Australia and New Zealand - Weekly Prospects

Summary

- Key economic indicators released in **Australia** last week were mixed. The unemployment rate rose further in December, and other data showed that home loan demand was strong in November, owing to a significant reduction in mortgage rates. This week's consumer confidence numbers should show that sentiment improved for the third straight month in January, in the wake of the 100bp cut to the official cash rate the RBA delivered in early December. The improvement in confidence will be mainly owing to falling petrol prices, reductions to the cash rate, some stabilization in equity markets, and the flow on impact of the bonus payments delivered by the government in early December.

- In **New Zealand**, the economic data flow picks up this week, with retail sales and consumer price data scheduled for release. Retail sales probably fell for the second consecutive month in November. Kiwi consumers are becoming increasingly reluctant to spend, owing largely to heightened anxiety about job security. While consumers are reining in spending amid growing recession fears, lower interest rates and falling petrol prices probably will have prevented an even larger contraction in sales in November. Other data should show that headline inflation eased in 4Q, but will remain well above the RBNZ's target range of 1-3%.

- Last quarter delivered a 4.5% fall in **global GDP**, the sharpest decline in over a quarter century. Increasingly, the evidence suggests that the global economy will contract at a similar pace this quarter. Although industrial indicators have posted dismal outcomes into year end—with output tracking a 20% annualized decline last quarter, this news is not the source of our pessimism for this quarter. Instead, it is the disappointing flow of news on final sales. A very weak US December retail sales report, along with other weak spending indicators, including a more downbeat profile in Japan, has led us to lower our estimate of global consumption for last quarter. At the same time, the downturn in global capital spending is worsening, with G3 capital goods orders down 44% annualized in the three months through November.

- Falling **consumer prices** remained an important support to growth at the turn of the year. On the whole, global inflation looks to have moved down to a 2% pace on an over-year-ago basis last month after reaching a decade-high just five months earlier. This dramatic move in such a short period of time has encouraged central banks to ease policy more aggressively. Last week's CPI releases for December underscore that consumer prices (m/m) were either in outright contraction (US, Euro area, Sweden) or decelerating sharply (Argentina, Hungary, Poland) at year end. The remarkable sequential plunge in consumer price inflation, from 6.5%3m/3m, saar to an estimated -3.1% in December, provided a huge boost to household purchasing power just as the global recession was heating up.

This week's highlight

The New Zealand retail sales data on Wednesday (expected to print at -0.6%m/m) will provide further evidence the economy is in the midst of a prolonged recession.

Contents

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Data and event previews - Australia and New Zealand

Date [a]	**Data/event**	**Forecast**			**Comment**
		JPMorgan	Consensus	***Previous***	
Monday, 19 January (10.30am)	**Aust. TD securities inflation gauge (%m/m, Dec.)**	**na**	na	*-0.6*	na
Tuesday, 20 January (10.00am)	**NZ CPI (%q/q, 4Q)**	**0.1**	-0.4	*1.5*	Headline inflation should print at 4.0%oya in 4Q, lower than the 18-year high of 5.1% recorded in 3Q, but still well above the midpoint of the central bank's 1-3% target range. Nontradable inflation, a key point of focus for RBNZ officials, should ease in line with the slowdown in domestic activity. In our view, the sharp downturn in the economy should help inflation return to target in 2009.
Wednesday, 21 January (10:30am)	**Aust. WMI consumer confidence survey (%m/m, Jan.)**	**2.0**	na	*7.6*	Consumer confidence should rise 2%m/m in January, although pessimists will still outweigh optimists. The improvement in confidence will be mainly owing to falling petrol prices, reductions to the cash rate, some stabilization in equity markets, and the flow on impact of the bonus payments delivered by the government in early December.
Wednesday, 21 January (10:45am)	**NZ retail sales (%m/m, Nov.)**	**-0.6**	-0.5	*-1.3*	Retail sales probably fell 0.6%m/m in November, after slumping 1.3% in October, as consumers continued to rein in spending amid growing recession fears. Lower interest rates and falling petrol prices probably will have prevented an even larger contraction in sales in November.
Thursday, 22 January (10.45am)	**NZ card spending (%m/m. Dec.)**	**na**	na	*-2.3*	na
Thursday, 22 January (11.30am)	**NZ business PMI (Index, Dec.)**	**na**	na	*35.4*	na
Thursday, 22 January (11.30am)	**Aust. new motor vehicle sales (%m/m, Dec.)**	**na**	na	*-5.2*	na

(a) Australian Eastern Standard Time.

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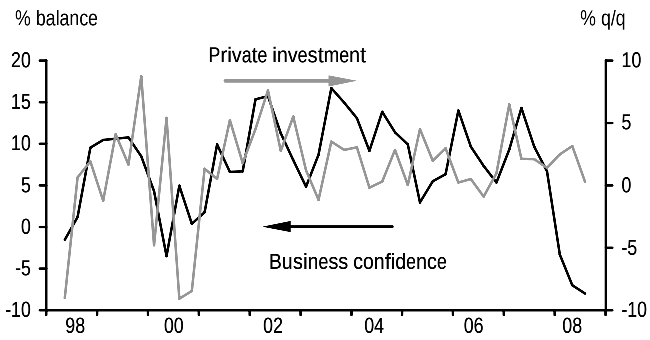
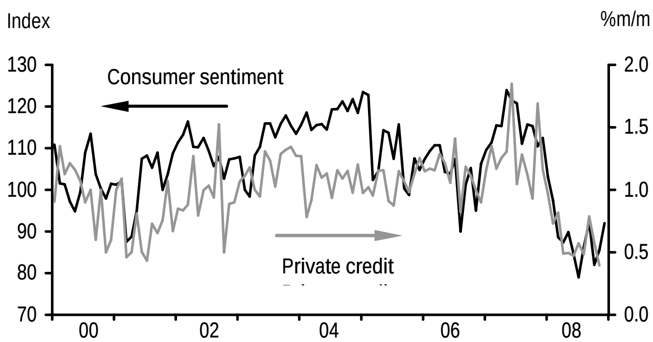
Feature charts

Australia: NAB business confidence and private investment



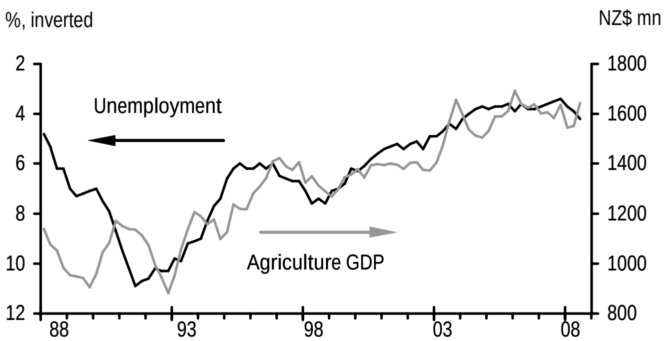
Growing concerns surrounding the near term economic outlook are reflected in the NAB business confidence survey. The sharp fall in confidence has led firms to rein in or cancel investment plans and also trim their workforces in a bid to cut costs. The deep labour market adjustment, in particular, will be the strongest headwind facing households going forward. Our forecast calls for the unemployment rate to double to 9% by the end of 2010.

Australia: WMI consumer sentiment and private credit



The precipitous fall in consumer sentiment since mid-2007 has weighed on demand for credit. Fearful consumers have reverted to more conservative spending behaviour and boosted precautionary saving. To a large extent, the degree of the economic downturn and the speed of the economic recovery will depend on the extent to which the government's fiscal stimulus and interest rate cuts can restore consumer confidence throughout 2009.

New Zealand: agriculture GDP and unemployment



The reduction in agricultural output in New Zealand, owing to a period of drought and dwindling world demand, is partly attributable for the steady rise in unemployment since the end of 2007. With private consumption set to remain subdued in 2009, the nation's export performance will be particularly important. Unfortunately, though, weaker global demand mean net exports will subtract again from economic growth this year.

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Australia

- **Unemployment rate rose to 4.5% in December**
- **Demand for home loans firm following RBA rate cuts**
- **Consumer confidence probably rose again in January**

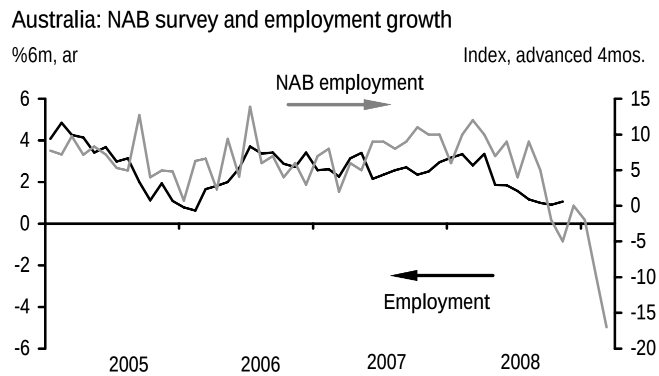
Key economic indicators released in Australia last week were mixed. The unemployment rate rose further in December, and other data showed that home loan demand was strong in November, owing to a significant reduction in mortgage rates. This week's consumer confidence numbers should show that sentiment improved for the third straight month in January, in the wake of the 100bp cut to the official cash rate the RBA delivered in early December.

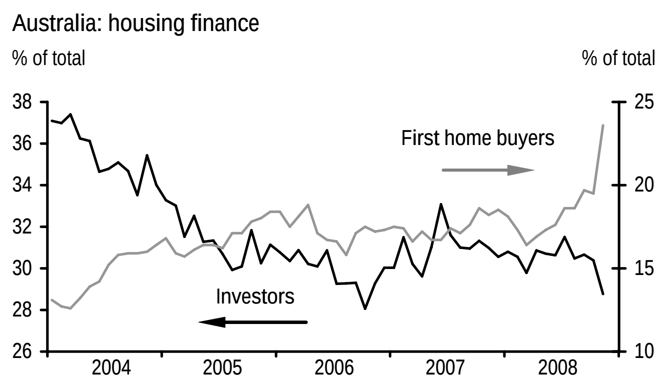
Unemployment rate rose in December

The labour force report last week showed that employment fell 1,200 in December (J.P. Morgan and consensus 20,000), following a 16,200 decline in November. Though the headline was better than expected, the details of the report painted an alarming picture. For one, employment growth slowed to just 1.0%oya, the slowest rate since early 2004 and, second, 43,900 full-time jobs were shed in December. The number of part-time jobs rose 42,800—this may be an indication that worker hours have been cut back, or that people have reentered the work force and taken on part-time jobs to help make financial ends meet. The labour force participation rate fell another notch to 65.0% in December from 65.1% in November.

That said, given last year's government budget cuts for the Bureau of Statistics, which triggered a dramatic reduction in the sample size for the Labour Force Survey, we believe that the jobless rate probably provides the best reading on underlying labour market trends, rather than the full-time/part-time employment breakdown. The jobless rate increased to 4.5% from 4.4%, continuing to drift higher from the 33-year low of 3.9% recorded in February 2008.

Leading indicators of employment in Australia, such as the ANZ job advertisement series and the employment component of the NAB Business Survey, recently have collapsed, signaling that labour market conditions will deteriorate further. We are forecasting a deep labour market adjustment that will result in employment falling 1% during the current recession (we estimate that economic growth contracted in 4Q08 and 1Q09). Our estimates also show that the jobless rate will double to 9% by the end of 2010—a more benign outcome than during Australia's last two recessions in the early 1980s and early 1990s, when the jobless rate ventured into double-digit territory.





We suspect, though, that labour force participation will be slower to decline in this recession, which will inflate the unemployment rate. This is because of highly skilled migration flows and older workers staying in the work force longer to compensate for the fact that their retirement nest-egg has dwindled (thanks mainly to falling equity prices).

Demand for home loans remained strong

The number of home loans issued in November increased 1.3%m/m (J.P.Morgan 1.5%, consensus 1.0%), after rising 1.4% in October. The rise in home loans followed the RBA's decision to cut the cash rate 75bp in early November; this was followed by a larger 100bp cut in December, taking the official cash rate to 4.25%.

The fall in mortgage rates in the final months of 2008 bolstered demand for home loans. Mortgage rates were lowered as the RBA embarked on the most aggressive pace of monetary policy easing since the early 1990s, delivering 300bp of cuts to the official cash rate between September and December.

The fall in confidence—down 11%m/m in October and up just 4% in November—resulting from deteriorating economic conditions probably prevented an even larger rise in home loans

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in November. Lower confidence has led many potential home buyers to boost precautionary savings, and the massive wealth destruction occurring in the highly leveraged household sector has encouraged many of those already with loans to pay down debt.

Demand for home loans from first home buyers rose sharply, owing to the July 1 introduction of the "First Home Saver Accounts" scheme and the doubling of the first home buyers grant in October to A$14,000. First home buyers accounted for 23.6% of loans in November, well above the 19.5% recorded in October, and the highest level since 2002. The prospect of further interest rate cuts, coupled with falling house prices (down 1.8%q/q in 3Q), will remain attractive to potential first home buyers.

Not surprisingly, demand for fixed interest rate loans was subdued in November amid expectations of further monetary policy easing. Fixed rate loans accounted for just 2.5% of all loans issued, down from 3% in October and well below the 24% level recorded at the start of 2008 (when the RBA was still hiking interest rates). Similarly, the value of investment lending (fixed loans) fell 6.1%m/m in November, after increasing 1% in the previous month.

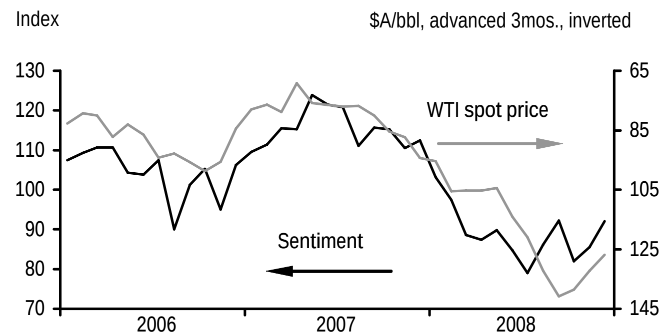
Lower petrol prices to buoy sentiment

The WMI consumer confidence index should show that confidence rose 2%m/m in January, after spiking 7.5% in December. The improvement in confidence will be mainly owing to falling petrol prices, reductions to the cash rate, some stabilization in equity markets, and the flow on impact of the bonus payments delivered by the government in early December.

But, despite the improvement in sentiment, pessimists will still outweigh optimists—the index level will read 93.8 compared to 91.9 in the previous month, remaining below the neutral level of 100 for the twelfth straight month.

Consumers may be looking through the economic and financial gloom to focus on the significant monetary and fiscal policy support being provided, but increased anxiety about job security is weighing on confidence. Still, further interest rate cuts should provide some relief for households. Our forecast calls for the RBA to cut the cash rate 50bp to 3.75% when it next meets in early February.

Australia: consumer sentiment and crude oil price



Data releases and forecasts

Week of January 19 - 23

Wed
Jan 21
10:30am

WMI consumer sentiment index
100=neutral, seasonally adjusted

	Oct	Nov	Dec	Jan
(%m/m)	-11.1	4.3	7.6	2.0

Thu
Jan 22
11:30am

Sales of new motor vehicles
Units, seasonally adjusted

	Sep	Oct	Nov	Dec
(%m/m)	-0.9	-0.5	-5.2	__
(%oya)	-8.8	-10.7	-17.8	__

Fri
Jan 23
11:30am

Export price index
Not seasonally adjusted

	1Q08	2Q08	3Q08	4Q08
(%q/q)	3.5	13.5	13.8	1.2
(%oya)	0.1	13.8	32.9	35.2

Fri
Jan 23
11:30am

Import price index
Not seasonally adjusted

	1Q08	2Q08	3Q08	4Q08
(%q/q)	2.7	1.4	5.0	1.1
(%oya)	2.2	3.5	9.6	10.5

Review of past week's data

ANZ job advertisements
Seasonally adjusted

	Oct		Nov		Dec	
(%m/m)	-5.9		-8.6		__	*-9.7*

Housing finance approvals: owner occupiers
Number of loans, seasonally adjusted

	Sep		Oct		Nov	
(%m/m)	~~-2.4~~	*-2.0*	~~1.3~~	*1.4*	~~1.5~~	*1.3*
(%oya)	~~-26.5~~	*-26.2*	~~-24.2~~	*-23.7*	~~-25.0~~	*-24.8*

Labor force
Seasonally adjusted

	Oct		Nov		Dec	
Unemployment rate (%)	~~4.3~~	*4.4*	4.4		*4.5*	
Employed (000 m/m)	~~37~~	*33*	-16		~~-20~~	*-1*

New Zealand

- **Retail sales likely fell again in November**
- **Headline CPI to have remained above target in 4Q**
- **RBNZ to cut OCR again in January**

In New Zealand, the economic data flow picks up this week, with retail sales and consumer price data scheduled for release. Retail sales probably fell for the second consecutive month in November. Kiwi consumers are becoming increasingly reluctant to spend, owing largely to heightened anxiety about job security. Headline inflation should have eased in 4Q, but will remain well above the RBNZ's target range of 1-3%.

Kiwi consumers still reluctant to spend

The headline value of New Zealand's retail sales probably fell 0.6%m/m in November, after slumping 1.3%, which was the largest monthly drop since February 2004. The all-important ex-autos measure probably will increase mildly, after rising 0.8%m/m in the previous month.

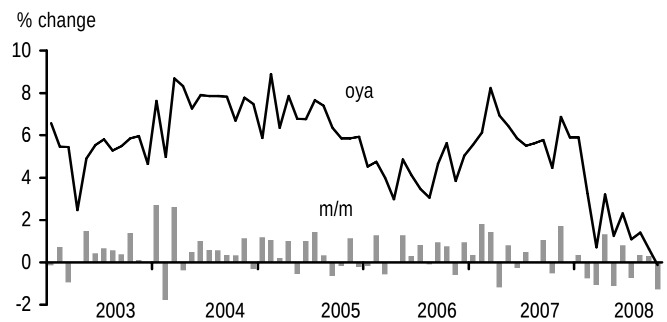
While consumers are reining in spending amid growing recession fears, lower interest rates and falling petrol prices probably will have prevented an even larger contraction in sales in November. That said, the softness in retail spending is further evidence that the New Zealand economy is in the midst of a prolonged recession. Our forecast calls for six straight quarters of falling GDP growth.

The outlook for household spending remains bleak, especially given the recent weakness in consumer confidence, owing mainly to the rising threat of further job losses. The likely rise in unemployment is probably the strongest headwind facing consumers. Our forecast is for the jobless rate to rise from a five-year high of 4.2% in 3Q08 to 6.7% by the end of 2009. Corporate profitability has dwindled amid tighter credit conditions, making firms more reluctant to hire workers. The rise in unemployment and the expected moderation in wage growth will hurt local retailers.

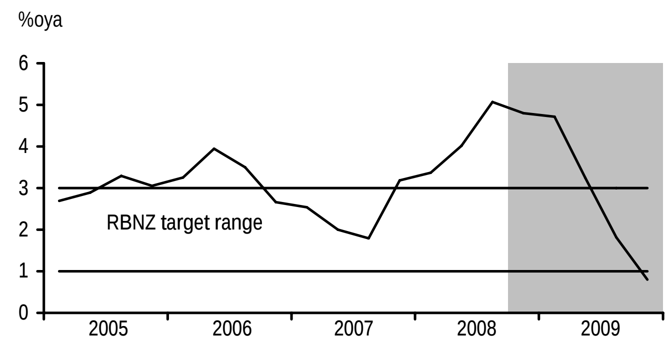
Headline inflation to have eased in 4Q

Headline inflation should print at 4.0%oya in 4Q08, lower than the 18-year high of 5.1% recorded in 3Q, but still well above the midpoint of the central bank's 1-3% target range. This will be the fourth straight quarter in which the headline rate of inflation has been above the top end of the RBNZ's comfort zone.

New Zealand: retail trade



New Zealand: CPI



Nontradable inflation, a key point of focus for RBNZ officials, should ease in line with the slowdown in domestic activity. Nontradable inflation—generated domestically and not influenced by exchange rate fluctuations—unexpectedly surged 4.1%oya in 3Q, although should moderate in the final quarter of 2008. Tradable inflation, which accelerated to 6.3%oya in 3Q, will remain buoyed by the weaker NZ dollar, which shed 14% against USD in the final three months of 2008.

The sharp downturn in the economy should help inflation return to target in 2009. Indeed, pipeline pressures and inflation expectations have started to ease and, in our forecasts, annual inflation will fall below the RBNZ's target range by 4Q09. We forecast 0.8% in headline inflation in 4Q, whereas the RBNZ expects inflation to trough around 1.5% in 3Q.

Inflation not on the back burner

The problematic global economic and financial market outlook, sagging domestic house prices, the falling terms of trade, and the improving prospect that inflation will return to the RBNZ's 1-3% target range in the near term provides ample scope for the RBNZ to ease policy assertively.

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That said, inflation is not on the back burner. In a speech in December, RBNZ Governor Alan Bollard reiterated that the Bank remains focused on inflation, despite the Governor having delivered a punchy 150bp official interest rate cut just a week earlier. We believe that the RBNZ is not even close to the finish of this easing cycle, but that the Governor wanted the market and industry to know that inflation remains a key policy consideration.

Governor Bollard said, "concerns over inflation appear to have taken a back seat" for some commentators, many of whom hold the view that lower commodity prices and a slowdown in economic activity will drive inflation significantly lower. He added, though, that inflationary pressures need to be reduced significantly in New Zealand to provide scope for further policy easing; this, he said, would require various sectors of the economy to respond to reduced demand by lowering prices.

We maintain our forecast that the RBNZ will cut the official cash rate 50bp at its upcoming January meeting. We believe a terminal cash rate of 3.25% should be reached in 3Q09, with the forthcoming fiscal stimulus a key factor preventing even larger rate cuts. The government's fiscal stimulus package will inject about NZ$7 billion into the economy over the next two years, or around 4% of GDP.

S&P revised down NZ outlook

Standard and Poor last week downgraded the New Zealand outlook from stable to negative. The ratings agency reaffirmed New Zealand's AA+ foreign currency rating, but said it may be cut if the nation's burgeoning current account deficit and overseas debt curb growth in investment. Indeed, the attractiveness of New Zealand assets has started to fade, raising questions about how the nation will finance its massive current account deficit (which was 8.6% of GDP in 3Q08). The downgrade is far from positive for the economy, which remains heavily reliant on offshore capital to fund investment.

Data releases and forecasts

Week of January 19 - 23

Tue Jan 20 10:45am	**Consumer price index** Not seasonally adjusted	1Q08	2Q08	3Q08	4Q08
	Headline (%oya)	3.4	4.0	5.1	<u>4.0</u>
	Headline (%q/q)	0.7	1.6	1.5	<u>0.1</u>
Wed Jan 21 10:45am	**Retail trade** Seasonally adjusted	Aug	Sep	Oct	Nov
	(%m/m)	0.3	0.3	-1.3	<u>-0.6</u>
	(%oya)	1.3	0.6	-0.2	<u>-3.0</u>
Thu Jan 22 10:30am	**Business PMI** Seasonally adjusted	Sep	Oct	Nov	Dec
	Index	47.0	43.5	35.4	__
	(%oya)	-13.5	-23.9	-37.1	__

Review of past week's data

NZIER QSBO
% balance of respondents

	2Q08	3Q08	4Q08	
Headline index	-64.0	-19.0	__	*-64.0*

Building consents
Not seasonally adjusted

	Sep	Oct	Nov	
(%m/m)	23.1	-28.3	__	*-0.4*
(%oya)	-17.8	-43.8	__	*-43.6*

QVNZ house prices
%, median

	Oct	Nov	Dec	
(%oya)	-6.8	-6.8	__	*-7.4*

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Global Essay

- **Downbeat global data point to continued rapid economic decline**
- **Another double-digit decline in IP is on tap as producers move aggressively to align inventories with sales**
- **Japanese data meeting dismal expectations**
- **This week: looking for signs of firming in China's December data**

It ain't over 'til it's over

Last quarter delivered a 4.5% fall in global GDP, the sharpest decline in over a quarter century. Increasingly, the evidence suggests that the global economy will contract at a similar pace this quarter. Although industrial indicators have posted dismal outcomes into year end—with output tracking a 20% annualized decline last quarter, this news is not the source of our pessimism for this quarter. Instead, it is the disappointing flow of news on final sales. A very weak US December retail sales report, along with other weak spending indicators, including a more downbeat profile in Japan, has led us to lower our estimate of global consumption for last quarter. At the same time, the downturn in global capital spending is worsening, with G3 capital goods orders down 44% annualized in the three months through November.

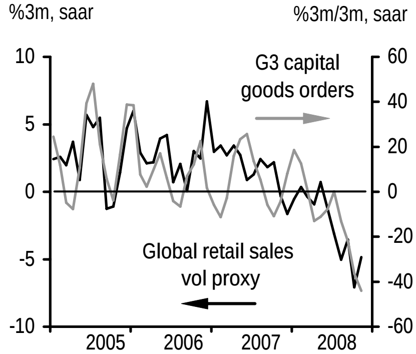
These developments have not prompted a change in our forecast of global GDP for last quarter, because inventories grew more rapidly than expected. But this demand mix points to an intense business sector retrenchment in the early months of this year. Manufacturing output is expected to continue to decline at a double-digit pace. With the G3 economies in the midst of a sharp inventory correction, GDP is expected to fall at 7.0%, 5.0%, and 3.5% annual rates in Japan, the United States, and the Euro area this quarter.

As the sustained intensity of the downturn has been recognized, commodity prices and equity values have come under renewed pressure. The greater risk to our forecast of a midyear growth recovery would be an unwinding of the healing process that is under way in credit markets. Here the news is mixed. Financial stocks slumped last week, but credit spreads outside this sector generally were stable. Significant support for credit markets came from US government signals that aggressive measures to remove distressed assets from bank balance sheets are in the pipeline.

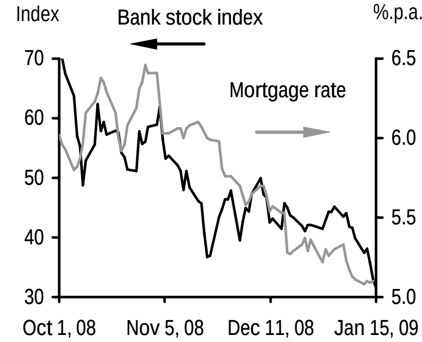
Moreover, it is encouraging that policymakers across the globe have stepped up their response to the continued slide in their economies. In the developed world, the ECB delivered an expected rate cut, with another in the pipeline from the Bank of Canada this week. EM central banks generally have eased more than was forecast, including aggressive moves in Turkey and Thailand last week (Mexico's 50bp cut met expectations). Rate cuts are on tap in Brazil, Hungary, and Malaysia this week. Equally important are initiatives to bolster financial institutions and credit creation across the globe, which continue to grow in size and scope.

These moves are being complemented by fiscal stimulus. Our economic outlook has been premised on fiscal stimulus in the range of 1-2% of global GDP, with the latest reports pointing to an amount on the high side of this range. As discussed below, Germany substantially boosted its plans last week. Likewise, today's report of an $825 billion US stimulus package over two years was somewhat larger than expected. While no legislation has been passed, the details point to a potential 3%

Global demand indicators

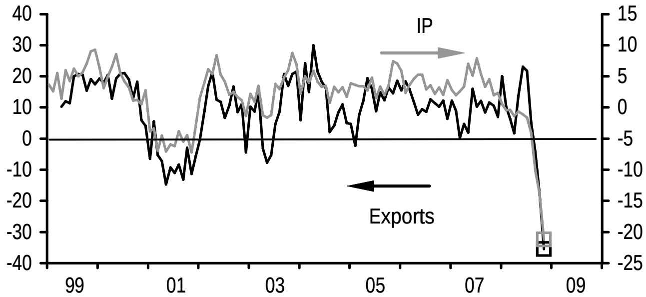


US bank stock index and 30yr mort rate



World exports and IP

%3m, saar; both scales; exports nominal in local curr



boost to GDP, with the majority coming in 2010. This could add as many as 2-3 million jobs and lower the unemployment rate 1.3% points. One byproduct of this program, however, would be a jump in the 2009 fiscal deficit to an estimated $1.5 trillion.

Without losing sight of the increased downside risks, we maintain that these unprecedented policy actions will be a key for building a recovery in final sales by midyear. In the meantime, a successful effort to realign inventories with sales would lay the groundwork for a gradual stabilization in manufacturing, giving a much-needed lift to the economy toward midyear. The main risk is that more aggressive business retrenchment will undermine these supports and extend the downturn.

Fading purchasing power lift leaves vacuum

Falling consumer prices remained an important support to growth at the turn of the year. On the whole, global inflation looks to have moved down to a 2% pace on an over-year-ago basis last month after reaching a decade-high just five months earlier. This dramatic move in such a short period of time has encouraged central banks to ease policy more aggressively. Last week's CPI releases for December underscore that consumer prices (m/m) were either in outright contraction (US, Euro area, Sweden) or decelerating sharply (Argentina, Hungary, Poland) at year end. The remarkable sequential plunge in consumer price inflation, from 6.5%3m/3m, saar to an estimated -3.1% in December, provided a huge boost to household purchasing power just as the global recession was heating up.

The sharp sequential deceleration in consumer prices has varied considerably across countries. The fall has been the most impressive in the US, where consumer prices contracted at just under a 10%q/q, saar pace last quarter. Outside the US, developed market inflation averaged a more modest but still significant -1.5%. In the EM, sequential inflation remained positive in 4Q08 but has decelerated considerably. With commodity prices falling throughout 4Q08, and given the slight lags in the passthrough to consumer prices, households will continue to get a lift to purchasing power in the current quarter. However, assuming commodity prices level off at their current levels, households will see little more lift to their purchasing power come 2Q09. Other supports will have to fill the gap if the forecasted stabilization in the economy is to arrive by midyear.

European policy support ramping up

The ECB's 50bp cut in rates last week was accompanied by a strong hint that it will pause next month. While the ECB recognizes a need to respond to downbeat economic developments, it continues to warn of the negative consequences of unduly aggressive action. The forecast continues to look for rates to fall a further 100bp by the spring, but it will take a continuation of the bleak data flow to get rates there. In a similar vein, after having chastised others for "crass Keynesianism," Germany ended up announcing a second set of fiscal measures last week, raising the stimulus provided in 2009 from 0.3% of GDP to 1.3%.

Policymakers in the UK are moving more rapidly, having identified the compression of credit availability as public enemy number one. After detailing guarantees for small business loans of up to £21bn last week, this week is expected to bring a package of measures to improve mortgage availability and corporate credit. How this will be structured between loan guarantees, capital injections for banks, or purchases of troubled assets remains to be seen. But the government is widely being encouraged to deliver an ambitious set of measures—and not least by the monetary policy committee. Data this week will demonstrate the need for action: unemployment is expected to rise sharply while 4Q GDP records a 5% annualized rate of decline and headline inflation falls by over a percentage point. Even with another significant package of support for banks and lending in place, we look for the MPC to reduce rates by a full percentage point to 0.5% at their February meeting.

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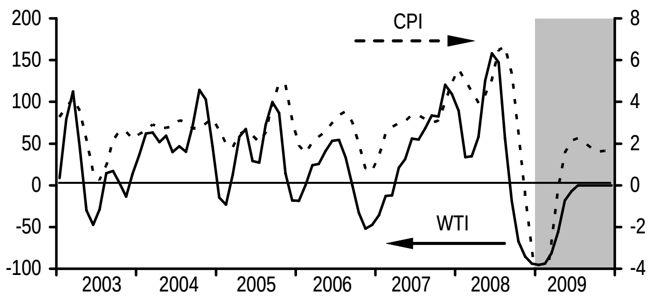
Oil and global consumer prices
%3m/3m, saar; both scales



Japan meeting dismal expectations

Japanese data continue to nosedive, delivering on our forecast for a severe 7%q/q, saar contraction of GDP in 4Q08 and in 1Q09. The focus last week was on November machinery orders, which are a proxy for capital spending. Both domestic and foreign orders fell at double-digit rates and are on track for a near 50% annualized decline last quarter. These data point to extreme weakness in both domestic capital spending and exports (December data are due this week). There also was modestly disappointing news on consumption, in that the Cabinet Office's indicator was revised down in September and October and posted a surprise decline in November, suggesting that real PCE contracted last quarter instead of the flat outcome we expected.

The economy's slide is being exacerbated by the emergence of a home-grown credit crunch. Large corporations are having trouble issuing CP and bonds, which has caused them to turn to bank lending. With Japanese banks under pressure from falling asset prices and rising loan losses, they are likely to turn more cautious, especially in lending to small firms. To tackle this problem, the BoJ recently has unveiled plans to purchase CP—the details of this new program will be determined at its policy meeting this Thursday. In addition, the BoJ is expected to announce that it intends to broaden the type of corporate debt it will buy in addition to CP. The candidates are corporate bonds, asset backed CP (ABCP), and securities syndicated loans.

Looking for signs of firming in China

EM Asia has combined with Japan to lead the plunge in global trade flows and industrial production. The swoon has even extended to China, which in the past exhibited a relatively low correlation with the global economy. This week's GDP report is expected to show that China's growth nearly stalled in 4Q08, producing the weakest outcome in the history of our series dating back to 1993. Against this backdrop, upcoming December activity reports will test whether the downward momentum in the economy was abating at year end. The government already reported additional, sharp monthly declines in December exports, and there is little reason to expect this picture to improve much in the current quarter. Instead, we are looking for a quickening in the pace of investment in response to aggressive fiscal and monetary stimulus—both what already has been enacted and what is in the pipeline.

The recent acceleration in money supply and bank loans hints at a pickup in domestic demand. Among the signs are an acceleration in government infrastructure spending and a firming in sales in private property markets. In addition, onshore spot steel prices firmed in December, while coal producers toughened their stance in price negotiations with power producers, in a sign of confidence about end demand. Last week, Premier Wen said that China's economy performed "better than expected" last month, noting that sales had begun to rebound at some companies, stockpiles were falling (which helps explain the deep declines in 4Q imports) and electricity consumption was rising. The latter suggests that industrial production likely rose in December after five consecutive monthly declines.

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JPMorgan View - Global Markets

Governments to the rescue

The deepening recession theme continues to dominate asset pricing. Bonds were up last week, and equities are down. Credit spreads are flat, except for much wider ones on US banks. Economic data and company earnings are still coming in weaker than hoped for and economists keep slashing growth forecasts. Policymakers are working feverishly to turn credit markets and economies around, but market participants—while cheering them on—want to see results before switching to the bullish side. We likewise stay in recession exposures, being long bond duration and short in commodities.

Banks dramatically underperformed, especially in equity markets, but also in US credit. Disappointing earnings, the US bailout of another major US bank, and analyst warnings that large banks need more capital injections are adding pressure on the sector. Our medium-term sector allocations include overweights in bank equities and credit, but we choose not to implement this in equities at the moment. In credit, we have reduced our US financials overweight, but nevertheless stay long on the anticipation that government support will be positive for bank bonds, even if it is initially less supportive of bank stocks.

Emerging economies have been late coming to the global recession party, hoping initially to decouple as they committed less of the global leverage sin than consumers and banks in the major economies. More recently, EM exports have crashed, thereby pushing many of them into outright recession. With EM investors and policymakers having arrived late to the recession party, we have focused an increasing part of our recession risk on EM. This means underweighting their corporate and sovereign credit, and generally being short their currencies (selectively). With EM central banks now swiftly moving into easing mode, we are aggressively long local bonds in Latam and CEEMEA. We are outright neutral EM vs DM stocks, as EM stocks underperformed last year already, and the medium-term outlook for their economies, when we all exit the recession, is much better than for developed economies.

Fixed income

Government bonds rallied last week across much of the world as economic weakness continued to dominate supply fears. We remain **bullish on duration**, expecting yields to grind lower on poor economic data. We favour the 10-year in the US, where policy rates are already at historic lows, and the short end in the EU and UK, where we expect more easing than is priced in.

10-yr Government bond yields

	Current	Mar 09	Jun 09	Sep 09	Dec 09
United States	2.32	2.40	2.00	1.75	1.65
Euro area	2.93	2.55	2.50	2.55	2.55
United Kingdom	3.23	3.10	3.10	3.10	3.15
Japan	1.23	1.25	1.35	1.55	1.55

Foreign exchange

	Current	Mar 09	Jun 09	Sep 09	Dec 09
EUR/USD	1.32	1.28	1.30	1.35	1.37
USD/JPY	90.4	88	85	85	90
GBP/USD	1.47	1.36	1.41	1.48	1.52

Commodities

		Quarterly Average			
	Current	1Q09	2Q09	3Q09	4Q09
WTI ($/bbl)	35	38	40	45	50
Gold ($/oz)	841	750	800	825	825
Copper($/m ton)	3248	3000	3000	3250	3300
Corn ($/Bu)	3.81	4.30	5.10	5.00	4.80

Source: J.P. Morgan, Bloomberg, Datastream

Supply remains the main concern for bond managers. It is our view, though that **massive issuance will be met by even more massive demand** from EM central banks, DM central banks, and commercial banks.

We **maintain a 2s10s flattener in the US**, expecting stronger rallies at the long end, as we see banks extending along the curve in search of better yields. Indeed, the US curve flattened some 6bp last week. We remain neutral on EU and UK curves. We maintain **overweight sectors supported by government sponsorship, including Agency debt and FDIC guaranteed debt**. Although agency spreads widened last week, we believe that the assets will be supported by the Fed, which in our forecast is set to absorb at least three quarters of 2009 issuance. FDIC guaranteed debt spreads widened last week as well, reflecting rising liquidity premia. We remain long, expecting support from investors seeking carry.

Equities

Equities fell for a second straight week, driven by banks on renewed worries that rising credit losses and write-downs are threatening the viability of US and European banks. We believe that further government intervention, in the form of further equity injection, extensions of guarantees, or removal of bad assets to a separate vehicle raises the **risk of further underperformance for bank stocks near term, especially in the UK and US.**

Kian Abouhossein, our Global Bank Coordinator, has released his 2-year outlook for **European Investment Banks** (Jan 14). He forecasts that 2009 IB revenues will be the lowest in 10 years and that 2010 revenues will rebound only to 2003 levels. To address profitability, Kian expects that European IBs will by 2010 reduce headcount 18% from 3Q08 levels, reduce 2008 cash incentive compensation 67% from 2007 and cut 2009 IC by an extra 16%.

Equity markets are still facing the headwind of **further earnings disappointments** in coming weeks. The expected 4Q08 EPS for the S&P500 by bottom-up analysts, at $15.95, is still high vs our own forecast of $13.4.

Cyclical stocks underperformed last week, but only modestly. The performance of cyclical vs noncyclical sectors correlates well with the global PMI index, which we think is near the low for this recession and is likely to turn upward by March. The first to arrive January regional Fed manufacturing surveys (NY, Philly) were little changed from December on an ISM-weighted, composite basis. This suggests little change in the US ISM index, which was at the lowest level in almost 30 years last month. Thus, we are biased toward cyclicals' outperforming in coming months led by consumer cyclicals in both the US and EM. The US tax cuts/rebates in particular are expected to boost consumer spending into 2Q/3Q, echoing the positive impact that the 2008 tax rebates had. We thus favor **an overweight in US discretionary vs industrials.**

Credit

Spreads widened 30bp on US financials but were little changed in Europe or in US industrials. **Primary market activity remains very strong** with another $24bn of issuance this week in US HG and €20bn in European HG. Mtd issuance stands at $56bn in the US and €50bn in Europe, with government guaranteed paper accounting for half of the total issuance. The strength in demand has also been reflected in mutual fund flows. Credit funds had an **inflow of $1.5bn** in US HG and **$0.8bn** in US HY last week, bringing ytd inflows to $4.7bn and $2.8bn respectively.

Despite positive flow indicators, we remain **neutral in US HG credit**. Weak equity markets and earnings disappointments are likely to put pressure on credit markets near term and raise the risk that demand for corporate bonds will fade in coming weeks. In **Europe**, we take advantage of the past weeks' rally to **increase our small underweight.**

Within sectors, we retain our view that financials will outperform Industrials as governments are committed to prevent a financial meltdown and are willing to throw in all they can. Keep this trade in both US and Europe but take part profit in the US. In the **US, we overweight ABS,** especially student loans and auto loans, and AAA CMBS, on the basis of direct government buying. In HY, we stay overweight the highest rated bonds and loans.

Foreign exchange

Yen outperformance remains a core view grounded in two simple facts: Japan is the least leveraged G-10 economy and the yen is the most yield-sensitive currency. We continue to **target 85 by midyear** based on Fed policy and the likelihood of Japanese tax changes which may motivate additional capital inflows to Japan.

Still, we **take profit on long yen trades** since market conditions in 2009 call for more tactical trading. **The policy backdrop argues for nimbleness**. In an environment where governments and central banks have shown themselves capable of doing the previously unthinkable, staking a trade on the expectation of policy continuity seems like a losing strategy. To be sure, some policies will have more staying power than others: ZIRP in the US and Japan, massive fiscal stimulus in the US. This faith grounds our medium-term bias and our forecasts. Booking profits week to week on outsized moves thus seems sensible in markets with above-average volatility and significant headline risks. Thus the most significant change to our trade recommendations last week is to take profits on positions which are 3-5% in the money (short AUD/JPY, CHF/JPY), even as we retain a negative outlook on risky markets in 1Q.

Alternatives

Commodities continue to post losses (-5%) as overall demand conditions worsen. High and ever increasing **oil** inventories will keep putting downward pressure on prices near term. Steep contango in forwards also adds value to short positions here. Thus we recommend a **bearish position in both WTI and Brent.** We also believe the curve is likely to flatten.

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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2007	2008	2009	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	3Q08	4Q08	2Q09	4Q09
The Americas														
United States	2.0	1.2 ↑	-2.0 ↓	-0.5	-5.5 ↑	-5.0 ↓	-0.5	1.5	2.5	2.5	5.3	1.5 ↑	-1.3 ↑	0.3
Canada	2.7	0.7	-0.2	1.3	-1.5	-2.0	0.0	2.0	2.5	3.0	3.4	1.7	0.1	1.6
Latin America	5.3	4.1	0.6 ↓	4.2 ↓	-3.0 ↓	-2.0 ↓	1.0	3.8	4.0	3.6	8.2	8.3	7.8 ↑	7.1 ↑
Argentina	8.7	6.5	-1.0	5.4 ↓	-2.0	-3.9	-3.9	0.0	-2.0	4.0	8.9	7.8 ↓	7.9	9.7
Brazil	5.7	5.7	1.5	7.4	-4.4	-2.3	3.9	5.8	5.5	2.5	6.3	6.3	5.0	4.8
Chile	5.1	3.7	1.0	-0.2	-4.0	-3.0	0.0	12.0	8.0	0.0	9.3	8.6	5.5	3.5
Colombia	7.5 ↓	3.2	2.5	2.9 ↑	2.0	1.8	2.5	4.0	3.0	3.5	7.7	7.8 ↑	5.9	5.5
Ecuador	2.5	6.5 ↓	0.0 ↓	4.8 ↑	-5.0 ↓	-3.5 ↓	0.0 ↓	2.5	3.5 ↓	3.0	10.0	9.3 ↓	4.6	3.8
Mexico	3.2	1.5	-0.6	2.6	-4.0	-2.0	-1.0	2.0	4.1	5.0	5.5	6.2 ↑	5.6 ↑	3.8 ↑
Peru	8.9	9.1 ↓	4.5 ↓	6.7 ↓	0.0 ↓	2.3 ↓	6.2 ↑	6.0	5.7 ↑	6.6 ↓	6.1	6.6 ↑	5.0 ↓	3.5 ↓
Venezuela	8.4	5.0	1.5	-1.0	4.5	-2.5	2.0	2.0	2.0	2.0	34.7	34.1	42.1	41.8
Asia/Pacific														
Japan	2.4	-0.2	-3.8	-1.8	-7.0	-7.0	-1.5	-0.5	1.5	2.0	2.2	1.1	-0.4	-0.5
Australia	4.0	2.3	0.2	0.3	-0.5	-0.9	0.5	2.0	0.5	0.5	5.0	4.2	2.4	1.9
New Zealand	3.1	0.4	0.2	-1.5	-1.8	-0.9	-0.1	5.5	5.5	1.3	5.1	4.9	3.2	0.8
Asia ex. Japan	9.3 ↑	6.3	4.3 ↓	4.1 ↑	-2.4	2.5	7.2	8.9	9.1	6.0	6.5	5.0	1.8	1.6
China	13.0 ↑	9.2	7.8	6.7 ↑	1.2	6.1	10.8	12.3	12.8	7.0	5.3	3.3	0.5	1.2
Hong Kong	6.4	2.9	-1.3	-2.0	-5.5	-2.5	2.0	3.0	4.0	4.0	4.6	2.2	-0.7	-0.5
India	9.0	6.2	5.5	8.7	0.3	0.1	4.8	8.9	10.9	9.1	9.0	9.1	3.2	1.3
Indonesia	6.4	6.0	4.2	6.4	3.0	3.0	4.0	5.0	5.0	5.0	12.0	12.0	7.2	4.2
Korea	5.0	3.4	0.5	2.1	-11.0	0.0	5.9	7.0	4.5	4.0	5.5	4.5	3.0	3.2
Malaysia	6.3	5.2	2.0	3.1	-2.8	0.0	4.9	5.7	6.6	2.8	8.4	7.3	3.9	1.2
Philippines	7.2	4.6	3.5	6.1	0.6	2.0	3.6	4.9	4.5	4.5	12.2	10.7	4.7	3.0
Singapore	7.7	1.3	-2.5	-6.8	-13.3	-5.9	10.4	5.3	5.3	4.1	6.6	6.5	2.1	1.0
Taiwan	5.7	1.3	-1.9	-8.7	-10.5	-1.0	2.0	5.5	5.8	4.2	4.5	1.8	0.7	-0.3
Thailand	4.9	4.4	2.0	2.2	-0.4	1.2	2.8	4.1	4.1	3.2	7.2	2.2	-1.6	3.5
Africa														
South Africa	5.1	3.1	0.4	0.2	-0.7	-0.8	-0.1	1.9	3.3	3.1	13.4	11.6	6.2	5.0
Europe														
Euro area	2.6	0.8	-1.9	-0.7	-4.0	-3.5	-1.0	0.0	1.0	1.0	3.8	2.3	0.7	1.1
Germany	2.6	1.1	-2.3	-2.1	-5.0	-3.5	-1.0	0.0	1.0	1.0	3.3	1.9	0.2	0.2
France	2.1	0.7	-1.5	0.5	-4.0	-2.5	-1.0	0.0	1.0	1.0	3.6	2.2	0.3	0.8
Italy	1.4	-0.6	-2.3	-2.1	-5.0	-3.5	-1.0	0.0	1.0	1.0	4.1	3.0	1.6	1.5
Norway	6.2	2.2	-1.0	1.0	-2.0	-2.5	-1.5	0.0	1.0	1.0	4.7	3.6	1.6	0.4
Sweden	2.7	0.4	-1.7	-0.4	-4.0	-3.0	-1.0	0.0	1.0	1.0	4.3	2.7	-0.2	-0.4
Switzerland	3.3	1.7	-1.5	0.1	-4.0	-3.0	-1.0	0.5	1.0	1.2	3.0	1.6	0.0	0.4
United Kingdom	3.0	0.8	-2.5	-2.6	-5.0	-4.0	-1.5	0.0	1.0	1.0	4.8	3.8	0.7	0.2
Emerging Europe	6.4	4.7	-0.7 ↓	5.0 ↓	-4.2 ↓	-2.6 ↓	-1.5 ↑	0.1 ↓	1.2 ↓	2.7 ↓	10.7	9.6	6.9 ↓	6.5 ↓
Bulgaria	6.2	5.2	1.0	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.0	3.5 ↓	-2.0 ↓	3.8	-6.0 ↓	-3.1	-2.5	-3.2	-1.5	0.0 ↓	6.6	4.7 ↓	-0.3 ↓	0.8 ↓
Hungary	1.1	1.0 ↓	-3.0	-0.3	-4.5 ↓	-3.8	-4.0 ↑	-3.0	-1.5 ↓	1.0 ↓	6.3	4.3	1.8 ↓	2.4 ↓
Poland	6.7	4.9 ↓	0.0 ↓	4.9	-3.0 ↓	-2.5 ↓	-0.5	0.0 ↓	1.0 ↓	2.0	4.7	3.8	2.1 ↓	1.9 ↓
Romania	6.0	8.0 ↓	-3.0 ↓	...	...	...	...	...	...	...	8.1	6.8 ↑	6.0 ↑	8.0 ↑
Russia	8.1	6.4	0.0	6.3	-4.5	-2.0	-1.0	2.0	3.0	4.1	14.9	13.8	11.6	10.4
Turkey	4.6	1.7	-0.8	...	...	...	...	...	...	...	11.7	10.9	6.9 ↓	6.1 ↓
Global	3.5	1.8	-1.2 ↓	0.2	-4.5 ↑	-3.5 ↓	0.2	1.8	2.7	2.5	5.0	2.9 ↑	0.7 ↑	1.2
Developed markets	2.4	0.8	-2.2 ↓	-0.8	-5.0 ↑	-4.5 ↓	-0.9	0.6	1.7	1.8	4.2	1.9 ↑	-0.3 ↑	0.5
Emerging markets	7.7 ↑	5.4	2.5 ↓	4.2	-2.7 ↓	0.6 ↓	4.2	6.2 ↓	6.6	4.9	7.8	6.7	4.2 ↓	3.9

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Mar 09	Jun 09	Sep 09	Dec 09	Jun 10
Global	GDP-weighted average	2.03	-268				1.71	1.47	1.44	1.44	1.64
excluding US	GDP-weighted average	2.93	-154				2.45	2.11	2.06	2.05	2.17
Developed	GDP-weighted average	0.95	-319				0.69	0.53	0.53	0.53	0.73
Emerging	GDP-weighted average	6.32	-68				5.75	5.21	5.04	5.04	5.24
Latin America	GDP-weighted average	10.10	129				8.91	8.23	8.23	8.23	8.14
CEEMEA	GDP-weighted average	7.59	59				7.61	7.15	6.67	6.62	6.42
EM Asia	GDP-weighted average	4.43	-189				3.86	3.35	3.23	3.25	3.70
The Americas	GDP-weighted average	1.31	-428				1.15	1.07	1.07	1.07	1.39
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	28 Jan 09	1Q 10 (+12.5bp)	0.125	0.125	0.125	0.125	0.50
Canada	Overnight funding rate	1.50	-300	9 Dec 08 (-75bp)	20 Jan 09	20 Jan 09 (-50bp)	1.00	1.00	1.00	1.00	1.25
Brazil	SELIC overnight rate	13.75	225	10 Sep 08 (+75bp)	21 Jan 09	21 Jan 09 (-75bp)	12.25	11.25	11.25	11.25	11.00
Mexico	Repo rate	7.75	50	**16 Jan 09 (-50bp)**	20 Feb 09	20 Feb 09 (-50bp)	6.75	6.25	6.25	6.25	6.25
Chile	Discount rate	7.25	175	8 Jan 09 (-100bp)	12 Feb 09	12 Feb 09 (-75bp)	6.00	5.75	5.75	5.75	5.75
Colombia	Repo rate	9.50	25	19 Dec 08 (-50bp)	30 Jan 09	30 Jan 09 (-50bp)	8.50	8.00	8.00	8.00	8.00
Peru	Reference rate	6.50	175	11 Sep 08 (+25bp)	5 Feb 09	5 Feb 09 (-25bp)	6.00	5.50	5.50	5.50	5.50
Europe/Africa	GDP-weighted average	2.59	-200				2.09	1.68	1.62	1.61	1.59
Euro area	Refi rate	2.00	-200	**15 Jan 09 (-50bp)**	5 Feb 09	**5 Mar 09 (-50bp)**	1.50	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	1.50	-425	8 Jan 09 (-50bp)	5 Feb 09	5 Feb 09 (-100bp)	0.50	0.50	0.50	0.50	0.50
Sweden	Repo rate	2.00	-150	4 Dec 08 (-175bp)	11 Feb 09	11 Feb 09 (-50bp)	1.50	1.00	1.00	1.00	1.00
Norway	Deposit rate	3.00	-175	17 Dec 08 (-175bp)	4 Feb 09	4 Feb 09 (-50bp)	2.00	1.50	1.50	1.50	1.50
Czech Republic	2-week repo rate	2.25	-100	17 Dec 08 (-50bp)	5 Feb 09	5 Feb 09 (-50bp)	1.50	1.00	1.00	1.00	2.00
Hungary	2-week deposit rate	10.00	225	22 Dec 08 (-50bp)	19 Jan 09	19 Jan 09 (-50bp)	8.50	7.50	7.00	7.00	7.00
Israel	Base rate	1.75	-225	28 Dec 08 (-75bp)	26 Jan 09	26 Jan 09 (-50bp)	1.00	1.00	1.50	2.00	3.00
Poland	7-day intervention rate	5.00	25	23 Dec 08 (-75bp)	27 Jan 09	27 Jan 09 (-50bp)	4.00	3.50	3.00	3.00	3.00
Romania	Base rate	10.25	325	31 Jul 08 (+25bp)	4 Feb 09	4 Feb 09 (+50bp)	11.00	12.00	11.00	10.00	9.00
Russia	1-week deposit rate	6.75	350	28 Nov 08 (+100bp)	1Q 09	1Q 09 (+100bp)	8.75	8.75	7.75	7.75	6.75
South Africa	Repo rate	11.50	150	11 Dec 08 (-50bp)	12 Feb 09	12 Feb 09 (-100bp)	10.50	9.00	8.50	8.00	7.50
Switzerland	3-month Swiss Libor	0.50	-200	11 Dec 08 (-50bp)	13 Mar 08	3Q 10 (+25bp)	0.50	0.50	0.50	0.50	0.50
Turkey	Overnight borrowing rate	13.00	-450	**15 Jan 09 (-200bp)**	19 Feb 09	**19 Feb 09 (-50bp)**	12.00	11.00	11.00	11.00	11.50
Asia/Pacific	GDP-weighted average	2.34	-121				2.03	1.79	1.74	1.74	2.08
Australia	Cash rate	4.25	-225	2 Dec 08 (-100bp)	2 Feb 09	2 Feb 09 (-50bp)	3.50	3.50	3.50	3.50	4.50
New Zealand	Cash rate	5.00	-325	4 Dec 08 (-150bp)	29 Jan 09	29 Jan 09 (-50bp)	4.00	3.50	3.25	3.25	3.25
Japan	Overnight call rate	0.10	-40	19 Dec 08 (-20bp)	20 Jan 09	1Q 10 (+15bp)	0.10	0.10	0.10	0.10	0.25
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	29 Jan 09	1Q 10 (+25bp)	0.50	0.50	0.50	0.50	1.00
China	1-year working capital	5.31	-171	22 Dec 08 (-27bp)	1Q 09	1Q 09 (-27bp)	4.77	4.23	3.96	3.96	4.50
Korea	Base rate	2.50	-250	9 Jan 09 (-50bp)	12 Feb 09	12 Feb 09 (-25bp)	2.00	2.00	2.00	2.00	2.50
Indonesia	BI rate	8.75	50	7 Jan 09 (-50bp)	4 Feb 09	1Q 09 (-50bp)	8.25	7.00	7.00	7.25	8.00
India	Repo rate	5.50	-225	2 Jan 09 (-100bp)	27 Jan 09	27 Jan 09 (-50bp)	4.50	3.50	3.50	3.50	3.50
Malaysia	Overnight policy rate	3.25	-25	24 Nov 08 (-25bp)	21 Jan 09	21 Jan 09 (-25bp)	2.75	2.25	2.25	2.25	2.75
Philippines	Reverse repo rate	5.50	-50	18 Dec 08 (-50bp)	29 Jan 09	29 Jan 09 (-25bp)	5.25	5.00	5.00	5.00	5.50
Thailand	1-day repo rate	2.00	-125	**14 Jan 09 (-75bp)**	25 Feb 09	**25 Feb 09 (-50bp)**	1.50	1.00	1.00	1.00	1.50
Taiwan	Official discount rate	1.50	-163	7 Jan 09 (-50bp)	1Q 09	1Q 09 (-50bp)	1.00	0.75	0.75	0.75	1.25

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

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Forecasts - Australia and New Zealand

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

				2008			2009				2010			
	2008	2009	2010	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	2.3	0.2	1.7	1.4	0.3	-0.5	-0.9	0.5	2.0	0.5	0.5	2.3	3.5	5.0
Private consumption	2.0	-0.1	1.4	-0.5	0.2	-0.8	-1.6	0.8	1.6	1.2	0.8	1.6	2.0	3.2
Construction investment	3.8	-2.0	-2.8	1.6	2.1	-5.1	-3.8	-0.6	-0.6	-4.6	-5.4	-4.2	0.3	4.8
Equipment investment	13.7	-8.3	-7.1	39.4	-0.9	-22.7	-15.6	-2.1	-4.1	-8.1	-19.3	-4.1	4.3	8.6
Public investment	13.3	13.7	13.7	14.3	16.6	16.1	16.2	9.6	10.2	10.8	13.2	15.7	18.1	20.6
Government consumption	3.9	6.6	5.1	4.3	2.4	5.9	7.8	11.8	4.1	5.2	5.2	6.3	2.2	2.1
Exports of goods & services	5.2	-3.8	1.4	12.9	0.0	-0.8	-7.0	-11.5	-3.9	2.8	2.4	3.2	4.9	6.1
Imports of goods & services	12.1	-1.2	-0.2	14.0	6.5	-1.2	-3.9	-6.2	-2.8	-0.8	0.0	1.6	1.6	4.1
Contributions to GDP growth:														
Domestic final sales	4.0	0.8	1.5	4.0	1.2	-0.9	-0.7	2.8	1.8	0.8	-0.3	2.0	3.0	4.8
Inventories	-0.1	-0.2	-0.2	-1.8	0.7	0.3	0.4	-1.4	0.4	-1.1	0.3	0.0	0.0	0.0
Net trade	-1.7	-0.5	0.3	-0.7	-1.6	0.1	-0.5	-0.9	-0.1	0.8	0.5	0.3	0.6	0.3
GDP deflator (%oya)	6.6	3.6	1.8	6.6	8.4	7.4	6.6	4.0	1.9	1.9	1.8	1.7	1.7	2.0
Consumer prices (%oya)	4.5	2.3	2.0	4.5	5.0	4.2	3.3	2.4	1.7	1.9	2.1	1.9	2.0	2.1
Producer prices (%oya)	9.1	4.0	0.7	8.7	10.9	10.0	7.4	3.7	2.6	2.3	1.1	0.5	0.4	1.0
Trade balance (A$ bil, sa)	-5.1	4.4	6.6	-1.7	1.1	3.4	2.7	0.6	0.1	1.0	1.4	1.7	1.8	1.7
Current account (A$ bil, sa)	-67.0	-44.7	-42.4	-14.0	-9.7	-8.5	-9.3	-11.6	-12.2	-11.6	-11.1	-11.3	-10.2	-9.8
as % of GDP	-6.2	-3.6	-3.3	-4.8	-3.2	-2.8	-3.1	-3.8	-4.0	-3.7	-3.6	-3.6	-3.2	-3.0
3m eurodeposit rate (%)*	6.0	5.9	3.7	5.8	7.1	7.2	7.6	6.7	5.9	3.6	3.6	3.7	3.8	3.8
10-year bond yield (%)*	5.6	5.6	4.2	5.6	5.7	6.4	6.1	6.2	5.8	4.4	4.3	4.3	4.2	4.2
US$/A$*	0.75	0.68	0.79	0.74	0.77	0.65	0.60	0.64	0.70	0.76	0.76	0.78	0.80	0.82
Commonwealth budget (FY, A$ bil)	13.5	-14.0	-55.0											
as % of GDP	1.1	-1.1	-4.3											
Unemployment rate	4.3	5.8	8.0	4.3	4.2	4.6	5.1	5.5	6.0	6.4	7.0	7.7	8.3	8.9
Industrial production	3.0	-2.0	3.5	2.6	-4.0	-3.0	-4.0	-2.0	1.0	3.0	6.0	4.0	2.0	0.0

*All financial variables are period averages

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

				2008			2009				2010			
	2008	2009	2010	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	0.4	0.2	2.4	-0.8	-1.5	-1.8	-0.9	1.2	4.1	4.9	1.2	0.6	2.5	3.5
Private consumption	0.1	0.5	2.6	-0.8	-0.6	-0.8	0.3	0.2	3.5	4.0	3.0	2.0	1.0	1.8
Fixed Investment	-2.9	-5.2	6.3	7.1	-29.7	-11.1	-2.0	1.4	5.2	8.9	5.7	7.4	6.0	6.0
Residential construction	-16.9	-15.8	7.0	-28.9	-27.6	-40.0	-12.0	0.0	12.0	14.0	4.0	6.0	4.0	6.0
Other fixed investment	0.6	-3.0	6.2	17.1	-30	-4.0	-0.1	1.6	4.0	8.0	6.0	7.6	6.4	6.0
Inventory change (NZ$ bil, saar)	1.7	2.2	2.4	0.3	0.6	0.4	0.4	0.5	0.6	0.7	0.8	0.6	0.5	0.6
Government spending	4.1	8.5	0.2	0.7	4.2	8.1	10.7	8.7	12.7	8.2	-4.8	-11.0	1.7	-0.9
Exports of goods & services	-1.0	-3.3	4.7	-1.0	-12.0	-5.0	-2.4	-1.5	1.0	1.5	10.0	5.0	4.0	8.0
Imports of goods & services	3.4	-2.3	3.8	16.0	-27.1	-8.0	0.5	5.0	7.0	8.0	2.0	1.0	2.0	3.0
Contributions to GDP growth:														
Domestic final sales	1.4	0.0	2.2	6.2	-12.1	-1.2	0.0	2.3	5.8	5.6	-1.9	1.6	3.2	1.6
Inventories	0.6	0.3	0.2	-0.6	2.9	-2.1	0.0	1.2	0.6	1.8	0.9	-2.1	-1.2	0.6
Net trade	-1.6	-0.2	0.0	-6.1	8.6	1.5	-0.9	-2.3	-2.2	-2.5	2.1	1.1	0.5	1.3
GDP deflator (%oya)	2.7	1.4	3.0	3.7	1.6	-0.3	-0.6	0.8	2.7	2.7	2.8	3.0	3.1	3.1
Consumer prices	4.1	0.8	1.4	6.7	6.2	0.7	2.0	0.8	0.4	0.0	1.6	2.0	3.2	2.8
%oya	4.1	2.0	1.4	4.0	5.1	4.0	3.8	2.4	1.0	0.8	0.7	1.0	1.7	2.4
Trade balance (NZ$ bil, sa)	-3.8	-7.2	-5.8	-1.1	-0.9	-1.6	-1.7	-1.7	-1.9	-1.9	-1.6	-1.4	-1.3	-1.4
Current account (NZ$ bil, sa)	-17.9	-18.0	-20.8	-4.7	-4.1	-5.6	-2.1	-3.9	-6.6	-5.4	-5.6	-5.4	-4.8	-4.9
as % of GDP	-10.1	-14.1	-10.9	-10.4	-9.3	-12.8	-15.2	-15.1	-14.5	-11.7	-12.1	-11.5	-10.1	-10.1
Yield on 90-day bank bill (%)*	8.5	7.8	5.5	8.8	8.2	8.2	8.0	8.6	8.0	6.6	6.1	5.5	5.3	5.2
10-year bond yield (%)*	6.2	6.0	5.1	6.5	5.9	6.2	6.0	6.4	6.4	5.3	5.2	5.1	5.0	5.2
US$/NZ$*	0.75	0.68		0.78	0.71	0.72	0.70	0.68	0.67	0.59	0.60	0.62	0.64	0.64
Commonwealth budget (NZ$ bil)	-1.8	-7.2	-8.6											
as % of GDP	-1.0	-4.0	-4.5											
Unemployment rate	4.0	5.6	6.4	3.9	4.2	4.4	4.8	5.2	5.8	6.7	6.8	6.4	6.2	6.0

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
19 Jan	20 Jan New Zealand : CPI (10:45 am) 4Q 4.0 %oya	21 Jan Australia : Westpac consumer confidence (10:30 am) Jan 2.0 %m/m, sa New Zealand : Retail sales (10:45 am) Nov -0.6 %m/m, sa	22 Jan Australia : New motor vehicle sales (11:30 am) Dec New Zealand : PMI (10:30am) Dec	23 Jan Australia : Export price index (11:30 am) 4Q 1.2 %q/q Import price index (11:30 am) 4Q 1.1 %q/q
26 Jan New Zealand : Credit card spending (03:00 pm) Dec *Holiday Australia*	27 Jan Australia: NAB bus. confidence (11:30 am) Dec PPI (11:30 am) 4Q	28 Jan Australia : Westpac leading index (10:30 am) Nov CPI (11:30 am) 4Q	29 Jan New Zealand : RBNZ official cash rate (9:00 am) Feb Trade balance (10:45 am) Dec	30 Jan Australia : Pvt. sector credit (11:30 am) Dec New Zealand : Building permits (10:45 am) Dec
2 Feb Australia : House price index (11:30 am) 4Q New Zealand : Labor cost index (10:45 am) 4Q	3 Feb Australia : RBA cash target (2:30 pm) Feb Trade balance (11:30 am) Dec	4 Feb Australia : Retail sales (11:30 am) Dec Building approvals (11:30 am) Dec New Zealand: Visitor arrivals (10:45am) Dec ANZ commodity price (03:00pm) Jan	5 Feb New Zealand : Unemployment rate (10:45 am) 4Q	6 Feb *Holiday New Zealand*
9 Feb Australia : ANZ job ads (11:30 am) Jan New Zealand : QV house prices Jan	10 Feb Australia : NAB business confidence (11:30 am) Jan	11 Feb Australia : Housing finance (11:30 am) Dec Westpac consumer confidence (10:30 am) Feb	12 Feb Australia : Unemployment rate (11:30 am)Jan	13 Feb New Zealand : Retail sales (10:45 am) Dec

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
19 - 23 January	**19 January**	**20 January**	**21 January**	**22 January**	**23 January**
China • CPI (Dec) • FAI (Dec) • GDP (4Q) • IP (Dec) • Retail sales (Dec)	Euro area • Trichet speech Hungary • NBH meeting Japan • Dept store sales (Dec) • IP final (Nov)	Canada • BoC meeting Germany • ZEW business surv (Jan) Japan • Consumer sent (Dec) • Tertiary sector activity index (Nov) Poland • IP (Dec) United Kingdom • CPI (Dec)	Brazil • COPOM meeting Euro area • Trichet speech Malaysia • BNM meeting United Kingdom • Labor mkt report (Dec) • MPC minutes United States • NAHB survey (Jan)	Euro area • Industrial orders (Nov) Japan • BoJ bank loan officers survey (4Q) • International trade (Dec) • Reuters Tankan (Jan) • BoJ meeting United States • FHFA HPI (Nov) • Housing starts (Dec)	Canada • CPI (Dec) Euro area bus survs • Belgium BNB (Jan) • Euroarea PMI flash (Jan) • France INSEE (Jan) Japan • All sector act ind (Nov) Korea • GDP prelim (4Q) Taiwan • Export orders, IP (Dec) United Kingdom • GDP prelim (4Q) • Retail sales (Dec)
26 - 30 January	**26 January**	**27 January**	**28 January**	**29 January**	**30 January**
United Kingdom • Nationwide HPI (Jan)	Germany • CPI prelim (Jan) Russia • IP (Dec) United States • Existing home sales (Dec)	Germany • IFO business surv (Jan) India • RBI meeting Japan • BoJ minutes Poland • NBP meeting United States • S&P/C-S HPI (Nov)	Australia • CPI (4Q) Italy • ISAE business surv (Jan) Japan • Shoko Chukin (Jan) South Africa • CPI (Dec) United States • FOMC meeting	Euro area • EC business surv (Jan) • M3 (Dec) Germany • Employment (Dec) • Unemployment (Jan) Japan • Retail sales (Dec) New Zealand • RBNZ meeting Philippines • BSP meeting Poland • GDP (4Q) United States • Durable goods (Dec) • New home sales (Dec)	Colombia • BanRep meeting Euro area • HICP flash (Jan) • Unemployment (Dec) Japan • CPI (Dec) • Hhold spending (Dec) • Housing starts (Dec) • IP prelim (Dec) • PMI mfg (Jan) • Unemployment (Dec) Korea • IP (Dec) United States • Chicago PMI (Jan) • Consumer sent (Jan) • Employ cost index (4Q) • Real GDP advance (4Q)

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