



Surf break, Piha.

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# Happy New Year!

We'd like to wish all our readers the best for 2015.

What follows is a brief preview of the major upcoming events for the next week. Our regular commentary will return next week.

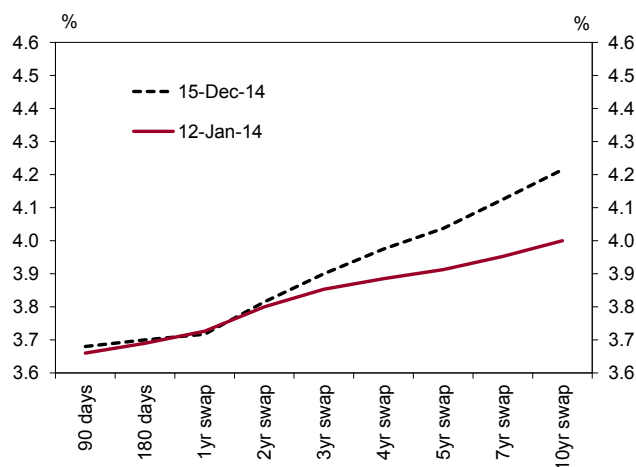
## Fixed vs Floating for mortgages

Among the current standard fixed rates, the best value for borrowers with a deposit of 20% or more probably lies in the two-year and three-year terms. However, there is a possibility that fixed mortgage rates will fall even further over the weeks ahead. Waiting a while before fixing might offer even better value.

Four- and five-year rates seem high relative to where we think shorter-term rates are going to go over the coming four or five years, though they do offer stability.

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

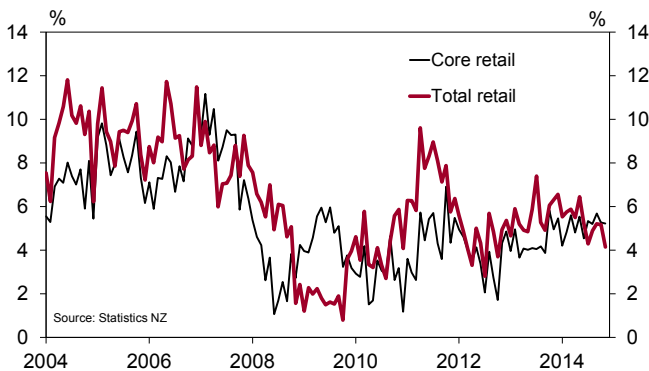


## NZ Dec retail electronic card spending

Jan 14, last -0.1%

- Declines in petrol prices, as well as more general softness in prices will have dampened growth in nominal retail card spending in December.
- However, softness in prices is putting money back into consumers' pockets, allowing them to purchase more for less. Increases in consumption are also being encouraged by the strengthening housing and labour markets.

Card transactions, annual % change

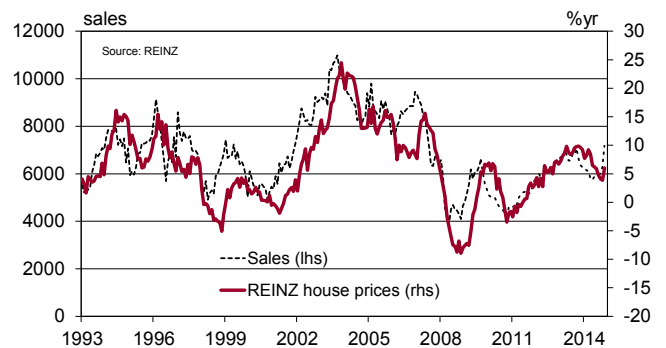


## NZ Dec REINZ house sales and prices

Jan 16 (tbc), Sales last: +14.2, Prices last: +6.0% yr

- Following last month's strong increase, there could be some modest pull back in seasonally adjusted house sales in December, especially given the low level of listings. However, the underlying pulse of the housing market is likely to remain firm, supported by strong population growth and declines in mortgage rates.
- House price inflation is expected to remain firm, with the risks to the upside. As well as strong demand, price increases are being supported by low levels of listings

REINZ house prices and sales



## Aus Nov housing finance (no.)

Jan 12, Last: 0.3%, WBC f/c: -0.3%  
Mkt f/c: 1.7%, Range: -0.3% to 4.0%

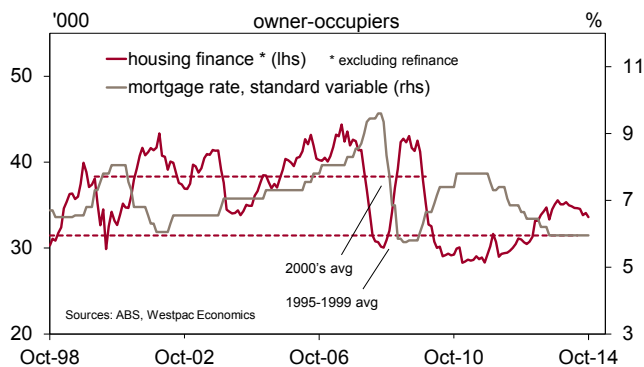
- The number of owner-occupier housing finance approvals rose 0.3% in Oct; but it was boosted by a 3.6% surge in refinancing loans, with new loans down quite sharply, -1.4%. Note that these figures exclude lending to investors, which is only collected in total dollar value terms (posting a 1% rise in Oct).
- We expect further weakness to show through in Nov as a lagged reflection of the weakening in consumer sentiment on 'time to buy a dwelling' since late 2013. The figures around investor activity will again be of great interest given recently announced measures from APRA aimed at containing risks and credit growth in this area.

## Aus Dec Labour Force - employment '000

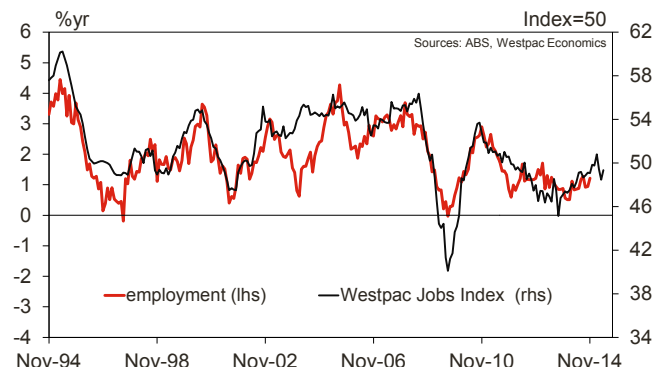
Jan 15 Last: 42.7k, WBC f/c: -10k  
Mkt f/c: 5k, Range: -20k to 25k

- Total employment rose 42.7k in November compared to a market expectation for a 15k rise with a range from 0k to 30k.
- Stepping back from the monthly volatility, the three month average change was 13.5k in November compared to -2.8k in October, 1.1k in Sep and 12.2k in August. So, while November was an upside surprise on employment, it is not outside the range of normal monthly volatility for this survey, and also remains consistent with modest employment growth.
- Our preferred leading indicator, Westpac's Jobs Index, has softened; but at least in the last month of 2014, it was still pointing to employment growth of slightly more than 1%yr. Our forecast for a 10k fall in total employment in December will see the three month average change rise to 15.5k from 13.5 in Nov and lift the annual pace from 1.2% to 1.4%yr.

Owner-occupier finance & the rate cycle



Jobs Index still pointing to positive momentum

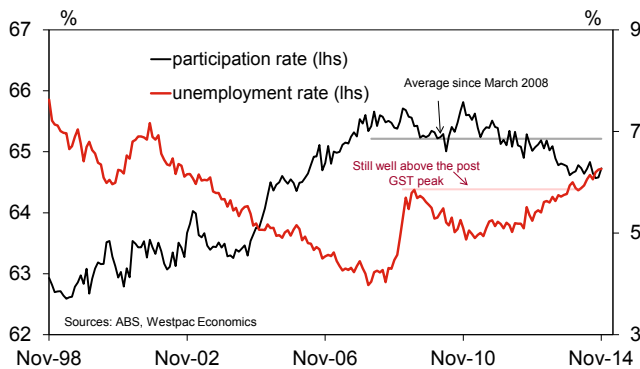


## Aus Dec Labour Force - unemployment %

Jan 15 Last: 6.3%, WBC f/c: 6.3%  
Mkt f/c: 6.3%, Range: 6.2% to 6.4%

- In November, the participation rate rose from 64.6% (64.58%) to 64.7% (64.73%) due to a 47.4k lift in the labour force. But this is not why the headlines reported a 0.1ppt rise in the unemployment rate to 6.3%. Rather, rounding was the factor: at two decimal places, the unemployment rate was basically flat (6.26% from 6.25% in October). Youth unemployment continues to rise, hitting a 16 year high of 14.5%.
- The ABS is currently reporting steady monthly growth in the working age population of around 26.5k per month. Assuming a modest 0.1ppt fall in the participation rate (it rose 0.15ppts in November), the result would be a smaller 4.1k rise in the labour force. Combined with the 10k fall in employment, the unemployment rate is forecast to round down to 6.3%.

### Unemployment and participation rates

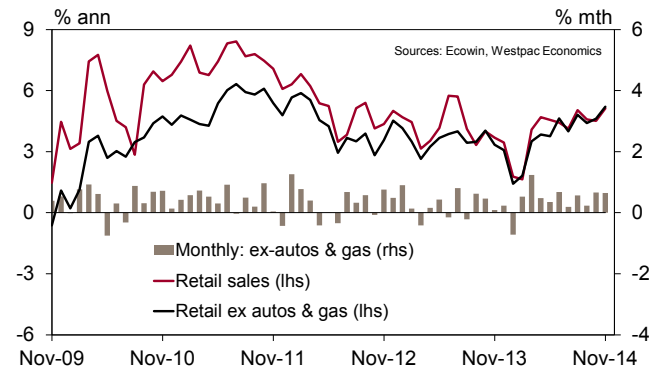


## US Dec retail sales to be constrained by autos, gas

Jan 14, Last: 0.7%, WBC f/c: 0.2%

- Retail sales rose 0.7% in November, with auto sales up 1.7% and gasoline sales down 0.8% (due to falling prices). The main driver was a 0.6% rise in core retailing (ex autos/gas), with Oct revised up from 0.6% to 0.7% and Sep core growth also revised up slightly. In November, of the 14 storetypes, only 2 recorded declines: gasoline on price falls as noted above, and miscellaneous. Among the other 12, building materials, apparel, non-store retailing and department stores all recorded 1+% gains, so it seems lower gasoline spending might have freed up income for spending elsewhere.
- Auto sales corrected lower in Dec, and gasoline prices continued to slide. These factors will weigh against the headline result, but an upward revision to Nov and a further gain in Dec core retailing is expected.

### US retail sales

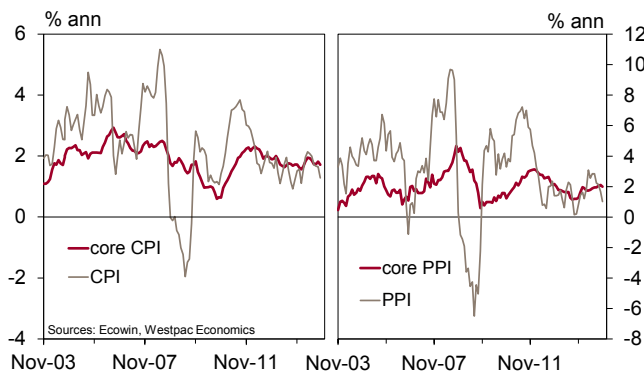


## US Dec consumer price index

Jan 16, CPI: Last: -0.3%, WBC f/c: -0.2%

- The CPI fell 0.3% in Nov, its steepest monthly fall since 2009, driven by a near 4% fall in energy (gasoline down 6.6%), partially offset by a 0.2% rise in food prices, and a 0.1% core increase. That reflected a 1.1% fall in apparel, a 0.1% fall in new car prices (used down 1.2%), a 0.2% fall in other, including flat tobacco prices and not unusual declines of 0.2% in recreation and 0.1% in education & communications. There was an on trend 0.2% rise in the owners' "rent" component which accounts for nearly a third of the core CPI by weight. On the upside, airfares continued to reverse Q3 declines, by 1.4% in Nov; and medical care rose by an above trend 0.4%.
- Gasoline prices tumbled further in Dec. Recent PPI data showed wholesale food prices levelling off, suggesting little pressure there. If, as we expect, apparel prices and airfares normalise, the core CPI will print 0.1% again in Dec. The headline CPI should be lower on energy, circa -0.2%.

### US price inflation

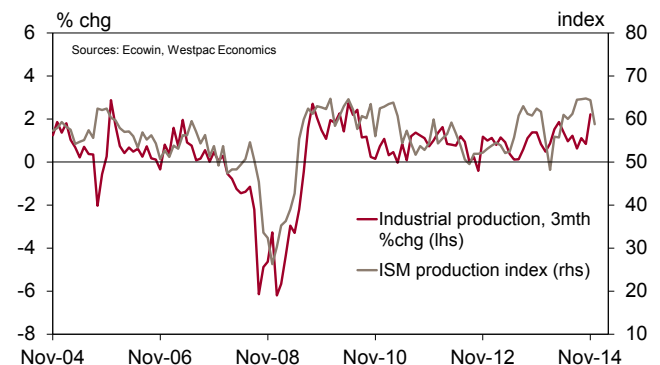


## US Dec industrial production

Jan 16: Last: 1.3%, WBC f/c: 0.0%

- Industrial production jumped 1.3% in Nov, supported by autos and utilities both up 5%, the latter a function of the cold snap. There were gains across all other sectors except mining (the first back to back falls since early 2012, likely a sign of the shutdown of less price competitive oil production) and information processing, though both were down just 0.1%. Overall, manufacturing rose 1.1%, and back revisions added a further 0.3ppts to Sep and Oct factory output growth. This is not just a weather boosted report, but evidence of building industrial strength in recent months.
- Factory hours worked data are not yet available for Dec. Auto sales were down in the month; core capital goods orders fell 8% annualised in the 3 months to Nov. The Dec ISM factory survey showed orders and production fall by 6-9 pts. These factors and a likely reversal of the utilities spike could prevent an IP rise in Dec.

### US industrial sector



# Data calendar

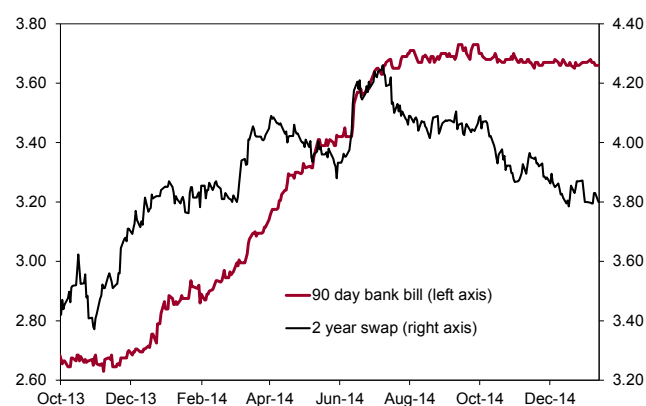
		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 12</b>					
<b>Aus</b>	Nov housing finance	0.3%	1.7%	-0.3%	Nov result lagged reflection of softer sentiment towards housing.
<b>US</b>	Dec LMCI	2.9	-	-	Fed's attempt to understand better the factors driving jobs market.
	Fedspeak	-	-	-	Lockhart.
<b>Can</b>	Q4 business outlook survey	35	-	-	Future sales index.
	Q4 BoC loan officer survey	-10.3	-	-	Credit conditions reasonably benign.
<b>Tue 13</b>					
<b>Chn</b>	Dec trade balance USDbn	54.5	48.7	-	Consensus assumes X +6%, M -6%. Final input for Q4 net X estimate.
<b>UK</b>	Dec BRC survey %yr	0.9%	-	-	Same store sales. Deep discounts boosting volumes some months.
	Dec PPI %yr	1.4%	0.9%	-	Core output measure spiked in Nov.
	Nov ONS house prices %yr	10.4%	-	-	Strong but just past their peak rate of acceleration.
	Dec CPI %yr	1.0%	0.7%	0.8%	Shop price index suggests CPI close to bottom.
<b>US</b>	Dec NFIB small business optimism	98.1	-	-	Larger business surveys mostly weaker.
	Nov monthly budget statement, \$bn	24	-	-	Budget statement issues of last year largely forgotten.
	Jan IBD/TIPP economic optimism	48.4	-	47.3	Gasoline prices down sharply; but equities weaker.
	Nov JOLTS data	-	-	-	Job openings and labour turnover.
	Fedspeak	-	-	-	Kocherlakota.
<b>Wed 14</b>					
<b>NZ</b>	Dec electronic retail card spending	-0.1%	0.1%	-	Demand is improving, while price growth remains limited.
	Dec QVNZ house prices yr%	5.1%	-	-	Strong demand and low listings are supporting prices.
<b>Eur</b>	Nov industrial production %yr	0.7%	-	-	German IP data will provide guidance 9/1.
<b>US</b>	Dec retail sales	0.7%	0.1%	0.2%	Auto sales pull-back, lower gas prices to weigh on headline but free up
	Dec retail sales ex autos & gas	0.6%	-	0.6%	income to maintain boost to core retailing. Upside revisions the norm.
	Dec import prices	-1.5%	-2.4%	-2.7%	Slumping energy prices and stronger US dollar.
	Nov business inventories	0.2%	0.2%	0.2%	Inventories contribution to Q3 growth was minimal after strong Q2 lift.
	Fed beige book	-	-	-	Prepared ahead of FOMC meeting at end of the month.
	Fedspeak	-	-	-	Plosser.
<b>Can</b>	Dec house prices %yr	5.2%	-	-	Teranet measure; prices accelerating at slightly slower annual pace.
<b>Thu 15</b>					
<b>NZ</b>	Dec food price index	-0.5%	-	0.1%	Annual food price inflation remains modest.
<b>Aus</b>	Dec employment chg	42.7k	5k	-10k	The volatility in the data of late has created a high degree of uncertainty
	Dec unemployment rate	6.3%	6.3%	6.3%	about the pace of employment growth while unemployment has lifted.
<b>Eur</b>	Nov exports	-0.3%	-	-	German trade data 9/1 to provide clues.
<b>Ger</b>	2014 GDP	0.1%	-	1.4%	Annual growth supported by Q1 weather boost to construction.
<b>UK</b>	Dec RICS house price balance	13%	10%	-	Surveyors ebulliance rapidly evaporating.
<b>US</b>	Initial jobless claims w/e 10/1	294k	-	290k	Seasonal adjustment surprisingly unproblematic at turn of year.
	Dec producer prices final demand	-0.2%	-0.4%	-0.5%	Energy prices down sharply again in Dec.
	Jan NY Fed factory survey	-3.6	5.0	8.0	Late year weakness in NY Fed index is normal and typically short lived
	Jan Philadelphia Fed factory survey	24.3	20.0	16.0	Further correction from Philly's 21 year high in Nov.
<b>Can</b>	Dec existing home sales	0.0%	-	-	Mar to Aug saw solid gains in sales but momentum slipping.
<b>Fri 16</b>					
<b>NZ</b>	Dec REINZ house sales	14.2%	-	-	Due this week. Underlying trend to remain firm.
	Dec REINZ house price index %yr	6.0%	-	-	Strong demand and low listings are supporting prices.
<b>Eur</b>	Dec CPI %yr final	-0.2% a	-%	-0.2%	Flash report included core CPI at 0.8%yr.
<b>US</b>	Dec CPI	-0.3%	-0.3%	-0.2%	Gasoline prices fell again in Dec, PPI suggests food pressures abating.
	Dec CPI core	0.1%	0.1%	0.1%	Underlying inflationary pressures remain benign.
	Dec industrial production	1.3%	0.1%	0.0%	Nov's strong gain unsustainable. Downside risk from utilities.
	Jan UoM consumer confidence prelim	93.6	94.1	92.0	Gasoline prices down sharply; but equities weaker.
	Nov TIC report \$bn	-\$1.4	-	-	Net long term TIC flows.

# New Zealand forecasts

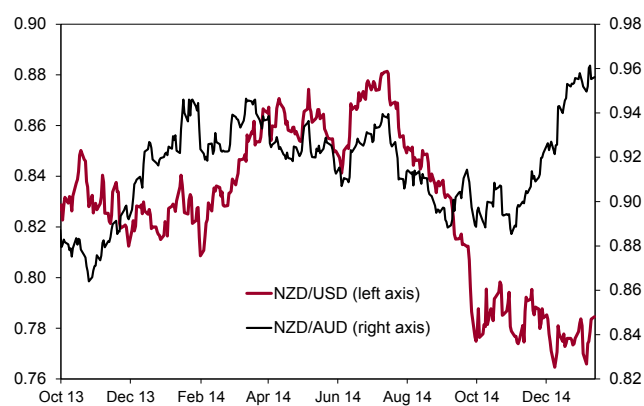
Economic Growth Forecasts	March years				Calendar years			
	2013	2014	2015f	2016f	2013	2014f	2015f	2016f
% change								
GDP (Production) ann avg	2.7	2.8	3.2	3.4	2.6	3.3	3.4	2.9
Employment	0.4	3.8	2.9	2.7	2.9	3.0	3.1	1.8
Unemployment Rate % s.a.	6.2	6.0	5.1	4.5	6.0	5.4	4.6	4.3
CPI	0.9	1.5	0.8	2.2	1.6	0.9	1.6	2.7
Current Account Balance % of GDP	-3.8	-2.7	-5.0	-6.3	-3.3	-3.7	-6.4	-5.5

Financial Forecasts	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Cash	3.50	3.50	3.50	3.50	3.75	4.00
90 Day bill	3.70	3.70	3.70	3.75	4.00	4.25
2 Year Swap	3.70	3.70	3.90	4.20	4.50	4.70
5 Year Swap	4.00	4.10	4.30	4.50	4.60	4.70
10 Year Bond	3.90	4.10	4.30	4.50	4.70	4.80
NZD/USD	0.76	0.74	0.77	0.79	0.81	0.81
NZD/AUD	0.93	0.93	0.93	0.93	0.93	0.91
NZD/JPY	92.0	91.4	96.3	98.8	101.3	102.1
NZD/EUR	0.63	0.62	0.64	0.64	0.65	0.64
NZD/GBP	0.49	0.48	0.49	0.48	0.48	0.47
TWI	77.5	76.7	78.7	79.7	81.0	80.2

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 12 January 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.63%	3.63%	3.64%
60 Days	3.65%	3.65%	3.66%
90 Days	3.66%	3.67%	3.68%
2 Year Swap	3.80%	3.87%	3.82%
5 Year Swap	3.91%	4.05%	4.04%

NZ foreign currency mid-rates as at Monday 12 January 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7846	0.7787	0.7767
NZD/EUR	0.6623	0.6388	0.6227
NZD/GBP	0.5167	0.5007	0.4937
NZD/JPY	92.80	93.80	92.28
NZD/AUD	0.9561	0.9552	0.9430
TWI	79.75	79.09	78.17





## Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014f	2015f	2016f
<b>Australia</b>						
Real GDP % yr	2.7	3.6	2.1	2.7	2.7	3.5
CPI inflation % annual	3.0	2.2	2.7	1.8	2.6	3.0
Unemployment %	5.2	5.3	5.8	6.3	6.4	6.1
Current Account % GDP	-2.8	-4.4	-3.3	-2.9	-3.2	-0.8
<b>United States</b>						
Real GDP %yr	1.6	2.3	2.2	2.2	2.5	3.2
Consumer Prices %yr	3.1	2.1	1.5	1.8	1.8	2.0
Unemployment Rate %	8.9	8.1	7.4	6.2	5.6	5.1
Current Account %GDP	-2.9	-2.9	-2.4	-2.3	-2.3	-2.3
<b>Japan</b>						
Real GDP %yr	-0.3	1.8	1.6	0.4	1.2	1.6
<b>Euroland</b>						
Real GDP %yr	1.6	-0.6	-0.4	0.7	0.9	1.0
<b>United Kingdom</b>						
Real GDP %yr	1.1	0.3	1.7	3.0	2.5	2.7
<b>China</b>						
Real GDP %yr	9.3	7.7	7.7	7.4	7.5	7.8
<b>East Asia ex China</b>						
Real GDP %yr	4.5	4.5	4.3	4.0	4.9	5.7
<b>World</b>						
Real GDP %yr	4.1	3.4	3.3	3.2	3.7	4.5
Forecasts finalised 8 December 2014						

Interest Rate Forecasts	Latest	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
<b>Australia</b>						
Cash	2.50	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.74	2.20	2.20	2.20	2.22	2.25
10 Year Bond	2.72	3.10	3.30	3.35	3.35	3.60
<b>International</b>						
Fed Funds	0.125	0.125	0.125	0.125	0.250	0.500
US 10 Year Bond	2.01	2.40	2.60	2.70	2.75	2.90
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
AUD/USD	0.8137	0.82	0.80	0.83	0.85	0.87
USD/JPY	119.29	123	125	127	129	129
EUR/USD	1.1810	1.21	1.18	1.20	1.21	1.22
AUD/NZD	1.0381	1.08	1.08	1.08	1.08	1.08

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