2 September 2013

Weekly Commentary

Spring Lupines, Lake Tekapo

In this issue

The inflation debate continues

Last week's developments did little to change our thinking on the New Zealand economy. The economy is now clearly enjoying a construction-led upswing. The consequences for inflation remain subject to debate. Perhaps the biggest surprise from the past few weeks has been just how impervious global dairy prices have been to a slowing Chinese economy, food safety scares, and a post-drought recovery in New Zealand production levels.

For markets it was a week of minor local data, but we were keenly anticipating the August ANZ business confidence survey. Not so much for what it would say about business confidence and activity (we were expecting, and got, another solid result, as we did from the latest building consent data) but for what it might tell us about inflation pressures following the previous week's startling jump in the RBNZ's survey of 2-year-ahead inflation expectations. We remain firmly of the view that the construction boom will turn inflationary in time; the RBNZ's view has long been more sanguine.

In the event, the message from the August survey was very similar to July: capacity utilisation was slightly higher, inflation expectations and pricing intentions a touch lower. It could be argued that this still amounts to another warning signal on inflation. After all expected capacity utilization and pricing intentions rose sharply in July to levels not seen since mid-2011, and have stayed there.

Unsurprisingly, one area where the survey did show both strong momentum and a continued rise in price pressures was the construction sector. According to the ANZ survey, the net percentage of construction businesses expecting capacity utilization to rise shot up to a record 63%, while the net balance expecting to raise prices rose to 44% - less extreme, but still at mid-2000s levels.

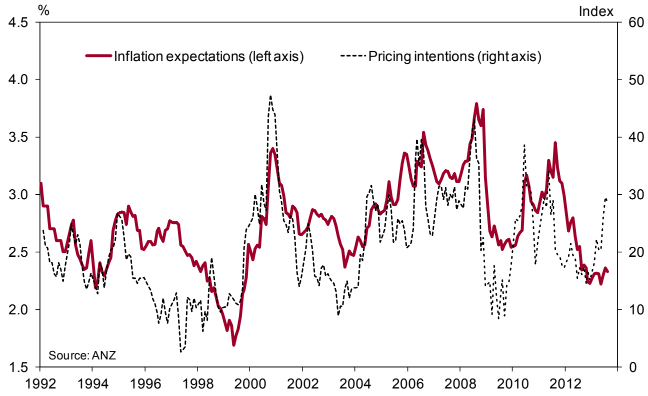
The inflation debate continues

That said, in the bigger scheme of things this isn't yet overly alarming. The overall balance of businesses saying they intend to raise, rather than lower, prices, is less than 30%, for example. The total body of evidence on inflation remains mixed, with the ANZ survey's own (one-year-ahead) measure of inflation expectations still very subdued by historical standards. And rising prices specific to construction are arguably a good thing, attracting resources to where they are most needed (that is clearly the RBNZ's view). So for the time being the inflation debate continues.

Other news last week revolved around the dairy industry. Fresh testing has revealed that the recent botulism scare in Fonterra whey products was a false alarm. While this is good news as far as it goes, the bigger lesson for us from the past weeks has been just how hard it is to stem the momentum in global demand for dairy. Global dairy prices have been remarkably resilient not just to the scare, but to the slowdown in the Chinese economy. Are we seeing ongoing shifts in Asian tastes? Or a continued rise in the Chinese middle class? Either way, there has been no sign yet of the price drop we have been anticipating given the likely rebound in local dairy production from last season's drought.

Reflecting that resilience in global prices, Fonterra once again revised up its forecast 2013/2014 milk price (to $7.80), and our own $7.40 forecast is under review. Of course, what happens to the farm gate milk price will also depend on how the NZ dollar behaves over the coming season. Historically, positive dairy price surprises have typically ended up boosting the exchange rate, passing the benefits on to consumers in the form of lower import prices. Importantly, high global dairy prices are a clear positive for New Zealand's overall standard of living either way. (Recent rises in dairy prices should show through in a big lift in New Zealand's terms of trade – our export prices relative to our import costs – in the June quarter figures out today.) Will they boost New Zealand's GDP data? Not immediately, but possibly further down the track, depending on how much of the income gains get spent rather than saved.

ANZBO inflation indicators



In our last Weekly Commentary, we outlined our thinking on the likely impact of the RBNZ's recently announced mortgage lending restrictions on the housing market. To reiterate, our tentative view is that the 'sticker shock' effect of the restrictions will lead to a sharp drop-off in house sales and household credit growth in late 2013, but that this will be temporary - the longer-term effect on the housing cycle will be limited.

This view is based on specific features of the New Zealand market: we think the restrictions will shut out some first-home buyers, but draw in property investors. It's also based on our reading of the international evidence. On Wednesday we summarised this evidence in our bulletin 'Macro-prudential tools: the international experience'.[1] In brief, the experience in Korea, Canada, Israel and Sweden (the most relevant case studies in our opinion) has been mixed. But overall it suggests that the consequences of loan-to-value ratio (LVR) restrictions for house price inflation and credit growth have been relatively modest and short-lived, with most of the impact coming in three to six months after the restrictions are introduced.

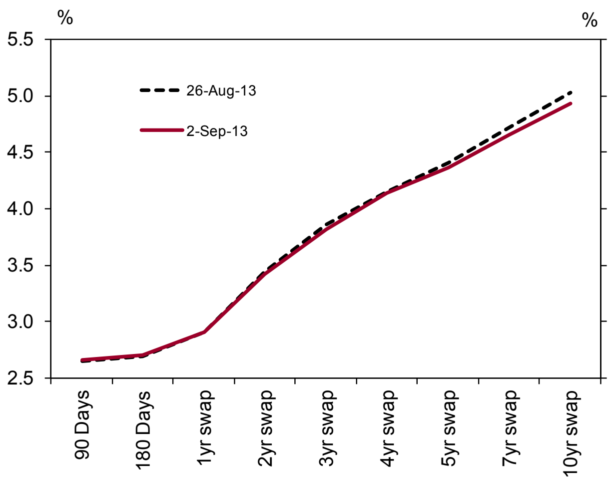
For New Zealand, the implication is that the restrictions announced last week are unlikely to be the final word on New Zealand's housing market. Follow-up action is likely to be needed. That could well mean a further tightening of the LVR 'speed limit', but it's also likely to include monetary tightening, to the extent that the inflation outlook allows.

1 http://www.westpac.co.nz/assets/Business/Economic-Updates/2013/Bulletins-2013/Macroprudential-International-August-2013.pdf

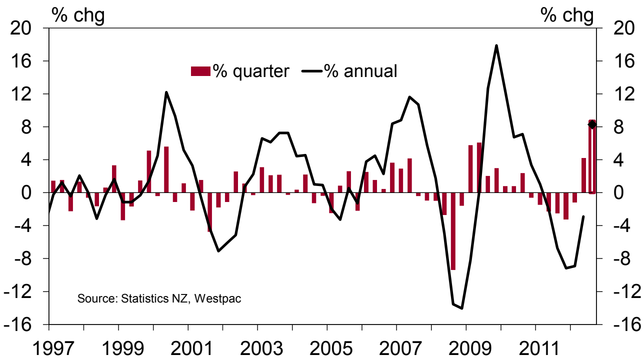
Fixed vs Floating for mortgages

The benefits from fixing versus floating are starting to look more balanced. The RBNZ is now widely tipped to begin an extended series of OCR hikes from early next year. This has pushed up wholesale interest rates and flowed through to higher fixed-term mortgage rates. As a result we are now broadly indifferent between floating and fixing for three years or more. Out to two years, fixed term rates are still below floating rates, so fixing at shorter horizons should still be the lower cost option unless the RBNZ decided to cut the OCR, which we regard as unlikely.

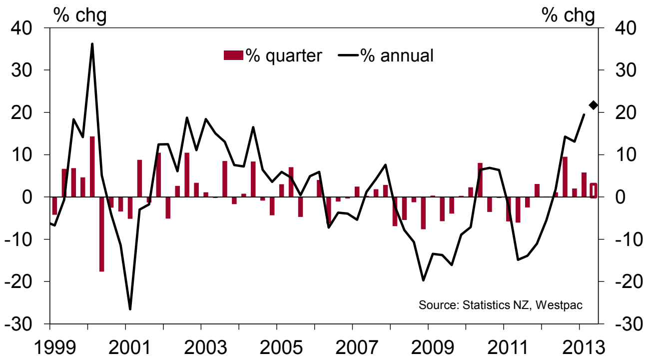
NZ interest rates



NZ Terms of Trade



NZ real building work put in place



NZ Q2 terms of trade

Sep 2, Last: +4.1%, WBC f/c: +8.7%, Mkt f/c: +3.8%

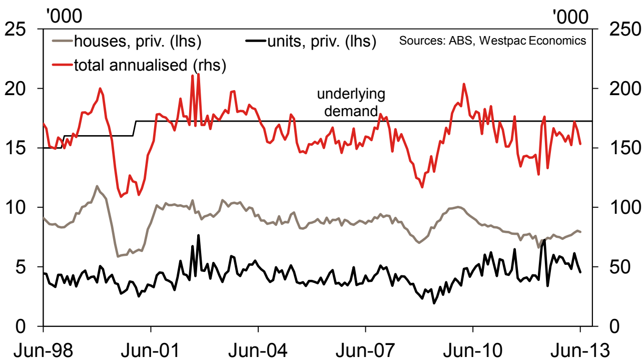
- We expect an 8.7% jump in the terms of trade in Q2. The terms of trade are on track to crack the 40-year high last reached in 2011 in either this quarter or next.
- The Q2 data will mainly reflect the world dairy price boom - we have export prices rising about 6%. Notably, we also expect a 2.5% fall in import prices.
- World dairy prices peaked in the June 2013 quarter, following the drought over the New Zealand summer. Prices have come down from their peak, but remain very high as world dairy supply remains weak.
- Export volumes are likely fall in Q2 as dairy and meat exports fall following the summer drought. This will offset some, but not all, of the extra export income from higher dairy prices over the year ahead.

NZ Q2 building work put in place

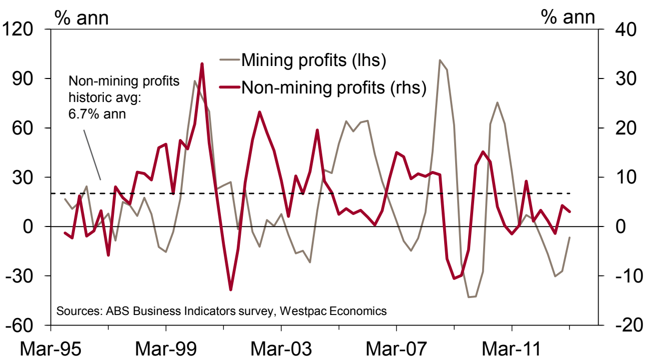
Sep 4, Last: 5.8%, WBC f/c: 3.0%

- Nationwide building activity is now accelerating strongly, led by post-earthquake reconstruction in Canterbury but increasingly spreading to other regions.
- Building consents point to solid growth in both residential and non-residential building work over the June quarter - we estimate a 4% and 2% increase respectively. That said, building work has tended to surprise on the upside of our consents indicator in recent times, suggesting that the lag from consent to construction may have shortened post-quake.
- The building industry has now recovered about half of the boom-to-bust decline from 2008 to 2011. We continue to watch for signs of price pressures emerging as activity accelerates further in coming years.

Dwelling approvals



Company profits



Aus Jul dwelling approvals

Sep 2, Last: –6.9%, WBC f/c: 3.0%
Mkt f/c: 4.0%, Range: –1.0% to 7.5%

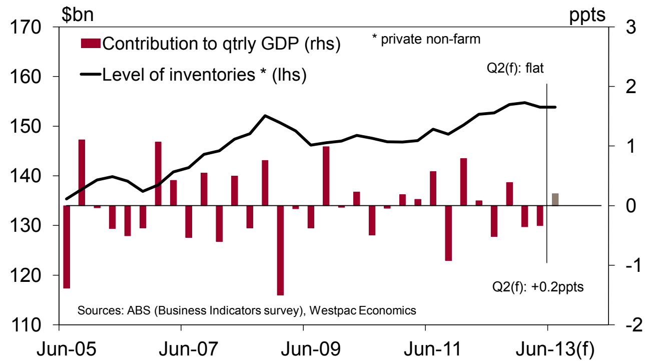
- Dwelling approvals were weaker than expected in June with a 6.9% drop following a 4.3% decline in May and a 13.1% jump in April. The June fall was heavily concentrated in units and in Vic. Some of this may relate to changes in state government assistance to first home buyers – a reduction for those purchasing established and an increase for those purchasing newly built dwellings – introduced in July.
- Despite recent declines, approvals are still tracking a modest uptrend with most indicators pointing to continued gains. Consumer sentiment on ‘time to buy a dwelling’ has been strong and construction-related finance approvals are showing a solid upswing. Job loss fears are a clear restraining factor but on balance we expect approvals to ‘reconnect’ with the more positive finance indicators with a 3% gain in July.

Aus Q2 company profits

Sep 2, Last: 3.0%, WBC f/c: –0.5%
Mkt f/c: 0.9%, Range: –3.0% to 2.1%

- Company profits came under pressure in the June quarter, at a time of subdued conditions, globally and domestically. We expect profits to fall by 1% in the quarter, partially reversing a 3% rise during the initial three months of 2013.
- Mining profits rebounded partially in Q1, up 9.5%, on a bounce in commodity prices. This is likely to be a one-off. Commodity prices were broadly flat in Q2, suggesting little change in mining profits in the period.
- Profits across the broader economy rose 0.3% in Q1 to be 3.0% higher over the year. We see the risk that profits edged lower in Q2 given generally subdued domestic conditions. In retail for instance, turnover stalled following a 2.0% bounce in Q1.

Inventories, Q2 f/c: a small +ve for growth

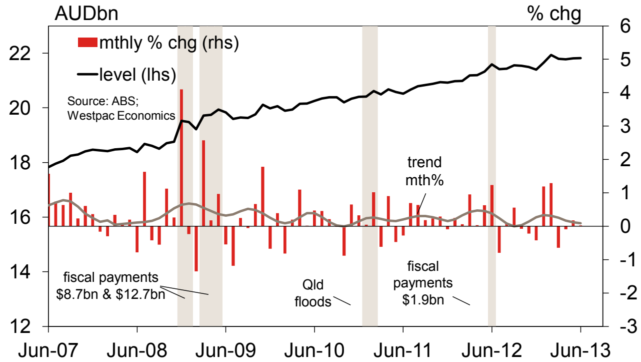


Aus Q2 business inventories

Sep 2, Last: –0.6%, WBC f/c: flat
Mkt f/c: 0.1%, Range: –0.3% to 1.0%

- Private non-farm business inventories were particularly weak in Q1, falling by 0.6%. This decline was concentrated in mining and wholesale, driven by factors specific to early 2013.
- We expect inventory levels to track sideways in Q2 as demand remained patchy. Such a result, representing an improvement on Q1, would have inventories add 0.2ppts to growth.
- As always, we caution that inventories have the potential to surprise – in part because of measurement difficulties for the ABS and, as a result, the tendency for revisions.
- By industry, mining inventories fell in Q1, as exporters rushed to meet demand ahead of Lunar NY celebrations. While, wholesale inventories slumped, potentially associated with a sharp reduction of capital goods imports.

Monthly retail sales

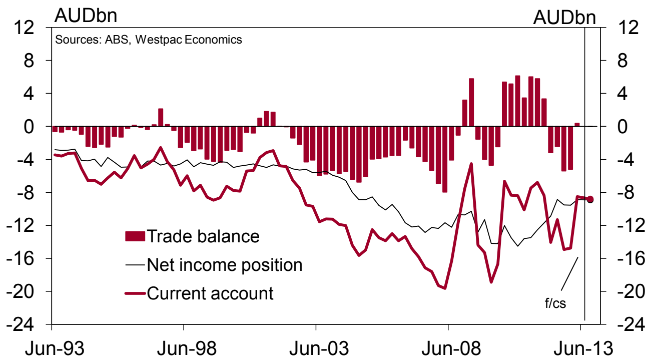


Aus Jul retail trade

Sep 3, Last: flat, WBC f/c: 0.2%
Mkt f/c: 0.4%, Range: flat to 0.7%

- Retail sales stalled flat in June, a disappointing result given the RBA's May interest rate cut and an influx of 40k visitors associated with the Lions tour. After a burst in the first two months of the year, sales are now down 0.5% since February.
- Consumer sentiment was subdued in July holding at 'cautiously optimistic' levels. Job loss fears remained acute though after rising sharply between March and June. Sharp rises in consumers' job insecurity usually go hand in hand with cuts in discretionary spending, particularly on big ticket items, as consumers economise and defer major purchases.
- Business surveys suggest there was little improvement in July with both the NAB and AiG surveys still weak for retailers, albeit marginally less so than in June. We expect retail sales to post a slightly better but still lacklustre 0.2% gain in July.

Current account: Q2 f/c –$8.8bn

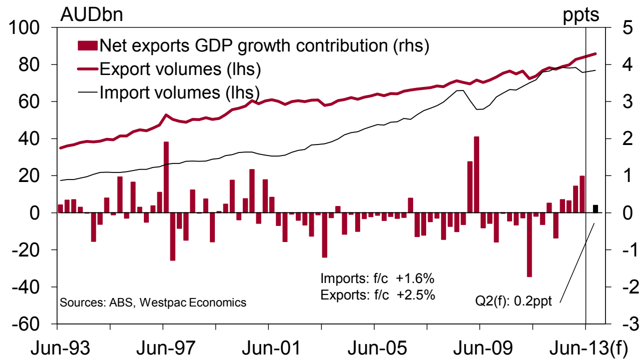


Aus Q2 current account

Sep 3, Last: –$8.5bn, WBC f/c: –$8.8bn
Mkt f/c: –$8.5bn, Range: –$9.5bn to –$6.8bn

- Australia's current account deficit is unlikely to differ greatly in Q2 from that in the opening three months of the year.
- A deficit of $8.8bn is expected, following an $8.5bn deficit in Q1.
- Trade deteriorated slightly, from a surplus of $122mn in Q1 (originally reported as a surplus of $367mn) to a deficit of $18mn in Q2. We estimate that the terms of trade declined by around 1%, on lower commodity prices.
- We anticipate a net income deficit of $8.8bn, matching that in Q1 and matching that in the June quarter 2012.

Net exports: f/c +0.2ppts in Q2

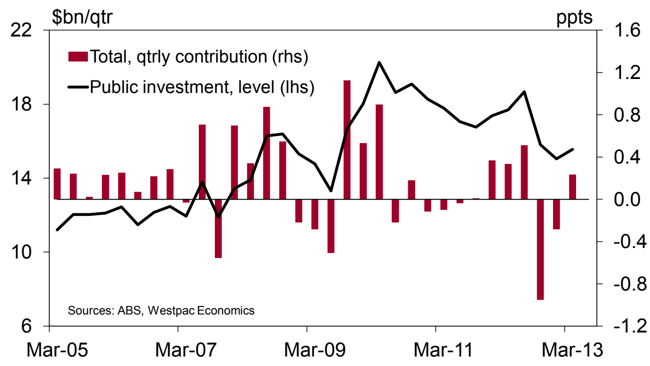


Aus Q2 net exports, ppts contribution

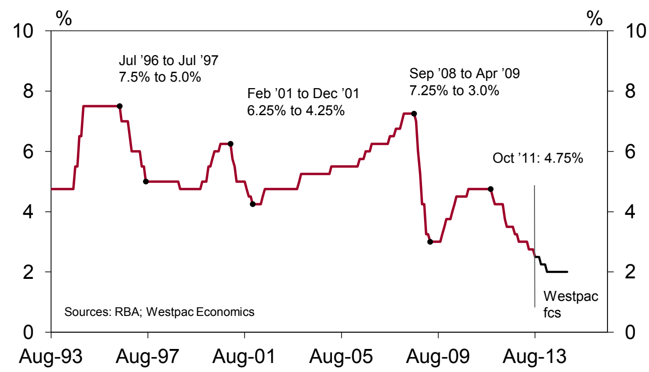
Sep 3, Last: 1.0ppt, WBC f/c: 0.2ppts
Mkt f/c: 0.1ppts, Range: flat to 0.7ppts

- Net exports are likely to make a positive contribution to quarterly GDP growth for a 5th consecutive quarter. This is a sharp turnaround from negatives over recent years.
- Net exports are estimated to add 0.2ppts to Q2 growth, a moderation from a sizeable 1ppt contribution in Q1.
- Export volumes advanced further, up an estimated 2.5% in the quarter to be 8.5% higher than in the June quarter 2012. The uptrend is centred on rising iron ore and coal shipments as capacity expands to meet rising demand, largely from China.
- Import volumes rebounded, rising an estimated 1.6%, partially reversing a 3.5% drop in Q1 centred on lower capital goods.

Public demand: volatile around a weak trend



RBA cash rate: easing cycles



Aus Q2 public demand

Sep 3, Last: 1.1%, WBC f/c: flat

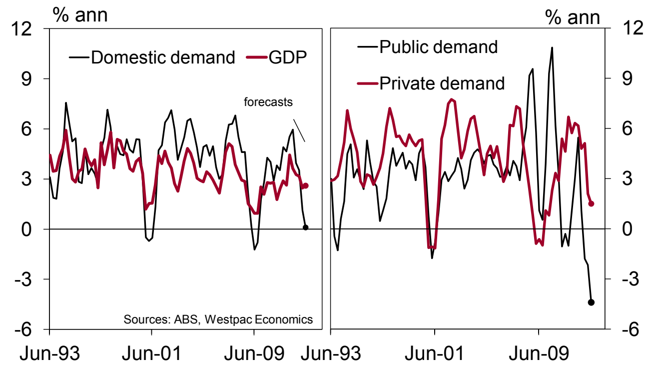
- Public demand is weak around a volatile trend as governments aim to consolidate their budget positions. Public demand is a significant part of the economy.
- We expect a broadly flat result, which have spending down 4.4% over the year (subject to revisions).
- Consumption (80% of total public demand) is weak as government's strive for "efficiency dividends" across the public sector. A 0.5% rise was reported in Q1, only partially reversing a 1.4% decline over the second half of 2012. We expect a small rise in Q2.
- Investment recovered a little in Q1, up 3.4%, following a double digit fall during 2012. We expect a small fall in Q2, with the construction work done survey reporting public works down 0.6% in Q2.

Aus RBA policy announcement

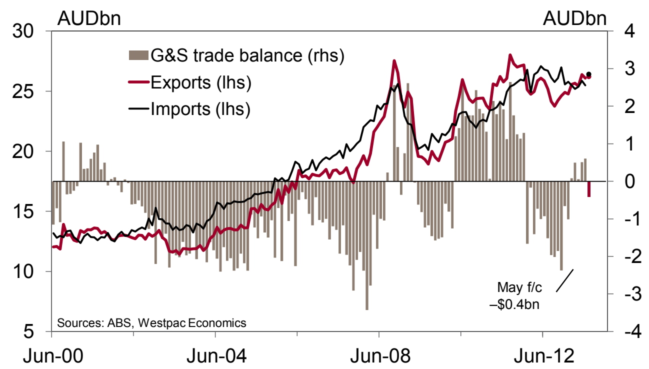
Sep 3, Last: 2.75%, WBC f/c: 2.50%
Mkt f/c: 2.50%, Range: 2.50% to 2.50%

- The RBA is expected to leave the cash rate on hold at 2.5% at its September meeting.
- Following its 25bp rate cut in August, the Reserve Bank Board has been unusually explicit about prospects for an immediate follow-up move with the minutes to the August meeting including the line: "Regarding the communication of this decision, members agreed that the Bank should neither close off the possibility of reducing rates further, nor signal an imminent intention to reduce rates further." That clearly makes a September move unlikely but the wording also leaves the door open for further easing if required.

Australian economic conditions



Australia's trade position



Aus Q2 GDP

Sep 4, Last: 0.6%qtr, 2.5%yr, WBC f/c: 0.6%qtr, 2.6%yr
Mkt f/c: 0.6%, Range: 0.2% to 0.7%

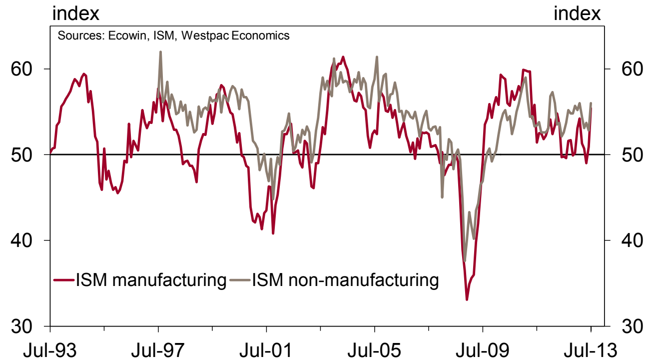
- Australia's economic expansion continues at a sub-par pace, evidence of a number of headwinds impacting the economy. We forecast Q2 GDP growth to be 0.6%. Annual growth is little changed, ticking higher to 2.6% from 2.5%.
- Domestic demand most likely remained weak, increasing by a forecast 0.2%, to be only 0.1% higher than a year earlier. We expect: consumption to be soft, up 0.4%; public demand to be flat; and business investment to decline by 0.8%. Dwelling investment is expected to be up 1.6%, on a rebound in renovation work.
- Net exports is a plus, although the size of the contribution is far less than in Q1, at 0.2ppts vs 1.0ppts. We expect inventories to add 0.2ppts, reversing a 0.3ppts subtraction in Q1.

Aus Jul trade balance, AUDbn

Sep 5, Last: 0.6, WBC f/c: –0.4
Mkt f/c: 0.1, Range: –1.45 to 1.0

- Australia's trade balance most likely deteriorated in July on a bounce in imports.
- We are forecasting a deficit of $0.4bn for July, following an originally reported surplus of $0.6bn for June. This factors in a modest scaling back of the July surplus due to an upward revision of imports.
- Imports are forecast to rise by around 3.7%. The ABS advise that goods imports jumped 4.6%, with fuel imports rebounding.
- Export earnings are forecast to rise by 0.5%. Higher fuel prices and an expected rise in iron ore and coal shipments are largely offset by lower prices for coal and gold.

US ISMs

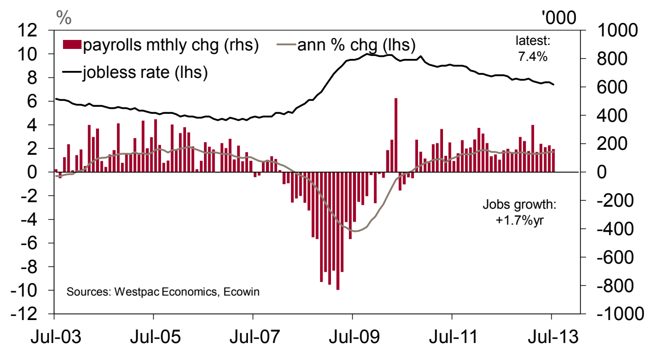


US Aug ISM surveys

Sep 3 Manufacturing: Last: 54.0, WBC f/c: 53.0
Sep 5, Non-manufacturing: Last: 56.0, WBC f/c: 54.5

- The orders/shipments detail in the Aug Phily and NY Fed factory surveys was weaker than the regional survey headlines. The ISM surveys have outperformed recently, in the face of weakness elsewhere in the economy, so we see lower readings ahead.
- For the manufacturing ISM, we note in particular that the flat profile of industrial production in recent months suggests a downside ahead for the ISM, which we forecast at 53.0 in Aug.
- The ISM non-manufacturing typically shows mid-year weakness but July's reading is inconsistent with that pattern and other data on the economy so is likely to reverse shortly.

US payrolls

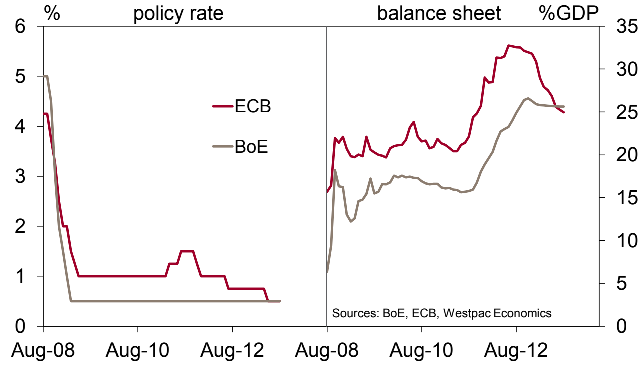


US Aug payrolls employment and unemployment

Sep 6, Employment Last: 162k, WBC f/c: 150k
Sep 6, Unemployment rate: Last: 7.4%, WBC f/c: 7.5%

- Payrolls rose162k in July; May and June were revised down by a combined 26k, and hourly earnings growth and hours worked both fell 0.1%. This picture is less inconsistent with the deceleration in GDP growth over the past year (from 2.8%yr in mid 2012 to 1.6%yr in mid 2013) than the previously reported figures. One positive in the report was the separate household survey which showed jobs growth of 227k in July so it was mostly a jobs driven 'genuine' fall in the unemployment rate from 7.56% to 7.39%; labour force participation was only down 37k.
- Despite lower claims for layoffs we think jobs growth remains constrained and unemployment will struggle to fall much below current rates in coming months.

ECB & BoE



ECB and BoE policy decisions

Sep 5, BoE APP GBPbn: Last: 375, WBC f/c: 375
Sep 5, ECB repo: Last: 0.5%, WBC f/c: 0.5%

- The UK economy expanded at a 0.7% pace in Q2 and recent partial and survey data, while boosted to some extent by weather and royal baby 'feelgood' factors, suggest some pick-up in underlying momentum. Lending for housing has picked up, and inflation remains close to target once allowance for one-off factors is made. Against this background policy will remain on hold for the time being.
- The ECB's forward guidance that rates will remain at current or lower levels has already been called into question by some Council members publicly. Recent economic data has been less disappointing too. We see big risks ahead for the eurozone, but until they impact the ECB may seem less inclined to act on its apparently fragile easing bias.

Data calendar

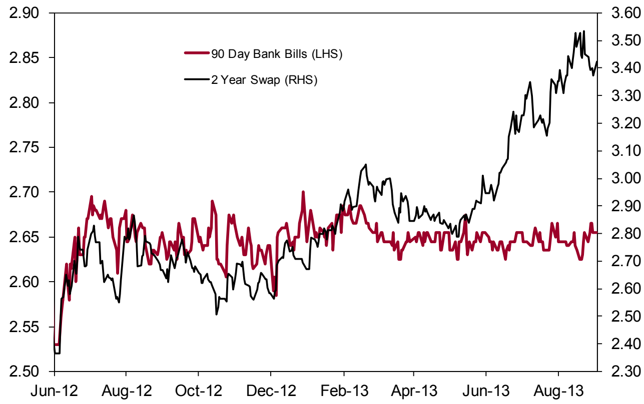
		Last	Market median	Westpac forecast	Risk/Comment
Mon 2					
NZ	Q2 terms of trade	4.10%	3.80%	8.70%	Terms of trade surging in line with dairy prices through 2013.
Aus	Jul dwelling approvals	–6.9%	4.00%	3.00%	Construction-related finance approvals point to solid uptrend.
	Q2 company profits	3.00%	0.90%	–0.5%	Patchy demand conditions, flat commodity prices.
	Q2 business inventories	–0.6%	0.10%	flat	Inventory levels flat as demand remains patchy. Adds 0.2ppts to growth.
	Aug TD-MI inflation gauge	0.50%	–	–	More impact from the lower AUD?
	Aug RP Data-Rismark home price index	1.60%	–	0.40%	Prices up about 5%yr and 4% since May.
	Aug AiG PMI	42	–	–	Manufacturing index sub-50 since Feb '12. Volatile past few months.
Chn	Aug HSBC manufacturing PMI - final	50.1	50.2	–	Sharp gain in flash estimate, including promising forward looking details.
Eur	Aug PMI factory final	51.3 a	51.3	51.1	We question the sustainability of the bounce in confidence.
UK	Aug house prices %yr	1.30%	–	–	Hometrack index.
	Aug house prices %yr	4.60%	–	–	Tentative date for Halifax index due sometime this week.
	Aug factory PMI	54.6	55	53.5	Risks to downside from European/Asian concerns to bite eventually.
US	Labor Day Holiday	–	–	–	White shoes no longer to be worn.
Tue 3					
NZ	Aug ANZ commodity price index	0.60%	-	-	Commodity prices to remain near record highs over 2013.
Aus	Jul retail trade	flat	0.40%	0.20%	June report was very disappointing, July unlikely to be much better.
	Q2 current account, AUDbn	–8.5	–8.5	–8.8	Deficit a little higher, trade position slight deterioration in Q2.
	Q2 net exports contribution, ppts	1	0.1	0.2	Net exports a positive for a 5th consecutive qtr. See preview p6.
	Q2 public demand	1.10%	–	flat	A flat Q2 would have spending down 4.4% over the year.
	RBA policy decision	2.50%	2.50%	2.50%	Aug minutes indicate follow-up cut in Sep unlikely.
Chn	Aug NBS non-manufacturing PMI	54.1	–	–	Some relief due to the passing of financial stress, firmer activity.
Eur	Jul PPI %yr	0.30%	0.10%	0.20%	German PPI edged higher in July; minimal price pressure from industry.
UK	Aug BRC sales %yr	2.20%	–	–	Same store sales. Changing weather, royal baby will be driving factors.
	Aug PMI construction	57	–	55	Jul's strongest read in three years - sustainable?
US	Jul construction spending	–0.6%	0.30%	0.40%	Weak single-family starts and falling new home sales constraining res.
	Aug ISM manufacturing	55.4	54	53	Aug regional detail mostly soft despite high headlines. See preview p9.
	Sep IBD-TIPP economic optimism	45.1	46	45.5	First read on Sep sentiment.
Wed 4					
NZ	Q2 building work put in place	5.80%	-	3.00%	Consents suggest growth in both residential and commercial work.
	GlobalDairyTrade auction	2.30%	-	-	Dairy prices staying very high despite botulism scare.
Aus	Q2 GDP	0.60%	0.60%	0.60%	Domestic demand remains weak. Net exports a positive. See preview p7.
Chn	Aug HSBC services PMI	51.3	–	–	Expectations improved in July after a steep decline through Q2.
Eur	Aug PMI composite final	51.7 a	51.7	51.5	PMI services may be revised lower in France especially.
	Q2 GDP revision	0.3% a	0.30%	0.30%	More detail on composition of growth.
	Jul retail sales	–0.5%	0.40%	0.30%	French data not published for July; German data not out yet.
UK	Aug BRC shop prices %yr	–0.5%	–	–	No evidence of retail inflation in high street, despite above-target CPI
	Aug PMI services	60.2	59.7	57	Royal baby and weather boost in July may unwind in August.
US	Aug corporate layoffs %yr	2.30%	–	–	Challenger series.
	Jul trade balance $bn	–34.2	–38.7	–	Exports rose 2.2% and imports fell 2.5% in June.
	Aug ISM New York	67.8	–	–	Up 20pts from a 4 year low to a 2 year high in July!
	Fed beige book	–	–	–	Regional economic reports prepared ahead of Sep 17-18 FOMC
	Aug auto sales mn annualised	15.7	15.8	–	Sales in uptrend, despite slipping in July. Auto orders rose 0.5% in July.
	Fedspeak	–	–	–	Williams on monetary policy.
Can	Jul trade balance C$bn	–0.5	–0.4	–	Exports rose 1.6% in Jun, imports gained 0.6%.
	BoC rate decision	1.00%	1.00%	1.00%	Policy to be gradually normalised, eventually.
Thu 5					
Aus	Jul trade balance, AUDbn	0.6	0.1	–0.4	Imports jump, f/c +3.7%, on fuel. Exports little changed, f/c +0.5%.
Eur	ECB policy decision	0.50%	0.50%	0.50%	ECB Council seems split on forward guidance already! See preview p9.
Ger	Jul factory orders	3.60%	–1.0%	–0.5%	June saw first rise in orders in three months.
UK	BoE policy decision, APP £bn	375	375	375	Case for further easing not compelling yet. See preview p9.
US	Initial jobless claims w/e Aug 30	331k	330k	330k	Trend now lower than before the 2008-2009 recession.
	Aug ADP private payrolls	200k	180k	160k	Q3 jobs growth to slow given decelerating GDP growth since late 2012.
	Q2 productivity revisions	0.90%	1.40%	1.50%	GDP growth was revised up on 29/8.
	Aug ISM non-manufacturing	56	55	54.5	ISM surveys have been at odds with weakness elsewhere in economy
	Jul factory goods orders	1.50%	–3.5%	–4.5%	Durables known down 7.3% in July.
	Fedspeak	–	–	–	Kocherlakota
G20	Leaders' Summit	–	–	–	In St Petersburg on 5-6 Sep.
Fri 6					
NZ	Q2 wholesale sales	1.00%	-	-	Sectoral indicator for GDP, though one of the less reliable ones.
Ger	Q2 labour costs %yr	3.90%	–	–	Have accelerated since early 2012.
	Jul exports	0.60%	1.00%	0.60%	Exports rose modestly in June despite surge in IP, some catchup likely.
	Jul industrial production	2.40%	–0.5%	1.00%	Factory PMI rose above 50 in July; and orders up sharply in June.
UK	Jul industrial production	1.10%	0.20%	0.80%	PMI implies rising output; warm weather, oil rig closures could impact.
	Jul trade balance £bn	–8.1	–8.2	–	Exports up 4.9% and imports up 2.6% saw Jun deficit narrow.
US	Aug non-farm payrolls ch'	162k	180k	150k	Q3 jobs growth is slowing given GDP growth has lost momentum
	Aug jobless rate	7.40%	7.40%	7.50%	since last year. Higher participation stalling jobless rate improvement.
	Fedspeak	–	–	–	Evans and Gerorge
Can	Aug employment ch'	–39k	30k	10k	2013 YTD jobs growth has averaged 6k, compared to 18k 2012 YTD.
	Aug Ivey PMI	48.4	54	53	July was fourth lowest reading since recession.
Sat 7					
Aus	Federal Election	–	–	–	Voting closes 6pm. Initial results from around 7:30pm AEST.
Sun 8					
Chn	Aug trade balance USDbn	17.8	–	–	July rebound in X & M was part flattering base effect, part underlying gain.

New Zealand forecasts

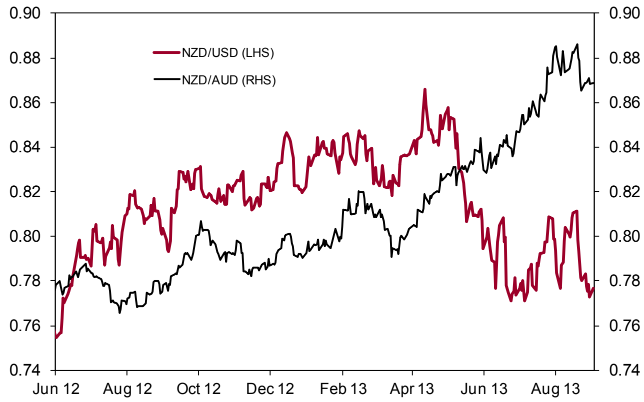
Economic Growth Forecasts	March years				Calendar years			
% change	2012	2013f	2014f	2015f	2011	2012	2013f	2014f
GDP (Production) ann avg	1.9	2.5	2.8	3.8	1.4	2.7	2.6	3.7
Employment	1.0	0.4	2.3	2.8	1.5	-1.4	3.5	2.9
Unemployment Rate % s.a.	6.8	6.2	5.7	4.8	6.3	6.8	5.9	4.9
CPI	1.6	0.9	1.7	2.5	1.8	0.9	1.6	2.3
Current Account Balance % of GDP	-4.4	-4.8	-5.0	-5.9	-4.0	-5.0	-4.7	-5.8

Financial Forecasts	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Cash	2.50	2.50	2.75	3.00	3.25	3.50
90 Day bill	2.70	2.75	3.00	3.25	3.50	3.75
2 Year Swap	3.40	3.40	3.50	3.60	3.80	4.00
5 Year Swap	4.20	4.00	4.00	4.10	4.20	4.40
10 Year Bond	4.30	4.10	4.10	4.20	4.30	4.40
NZD/USD	0.80	0.82	0.83	0.81	0.78	0.76
NZD/AUD	0.87	0.89	0.90	0.90	0.90	0.89
NZD/JPY	79.2	80.4	80.5	77.8	74.9	72.2
NZD/EUR	0.60	0.62	0.62	0.62	0.62	0.62
NZD/GBP	0.51	0.51	0.51	0.50	0.50	0.48
TWI	75.3	77.0	77.7	76.6	75.2	74.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 2 Sep 2013

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.50%	2.50%	2.50%
30 Days	2.64%	2.63%	2.63%
60 Days	2.65%	2.64%	2.63%
90 Days	2.66%	2.64%	2.64%
2 Year Swap	3.42%	3.47%	3.29%
5 Year Swap	4.36%	4.35%	4.22%

NZ foreign currency mid-rates as at Monday 2 Sep 2013

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7765	0.8104	0.7731
NZD/EUR	0.5879	0.6080	0.5821
NZD/GBP	0.5003	0.5191	0.5055
NZD/JPY	76.42	79.10	76.49
NZD/AUD	0.8689	0.8827	0.8659
TWI	73.66	76.09	73.63

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2009	2010	2011	2012	2013f	2014f
Australia						
Real GDP % yr	1.4	2.5	2.4	3.6	2.5	2.3
CPI inflation % annual	2.1	2.8	3.0	2.2	2.2	2.5
Unemployment %	5.6	5.2	5.2	5.4	6.2	6.4
Current Account % GDP	-4.2	-2.9	-2.3	-3.7	-2.4	-2.3
United States						
Real GDP %yr	-3.1	2.4	1.8	2.8	1.4	1.5
Consumer Prices %yr	-0.3	1.6	3.1	2.1	1.4	1.6
Unemployment Rate %	9.3	9.6	8.9	8.1	7.7	7.6
Current Account %GDP	-2.7	-3.0	-3.0	-2.8	-3.0	-3.1
Japan						
Real GDP %yr	-5.7	4.9	-0.5	1.9	1.7	2.2
Consumer Prices %yr	-1.3	-0.7	-0.3	0.0	-0.2	0.1
Unemployment Rate %	5.2	5.1	4.5	4.3	4.3	4.3
Current Account %GDP	2.8	3.6	2.0	2.1	2.0	2.0
Euroland						
Real GDP %yr	-4.3	1.9	1.5	-0.5	-1.0	-0.6
Consumer Prices %yr	0.3	1.7	2.7	2.2	1.4	1.2
Unemployment Rate %	9.5	10.0	10.1	11.7	12.4	13.0
Current Account %GDP	-0.2	-0.1	0.0	0.9	1.0	1.0
United Kingdom						
Real GDP %yr	-4.0	1.8	0.9	0.2	1.1	0.9
Consumer Prices %yr	2.2	3.2	4.0	2.8	2.3	1.8
Unemployment Rate %	7.6	7.8	8.4	8.0	8.5	8.5
Current Account %GDP	-1.3	-2.5	-1.9	-3.8	-2.5	-1.5
Forecasts finalised 9 August 2013						

Interest Rate Forecasts	Latest	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
Australia						
Cash	2.50	2.50	2.25	2.00	2.00	2.00
90 Day Bill	2.56	2.55	2.30	2.10	2.10	2.10
10 Year Bond	3.90	3.60	3.40	3.30	3.20	3.10
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.77	2.40	2.20	2.10	2.00	2.00
ECB Repo Rate	0.50	0.50	0.50	0.50	0.50	0.50

Exchange Rate Forecasts	Latest	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
AUD/USD	0.8948	0.92	0.92	0.92	0.9	0.87
USD/JPY	98.19	99	98	97	96	96
EUR/USD	1.3229	1.33	1.33	1.33	1.3	1.25
AUD/NZD	1.1492	1.15	1.12	1.11	1.11	1.12

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