JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- **Australian** economic data last week reaffirmed our expectation that the RBA will leave the cash rate steady on Tuesday. Credit growth fell below 15%oya for the first time since May 2008 and retail sales ex-food declined, adding to recent signs that the domestic economy is losing momentum. This means that officials will probably look through the recent spike in CPI which saw both headline and core measures of CPI surge above 4%oya in 1Q, well above the RBA's 2-3% target range. The rise in commercial banks' mortgage interest rates is doing some of the heavy lifting for the RBA. Labour market conditions remain tight, however, and this week's employment print probably will show further healthy job gains for April.

- In **New Zealand** last week, the NBNZ business confidence survey showed that business sentiment improved slightly in April, and firms' own activity expectations rose, but remained in negative territory. Owing to fewer exports, the trade balance unexpectedly fell into deficit in March, bucking expectations for a surplus. New Zealand will release labour market statistics this week. This morning, data showed wage growth slowed to 0.7%q/q in 1Q. On Thursday, the job print should show that the unemployment rate rose from 3.4% in 4Q to 3.6% in the March quarter.

- Led by the Federal Reserve, **central banks** continue to move on two fronts to shield the macroeconomy from credit stress. With easings last month by the Fed, the BoC, and the BoE, developed world policy rates are now down a cumulative 137bp on average since last August. These actions have been complemented by significant steps to alleviate funding pressures in the banking system. Funding pressures remain an issue but the tone in financial markets has improved as central banks signal their firm commitment to maintain functioning markets and as troubled financial institutions make progress in raising capital. It is encouraging to see the narrowing of credit spreads, active corporate issuance, and the continued expansion in bank loans to better quality credits. Tight credit conditions will be a persistent drag, but fears of a wholesale disruption in credit intermediation look unlikely to materialize.

- On the data front, the **US indicator flow** highlights both elements of our outlook theme. Following a modest gain last quarter, drags from the construction sector and weak consumer spending look to be intensifying. However, the first readings from firms in April (ISM, payrolls) do not suggest that drags are intensifying or broadening. The economy is unlikely to fall into a hole so deep that it will contract despite the infusion of tax rebates. We continue to see GDP growth in slightly positive territory in the middle two quarters of the year as the boost from rebates offsets a mild recession dynamic. The Fed signaled last week that it will remain patient through this type of economic environment and is likely to hold the funds rate at 2% for some time to come.

This week's highlight

The RBA decision on Tuesday. The RBA will probably leave the cash rate steady at 7.25%, although the accompanying commentary may provide clues on for how long, and to what extent, officials will tolerate above-target-inflation as growth slows.

Contents

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Data and event previews - Australia and New Zealand

Date [(a)]	Data/event	Forecast			Comment
		JPMorgan	Consensus	*Previous*	
Monday, 5 May (10:45am)	**NZ labour cost index (1Q, %q/q)**	**0.7**	0.9	*1.1*	Data this morning showed the labour cost index grew 0.7%q/q in 1Q. Please see main essay for details.
Monday, 5 May (11:30am)	**Aust. ANZ job advertisements (%m/m)**	**na**	na	*na*	na
Monday, 5 May (11:30am)	**Aust. house price index (%q/q)**	**1.5**	0.0	*3.2*	House price growth will moderate in the March quarter to 1.5%q/q from 3.2% in 4Q. House prices are forecast to rise 6% in 2008 owing to chronic undersupply, rising residential rents (mainly because of an acute shortage of new homes) and accelerating population growth (on the back of higher skilled migration).
Tuesday, 6 May (11.30am)	**Aust. trade balance (A$bn)**	**-3.1**	-2.9	*-3.3*	The trade gap should narrow slightly in March to -A$3.2 billion from -A$3.3 billion. Exports should rise 2% as farm exports increase further thanks to recent rainfall. Imports will grow a milder 1% in March as higher interest rates weighed on domestic demand.
Wednesday, 7 May (2:30pm)	**RBA cash rate announcement**	**7.25**	7.25	*7.25*	The RBA probably will leave the cash rate at 7.25%. The tone of the RBA's commentary has become decidedly more balanced in recent weeks, even though 1Q CPI spiked above 4%oya, well about the RBA's 2-3% target range. Domestic demand growth is slowing, growth in the global economy will be subtrend in 2008, and the problems in credit markets will likely persist.
Thursday, 8 May (10:45am)	**NZ labour force survey (1Q, %)**	**3.6**	3.5	*3.4*	The jobless rate is forecast to rose from 3.4% in 4Q to 3.6% in 1Q as the economy shed momentum, leading employment growth to fall. Still, despite the rise in the jobless rate, labour market conditions remain tight. The Kiwi labour force continues to lose skilled workers abroad, keeping the pool of available workers low.
Thursday, 8 May (11.30am)	**Aust. Employment (Apr, 000s)**	**12.5**	10.0	*15.0*	Another 12,500 jobs are forecast to be added, keeping the jobless rate at 4.1%. With tight labour market conditions and skill shortages widespread, wage growth should accelerate, adding further to inflation pressures.
Friday, 9 May (11.30am)	**RBA Statement on Monetary Policy**	**na**	na	*na*	As always, RBA officials will explain in great detail the latest views on the economy and policy stance. As always, the focus should be on the inflation forecasts towards the back of the statement. The shocking 1Q outcome means the forecasts now have a much higher base, but the RBA probably will have a steeper decline back towards the target range. The RBA probably expects inflation, though, to stay above target in 2009.

(a) Australian Eastern Standard Time.

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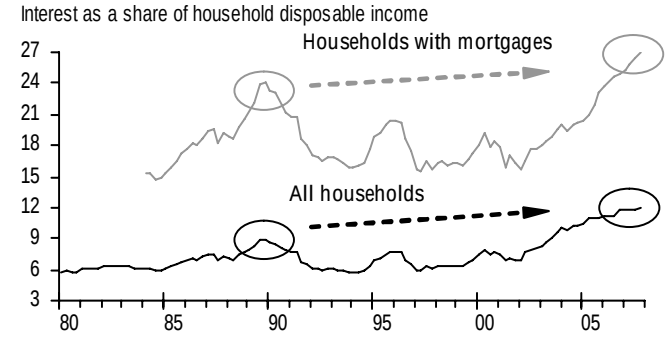
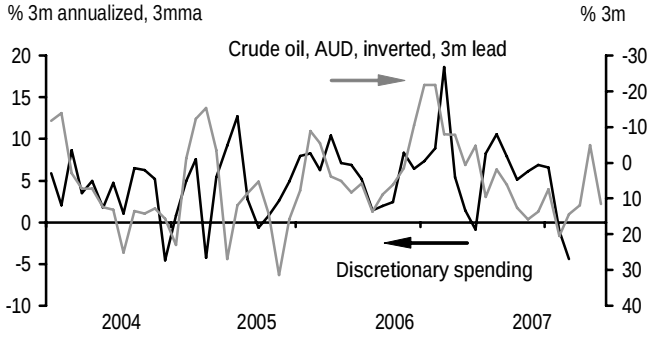
Feature charts

Australia: household interest payments



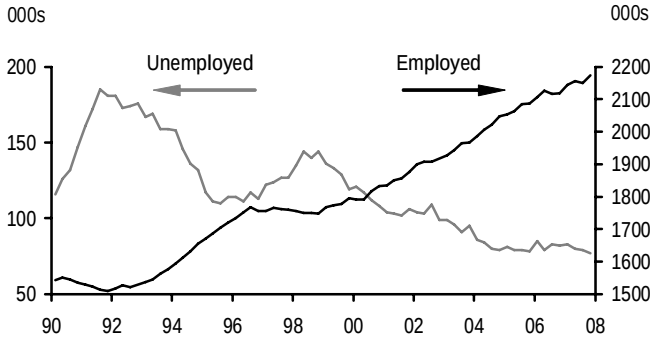
Australian households' interest payments as a share of disposable income have reached a new high of nearly 13%. When adjusted for the share of households with mortgages, though, and for those households share of income, the interest servicing ratio does not look as alarming. This is because these households earn a disproportionately high share of the economy's income (ie. those with the debt typically have a higher capacity to service their mortgages).

Australia: crude oil and discretionary spending



Excluding the food and household goods components, all components of the retail sales index fell in March amid surging petrol prices and in the wake of back-to-back rises in interest rates in February and March. Indeed, rising interest rates are taking their toll on consumer spending. Retail sales of discretionary items declined for the third straight month in March. Sales at department stores and of recreational goods, for example, fell 0.7%m/m and 0.4%, respectively.

New Zealand: employed and unemployed



The Kiwi employment report this week is expected to show that employment growth fell to -0.3%q/q in 1Q from 1.1% in 4Q. Though the labour market remains historically tight, the unemployment rate is expected to edge up in the March quarter, rising to 3.6% from 3.8% in the previous three months. Labour costs data this morning showed that wage growth slowed to 0.7%q/q in 1Q, after surging 1.1% in 4Q, which marked the largest quarterly gain on record.

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Research note

Australian house prices pushed north by undersupply

- **House prices probably will rise 6% in 2008, half the 12% growth recorded in 2007**
- **Housing starts totalled 153,000 last year, well short of demand of 165,000**
- **Demand for housing remains healthy, owing to solid job growth, rising wages, and higher net migration**

Rising interest rates and the fallout from the global credit crisis have slowed the Australian housing market. Auction clearance rates have fallen, sales have stalled and demand for home loans has plunged. These factors will not cause a decline in house prices this year, however. Inadequate supply and strong demand, owing to rising population growth and tight labour market conditions, mean that house prices will continue to rise in 2008, albeit more slowly.

Signs of weakness have emerged

A crucial indicator that the property market is weakening is the fall in auction clearance rates. In Sydney, for example, the largest residential property market, clearance rates are now at 56%, compared to over 70% last year. Other markets, including Melbourne, have experienced similar declines. Also indicative of a slowdown in the residential housing market, leading indicators—including demand for home loans and sales volumes—are well down from a year ago, and houses are being left on the market for longer. Months' supply is up from just two months in mid-2007 to over seven months in January (chart), and discounting—the gap between the listed sale price and the price actually received—has risen.

Of these indicators, the most abrupt turn has been the sharp fall in home loans, which plunged 6%m/m in February, the largest fall since 2004. The slump in demand for home loans emerged in tandem with a tumble in consumer confidence, which sank to a 15-year low following the rise in the official cash rate and the disproportionate rises in domestic banks' variable mortgage rates. Some borrowers are paying up to 90bp more on their mortgage compared to in January, well above the 50bp rise in the cash rate.

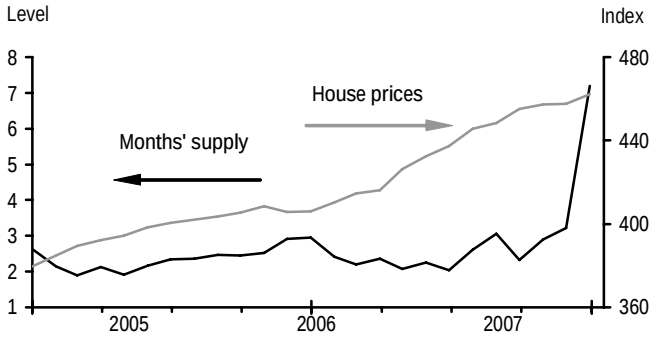
The slump in demand for housing finance can, in part, be attributed to the recent decision of nonbank lenders to hike their mortgage rates by much more than the "Big Four" banks. This was in order to offset higher funding costs, as nonbank lenders do not have a deposit base, and thus rely heavily on alternative sources of funding. But, with borrowing from nonbank lenders becoming increasingly expensive, competition among domestic banks is diminishing, which also is placing upside pressure on borrowing costs.

House price index
%oya

	1Q07	2Q07	3Q07	4Q07
Sydney	2.3	4.1	5.9	8.0
Melbourne	9.2	13.7	17.1	18.1
Brisbane	10.9	15.5	18.4	21.6
Adelaide	6.7	11.5	16.5	20.2
Perth	32.1	13.3	3.6	1.1
Hobart	9.9	8.7	8.9	11.1
Darwin	16.6	10.6	13.9	11.1
Canberra	9.1	10.7	11.3	14.3
Weighted average	9.6	10.1	10.8	12.3

Source: ABS.

Months' housing supply surges



Higher interest rates deterring investors

Investors have been lured to the market in past years by more attractive gross rental yields. Recently, though, the rate at which rents have risen has not kept up with the pace of house price growth, making property investment less appealing. In 4Q, the rent component of the CPI rose 1.6%q/q, while the house price index rose 3.2%. The yield dropped to 3.4%, well-below the 7% levels of the 1980s.

Indeed, the back to back interest rate hikes delivered by the RBA in February and March are deterring investors from entering the market. Investors—usually existing property owners able to gain tax benefits from buying investment property owing to interest deductibility from income—are not reentering the market; this is compounding chronic undersupply, and placing upward pressure on rents and downward pressure on vacancy rates, already just 1-2% in most cities. Furthermore, given that housing affordability is at record low levels—with the proportion of family income required to meet home loan repayments now 37%—renters will be forced to rent for longer.

More mortgage default sales likely

Owner-occupiers are, however, more resilient in the face of 12-year high interest rates, mainly owing to solid growth in household earnings. The big drop in interest rates in the 1990s boosted their capacity to borrow at the same time that house prices soared. Some homeowners, though, have taken on extreme levels of debt, overcommitting themselves as liberalization of banks' lending practices opened the door to more flexible lending. Australian households have one of the highest per capita debt loads in the world, owing banks around 160% of their disposable income, on average, compared to 40% in the mid-1980s.

If the rate of house price appreciation eases as expected, many households will be hit with the double whammy of higher interest rates and slower growth in home equity. In some areas, like Western Sydney, where house prices have fallen sharply, some households' mortgages eventually will be worth more than the value of their home.

There are pockets of mortgage stress, even though the arrears rate remains low by historical standards. Only 0.3% of mortgages, for example, are 60 days or more in default, owing to the firm job market. According to the RBA, in its February Financial Stability report, though, the rise in repossessions since the 1990s is "larger than can be accounted for by a change in the arrears rate."

Yet, house prices will still rise in 2008

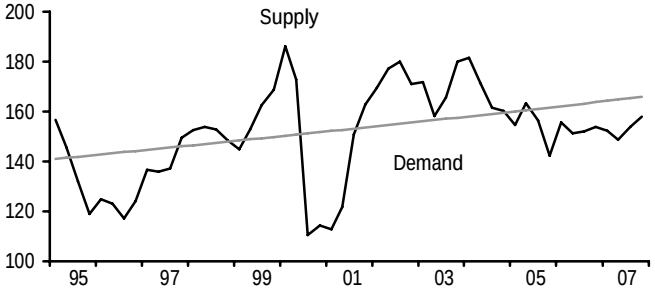
But, despite continued mortgage stress and recent signs that the property market has shed momentum, house prices will still appreciate in 2008, amid multi-decade low levels of unemployment, rising wages, and solid immigration growth owing to skill shortages. The shortfall of new housing will be the key factor keeping upside pressure on house prices. New housing demand will outweigh supply of 165,000, an estimate based on population growth, persons per dwelling, real interest rates, and house prices.

The Housing Industry Association (HIA) expects that fewer available houses will prevent house prices from crashing, but higher interest rates will keep prices from rising significantly. The HIA recently lowered its forecast for growth in dwelling starts in 2008-09 from 2% to 0, owing to aggressive monetary policy tightening and elevated construction costs, and pushed out the expected recovery in new home construction to 2009-10.

The IMF, though, believes that Australia is highly vulnerable to a house price correction, given that only about 25% of the rise in house prices over the last decade can be explained by underlying economic fundamentals, such as population growth. In our opinion, a sharp house price correction would eventuate only if economic growth slowed abruptly, sparking widespread job losses and leaving homeowners unable to pay their mortgage. According to our forecasts, GDP growth will slow this year, but only to a slightly subpar 3.1% from an above potential 3.9% in 2007.

House prices to rise owing to undersupply

Thousands, annualized



Home loan affordability indicators

December quarter 2007 (negative sign indicates worsening affordability)

	%q/q	%oya
New South Wales	-3.8	-7.0
Victoria	-3.8	-5.5
Queensland	-1.9	-6.5
South Australia	-2.8	-10.8
Western Australia	3.8	-1.7
Tasmania	-2.0	-2.9
Northern Territory	-3.6	-7.9
Australian Capital Territory	-2.1	-6.7
Australia	-2.2	-6.3

Source: REIA

That said, some cities are more vulnerable to a slump in house prices than others. In Perth, for example, the mining boom has driven house prices up a remarkable 160% over the last five years, making it one of the least affordable markets in the country. This rate of house price growth is unsustainable, and recently has slowed significantly, with house prices in Perth growing just 1.1%oya in 4Q, compared to 41.9% in the same quarter a year earlier.

The pace of national house price growth probably will slow from 12.3% in 2007 to a single-digit 6% in 2008, according to our forecasts. Owing primarily to chronic undersupply, house prices will continue to rise against a backdrop of financial stress, rising rents, and persistently low levels of housing affordability. Record low levels of housing affordability will mean, though, that large swathes of lower income Australia remains priced-out of the market; that is, until interest rates begin to fall, probably in 2009.

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Australia

- **RBA expected to leave rates unchanged at 7.25%**
- **Retail sales rose on the back of higher food prices**
- **Lending by businesses picked up in March**

Australian economic data last week reaffirmed our expectation that the RBA will leave the cash rate steady on Tuesday. Credit growth fell below 15%oya for the first time since May 2008 and retail sales ex-food declined, adding to recent signs that the domestic economy is losing momentum. Labour market conditions remain tight, however, and this week's employment print probably will show further healthy job gains for April.

RBA to leave rates steady on Tuesday

We believe that the RBA will leave the cash rate unchanged at 7.25% this week, and for the remainder of 2008. In recent weeks, there have been increasing signs of a sudden loss of momentum in the domestic economy, meaning that officials will probably look through the recent spike in CPI. Both headline and core measures of CPI surged above 4%oya in 1Q, well above the RBA's 2-3% target range. Also, local commercial banks have announced a series of rises in mortgage interest rates in recent weeks; this is doing the heavy lifting for the RBA.

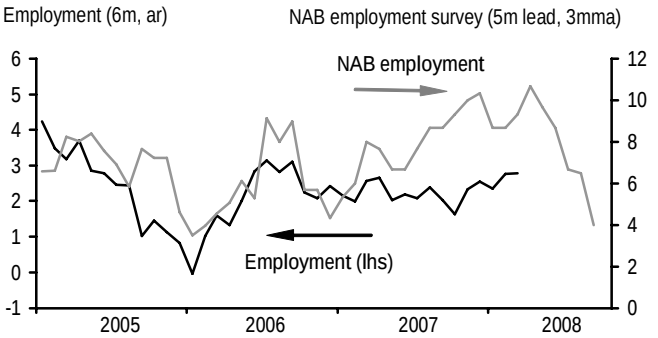
The domestic economy is slowing rapidly. Consumer confidence is at a 15-year low, business confidence recently took another leg down, and retail sales are trending south. This growing body of evidence of cooling domestic demand explains why the tone of the RBA's commentary has become decidedly more balanced. RBA officials recently have acknowledged that domestic demand growth is slowing, reinforced the perception that growth in the global economy will be subtrend in 2008, and indicated that the impact of the problems in credit markets is likely to persist.

Employment growth continues in March

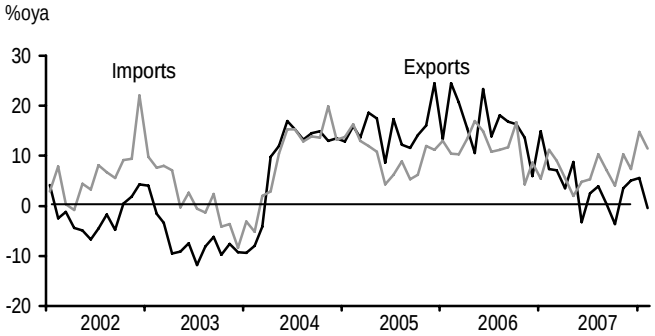
Australia probably added another 12,500 jobs in April, after adding 14,800 in March. The participation rate will likely tick up to 65.3%, leaving the unemployment rate unchanged at 4.1% as the labor force continued to expand.

Indeed, the labour market remains tight. The economy has added 220,000 jobs since mid-2007, a period over which the jobless rate has fallen to a 33-year low. With tight labour market conditions and skill shortages widespread, wage growth

Australia: NAB survey and employment growth



Australia: export and import growth



should eventually accelerate. Wage growth measured by the labour price index (LPI) has so far remained contained, however, holding steady at 4.2%oya in the two most recent quarters. That said, in the national accounts, average earnings per employee has edged slightly higher, which we expect to be reflected in the LPI in coming quarters.

House prices to rise in March quarter

National house price growth will probably slow to 1.5%q/q in 1Q from 3.2% in 4Q. From a year earlier, house prices should rise 12.7%, up from 12.3% in the December quarter, which was the fastest rate since early 2004.

Rising residential rents (mainly owing the acute shortage of new homes) and accelerating population growth (on the back of higher skilled migration), will keep upside pressure on house prices in 2008. Differing rates of population growth and affordability mean that house price gains will not be uniform across the nation. Regardless, prospective home buyers face considerable headwinds. Not only are we forecasting that house prices will continue to rise in 2008, but the RBA has already raised the cash rate 50bp this year, so housing affordability, already at record lows, is likely to worsen.

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Australia's trade deficit to fall in March

JPMorgan forecasts that Australia's trade gap will narrow in March to -A$3.2 billion. In February, the trade deficit blew out to -A$3.3 billion as floods in parts of Queensland curbed output from the state's coal mines, leading to a slump in non-farm exports.

Exports should rise 2%m/m in March, as nonfarm exports pick up mildly, and farm exports increase further thanks to recent rainfall in key growing areas. On the other side of the trade ledger, preliminary data indicates that goods imports rose 1%m/m in March, although total imports of both goods and services will probably be slightly weaker than that, as higher interest rates curbed domestic demand.

Business lending supports credit growth

The RBA's private credit aggregates grew 0.8%m/m in March (JPMorgan 0.6%, consensus 0.8%), up from 0.6% in the previous month. Growth slowed from 15.4%oya to 14.9%, easing further in the wake of the four policy tightenings delivered by the RBA since August.

Business lending, which we had expected would remain soft given the recent deterioration in sentiment, surprised on the upside in March, growing 0.9%m/m. Lending by businesses should continue to recover given that firms intend to boost capital spending 24% in 2008-09; this lending probably will be used to fund investment in additional capacity, particularly in mining. Housing credit growth slowed as expected to 0.8%m/m in March, and growth in personal credit fell 0.2%, partly owing to the recent unwind in margin lending that emerged amid falling equity prices. Demand for housing and personal credit will likely remain subdued near term in the wake of the RBA's rate hikes in February and March, and the disproportionate rises in domestic banks' standard variable mortgage rates.

Building approvals slump in March

Building approvals slumped 5.7%m/m in March (JPMorgan 2.0%, consensus -1.0%), after rising just 0.1% in February. The fall was driven by a 5.8%m/m decline in approvals for private sector houses, while approvals of other dwelling units rose 0.3% in March.

While the series remains highly volatile, the near-term outlook for the building sector is uncertain. Building and material costs in the residential construction sector remain elevated and excessive red tape is deterring new development. Furthermore, the two interest rate hikes delivered this year will weigh on new home building in the near term.

Australia: private sector credit aggregates

Retail sales surprise on upside in March

Retail sales values grew a solid 0.5%m/m in March (JPMorgan -0.4%, consensus 0.3%) after falling 0.1% in February. The rise was entirely attributed to the food category, the largest component of the index. Surging food prices pushed the value of food sales up 1.7%m/m in March. Excluding food, retail sales were down 0.3%m/m.

Excluding the food and household goods components, all other components of the retail sales index fell amid surging petrol prices and in the wake of back-to-back rises in interest rates in February and March, which sent consumer confidence to a 15-year low. Signalling that higher borrowing costs are taking their toll, retail sales of discretionary items, such as department store sales, declined for the third straight month, while sales of nondiscretionary goods rose.

Importantly, the trend estimates for all components of the index were either flat in March or continued on a downward trajectory. The trend estimate for total retail sales has remained unchanged at 0.2% for three straight months, underpinned by the food component, which accounts for 40% of the index. The trend estimate for the value of food sales has grown 0.3%m/m for each of the last three months.

In 1Q, inflation adjusted retail sales fell 0.1%q/q, down steeply from a 1.3% rise in 4Q; this suggests that private consumption in the forthcoming 1Q GDP numbers will be subdued. Thereafter, retail sales will remain weak, although in

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value terms will be supported by higher food prices. The significant policy tightening in the pipeline and elevated petrol prices will offset the positive effects on consumer spending of solid job growth and rising incomes. In the latter six months of the year, however, steady interest rates, income tax cuts, tight labour market conditions, and further wage growth, should see consumer spending recover.

Data releases and forecasts

Week of May 5 - 9

Mon May 5 11:30am — ANZ job advertisements
Seasonally adjusted

	Jan	Feb	Mar	Apr
(%m/m)	0.8	-2.1	-0.7	—

Mon May 5 11:30am — House price index: eight capital cities
Weighted average

	2Q07	3Q07	4Q07	1Q08
(%q/q)	4.2	3.2	3.2	1.5
(%oya)	10.1	10.8	12.3	12.7

Tue May 6 11:30am — Trade balance
Seasonally adjusted

	Dec	Jan	Feb	Mar
Exports (A$ bn)	18.8	19.1	18.3	18.5
Imports (A$ bn)	20.5	21.6	21.5	21.7
Trade balance (A$ mn)	-1792	-2535	-3288	-3184

Wed May 7 02:30pm — RBA cash rate announcement

No change expected.

Thu May 8 11:30am — Labor force
Seasonally adjusted

	Jan	Feb	Mar	Apr
Unemployment rate (%)	4.1	4.0	4.1	4.1
Employed (000 m/m)	22	37	15	12.5
Participation rate (%)	65.2	65.2	65.2	65.3

Review of past week's data

Private-sector credit

Seasonally adjusted

	Jan		Feb		Mar	
(%m/m)	1.0		~~0.7~~	*0.6*	~~0.6~~	*0.8*
(%oya)	16.2		~~15.5~~	*15.4*	*14.9*	

Building approvals

Seasonally adjusted

	Jan		Feb		Mar	
(%m/m)	~~1.4~~	*-2.8*	~~0.1~~	*-0.8*	~~2.0~~	*-5.7*
(%oya)	~~5.0~~	*7.5*	~~-1.6~~	*0.6*	~~8.4~~	*-0.7*

Retail trade

Seasonally adjusted

	Jan	Feb	Mar	
(%m/m)	-0.1	-0.1	~~-0.4~~	*0.5*
(%oya)	6.9	5.8	~~4.3~~	*5.1*

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New Zealand

- **Kiwi business confidence improved mildly in April**
- **Unemployment rate to rise in March quarter**
- **Wage growth to moderate as employment growth stalls**

In New Zealand last week, the NBNZ business confidence survey showed that business sentiment improved slightly in April, and firms' own activity expectations rose, but remained in negative territory. Owing to fewer exports, the trade balance unexpectedly fell into deficit in March, bucking expectations for a surplus. New Zealand will release labour market statistics this week, which should show that wage growth slowed in 1Q as the jobless rate edged higher.

Growth in Kiwi labor costs moderated

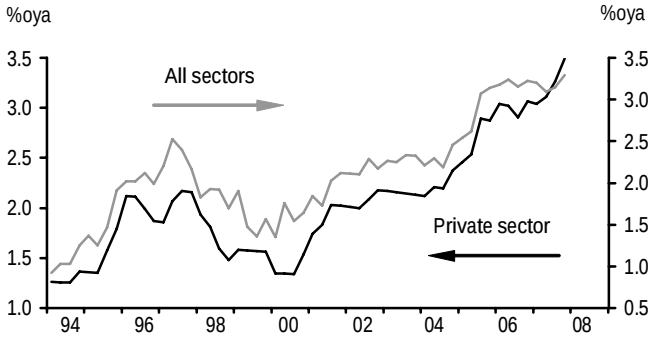
Data this morning showed that growth in private sector labour costs (as measured by the LCI) increased 0.7%q/q in 1Q (JPMorgan 0.7%, consensus 0.9%), after surging 1.1% in 4Q, which marked the largest quarterly gain on record. Growth in the all sector labour cost index stood at 0.8%q/q in the March quarter, compared to 1.0% in 4Q.

Private sector wage growth is being supported by a tight labour market and a net outflow of skilled workers, although it is expected to weaken in coming quarters as firms shed human capital to cut costs as economic momentum slows to a standstill. Even so, we maintain our view that the RBNZ will leave interest rates steady at a record 8.25% this year, as inflationary pressures remain widespread.

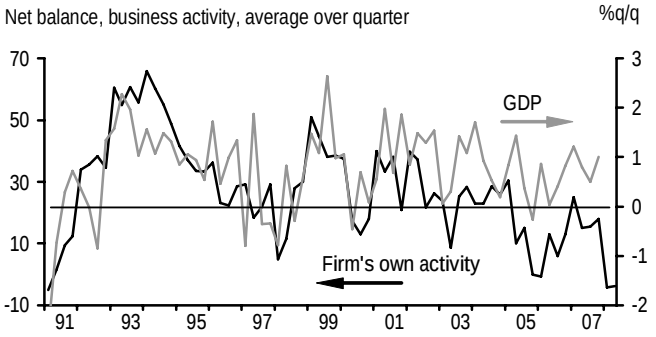
The RBNZ has said in recent commentary that tight labour market conditions are keeping upside pressure on wages. Inflationary pressures already are widespread, owing to high commodity prices, and rising energy and food prices. Furthermore, the fiscal stimulus in the pipeline ahead of the election (to be held later this year) will put further upside pressure on inflation, meaning that the RBNZ will have little scope to ease monetary policy anytime soon.

The employment print on Thursday should confirm that the labour market is starting to loosen. The report should show the unemployment rate rising from 3.4% in 4Q to 3.6% in the March quarter. Still, despite the anticipated rise in the jobless rate, labour market conditions remain historically tight given that the Kiwi labour force continues to lose skilled workers abroad, keeping the pool of available workers low.

New Zealand: labor costs



New Zealand: NBNZ business outlook survey and GDP growth



Kiwi trade balance falls into deficit

The trade balance fell into deficit unexpectedly in March, falling to NZ$50 million (JPMorgan NZ$350 million, consensus NZ$395 million) from a surplus of NZ$258 million in February.

The deterioration in the trade balance was owing to a sharp moderation in export growth to 3.7%oya from 30.7% in February. Higher shipments of milk powder, butter and cheese, and crude oil were offset by falls in exports of all other commodities (of a combined 5.2%oya). The moderation in import growth was expected given the recent weakness in domestic demand. Following a 16.2%oya rise in the previous month, imports were up 7.1% in March on the back of imports of petroleum and related products (+54%).

NZ business confidence improves mildly

The NBNZ business confidence survey improved in April to -54.8 from -57.9 in March. The headline indicated that 54.8% of respondents expect business conditions to deteriorate over the coming year, reaffirming our view that the Kiwi economy

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will continue losing momentum.

Firms' own activity expectations also improved in April, rising from -6.4 to -3.8; this was still only the second negative reading since 2006. Only 13 negative readings in firms' own activity expectations have been recorded over the last 20 years. Of these, according to the NBNZ after the last survey in March, five "were right at the start of the survey in 1988, as the 1987 crash washed through."

A breakdown of the survey showed that the largest declines were recorded in profits (-30.3%), residential construction (-23.5%) and interest rates (-10.9%). Employment and investment intentions also fell, owing to the still-elevated NZD, surging oil and food prices, a falling equity market. Drought conditions caused the livestock component to fall, while rapidly deteriorating housing market conditions brought about another decline in commercial construction.

Data releases and forecasts

Week of May 5 - 9

Mon May 5 3.00pm — **ANZ commodity price series**
Not seasonally adjusted

	Jan	Feb	Mar	Apr
Index - NZD (%m/m)	-1.8	-2.2	2.0	__
Index - world prices (%m/m)	-1.4	1.1	2.0	__

Mon May 5 10:45am — **Labor cost index and average hourly earnings**
Private sector, ordinary time, sa

	2Q07	3Q07	4Q07	1Q08
Labor cost index (%q/q)	0.7	0.9	1.1	0.7

Thu May 8 10:45am — **Labor force survey**
Seasonally adjusted

	2Q07	3Q07	4Q07	1Q08
Unemployment rate (%)	3.6	3.5	3.4	3.6
Employment (000, q/q)	13	-7	23	-7
Participation rate (%)	68.8	68.3	68.8	68.6

Review of past week's data

Trade balance

Not seasonally adjusted

	Jan		Feb		Mar	
Exports ($NZ mn)	~~3080~~	*3082*	~~3711~~	*3704*	~~3900~~	*3439*
Imports ($NZ mn)	~~3396~~	*3395*	~~3450~~	*3455*	~~3550~~	*3489*
Trade balance ($NZ mn)	~~-316~~	*-313*	~~258~~	*249*	~~350~~	*-50*

Building consents

Not seasonally adjusted

	Jan	Feb	Mar	
(%m/m)	0.3	7.5	__	*-16.4*
(%oya)	-7.3	-10.4	__	*-30.9*

NBNZ business confidence

	Feb	Mar	Apr	
% balance of respondents	-43.9	-57.9	~~-61.0~~	*-54.8*

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Global essay

- **Recent developments reduce downside US tail risk**
- **More signs that Europe and Japan are losing momentum**
- **Decline in G-3 resource utilization will not deliver lower core inflation**
- **Shift toward tighter EM monetary policy gains speed**
- **Domestic demand strength curbing Latin trade surpluses**

Less growth, less fear

Since the credit crisis began last summer, our views have been expressed with an unusually low level of conviction. As the crisis widened and intensified, uncertainties about the macroeconomic outlook greatly increased. Today, uncertainty remains high, but recent developments—including policy actions, financial market moves, and economic indicators—have increased our conviction about the path the global economy will follow for the rest of this year. Global growth is likely to soften broadly, producing the first significant phase of subpar global performance since early 2003. At the same time, fears will likely fade that financial stresses will derail the global expansion or produce a deep US recession.

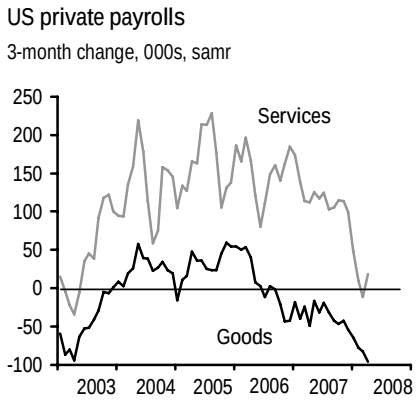
Led by the Federal Reserve, central banks continue to move on two fronts to shield the macroeconomy from credit stress. With easings last month by the Fed, the BoC, and the BoE, developed world policy rates are now down a cumulative 137bp on average since last August. These actions have been complemented by significant steps to alleviate funding pressures in the banking system. Funding pressures remain an issue but the tone in financial markets has improved as central banks signal their firm commitment to maintain functioning markets and as troubled financial institutions make progress in raising capital. It is encouraging to see the narrowing of credit spreads, active corporate issuance, and the continued expansion in bank loans to better quality credits. Tight credit conditions will be a persistent drag, but fears of a wholesale disruption in credit intermediation look unlikely to materialize.

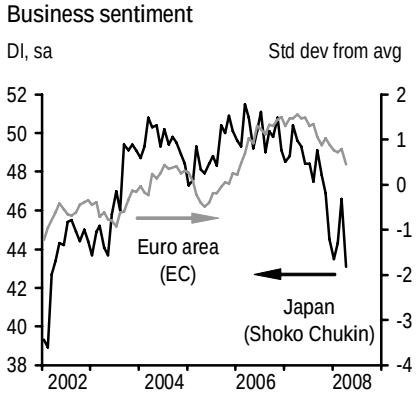
On the data front, the US indicator flow highlights both elements of our outlook theme. Following a modest gain last quarter, drags from the construction sector and weak consumer spending look to be intensifying. However, the first readings from firms in April (ISM, payrolls) do not suggest that drags are intensifying or broadening. The economy is unlikely to fall into a hole so deep that it will contract despite the infusion of tax rebates. We continue to see GDP growth in slightly positive territory in the middle two quarters of the year as the boost from rebates offsets a mild recession dynamic. The Fed signaled last week that it will remain patient through this type of economic environment and is likely to hold the funds rate at 2% for some time to come.

Europe and Japan enter a soggy spring

The downward momentum in US growth at the end of 1Q08 is mirrored in Europe and Japan. While neither economy is as weak as the US, neither is set to receive a policy lift in the coming months. As a result, both economies are primed to enter a phase of subpar growth starting this quarter.

A broad range of European surveys are now moving decisively lower. The April PMI manufacturing survey moved lower across most of the region, with a particularly sharp slide in the Euro area order/inventory ratio. We anticipate that Euro area production will contract in the coming months; this transition should be evident in this week's German IP report. Along with the overall downshift, the manufacturing surveys highlight the increasing dispersion across the region. Switzerland's survey moved higher in April and





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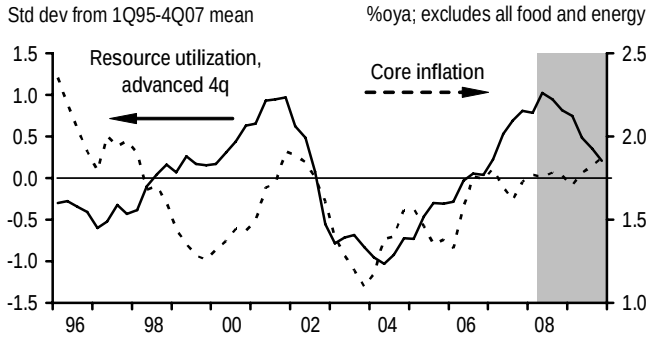
G-3 resource utilization and core inflation



along with Germany, holds in at the top end of the range. Meanwhile, Spain slid further from already low levels. It is in Spain and the UK—where credit tightening and slower growth are interacting to produce a significant turn in housing—that downside risks are the greatest.

For Japan, we revised up our 1Q08 GDP forecast to 2.2% (previously 1%). However, we also revised down second-quarter growth as the economy is fast losing momentum. Manufacturing activity plunged in March, led by a falloff in capital goods shipments. The April Shoko Chukin small firm survey plunged to its lowest level since 2002. Small firm sentiment is often closely tied to consumption trends, and an increase in energy and food prices will likely be an additional drag on spending in the coming months. Although Japan's economy is not expected to contract, the downside risks to growth have increased. It is against these increased concerns that last week's BoJ Outlook Report removed a policy tightening bias. Indeed, new Governor Shirakawa said in his press conference that near-term risk has clearly tilted to the downside.

Little relief expected on G-3 core inflation

As the US continues to work through the stiff headwinds buffeting economic activity, and as the resulting slowdown spreads across the globe, developed world unemployment rates are set to rise and industrial operating rates fall. To an important degree, central banks are banking on this move toward lower resource utilization to lessen inflation pressures.

To be sure, a slowing in global growth will ease pricing power and take some steam out of the modest upward trajectory in core inflation in recent years. However, the past decade has provided a clear message that developments in Emerging Market economies can have an important impact on G-3 inflation. In the late 1990s, the Asian financial crisis and the fall in EM currency values lowered G-3 core inflation, even as resource utilization rates in the G-3 moved higher. Now it looks likely that EM developments will reverse this relationship. If our forecast is right, the slide in resource utilization will be mild, lowering G-3 utilization rates only back to 2006 levels. Meanwhile, the sustained nature of the outsized gains in food and energy prices will pass through modestly to wages and other prices, and keep inflation expectations close to current, somewhat elevated levels. The projected path for core inflation remains gently upward in our forecast for the G-3 over the coming eighteen months. Thus, despite the current move down in utilization rates, central banks' hopes for a credit-crisis-cleansing of inflation pressures are apt to be dashed.

Tide of EM policy restraint is rising

We have been noting that EM policy is turning more hawkish as inflation rises and concerns about global credit market spillovers moderate. About half the EM central banks we follow are now expected to tighten policy in coming months. Notably, the shift is occurring across the EM group. This week brought a slew of developments on this front:

In CEEMEA, Hungary's National Bank raised rates as anticipated, alongside a surprise early hike by Russia's central bank. Russia's situation is sufficiently worrying (inflation nearing 14%oya) that we had added an additional 75bp rate hike to our policy call. We also have raised our rate projection 50bp for South Africa, where Governor Mboweni hinted that the SARB might tighten policy before the next scheduled meeting on June 12. Also last week, Turkey's central bank responded to a surge in inflation to near 10%oya with a dramatic increase in its inflation forecast, signalling that tightening is imminent. We now expect 50bp hikes at each of the next three CBRT meetings, raising the policy rate to 16.75%.

In Emerging Asia, the Reserve Bank of India unexpectedly raised the cash reserve ratio and issued a hawkish statement that left the door open to additional tightening. Our policy call for Indonesia recently was changed to incorporate rate hikes there, and we now expect the first to occur next week. We also have pulled forward rate hikes in Thailand (to May 21) and the Philippines (to June 5), where policymakers earlier were expected to remain on hold. The only central bank that is not tightening in the region (except Hong Kong, whose

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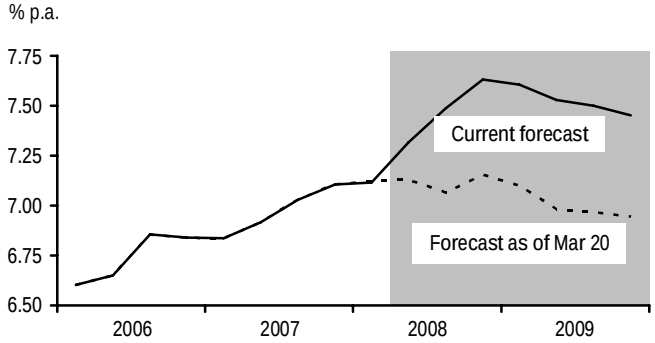
EM monetary policy interest rate projection



rate stance is tied to the Fed's) is Korea. Last week's reports showed that inflation there moved further above target, which is a concern for the BoK. However, policymakers there anticipate a substantial economic slowdown ahead. In a close call, we anticipate a rate cut this week.

In Latin America, Brazil's central bank recently shifted course and began tightening, with another move expected in four weeks' time. While Mexico is not enjoying vigorous domestic demand growth like most of the region, it is nevertheless grappling with a rise in inflation expectations. Last week's more hawkish inflation report from the central bank appears to rule out any monetary easing this year, prompting a change in our rate call. Easing is still anticipated in Chile, but the start date has been pushed back to September.

Latin surpluses diminish

The resilience of Latin American growth during a US economic slowdown is not without its drawbacks. Where solid domestic demand prevails, imports are rising and this gradually is eroding the region's external surplus. This erosion has been partly masked by increases in the prices of commodity exports. This is the case in Brazil, where the 12-month trailing trade surplus is running near $32 billion, down from nearly $48 billion in the middle of last year and where the current account has already dipped into moderate deficit. The speed at which Brazil's current account has turned around has made the development more striking, even as the investment mood remains very upbeat and the country's sovereign debt has recently received an investment-grade rating. The external position of the region remains strong, but the situation in Brazil points out that, should commodity prices retreat from their highs, the trade surpluses that have characterized the regional expansion cycle will fade quickly.

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JPMorgan View - Global Markets

Go overweight US HG credit

- **Credit and equity markets continue to rebound** from the lows reached in late March, when a series of aggressive policy actions showed the resolve of policymakers to fight the forces of economic contraction.

- But policy resolve is not alone in turning markets around. US economic activity data, while confirming a slowing, suggest that the putative US recession may not have started yet, and by our reckoning has even odds of ending up as only a mini version—a period of neither growth nor contraction. In turn, with recession only recently the consensus view, we have seen large unwinds of recession positions, such as steepeners, long duration, short US dollars, and underweights of credit and equities against cash. Our sense from client discussions, surveys, and flows is that recession trades have not all been cleared out yet.

- This is especially so in high-grade **credit**, where spreads remain above previous recession peaks and unleveraged investors—such as pension funds and insurance companies—are now steadily moving in. High-yield is getting dragged along and the pipeline of unsold deals has shrunk to about one third of its crisis peak. Short-covering and value-oriented buying in credit will continue over the next 1-2 months and we thus turn overweight credit. We do this first in the US where the turn in data is most pronounced. We await more European economic data before turning long there.

- **Equities** have broken their 3-month ranges, forcing short-covering, which improves momentum. Underperforming cyclicals should lead the rally. In **bonds**, we believe many steepeners have been unwound and thus expect resteepening medium term, largely as a result of increased duration supply. The US dollar has rebounded, earlier than expected, on improved US economic data relative to those in the rest of the world. The rebound has further to run.

Fixed income

- **Global bond markets were down only slightly,** despite the rally in credit and equities, as many investors had already fled the recession trade in previous weeks. Ytd, government bonds have disappointed, barely matching the return on cash despite gathering recession risk, large flight to quality flows, and massive buying by central banks. If government bonds can't even perform under these favoruable circumstances, then their long-term outlook is bleak indeed.

10-yr government bond yields

	Current	Jun 08	Sep 08	Dec 08	Mar 09
United States	3.85	4.00	4.05	4.10	4.15
Euro area	4.20	4.10	4.00	3.95	4.00
United Kingdom	4.75	4.60	4.70	4.90	5.00
Japan	1.64	1.30	1.30	1.45	1.60

Equities

	Current	YTD return (local currency)
S&P	1409	-3.4%
Topix	1377	-7.9%
FTSE 100	6216	-4.2%
MSCI Eurozone	214	-10.9%
MSCI Europe	1394	-8.4%

Credit markets

	Current	Jun 08	Dec 08
US high grade (bp over UST)	231	250	
US high grade (bp over swaps)	158	175	
Euro HG corp (bp over swaps)	87		65
USD high yield (bp vs. UST)	675	675	800
EMBIG (bp vs. UST)	271	275	250

Foreign exchange

	Current	Jun 08	Sep 08	Dec 08	Mar 09
EUR/USD	1.54	1.60	1.57	1.53	1.50
USD/JPY	105	100	101	103	105
GBP/USD	1.97	1.95	1.91	1.86	1.85

Commodities

		Quarterly average		
	Current	Jun 08	Sep 08	Dec 08
WTI oil $/bbl	116	105	95	92
Gold ($/oz)	856	920	915	900
Copper($/m ton)	8368	7300	6500	6000
Corn ($/Bu)	6.14	5.10	4.80	5.00

Source: JPMorgan, Bloomberg, Datastream.

- We were stopped out of our longs and steepeners in the **US** and stay out. Medium term, we do stay with a steepening view, driven both by a Fed on hold supporting the short end and heavy supply hurting the intermediate to longer end. Reduced market volatility and downside risks to the economy as well as improved performance on credit keep us in swap spread tightening and swap spread steepening positions.

- In **Europe and Japan**, economic weakness is now starting to show up more clearly in the data, in lagged fashion relative to the US, and their bond markets are thus set to outperform. In Europe, we stay with longs and steepeners, and like spread tightening and swaps spread curve steepeners, just like in the US.

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- We stay **overweight inflation linkers** in the US and Japan. The more we see the global economy escaping recession, the more investors will refocus attention on rising inflation. Breakeven inflation rates have lagged both rising nominal yields and rising inflation concerns. We therefore are staying medium-term bullish on inflation-linked bonds.

Equities

- **Stock continue to gain** across most markets**.** This is less because of raised projections for economic growth or corporate earnings, and more the result of **reduced perceptions of downside economic risk**. We remain medium-term bullish on equities versus cash and bonds.

- **Equities have broken the ranges** they have held since mid-January, a period of weak economic data and worsening credit crisis. Breaking these resistance levels sounds positive for equities, but we are wary near term because equities are technically overbought, unlike credit (see Mike Krauss and Jason Hunter in the technical pages of *MorganMarkets*). Hence, in coming weeks, credit has more upside than equities. Further out into the year, we are more positive on equities, and more cautious on credit as default rates should rise in the second half.

Credit

- Credit markets continue to rally, driven by cash bonds. Demand is coming from long-end only investors who have been out of the credit markets for over a year. The **motivation is largely value,** not any perception that the economic outlook has improved.

- We are moving to an **overweight position in US high-grade, from underweight**. The HG spread has rallied to 240bp, down from a peak of 290bp in mid-March. In the 2001-02 recession, this spread was 150-200bp, and this is where we think we are headed next. This means +40bp tightening from here.

- Our reasons to turn positive are that successful capital-raising reduces liquidity risk for banks/brokers (as do the Fed facilities), earnings are weak but positive, and with our more positive economic view into the third quarter they are unlikely to falter significantly. Also, our view that UST yields are going to rise 20-25bp in the 5-10yr area is bullish for spreads as well, and CDS/CDX markets have already rallied to our target with CDS-Bond basis at -70bp.

- High-yield spreads have come in also and are now around 675bp over USTs. This month is set to show tighter spreads again, but we are a lot more wary about the rest of the year as default rates are set to rise.

Foreign exchange

- **The dollar recovery gained momentum last week** as stronger US data and higher yields combined with mounting evidence of economic slowdown elsewhere, especially in Europe. Rate spreads moved sharply in the dollar's favor for the second week, lifting the DXY by 3.5% from its recent lows. While the move has come earlier than we had thought would be the case—hence our lack of long dollar positions except against NZD—the price action is nonetheless consistent with our outlook for a medium-term USD bottom.

- **Dollar gains have been most pronounced against traditional defensive currencies**—CHF, JPY, and EUR—whereas higher-yielding or more growth-sensitive currencies have been better supported. This divergence in the dollar's performance is expected to continue as the return to risk-seeking behaviour attracts capital back into the carry trade. GBP should benefit from a stabilization in global financial confidence and renewed risk-taking given that GBP has been singled-out in recent months as the currency most vulnerable to an extended credit crunch. GBP/CHF and GBP/JPY should perform strongly in a "recovery environment."

- **Emerging market currencies** were mixed last week. BRL and ZAR outperformed, the latter on the prospect of more aggressive SARB hikes. Inflation remains a strong theme in EM, since higher inflation is still regarded as currency-positive given perceived central bank credibility. The worst performer was the Chilean Peso, hit by USD strength and weakness in copper prices. **We stay short USD/BRL and have added short USD/ZAR.**

Commodities

- **The main story for commodities was the rebound in the dollar,** commodities being part of the general "anti-dollar" trade. Further pressure is likely—gold is seen as low as $800/oz—but we perceive selective medium-term buying opportunities, especially in copper.

AUD and NZD Commentary

- **AUD holds up while NZD weakens further**
- **RBA to leave rates unchanged and point to steady rates ahead; unemployment**
- **Technicals: AUD/USD and NZD/USD shift into ranges after reversing from key levels**

Strategy comments

- The broad direction for the Antipodeans was little changed over the past two weeks**, with NZD still undermined by concerns over the domestic economy and AUD benefiting from further resurgence in risk-appetite.** With the DXY up 2.1% over the past fortnight, AUD/USD was steady, while NZD/USD weakened 1.3% further on balance—even though the bulk of this move lower came in the earlier of the past two weeks and lost momentum more recently.

- **AUD was caught between three main cross-currents.** Better risk-appetite was a supportive factor, fuelling a choppy but sizeable retracement versus JPY as carry regains prominence, thereby helping AUD/USD stay supported. On the other hand, an extended rebound for USD is likely to translate into slower commodity prices growth, taking some of the wind out of AUD's sails while the correction takes place. Lastly, domestic data were mixed overall; most notably, an upward surprise for both headline and core CPI makes the distribution of risks around RBA policy more two-sided. For Kiwi, mild improvements in business confidence and the better global risk backdrop helped contain recent weakness over the past week. Concerns over the housing sector and attendant domestic demand weakness, however, remain firmly in place and continue to weigh on the currency.

- **The key event in the region over the two weeks ahead will be the RBA's policy decision on May 7**. Our call is for cash-rates to remain unchanged at 7.25% (at this meeting and for the balance of 2008) as recent RBA rhetoric indicates the Bank will likely accept short-term inflation pressures amid signs of a sensible slowdown in domestic demand from confidence surveys. However, we acknowledge that the message from the RBA's statement is likely to be nuanced and put due emphasis on price dynamics, as inflation is running a full percentage point above the RBA's target. With an historically tight labor market (we expect further employment gains to print in the employment report late this week), the RBA's monetary policy stance is unlikely to be an outright negative for AUD anytime soon, even though expectations for further tightening should fade. We would also emphasize that, while headwinds are clearly in place, Australian house prices are expected to continue growing in 2008 (though at half their recent rate—see *Australian house prices pushed north by undersupply*, H. Kevans). This is a medium-term supportive factor for AUD, while markets continue to demand a premium for holding currencies that are perceived as vulnerable to the risks of a US-like housing sector collapse elsewhere (NZD and GBP are a case in point).

- With regards to NZD, further underperformance is likely in the short-term as the domestic macro backdrop remains clouded. The job report (May 8) is likely to be a contrast to the solid job creation that we expect in Australia, with an uptick in the jobles rate and a slowdown in wage growth underscoring the faltering economic momentum. A decided refocus on yield and carry would eventually re-establish a supportive environment for Kiwi as rates are unlikely to come off due to persisting inflation pressures; we consider this scenario to remain some way off as global growth stays subdued.

Technical analysis

- AUD/USD maintains the short term range following the reversal from the new 0.9540 high. While the failure to maintain the breakout above the 0.9500 February peak is short term bearish, key nearby supports have thus far held. In that regard, the 0.9280/70 support area, which includes the recent lows and the March uptrendline and more importantly the 0.9200 area remain intact, while leaving the door open for a retest, if not break to new highs. Initial resistance enters at the 0.9445/.9475 levels with breaks above shifting the bias back to the bullish view.
- The action in NZD/USD maintains a choppy bias as well, as the breakdown below the important 0.7780/85 interim range lows failed to hold, while suggesting additional two-sided action is likely. However, we sense the downside risks will remain intact against the 0.7890/.8035 resistance levels. Next support enters at 0.7665/15 now. Moreover, note the cross held key support near 1.19 suggesting additional underperformance likely.

AUD/USD - Daily technical chart

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Global Economic Outlook Summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2007	2008	2009	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	1Q08	2Q08	4Q08	2Q09
The Americas														
United States	2.2	1.3 ↓	2.0	0.6	0.6 ↓	0.0	1.5	1.0	2.0	3.0	4.2	3.9	2.8	1.8
Canada	2.7	1.0 ↓	2.3	0.8	0.0 ↓	-0.5 ↑	1.5 ↓	2.3 ↓	2.5 ↓	2.8	1.8	1.4	2.0	1.7
Latin America	5.3	4.1	4.0 ↓	5.6	2.8 ↑	2.8	3.3 ↓	4.0 ↓	4.4	4.2	6.3	7.1 ↑	6.7 ↑	6.0 ↑
Argentina	8.7	6.5	3.0	8.0	2.0	8.2	2.8	6.1	2.8	1.6	8.5	9.1	9.1	8.9
Brazil	5.4	4.4	4.0	6.6	2.5	2.5	4.6	4.4	4.1	3.8	4.6	5.0	5.0	5.0
Chile	5.1	3.5	5.0	3.7	5.0	3.0	5.0	6.0	5.0	5.0	8.0	8.0	5.0	3.5
Colombia	7.5	5.0	5.0	6.8	6.0	5.5	5.5	4.5	4.5	5.0	6.1	5.3 ↓	5.2 ↓	4.4
Ecuador	2.0	2.5	2.5	5.0	2.0	1.5	1.0	1.0	2.5	3.5	5.3	7.5	6.9	4.3
Mexico	3.3	2.6	4.0 ↓	3.0	2.0 ↑	1.0	2.0 ↓	3.0 ↓	4.9	4.9	3.9	5.0 ↑	4.5 ↑	3.0 ↑
Peru	9.0	7.7	6.0	10.5	7.9	5.0	3.0	4.5	6.5	7.0	4.7	5.2	4.3	2.8
Venezuela	8.4	6.0	3.5	11.0	3.0	3.5	2.0	3.0	4.0	4.0	26.2	29.3	30.0	30.5
Asia/Pacific														
Japan	2.0	1.6 ↑	1.6 ↓	3.5	2.2 ↑	0.5 ↓	1.0 ↓	1.5 ↓	1.8 ↓	1.8 ↓	1.0	0.9 ↓	1.0 ↓	0.9 ↓
Australia	3.9	3.1	2.7	2.4	2.4	3.9	2.5	3.4	2.9	1.6	4.0	3.6	3.4	2.7
New Zealand	3.1	1.9	2.3	4.1	2.0	-0.1	0.7	1.7	2.8	3.4	3.4	3.0	2.9	3.2
Asia ex. Japan	8.8	7.3	7.5	6.9	7.2	6.3	7.9	7.5	7.2	7.4	6.2	5.9	4.2	3.8
China	11.9	10.5	9.8	9.2	10.5	10.8	11.7	10.2	9.1	9.1	8.0	6.9	3.7	3.7
Hong Kong	6.3	4.6	5.0	7.1	2.6	1.5	5.0	4.5	5.3	5.9	4.6	5.4	3.1	2.4
India	8.7	7.0	8.0	4.8	8.2	7.0	7.0	7.4	7.8	8.7	5.8	6.1	6.2	5.2
Indonesia	6.3	5.0	5.2	6.9	4.0	5.0	5.0	5.0	5.0	5.0	7.6	7.6	7.7	6.8
Korea	5.0	4.4	5.0	6.4	2.9	2.7	3.5	4.5	5.5	5.5	3.8	3.8	3.6	3.1
Malaysia	6.3	4.7	5.3	7.4	3.0	1.0	4.0	5.5	6.1	6.1	2.4	3.2	2.4	1.8
Philippines	7.1	4.0	4.5	7.4	3.0	2.0	3.0	4.0	4.0	5.9	5.7	6.0	5.6	4.3
Singapore	7.7	4.5	6.0	-4.8	16.9	-7.8	8.2	8.2	5.7	5.7	6.6	6.5	5.2	2.4
Taiwan	5.7	3.5	4.5	2.6	0.8	0.2	4.5	4.5	4.8	4.8	3.3	4.0	1.7	2.4
Thailand	4.8	4.6	5.0	7.3	3.0	3.0	5.0	6.0	4.5	4.5	5.6	5.5	5.4	3.2
Africa														
South Africa	5.1	3.4 ↓	3.8 ↓	5.3	2.7 ↓	3.5 ↑	1.5 ↓	1.2 ↓	4.1 ↓	5.0 ↑	9.9 ↑	10.9 ↑	9.3 ↑	6.2 ↓
Europe														
Euro area	2.6	1.6	1.3	1.4	1.8	1.0	1.2	1.2	1.0	1.5	3.4	3.4	2.9	2.4
Germany	2.6	1.7	1.7	1.1	2.8	0.8	1.5	1.6	1.8	2.0	3.1	3.1	2.7	1.7
France	1.9	1.7	1.6	1.5	1.5	1.3	1.5	1.4	1.5	1.8	3.3	3.2	2.6	2.0
Italy	1.7	0.4	1.0	-0.8	0.5	0.5	0.5	0.8	1.0	1.2	3.3	3.4	2.8	2.5
Norway	6.0	3.8	2.9	3.8	2.8	2.5	2.2	3.0	3.0	3.0	3.5	3.0	2.2	3.2
Sweden	2.8	2.4	2.5	3.1	2.7	1.7	1.5	2.5	2.7	2.7	3.2	3.2	2.5	2.3
Switzerland	3.1	2.3	1.6	4.2	1.8	1.0	1.0	1.3	1.8	2.0	2.5	2.1	1.7	1.3
United Kingdom	3.0	1.9	2.3	2.5	1.6	1.2	1.2	2.0	2.5	2.8	2.4	2.5	3.2	2.4
Emerging Europe[1]	6.5	5.7	5.5	12.9	0.4	6.8	4.2	10.7	1.2	6.3	9.3	9.9	8.4	6.3
Bulgaria	6.2	5.2	5.5	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	6.5	5.0	4.8	7.0	3.5	4.5	3.5	4.5	5.5	5.0	7.6	7.1	5.5	3.0
Hungary	1.3	2.0	2.8	0.5	2.6	3.0	2.8	2.9	2.8	2.8	6.9	6.5	5.3	3.9
Poland	6.5	5.6	5.3	8.2	5.5	4.8	4.0	5.2	5.8	5.5	4.1	4.2	4.1	3.7
Slovak Republic	10.4	7.0	5.5	11.4	-2.0	6.0	7.0	7.0	4.0	5.0	4.0	4.3	3.6	4.0
Romania	6.0	5.5	3.5	…	…	…	…	…	…	…	7.9	8.2	6.2	5.5
Russia	8.1	7.1	6.3	19.1	-3.0	9.0	4.0	17.0	-2.5	8.0	12.9	14.4	12.1	10.0
Turkey	4.5	4.4	6.0	…	…	…	…	…	…	…	9.5	10.0	8.3	4.1
Global	3.5	2.5	2.7 ↓	2.8	2.1 ↑	1.6	2.3 ↓	2.5 ↓	2.5 ↓	3.2	4.0	3.9	3.2	2.5 ↓
Developed markets	2.4	1.5	1.8	1.5	1.3 ↑	0.6	1.3 ↓	1.3 ↓	1.7 ↓	2.3	3.2	3.0 ↓	2.5 ↓	1.9 ↓
Emerging markets	7.4	6.2	6.2 ↓	7.6	4.8	5.5	5.9 ↓	7.1 ↓	5.4	6.4	6.8	7.0 ↑	5.7 ↑	4.8

Note: For some emerging economies, 2006-2008 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by JPMorgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes.

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug 07 (bp)	Last change	Forecast next change	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Global	GDP-weighted average	3.64	-107			3.64	3.66	3.62	3.56	3.79
excluding US	GDP-weighted average	4.42	-3			4.43	4.44	4.40	4.30	4.40
Developed	GDP-weighted average	2.77	-137			2.74	2.72	2.64	2.56	2.88
Emerging	GDP-weighted average	7.19	14			7.32	7.49	7.63	7.61	7.53
The Americas	GDP-weighted average	2.85	-275			2.85	2.87	2.87	2.86	3.26
United States	Federal funds rate	2.00	-325	**30 Apr 08 (-25bp)**	**2Q 09 (+25bp)**	2.00	2.00	2.00	2.00	2.50
Canada	Overnight funding rate	3.00	-150	22 Apr 08 (-50bp)	10 Jun 08 (-25bp)	2.75	2.50	2.50	2.50	2.50
Brazil	SELIC overnight rate	11.75	25	16 Apr 08 (+50bp)	4 Jun 08 (+50bp)	12.25	13.00	13.00	13.00	12.75
Mexico	Repo rate	7.50	25	26 Oct 07 (+25bp)	**on hold**	7.50	7.50	7.50	7.50	7.50
Chile	Discount rate	6.25	75	10 Jan 08 (+25bp)	**4 Sep 08 (-25bp)**	6.25	6.00	5.75	5.75	5.75
Colombia	Repo rate	9.75	50	22 Feb 08 (+25bp)	1Q 09 (-25bp)	9.75	9.75	9.75	9.50	9.25
Peru	Reference rate	5.50	75	10 Apr 08 (+25bp)	on hold	5.50	5.50	5.50	5.50	5.50
Europe/Africa	GDP-weighted average	4.53	-3			4.54	4.53	4.37	4.20	4.34
Euro area	Refi rate	4.00	0	6 Jun 07 (+25bp)	8 Nov 08 (-25bp)	4.00	4.00	3.75	3.50	3.75
United Kingdom	Repo rate	5.00	-75	10 Apr 08 (-25bp)	5 Jun 08 (-25bp)	4.75	4.50	4.50	4.50	4.50
Sweden	Repo rate	4.25	75	13 Feb 08 (+25bp)	on hold	4.25	4.25	4.25	4.25	4.25
Norway	Deposit rate	5.50	75	23 Apr 08 (+25bp)	4Q 08 (+25bp)	5.50	5.50	5.75	5.75	5.75
Czech Republic	2-week repo rate	3.75	50	7 Feb 08 (+25bp)	1Q 09 (-25bp)	3.75	3.75	3.75	3.50	3.50
Hungary	2-week deposit rate	8.25	50	**28 Apr 08 (+25bp)**	**26 May 08 (+25bp)**	8.50	8.50	8.50	8.25	8.00
Poland	7-day intervention rate	5.75	100	26 Mar 08 (+25bp)	28 May 08 (+25bp)	6.25	6.25	6.25	6.00	5.75
Russia	1-week deposit rate	3.75	50	**29 Apr 08 (+25bp)**	Jun 08 (+25bp)	4.00	4.25	4.50	4.75	4.75
Slovak Republic	2-week repo rate	4.25	0	27 Apr 07 (-25bp)	3Q 08 (-25bp)	4.25	4.00	3.75	3.50	3.75
South Africa	Repo rate	11.50	150	10 Apr 08 (+50bp)	12 Jun 08 (+50bp)	12.00	12.50	12.50	12.50	12.00
Switzerland	3-month Swiss Libor	2.75	25	13 Sep 07 (+25bp)	Sep 08 (-25bp)	2.75	2.50	2.25	2.25	2.25
Turkey	Overnight borrowing rate	15.25	-225	14 Feb 08 (-25bp)	**15 May 08 (+50bp)**	16.25	16.75	16.75	16.75	16.00
Asia/Pacific	GDP-weighted average	3.61	7			3.61	3.66	3.76	3.73	3.84
Australia	Cash rate	7.25	75	4 Mar 08 (+25bp)	2Q 09 (-25bp)	7.25	7.25	7.25	7.00	7.00
New Zealand	Cash rate	8.25	0	26 July 07 (+25bp)	1Q 09 (-25bp)	8.25	8.25	8.25	8.25	8.00
Japan	Overnight call rate	0.50	0	21 Feb 07 (+25bp)	Jun 09 (+25bp)	0.50	0.50	0.50	0.50	0.75
Hong Kong	Discount window base	3.50	-325	**1 May 08 (-25bp)**	**2Q 09 (+25bp)**	3.50	3.50	3.50	3.50	4.00
China	1-year working capital	7.47	45	20 Dec 07 (+18bp)	3Q 08 (+27bp)	7.47	7.74	8.19	8.19	8.19
Korea	Base rate	5.00	0	9 Aug 07 (+25bp)	8 May 08 (-25bp)	4.75	4.50	4.50	4.50	4.50
Indonesia	BI rate	8.00	-25	6 Dec 07 (-25bp)	**8 May 08 (+25bp)**	8.25	8.50	9.00	9.00	9.00
India	Repo rate	7.75	0	30 Mar 07 (+25bp)	1Q 09 (-25bp)	7.75	7.75	7.75	7.50	7.25
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	on hold	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	5.00	-100	31 Jan 08 (-25bp)	5 Jun 08 (+25bp)	5.25	5.50	5.50	5.50	5.50
Thailand	1-day repo rate	3.25	0	18 July 07 (-25bp)	**21 May 08 (+25bp)**	3.50	3.75	3.75	3.75	3.75
Taiwan	Official discount rate	3.50	38	27 Mar 08 (+12.5bp)	Jun 08 (+12.5bp)	3.625	3.625	3.625	3.625	3.75

Bold denotes move this week and forecast changes

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Forecasts - Australia and New Zealand

Australia: economic projections *percentage change over previous period, seasonally adjusted annual rates, un*

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	3.9	3.1	2.7	3.5	4.3	2.4	2.4	3.9	2.5	3.4	2.9	1.6	2.5	2.3
Private consumption	4.5	3.5	2.0	2.4	5.3	6.7	2.8	2.4	1.6	2.0	2.4	1.6	2.0	1.6
Construction investment	9.2	1.7	3.7	3.6	2.8	-3.0	1.6	1.8	6.1	3.0	5.1	2.0	1.9	5.9
Equipment investment	7.5	5.8	-1.8	19.6	-9.9	15.9	8.7	8.6	-4.1	0.0	-2.1	-4.1	-8.1	8.7
Public investment	5.1	10.3	6.0	88.3	-6.7	23.8	4.4	5.0	5.2	5.6	6.0	6.4	6.8	7.2
Government consumption	3.0	3.7	2.8	1.4	3.7	7.0	2.9	3.0	2.9	3.0	3.5	2.2	1.8	2.2
Exports of goods & services	3.3	3.8	6.3	3.6	6.1	-2.6	4.1	5.1	7.2	7.8	4.1	6.1	7.2	8.2
Imports of goods & services	10.7	5.1	2.5	5.7	9.4	15.0	2.0	0.0	2.0	3.2	3.2	2.4	1.8	3.2
Contributions to GDP growth:														
Domestic final sales	4.9	3.9	2.3	6.2	3.7	6.7	3.3	3.1	2.3	2.4	2.9	1.6	1.4	3.2
Inventories	0.8	-0.4	-0.3	-2.0	1.5	-0.2	-1.2	-0.2	-0.7	0.2	-0.1	-0.6	0.0	-1.8
Net trade	-1.7	-0.4	0.7	-0.6	-0.9	-3.8	0.3	1.0	0.9	0.8	0.1	0.7	1.0	0.9
GDP deflator (%oya)	3.9	3.1	2.6	4.3	3.4	3.4	3.3	3.4	3.2	2.7	2.6	2.6	2.6	2.5
Consumer prices (%oya)	2.3	4.1	3.3	2.1	1.9	3.0	4.2	3.9	4.1	4.0	3.5	3.3	3.2	3.0
Producer prices (%oya)	2.3	3.9	2.5	1.5	0.8	3.4	4.8	3.5	4.1	3.1	2.5	2.5	2.5	2.5
Trade balance (A$ bil, sa)	-20.9	-25.5	-15.1	-4.4	-5.3	-7.2	-7.2	-6.6	-6.2	-5.5	-5.0	-4.3	-3.1	-2.8
Current account (A$ bil, sa)	-67.0	-79.5	-78.2	15.8	16.4	19.3	-19.8	-20.1	-19.7	-19.9	-20.0	-20.1	-19.6	-18.6
as % of GDP	-6.2	-6.9	-6.4	5.9	6.0	7.0	-7.0	-7.0	-6.8	-6.7	-6.7	-6.7	-6.4	-6.0
3m eurodeposit rate (%)*	6.0	7.3	6.8	5.8	7.1	7.2	7.3	7.3	7.3	7.1	6.9	6.8	6.8	6.7
10-year bond yield (%)*	5.6	6.4	6.3	5.6	5.7	6.4	6.5	6.5	6.5	6.3	6.3	6.3	6.3	6.3
US$/A$*	0.75	0.95	0.84	0.74	0.77	0.91	0.96	0.97	0.95	0.93	0.88	0.85	0.82	0.79
Commonwealth budget (FY, A$ bil)	13.6	15.5	10.0											
as % of GDP	1.3	1.3	0.8											
Unemployment rate	4.4	4.5	5.3	4.3	4.3	4.4	4.2	4.4	4.6	4.9	5.1	5.2	5.3	5.4
Industrial production	3.3	1.9	0.8	1.4	-0.1	5.6	0.0	1.0	3.0	4.0	-1.0	-2.0	-3.0	0.0

*All financial variables are period averages

Click here for >>> New Zealand

New Zealand: economic projections *percentage change over previous period, seasonally adjusted annual rates, unless stated*

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	3.1	1.4	2.2	3.6	2.0	4.1	0.3	-0.3	0.7	1.6	2.8	3.4	2.4	3.6
Private consumption	4.3	0.9	1.2	2.2	1.5	2.0	0.8	-0.1	-0.5	0.5	0.7	2.1	2.9	3.3
Fixed Investment	4.5	0.1	0.9	-2.7	1.5	19.4	-6.2	-6.8	-2.7	0.3	2.0	2.8	3.1	3.9
Residential construction	4.3	-9.8	-1.7	13.3	7.7	-6.1	-22.0	-18.0	-6.0	-2.0	0.0	0.8	2.8	3.2
Other fixed investment	4.6	2.6	1.5	-6.4	0	26.9	-2.0	-4.0	-2.0	0.8	2.4	3.2	3.2	4.0
Inventory change (NZ$ bil, saar)	0.8	0.1	-0.1	0.4	0.3	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1
Government spending	4.0	5.5	3.8	4.7	8.5	1.5	6.0	7.0	5.9	4.8	2.4	3.2	2.9	2.5
Exports of goods & services	3.5	4.1	2.8	-3.3	-0.4	23.2	-1.5	1.5	2.5	2.5	2.5	3.1	3.6	3.7
Imports of goods & services	8.8	4.6	1.0	11.0	2.9	18.5	0.6	0.6	0.2	0.5	0.5	1.5	2.2	2.5
Contributions to GDP growth:														
Domestic final sales	4.6	2.4	1.8	4.6	4.7	7.8	-0.1	-0.7	1.4	1.2	1.3	2.6	3.1	3.5
Inventories	0.5	-0.5	-0.1	4.0	-1.5	-3.6	1.1	0.1	-1.4	-0.2	0.8	0.4	-1.0	-0.1
Net trade	-2.0	-0.4	0.5	-4.9	-1.2	0.2	-0.7	0.3	0.7	0.6	0.6	0.4	0.3	0.3
GDP deflator (%oya)	4.0	4.4	2.8	4.0	3.7	5.4	5.3	4.7	4.5	3.0	2.9	2.8	2.7	2.7
Consumer prices	2.4	3.2	3.2	4.0	2.0	4.8	2.7	2.7	3.1	2.9	3.1	3.5	3.4	3.2
%oya	2.4	3.2	3.2	2.0	1.8	3.2	3.4	3.0	3.3	2.9	3.0	3.2	3.2	3.3
Trade balance (NZ$ bil, sa)	-2.3	-0.8	0.8	-0.8	-0.7	0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.1	0.3	0.5
Current account (NZ$ bil, sa)	-13.8	-10.2	-8.5	-3.5	-3.6	-3.1	-2.6	-2.5	-2.5	-2.6	-2.5	-2.3	-2.0	-1.7
as % of GDP	-8.1	-5.7	-4.5	-8.4	-8.4	-7.0	-5.8	-5.7	-5.5	-5.6	-5.4	-4.9	-4.2	-3.5
Yield on 90-day bank bill (%)*	8.4	8.5	7.8	8.2	8.7	8.8	8.8	8.4	8.4	8.4	8.0	7.9	7.6	7.5
10-year bond yield (%)*	6.3	6.6	7.0	6.4	6.4	6.4	6.4	6.6	6.7	6.8	7.0	7.1	7.0	7.0
US$/NZ$*	0.74	0.80	0.68	0.74	0.74	0.76	0.79	0.83	0.80	0.78	0.72	0.66	0.67	0.68
Commonwealth budget (NZ$ bil)	6.4	5.3	5.0											
as % of GDP	3.8	2.9	2.6											
Unemployment rate	3.6	4.0	4.5	3.6	3.5	3.4	3.8	3.9	4.1	4.2	4.3	4.5	4.6	4.7

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
5 May Australia: ANZ job ads (11:30am) Apr House price index (11:30am) 1Q 1.5 %q/q New Zealand: ANZ commodity price (03:00pm) Apr Labor cost index (10:45am) 1Q 0.7 %q/q, sa	6 May Australia: Trade balance (11:30am) Mar -3184 A$ mn	7 May Australia: RBA cash target (02:30pm) May No change expected Foreign reserves (04:30pm) Apr	8 May Australia: Unemployment rate (11:30am) Apr 4.1 % New Zealand: Unemployment rate (10:45am) 1Q 3.6 %, sa	9 May
12 May Australia: Housing finance (11:30am) Mar New Zealand: QV house prices Apr	13 May Australia: NAB business confidence (11:30am) Apr	14 May Australia: Westpac consumer confidence (10:30am) May Wage cost index (11:30am) 1Q	15 May Australia: Consumer inflation expectation (10:30am) May New Zealand: Retail sales (10:45am) Mar PMI (12:00pm) Apr	16 May New Zealand: PPI (10:45am) 1Q
19 May	20 May New Zealand: Visitor arrivals (10:45am) Apr	21 May Australia: WMI leading index (10:30am) Mar New motor vehicles sales (11:30am) Apr New Zealand: Credit card spending (03:00pm) Apr	22 May	23 May
26 May New Zealand: Trade balance (10:45am) Apr	27 May New Zealand: RBNZ inflation expectation (02:00pm) 2Q	28 May Australia: Construction work done (11:30am) 1Q New Zealand: Money supply (03:00pm) Apr	29 May Australia: Private capital expenditure (11:30am) 1Q New Zealand: NBNZ business conf. (03:00pm) May Money supply (03:00pm) Apr	30 May Australia: Pvt. sector credit (11:30am) Apr New Zealand: Building permits (10:45am) Apr

Highlighted data are scheduled for release on or after the date shown. Times shown are local.

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
5 - 9 May	5 May	6 May	7 May	8 May	9 May
United Kingdom • Halifax HPI (Apr)	Singapore • PMI mfg (Apr) Taiwan • CPI (Apr) United States • ISM nonmfg (Apr)	Australia • Trade balance (Mar) Brazil • IP (Mar) Canada • Ivey PMI (Apr) Euro area • PMI services final (Apr) • Trichet speech Germany • PMI services final (Apr) Russia • CPI (Apr) United Kingdom • PMI services (Apr)	Australia • RBA meeting Czech Republic • CNB meeting Euro area • Retail sales (Mar) Germany • Mfg orders (Mar) Taiwan • Trade balance (Apr) United States • Consumer credit (Mar) • Pending home sales (Mar) • Productivity and costs prelim (1Q)	Central bank meetings • Chile • Euro area • Indonesia • Korea • Peru • United Kingdom Germany • IP (Mar) • Trade balance (Mar) Mexico • CPI (Apr) United States • Wholesale trade (Mar)	Brazil • IPCA (Apr) Canada • Trade balance (Mar) Mexico • Trade balance (Mar) Norway • CPI (Apr) United States • Trade balance (Mar)
12 - 16 May	12 May	13 May	14 May	15 May	16 May
China • Money supply (Apr) • Trade balance (Apr) Japan • Cabinet Office private consumption index (Mar)	China • CPI (Apr) Japan • Economy watcher survey (Apr) • Shirakawa speech United Kingdom • Trade balance (Mar)	China • Retail sales (Apr) Sweden • CPI (Apr) United Kingdom • CPI (Apr) United States • Business inventories (Mar) • Import prices (Apr) • NFIB survey (Apr) • Retail sales (Apr) • Bernanke speech	China • IP (Apr) Euro area • IP (Mar) United Kingdom • Labor market report (Apr) United States • CPI (Apr)	China • FAI (Apr) Euro area • GDP prelim (1Q) • HICP final (Apr) Japan • Private machinery orders (Mar) Poland • CPI (Apr) Turkey • CBRT meeting United States • IP (Apr) • NAHB survey (May) • NY Fed survey (May) • Philly Fed survey (May) • Bernanke speech	France • Employment prelim (1Q) Japan • Consumer sentiment (Apr) • GDP 1st est (1Q) • IP final (Mar) Mexico • Banxico meeting United States • Consumer sent (May) • Housing starts (Apr)

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