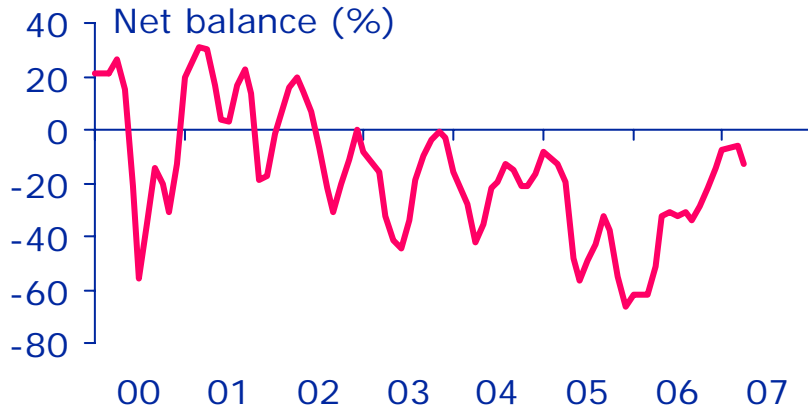
Capacity utilization



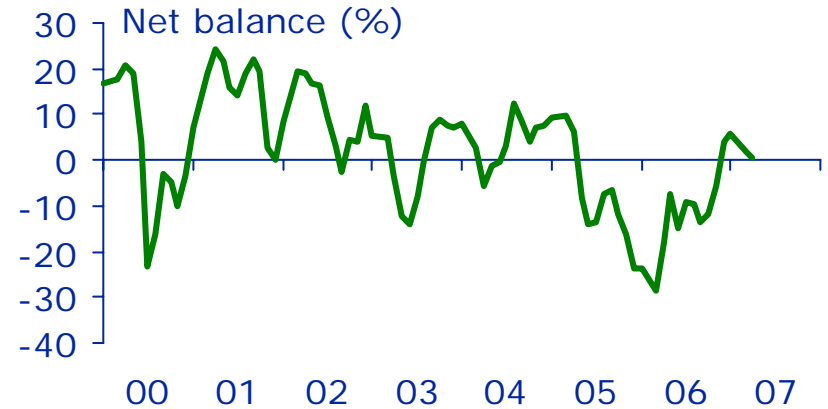
Sources: Statistics NZ; NZ Institute of Economic Research.

Business surveys suggest the NZ economy has so far avoided from a 'hard landing'

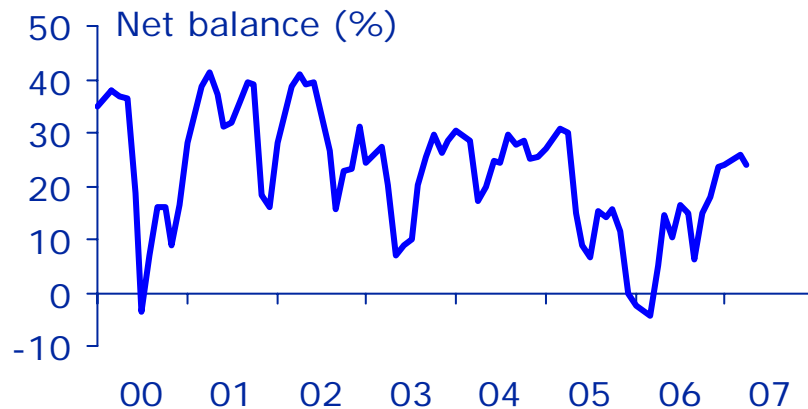
Business confidence



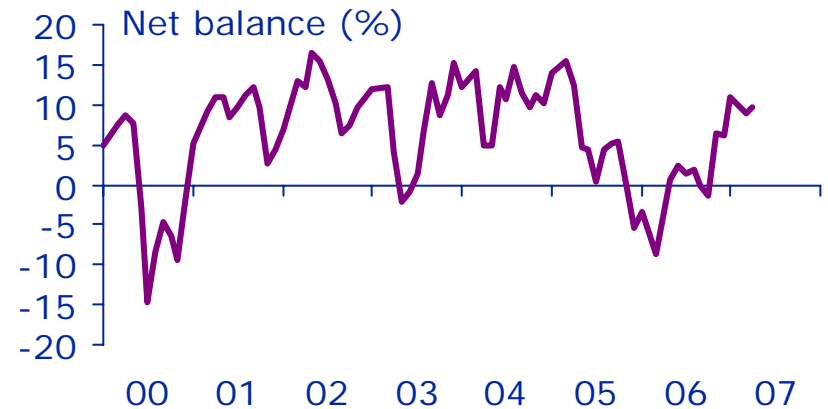
Profit expectations



Firms' own activity outlook

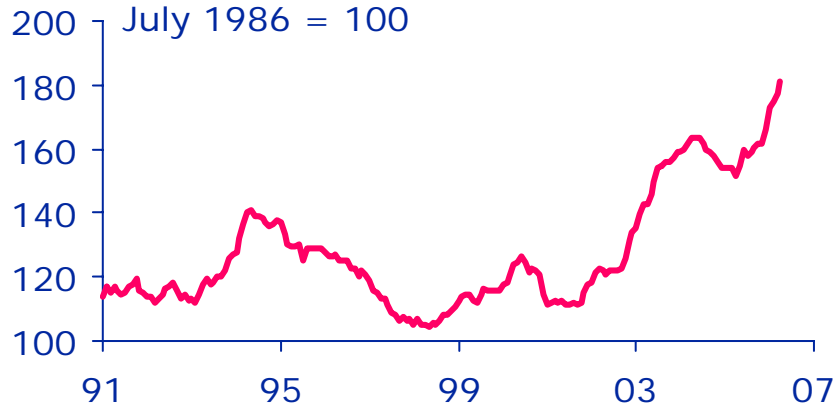


Employment expectations

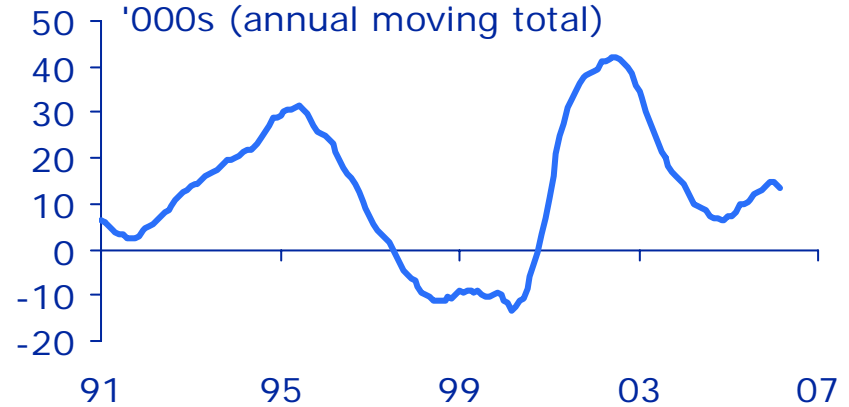


NZ benefiting from terms of trade and population gains and a still-buoyant housing market

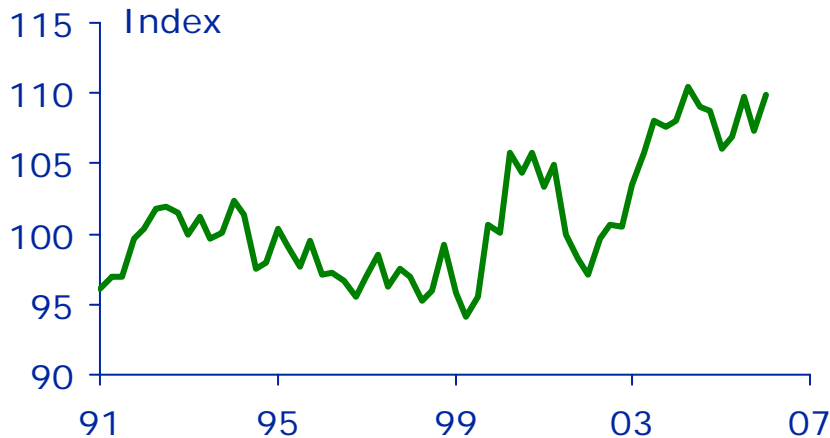
Export commodity prices



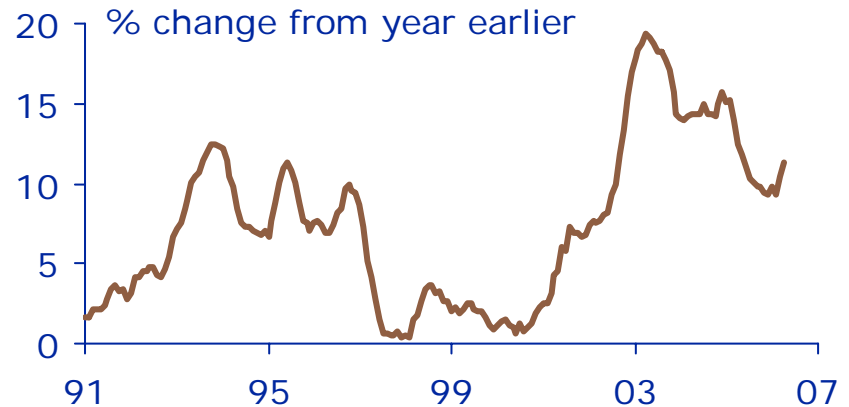
Net immigration



Terms of trade



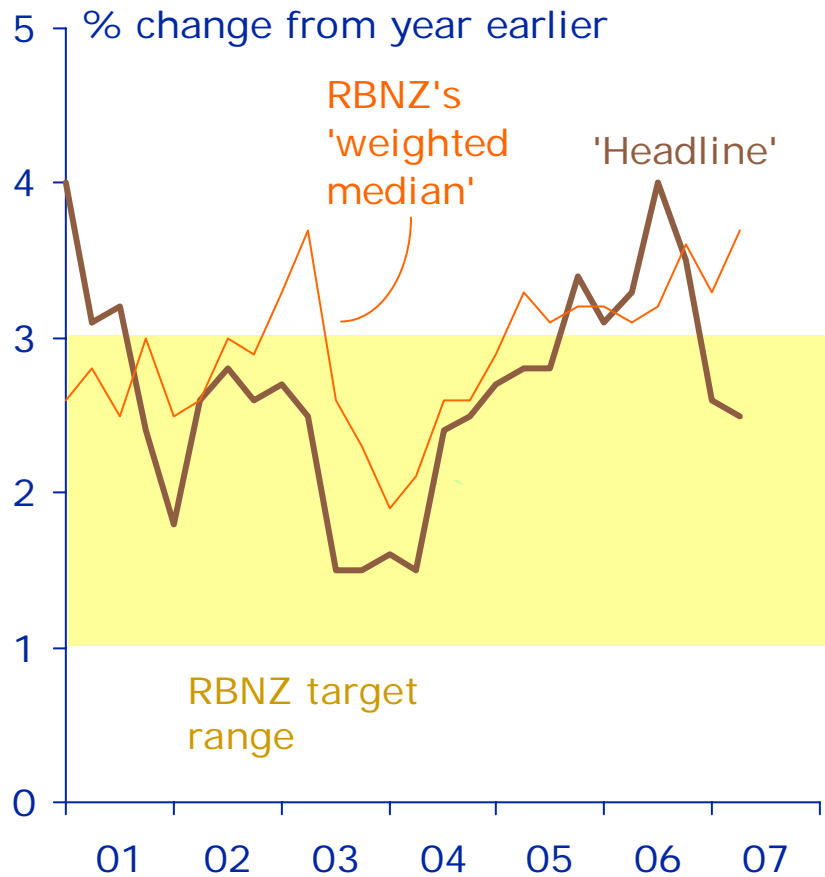
House prices



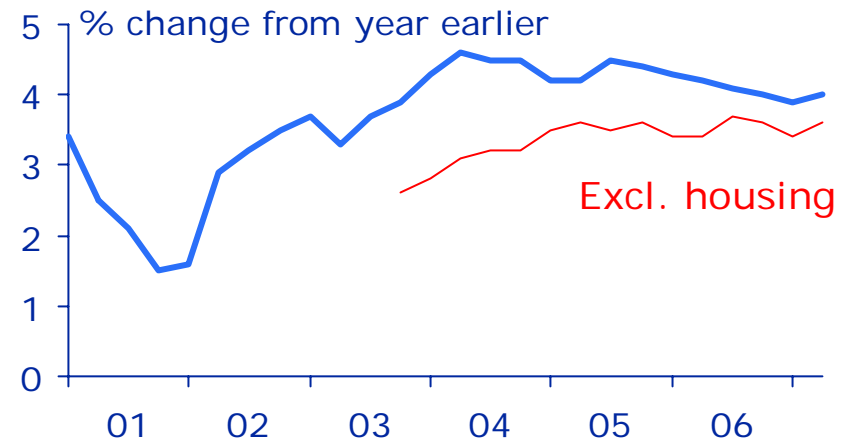
Sources: ANZ National Bank; Statistics NZ; REINZ.

The RBNZ has become increasingly frustrated at the persistence of above-target inflation

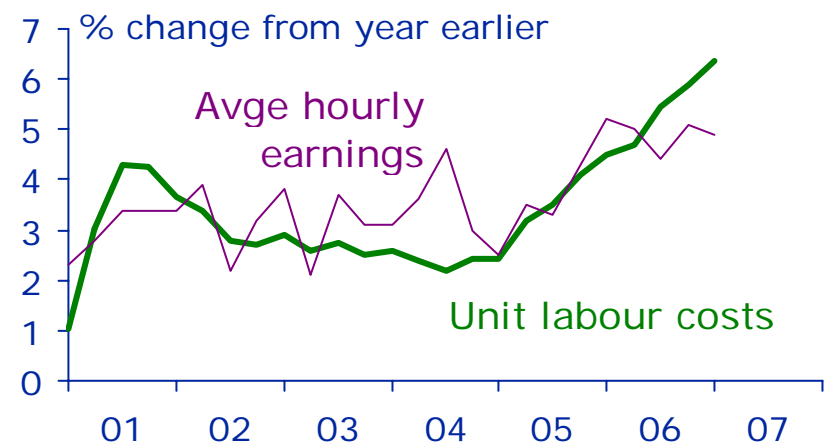
Consumer price inflation



'Non-tradeable' prices

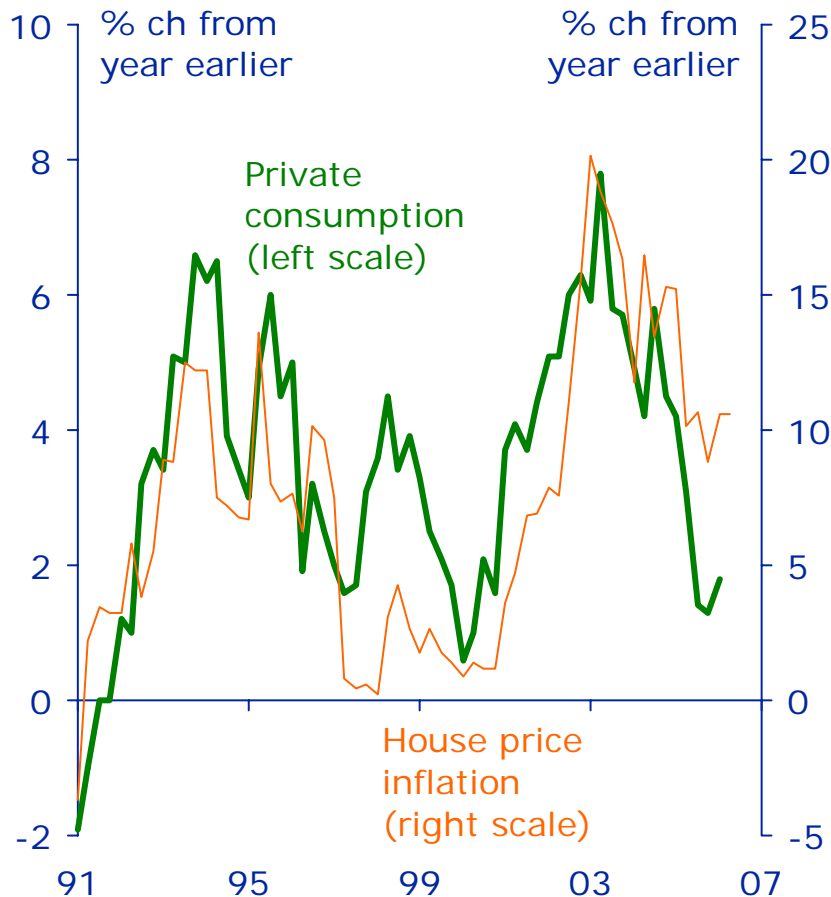


Labour costs

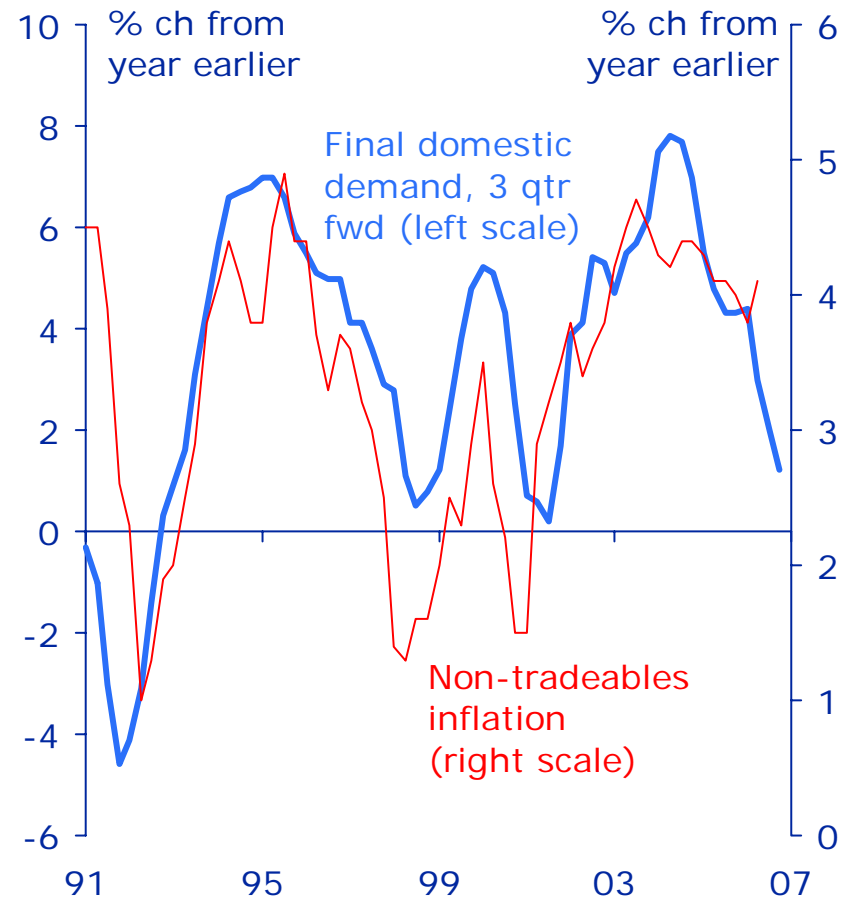


House price inflation and domestic demand need to slow to bring inflation down

House price inflation and private consumption

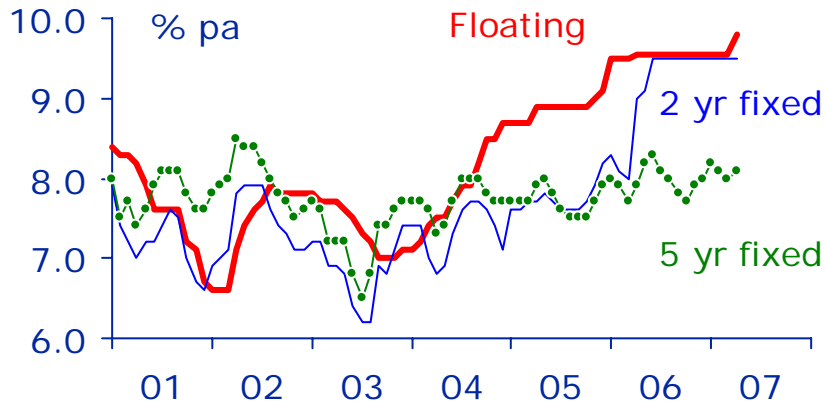


Domestic demand growth and inflation

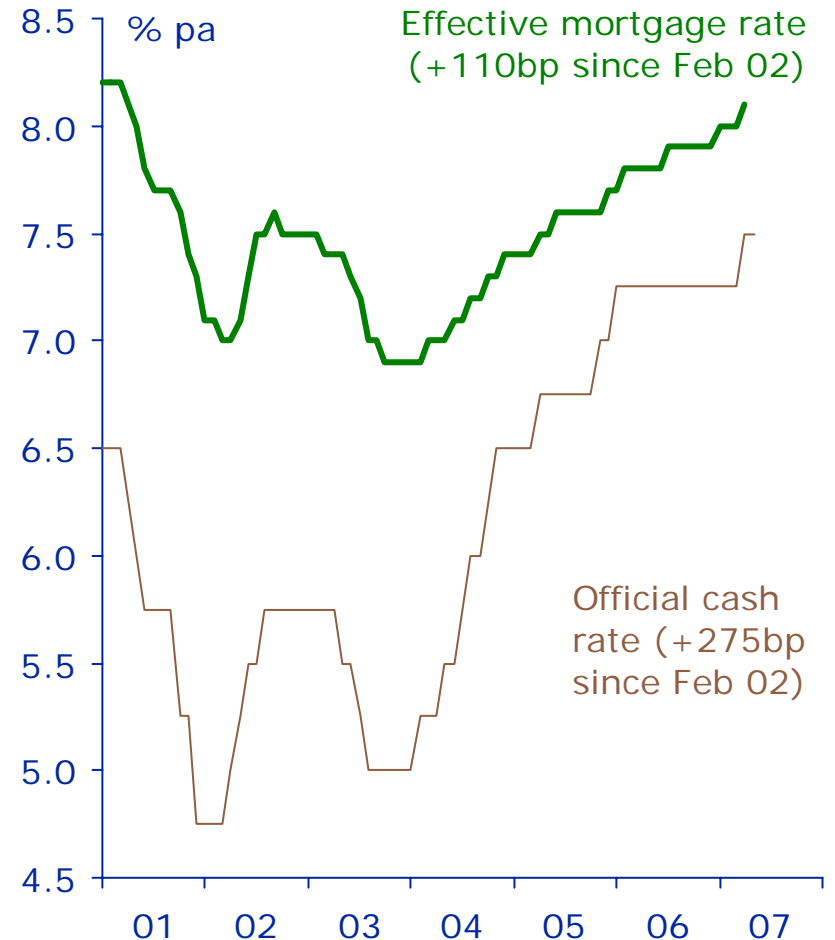


The RBNZ's efforts to tighten monetary policy have been muted by shift to fixed rate mortgages

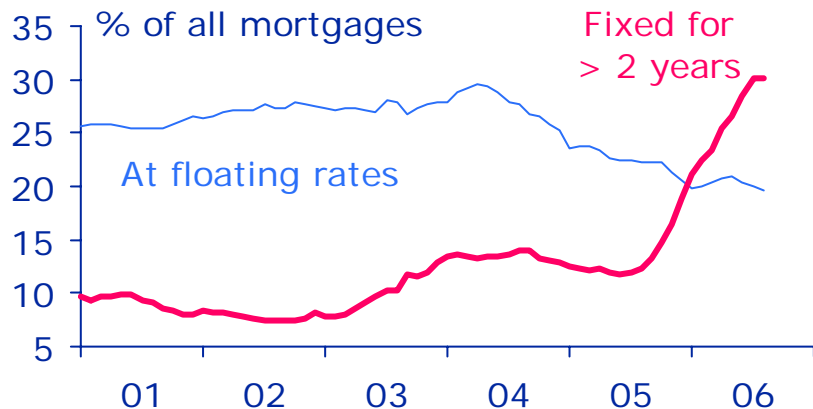
Mortgage rates



Cash vs mortgage rate



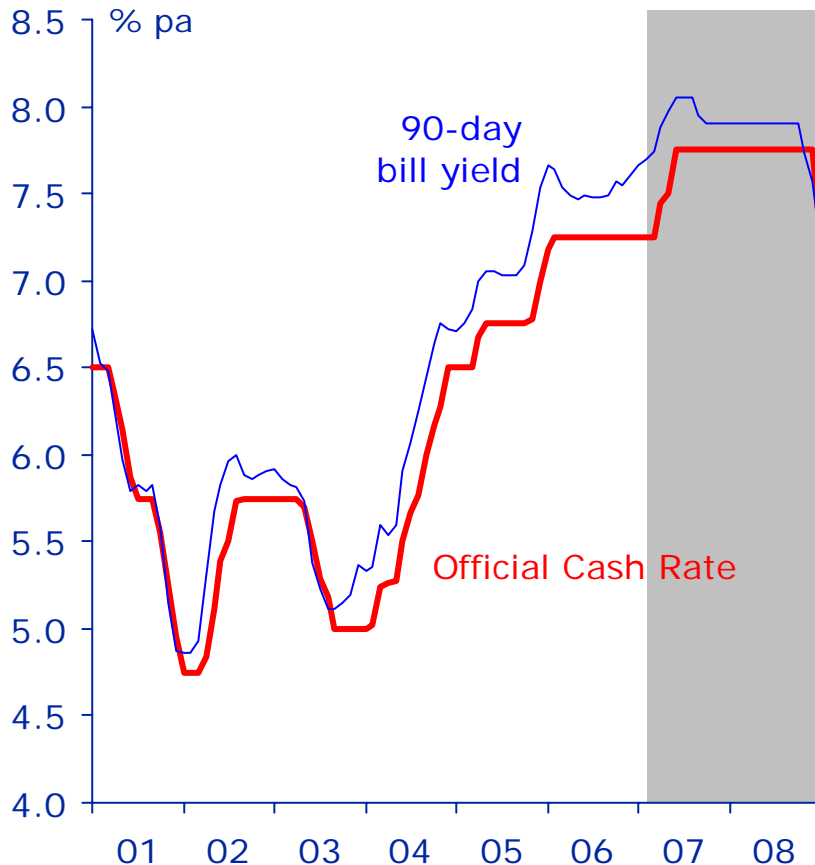
Floating vs fixed rate mortgages



Source: Reserve Bank of New Zealand

A further rate hike seems likely with rates then on hold until late 2008 ahead of big falls in 2009

Interest rates



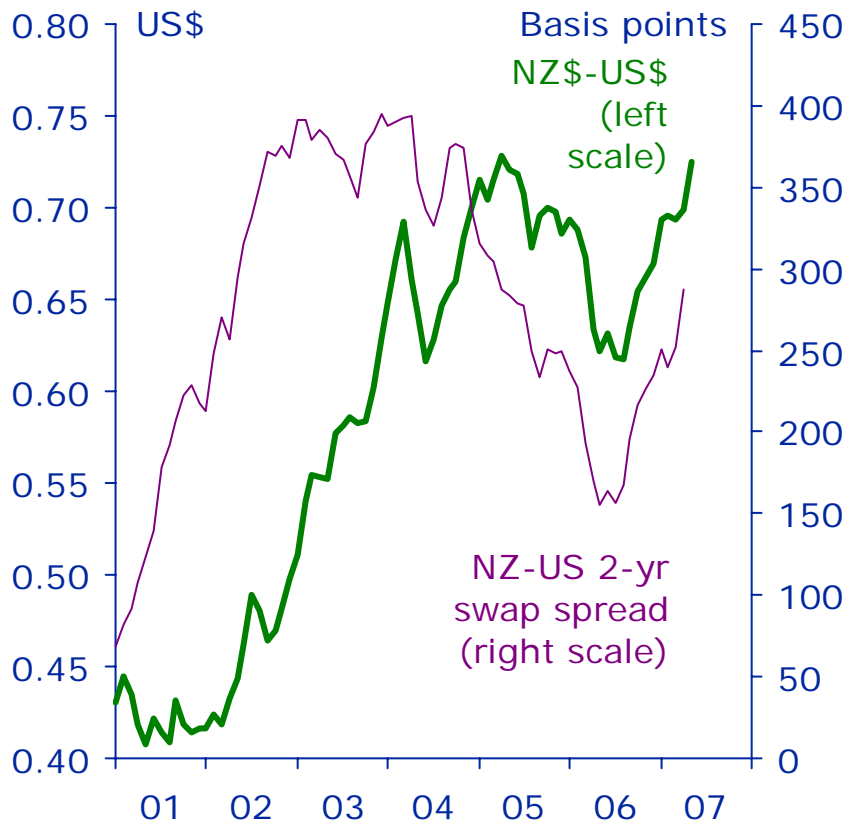
Shaded areas denote forecasts.
Sources: Reuters; ANZ National Bank.

- Recent increases in retail mortgage rates have assisted the objectives of monetary policy
- However stronger-than-expected economic data so far this year and higher-than-expected non-tradeable and house price inflation have tipped the balance of risks towards another rate hike this month
- Pre-election fiscal easing in 2008 will ensure the RBNZ keeps rates at this level for some time
- Rates thus on hold until late 2008 but should fall by 1-1½ pc pts by end-2009

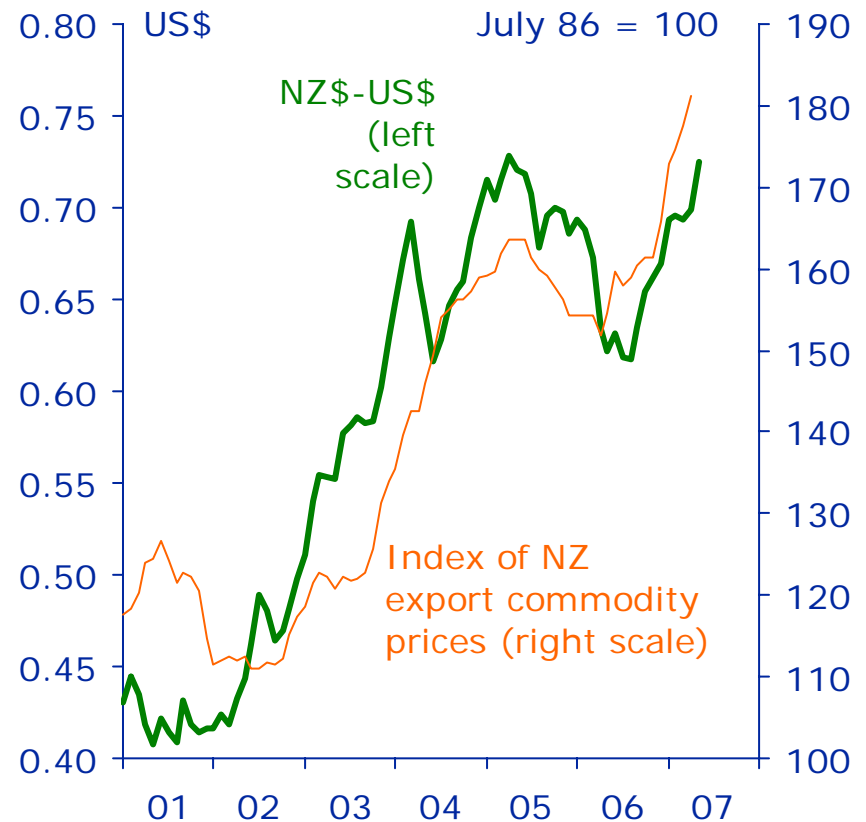
Swap spreads and commodity prices lending continued support to the NZ dollar

Economic influences on the value of the NZ\$

Interest rate spreads



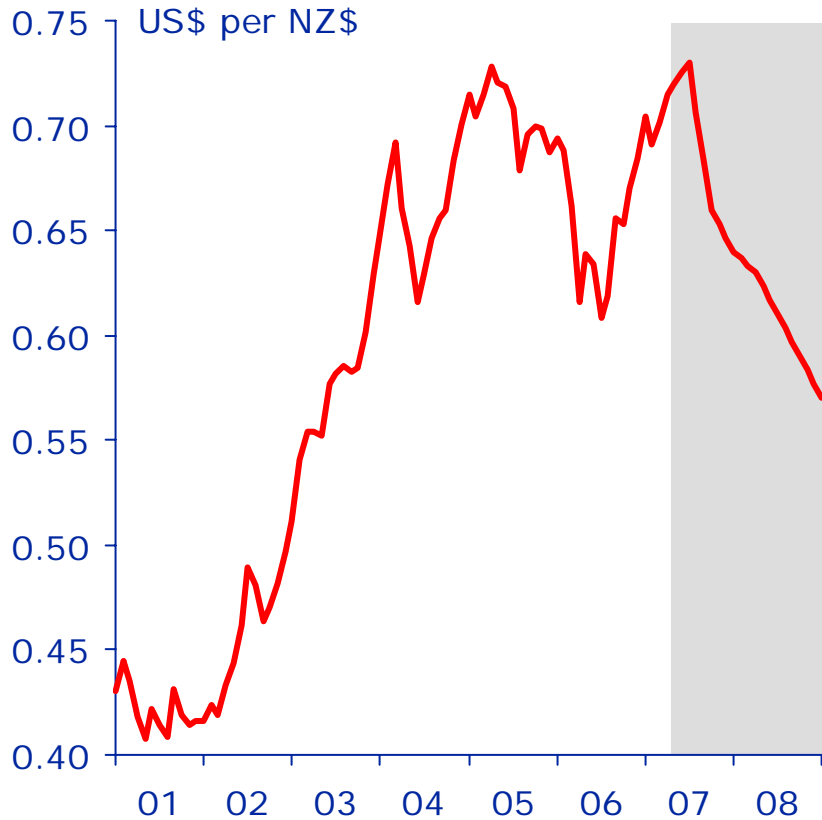
Commodity prices



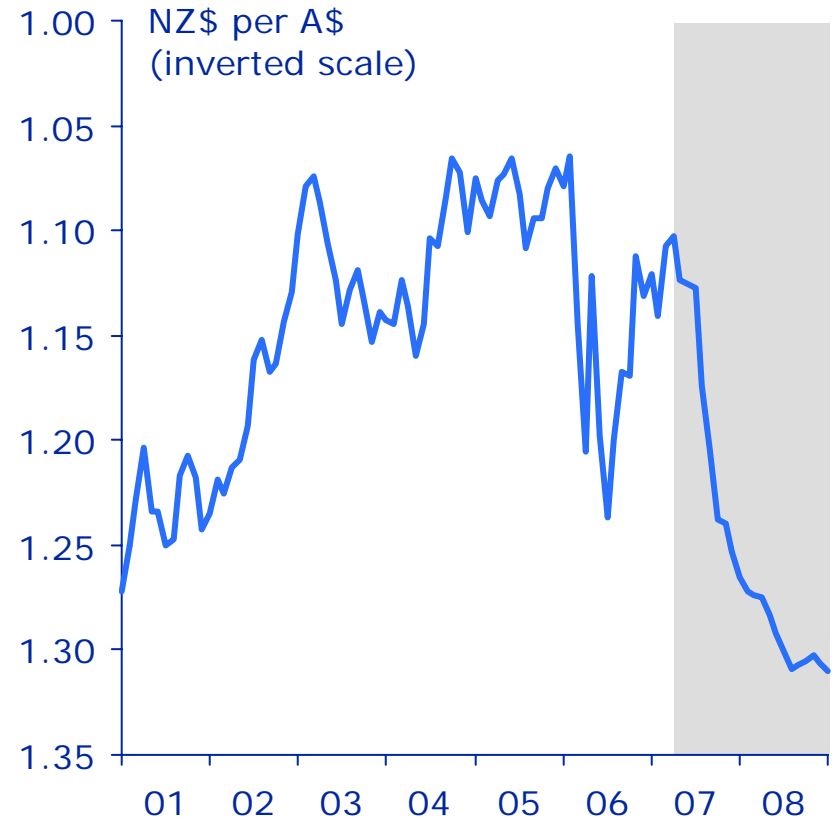
Sources: Datastream; ANZ National Bank.

New Zealand dollar will weaken ahead of aggressive easing by RBNZ

NZ\$ vs US\$



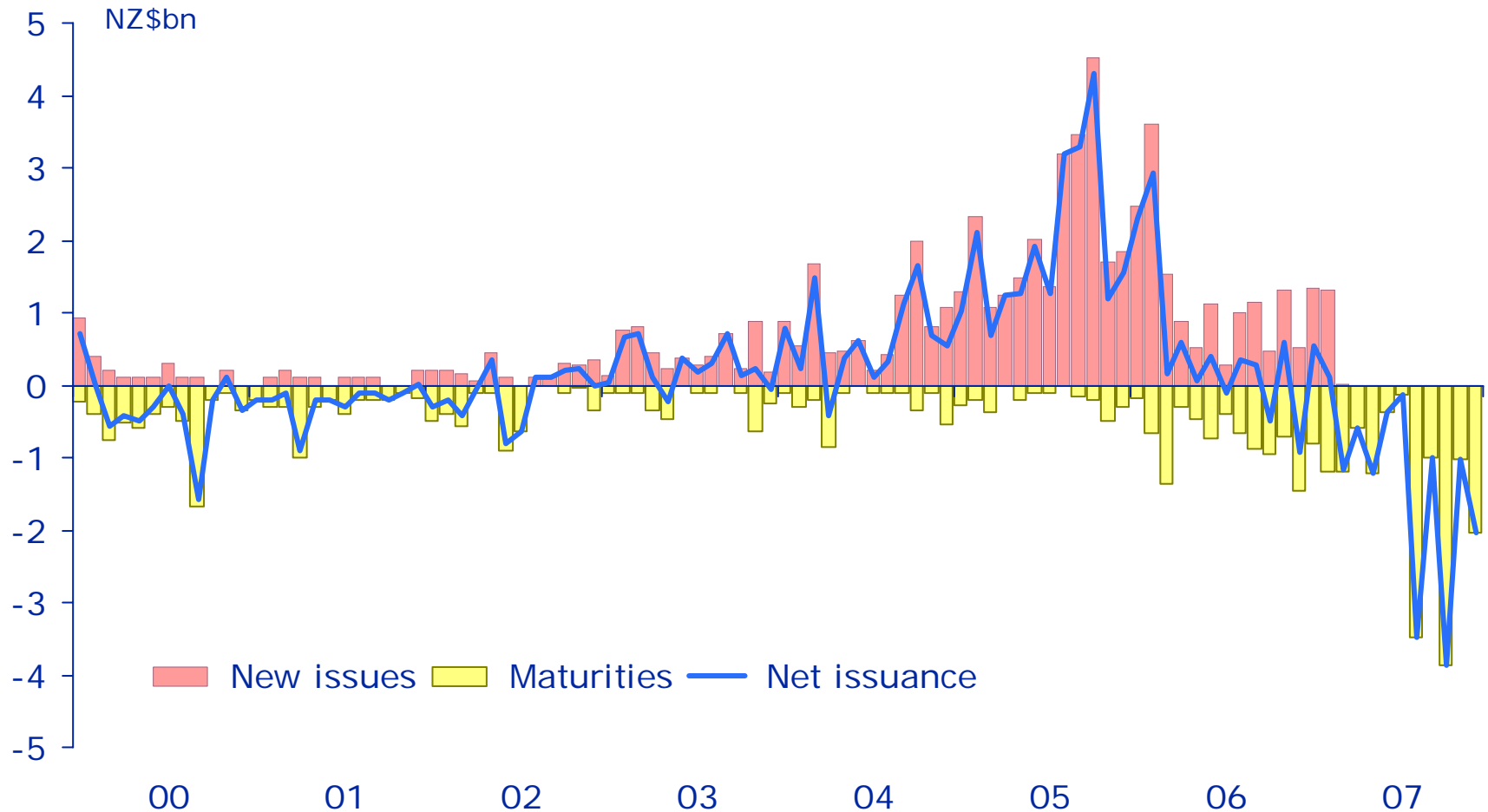
A\$ vs NZ\$



Shaded areas denote forecasts.
Sources: Datastream; NZ Economics

Heavy schedule of offshore NZ\$ bond maturities may prompt NZ\$ weakness later this year

NZ\$ Euro-bond issuance



Note: Includes Uridashis. Sources: Bloomberg; ANZ Investment Bank Markets Research.

Summary of the economic outlook for Australia

	2005	2006	2007	2008
Real GDP growth (%)	2.8	2.7	2¾	3½
Employment growth (%)	3.2	2.0	2¼	2
Unemployment rate (%) ^(a)	5.2	4.6	4½	4½
Housing starts ('000s)	152	151	145	158
Motor vehicle sales ('000s)	992	1,000	1,010	1,030
CPI inflation (%) ^(b)	2.7	3.5	2½	3
Wage cost (WCI) inflation (%) ^(b)	4.1	4.0	4¼	4
Current account deficit (\$bn)	54	54	58	67
Current account deficit (% GDP)	5.8	5.4	5¼	5¾
Net foreign debt (% of GDP) ^(a)	49	51	52	53

(a) December (b) Year to December quarter; all other forecasts are year-average

Summary of the economic outlook for NZ

	2005	2006	2007	2008
Real GDP growth (%)	2.1	1.6	1½	2¼
Employment growth (%)	2.8	2.1	¼	½
Unemployment rate (%) ^(a)	3.6	3.7	4	4¼
CPI inflation (%) ^(b)	3.2	2.6	2¼	3¼
Wage cost (WCI) inflation (%) ^(b)	4.1	4.8	3¾	3
Current account deficit (NZ\$bn)	14	14	13	13½
Current account deficit (% GDP)	9.0	8.9	7¾	7½

(a) December (b) Year to December quarter; all other forecasts are year-average

Currency and interest rate forecasts

	Apr 2007*	Jun 2007	Dec 2007	Dec 2008
US Fed funds rate	5.25	5.25	4.75	5.25
US 10-year T-bond yield	4.65	4.95	4.75	5.30
US\$ - ¥	118	117	113	109
€ - US\$	1.33	1.35	1.34	1.26
RBA cash rate	6.25	6.25	6.50	6.50
Australia 90-day bill rate	6.40	6.40	6.60	6.75
Australia 10-year bond yield	5.90	6.25	6.15	6.50
RBNZ cash rate	7.25	7.50	7.50	7.25
NZ 10-year bond yield	6.00	6.00	5.80	6.20
A\$ - US\$	0.83	0.82	0.81	0.75
A\$ - ¥	98.5	96.5	91.5	81.6
A\$ - €	0.61	0.61	0.60	0.59
NZ\$-US\$	0.72	0.73	0.64	0.57

* actual