

Business Planning Forecasts

17 November 2004

FORECASTS: DECEMBER QUARTER 2004

Introduction

This bulletin is designed to help plan your business. It brings together forecasts of important indicators to help you prepare budgets and business plans.

The forecasts are drawn from two main sources. The New Zealand information is based on a survey of the five main trading banks (ANZ, ASB, BNZ, National, and Westpac). The Australian information is based on consensus forecasts put together by the UK based magazine "The Economist". Sources of other information are as shown.

We stress that the information in this publication is by its nature uncertain. Your firm is unique, and you will need to make your own decisions. However, we believe the better informed you are about the way various business people see the future, the better decisions you can make.

Where appropriate we have not only included the average value across all forecasters, but also the highest and the lowest forecast. This gives some idea of the spread of forecasts, and therefore an idea of the uncertainty involved.

Business New Zealand
November 2004

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Part 1: The New Zealand Economy

1.1. Economic Growth (GDP)

Most recent outcome: +4.4% for the year-ended June 2004.

Gross Domestic Product (GDP) is a measure of total economic activity for a country over a given period. GDP growth has averaged 3.8% per annum over the past five years, with only one quarter of decline out of the last 20 (June 2000).

GDP growth in the June 2004 quarter was more subdued than the previous quarter, rising by 0.9%. This was the same level of growth as at the December 2003 quarter. Both internal and external demand sustained economic activity in the June quarter, with household spending remaining at high levels, investment in residential building maintained, business investment increasing and export volumes up. Growth was widespread across almost all industry groups, although manufacturing was down slightly (-1.9%) in the quarter, while construction continued its strong (albeit lower) upward movement of 6.6%.

While short-term forecasts for economic growth have been revised up, medium-term forecasts have been revised down since our previous report. They now suggest that GDP will increase by a strong 4.8% for the year ended December 2004, but will fall to around 2.4-2.5% for each of the years ended December 2005 and 2006.

Forecasts: Real GDP % Growth

	Years Ending		
	Dec 04	Dec 05	Dec 06
Highest	5.1	2.6	2.5
Average	4.8	2.3	2.4
Lowest	4.3	2.0	2.3

Source: ANZ, ASB, BNZ, National, and Westpac

Key factors to influence GDP over the next two years will include:

Global economic recovery

Notwithstanding higher oil prices (which have reached new record highs of \$US46 per barrel) and large current account imbalances, strong growth rates continue to be recorded in Australia, the United States, the UK and most of Asia (driven in large part by China's continuing boom). Even prospects for Japan and Europe are looking up. This improved demand outlook for our exports is encouraging as most economists are picking that the domestic economy (which has underpinned growth since 2001) will slow in 2005 and 2006.

Interest rates

On 28 October the Reserve Bank increased its Official Cash Rate (OCR) by another 0.25% to 6.50%, its sixth increase since the start of the year and universally expected among most economists. The Reserve Bank viewed that New Zealand's

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economy was still performing strongly and recent domestic economic data has delivered positive surprises. However, resources would remain stretched for some time yet, hence inflation pressures would persist. However, of more interest was the Reserve Bank's statement that current settings of monetary policy were now doing enough to ensure price stability – hence giving the indication of a break in interest rate hikes for the short term at least. Unless there is a sizable exchange rate drop, most are expecting no change in December.

The Dollar

Between November 2000 and February 2004 the New Zealand Dollar (NZD) appreciated by almost 50% on the Trade Weighted Index (TWI) and by almost 80% against the US Dollar. After reaching a peak of 69.0 against the TWI on 18 February, the NZD fell back sharply to 61.5 on 18 May. Over the past six months the TWI has increased again to reach 67.7 on 12 November. Despite the recent strength in the NZD, most economists expect the NZD to ease back gradually over the next two years.

Tourism and net migration flows

Over the past two to three years strong tourism numbers have helped maintain retail sales growth, and large migration inflows have boosted domestic consumer spending, car sales and house building. Migration has also, to an extent, helped mitigate some of the pressures that have built in the labour market. While the prospects for tourism appear good, net migration is continuing to turn downwards at a sharp rate.

Short-term visitor numbers increased 9% for the year ended September 2004. Most Asian markets are now recovering from losses suffered in early 2003 (albeit slowly), and visitor numbers from Australia, the UK and the USA are growing particularly strongly.

The annual net migration gain peaked at 42,500 for the year ended May 2003 but has consistently fallen to a 17,800 gain for the year ended September 2004. While the current net gain is still above the long-run average, continued falls in migration arrivals and increases in migration departures will most likely see net gains fall further.

As the slowdown in migration continues along with increasing interest rates the housing market has begun to dampen. While the median sell price for a house has gradually increased to hit a new record of \$250,000 in September, the number of sales declined further, mostly at the lower end of the market (i.e. under \$400,000). The number of houses sold in September 2004 was 7,854, well below the peak of 10,687 in September 2003, and more in line with the 7,943 for September 2002.

Commodity prices and farm incomes

International commodity prices boomed in 2003 and have continued to reach even higher levels well into 2004. ANZ Bank's Commodity Price Index was up 18.9% for

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the year ended October 2004. These increases have been characterised by rises in prices for dairy, beef and lamb at historically high levels.

The continued strength of the New Zealand dollar has meant that the increases in the commodity price index have been muted when expressed in NZD terms. Although the NZD index is 5.7% higher than in October 2003, it remains 25.1% below its peak in April 2001.

Higher commodity prices have been one of the influences that have contributed to economic growth remaining stronger for longer than many economic commentators have previously predicted. High commodity prices are contributing to large sections of the export sector, which is continuing the impetus on New Zealand's economy. Rural incomes, which were bracing for deterioration after the boom times of 2000 and 2001, have not experienced the fall most expected as world demand for their commodities remain high.

Business confidence

Business confidence influences the propensity for businesses to invest in capital and employ staff, so is an important determinant for future economic growth. Businesses were generally very pessimistic early in the year but there has been an improvement over recent months.

The September 2004 NZIER Quarterly Survey of Business Opinion reported that the business community was less pessimistic than in the preceding two quarters. A net 16% expected general business conditions to deteriorate over the next six months. Meanwhile, pressure on resources has reached an all time high, with capacity utilisation at 93% - the highest level since the survey began in 1961. Labour constraints were also a key feature, as 22% of firms reported labour as the single factor most limiting their ability to increase turnover.

The National Bank Business Confidence Index showed a somewhat differing result, as confidence fell away slightly for the last two months after a continued improvement from April-August. During October a net 21% of businesses expected deterioration in general business conditions over the coming 12 months, compared to a net 13% in July.

Meanwhile, the ANZ-Business New Zealand PMI stood at 56.7 for October 2004, compared to 64.6 in October 2003. The level of expansion has gradually fallen since June, although results since July have been relatively similar. New orders continues to show strength, and has led the way for 11 out of the last 12 months. Employment continues to languish last and hovers between slight expansion and decline.

Investment

Despite the gloom about general business conditions, business investment has increased significantly over the past couple of years (e.g., up 13.5% for the year ended June 2004). This increase has been assisted by a stronger NZD, which

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reduces prices for imported plant, machinery and equipment in NZD terms. Increased levels of business investment should help lift capacity and productivity.

Consumer confidence

The Westpac McDermott Miller Consumer Confidence Index rose in the September 2004 quarter to be at a very high level (125.0) after a slight dip in the level of net optimists over the past few months. The rise in confidence was mainly due to a record increase in the number who believed they were better off financially than a year ago. Strong employment and wage growth and higher house prices have all made homeowners feel wealthier and more confident. While confidence remains high, retail sales have flattened out over the last couple of months, but were up 7.6% for August 2004 compared to August 2003.

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1.2 Inflation

Most recent outcome: +2.5% year-ended September 2004

The rate of inflation, as measured by the Consumer Price Index (CPI), provides an indication of the extent to which price levels have increased and a benchmark for wage demands. It is also the key reference point for monetary policy.

Inflation increased slightly from the June quarter, after a significant rise from March-June. The booming housing market continues to be one of the main inflation drivers over the past two years, with the housing group of the CPI increasing by 6.7% for the year ended September 2004. The main reasons for the increase have been rise in the costs of dwelling purchases (+15.9%), purchase and construction of new dwellings (+9%) and insurance of dwellings (+8.3%). Central and Local Government Charges increased by 5.3% over the same period, which was largely driven by higher local authority rates (up 6.3%) and well as higher excise taxes for petrol, alcohol, and tobacco.

The strengthening NZD over the past two years has acted as a dampener on overall inflation. This saw 'tradable' inflation fall into negative territory, compensating for a high level of 'non-tradable' inflation, which meant the CPI had appeared to be at a comfortable level given the two-speed economy of 2002-03. However, 'tradable' inflation is now in positive territory (+0.5 to 0.6%), causing a double whammy effect on inflation. This risks a breach in the Reserve Bank's 1-3% inflation target.

CPI forecasts have once again been revised upwards since the last quarter for the short term, but have eased slightly for the medium-long term. The Reserve Bank's latest OCR increase (up 25bps to 6.5%) came with a statement that signalled further short-term hikes were not on the table as they were prepared to wait for policy lags to work through the system. However, with no real signs of easing inflation pressure, and CPI expected by many to exceed 3% in 2005, how long the Reserve Bank takes to revisit that decision may be relatively short.

Forecasts: % Change in Inflation (CPI)

	Years Ending		
	Dec 04	Dec 05	Dec 06
Highest	2.8	3.0	2.3
Average	2.7	2.6	2.2
Lowest	2.6	2.3	2.0

Source: ANZ, ASB, BNZ, National, and Westpac

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1.3 Labour Costs

Most recent outcome: +2.2% year-ended September 2004

Statistics NZ produces an index that measures movements in the total cost of employing labour, the Labour Cost Index (LCI). The LCI has fixed industry and occupation weights and measures changes in wages and salaries for a fixed quantity and quality of labour input. As such, the LCI is preferred by the Reserve Bank as a measure of labour costs.

Stronger demand for labour has caused skills shortages in a number of industries and regions, so pushing up average labour costs. Growth in the LCI has increased steadily over recent times, with recent year ended rises over the last seven quarters well above previous levels last seen in 1997. The September quarter saw an increase of 0.7% for all salary and wage rates from June, and an increase of 2.2% for the year ended September.

The industry groups that experienced the largest labour cost increases for September 2004 compared to September 2003 was construction (+3.4%), personal & other services (+3.2%) and mining (+2.5%). The construction industry recorded its largest annual increase since the LCI began in 1992. The industry groups with the smallest increases were printing, publishing & recorded media (+1.1%) and communication services (+1.5%).

The occupational groups experiencing the largest increases were trades workers (+3.2%), elementary occupations (+2.9%), clerks and professionals (+2.4%). The occupational groups with the smallest increases were legislators, administrators and managers (+1.6%) and service and sales workers (+2.0%).

Wage inflation pressures are likely to remain relatively high. Given the continued labour market shortages and record unemployment rate, further wage pressure may be evident well into 2005.

Forecasts: Labour Cost Index % Change

	Years Ending		
	<i>Dec 04</i>	<i>Dec 05</i>	<i>Dec 06</i>
Highest	2.3	2.6	2.4
Average	2.3	2.3	2.1
Lowest	2.3	2.0	1.7

Source: ANZ, ASB, BNZ, National, and Westpac

An alternative measure of labour costs is the Quarterly Employment Survey (QES). The QES tends to be much more volatile than the LCI, mainly because it reflects compositional changes in the labour force. The most recent QES release shows that average hourly earnings grew by 3.4% for the year-ended September 2004, down from a 4.3% increase for the year-ended June 2004, but slightly up from the 3.3% recorded for the year ended March and December.

1.4 Employment

Most recent outcome: +2.9% year-ended June 2004

Employment growth has been strong over the past five years. According to the Household Labour Force Survey, the number employed has grown by around 13.3% over a five-year period from since September 1999 and the unemployment rate has fallen from 5.9% to 3.8% - the lowest rate since the Household Labour Force Survey began in 1985 and the second lowest unemployment rate in the OECD. Continued employment growth should continue to sustain the domestic economy.

2004 has seen strong growth in the labour market, with the September quarter data continuing to show better than predicted results. There was a much stronger than expected quarterly increase in employment (up 0.9%) and an unexpected fall in unemployment (from 4.0% to 3.8%). The labour market clearly remains very tight, consistent with the results of the NZIER Quarterly Survey of Business Opinion and the ANZ Job Advertisements series.

In the year to September 2004 56,000 more people were employed, taking the number of people employed to well past the 2 million number. With unemployment falling by 12,000 and the working age population increasing by 46,000, the labour force participation rate increased from 66.6% to 67% for the first time. Although such a rate is another indication of a tighter labour market, there is still scope to increase labour force participation of both men and women, particularly those aged over 60. The substantial fall in unemployment over recent years has been broadly based across the sexes, ethnic groups, and regions.

Comparing September 2004 with September 2003, the industry groups recording the largest increases in employment were business & financial services (+11.7%), manufacturing (+5.9%), and construction (+2.9%). In contrast, transport, storage & communication (-1.6%) and wholesale & retail trade (-0.3%) experienced minor falls in employment.

The forecasts below were received prior to the latest HLFS release. With HLFS unemployment again surprising on the downside, it is possible that short-medium term forecasts for unemployment will again be revised downwards, although the amount of resources still available in the unemployment pool is beginning to wane.

Forecasts: Unemployment % (HLFS)

	Years Ending		
	<i>Dec 04</i>	<i>Dec 05</i>	<i>Dec 06</i>
Highest	4.1	4.8	5.2
Average	4.0	4.3	4.5
Lowest	3.8	3.9	4.0

Source: ANZ, ASB, BNZ, National, and Westpac

1.5 Interest Rates (90-day bill rate)

Most recent outcome: 6.42% as at 13 August 2004

In general, overdraft and mortgage interest rates move in line with the 90-day bill rate, which is in turn heavily influenced by the Reserve Bank's OCR (although they may be in variance if the markets price in future increases or decreases in the OCR).

So far this year, the Reserve Bank has increased the OCR on six occasions (each time by 0.25%), with it now standing at 6.5%. The Bank has been concerned for some time that the strong domestic economy is generating inflationary pressures, but until recently it took comfort from a higher NZD pushing down import prices. It was therefore prepared to accommodate non-tradable inflation more than it would have had the NZD been at a lower level.

The rate of appreciation of the exchange rate has eased and there are now concerns that tradable inflation is back on the rise. If sustained, a weaker NZD will generate imported inflation at a time when domestic inflation is already at uncomfortable levels. The Bank will be watching for signs of the domestic economy slowing and easing inflationary pressures, otherwise it will be forced to make further increases in the OCR.

Most economists have increased their forecasts of 90-day interest rates for the remainder of 2004 and 2005. This implies a moderate further tightening by the Reserve Bank. Interest rates are expected to be lower in 2006 though.

Forecasts: Interest Rates (90 day bills)

	As at End of		
	Dec 04	Dec 05	Dec 06
Highest	6.8	6.6	6.1
Average	6.8	6.3	5.9
Lowest	6.8	5.8	5.7

Source: ANZ, ASB, BNZ, National, and Westpac

1.6 Exchange Rates

Most recent outcome: NZD = US\$0.6891 as at 12 November 2004

NZD = AU\$0.9021 as at 12 November 2004

TWI = 67.7 as at 12 November 2004

After falling sharply from mid-February to mid-May, the NZD has continued to rise against almost all major currencies over the past three months. Since the September business forecast, the NZD has appreciated by 5.2% against the USD and 3.3% against the UK pound. However, it has stayed almost the same against the Japan yen, while recording slight falls for the Australian dollar (-0.8%) and Euro (-0.3%). Against the TWI, it has increased 1.8%.

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Comparative interest rates are just one of a number of factors that can influence exchange rates. Others include current account deficits and relative growth rates. With New Zealand's growth rates having been higher than most OECD countries over the past few years it is perhaps not surprising that the NZD has increased in value.

Consistent with a rising exchange rate, export values fell consistently during 2002 and 2003, with import values also being relatively flat. However, during the first half of this year both exports and imports rose strongly despite the higher exchange rate. This was mainly due to increasing world commodity prices as a global recovery has taken shape. However, after June both exports and imports have declined, although exports at a faster rate that has led to near record trade deficits. New Zealand's strong domestic economy has helped prop up import values so far.

All economists agree that accurately forecasting changes in exchange rates is fraught with difficulty – currency forecasts must always be treated with caution. The fall in the exchange rate in February-March caused forecasters to revise down their short-term forecasts. However, the ongoing appreciation of the NZD since that time has resulted in both short and medium-longer term forecasts being revised up.

AUD (cents)			
	<i>Dec 04</i>	<i>Dec 05</i>	<i>Dec 06</i>
Highest	93.7	87.9	88.0
Average	91.9	85.3	86.1
Lowest	90.0	83.0	84.9

USD (cents)			
	<i>Dec 04</i>	<i>Dec 05</i>	<i>Dec 06</i>
Highest	68.5	64.2	60.3
Average	66.5	57.6	56.1
Lowest	65.0	54.0	53.0

TWI			
	<i>Dec 04</i>	<i>Dec 05</i>	<i>Dec 06</i>
Highest	68.4	63.2	60.3
Average	66.9	59.4	58.7
Lowest	65.1	55.8	57.2

Source: ANZ, ASB, BNZ, National, and Westpac

In practice, buying forward foreign currencies can reduce the risk in cross rate movements. Forward cover rates are based on the exchange rate when it is bought, so it pays to watch daily movements and buy at the right time, particularly in light of recent movement in the exchange rate with Australia and the United States. Forward cover rates can be obtained from banks.

Part 2: The Australian Economy

Monitoring the performance of the Australian economy is critical in that firstly, it provides a measure of how well New Zealand exporters are likely to fare (a stronger Australian economy will be generally 'suck in' imports) and secondly, it provides an indication of the likely strength of competition from Australian sourced products on the domestic market.

2.1 Economic Growth (GDP)

Most recent outcome: +3.7% for the year-ended June 2004.

Forecasts (averages):

- November 2004: +3.6%
- November 2005: +3.2%

Source: The Economist

Australian GDP has grown solidly since a brief slack period in mid-2003 while forecasts predict growth to continue by over 3% for the next two years. Both exports and imports have risen strongly so far this year, consistent with the New Zealand situation. Business and consumer confidence continues to be at record highs. However, the main difference with New Zealand is that Australia's housing market has slowed and appears not in to be such a significant driver of inflation.

Some key recent economic statistics:

- Real retail sales up 6.3% for August 2004 compared to August 2003.
- Motor vehicle sales up 2% for September 2004 compared to September 2003.
- Manufacturers sales up 3.4% for June 2004 compared to June 2003.
- Dwelling unit approvals down 7.2% for August 2004 compared to August 2003.
- Employment up 2.0% for September 2004 compared to September 2003.
- Unemployment rate of 5.6% as at September 2004 – a fall from 5.7% in August.
- Company profits before tax up 4.4% for June 2004 compared to June 2003.

The latest Australian PMI results show the pace of manufacturing activity has increased slightly, with a reading of 53.3 for October 2004 (up from 52.2 in September). The Australian PMI has been below the New Zealand PMI for the past six months, but it is important to bear in mind that the Australian PMI is seasonally adjusted, whereas the New Zealand PMI is not at the same stage of development.

2.2 Headline Inflation

Most recent outcome: +2.3% for the year-ended September 2004

Forecasts:

- December 2004: 2.5%
- December 2005: 2.7%

Source: The Economist

After breaching the higher limit of the Reserve Bank of Australia's 2-3% target in March 2003, inflation has steadily eased as the economy slowed and the appreciation in the AUD (particularly against the USD) has taken effect. The slowing in the Australian housing market has also helped cool inflationary pressures.

Australia's wage cost index increased by 3.5% for the year ended June 2004, while Australia's unemployment rate remains at 5.6% - considerably higher than New Zealand's current rate of 4.0%.

2.3 Interest rates (90-day bills)

Most recent outcome: 5.45% as at 12 November 2004

Forecasts:

- March 2005: 5.95%
- June 2005: 5.85%

Source: HSBC

Late last year the Reserve Bank of Australia (RBA) increased its OCR twice (from 4.75% to 5.25%) but this year it has been left unchanged.

Some economists suggest that further increases in the Australian OCR are unlikely in the short-medium term, as the two 25 basis point rate hikes at the end of 2003 were enough to stabilise house prices without causing a serious economic downturn.

However, given the RBA's focus on circumstances likely to prevail in a year or two, continuing falls in unemployment, higher employment growth, import prices adding to inflation and possible renewed interest in property, there is the strong possibility that inflation will track higher in the year ahead, which would put renewed impetus on cash rate hikes.

Part 3: Rest of the World

The economic picture in the rest of the world is very important for New Zealand. Generally speaking, the international climate was not particularly favourable over the period 2000-03, but it now appears that a sustained recovery is underway – although record high oil prices continue to be a cause for concern.

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United States

The U.S expansion has lifted to a 3.7% annual rate in the September quarter, after it slowed to 2.8% in the June quarter. This was still lower than the 4.5% pace in the March quarter and 6.2% growth rate for the second half of 2003. Much of last years growth was based on short-term effects such as cuts in income tax and interest rates. Growth is likely to slow further for the remainder of 2004 and into 2005 as energy prices remain high. Consumer confidence has continued to fall over the last three months, while the ISM manufacturing index (the US version of the PMI) has steadily fallen after 10 months of values over 60. The US unemployment rate for October (5.5%) rose modestly from the August and September results, however retail sales have shown strength in most sectors.

The Federal Reserve increased its Federal Funds Rate from 1% to 2% since our last forecast, with the recent 25bp hike widely expected by commentators. A further increase in December is likely although its latest comments have been more measured due to the weaker recent data. The Federal Reserve considers that growth and inflation risks remain 'balanced'.

The continued lacklustre economic news has been a factor behind the sustained weaker USD. The large and growing fiscal and trade deficits mean that the fundamentals are against a sustained rise in the USD. For example, the US trade deficit has now been over US\$50 billion for three consecutive months as exports continue to remained flat, while imports surge upwards.

Japan

For over a decade the Japanese economy has been stagnating and suffering from prolonged deflation. However, there have more recently been signs of a rebound, with strong data on industrial production and GDP, a reduction in unemployment, and signs that deflation may soon become mild inflation. Many are suggesting that this improvement in fortunes is being driven by demand generated by the Chinese economy.

Recent economic news has confirmed increased economic fortunes for Japan. Consumer prices were flat in the year ending September, which has raised hopes of the long period of deflation ending. Also, Japan's unemployment rate fell to 4.6%, compared with 5.1% a year earlier. Despite the positive results, forecasters have downgraded their GDP forecasts for Japan, with growth expected to be around 4.3% for 2004 and 2.1% for 2005.

Asia

Asian economies were hit hard by the impact of SARS last year, but most have since bounced back and are now growing strongly, largely due to very strong increases in industrial production. Current annual growth rates include 9.1% for China, 12.1% for Hong Kong, 7.4% for India, 8.0% for Malaysia, and 7.7% for Singapore. This should have flow on effects for New Zealand exporters.

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Some commentators have predicted Asia to have its best economic performance year since 1997, although higher oil prices may have some influence in cooling growth rates. Much of the regions growth is dependant on China's continued red-hot performance. While there has been recent talk of China trying to slow down growth to prevent any overheating (China last month raised its benchmark one-year lending rate for the first time in nine years), it is still expected to post over 9% by the end of 2004.

Europe

GDP growth in the Euro area has continued to increase, reaching 2% for the year ended June 2004. It is likely to hover around that level to 1.8% for 2004 and 1.9% for 2005. Most countries are exhibiting average growth rates, although Sweden (3.6%) stands out compared to most rates between 1.3-3%. This slow growth is likely to be a reflection of low population growth, generally less flexible economies and rigid monetary policy from the European Central Bank. Non-Euro countries with the freedom to set their own monetary policy, such as the United Kingdom and Sweden, have fared somewhat better (although Switzerland has not).

The UK grew by 3% for the year ended September 2004 and is forecast to grow by 3.2% in 2004 and 2.5% in 2005. While the UK remains near the top of projected growth rates (only bettered by projections for Sweden), these figures are slightly down from the previous business forecast. New EU members such as Poland, Czech Republic, Hungary, and the Baltic states are all growing considerably faster, at annual rates of 3-9% (albeit off much lower bases), than the 'old' EU countries.

World Outlook

Most economists are predicting that 2004 should be a better year than any since 2000. 2005 will see slower rates of growth, but will still be stronger than during the 2000-03 period. An improved global outlook would obviously be good news for New Zealand, but unexpected events (e.g., SARS, war, terrorist attacks etc) show how fragile economies can be.

Continued instability exists in the Middle East, including the Iraq crisis and a possible upcoming change in leadership for the Palestinians. In addition, large current account imbalances and rising oil prices are all overshadowing the growth outlook.

Forecasts: World GDP Growth (Selected Trading Partners)

<i>Country</i>	<i>2004</i>	<i>2005</i>
Australia	3.6%	3.2%
Canada	3.0%	3.3%
Japan	4.3%	2.1%
United Kingdom	3.2%	2.5%
United States	4.4%	3.4%
Euro Area	1.8%	1.9%

Source: Economist

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Oil price rises are also likely to feed into higher inflation around the world. Inflation forecasts in most countries have again increased since our September forecast, particularly for 2005. As a result, monetary policy will likely be tightened.

Forecasts: World Consumer Price Inflation (Selected Trading Partners)

<i>Country</i>	<i>2004</i>	<i>2005</i>
Australia	2.5%	2.7%
Canada	2.0%	2.2%
Japan	-0.1%	0.1%
United Kingdom	1.4%	1.7%
United States	2.6%	2.3%
Euro Area	2.1%	1.8%

Source: Economist