Economics@ ANZ

30 September 2005

ANZ Economic Monthly

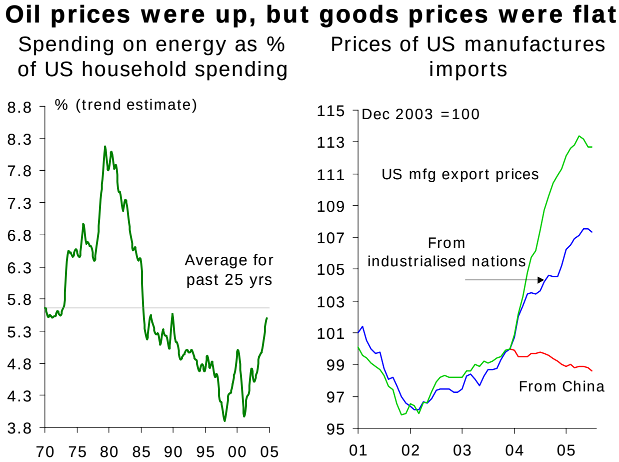
Growth will slow and inflation will rise toward trend

- Higher energy costs and wage pressures in the US are feeding through to inflation
- First and second round energy price effects also will be felt in Asia, starting now
- RBNZ now expected to raise rates by 25 bps in October with risk of a December increase
- Global economy expected to revert to trend on growth as well as inflation

ANZ's outlook for the global economy changed significantly this month due to an upward revision to our long-term oil price forecast and a downward revision to our US growth forecasts after Katrina. These revisions hurt prospects for growth across Asia, Australia and New Zealand given the negative impacts of lower US import demand on Asian exporters and higher petrol prices on consumers. Under this scenario, global growth will remain at or above its trend rate of 3.7% through 2007, but growth will be below trend across the G7, Europe and east Asia. CPI in the G7 is expected to hit 2.3%, the highest rate since 1993.

The changes in these forecasts have altered what had been a positive outlook for our region. Before September, the US and Asian economies were mostly shrugging off higher oil prices. First round effects had been absorbed in the US, where the amount of disposable income spent on energy was still below its long-term average. In much of Asia, first round effects were suppressed by fuel subsidies. Asian manufacturers could thus keep prices low, preventing second round effects from hitting consumers globally. In addition, loose US monetary policy and depressed long-term bond yields kept the wealth effect going. Americans had money and cheap goods to spend it on, and the outlook for Asian manufacturers was rosy.

Oil prices were up, but goods prices were flat



Sources: US Bureau of Economic Analysis; IMF *World Economic Outlook* database; Datastream; Economics@ANZ.

The hurricanes changed all that

Katrina and Rita seem to be the shock events that will end the US buying binge and start to rebalance the global economy. First, the rapid rise of gasoline prices will slow US consumption and raise inflation expectations. Second, it will also broaden a growing consensus that higher oil prices are likely to be a more permanent feature. Although our forecast is for slower global real GDP growth, nominal growth will still put pressure on limited oil excess supply. ANZ now expects WTI to reach US$70/bbl at end-2005 and US$65/bbl at end-2006, a US$15/bbl rise from our old forecast. We have lowered our forecast for US GDP growth to 3.5% this year (from 3.7%) and 3.0% next year (from 3.3%). Within that, consumption is forecast to ease from 3.4% growth this year to 2.5% next year. Australia has mirrored this trend, with private consumption growth falling from 4% in Q4 2004 to 3% in Q2 2005.

For Asia, lower US consumption means the decline of what had been a major export growth market. In addition, the unwinding of local fuel subsidies and price caps due to permanently higher oil prices is equivalent to a domestic supply shock, with shortages and rapid prices rises. In other words, Asia is facing a simultaneous decline in external *and* domestic demand. A mitigating factor could be the strength of Japan's recovery, as Japan is an important export market for many regional economies including Australia and New Zealand.

Watch for inflation pass through

Global inflation has already responded to higher energy prices; CPI among the G7 hits a 12-year high this year. The US economy is also reaching capacity constraints, as unit labour cost and PPI have been above 4% and 5% YOY all year. The sudden increase in Asian fuel prices due to subsidy cuts also has global implications if exporters pass through higher prices to consumers, thus bringing the second round effects that have been absent so far.[1] If so, central banks will become more hawkish, and long-term yields may rise more than is currently anticipated. ANZ's expectation that the RBNZ will raise rates by 25 bps at its 27 October meeting could be the first shot across the bow. The question will be how far central banks will go given the recent dependence of growth on strong property markets and overextended household balance sheets.

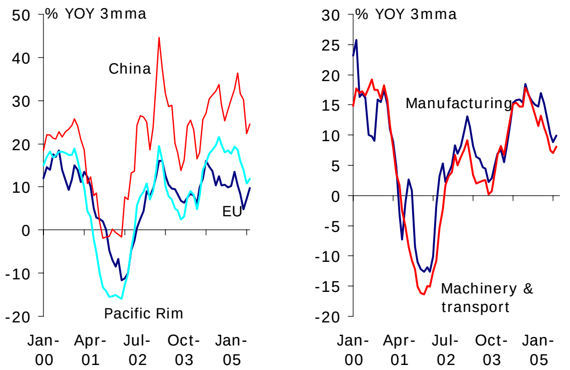
[1] Please see our detailed GDP and inflation forecasts on p. 7.

Lower US demand slows Asia's growth

The downward revision to the US growth forecast has led us to downgrade the forecasts for many Asia economies. The first impact will be felt in China, as the US absorbs slightly more than 20% of all Chinese exports. The EU takes a similar percentage, and there too the outlook is for growth to remain under 2.0% through 2007. Exports from China to the US have expanded at an astounding 32% YOY year-to-date, a remarkable pace considering growth of a similar magnitude over the same period in 2004 (up 35%) and 2003 (up 32%). A slowdown – say to 15% - would still be very solid growth, but is a notable slowdown.

US imports from Asia will slow

US imports by origin US imports by good



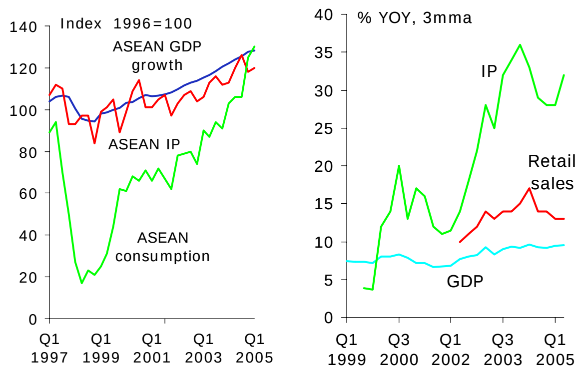
Sources: US Bureau of Economic Analysis; IMF *World Economic Outlook* database; Datastream; Economics@ANZ.

A fall in external demand will slow China's manufacturing sector, which is the economy's main growth driver. In H1 2005, manufacturing contributed 58.7% of China's GDP, up from 53% last year and 50% in 2001. Manufacturing is also responsible for much of the 28% growth in fixed asset investment this year. We have lowered our GDP growth forecast to 8% next year (8.2% previously) from 9% this year.

As China slows, so does the demand for manufactured goods from the rest of Asia, thus reducing the potency of the key growth driver.

Asia still heavily dependent on IP for growth

ASEAN growth mix China growth mix



Regional indices of GDP, IP & retail sales (or motor vehicle sales), weighted on PPP GDP basis

Sources: Datastream; Economics@ANZ.

Oil is only now hitting Asian economies

The reduction or elimination of fuel subsidies, as discussed, is a double whammy for consumers and producers in most Asian economies. The problem is straightforward: Subsidies introduced in the past few years amid expectations that oil prices would fall have been reduced as fiscal costs have risen. As a result, inflation in Thailand jumped from 2.7% YOY in January to 5.6% YOY in August, while in Indonesia CPI rose from 7.3% to 8.3% over the same period. Indonesia and Thailand are recording above-expected fiscal deficits this year. The Philippines has no subsidies, but the central bank raised rates this month while cutting growth and raising inflation forecasts.

Consumption in SE Asia does not appear to have been significantly impacted by higher fuel prices as yet, but should decline in the coming months in response to both higher oil prices and falling employment growth in the manufacturing sector.

Oil price impact worsened by subsidies

	Amount of subsidy US$ bn	Amount of subsidy % GDP*	2004 inflation (yr avge)	2005 inflation (yr avge, projected)
Indonesia	12.5	4.7	6.1	9.0
Malaysia	3.8	2.9	1.4	2.9
Philippines	0	0	4.9	7.5
Thailand	2.2	1.3	2.8	4.6

*At market exchange rates

Source: Various news sources, Datastream

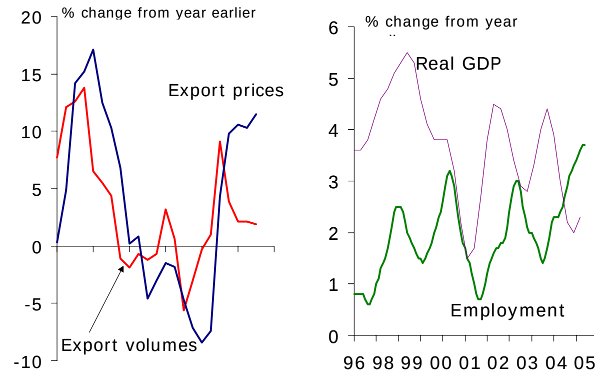
China has limited the impact of higher oil prices on its economy with its system of capping domestic prices. While the price caps are to be referenced to international prices, domestic refined oil prices have risen 22% this year versus more than 60% in the global market. Refiners complain of losses, and officials in the manufacturing centre of Guangdong have raised the possibility of raising electricity prices. While any reform of the pricing mechanism would be gradual, there is little doubt that any change that would impact PPI would have consequences for global inflation given China's integration in the global manufactures market.

Australia and Japan the exceptions

The exceptions to our growth downgrades in the region are Australia and Japan. Australia's booming commodities exports have led to increased investment in the natural resources sector, which has offset declines in both manufacturing and private consumption. While terms of trade are strongly positive, net exports have not contributed much to growth due to a high import bill – a situation to watch as the terms of trade potentially worsen going forward.

Australia still benefiting from commodities

Australian export prices and volumes | Australian GDP growth and employment



Source: ABS, Economics@ANZ

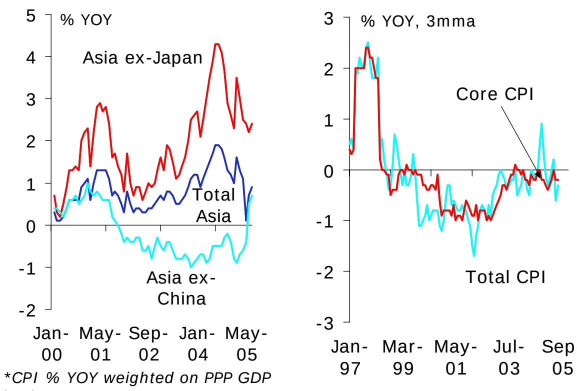
In Japan, higher oil prices have not yet dented a recovery that is based on domestic demand, and not particularly vulnerable to trend-level global growth. We have raised our forecasts for Japan's GDP growth to around 2% through 2007, up from 1.5%. Japan could emerge as the region's shining source of new demand as the US economy cools.

Japan's reflation adds to theme

Accompanying the possible pass through of energy prices in Asia is the prospect of the return of inflation in Japan. Indeed, the chart below highlights the fact that inflation is consistently rising across the region outside of China – underlining our view that China is playing a role in holding down inflation expectations in Asia as well as in the global economy.

Inflation is rising outside of China

Inflation in Asia* | Japan's reflation

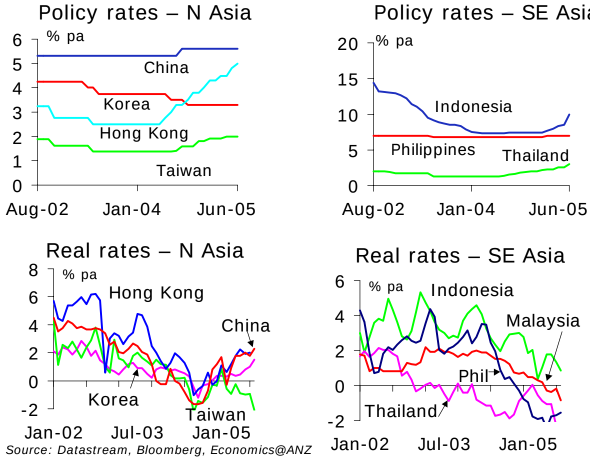


**CPI % YOY weighted on PPP GDP basis*
Source: Datastream, Economics@ANZ

Interest rate rises in Asia limited so far

Across Asia, policy rates have begun to rise in order to counteract higher inflation expectations. However, in many cases, the rises have lagged inflation, and real interest rates have declined or turned negative in many economies, particularly in Southeast Asia. Real interest rates (in this case using the 90-day money market rate and CPI) are negative for all major SE Asian economies with the exception of Indonesia, which has raised interest rates by 125 bps in the past month. Singapore is not included here as MAS uses its trade-weighted exchange rate as its main monetary policy tool.

Policy rates rising, but farther to go



Source: Datastream, Bloomberg, Economics@ANZ

Central banks in Asia are likely face rising prices in a softening economic environment in the coming months. If so, it would be the first time since the Asian crisis that central banks would actually be called on to maintain price stability. The tendency will be to continue to use strong exchange rates to help dampen inflation, but in order to do so Asian central banks will need to keep pace with a tightening Fed. We expect central banks to remain hesitant, however, and for declining real interest rates to lead to somewhat weaker currencies against the USD through early 2006, and potentially additional pass through to inflation.

China's widening band

On 23 September, the People's Bank of China widened the band in which currencies other than the US dollar trade against CNY from +/-1.5% on either side of the midpoint to +/-3.0%. This change removes the potential need for the PBOC to intervene in the currency markets to keep the JPY/CNY or EUR/CNY rate within the band on an intra-day basis. To that end, it reinforces that the yuan's reference basket of currencies is indeed only a reference, and that the regime is essentially US dollar-focused. Asian currencies remain firmly part of the US dollar bloc, and in that regard inevitably tied to trends in US monetary policy.

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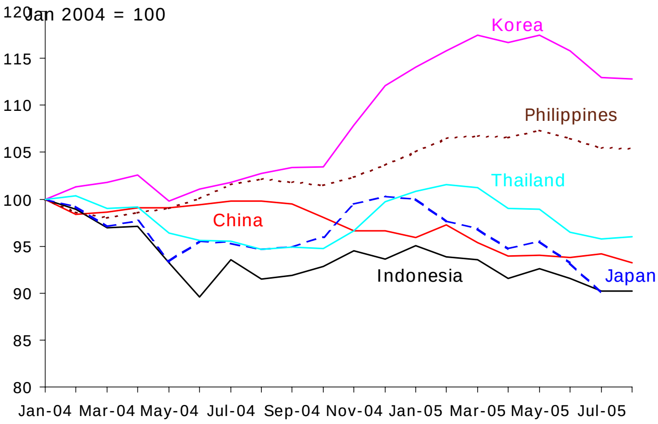
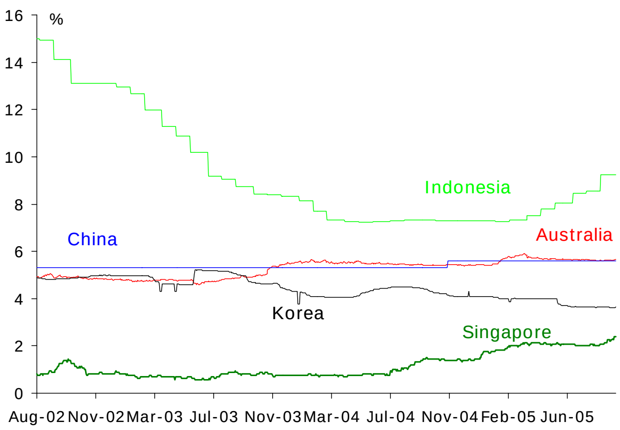
Financial Markets Update

Real Exchange rates, US$ per local currency unit, indexed



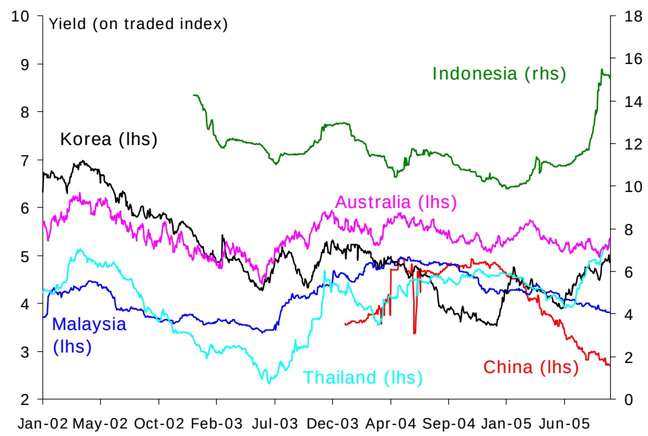
Source: Datastream

Interest rates



Source: Bloomberg

Government Bond Index



Source: JP Morgan

Exchange rates

- The US dollar weakened post Katrina but has ended Sept close to end-August levels as the Fed made it clear that interest rates would keep rising. AUD has rallied with gold but the NZD and the AUD/NZD cross has been volatile.
- Expectations that inflation and interest rates in Japan will turn positive in the next 12 months will prevent significant weakening of the yen.
- China widened the band within which currencies other than the USD trade – from +/-1.5% to +/-3.0% – reinforcing the USD focus of the peg.
- The rupiah steadied with aggressive rate hikes. The Oct 1 fuel subsidy cut and inflation spike should be met with more rate hikes.
- Other SE Asian currencies look likely to weaken as inflation has risen with fuel subsidy cuts.

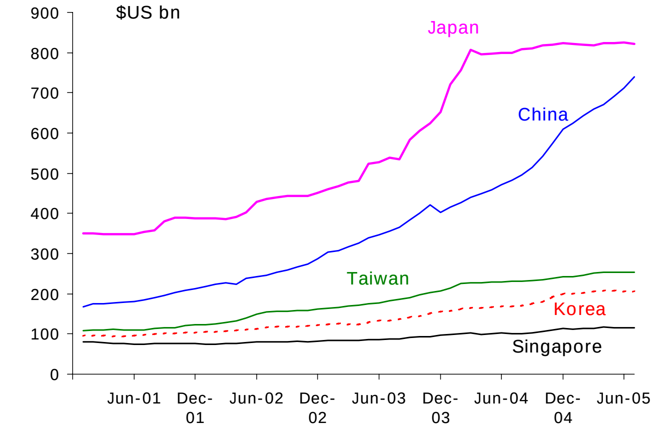
Interest rates

- New Zealand is expected to raise rates in October amidst heightened inflation concerns while Australia is likely to keep rates on hold with inflation within the target band and partial indicators suggesting that the RBA is comfortable with the pace of the slowdown in domestic demand.
- Policy rates elsewhere in Asia continue to rise as inflation accelerates. For many of the Asian economies, inflation reached highs last seen in the aftermath of the Asian crisis.
- Indonesia, Thailand and the Philippines were among those economies that lifted rates by between 25-50 basis points in September. Real interest rates, however, continue to be low to negative as inflation outpaces nominal increases in interest rates.

Bond markets

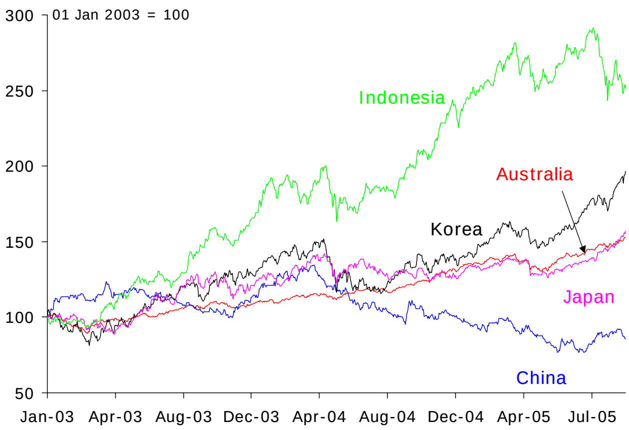
- The chart at left shows the yield on traded government bonds included in JP Morgan's Government Bond Index (GBI) of local currency bonds.
- The sharp rise in yields in Korea, Thailand and Indonesia over the past month suggests rising inflation expectations. Greater financing needs could also come into play with the negative impact of fuel subsidies on budgets.
- The contrast with Australia is interesting. Australia's yields remain low as they continue to trade off of the US yield curve, where there is as yet relatively little movement at the long end of the curve.

International reserves



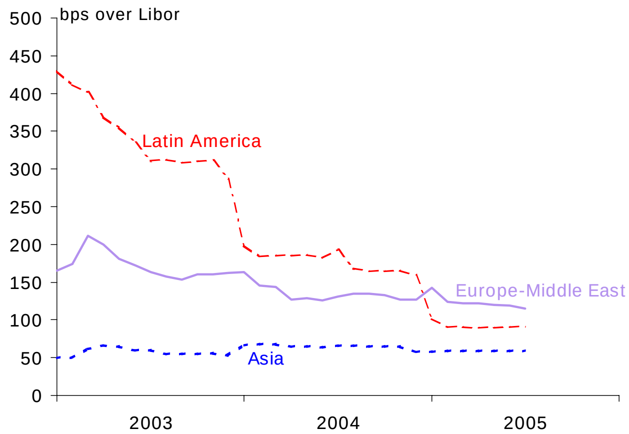
Source: Datastream

Share price indices



Source: Datastream

Trade Finance Credit Spread



Source: LTP Trade Finance Index, LTP Risk Management

International reserves

- China's reserves rose by US$30bn in July, a far greater increase than the average of US$16.8 bn per month previously, and bringing reserves within US$100 bn of Japan. The sharp rise confirms that the 21 July revaluation attracted further speculative inflows.
- Data released by the IMF this month in its World Economic Outlook confirmed that there was little diversification by Asian central banks away from US dollar assets. Chinese authorities surprised markets this month by talking about holding FX reserves in financial and economic assets, such as energy assets.
- Reserve accumulation in other economies was less pronounced. Reserves for Taiwan, Korea and Singapore collectively stood at US$575 bn as of July, about 70% of Japan's reserves.

Equity markets

- Most Asian stockmarkets have performed well in September.
- The Jakarta stockmarket traded at a more settled pace, down 2% in the month after the sharp decline in August. Aggressive interest rate hikes and government announcements of fuel subsidy reform helped to support the market.
- The Nikkei received a boost from the stronger-than-expected election win by PM Koizumi and the LDP on 11 September. The index rose by 1.6% on 12 September.
- Korea's stockmarket has been the best performer in East Asia rising by 37% since the start of the year.
- The Australian stockmarket continues to perform well, underpinned by the resource boom

Trade finance

- The chart at left shows that the trade finance spread for Asia has been fairly steady over the past few years and at a reduced level compared with Latin America and Europe-Middle East.
- The low foreign currency risk spread largely reflects Asia's stronger macroeconomic position following the crisis of the late 1990s.
- Growing intra-Asian trade, with China being among the top exports markets for the rest of Asia, coupled with US demand have also underpinned exports and kept risk spreads low.
- The decline in the risk premium for trade finance reflects reduced risk perceptions across developing countries, which has reduced the global cost of capital.

FX and policy interest rate forecasts

	July 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jun 06	Dec 06
China								
USD/CNY, eop	8.11	8.10	8.09	8.06	8.05	8.03	7.91	7.78
AUD/CNY, eop	6.16	6.05	6.14	6.14	6.14	6.14	5.61	5.29
Short term rates*	5.6	5.6	5.6	5.5	5.5	5.4	5.3	5.0
Hong Kong								
USD/HKD, eop	7.77	7.77	7.76	7.76	7.77	7.78	7.79	7.78
AUD/HKD, eop	5.91	5.80	5.89	5.91	5.93	5.95	5.53	5.29
Short term rates**	4.75	5.00	5.25	5.50	5.50	5.75	6.00	5.75
Indonesia								
USD/IDR, eop	9,805	10,250	10,325	10,000	9,850	9,825	9,663	9,500
AUD/IDR, eop	7,454	7,655	7,838	7,611	7,516	7,516	6,860	6,460
Short term rates***	8.5	9.5	10.00	12.5	13.0	12.0	9.0	8.0
Korea								
USD/KRW, eop	1,027	1,039	1,040	1,030	1,020	1,010	1,040	1,030
AUD/KRW, eop	781	776	789	784	778	773	738	700
Short term rates****	3.25	3.25	3.25	3.25	3.25	3.25	3.5	3.5
Malaysia								
USD/MYR, eop	3.8	3.8	3.8	3.7	3.7	3.7	3.7	3.7
AUD/MYR, eop	2.9	2.8	2.9	2.8	2.8	2.9	2.6	2.5
Short term rates****	2.7	2.7	2.7	2.7	2.7	2.5	2.5	2.25
Philippines								
USD/PHP, eop	56.1	56.3	56.0	56.2	56.3	56.5	57.0	57.3
AUD/PHP, eop	42.7	42.1	42.5	42.8	42.9	43.2	40.5	38.9
Short term rates****	7	7	7.25	7.25	7.5	7.5	7.0	6.75
Singapore								
USD/SGD, eop	1.66	1.69	1.67	1.67	1.67	1.66	1.67	1.68
AUD/SGD, eop	1.26	1.26	1.28	1.27	1.27	1.27	1.19	1.14
Short term rates+	2	2.1	2.2	2.3	2.3	2.3	2.2	2.1
Taiwan								
USD/TWD, eop	32.0	32.7	33.2	32.6	32.5	32.4	32.5	32.5
AUD/TWD, eop	24.3	24.5	25.2	24.8	24.8	24.8	23.1	22.1
Short term rates+++	2.0	2.0	2.13	2.20	2.20	2.25	2.12	2.0
Thailand								
USD/THB, eop	41.7	41.4	41.0	41.4	41.7	42.0	43.5	42.0
AUD/THB, eop	31.7	30.9	31.1	31.5	31.8	32.1	30.9	28.6
Short term rates++	2.75	2.75	3.25	3.75	3.75	3.75	3.50	3.25
Vietnam								
USD/VND, eop	15,868	15,877	15,893	16,015	16,058	16,100	16,250	16,400
AUD/VND, eop	12,062	11,857	12,064	12,189	12,253	12,317	11,538	11,152
Japan								
USD/JPY, eop	112.3	111.7	109	110	111	112	115	117
AUD/JPY, eop	85.4	83.4	85.9	83.7	83.6	83.4	81.7	79.6
Short term rates	0	0	0	0	0	0	0	0.25
Australia								
AUD/USD, eop	0.76	0.75	0.76	0.76	0.76	0.77	0.71	0.68
Short term rates^	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.75
New Zealand								
NZD/USD, eop	0.68	0.69	0.69	0.70	0.70	0.71	0.63	0.57
AUD/NZD, eop	1.11	1.09	1.10	1.09	1.08	1.08	1.13	1.19
Short term rates^	6.75	6.75	6.75	6.75	7.00	7.00	7.00	6.25

*:One-year base lending rate; **: HKMA discount rate; ***: One-month lending rate; ****: Overnight rate
+: 3-month rate; ^: cash rate; ++: 14-day repo rate; +++: discount rate

Real GDP Growth (%)

	2004	2005f	2006f	2007f
Australia	3.3	2.6	3.5	3.7
Cambodia	7.7	6.9	6.4	6.4
China	9.5	9.0	8.0	7.6
Hong Kong	8.2	6.2	3.3	3.3
Indonesia	5.1	5.4	5.6	5.5
Japan	2.6	2.4	2.1	1.9
Korea	4.6	3.7	3.5	3.0
Malaysia	7.1	4.6	4.1	3.8
New Zealand	4.8	2.3	1.7	2.8
Philippines	6.1	4.6	4.1	3.7
Singapore	8.4	4.7	4.5	4.5
Taiwan	5.7	3.0	3.5	3.4
Thailand	6.1	3.6	3.8	4.1
Vietnam	7.7	7.1	7.2	7.1

Nominal GDP (US$ bn)

	2004	2005f	2006f	2007f
Australia	620.4	659.6	622.0	683.6
Cambodia	4.9	5.2	5.4	5.6
China	1653.0	1,853.6	2,114.4	2,358.8
Hong Kong	163.0	171.8	179.1	187.0
Indonesia	257.6	281	325	350
Japan	4675.5	4,692	4,546	4,861
Korea	681.5	814.0	852.6	880.7
Malaysia	118.3	125.7	135.6	145.4
New Zealand	98.5	105.1	91.6	97.3
Philippines	84.5	97.2	104.3	113.2
Singapore	106.9	111	117	125
Taiwan	206.0	336	357	385
Thailand	163.4	178	197	216
Vietnam	46.0	50	53	57

Inflation (%)

	2004	2005f	2006f	2007f
Australia	2.3	2.7	2.7	2.5
Cambodia	3.8	5.7	5.0	4.3
China	3.9	1.6	2.6	3.9
Hong Kong	-0.4	0.8	1.8	1.0
Indonesia	6.1	9.0	6.3	7.8
Japan	0.0	0.0	0.1	0.6
Korea	3.5	3.3	4.4	4.0
Malaysia	1.4	2.9	3.5	2.0
New Zealand	1.8	3.7	2.5	1.7
Philippines	4.9	7.5	6.8	6.5
Singapore	1.7	0.2	0.6	0.5
Taiwan	1.6	2.6	3.0	2.0
Thailand	2.8	4.6	4.8	30
Vietnam	7.8	8.0	7.0	6.0

Fiscal Balance (% of GDP)*

	2004	2005f	2006f	2007f
Australia	0.8	0.8	0.8	0.8
Cambodia	-5.6	-5.6	-5.8	-6.0
China	-2.3	-2.0	-1.8	-1.9
Hong Kong	1.7	0.7	-0.4	-1.4
Indonesia	-1.5	-1.2	-1.1	-0.9
Japan	-7.1	-6.9	-6.5	-6.0
Korea	-0.9	-1.5	-1.8	-1.5
Malaysia	-5.0	-3.8	-4.0	-3.5
New Zealand	5.3	3.9	4.0	2.9
Philippines	-3.9	-3.4	-3.5	-3.4
Singapore	-0.2	0.1	0.1	0.1
Taiwan	-3.1	-3.3	-4.0	-3.7
Thailand	0.1	-1.2	-1.7	-1.4
Vietnam	-3.0	-3.9	-4.2	-4.3

Current Account (% of GDP)

	2004	2005f	2006f	2007f
Australia	-6.4	-6.2	-6.2	-6.4
Cambodia	-10.1	-10.9	-10.6	-10.3
China	16.6	18.2	10.0	4.8
Hong Kong	8.7	9.3	5.6	2.1
Indonesia	1.1	1.6	1.0	0.7
Japan	3.7	3.3	3.0	2.5
Korea	4.0	1.8	1.0	0.2
Malaysia	12.6	9.5	5.9	4.1
New Zealand	-6.4	-6.8	-6.8	-6.4
Philippines	4.0	3.6	3.6	3.5
Singapore	26.1	24.5	24.0	23.0
Taiwan	6.9	4.9	4.4	4.0
Thailand	4.5	-0.3	-1.5	-0.8
Vietnam	-2.2	-4.7	-5.7	-5.2

Foreign Exchange Reserves (US$ bn)

	2004	2005f	2006f	2007f
Australia	35.8	n.a.	n.a.	n.a.
Cambodia	0.95	0.94	0.92	0.93
China	609	810	900	780
Hong Kong	123.6	120	118	105
Indonesia	34.9	34.5	35.5	36.0
Japan	833.9	828	815	800
Korea	199.8	215.5	236.7	230
Malaysia	66.6	78.0	75.6	70.2
New Zealand	5.3	n.a.	n.a.	n.a.
Philippines	13.5	13.8	13.6	13.4
Singapore	112.2	120	124	126
Taiwan	241.7	260	265	270
Thailand	48.7	48	49	51
Vietnam	6.8	7.0	7.2	7.5

*Fiscal balance for Australia, New Zealand, Malaysia and Singapore corresponds to fiscal year.

Long Term Foreign Currency Debt Ratings

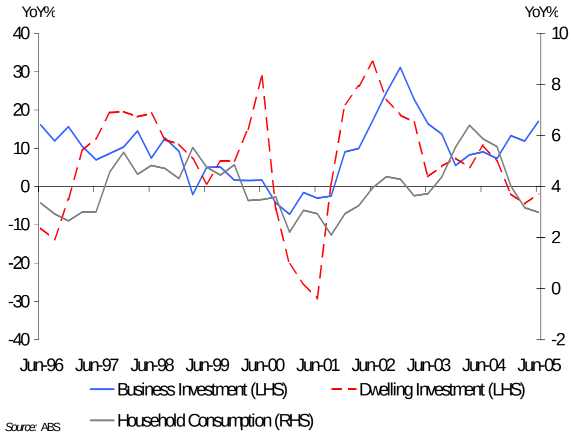
Investment Grade		Sub-Investment Grade	
Moody's	S&P	Moody's	S&P
Aaa **Australia** Canada France Germany **Japan** **New Zealand** **Singapore** United Kingdom United States	AAA **Australia** Canada France Germany **Singapore** United Kingdom United States	Ba1 Bulgaria Costa Rica Egypt Morocco Panama	BB+ Egypt El Salvador India Morocco Romania
Aa1 Belgium	AA+ Belgium **New Zealand**	Ba2 Colombia Fiji Guatemala Jordan	BB Colombia Costa Rica Jordon Panama Peru
Aa2 Italy	AA	Ba3 Peru **Vietnam**	BB- Brazil Cook Islands Guatemala **Philippines** Serbia Turkey Ukraine **Vietnam**
Aa3 Cayman Islands **Taiwan**	AA- **Hong Kong** Italy **Japan** **Taiwan**	B1 Brazil Papua New Guinea **Philippines** Suriname Turkey Ukraine	B+ Ghana **Indonesia** Pakistan Venezuela
A1 Czech Republic **Hong Kong** Hungary Macau Qatar UAE	A+ Qatar Kuwait	B2 Honduras **Indonesia** Pakistan Venezuela	B Papua New Guinea Uruguay
A2 **China** Cyprus Israel Kuwait Poland	A Chile Cyprus **Korea** Saudi Arabia	B3 Argentina Belize Bolivia Lebanon Uruguay	B- Argentina Bolivia Lebanon Paraguay Suriname
A3 **Korea** **Malaysia**	A- **China** Czech Republic Hungary Israel **Malaysia**	Caa1 and below Cuba Ecuador Nicaragua Paraguay	CCC and below Belize Ecuador
Baa1 Chile Mexico South Africa **Thailand**	BBB+ Oman Poland **Thailand** South Africa		
Baa2 Saudi Arabia Mauritius Oman Tunisia	BBB Mexico Tunisia		
Baa3 El Salvador India Russia	BBB- Bulgaria Russia Romania		

Economics@ANZ

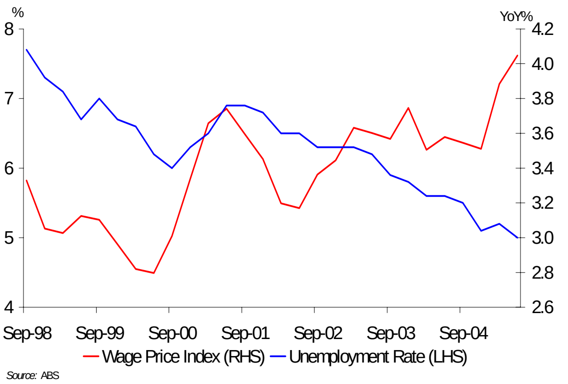
30 September 2005

Country Update Australia

Household consumption slows as business investment accelerates



Unemployment rate vs wages growth



- The Australian economy is weathering well the effects of higher oil prices. Growth was strong in the second quarter with GDP rising 1.3%. This saw the annual rate of growth increase to 2.6% from 1.9% in the March quarter, and provides a higher starting point for growth in 2005/06. The economy now seems to be through the "soft spot" of late 2004/early 2005.
- Robust domestic demand continues to be offset by a drag on growth from the external sector. Within domestic demand there has been a rebalancing away from household consumption and dwelling investment, and towards business investment.
- Growth in household consumption more than halved, to 3.0% over the year to the June quarter, down from an unsustainable peak of 6.4% in the March quarter 2004. This is a positive development, helping to avoid the emergence of medium term inflationary pressures. Business investment is picking up the slack, rising 6.9% in the June quarter and a massive 17% over the year. This is largely linked to the mining boom with rising commodity prices boosting profits and encouraging expenditure in mining and transport infrastructure. This should help boost Australia's exports going forward and to remove some road blocks to growth.
- The labour force report for August reinforced the picture of a strong economy, with the unemployment rate remaining at a three decade low of 5% for the third consecutive month. Combined with a stronger wages climate, this will underpin growth in household disposable income and in turn household consumption. Importantly, the strong labour market will also help ease the pain consumers face from higher petrol prices.
- This is not a climate in which the RBA is likely to undertake cash rate reductions, but with inflation muted nor is there need for tighter policy.

Kristina Jawerth

Economic data – Australia

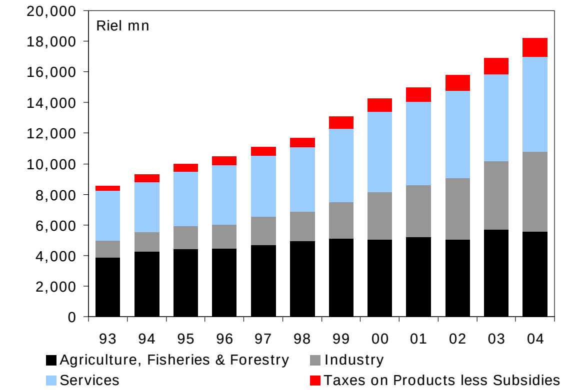
Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Building Approvals, 000's	13.4	13.2	12.7	13.1	14.1	14.1	12.8	N/A
Retail Sales, % YOY	3.3	3.9	3.1	2.2	3.0	3.1	2.9	3.5
Exports, % YOY	13.2	15.6	13.8	15.7	16.3	8.5	15.8	N/A
Imports, % YOY	14.3	17.0	15.3	10.4	10.3	5.3	6.8	N/A
Trade Balance, AUD bn	-2.38	-2.29	-2.45	-1.47	-1.47	-1.40	-1.46	N/A
Foreign Exchange Reserves, US$ bn	35.9	34.7	36.4	40.5	42.3	42.9	43.4	N/A

Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	3.2	4.4	4.0	4.4	3.0	1.8	1.9	2.6
- Private consumption	4.4	5.5	6.4	5.9	5.6	4.0	3.2	3.0
- Government consumption	4.6	3.4	4.1	3.3	3.1	3.0	2.1	3.6
- Gross fixed capital expenditure	11.5	6.5	6.8	8.5	7.5	13.4	12.2	15.9
Consumer Price Index, % YOY	2.6	2.4	2.0	2.5	2.3	2.6	2.4	2.5
Current Account, AUD bn	-13.1	-12.2	-10.5	-11.9	-15.6	-16.0	-13.1	-12.5
Capital Account, AUD bn	12.3	12.0	11.4	11.3	15.5	15.9	13.6	11.8

Sources: Bloomberg, RBA, ANZ Bank

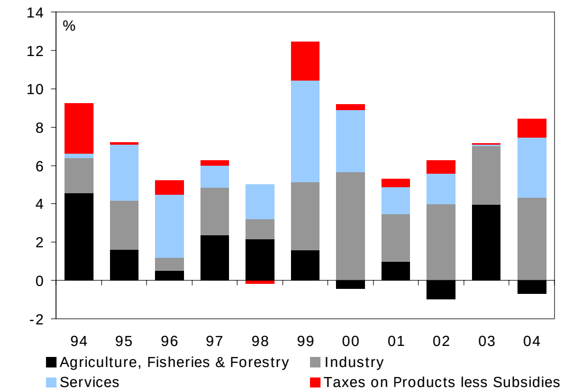
Country Update Cambodia

Consistent growth driven by industrial development



Source: National Institute of Statistics of Cambodia

Growth components volatile



Source: National Institute of Statistics of Cambodia

- Traditionally, the Cambodian economy was based on agriculture and although remaining a key component, it is industrial development that has become the key driver of GDP growth. In 1993, agriculture accounted for 45% of GDP and industry 13%; in 2004 agriculture accounted for around 30% with industry having expanded to 29%.
- Industrial development has taken place primarily in the manufacture of textiles, apparel & footwear. This sector now accounts for over 16% of GDP after being virtually non-existent 10 years ago. However, much of this growth has taken place under the protection of the Multifibre Agreement, guaranteeing Cambodia access to its largest export markets, the US and the EU. The end of the Multifibre agreement in January 2005 was expected to be disastrous for Cambodian economic growth, yet, apart from some limited industry consolidation, this has not been the case. Key export shares have been maintained largely due to the US and EU imposing emergency quotas on competing textile imports from China. Despite the EU recently striking a deal with China to allow limited growth in quotas in 2006 and 2007, the US has remained steadfast. In addition, Cambodian exporters may also benefit from consumer preferences in developed countries after improving working conditions to meet international labour standards.
- Significant growth in tourism over the last decade has fuelled growth in the services sector. However, when tourist numbers fell in 2003, due to SARS, services sector growth fell to less than 1%. In 2005 concerns of an outbreak of bird flu have so far not kept tourists away with record numbers visiting the country to date.
- The agricultural sector detracted from growth in 2004 due to a drought, which has also now impacted on production in the first half of 2005. In addition to illegal forestry and depleted fisheries and livestock resources this points to only modest growth in this sector over the coming year.

Alex Joiner

Economic data – Cambodia

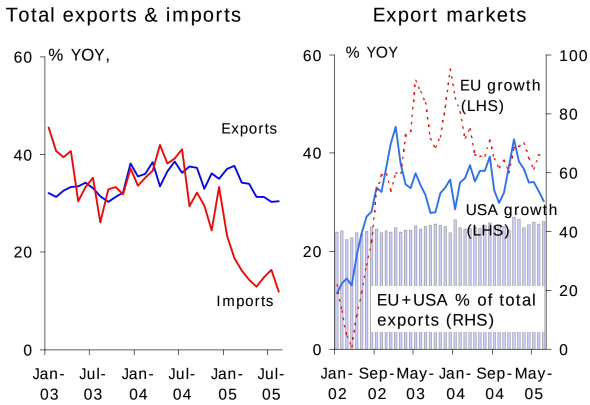
Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Consumer Price Index, % YOY	5.8	5.6	5.4	5.9	6.3	7.0	4.1	N/A
-Transport & Communication	13.1	12.3	11.6	12.2	10.5	10.6	11.9	N/A
-Food & Beverages	8.6	7.8	7.3	8.4	9.6	11.2	5.2	N/A
Exports, % YOY	11.9	13.8	17.4	17.7	N/A	N/A	N/A	N/A
Imports, % YOY	14.1	9.4	18.1	8.6	N/A	N/A	N/A	N/A
Trade Balance, US$ mn	-50.5	-52.8	-148.0	-149.0	N/A	N/A	N/A	N/A
Foreign Exchange Reserves, US$ bn	0.95	0.96	0.96	0.95	0.96	0.94	0.93	N/A
Tourist Arrivals, % YOY	39.5	54.7	68.4	68.5	42.5	41.9	44.4	42.3

GDP Composition	2004	Trading Partners	Exports		Imports	
Real GDP, % YOY	7.7	**2004 % share**	US	55.9	Vietnam	10.9
- Agriculture, % YOY	-2.0		Germany	11.7	Thailand	22.5
- Industry, % YOY	16.1		UK	6.9	Singapore	10.8
- Services, % YOY	9.2		Vietnam	4.4	China	13.6
Nominal GDP, US$ bn	4.89		Japan	3.5	Hong Kong	14.1

Sources: Datastream, National Institute of Statistics of Cambodia

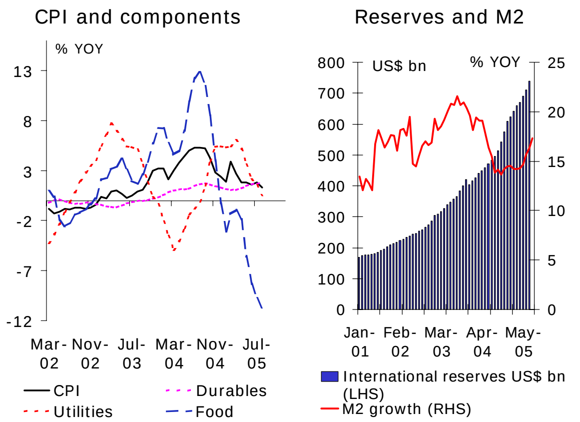
Country Update China

China's exports will slow as growth in major markets declines



Sources: Datastream

Authorities trying to boost prices



Sources: Datastream, Economics@ANZ.

- China's growth continues unabated, but is increasingly imbalanced with exports surging while domestic demand indicators are flat. Exports rose 32% YOY in August, the fastest pace of expansion since the end of the first quarter. Imports rose 23% YOY, the strongest rate since January, due to higher oil import values. The economy is vulnerable to slower export growth with US consumer demand expected to decline in response to gasoline price hikes in the wake of Katrina. A disruption to textile exports because of disputes with the US remains a risk.
- Consistent with trends of recent months, exports in August boosted fixed asset investment, up 27.4% YOY, and industrial production, up 16% YOY. Meanwhile, retail sales was lower than expected at 12.5% in August, with retail sales now having failed to rise above 13% growth since February despite what should be rising wealth in China's urban areas. With two thirds of the data in for the third quarter, it appears likely that there will be little slowdown from Q2; real GDP should rise at least 9.2%.
- The authorities face a problem with prices. The domestic economy is being shielded from higher oil prices by the official price setting mechanism, which has kept domestic prices far below international levels and created shortages. The government resists price rises because of the impact on rural areas, which lag coastal boom areas. If the government allows the semi-private Sinopec and PetroChina to raise prices, PPI and CPI will also rise.
- Capital inflows surged by US$29 bn in July, the largest monthly increase this year – most likely due to refreshed speculative activity following the limited revaluation that month. Efforts to sterilise capital inflows seem to have fallen, with the pace of M2 and deposit growth accelerating in August. Whether or not oil prices are increased, the authorities are clearly trying to raise inflation expectations.

Amy Auster

Economic data -China

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production, %YOY	44.8	14.7	25.8	29.2	32.3	34.4	31.8	N/A
Retail Sales, % YOY	11.5	15.8	13.9	12.2	12.8	12.9	12.7	N/A
Consumer Price Index, % YOY	1.9	3.9	2.7	1.8	1.8	1.6	1.8	N/A
Exports, % YOY	42.1	30.1	32.7	31.8	30.3	30.6	28.7	N/A
Imports, % YOY	23.9	-5.1	18.8	16.4	14.9	15.1	12.7	N/A
Trade Balance, US$ bn	6.5	4.4	5.6	4.4	9.0	9.7	10.4	N/A
Foreign Exchange Reserves, US$ bn	623.7	642.6	659.1	670.8	691.0	711.0	744.0	N/A

Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	9.6	9.9	9.8	9.6	9.1	9.5	9.4	9.5
- Primary sector	2.8	2.5	4.5	4.9	5.5	6.3	4.6	5.0
- Secondary sector	12.6	12.7	11.6	11.5	11.1	11.1	11.1	11.2
- Tertiary sector	6.6	7.8	8.0	8.1	8.1	8.3	7.7	7.8
Nominal GDP, US$ bn	358.5	371.9	382.4	402.6	420.9	447.0	430.5	453.8
Current Account, US$ bn	48.3	50.9	46.1	51.6	76.1	100.8	128.6	103.8
FDI, US$ bn	10.0	13.3	12.2	19.1	14.8	15.3	13.4	15.2

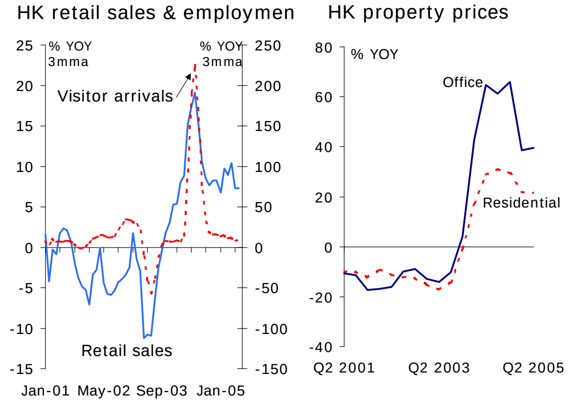
Sources: Datastream, Bloomberg

Economics@ ANZ 30 September 2005

Country Update: Hong Kong

Retail sales and property prices supporting good growth

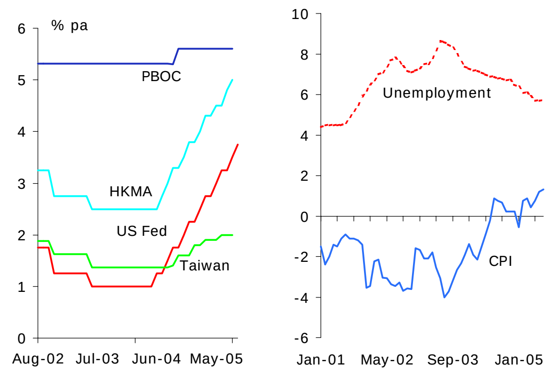
HK retail sales & employmen HK property prices



Sources: Datastream, Economics@ANZ.

Rates rising, and inflation less so

Local rates keep pace with Fed HK CPI and unemployment



Sources: Datastream, Bloomberg Economics@ANZ.

- Strong growth in China continues to bolster the economy in Hong Kong through the tourism, real estate and services sectors. The value of retail sales rose a stronger than expected 7% in July, with the volume also up 5.6% YOY. The opening of the Disney theme park in September and the WTO conference in December should further boost retail sales in the months ahead.
- Hong Kong is not as directly vulnerable as other Asian economies to the sustained rise of oil prices, since manufacturing plays only a minor role in the economy and the level of car ownership is low. The potential risk of softer Chinese exports and rising input costs to Chinese manufacturers – both partly the result of higher oil prices – is potentially bad news for Hong Kong, however.
- Hong Kong is facing rising inflation due to both low unemployment rates and rising property prices. The HKMA has followed the US Federal Reserve in its measured pace of tightening, but nonetheless the CPI rose to 1.4% in August and could accelerate later this year as rental property prices rise.
- More so than inflation, however, is the potential medium term risk to rising real estate prices in Hong Kong and throughout Asia arising from higher interest rates. Higher rates and a slower pace of growth in China are key tests for Hong Kong in the coming months.
- The change in the CNY trading band for currencies other than the USD is not expected to affect the Hong Kong dollar, which remains within the "two-way peg" introduced in May. We continue to expect the CNY to converge on the HKD by the end of 2006 at a rate of USD/CNY7.8.

Amy Auster

Economic data – Hong Kong

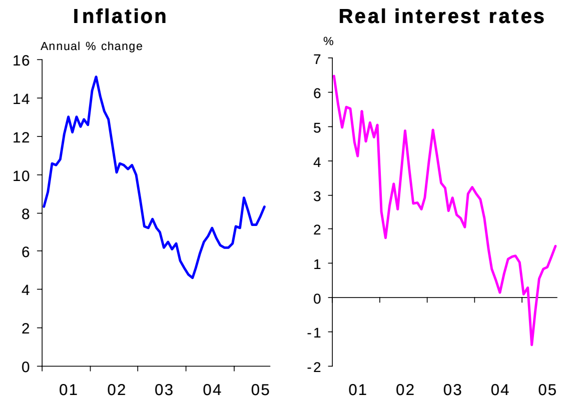
Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Visitor Arrivals, %YOY	8.3	20.0	5.7	11.9	7.5	5.8	3.8	N/A
Retail Sales, % YOY	4.1	16.4	6.2	8.6	7.1	6.1	7.0	N/A
Consumer Price Index, % YOY	-0.2	1.1	1.2	0.8	0.9	1.4	1.4	N/A
Exports, % YOY	34.3	-5.7	3.4	7.8	17.0	12.9	8.4	N/A
Imports, % YOY	36.7	-11.2	2.4	3.8	16.1	10.8	6.9	N/A
Trade Balance, US$ bn	-0.3	-1.3	-1.8	-1.3	-1.2	-0.9	-0.4	N/A
Foreign Exchange Reserves, US$ bn	124.7	123.9	122.4	122.6	122.4	122.0	121.9	N/A

Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	4.1	4.9	7.1	12.1	6.8	7.1	6	6.6
- Private consumption	0.1	3.9	5.7	10.8	5.2	5.8	4.4	2.7
- Government consumption	0.5	5.5	5.7	0	-1.3	-1.7	-4.8	-2.3
- Gross fixed capital expenditure	0.8	2.7	5.1	11.5	2.1	-1.4	0.4	3.5
Nominal GDP, US$ bn	38.9	39.5	40.4	40.8	40.4	41.4	41.9	N/A
Current Account, US$ bn	5.5	4.2	2.1	1.0	6.7	6.5	4.3	N/A
Capital Account, US$ bn	-0.2	-0.3	0.0	0.0	-0.2	-0.1	N/A	N/A

Source: Datastream

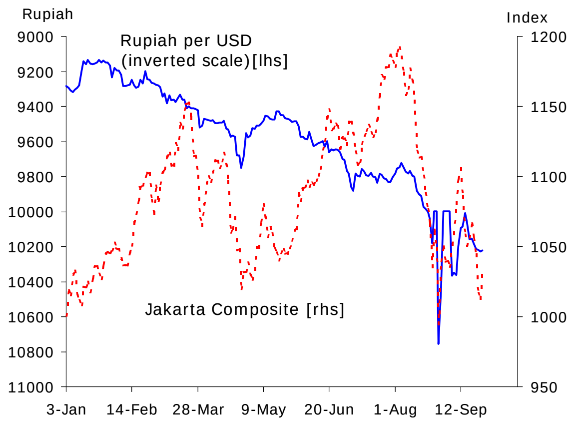
Country Update: Indonesia

Economy operating under a higher inflation and interest rate environment



Sources: Datastream, Bank Indonesia

The rupiah steadies in September after recent turbulence



Source : Datastream

- Indonesia's parliament has approved a plan to cap expenditure on fuel subsidies to Rp89.2 tn (US$8.7 bn). Fuel subsidy costs have escalated through the year and are estimated to more than double initial budget projections. This has made it difficult to make significant inroads into reducing public debt, which stood at 52% of GDP as at 31 March and the government is not expected to meet its target of 49.1% of GDP for 2005.
- The fuel subsidy cap paves the way for another round of cuts this year and this is expected to take place on 1 October. Inflation will accelerate in coming months reflecting the direct impact of energy price increases as well as the indirect impact of higher production and transport costs. For the first 8 months of the year, annual inflation averaged 7.8%. Inflation is likely to exceed 10% by the end of 2005 – rates not seen since 2002. This will put added pressure on the central bank to raise rates to keep real interest rates in positive territory. Bank Indonesia raised its key 1-month SBI rate on 6 September by 50 basis points to 10% - the third increase since July. However, real interest rates are still low, at less than 2%, but climbing. The rupiah has been fairly steady over the past month, supported by the aggressive tightening by the central bank.
- The much higher inflation and interest rate environment and the consequent impact on domestic demand have prompted us to shade our economic growth forecast for 2005 down to 5.4%. Real GDP is forecast to expand by a slightly quicker rate of 5.6% in 2006 but represents a cut of around half a point from our initial forecast.
- Delays in conducting a mass cull to contain the outbreak of bird flu have occurred despite news of an increasing number of people infected by the virus. While not of the scale of SARS, concerns have been raised over the apparent reluctance in dealing with the situation and the risk of an epidemic.

Jasmine Robinson

Economic data - Indonesia

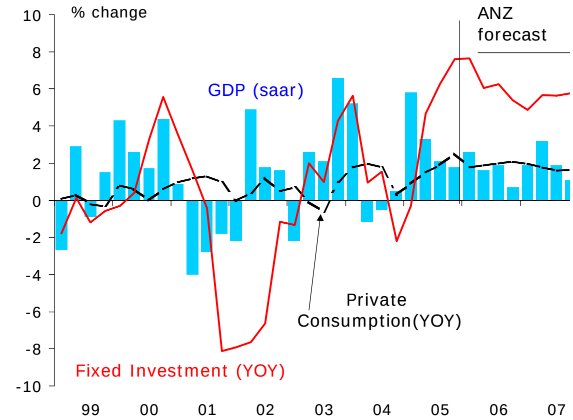
Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production, %YOY	14.2	23.9	20.1	18.4	21.6	5.7	7.3	N/A
Motor cycle sales, % YOY	37.3	29.3	33.7	30.7	35.0	44.4	37.4	41.7
Consumer Price Index, % YOY	7.3	7.2	8.8	8.1	7.4	7.4	7.8	8.3
Exports, % YOY	21.6	30.0	44.8	28.7	28.5	13.4	17.2	N/A
Imports, % YOY	19.9	17.5	43.5	41.5	44.8	24.7	14.9	N/A
Trade Balance, US$ bn	2.1	2.4	2.4	1.8	2.2	2.0	2.2	N/A
Foreign Exchange Reserves, US$ bn	34.8	35.2	34.6	34.9	33.2	32.5	30.8	N/A

Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	4.4	4.8	4.4	4.4	5.1	6.5	6.2	5.6
- Private consumption	4.0	4.9	5.7	5.3	5.0	3.8	3.2	3.5
- Government consumption	9.7	13.7	10.0	5.1	-3.5	-2.8	-8.7	-6.2
- Gross fixed capital expenditure	-2.1	-0.5	11.8	13.3	19.2	18.4	13.9	13.0
Nominal GDP, US$ bn	61.0	61.9	63.3	62.9	64.1	67.2	68.3	69.0
Current Account, US$ bn	2.1	2.4	-2.2	2.2	2.8	0.3	2.5	N/A
Capital & Financial Account, US$ bn	-0.6	0.8	1.6	-0.7	1.0	1.1	-0.6	N/A

Sources: Bloomberg, Datastream, Bank Indonesia

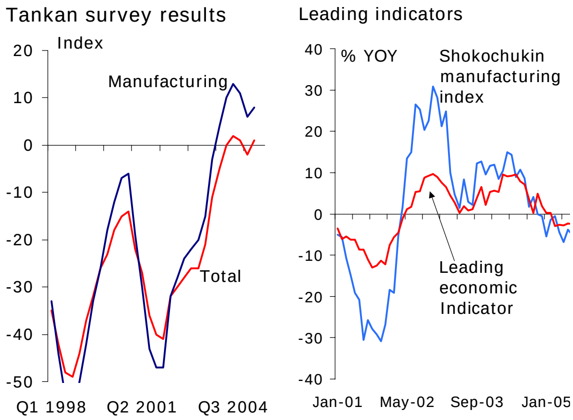
Country Update: Japan

Economic recovery outlook stronger than previously expected



Sources: Datastream, Economics@ANZ.

Leading indicators point to continued improvement



Sources: Datastream, Economics@ANZ.

- The Shokochukin index for August showed a strong improvement in business conditions, with the manufacturing survey rising to above 50, and the overall survey also registering gains. The value of retail sales rose 1.5% YOY in August, making six consecutive months of annual increases in the index. Consumer sentiment is likely to be further buoyed by the overwhelming victory of the LDP in the September election, which promises to bring a round of important reforms to the economy and particularly to the financial sector. Koizumi will put the postal reform bill back to Parliament, but has also said he will seek further deregulation and privatisation of the financial industry.
- With such strong data well into the third quarter, we have revised up our forecast for Q3 growth to 2.1% YOY (annualised), which brings our year-end forecast to 2.3% from 2.1% previously. We have also revised upward our forecasts for 2006 from 1.5% to 2.0%, and for 2007 from 1.3% to 1.9%. The revisions are based upon an expectation of steady private consumption (around 2% growth); a recovery in housing based upon steadying property prices; and continued improvements in business investment as the longer term improved economic outlook becomes apparent. While exports have been stronger over the past several months than had been anticipated, our forecasts assume net exports remain a slight drag on growth due to a high oil import bill.
- The economy's continued solid performance has raised the possibility that Japan will emerge from deflation some time in the next six months. BoJ policymakers are openly discussing when quantitative easing and the zero interest rate policy will end. We forecast quantitative easing will be scaled back in the first quarter of next year, and that the overnight call rate will rise to 0.25% in the fourth quarter of 2006.

Amy Auster

Economic data - Japan

Monthly data	**Jan 05**	**Feb 05**	**Mar 05**	**Apr 05**	**May 05**	**Jun 05**	**Jul 05**	**Aug 05**
Industrial Production, %YOY	2.2	3.7	2.2	1.5	-0.9	0.2	-1.1	#N/A
Retail Sales, % YOY	2.4	-2.7	0.3	3.8	2.9	3.0	0.6	#N/A
Consumer Price Index, % YOY	-0.1	-0.3	-0.2	0.0	0.2	-0.5	-0.3	#N/A
Exports, % YOY	6.4	3.3	9.3	8.2	6.5	4.2	2.0	8.7
Imports, % YOY	14.8	13.2	11.0	13.3	24.6	11.8	9.2	20.8
Trade Balance, US$ bn	1.9	10.4	10.6	8.9	2.7	8.0	7.8	1.1
Foreign Exchange Reserves, US$ bn	821.2	820.5	818.6	824.2	823.9	825.0	821.7	829.9

Quarterly data	**Sep 03**	**Dec 03**	**Mar 04**	**Jun 04**	**Sep 04**	**Dec 04**	**Mar 05**	**Jun 05**
Real GDP, % YOY	2.2	4.1	3.1	2.4	0.9	1.0	2.2	2.2
- Private consumption	1.0	1.8	2.0	1.8	0.3	0.9	1.5	1.0
- Government consumption	0.9	2.1	3.0	2.5	3.0	2.3	1.9	0.9
- Gross fixed capital formation	3.5	5.0	1.1	1.4	-1.5	-0.3	3.5	3.5
Nominal GDP, US$ bn	4617.1	4737.5	4601.0	4587.1	4773.1	4869.1	4889.7	4617.1
Current Account, US$ bn	158.6	172.9	171.2	170.6	174.1	171.3	164.8	158.6
Capital Account, US$ bn	-2.6	-8.5	-1.1	-2.5	-7.0	-4.7	-2.7	-2.6

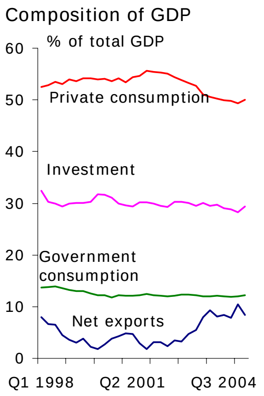
Source: Datastream

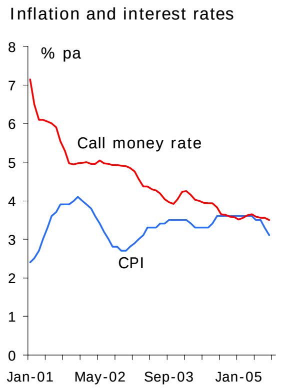
Economics@ ANZ

30 September 2005

Country Update: Korea

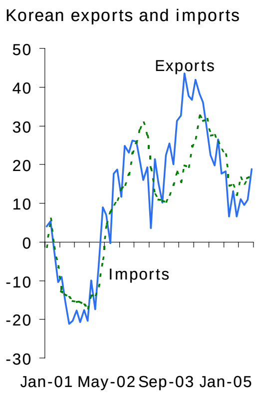
Economy vulnerable to downturn in exports and rise in interest rates

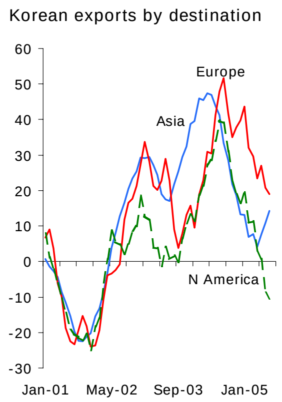




Sources: Datastream, Economics@ANZ.

External demand likely to slow





- The economy has steadily recovered, with domestic demand making a significant contribution. Private consumption has increased for four consecutive quarters, rising 2.8% in the second quarter versus a contraction of 0.5% in the same period last year. The recovery is thanks to improved household balance sheets, but nonetheless consumption's contribution to GDP is still far below pre-crisis levels. Investment and government expenditure will need to remain positive in the coming months for growth to remain at current levels.
- Given the importance of investment and government expenditure to the economy, the path of interest rates will also be important. The government's fiscal stance is still supportive of growth despite noises to raise taxes, and public sector debt levels are expected to reach a record 32% of GDP next year. The debt is manageable, but higher interest rates will make the larger debt stock more expensive. While BoK has been able to keep rates on hold, data show the manufacturing sector is approaching capacity constraints. This combined with higher oil prices could raise inflation expectations going forward.
- Net exports through the end of Q3 have also boosted growth. Despite a higher import bill due to oil prices, the trade balance still registered a US$15.9 bn surplus through August (vs US$19.5 bn during the same period in 2004). Export growth of 18% YOY in August was the strongest in 2005 to date, thanks to booming China. China has absorbed 23% of Korean exports this year – up from 20% at this time last year – and is by far the largest export market. However, the charts at left highlights that Asia is generating the growth in exports. A slowdown in China would dampen Korea's export prospects heading in the fourth quarter. As exports slow, net exports will fall due to higher imports and could begin to drag slightly on the economy. Oil imports represent more than 4% of GDP.

Amy Auster

Economic data - Korea

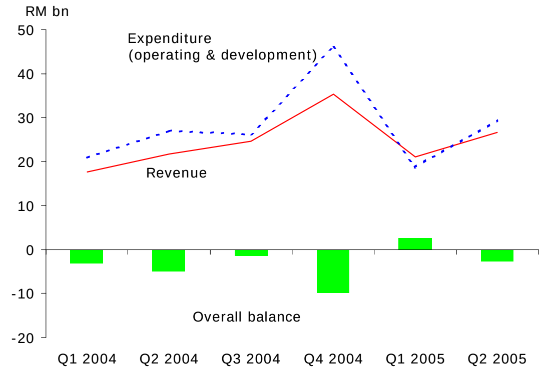
Monthly data	**Jan 05**	**Feb 05**	**Mar 05**	**Apr 05**	**May 05**	**Jun 05**	**Jul 05**	**Aug 05**
Industrial Production, %YOY	14.3	-7.3	4.9	3.9	4.2	4.1	7.0	N/A
Retail Sales, % YOY	-3.3	10.3	6.1	5.5	4.6	3.7	3.6	N/A
Consumer Price Index, % YOY	3.1	3.3	3.1	3.1	3.1	2.7	2.5	2.0
Exports, % YOY	18.2	6.6	13.1	6.5	11.0	9.6	10.9	18.8
Imports, % YOY	19.8	5.1	19.0	12.7	18.1	14.3	16.8	20.5
Trade Balance, US$ bn	3.0	2.0	1.2	1.7	2.0	2.5	1.8	1.7
Foreign Exchange Reserves, US$ bn	198.8	201.3	204.6	205.6	205.3	204.2	204.9	N/A

Quarterly data	**Sep 03**	**Dec 03**	**Mar 04**	**Jun 04**	**Sep 04**	**Dec 04**	**Mar 05**	**Jun 05**
Real GDP, % YOY	2.4	4.2	5.2	5.6	4.9	3.0	2.8	3.4
- Private consumption	-2.0	-2.3	-1.3	-0.5	-0.7	0.5	1.4	2.8
- Government consumption	3.7	3.8	3.0	4.2	2.9	1.9	3.2	4.1
- Gross fixed capital expenditure	2.7	4.3	2.2	4.3	3.0	-1.2	0.1	2.1
Nominal GDP, US$ bn	153.8	158.8	163.2	166.1	170.4	181.8	191.4	197.6
Current Account, US$ bn	3.7	7.3	6.1	7.0	7.1	7.4	6.0	2.8
Capital Account, US$ bn	-0.4	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.7

Source: Datastream

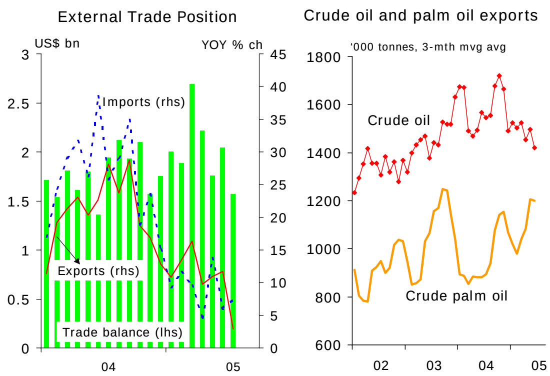
Country Update: Malaysia

Fiscal position improves in H1 2005



Sources: EIU, Bank Negara Malaysia

Trade surplus expected to strengthen in 2005



Sources: Datastream, Economics@ANZ

- Like many of its Asian neighbours, inflation in Malaysia has hit highs last seen at the height of the Asian crisis. Annual inflation was 3.7% in August - the highest rate since February 1999. This partly reflected the effect of July's increase in administered fuel prices and higher prices for alcohol, tobacco and food. In an effort to contain inflation pressures, the government has cut road taxes by 25% for all businesses (this took effect on 12 September) and halted further increases in highway toll charges, but price pressures are likely to become more evident as second-round effects of higher energy prices are passed on to the consumer.
- The budget for 2006 will be released on 30 September and is likely to provide some fiscal stimulus, by way of income tax cuts, public sector bonuses and wage increases, to help lift private consumption amidst an expected slowdown in external demand. The budget deficit for 2005 is likely to come within the target of 3.8% of GDP. While expenditure on fuel subsidies has been well over budget, revenues have been strong, thanks to high oil prices. For the first half of this year, the accumulated deficit was just RM68 mn compared with RM8.1 bn in H1 2004.
- Exports rose by 3% in the year through July, the slowest rate of growth in more than three years. For the first seven months of the year, however, exports grew by 10.7% compared with the same period in 2004 while imports rose by 8.7%. Malaysia has benefited from high oil prices as reflected in the sharp rise in the value of crude oil exports and stronger demand for palm oil products has helped to offset the fall in palm oil prices. A moderate upturn in global demand for electronics is expected to support export growth in the second half. Capital goods imports are likely to strengthen in line with a pick-up in exports but the trade surplus for the year is expected to be higher than in 2004. A softer commodity price outlook and intense competition from electronics producers in the region will, however, limit export growth in 2006.

Jasmine Robinson

Economic data - Malaysia

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production, %YOY	3.1	7.6	5.5	4.1	-0.1	3.2	0.9	N/A
Motor Vehicle sales, % YOY	23.3	29.4	21.6	6.7	17.3	1.8	-3.0	19.1
Consumer Price Index, % YOY	2.4	2.4	2.6	2.7	3.1	3.2	3.0	3.7
Exports, % YOY	10.8	13.6	16.4	9.9	10.9	11.7	3.0	N/A
Imports, % YOY	9.4	11.6	9.6	4.7	13.8	6.0	7.6	N/A
Trade Balance, US$ bn	2.0	1.9	2.7	2.2	1.8	2.0	1.6	N/A
Foreign Exchange Reserves, US$ bn	69.6	71.8	72.4	73.7	74.9	75.2	78.7	N/A

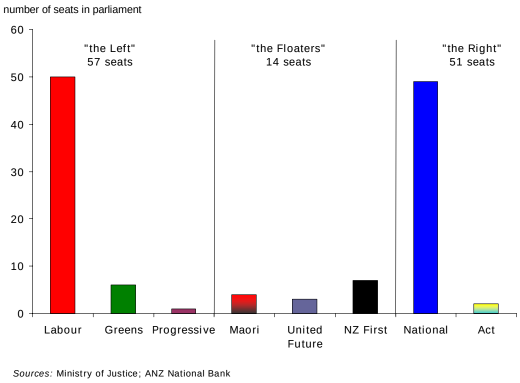
Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	5.3	6.9	7.8	8.3	6.7	5.8	5.6	4.0
- Private consumption	7.0	8.6	8.9	11.9	11.2	10.2	10.1	7.4
- Government consumption	3.2	13.3	11.8	9.5	1.1	4.2	-2.3	-2.4
- Gross fixed capital expenditure	3.2	3.6	3.5	3.5	3.2	2.3	2.0	6.7
Nominal GDP, US$ bn	25.9	27.2	28.2	29.3	30.2	30.7	31.0	31.7
Current Account, US$ bn	3.4	2.8	3.8	3.3	4.4	3.4	5.5	N/A
Capital & Financial Account, US$ bn	0.1	-0.6	2.3	0.0	-0.9	2.7	0.9	N/A

Sources: Datastream, Bloomberg

Economics@ ANZ 30 September 2005

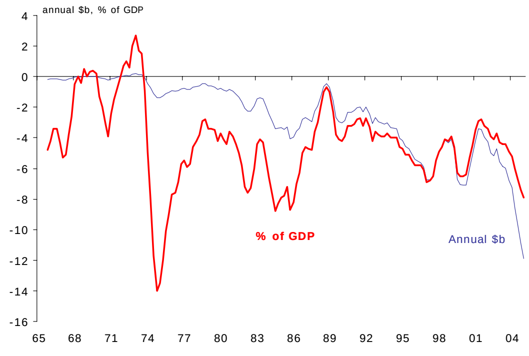
Country Update: New Zealand

General Election results



Sources: Ministry of Justice; ANZ National Bank

Current account deficit (% of GDP) worst since 1986



Source: Statistics NZ

- Momentum within the economy remains solid, although the pace of expansion has eased from a resource sapping 5% in 2004 to a more respectable 2.6% at present. We expect the pace of growth within the New Zealand economy to continue easing, and growth to trough at around 1½% next year.
- Inflation remains the key theme shaping this deceleration and necessitating a period of sombre growth going forward to remove excess demand within the economy. Inflation is heading towards 4% in 2006, the key drivers being higher oil prices and persistent domestic demand.
- The Reserve Bank looks set to raise interest rates again. While economic momentum has eased, the magnitude of the moderation is not yet sufficient to alleviate the Reserve Bank's inflation concerns. Inflation expectations are ticking up, and the Reserve Bank has little inflation headroom to absorb pricing pressure.
- Imbalances within the economy are of increasing concern. The current account deficit has blown out to 8% of GDP. Such a position is untenable. Restoring some balance to growth requires a lower currency to stimulate export growth and slower domestic demand to restrict import growth, with the latter likely to be assisted by monetary policy remaining in a restrictive stance for some time.
- The 2005 General Election delivered no clear majority. To date, the Labour party has 50 seats in parliament, and the National Party 49. Coalition discussions with smaller parties are underway with the incumbent Labour Party looking set to form a minority coalition. Regardless of the eventual election result, the key pillars underpinning the NZ economy – prudent fiscal governance and an independent and inflation targeting central bank – are expected to remain unchanged. Correspondingly, financial markets have taken a mature view to the election result and market reaction to date has been muted.

Cameron Bagrie

Economic data – New Zealand

Monthly data	**Jan 05**	**Feb 05**	**Mar 05**	**Apr 05**	**May 05**	**Jun05**	**Jul05**	**Aug05**
Retail Sales, % YOY	4.4	6.9	6.5	6.7	7.0	7.3	6.4	N/A
Building consents (% YOY)	-29.0	-15.2	-0.3	-36.4	-22.3	-38.2	-15.4	N/A
Exports, % YOY	10.8	5.8	0.5	4.1	-12.9	-5.4	-1.6	-0.2
Imports, % YOY	-2.2	14.0	9.2	1.9	11.7	-0.8	7.2	12.7
Trade Balance, US$ bn	-0.21	-0.08	-0.14	-0.10	-0.05	-0.36	-0.43	-0.82

Quarterly data	**Sep 03**	**Dec 03**	**Mar 03**	**Jun 04**	**Sep 04**	**Dec 04**	**Mar 05**	**Jun 05**
Real GDP, % YOY	3.4	3.2	4.8	5.4	4.2	3.4	2.3	2.6
- Private consumption	6.1	5.8	7.2	6.3	6.3	5.6	5.2	5.2
- Government consumption	2.6	4.3	5.1	5.8	4.1	6.7	5.6	4.1
- Gross fixed capital expenditure	9.9	10.6	21.9	14.8	15.2	9	2.5	10.2
Nominal GDP, US$ bn	19.9	21.6	23.9	22.9	24.1	26.0	26.7	27.4
Current Account, US$ bn	-3.2	-3.4	-3.7	-4.6	-5.6	-6.8	-7.8	-8.5
Consumer Price Index, annual % change	1.5	1.6	1.5	2.4	2.5	2.7	2.8	2.8

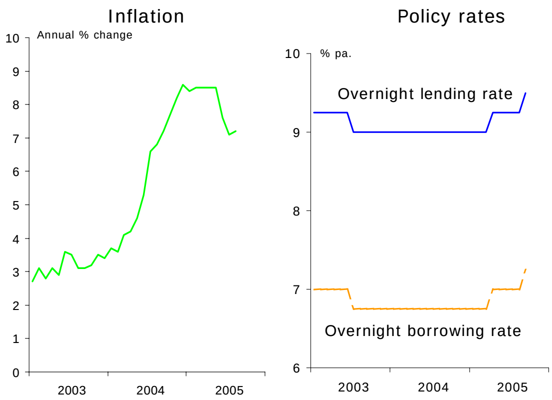
Sources: Statistics NZ, ANZ National Bank

Economics@ ANZ

30 September 2005

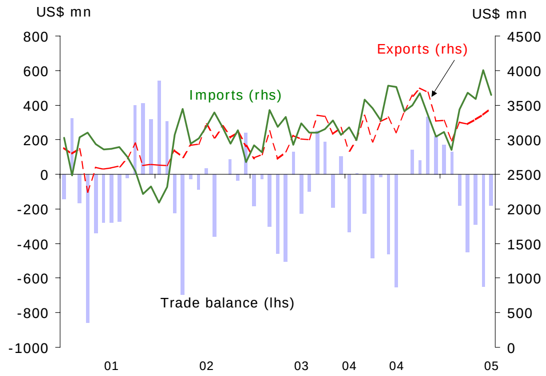
Country Update: Philippines

Inflation concerns prompt rate hike



Sources: Bloomberg, Datastream

Trade deficit narrows



Source: Datastream

- The Philippine central bank raised its policy interest rates on 22 September by 25 basis points to 7.25% for the overnight borrowing or reverse repurchase rate and 9.5% for the overnight lending or repurchase (RP) rate. This was the second rate hike this year and signalled concerns over a build-up of supply side pressures. Annual inflation, which was 7.2% in August, has come off from persistent highs in excess of 8% recorded in the first half of this year but pressures remain with oil prices staying at high levels. Another reason for the tighter monetary stance was the potential impact on the exchange rate from a rise in US interest rates, leading to a narrowing of interest rate differentials and peso weakness which in turn could fuel inflation. Interest rates are likely to rise modestly, reflecting increases in US rates and the need to check inflation.
- While the government's fiscal position remains a major concern, data suggests that some inroads have been made to reduce the deficit thanks to improved revenue collection methods and lower-than-expected borrowing costs. The budget deficit for January-August stood at Ps80.8 bn, down 27% from the same period in 2004 and surpluses were posted in April, June and August for the first time in four years. The deficit is expected to come well under the ceiling for 2005 of Ps180 bn or 3.5% of GDP. The lifting of the freeze on the implementation of the Expanded Value Added Tax (EVAT) should pave the way for further improvements in the fiscal position over the medium term. The law expands the VAT to the electricity, fuel and transport industries and raises the rate from 10% to 12% from January 2006.
- The trade deficit narrowed significantly in July thanks largely to exports, which rose by 11.4% in year-on-year terms. A gradual recovery in electronics demand is likely to support export growth over the rest of the year but high oil prices will keep imports high.

Jasmine Robinson

Economic data - Philippines

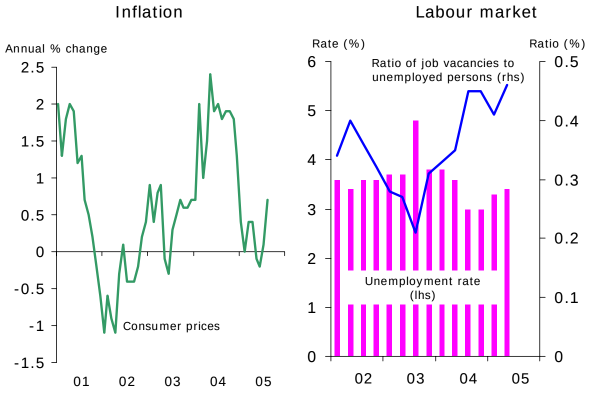
Monthly data	**Jan 05**	**Feb 05**	**Mar 05**	**Apr 05**	**May 05**	**Jun 05**	**Jul 05**	**Aug 05**
Manufacturing Production, %YOY	0.7	2.2	-0.9	4.6	-0.5	-5.1	-1.1	N/A
Motor Vehicle sales, % YOY	-5.7	-1.2	13.6	33.9	15.7	25.2	0.7	12.6
Consumer Price Index, % YOY	8.4	8.5	8.5	8.5	8.5	7.6	7.1	7.2
Exports, % YOY	15.4	-0.6	-2.8	8.8	1.1	1.2	11.4	N/A
Imports, % YOY	-2.1	-4.8	-4.0	6.5	9.4	6.0	-3.1	N/A
Trade Balance, US$ mn	170.0	132.0	-179.0	-451.0	-289.0	-647.0	-182.0	N/A
Foreign Exchange Reserves, US$ bn	12.7	13.5	13.7	13.9	14.7	15.0	14.9	N/A

Quarterly data	**Sep 03**	**Dec 03**	**Mar 04**	**Jun 04**	**Sep 04**	**Dec 04**	**Mar 05**	**Jun 05**
Real GDP, % YOY	5.1	4.6	6.1	6.3	6.3	5.4	4.5	4.8
- Private consumption	5.2	5.5	5.7	6.3	5.5	5.7	5.0	4.9
- Government consumption	5.0	5.4	4.1	-1.2	-7.2	5.6	0.6	13.2
- Gross fixed capital expenditure	7.2	0.7	5.0	4.0	3.6	4.3	-4.4	-1.5
Nominal GDP, US$ bn	19.8	20.2	20.5	21.2	21.9	22.5	23.1	24.1
Current Account, US$ bn	1.1	1.0	-0.1	0.3	1.4	1.7	0.7	0.4
Capital Account, US$ mn	-1.2	-1.1	-0.5	0.8	-1.2	-1.2	1.1	0.5

Sources: Datastream, Bloomberg

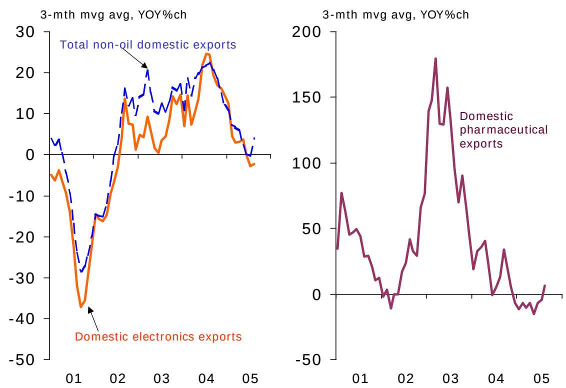
Country Update: Singapore

Inflation picks up and employment improves



Sources: Datastream, Ministry of Manpower, Economics@ANZ

Exports expected to gain momentum



**: Electronics exports : disk drives, integrated circuits, PCs, parts of PCs & telecom. eqpt*
Source: Datastream

- Consumer prices exceeded market expectations, jumping to an 8-month high in August, rising by 0.7% in year-on-year terms. This brings inflation for the first eight months of 2005 to 0.2%. While this is still comparatively low, a rising trend is expected over the course of the year as oil prices stay high and employment picks up. The seasonally-adjusted unemployment rate was 3.4% in June, slightly higher than the 3.3% in March but an improvement from a year ago of 3.6%. Signalling a more positive business outlook, the ratio of job vacancies to unemployed persons rose from 41 in March 2005 to 46 job openings for every 100 job applicants in June 2005. This is the highest reached in close to four years but is still far below the last peak in September 2000 when the ratio was 135.
- The latest inflation data lends support to the view that the Monetary Authority of Singapore will maintain its policy of a modest and gradual appreciation of the S$NEER which it adopted in April 2004.
- Domestic non-oil exports picked up in August, rising by 7.1% (in Singapore dollar terms) in year-on-year terms. Non-oil export growth is expected to pick up over the rest of the year reflecting a gradual recovery in IT demand. Pharmaceutical output, which is highly volatile but generally shows an upward trend, will also support further growth in exports.
- Eager to seek a clear mandate, PM Lee Hsien Loong, who took over the Prime Minister's post from Mr Goh Chok Tong in August 2004 has hinted that general elections, which are not due before 2007, could be held as early as the end of this year. Without a strong opposition, the ruling People's Action Party is expected to remain the dominant force in domestic politics for the foreseeable future but what will be noteworthy is whether PM Lee sill be able to strengthen his party's position further.

Jasmine Robinson

Economic data - Singapore

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production, %YOY	11.0	-10.6	9.2	4.5	2.3	11.8	6.1	11.8
Retail Sales, % YOY	11.5	-4.7	13.6	12.8	6.7	9.6	10.2	N/A
Consumer Price Index, % YOY	0.4	0.0	0.4	0.4	-0.1	-0.2	0.1	0.7
Exports, % YOY	19.1	8.0	16.9	12.7	15.5	11.9	11.2	23.0
Imports, % YOY	23.5	7.4	16.7	12.5	11.7	15.9	7.1	21.6
Trade Balance, US$ bn	0.6	1.7	1.0	1.0	1.7	1.2	1.3	1.7
Foreign Exchange Reserves, US$ bn	111.4	113.2	112.9	115.3	115.9	115.7	115.8	N/A

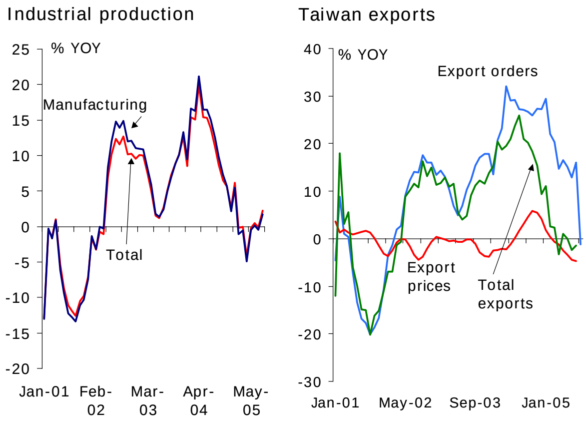
Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	2.6	5.5	7.9	12.3	7.3	6.5	2.7	5.2
- Private consumption	0.4	3.1	8.1	12.8	7.2	6.6	2.7	2.3
- Government consumption	-9.3	4.2	4.3	-6.8	-6.3	-0.9	11.6	-1.5
- Gross fixed capital expenditure	0.6	-0.7	11.9	10.8	10.0	0.2	-5.1	-4.3
Nominal GDP, US$ bn	23.4	24.2	26.2	26.1	26.0	28.6	28.1	29.0
Current Account, US$ bn	7.4	6.7	5.8	6.3	7.9	7.9	7.5	9.2
Capital & Financial Account, US$ bn	-3.0	-6.8	-0.1	-3.7	-7.5	-1.8	-5.7	-2.8

Sources: Bloomberg, Datastream, Economic Survey of Singapore

Economics@ANZ **30 September 2005**

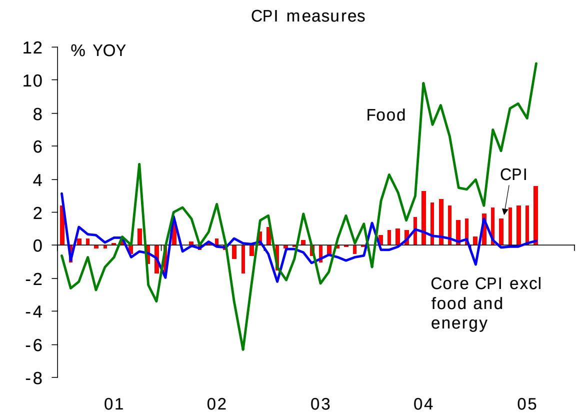
Country Update: Taiwan

IP likely to follow exports down



Sources: Datastream, Economics@ANZ.

CBC will remain hawkish on inflation



Sources: Datastream, Economics@ANZ.

- Taiwan's economy finally began to benefit from the upturn in global activity in August, with industrial production up 5.9% YOY and exports up 6.5%. Export orders surged 22%, but this indicator has been volatile. Our expectations of a slowdown in US and Chinese demand does not bode well for the tech-focused economy, as there is little domestic momentum. A stronger Japan could offset a slowdown in China somewhat, as Japan represented 15% of exports last month. A renewed softness in exports or upturn in oil prices would further dent the fragile state of business confidence.
- The CPI jumped 3.6% YOY in August from 2.4% in July. The rise was largely the result of typhoon-related supply disruptions, particularly to food, but pass through from currency weakness is occurring. The Central Bank of China has been hawkish on inflation, but annual inflation is now at its highest point since November 1998. Further rate rises from the current 2.0% seem likely.
- It is important to note that Taiwan has also not felt the full effects of higher oil prices because of caps imposed on state-owned energy and power companies. Their losses may become a medium-term issue as these are some of the largest companies in the economy.
- The opposition KMT elected charismatic former Taipei mayor Ma Ying-jeou to its leadership in advance of presidential elections in 2008. Although the elections are not imminent, Ma may act now to stake out territory against the ruling DPP. Locally the approval of arms purchases is important, but from an economic point of view the more important issue is the need for economic reform. Tax revenue has fallen to below 15% of GDP, and central government debt is above 30% of GDP.

Amy Auster

Economic data – Taiwan

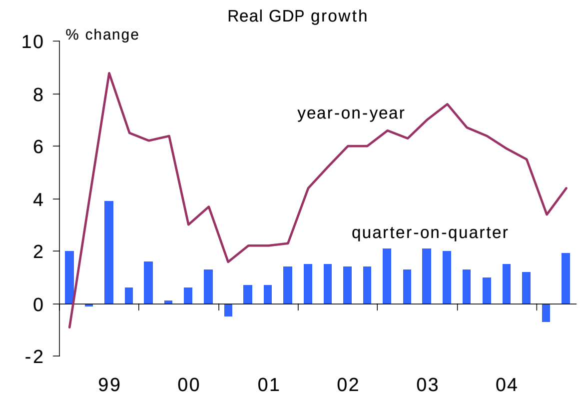
Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production, %YOY	13.3	-13.4	-0.2	0.9	-1.3	2.0	-1.1	5.9
Retail Sales, % YOY	5.5	7.1	8.1	5.0	4.6	4.8	#N/A	#N/A
Consumer Price Index, % YOY	0.5	1.9	2.3	1.6	2.3	2.4	2.4	3.6
Exports, % YOY	29.4	-11.0	6.1	11.0	4.0	2.7	5.0	6.5
Imports, % YOY	46.5	-17.5	14.1	18.5	11.3	2.1	9.4	10.0
Trade Balance, US$ bn	-0.3	0.9	-0.5	0.0	0.1	-0.2	0.3	0.4
Foreign Exchange Reserves, US$ bn	242.7	246.6	251.1	252.6	253.2	253.6	253.6	254.1

Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	4.2	6.1	6.9	7.8	5.1	3.2	2.4	2.8
- Private consumption	1.9	2.4	4.0	4.1	1.3	3.1	3.2	3.0
- Government consumption	1.4	0.9	0.6	-0.7	-1.6	-1.0	-0.9	0.8
- Gross fixed capital expenditure	-3.6	7.0	12.0	19.9	12.8	17.0	9.7	8.4
Nominal GDP, US$ bn	72.2	74.3	75.6	76.2	75.6	78.0	82.2	82.5
Current Account, US$ bn	6.8	8.0	5.9	5.5	5.3	1.8	4.4	1.7
Capital Account, US$ bn	-8.0	-6.4	-5.7	-5.0	-4.8	-4.4	-5.3	-4.0

Sources: Bloomberg, Datastream, National Statistics

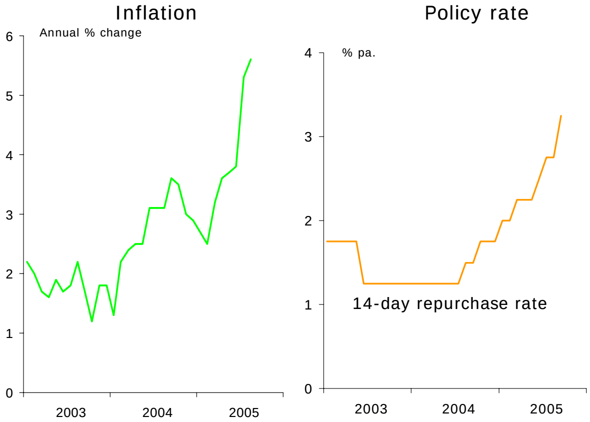
Country Update: Thailand

Growth strengthens in June quarter



Sources: Datastream, Economics@ANZ

Accelerating inflation prompts further monetary tightening



Source: Datastream

- Real GDP grew by 1.9% in the June quarter, reversing the decline in Q1 2005, and expanding at the fastest pace in 6 quarters. Growth was underpinned by a strong pick-up in manufacturing, agriculture and hotels/restaurants, which expanded by 3.1%, 3.9% and 14.5% respectively. Nevertheless, growth for the first half of the year, which was 3.9% in year-on-year terms, was much lower that the 6.6% recorded in H1 2004. The National Economic and Social Development Board cut its forecast for 2005 to 3.8-4.3% from 4.5-5.5% estimated in June. We expect real GDP to come in at a lower 3.6% in 2005 as inflation risks intensify and interest rates rise, resulting in a moderation in domestic demand.
- The Bank of Thailand (BOT) raised the 14-day repurchase rate by 50 basis points, to 3.25% on 7 September. The increase was the seventh since August 2004 and the first 50 bps hike in this tightening phase. This was prompted by rising annual inflation, which crept up to 5.6% in August, the highest rate in 7 years. The direct impact of the elimination of fuel subsidies and the indirect impact through higher production costs will mean that inflationary pressures are likely to persist into 2006 amidst still-high oil prices. Annual inflation is estimated to average 4.6% in 2005, the sharpest rise since 1998. BOT would have to maintain a tightening bias to arrest the decline in real interest rates, which are in negative territory.
- The rise of the insurgency in southern Thailand has put the government under further pressure to produce results. Tensions have escalated following the kidnap and killing of two Thai soldiers by villagers. The continuing violence is detrimental to the tourism industry, which is approaching its peak season, and could hamper negotiations on bilateral free trade arrangements as Thailand's reputation in the international arena is undermined.

Economic data - Thailand

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Manufacturing Production, %YOY	3.9	-1.1	8.5	5.6	8.3	9.6	4.7	N/A
Car Sales, % YOY	17.6	-4.1	24.1	9.0	21.9	25.6	12.3	N/A
Consumer Price Index, % YOY	2.7	2.5	3.2	3.6	3.7	3.8	5.3	5.6
Exports, % YOY	10.9	5.5	20.3	13.1	12.5	9.4	16.3	N/A
Imports, % YOY	33.6	22.0	29.8	30.0	36.4	35.4	18.4	N/A
Trade Balance, US$ bn	-1.3	-0.5	-1.1	-1.6	-1.8	-1.9	-0.1	N/A
Foreign Exchange Reserves, US$ bn	47.8	48.5	47.5	48.1	47.1	47.2	47.3	N/A

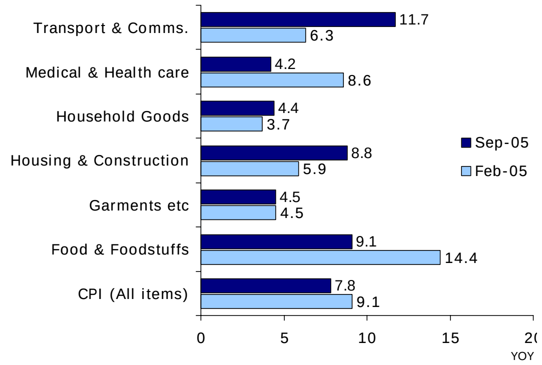
Quarterly data	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	7.0	7.6	6.7	6.4	5.9	5.5	3.4	4.4
- Private consumption	5.5	7.6	6.2	5.8	5.5	5.5	4.5	4.7
- Government consumption	4.8	7.2	6.8	4.9	0.3	4.8	15.8	9.3
- Gross fixed capital expenditure	11.4	19.3	16.5	13.1	12.5	15.5	15.0	14.4
Nominal GDP, US$ bn	36.3	38.4	40.2	40.5	40.4	42.4	44.0	43.6
Current Account, US$ bn	1.8	2.5	2.2	0.6	1.2	3.1	-1.5	-4.7
Capital & Financial Account, US$ bn	-1.5	-2.0	-1.6	0.3	0.3	1.8	-0.5	4.0

Sources: Bloomberg, Datastream, ANZ Bank

Country Update: Vietnam

Inflationary pressures re-emerging

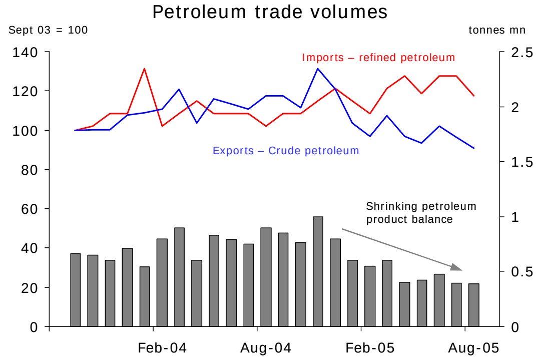
Inflation Feb 2005 – September 2005 (prelim)



Source: General Statistics Office of Vietnam

Petroleum imports increase in 2005

Petroleum trade volumes



Source: General Statistics Office of Vietnam

- Growth in the Vietnamese economy, driven by industrial production, retail sales and tourism shows no sign of slowing according to the latest data. In particular, growth in industrial output has been fuelled by significant increases in the production of ready-made-clothes, which has increased by 34% in the year to August. However, garment export growth, especially to the US, has suffered due to increased competition. Vietnamese exporters of both garments and footwear are now actively seeking alternative markets such as Japan and South Africa to maintain export growth.
- Despite inflation easing from the highs of late 2004 external factors such as high oil prices and drought are now re-exerting inflationary pressure. Demand for fuel, proxied by imports of refined petroleum products, has grown throughout 2005 despite higher prices. This now seems to be flowing through to higher fuel and transport costs. Higher cost due to higher oil prices have been compounded by the reductions in fuel subsidies by a government looking to improve its fiscal balance. Food prices have consistently added to inflation in 2005 and continued drought conditions have raised the expectation that prices may accelerate in coming months. This is particularly true in staples such as rice and other key agricultural commodities such as coffee and sugar. Preliminary estimates for September have inflation up slightly to 7.8% YOY.
- Increased crude oil export receipts and other primary goods such as coal and wood-based products have seen exports strengthen by 18.7% in Jan-Aug 2005 against the same period in 2004 (reaching US$20.4bn Jan-Aug 2005). However, import growth was also stronger in August due in part to imports of higher priced refined petroleum products that have increased in volume throughout 2005. This increase has contributed to the trade balance widening significantly since January.

Alex Joiner

Economic data - Vietnam

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Industrial Production+, %YOY	32.4	16.1	14.4	15.1	15.4	15.6	16.0	18.1
Retail Sales+, % YOY	19.1	18.5	18.5	18.7	18.8	18.9	19.0	19.1
Consumer Price Index, % YOY	9.7	9.1	8.4	8.5	8.1	7.6	7.5	7.3
Exports+, % YOY	19.6	16.2	16.2	23.2	20.4	17.4	18.1	18.7
Imports+, % YOY	18.3	24.2	18.5	22.4	21.2	22.0	20.5	20.0
Trade Balance*, US$ bn	-0.2	-0.8	-1.1	-1.8	-2.6	-3.6	-3.5	-3.8
Tourist Arrivals+, %YOY	4.4	12.4	22.8	20.1	19.4	23.7	23.8	22.7
China, number of visitors*	-	-	211,930	246,066	302,439	408,817	478,195	527,138
US, number of visitors*	-	-	94,787	115,161	134.243	166,875	204,051	230,937

Quarterly data	H1 2005		
Real GDP+, % YOY	7.6	FDI*	
Agriculture, forestry, fishery, % YOY	4.2	Value	2.2^
Industry & construction, % YOY	9.5		
Services, % YOY	7.6		

+: January-to date vs same period in previous year
*: January to date ^: US$ bn
Source: General Statistics Office of Vietnam

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