



Church of the Good Shepherd, Lake Tekapo.

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## Kicking for touch

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NZ financial markets will kick off the week in a jubilant mood after the All Blacks' impressive Rugby World Cup victory on Sunday. But this collective sigh of relief comes after a nail-biting build up. Rugby aside, Thursday's RBNZ OCR Review added a dash of uncertainty to the mix last week. We will have to wait until December before we see if the RBNZ's October decision to watch and wait becomes a lengthier pause in its easing cycle.

After three consecutive rate cuts in the lead up to last week's OCR review the RBNZ kicked for touch with last week's Statement, leaving the OCR unchanged at 2.75%. Such a move was in line with our expectations – especially following a speech by Governor Wheeler earlier in the month.

For now, the RBNZ has retained its easing bias, saying "*some further reduction in the OCR seems likely*". But another rate cut in December is far from a done deal. This was emphasised by the addition of a new phrase in the Review: "*It is appropriate at present to watch and wait.*" It is not clear exactly what that meant – it could simply be a justification for the RBNZ's on-hold decision. More likely, it was meant as a subtle indication that the RBNZ is currently in pause mode, and has not pre-committed to any particular timing of OCR reductions.

The RBNZ listed a number of swing factors it will be watching between now and December. These included uncertainty about interest rates in the United States, whether the recent rebound in dairy prices would be sustained, developments in the Auckland housing market and the exchange rate.

It was the last of these, comments on the exchange rate, which particularly caught our eye. Exchange rate developments were explicitly linked to interest rate decisions. The RBNZ said that if the NZ dollar sustained its recent rise "*a lower interest rate path than otherwise*" would be required.

# Kicking for touch continued

Our view is that the NZ dollar will remain uncomfortably high come December, convincing the RBNZ that a December rate cut is required to bolster the inflation outlook.

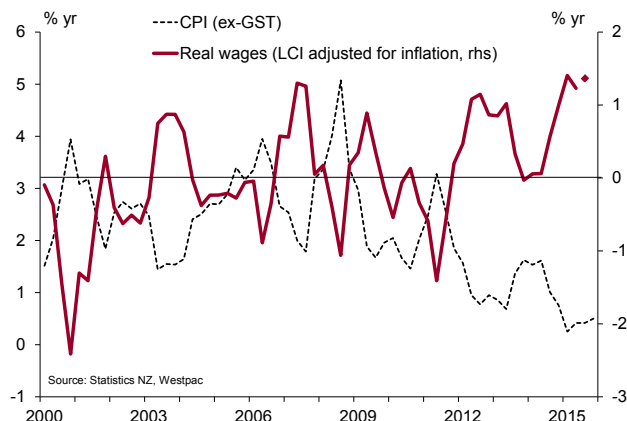
So between now and then, all eyes will be on the things which could easily swing the RBNZ's decision one way or the other. Our view is that the Federal Reserve will raise interest rates in the US, dairy prices will stay high as pasture conditions deteriorate, that the exchange rate will remain too high for the RBNZ's comfort and that the Auckland housing market will show signs of slowing while markets in other regions of New Zealand continue to pick up. On balance, we think a December cut is more likely than not. But the October Review has certainly left the Bank with options on both sides of the field if things don't pan out quite as expected over the next six weeks.

We remain steadfastly convinced that the RBNZ will need to cut the OCR below 2.5%. However, convincing the RBNZ of that is going to take a while. But by early next year, evidence that inflation will be lower for longer should be mounting, compelling the RBNZ to cut the OCR twice more in March and June.

We'll get our first read on how some of these swing factors are tracking this week. Tuesday night's GlobalDairyTrade auction will give a sense of how dairy markets are faring as the New Zealand dairy production season shifts into top gear. Fonterra reported peak milk flow occurred on the 22nd of October, and was down 3% on last season's collections. Dairy futures pricing is suggesting prices could soften a little further this week after big gains over the last couple of months.

Tuesday's October QV data will provide another piece of the housing market puzzle. While October data might be a bit premature, over the coming months we expect to see signs of house price inflation in Auckland slowing as the RBNZ's Auckland-specific lending restrictions come into force. However, this will be partly offset by continued housing market strength in other parts of the country as lending restrictions there are eased.

Real wage growth (including forecast) and consumer prices



On Wednesday we have September quarter labour market data. This should underscore two important developments in the economy in recent times – the consequences of strong population growth and muted inflation. Strong population growth has boosted participation in the labour market. The participation rate is expected to increase again in the September quarter to reach 69.4%, which is just shy of the record high we saw earlier in the year. Against this backdrop, more modest growth in employment will see the unemployment rate rise back above 6% (we're forecasting 6.2%). And with plenty of people joining the labour market, there remains little pressure on employers to raise wages. But for workers contemplating muted wage growth, the saving grace has been the low inflation environment. Inflation adjusted wage growth has been very strong and is likely to remain so this quarter.

Of course all this economic news will take a backseat for a few hours this morning, allowing time for amateur rugby critics at workplaces around the country to dissect the finer points of a magnificent All Blacks victory. #Allblackeverything

## Fixed vs Floating for mortgages

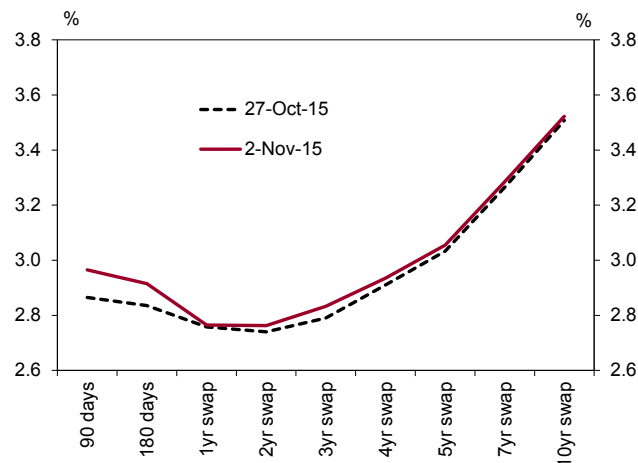
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

Longer-term fixed rates do offer the benefit of stability, but even those looking to fix may want to wait a while longer.

For borrowers with a deposit of deposit of 20% or more, the best value probably continues to lie in the two-year ahead and three-year ahead terms. Four- and five-year rates still seem high relative to where we think shorter-term rates are going to go over the next four or five years.

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

NZ interest rates

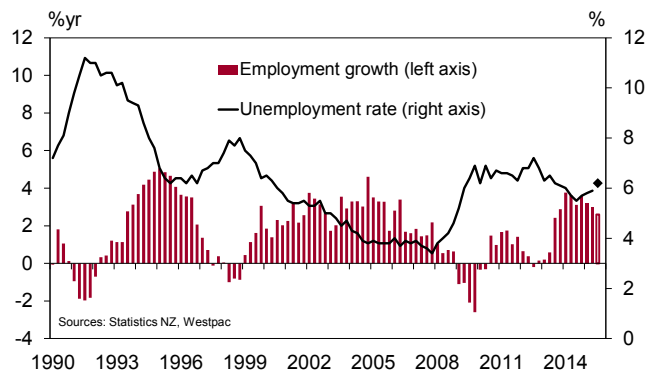


## NZ Q3 Household Labour Force Survey

**Nov 4, Employment, last: +0.3%, WBC f/c: +0.4%, Mkt f/c: +0.4%**  
**Unemployment, last: 5.9%, WBC f/c: 6.2%, Mkt f/c: 6.0%**

- Over the past year, employment growth has moderated, while strong growth in the population has seen the unemployment rate rising. We expect that this will continue to be the case in the September quarter.
- We're forecasting that the Household Labour Force Survey will show that employment grew by 0.4% over the September quarter. This would result in annual employment growth softening to 2.6%. While that's still healthy, it's well down on the above 3% rates we were seeing over the past year.
- Moderate growth in employment is coming atop very strong population growth. The resulting increase in the labour force means that the unemployment rate is expected to push higher to 6.2% in September (up from 5.9% in June).

Household Labour Force Survey

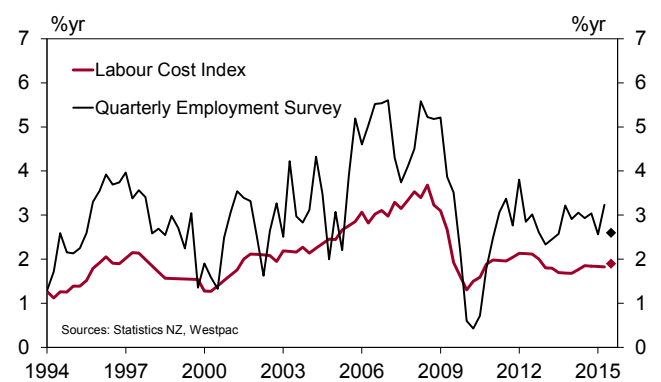


## NZ Q3 Labour Cost Index

**Nov 4, Private sector (incl. overtime), last: +0.5%, WBC f/c: +0.5%, Mkt f/c: +0.5%**

- Private sector LCI wage inflation (including overtime) was 0.5% in the June quarter, and 1.8% in the year to June.
- We're expecting September's Labour Cost Index to rise by 0.5%. This will take annual wage inflation to a still modest 1.9%. Wage inflation continues to be dampened by low consumer price inflation, which means that cost of living adjustments to wages have been modest.

Private sector wage growth

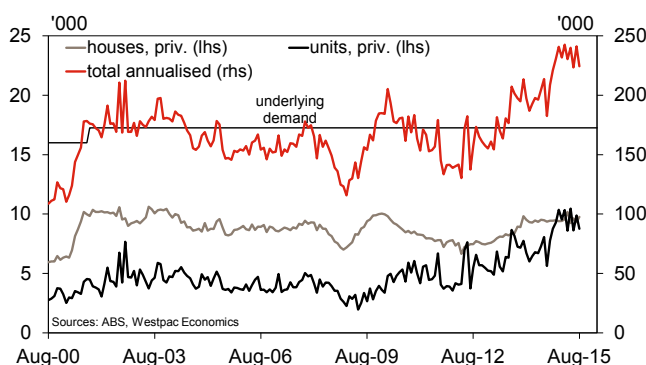


## Aus Sep dwelling approvals

**Nov 2 Last: -6.9%, WBC f/c: -1.0% Mkt f/c: 1.0%, Range: -3.0% to 4.0%**

- A sharp fall in high rise approvals dragged total dwelling approvals down 6.9% in Aug. However, upward revisions meant the net move on previously published figures was a much milder 1% decline. Volatility continues to cast major doubts over underlying trends. Some sort of slowdown is underway, with approvals having passing a clear peak back in Mar, but the extent of that slowdown is proving difficult to pinpoint.
- The Sep update should go some way towards resolving these questions. On balance, we expect a 1.0% decline in Sep to solidify a downtrend tracking at about a 10% annualised pace – a slowdown but not a particularly rapid one by historical standards (downturns usually see trend approvals track lower at a 15%+ annualised pace).

Dwelling approvals

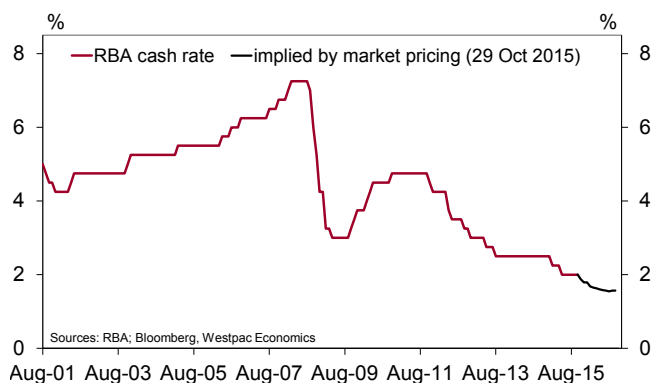


## Aus RBA policy decision

**Nov 3, Last: 2.00%, WBC f/c: 2.00%**  
**Mkt f/c: 2.00%, Range: 1.75% to 2.00%**

- The RBA is expected to leave rates unchanged at its Nov meeting. However, there will be considerably more for the Board to deliberate on this month, particularly following the increase in banks' variable mortgage rates and a surprise drop in inflation. On balance, we do not expect developments to prompt the sort of downgrade in growth expectations that would draw a policy response, particularly given recent improvements in confidence and employment.
- The Nov Statement on Monetary Policy (SoMP) released the following Friday will present a detailed update of the Bank's economic assessment and a revised set of forecasts. The RBA's 2016 growth view – currently at 3.00% – remains the critical factor for policy.

RBA cash rate

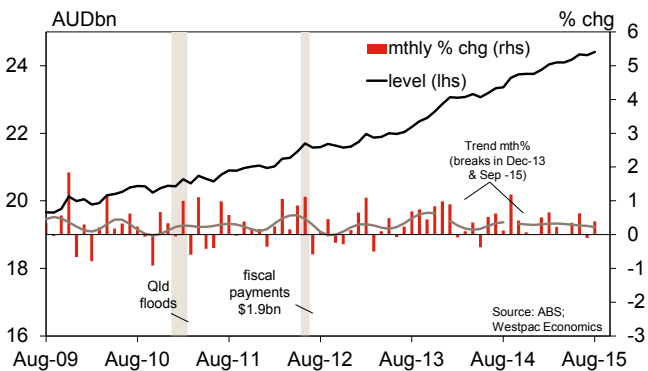


## Aus Sep retail trade

Nov 4, Last: 0.4%, WBC f/c: 0.7% Mkt f/c: 0.4%, Range: -0.2% to 0.7%

- Retail sales were again disappointing in Aug, with a 0.4% rise following Jul's 0.1% dip. Monthly trend growth has slipped to a sub-3% annualised pace, soft by historical standards. The biggest undershoot vs expectations was around household goods retail, which was up just 0.2% mth despite what should have been solid positive impetus from housing-related spending.
- Consumer sentiment had a shakier month in Sep, knocked lower by renewed financial turmoil and concerns about the economic outlook. However, private sector surveys continue to show a sustained lift in conditions across consumer-related sectors. Some of this likely reflects improvements in tourism flows, with the lower AUD encouraging more arrivals and more Australians to holiday locally. Overall, we expect a solid 0.7% gain in retail sales for Sep.

Monthly retail sales

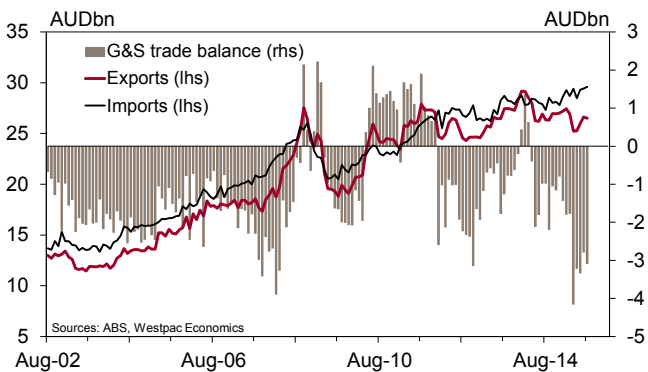


## Aus Sep international trade balance

Nov 4, Last: -\$3.10bn, WBC f/c: -\$2.74bn  
Mkt f/c: -\$2.9bn, Range: -\$3.5bn to -\$2.4bn

- In August, Australia's trade deficit surprised, widening out to \$3.1bn – around 11% larger than the \$2.8bn deficit of July. The August outcome was worse than the market median and Westpac's estimate of -\$2.4bn, and even more than the market's largest estimate of -\$3.3bn.
- Exports were weaker than expected, falling 0.5% in August with the detail revealing a partial reversing of the July surge in gold export shipments (-19% following +47% in July) and softer than expected metal ores exports (-0.7% mth), offsetting the better outcomes for coal (7.4% mth) and fuels (9.8% mth).
- In September, port data suggests broadly flat coal and iron ore exports; price moves were also quite small, but the AUD did weaken. This is the most significant factor behind our forecast for the deficit to narrow to around -\$2.7bn.

Australia's trade position

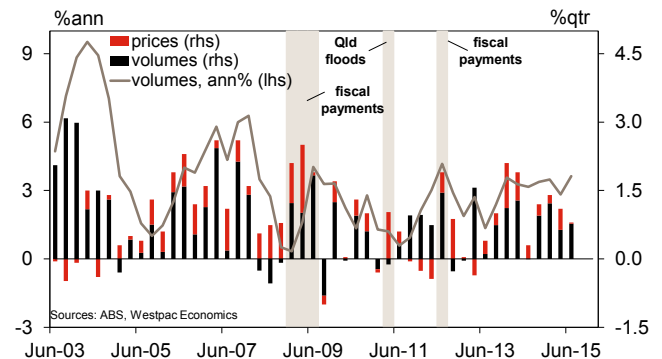


## Aus Q3 real retail sales

Nov 4, Last: 0.8%, WBC f/c: 0.8% Mkt f/c: 0.7%, Range: 0.3% to 0.9%

- Real retail sales rose 0.8% in Q2, following a 0.7% rise in Q1 – solid but unspectacular gains by historical standards, with annual growth at 3.6% yr.
- Q3 is expected to see another 0.8% gain. Notably, the detail from the weaker than expected Q3 CPI points to another very weak quarter for retail price inflation – our estimates suggest a 0.1% qtr gain for retail prices slowing annual price growth to just 0.7% yr, a feeble rise particularly considering the impact the 13% drop in the TWI over the last year would have had on the price of imported goods. With nominal sales on track for a 0.9% rise in Q3 as a whole, that points to a real retail sales gain of 0.8%.

Quarterly retail volumes and prices

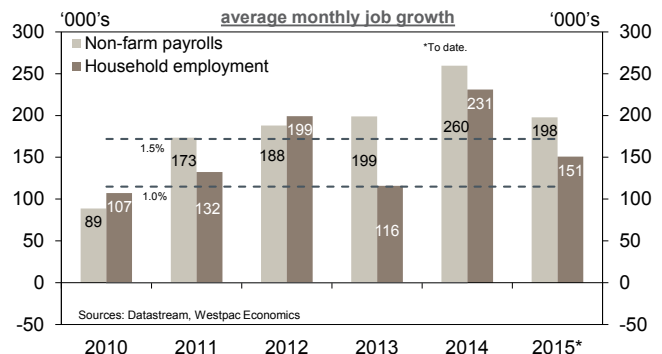


## US October nonfarm payrolls & unemployment

Nov 6, nonfarm payrolls, Last: 142k, WBC f/c: 190k  
Nov 6, unemployment rate, Last: 5.1%, WBC f/c: 5.1%

- The September nonfarm payrolls print came as an abrupt surprise to the market, with the 142k job gain well below expectations of a circa 200k print. Further, revisions to the two prior months were again to the downside (against expectations), wiping away another 59k jobs.
- The 3-month average gain now stands at 167k, well below the 231k pace achieved in Q2 and Q1's 195k.
- With employment growth well in excess of population growth and cyclical slack largely eradicated, the trend in employment growth is downward. Yet, given a number of soft outcomes, there seems a high likelihood of a burst come October. Consequently, we look for a 190k gain. On the household survey, no change is anticipated in the unemployment rate.

US job creation has slowed; but still robust



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 2</b>					
<b>Aus</b>	Oct AiG PMI	52.1	-	-	Surveyed business conditions have been notably firm in recent months.
	Oct CoreLogic RP Data home value index	0.9%	-	0.1%	Housing market hotspots showing clear signs of cooling.
	Oct TD-MI inflation gauge	1.9%yr	-	-	The Gauge highlighted a moderation in the pace of inflation in 2015.
	Sep dwelling approvals	-6.9%	1.0%	-1.0%	Sep will hopefully give a better guide to pace of underlying slowdown.
<b>Chn</b>	Oct Caixin PMI manufacturing	47.2	47.6	-	Flash discontinued; NBS print will condition expectations on the day.
<b>Eur</b>	Oct Markit manuf PMI (final)	52.0	52.0	-	Continued momentum; weaker EUR would help.
<b>UK</b>	Oct Markit manuf PMI	51.5	51.4	-	External headwinds are dampening manufacturing activity.
<b>US</b>	Oct Markit manuf PMI (final)	54.0	54.1	-	Stronger than ISM.
	Oct ISM manufacturing survey	50.2	50.0	50.1	Expansion/ Contraction?
	Fedspeak	-	-	-	Williams gives welcome remarks at SF Fed conference.
<b>Tue 3</b>					
<b>NZ</b>	Oct QVNZ house price inflation %yr	12.6%	-	-	Demand has been picking up outside of Auckland.
	Oct commodity price index	5.5%	-	-	Increase likely reflecting stronger dairy prices.
<b>Aus</b>	RBA policy decision	2.00%	2.00%	2.00%	Growth outlook remains the key.
<b>Eur</b>	ECB speech	-	-	-	Draghi speaks in Frankfurt.
<b>UK</b>	Oct Markit construction PMI	59.9	59.3	-	Low mortgage rates have been boosting housing demand.
<b>US</b>	Oct ISM New York	44.5	-	-	Conditions in the manufacturing sector have softened.
	Sep factory orders	-1.7%	-0.9%	-	Weak lead for investment persists.
<b>Wed 4</b>					
<b>NZ</b>	GlobalDairyTrade auction	-3.1%	-	-	Futures point to a small pull back in prices.
	Q3 unemployment rate	5.9%	6.0%	6.2%	Strong population growth is offsetting modest employment gains.
	Q3 employment	0.3%	0.4%	0.4%	Employment growth has slowed over the past year.
	Q3 private sector LCI wage inflation	0.5%	0.5%	0.5%	Low consumer price inflation is dampening wage growth.
<b>Aus</b>	Sep international trade balance, \$bn	-3.10	-2.90	-2.74	Weaker AUD & modest lift in X volumes to narrow the deficit.
	Sep retail sales	0.4%	0.4%	0.7%	Private sector business surveys showing sustained improvement ...
	Q3 real retail sales	0.8%	0.7%	0.8%	... while weak retail price inflation points to another solid gain in vols.
<b>Chn</b>	Oct Caixin PMI services	50.5	-	-	Considerably softer than NBS version, perhaps reflecting trade logistics.
<b>Eur</b>	Oct Markit service PMI (final)	54.2	54.2	-	Service sector robust.
<b>UK</b>	Oct BRC shop price index	-1.9%	-	-	Retail price inflation has been subdued.
	Oct Markit services PMI	53.3	54.5	-	Service sector conditions have moderated.
<b>US</b>	Oct ADP employment change	200k	180k	185k	A (not particularly reliable) guide for payrolls.
	Sep trade balance	-\$48b	-\$45b	-	Stronger USD a material concern for exporters.
	Oct Markit service PMI (final)	54.4	54.6	-	Robust momentum...
	Oct ISM non-manf composite	56.9	56.5	-	... thanks to labour market gains and foreign visitors.
	Fedspeak	-	-	-	Brainard, Harker & Dudley.
	FOMC Chair Yellen	-	-	-	Testifies on bank regulation before House panel.
<b>Thu 5</b>					
<b>Aus</b>	RBA Governor Stevens speaking	-	-	-	Topic TBA, Melbourne Institute Conference, 9.25 am AEDT.
	RBA Deputy Governor Lowe speaking	-	-	-	FINSIA's Regulators Panel Discussion, Sydney 12.00 pm AEDT.
<b>Eur</b>	Oct Markit retail PMI (final)	51.9	-	-	Consumption prime support for GDP.
<b>UK</b>	BOE policy meeting	0.5%	0.5%	0.5%	Rates and asset purchases expected to remain unchanged.
	Oct Halifax house prices	-0.9%	-	-	Tentative date. Low mortgage rates have boosted the housing market.
<b>US</b>	Jobless claims	260k	-	-	Claims remain around four decade lows.
	Fedspeak	-	-	-	Fischer, Harker, Lockhart & Tarullo.
	Fedspeak	-	-	-	Dudley, Lagarde, Fischer speak on banking culture in New York.
<b>Can</b>	Oct Ivey PMI	53.7	-	-	Weakness in commodity prices is weighing on business conditions.
<b>Fri 6</b>					
<b>Aus</b>	Nov RBA Statement on Monetary Policy	-	-	-	Any change to RBA's 2016 growth forecast? Aug SoMP had 3%yr.
	RBA Assistant Governor Edey speaking	-	-	-	At API Queensland Property Conference, Gold Coast, 12pm AEDT.
<b>UK</b>	Sep industrial production	1.0%	-0.1%	-	Sluggish global trade is resulting in headwinds for manufacturing.
	Sep trade balance	-£11b	-	-	The lift in the GBP is weighing on demand.
<b>US</b>	Oct non-farm payrolls	142k	180k	190k	Unemployment rate likely unchanged at 5.1%
	Sep consumer credit	\$16b	\$18b	-	Auto and student loans.
	Fedspeak	-	-	-	Bullard & Brainard.
<b>Sat 7</b>					
<b>Chn</b>	Oct foreign reserves USDbn	3514	-	-	Declined by \$US43bn in Sep, a considerably lesser rundown than Aug.
<b>Sun 8</b>					
<b>Chn</b>	Oct trade balance CNYbn	376	-	-	USD equivalent 60.3bn. Tends to widen as Christmas orders fulfilled.
	Oct USD exports %yr	-3.7%	-	-	Ex Greater China mildly positive in Sep.
	Oct USD imports %yr	-20.4%	-	-	Decline in processing imports plus price-led falls in raw materials.

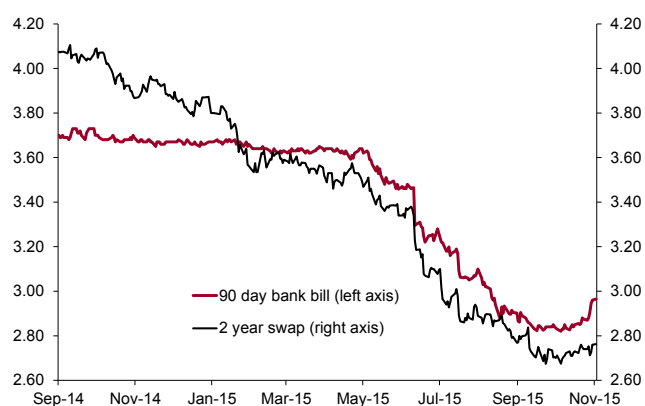


# New Zealand forecasts

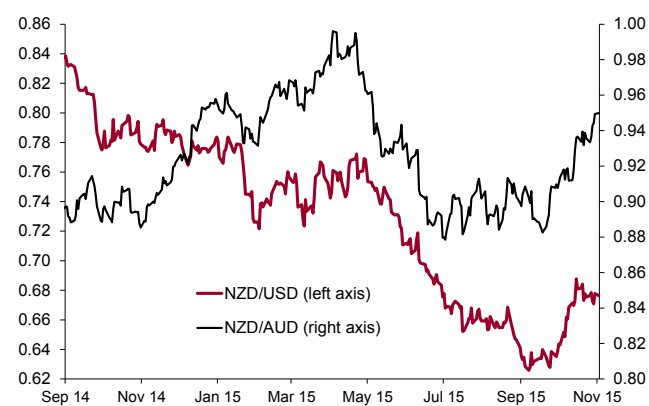
Economic Growth Forecasts	March years				Calendar years			
	2014	2015	2016f	2017f	2013	2014	2015f	2016f
% change								
GDP (Production) ann avg	2.5	3.2	2.0	2.2	2.3	3.3	2.2	2.0
Employment	3.8	3.2	0.8	2.3	2.9	3.6	1.1	2.0
Unemployment Rate % s.a.	6.0	5.8	6.5	6.3	6.1	5.7	6.4	6.4
CPI	1.5	0.3	1.3	1.6	1.6	0.8	0.5	1.9
Current Account Balance % of GDP	-2.6	-3.4	-5.5	-4.6	-3.2	-3.1	-4.7	-5.0

Financial Forecasts	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Cash	2.50	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.60	2.30	2.10	2.10	2.10	2.10
2 Year Swap	2.50	2.30	2.20	2.20	2.20	2.20
5 Year Swap	3.10	3.10	3.10	3.20	3.20	3.20
10 Year Bond	3.40	3.50	3.60	3.70	3.70	3.70
NZD/USD	0.64	0.63	0.61	0.62	0.63	0.63
NZD/AUD	0.94	0.95	0.92	0.92	0.92	0.91
NZD/JPY	77.4	76.2	74.4	75.9	78.6	76.7
NZD/EUR	0.59	0.59	0.57	0.57	0.58	0.57
NZD/GBP	0.43	0.43	0.41	0.41	0.41	0.41
TWI	69.9	69.7	67.6	67.9	68.9	68.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 2 November 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.75%	2.75%
30 Days	2.91%	2.86%	2.84%
60 Days	2.93%	2.85%	2.83%
90 Days	2.97%	2.85%	2.83%
2 Year Swap	2.76%	2.73%	2.68%
5 Year Swap	3.06%	3.03%	3.01%

NZ foreign currency mid-rates as at Monday 2 November 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6764	0.6798	0.6461
NZD/EUR	0.6126	0.5988	0.5759
NZD/GBP	0.4374	0.4402	0.4252
NZD/JPY	81.44	81.14	77.50
NZD/AUD	0.9499	0.9366	0.9153
TWI	73.12	72.74	70.09



## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	2015f	2016f
<b>Australia</b>						
Real GDP % yr	2.7	3.6	2.1	2.7	2.2	2.7
CPI inflation % annual	3.0	2.2	2.7	1.7	2.2	2.0
Unemployment %	5.2	5.3	5.8	6.2	6.5	6.1
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.2	-4.7
<b>United States</b>						
Real GDP %yr	1.6	2.2	1.5	2.4	2.4	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.1	1.7
Unemployment Rate %	8.9	8.1	7.4	6.2	5.3	4.9
Current Account %GDP	-2.9	-2.9	-2.3	-2.2	-2.3	-2.3
<b>Japan</b>						
Real GDP %yr	-0.5	1.7	1.6	-0.1	0.6	1.3
<b>Euroland</b>						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.5	1.1
<b>United Kingdom</b>						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
<b>China</b>						
Real GDP %yr	9.5	7.7	7.7	7.3	7.0	6.8
<b>East Asia ex China</b>						
Real GDP %yr	4.5	4.6	4.2	4.1	3.5	4.0
<b>World</b>						
Real GDP %yr	4.2	3.4	3.3	3.4	3.0	3.6
Forecasts finalised 9 Oct 2015						

Interest Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
<b>Australia</b>						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.11	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.62	2.85	2.90	3.00	3.10	3.35
<b>International</b>						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.16	2.35	2.50	2.70	2.90	3.00
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
AUD/USD	0.7099	0.68	0.66	0.66	0.67	0.69
USD/JPY	121.28	121	121	122	123	124
EUR/USD	1.0977	1.09	1.07	1.07	1.08	1.10
AUD/NZD	1.0544	1.06	1.05	1.08	1.09	1.09

## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Satish Ranchhod**, Senior Economist  
+64 9 336 5668

**Anne Boniface**, Senior Economist  
+64 9 336 5669

**David Norman**, Industry Economist  
+64 9 336 5656

Any questions email:  
economics@westpac.co.nz

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## Disclaimer continued

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