Business Planning Forecasts

23 February 2007

FORECASTS: MARCH QUARTER 2007

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 the 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
February 2007

Executive Summary – Positive Signs Emerging

A number of indicators show the New Zealand economy continuing to perform at reasonable levels. Economic growth has been lower than expected but the outlook has improved. Commodity prices are up, with a stronger world economy and a drought in Australia good news for New Zealand's commodity producers. Lower than expected inflation figures will ease concerns for the Reserve Bank, which is positive for the future direction of both interest rates and the NZ dollar. Business and consumer confidence are rising strongly on the back of reduced petrol prices while the labour market is taking a slight breather after a strong run throughout the first half of this decade.

Part 1: The New Zealand Economy

1.1. Economic Growth (GDP) – Continuing to slip

Most recent outcome: 1.4% for the year-ended September 2006.

Gross Domestic Product (GDP) is a measure of total economic activity for a country over a given period. Since 2000, GDP growth has averaged 3.5% per annum, which indicates a strongly performing economy and higher growth rates than many other countries New Zealand compares itself with. However, GDP growth has severely slowed, sitting at only 1.4% for the September 2006 year.

Results by quarter show economic activity increasing 0.3% in the September 2006 quarter, following an increase of 0.4% for the June quarter and 0.8% during the March 2006 quarter. Over the last ten quarters, only one quarter (June 2005) has shown growth at or over 1%.

The continued strength of the services sector was the major contributor to growth in the September 2006 quarter, while the manufacturing sector weakened the overall result. The financial, insurance and business services group, together with the transport and storage, and communication industries, contributed strongly to the quarter 0.9 percent growth in the service industries. Manufacturing production fell 1.0% in the September 2006 quarter, with sales growth sourced from inventories.

Business investment in fixed assets rose 2.2 percent in the September 2006 quarter following a 6.0 percent fall the previous quarter. In the year ended September 2006 business investment rose 0.9%.

The continuing trend of lower quarterly growth obviously does not provide enough impetus for New Zealand to head towards the top half of the OECD. However, there appears to be some light at the end of the tunnel, with expectations that GDP has all but bottomed out, and will increase at a much stronger rate over 2008-2009.

Forecasts: Real GDP % Growth

	Years Ending		
	Mar 07	*Mar 08*	*Mar 09*
Highest	1.8	2.8	3.6
Average	1.7	2.3	2.9
Lowest	1.5	1.5	2.5

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

Business New Zealand believes key factors to influence GDP over the next two years will include:

Interest rates – Leading the charge

While New Zealand's Official Cash Rate (OCR) is still high by international standards, expectations are that the United Kingdom and possibly Australia will continue to raise their official interest rates, further reducing the interest rate gap between New Zealand and the rest of the world.

Official Interest rates

Central Bank	Current rate (%)	Previous rate
Reserve Bank of Australia	6.25%	6.00%
US Federal Reserve	5.25%	5.00%
Bank of England	5.25%	5.00%
European Central Bank	3.50%	3.25%
Reserve Bank of NZ	7.25%	7.00%

While a number of commentators last year expected the Reserve Bank to increase the OCR at their January 2007 meeting, this did not happen and there are signs that interest rates have peaked over the current cycle.

The Reserve Bank was reasonably neutral in its latest statement, outlining a significant improvement in the near-term inflation outlook, mainly as a result of the continued decline in world oil prices. However, it warned of the need to remain vigilant about potential medium term inflationary pressures and implied any interest rate reductions were a significant way off.

On balance, we would be surprised if the next change in the OCR is an upwards movement at this stage, as it would appear the inflation mountain has reached its peak, and the gradual descent has begun. There are a number of factors that would suggest that medium-term inflationary pressures may not materialise.

First, world oil prices have continued to drop (although bouncing from the low of just over $US 50 per barrel – to be currently tracking at just under $US60 per barrel which is still down significantly from the high of $US78 reached less than a year ago). Second, as pointed out below, recent business opinion surveys show that firms' expectations of raising prices have reduced from previous months. Thirdly, comments below show inflation seems to be waning.

The New Zealand Dollar – Could it be US80c or US60c?

Our analogy of someone throwing some arrows on a dartboard when trying to predict the short-term direction of the NZ dollar continues to be bang on the money.

The first half of 2006 saw a continuing drop in the value of the New Zealand dollar, and long overdue as general consensus was that it was too high for too long. As the steam started to go out of the New Zealand economy, so would demand for the dollar, and increasing interest rates offshore would mean some investors would look elsewhere for returns. From August onwards, that view changed. The dollar has been on an upward path against all major currencies, eclipsing much of the fall experienced during the first half of 2006.

The latest thoughts doing the rounds are whether the New Zealand dollar will stretch beyond the US0.70c mark, and climb up to US0.80c, as some analysts have stated that on a chart-basis the kiwi is finely balanced on a pivot point and there is a good chance it will push significantly up. However, these views are also tempered with the possibility that the currency could suddenly drop towards US60c, making it difficult for exporters to settle on hedging plans.

As we mentioned last quarter, a few factors have caused investors to take a wait and see approach rather than ditch the NZ dollar.

First, the continued inflationary pressures in the NZ economy have significantly delayed any expectations that the Reserve Bank might drop interest rates in a hurry; hence investors are still willing to sink money into the New Zealand economy given the relative high real interest rate returns being achieved. Having said this, some investors appear oblivious to the fact that the NZ dollar could well fall, thus seriously undermining real returns for investors. In this respect there would appear to be some naivety amongst some investors in the sense that they focus unduly on interest rates rather than on ultimately expected returns taking into account wider issues such as the likely future direction of the NZ dollar.

Also, reduced inflationary concerns have also put a damper on future interest rate rises in the United States with softer output growth than previously anticipated. After 17 consecutive 25 basis point increases, the Federal Reserve has left the Funds rate at 5.25% since late June 2006.

One would <u>expect</u> the NZ dollar to head southwards over the coming year. However, determining the timeframe and level is difficult at best. From the Reserve Bank's perspective, they would hope any fall is gradual, rather than a sudden short-term adjustment that may cause a boost in tradeables inflation.

Net migration flows – Back on the up

Over the past two to three years, 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 up in the labour market.

The annual net migration gain peaked at +42,500 for the year ended June 2003 but fell as low as a +6,000 gain for the year ended October 2005. However, since that time it has improved to stand at +14,600 for the year ended December 2006.

Continuing positive net migration figures will help hold up the property market, as people arriving in the country obviously need somewhere to live. Although one could argue that the property boom of 2000-2003 where capital gains in some areas were nothing short of spectacular is over, latest figures show the trend is still positive, although at a much more leisurely pace. Some commentators have already expressed the view that the property boom is well and truly over, and a settlement period will last for some time to come. However, one would be brave to expect any general fall in house prices, although short-term corrections in some regions are likely. The median sale price for houses across New Zealand shows that the level of increase over the last quarter has flattened out. However the value for January 2007 ($327,000) is still $27,000 above the median figure for January 2006. The number of days to sell a house is the same as a year ago.

Issues surrounding homeownership and rental returns should give would-be investors some reason to rethink before investing too much into an already overheated market.

Indications are that home ownership is declining further as first home buyers find it increasingly difficult to get on the first rung of the housing ladder. Rents, in general, currently do not reflect reasonable economic returns on capital invested, suggesting either that investors are continuing to expect capital gains on housing will continue or that rents will move up to more “acceptable” levels.

Commodity prices – World and NZ Dollar Commodity Price Indexes both show expansion

A surge in international dairy prices in the month of November 2006 underpinned a strong rise in the ANZ World Commodity Price Index. Dairy products account for nearly a third of the ANZ index, and have pushed up the overall index by 2.2% to reach a new record high. The latest rise in world dairy prices is directly related to the Australian drought restricting the supply of dairy products in international markets.

When converted into $NZ, the ANZ NZ Dollar Commodity Price Index also rose significantly by 1.3%. This was at a time when the NZ dollar was generally rising against the currencies of our major trading partners and shows that strong international commodity prices are acting as a useful buffer for some industry sectors against the high NZ dollar.

	World Price Index	Monthly % Change	Annual % Change	NZ$ Index	Monthly % Change	Annual % Change
Jan 2002	115.1	0.4	-4.0	137.4	-1.6	-0.7
Jan 2003	120.2	1.1	4.4	116.1	-3.9	-15.5
Jan 2004	133.3	2.3	10.9	107.4	-0.7	-7.5
Jan 2005	153.1	0.7	14.9	117.1	1.8	9.0
Jan 2006	149.6	-0.2	-2.3	115.6	1.4	-1.3
Jan 2007	166.1	1.3	11.0	129.6	0.7	12.1

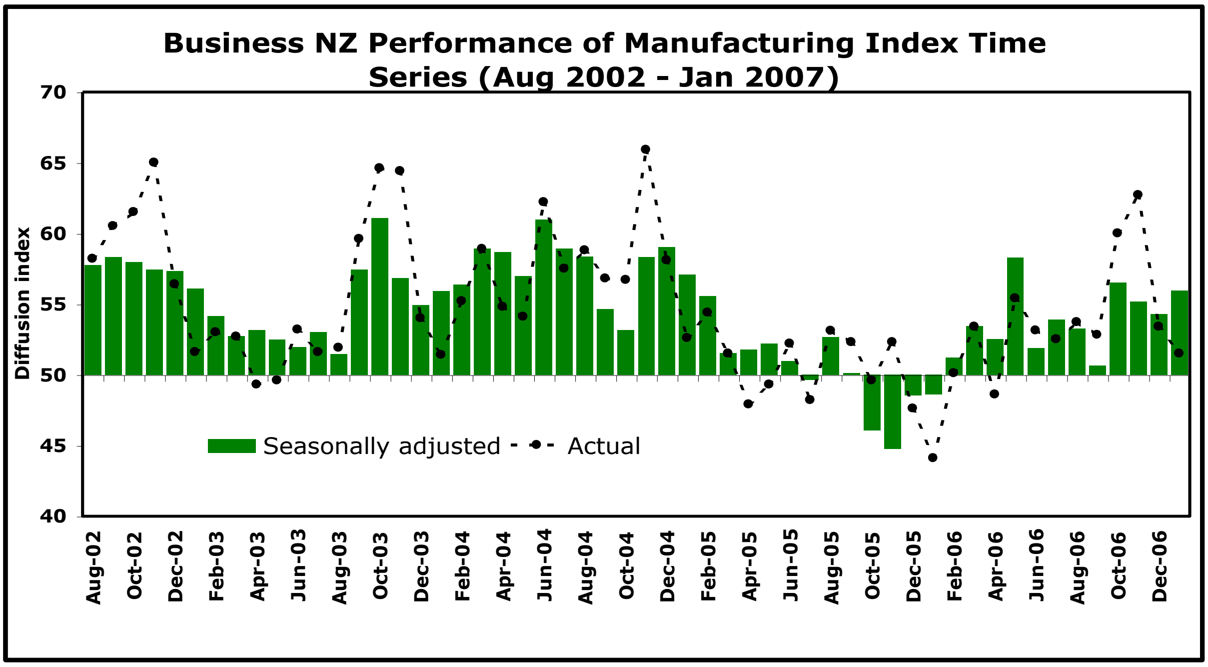
Source: ANZ Commodity Price Index NZ – 8 February 2007

Business confidence – Rebounding back

Business confidence influences the propensity for businesses to invest in capital and employ staff, so it is an important determinant of future economic growth.

The NZIER's Quarterly Survey of Business Opinion (QSBO) shows continued strong improvement from extremely low confidence levels a year ago. Business confidence levels have soared to a four year high for the December quarter 2006 (net +3%), reflecting falling oil prices and (hopefully) no further interest rate rises. A year ago a net 61% of respondents expected the economy to deteriorate.

Improvements in the business outlook span all sectors. Businesses appear to be investing in new plant and equipment with a net 13% of firms expecting to lift spending on plant and equipment, compared to a net 2% in September 2006. This is the highest level of investment intention since 1995 and augurs well for future economic growth.



Results for manufacturers continue to show they are more positive than negative, with 7% reporting an increase in output. Also, for the first time since 2002, the net balance of New Zealand manufacturers that are pessimistic about the general business situation is less than the corresponding figure for Australian manufacturers. Business New Zealand's own Performance of Manufacturing Index (PMI) continues to show strength with the PMI sitting at 56.0 for the month of January 2007. As the graph above indicates, activity has been healthy and consistent for the last four months.

Like the QSBO, the National Bank Business Confidence Index shows that fewer businesses remain negative about future business conditions, with the index showing continual improvement in confidence levels over recent months. During December a net 8% of respondents expected business conditions to deteriorate over the coming year – a significant improvement from the previous result that showed a figure of 22% for the month of November The last time negativity was this low was in late 2004.

While firms' own activity expectations have not followed the improving trend in business confidence, the economy is still looking well fuelled. A net 24 percent expect increased activity in the year ahead – a result that is unchanged on November.

Consumer confidence – Bouncing back

Consumer confidence has also bounced back largely on the back of sharp improvements in consumers' perception of the economic outlook in 12 months time and their current financial situation. Other factors likely to be driving the rising consumer confidence level are the declining petrol prices experienced over the latter half of 2006, continued strong wage growth and low levels of unemployment.

The Westpac McDermott Miller consumer confidence index lifted 8 points in the December 2006 quarter to 119.7. This is the biggest quarterly gain in 6 years.

Looking ahead, the direction of consumer spending looks odds on to go down rather than up, when the housing market looks to have stalled (giving house owners no additional impetus to 'feel' more wealthy), and slowing employment causes wage inflation to settle and debt servicing costs to increase.

1.2 Inflation – Pressure easing

Most recent outcome: +2.6% year-ended December 2006

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 is indirectly a benchmark for wage demands. It is also the key reference point for monetary policy.

The December quarter 2006 Consumers Price Index (CPI) dropped 0.2% on the September 2006 quarter bringing headline inflation down from 3.5% annually to 2.6%. Not surprisingly, lower petrol prices (down 15.2%) had a major effect on the fall in the headline rate. If petrol prices had not changed from the September 2006 quarter, the CPI would have increased 0.6 percent in the December 2006 quarter.

Of greater significance to the Reserve Bank and to general inflationary expectations, non-tradable inflation dropped to its lowest quarterly rise since March 2003 (0.8% and 3.8% for the past year), while crucial housing-related inflation shows clear signs of easing. Tradeables inflation decreased by 1.3%, dropping the annual increase to 1.2%

While a resurgence in the housing market, buoyant consumer spending, and a general leap in business and consumer confidence may be making the Reserve Bank nervous, the fact that it did not move earlier now suggests that it will only raise rates if absolutely necessary – clearly a rate hike is not necessary and would be unhelpful, by adding to exchange rate pressures while having limited effect on consumer behaviour – the real target.

Forecasts below show inflation to remain around the 2.5% mark for the next three years, although picking up slightly in 2009. While this is within the 1-3% medium term range that the Reserve Bank is responsible for, it does not leave significant scope for any shocks and up turns in the New Zealand economy that may stir up inflation levels.

Forecasts: % Change in Inflation (CPI)

	Years Ending		
	Mar 07	*Mar 08*	*Mar 09*
Highest	2.7	3.1	2.9
Average	2.4	2.5	2.7
Lowest	2.2	2.2	2.5

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

1.3 Labour Costs – Wage pressures both consistent and persistent

Most recent outcome: +3.2% year-ended December 2006

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.

As expected with a reasonably tight labour market, wage pressures are continuing, with stronger demand for labour causing skill shortages in a number of industries and regions, pushing up average labour costs. To a certain extent these are flowing through into general wage pressures across the economy as a whole.

Private sector salary and ordinary time wage rates (as measured by the Labour Cost Index (LCI)) show increases of 0.9% for the December 2006 quarter, taking the annual rate up to 3.2%. This is the second largest quarterly increase since the series began in 1992 (the largest being 1.0 percent growth in the September 2006 quarter).

While wage pressures are expected to ease slightly over the coming year as the labour market cools, workforce expectations remain for significant increases. This situation has not been helped by the traditional practice of linking wage rises to the CPI.

While official data on work stoppages (strikes/lockouts) is now six months old, there have been a number of 'high profile' strikes of late, mainly in the public sector. Given the tight labour market conditions at present, it may well be that further strikes and or lockouts will continue to feature in future wage negotiations as advantage is taken of tight labour market conditions.

Wage negotiations this year are likely to be even more complex than in earlier years, given the number of factors impacting on negotiations, including such things as the requirement for all employees to be given four weeks annual leave (potential relativity arguments arising from this), the introduction of the KiwiSaver scheme mid-year, and the implications for real wage rises given the abatement regime of the Working for Families package.

Forecasts: Labour Cost Index % Change

	Years Ending		
	Mar 07	*Mar 08*	*Mar 09*
Highest	3.4	3.3	2.6
Average	3.3	2.8	2.4
Lowest	2.8	2.1	2.0

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 total hourly earnings for all sectors grew by 4.9% for the year-ended December 2006, down slightly from 5.1% for the September 2006 year.

1.4 Employment – remaining tight

Most recent outcome: +1.4% year-ended December 2006

The overheated labour market has shown some signs of cooling although key forward-looking indicators such as the NZIER's QSBO show that a net 10% of businesses increased staff numbers in the December quarter 2006 compared to a net decrease in the September quarter 2006. Perhaps more importantly, a net 14% expect to be hiring in the next three months although employers are now again reporting that it is hard to find skilled labour (a net 29% compared with 21% in the September quarter 2006). The number of firms citing labour as the main factor inhibiting output has also risen from 14 to 19%.

Of comfort to households and the Reserve Bank is the fact that fewer firms reported cost increases (a net 40% down from 54% three months ago) and fewer increased their own prices (a net 21% against 32% last time).

The latest Household Labour Force Survey shows employment again down over the December quarter 2006. However, the unemployment rate decreased slightly to 3.7%, from 3.8% in the September quarter. This still represents ‘full employment’; given that there will always be a proportion of the population between jobs (frictional unemployment).

The labour force participation rate also showed another drop (down to 67.9% from 68.2% a quarter earlier) because of the increase in those not in the labour force.

On an annual basis, full-time employment actually grew by 2.0% while part-time employment actually fell by 0.5%, which was also the case for the December 2005 year. Interestingly, by sex male employment increased in both a full-time and part-time capacity for the December quarter and year, while for female employment the news has not been so spectacular. Over the December quarter, female part-time employment grew, while full-time employment fell. Over the year it was the opposite, with full-time employment increasing and part-time work declining. While one sparrow doesn’t make a summer, any further falls in full-time female employment may represent something of a tipping point for further evidence of a cooling down of the labour market.

Despite the slight downturn in employment over the last quarter (down 0.4%) there are still indications of a number of areas where obtaining appropriate staff is difficult. The ANZ Job Vacancy Rates show the highest level of job advertising (10.1% compared to the total number of jobs in the economy) since the Index was introduced in March 2000. There are some underlying reasons for this, particularly given that the use of internet advertising is generally easier and less costly than traditional newspaper advertising and now accounts for roughly 50% of total job ads in NZ.

Forecasts: Unemployment % (HLFS)

	Years Ending		
	Mar 07	*Mar 08*	*Mar 09*
Highest	3.9	4.3	4.5
Average	3.8	4.0	4.1
Lowest	3.8	3.8	3.7

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

1.5 Interest Rates (90-day bill rate) – continuing to climb

Most recent outcome: 7.78% as at 19 February 2007

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 at variance if the market prices in future increases or decreases in the OCR). As some in the market expected the Reserve Bank to increase the OCR in late

January, the 90-day bill rate got as high as 7.75% before falling back slightly when the Reserve Bank announced no change for the current round. However, the tone of the Reserve Bank's statement has meant that the 90-day bill rate has now increased to 7.78%, as there is still the possibility of an OCR increase when the next OCR announcement occurs in early March.

Predictions for the 90-day bill rate show gradual easing over time. Although further increases in the OCR cannot be totally ruled out over the short-medium term, we continue to take the view that it would be somewhat surprising if they were raised given the general slowing of the economy now evident.

Forecasts: Interest Rates (90 day bills)

	As at End of		
	Mar 07	*Mar 08*	*Mar 09*
Highest	7.9	7.4	6.5
Average	7.8	7.3	6.0
Lowest	7.7	7.1	5.7

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

1.6 Exchange Rates – The random walk continues

Most recent outcome: NZD = US$0.7062 as at 22 February 2007
NZD = AU$0.8919 as at 22 February 2007
TWI = 69.8 as at 22 February 2007

The NZ dollar continues to rise after spending the first half of 2006 tracking downwards. The TWI is now back at levels experienced in early 2006, while the NZ$:US$ shows a similar trend. Predicting exactly where the New Zealand dollar will head over the short term is akin to a random walk, especially when analysts predict a 10c swing either way for the NZ$:US$ currency as discussed above.

Despite the recent rise in the NZ dollar compared to our major trading partners, forecasters have continued to forecast significant declines in the NZ dollar over the medium term.

AUD (cents)			
	Mar 07	*Mar 08*	*Mar 09*
Highest	0.920	0.840	0.860
Average	0.895	0.835	0.815
Lowest	0.880	0.830	0.770

USD (cents)			
	Mar 07	*Mar 08*	*Mar 09*
Highest	0.720	0.630	0.640
Average	0.698	0.620	0.583
Lowest	0.690	0.600	0.550

TWI			
	Mar 07	*Mar 08*	*Mar 09*
Highest	70.7	63.5	64.5
Average	69.2	61.4	58.7
Lowest	68.5	60.0	56.5

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

Part 2: The Australian Economy

Monitoring the performance of the Australian economy is critical in that first, it provides a measure of how well New Zealand exporters are likely to fare (a stronger Australian economy will generally 'suck in' imports) and second, 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: +2.1% for the year-ended September 2006.

Forecast 2007: +2.9%
Source: The Economist

Australia's annual GDP fell to 2.1% for the September year. However, forecasts point to increases in growth, with a growth rate close to 3% by mid 2007. Weaker than expected GDP for Australia in the June quarter of 2006 (GDP rose just 0.3% which was well below market forecasts of 0.7%) can be seen as a temporary blip.

Despite a drop in the level of GDP, the Australian economy has continued to benefit from strong global commodity prices. Australia's terms of trade have increased by more than 30% over the last three years, and are currently at levels not seen since the 1950s.

Some key recent economic statistics:

- Real retail sales up 6.2% in December 2006 compared with December 2005.
- New motor vehicle sales up 0.2% for December 2006 compared with December 2005.
- Manufacturers' sales down 1.1% for the September quarter 2006 compared to September 2005.
- Dwelling unit approvals up 0.1% for December 2006 compared to December 2005.
- Employment up 2.8% for January 2006 compared to January 2005.
- Unemployment rate of 4.6% as at January 2007 – down from 5.2% in January 2005.
- Company profits before tax up 11.8% for the September quarter 2006 compared to September 2005.

The latest Australian PMI results (January 2007) show that Australian manufacturing is currently behind New Zealand's activity levels. The PMI is currently at 51.3 (seasonally-adjusted). Manufacturing activity has slowed, reflecting weaker exports, patchy domestic demand and import competition.

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2.2 Headline Inflation

Most recent outcome: +3.3% for the year-ended December 2006

Forecasts:
- Mid 2007: 2.8%

Source: The Economist

Inflation in Australia has dropped of late after reaching a peak of 4% for the year to June 2006, which included the impact of increasing fuel prices and a sharp rise in the price of bananas in the wake of recent cyclones.

After holding interest rates at 5.25% for a long period of time, the Reserve Bank of Australia (RBA) lifted the cash rate to 5.5% in March 2005 and has subsequently moved it up three further times, including the most recent increase on November 8. This has meant the Cash Rate currently stands at 6.25%. However, during its latest meeting in February, the RBA decided to hold the cash rate unchanged.

In announcing the latest increase, the RBA said the decision was based on the belief that underlying inflation in the medium term would be a little below its recent rate. The key element to any upward pressure on inflation will most probably be a high overall level of capacity utilisation.

Part 3: Rest of the World

The economic picture in the rest of the world is very important for New Zealand. Over recent quarters, growth in the world economy has picked up, which will lift demand for New Zealand products and commodities.

United States

America's Federal Reserve continues to hold its benchmark interest rate at 5.25%, extending its pause for seven months after two years of step-by-step tightening. The Fed continues to view the economy as likely to expand at a moderate pace, but added that some inflation risks remain.

USA GDP grew at an annual rate of 3.5% in the December quarter, despite a sharp fall in residential investment, which was more abrupt than most had anticipated. The cooling in housing may in fact leave room for one to two 25 basis point cuts in the Fed benchmark interest rate sometime in mid-2007.

Other data shows manufacturing performing at moderate expansion levels despite cuts in automobile output. Consumer spending is unlikely to fare as well in 2007 as it did in 2006 given the housing market downturn.

Europe

In the Euro area, economic growth indicators are tending to show levels close to historical highs (2.7% for the September 2006 year), which in turn will continue to place pressure on resources and leave inflation pressures high (although inflation in the area is relatively low at 1.9%).

Unemployment in the Euro area edged down to 7.5% in December, helped by a fall in the unemployment rates of both Germany and France.

In Britain, annual growth was close to Euro levels at 2.8%, but is expected to taper off slightly as the year progresses.

Japan

Overall, Japan has tended to be in the doldrums in recent times due to a consumption-led downturn, with both consumer spending and confidence levels pointing downwards. GDP growth currently stands at 1.6%, but is expected to pick up closer to 2% by mid 2007.

Consumer prices in Japan rose by 0.1% in December, leaving the headline inflation rate unchanged at 0.3%. Other indicators showed industrial production rose by 0.7% for December, and by 4.6% over the December year.

Labour market developments have tended to be positive, but containment in terms of wage growth continues. Also, Japan's unemployment rate inched up from 4.0% to 4.1%.

China

Economic activity in China is showing no signs of slowing. Latest results show GDP growth at 10.5% over the December year, with industrial production increasing 14.9%. At the same time, inflation is at a relatively reasonable level at 2.8%, although this is up from a recent rate of 1.5%.

Forecasts: World GDP Growth (Selected Trading Partners)

Country	*Latest*	*2007*
Australia	2.9%	2.9%
Canada	2.5%	2.4%
Japan	1.6%	1.9%
United Kingdom	3.0%	2.4%
United States	3.5%	2.2%
Euro Area	2.7%	2.0%

Source: Economist

Forecasts: World Consumer Price Inflation (Selected Trading Partners)

Country	*Latest*	*2007*
Australia	3.3%	2.8%
Canada	1.6%	2.0%
Japan	0.3%	0.4%
United Kingdom	3.0%	2.2%
United States	2.5%	2.0%
Euro Area	1.9%	2.1%

Source: Economist