3 March 2014

Weekly Commentary

Cape Reinga lighthouse, North edge of New Zealand

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Boiling over

Events of the last week have underscored our view that New Zealand's export performance will come to the fore as a driver of growth in 2014, a major theme of our latest quarterly Economic Overview. This comes on top of a domestic economy that was already gathering a substantial amount of momentum, making a clear case for the Reserve Bank to act now in order to head off the re-emergence of inflation pressures.

In light of the persistent strength of world prices for dairy products, Fonterra announced an increase in its milk price forecast for the current season, pushing it even further into record territory. The milk price is now expected to be $8.65/kg compared to the previous forecast of $8.30/kg, and Fonterra noted that it would have been substantially higher were it not for the fact that capacity constraints had prevented it from shifting its production mix to the highest-value products earlier in the season.

The increase in the milk price comes on top of a strong rebound in production volumes, after the severe drought in early 2013. The rebound in volumes finally started to hit export markets in the last few months of the year, a factor that will show through in the December quarter terms of trade published today. We expect a small increase in export prices (helping to nudge the terms of trade to a fresh 40-year high), while export volumes could see a jump in the order of 10%. Similarly, our first-cut estimate of the current account balance for the December quarter (to be published later this month) suggests that the deficit narrowed from 4.1% to 3.2% of GDP.

The strong performance of exports also continued in early 2014, with the trade balance reaching a $306m surplus in January, the strongest on record for a January month. Exports to China, our top export destination, were more than double those of our next-largest trading partner Australia; just a year ago they were broadly on a par.

Last week's indicators of domestic activity were generally on the strong side as well. Net immigration continues to run at high levels, reaching a net inflow of 3,090 people in

Boiling over continued

January, the biggest month since mid-2003. The annual inflow now exceeds 25,000 people, compared to a balance of close to zero a year earlier. The migration figures represent both cause and effect in terms of the economy's upswing: on the one hand they accurately reflect the change in relative fortunes between New Zealand and Australia's job markets, while on the other hand they provide an additional source of growth in the domestic economy, via higher household spending and housing demand.

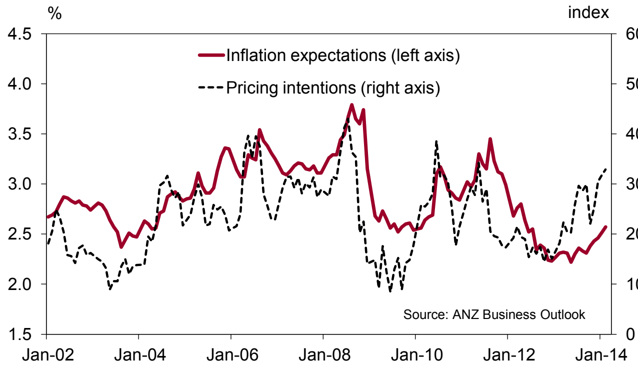
Residential building consents fell 8.3% in January, largely due to a return to trend in the volatile apartment units component. Coming after a combined 20% increase in consents in the previous two months, the latest figures still suggest that the upward trend in consents remains intact, and if anything may have strengthened in recent months. The post-quake recovery in Canterbury remains the most significant driver of growth, as activity starts to move beyond major repairs and towards full rebuilds.

Finally, business confidence rose to fresh 20-year highs in the February survey. General confidence has remained strong for some time; what's been most impressive over the last year is the breadth of the lift in confidence across sectors and indicators (employment and investment intentions in particular have gone ballistic in recent months). What's more, expectations of price pressures have now notably picked up, with firms' pricing intentions rising across the board and inflation expectations inching up as well.

The Reserve Bank watches a range of measures of inflation expectations, covering varying time horizons. Of the three indicators that were reported last week, two of them (the one-year ahead measures in the ANZ business confidence survey and the UMR survey of households) have risen, while the other (the two-year ahead measure in the RBNZ survey of businesses) was broadly unchanged. Moreover, all of them sit some way above the 2% midpoint of the RBNZ's inflation target range. The RBNZ's current Policy Targets Agreement places additional emphasis on that 2% midpoint; what these surveys suggest is that there is more work to be done to establish the credibility of that target.

All together, it's unlikely that the latest data will change the arithmetic for the RBNZ's next *Monetary Policy Statement* on 13 March. The case for removing some of the current monetary stimulus is now well established, the RBNZ has said that this is

Year-ahead inflation indicators



likely to start "soon", and households and businesses are now well aware that this is going to happen.

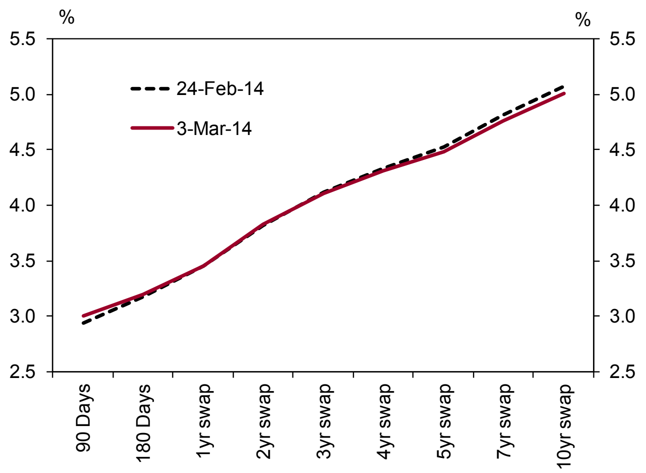
The one possible reason for caution in raising interest rates is the housing market, where prices have clearly started to soften. RBNZ figures released this week show that the limits on high loan-to-value ratio (LVR) home loans have had a substantial impact on lending: the proportion of high-LVR loans fell further to 4.8% in January, compared to around 25% before the 10% limit came into force last October.

We think there are two factors at play. First, banks have erred on the side of caution, given the uncertainty around what was needed to meet the new requirements. Second, banks may have underestimated the denominator of this ratio – that is, low-LVR lending appears to have picked up strongly, meaning that total lending may have held up more than expected. We suspect that lenders will soon be looking to make use of this unanticipated leeway; indeed, weekly data on mortgage approvals indicate that total lending bottomed out in December and has edged up a little this year. The risk that the LVR restrictions have an outsized impact on the housing market seems to be passing.

Fixed vs Floating for mortgages

We believe that fixing and floating will offer similar value over the course of the next three years. The Reserve Bank is widely expected to start raising the OCR this month, kicking off an extended series of rate hikes. This view is more or less embedded in current fixed-term mortgage rates, which implies that the cost of fixing or floating will be similar over the longer term. However, with floating rates likely to be rising over coming months, borrowers who value certainty in their repayments should consider fixing now.

NZ interest rates



NZ Q4 terms of trade

Mar 3, Last: 7.5%, WBC f/c: 1.8%, Mkt f/c: 2.0%

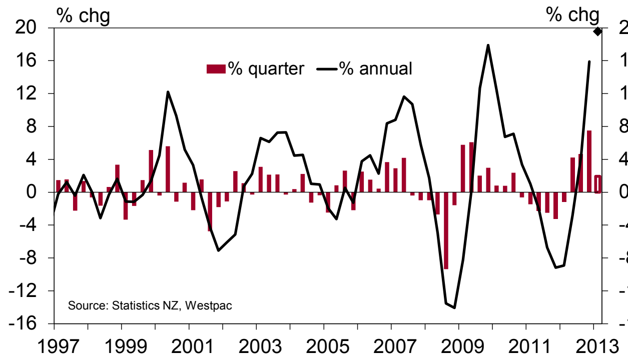
- The terms of trade is expected to increase further in the December quarter. Export prices should hold at elevated levels, with the lift in the quarterly terms of trade driven by softer import prices. New Zealand's terms of trade is forecast to ease from current levels over the course of 2014, but over a longer horizon strong demand from emerging markets, especially China, for key New Zealand commodity exports should see New Zealand's terms of trade remain high.
- Export volumes are expected to surge in the December quarter. The rapid rebound from drought in the agriculture sector (led by a big lift in milk production) was a feature of September quarter GDP data, and likely propelled a big lift in exports in Q4.

NZ Q4 building work put in place

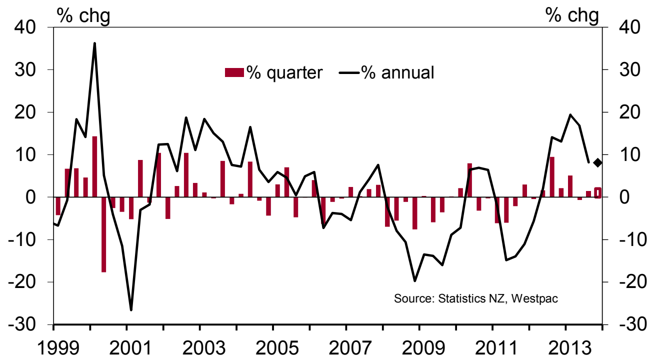
Mar 5, Last: 1.4%, WBC f/c: 2.0%, Mkt f/c: 2.7%

- Nationwide building activity is picking up steadily, led by post-earthquake reconstruction in Canterbury, and to some degree by a lift in construction in the under-supplied Auckland housing market.
- Building consents point to another sharp rise in residential work over the December quarter (we expect a 7% increase, following an 8% rise in the previous quarter), partially offset by a 3% drop in non-residential work. The margin of error around the latter forecast is much greater as the lags from consent to construction are more variable.
- The building work survey is drawn from a sample of active building consents, which means that it misses non-consented work such as repairs. This has made up a substantial portion of the post-quake construction work to date, though we suspect it's no longer a significant driver of growth.

NZ terms of trade



NZ real building work put in place



Aus Q4 company profits

Mar 3, Last: 3.9%, WBC f/c: 2.8%
Mkt f/c: 2.0%, Range: –4.5% to 4.0%

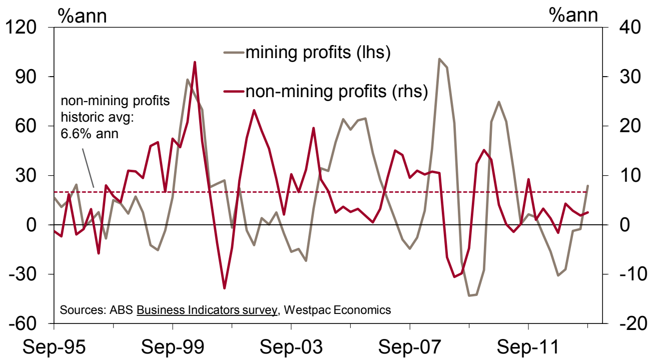
- Company profits advanced during 2013, notwithstanding mixed conditions. We expect a rise of 2.8% in Q4, following on from a sizeable 3.9% increase in Q3.
- Mining is benefitting from a lower AUD and increased production associated with expanding capacity. For Q4, we expect that profits rose by about 4% or so notwithstanding flat commodity prices in AUD terms. In Q3, mining profits rose 8% and commodity prices increased by 4%.
- Non-mining profits have increased at a well below trend pace for the four years 2010 to 2013 as demand growth has been subdued. Sluggish wages growth is acting to limit the pressure on profits somewhat. For Q4, we expect a rise of a little over 1% for the quarter and around 2.5% for the year.

Aus Q4 inventories

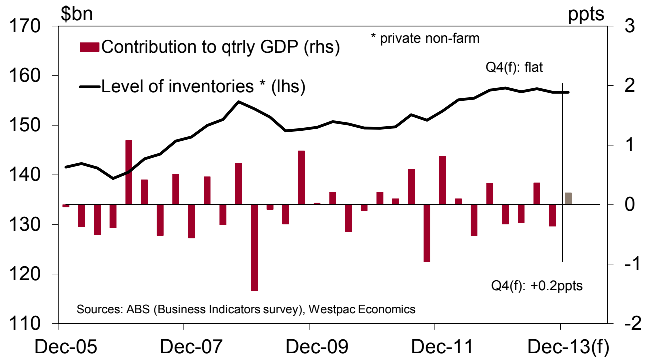
Mar 3, Last: –0.5%, WBC f/c: flat
Mkt f/c: flat, Range: –1.0% to 1.0%

- Private non-farm business inventories subtracted 0.4ppts from GDP growth in Q3, as firms switched from inventory accumulation in Q2 (+0.5%) to a run-down in Q3 (-0.5%).
- We expect stock levels to stabilise in Q4, which would see inventories add to GDP, to the tune of 0.2ppts.
- In Q3, imports contacted sharply, down 3.3%, and firms met additional sales by running down inventories. That said, turnover was soft, with household consumption and total domestic demand both rising by 0.4%.
- In Q4, imports were down again, by a more modest 0.5% on our estimate. Mining export shipments rose sharply, potentially partly met from inventories. Retail sales improved, but the uncertainty is whether this was met in part by clearing stock.

Company profits: under pressure



Inventories, Q4 f/c: a small positive impact

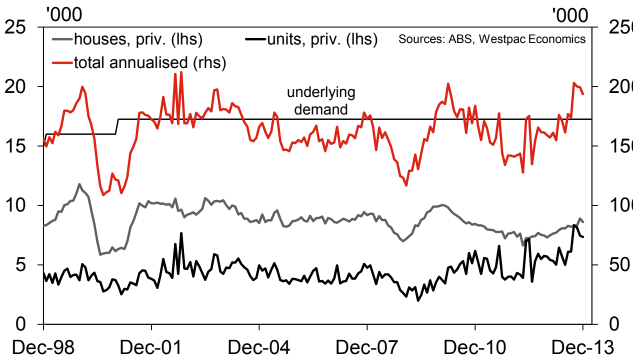


Aus Jan dwelling approvals

Mar 4, Last: –2.9%, WBC f/c: –1.5%
Mkt f/c: 0.5%, Range: –2.5% to 5.0%

- Dwelling approvals decline 2.9% in Dec but remained at a high overall level after a 16.6% jump in Sep. Despite similar slippage in Oct, Nov approvals at year end were still 11% above their Aug reading and 17% above their average in the 12 months prior to the spike.
- Jan is likely to see a further retracement, with a risk of a significant decline given the high concentration of 'high rise' projects in recent months. The larger size of individual projects means this segment can see sharp moves, although that has not been the case to date with the aforementioned Sep jump. On top of this, housing data is very unreliable at this time of year. The holiday season typically sees approvals 25% lower in Jan, making estimates highly sensitive to the vagaries of seasonal adjustment. Overall we expect a 1.5% decline.

Dwelling approvals

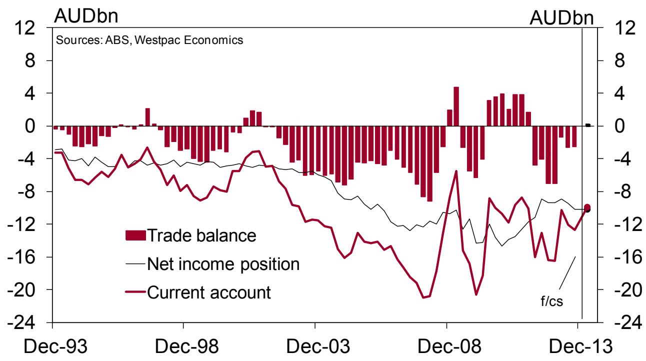


Aus Q4 current account AUDbn

Mar 4, Last: –12.7, WBC f/c: –9.9
Mkt f/c: –10, Range: –13.4 to –8.9

- Australia's current account deficit narrowed in Q4 by a forecast $2.8bn to $9.9bn, representing 2.5% of GDP.
- The ABS advise that the trade balance recorded a $247mn surplus in Q4, a $2.9bn turnaround from Q3. Export shipments rose strongly, while import volumes edged lower. We estimate that the terms of trade was broadly flat.
- We've factored in no change in the primary net income balance in Q4. Recall that the primary net income deficit deteriorated to $9.6bn in Q3 from $8.9bn in Q2. That was on weaker credits due to lower direct investment income.

Current account: Q4 f/c –$9.9bn

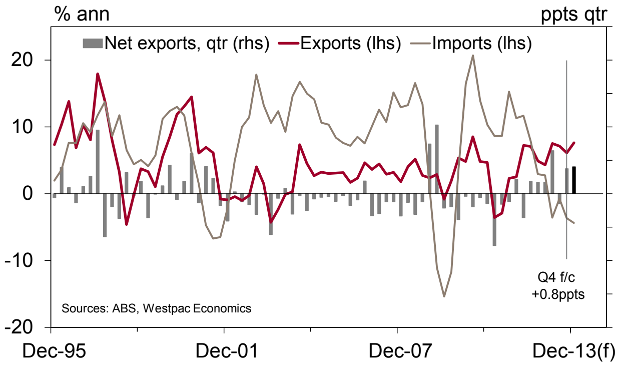


Aus Q4 net exports, ppts cont'n

Mar 4, Last: 0.7, WBC f/c: 0.8
Mkt f/c: 0.7, Range: 0.1 to 1.0

- Net exports made a sizeable contribution to growth in 2013. That remained the case in the December quarter.
- We estimate a net exports contribution to Q4 GDP growth of 0.8ppts qtr, 2.6ppts yr.
- Export volumes rose by a forecast 3½%qtr, 7½%yr. Resource shipments are growing at a double digit pace, centred on expanding capacity in iron ore and coal.
- Import volumes declined in Q4, by a forecast –½%qtr, –4½%yr. In Q4 capital goods and services moved lower, while consumption goods and intermediate items moved higher.

Export & import volumes

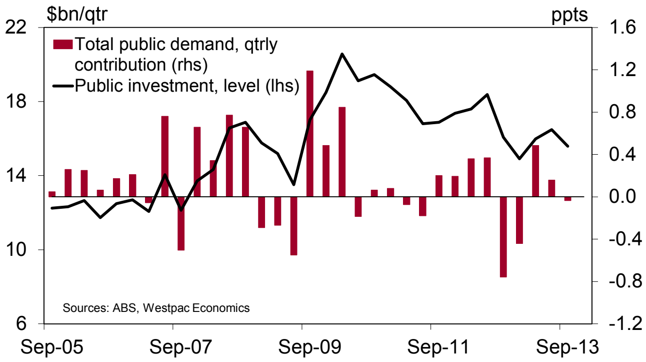


Aus Q4 public demand

Mar 4, Last: –0.2%, WBC f/c: –0.3%

- Public demand edged lower in Q3 and we anticipate a similar result in Q4, forecasting a decline of 0.3%.
- Some strength in public demand was evident in Q1 this year, up 2.3%, partially reversing a sharp fall over the second half of 2012. This improvement proved short lived, with Q2 reporting a more modest gain of 0.7% and Q3 a decline of 0.2%.
- In Q4 we anticipate a flat lining of public consumption (accounting for 80% of total public demand). That comes on the back of a 1.0% rise in Q3 that came despite the general trend across governments to cap public sector job numbers. Annual growth would be 2.5% on our forecast (subject to revisions).
- We've factored in a 1.5% decline in investment in Q4, which would have annual growth improve to 3.0% from -3.0% in Q3.

Public demand: volatile around a weak trend



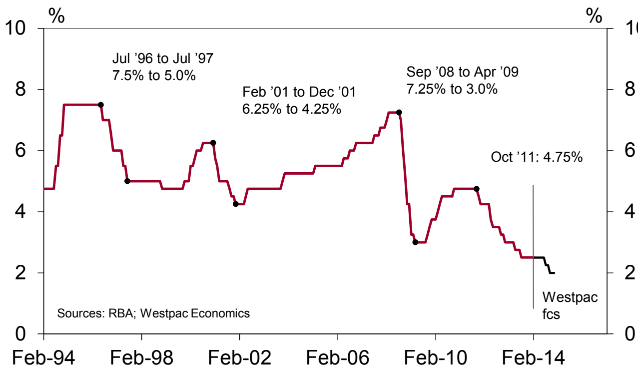
The week ahead

Aus RBA policy decision

Mar 4, Last: 2.50%, 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 Mar meeting. The Feb meeting saw no change with the statement accompanying the decision making it clear that the Bank had shifted to a 'neutral outlook' for rates, the key closing line being: "On present indications, the most prudent course is likely to be a period of stability in interest rates."
- Relatively little has changed since Feb. Importantly there have been no more clues to the nature of the surprising jump in inflation in Q4. With the AUD stabilising, continued downward pressure on wages should deliver more benign reads in 2014. As this becomes apparent and growth prospects remain challenging we expect the RBA to deliver two further 25bp rate cuts in Aug and Oct. But for now the Bank will await more clarity on inflation and growth prospects.

RBA cash rate: easing cycles

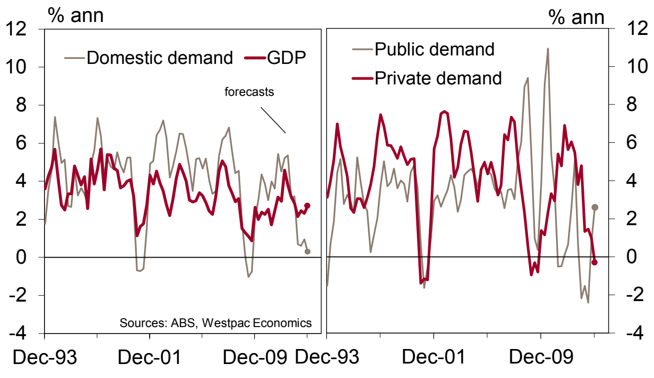


Aus Q4 GDP

Mar 5, Last: 0.6%, WBC f/c: 0.9%
Mkt f/c: 0.7%, Range: 0.3% to 1.0%

- Output most likely strengthened in the final three months of 2013, but growth was lopsided.
- We expect GDP growth of 0.9% in Q4, up from 0.6% in Q3. Such an outcome would be the strongest since 2012 Q1. Annual growth ticks up to 2.7% from 2.3%, subject to revisions.
- Net exports (+0.8ppts) and household consumption (0.7%, up from 0.4% in Q3) are the growth engines.
- By contrast, housing construction contracted (–0.4%), ahead of strong upswing in 2014, and business delayed investment, down a forecast 3.5%. We anticipate weak public demand (–0.3%) and flat private non-farm business inventories, which implies a contribution of 0.2ppts.

Australian economic conditions

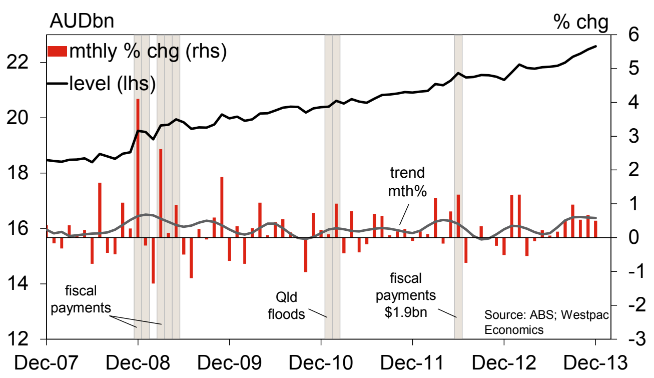


Aus Jan retail trade

Mar 6, Last: 0.5%, WBC f/c: 0.3%
Mkt f/c: 0.4%, Range: –0.1% to 0.9%

- Retailers enjoyed a rare flourish through the second half of 2013 culminating in back-to-back monthly sales gains of 0.5%, 0.7% and 0.5% in the final quarter. The 7%+ annualised pace of trend sales growth was the strongest since the GFC, although still well short of the sort of surges seen pre-GFC. The quarterly detail also shows half of the Q4 gains were from higher prices with the pick up in volumes solid rather than spectacular.
- Consumer optimism faltered late last year with sentiment slipping back to around 'neutral' in early 2014. Notably, consumers' unemployment expectations deteriorated sharply – job loss fears tend to influence discretionary spending and with labour markets clearly weak (the unemployment rate hit 6% in Jan), retail sales are likely to have lost some momentum as a result. We expect Jan to show a more modest 0.3% gain.

Monthly retail sales

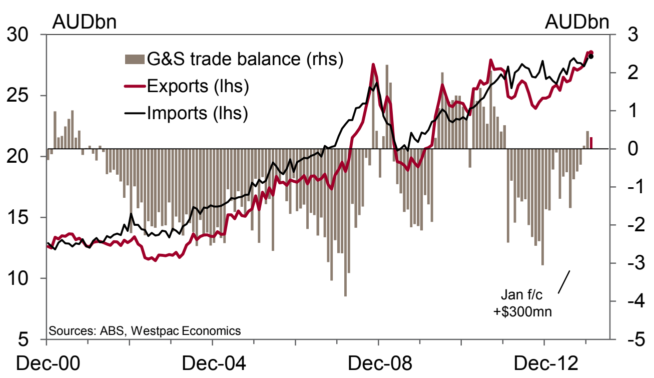


Aus Jan trade balance, AUDmn

Mar 6, Last: +468, WBC f/c: +300
Mkt f/c: +100, Range: –300 to +750

- Australia's trade accounts moved into surplus in November and remained so in December. We anticipate that January will make it three in a row. This follows a 22 month run of deficits.
- Our forecast is for a $300mn surplus, narrowing from a surplus of $468mn in December.
- Imports rise by a forecast 0.6%. The ABS advise that goods rose by 0.7%. The AUD weakened in the month, down 1% on a TWI basis and 1.4% lower against the USD. This implies that import volumes edged lower in January.
- Export earnings are forecast to be flat. Commodity prices and volumes were most likely both mixed. Iron ore shipments were up but coal was down and there is the risk of a partial correction in rural goods following a 17% jump in December.

Australia's trade position



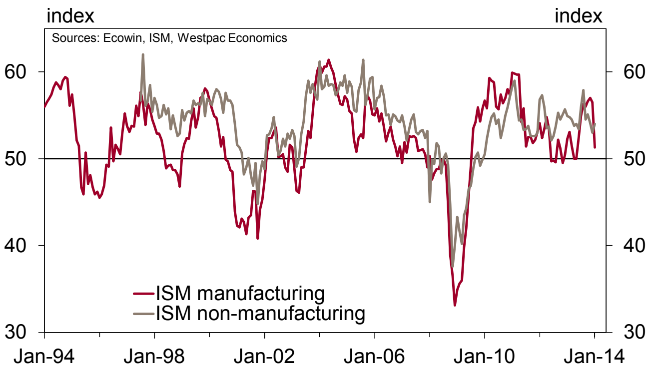
The week ahead

US Feb ISM surveys

Mar 3, ISM manuf Last: 51.3, WBC f/c: 49.5
Mar 5, ISM non-manuf Last: 54.0, WBC f/c: 53.0

- The ISM manufacturing index fell from 56.5 to 51.3 in Jan, ending the 6mth long string of readings through H2 2013 that saw it average 56.2, its best such run since H2 2010. Jan's sharply weaker reading represents an overdue correction for the ISM's out-performance relative to lasklustre official factory output figures. The ISM emphasised weather disruption but running down excessive stocks might also be part of the story.
- In contrast, the ISM non-manufacturing index rose from 53 to 54 in Jan, which may reflect its tendency (despite seasonal adjustment) to display an unsustained turn of year upswing. That it was only a modest gain may reflect the impact of poor weather, though the ISM did not 'cry snow' after this release.
- Our forecasts for both assume weather impact in Feb though survey timing could include some 'thawed' responses.

US ISMs

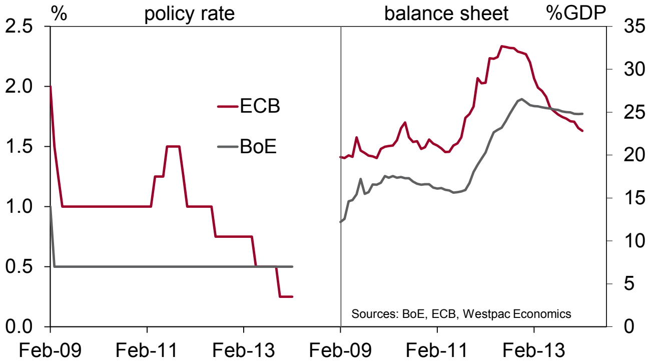


BoE and ECB policy decisions

Mar 6, BoE Last: 0.5%, WBC f/c: 0.5%
Mar 6, ECB Last: 0.25%, WBC f/c: 0.25%

- The BoE's revamped forward guidance suggests the economy is not yet ready for monetary policy to be normalised, and the Bank's own GDP forecasts for early 2014 seem too up-beat given constrained household income and sterling appreciation. Inflation is likely to fall further below target, leaving policy-makers on the sidelines, on our forecasts, until 2015.
- ECB chief Draghi will present new staff forecasts on Mar 6, which are likely to show the CPI well below 2% even in 2016. But this is a necessary consequence of the adjustments that program member states must make to rebuild competitiveness and the ECB should look through that driver of below target CPI and only act if entrenched deflation is a growing risk. With growth picking up and confidence rising, expect more talk, no action, and some justifiable smugness from Draghi.

ECB & BoE

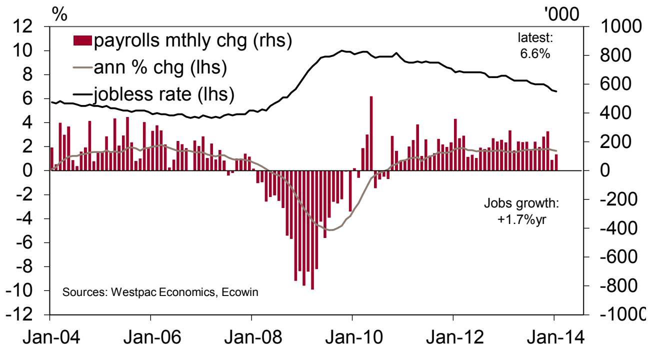


US Feb non-farm payrolls

Mar 7, non farm payrolls ch Last: 113k, WBC f/c: 130k
Mar 7, unemployment rate % Last: 6.6%, WBC f/c: 6.7%

- Payrolls gains averaging 94k in Dec-Jan suggest the 256k average in Oct-Nov was overstated. The 175k average since Oct is actually little changed from 172k in Q3 and slower than in the prior three quarters. The payrolls trend has struggled to regain lost momentum from a year or so ago, but the harsh winter and payback from the very mild fall boost to hiring make it difficult to assess the underlying story.
- The Jan construction jobs bounce from Dec's loss and 10% rise in new home sales suggest snow disruption may have been exaggerated but we expect a bigger impact in Feb. Our view is slowing GDP growth could generate around 165k/mth payroll gains in Q1 which would see a 130k Feb gain assuming a 35k snow impact. Household survey jobs are due to fall after averaging 239k Oct-Jan, risking a jobless rate uptick.

US payrolls



Data calendar

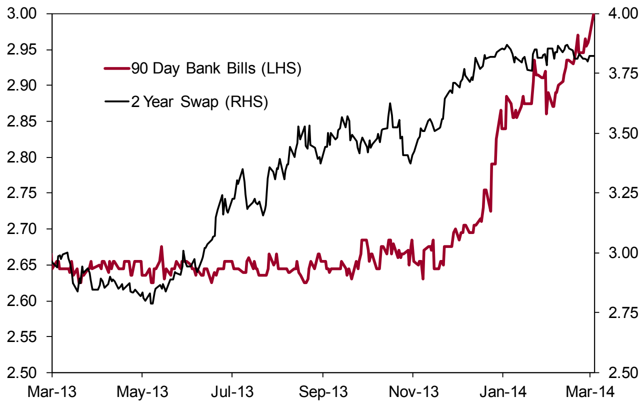
		Last	Market median	Westpac forecast	Risk/Comment
Mon 3					
NZ	Q4 terms of trade	7.5%	2.0%	1.8%	Terms of trade to remain near record highs.
Aus	Q4 company profits	3.9%	2.0%	2.8%	Mining up on increased shipments, non–mining modest rise.
	Q4 inventories	–0.5%	flat	flat	Stocks to stabilise. Adds 0.2ppts to Q4 GDP.
	Feb RP Data-Rismark Home Prices	1.2%	–	flat	Flat in Feb but index has posted 1%+ gains in 6 of the last 8 months.
	Feb ANZ job ads %mth	–0.3%	–	–	Down 8.9%yr, falling in 20 of the last 24 months. Is this about to turn?
	Feb TD–MI inflation gauge %mth	0.1%	–	–	The inflation pace did pick up as 2013 ended but has it continued?
	Feb AiG PMI	46.7	–	–	Manufacturing index avg'd 47.9 since mid–2013. Edged >50 in Sep & Oct.
Chn	Feb NBS non–manufacturing PMI	53.4	–	–	Profitability improved in 2013H2, but plateauing at best in early 2014.
	Feb HSBC manufacturing PMI – final	48.3 a	48.5	–	Flash print seriously compromised by LNY. Final should be a little better.
Eur	Feb PMI manufacturing final	53.0 a	53.0	53.1	ZEW, IFO current indices suggest upward revision possible.
UK	Feb house prices %yr	4.8%	–	–	Hometrack index.
	Feb PMI manufacturing	56.7	56.9	56.0	Recent official IP data not as solid as PMI surveys; further slippage due.
	Feb house prices %yr	7.3%	7.3%	–	Tentative date, due this week, for Halifax index
	Jan net mortgage lending £bn	1.7	1.8	–	Suspended BoE/Treasury FLS credited with rapid rise in household loan ...
	Jan net consumer credit £bn	0.6	0.7	–	... outstandings, though demand for credit outside mortgages still weak.
	Jan M4 money supply ex IOFCs %yr	3.7%	–	–	Down from 7.9% yr in Aug 12, a function of BoE APP suspension.
US	Jan core PCE deflator	0.1%	0.1%	0.1%	Core CPI rose 0.1% in Jan.
	Jan personal income	flat	0.2%	0.4%	Earnings & hours worked up modestly in Jan after flat/lower in Dec.
	Jan personal spending	0.4%	0.1%	0.2%	Retail sales stalled and auto sales down in Jan.
	Feb ISM manufacturing	51.3	52.0	49.5	Feb weather impact may exceed that of Jan, but survey timing key.
	Jan construction spending	0.1%	0.1%	–	Growth constrained by weather impact on the sector.
	Jan total vehicle sales mn annualised	15.2	15.4	–	Recent sales peak 16.4mn in Nov.
Can	Jan industrial product prices	0.7%	–	–	Dec saw second sharpest rise in almost in almost three years.
Tue 4					
NZ	Feb ANZ commodity price index	1.4%	-	-	Commodity prices hovering near record levels.
Aus	Jan dwelling approvals	–2.9%	0.5%	–1.5%	Further modest easing from high level. Jan low season a 'wild card'.
	Q4 current account, AUDbn	–12.7	–10.0	–9.9	Deficit narrowed in Q4 on improved trade performance.
	Q4 net exports, ppts cont'n	0.7	0.7	0.8	Exports up around 3½%, imports down ½%.
	Q4 public demand	–0.2%	–	–0.3%	Public sector restraint.
	RBA policy decision	2.50%	2.50%	2.50%	Rates unchanged since Aug. RBA adopted explicit neutral 'bias' in Feb.
Eur	Jan PPI %yr	–0.8%	–1.2%	–	German PPI fell to new cycle low of –1.1% yr in Jan.
UK	Feb PMI construction	64.6	63.5	62.0	Running at record highs since late 2013: FfL scheme changes impact?
US	Feb ISM New York	64.4	–	–	Started 2014 as it ended 2013: highly expansionary.
	Mar IBD–TIPP economic optimism	44.9	–	44.5	Weekly data show confidence recovering later in February.
Wed 5					
NZ	GlobalDairyTrade auction	-1.2%	-	-	High prices show little sign of easing.
	Q4 building work put in place	1.4%	2.7%	2.0%	Consents suggest a strong ramp up in the Christchurch rebuild.
Aus	Q4 GDP	0.6%	0.7%	0.9%	Net exports & hhold consumption +ves, weakness elsewhere.
Chn	Feb HSBC services PMI	50.7	–	–	This print arguably best ignored, wait for clarity in March.
Eur	Jan retail sales	–1.6%	–	–	German retail sales data due 28/2 will provide a clue.
	Feb PMI services final	51.7 a	51.7	51.8	National data showed renewed French weakness, Germany higher again.
	Q4 GDP revision	0.3% a	0.3%	–	More detailed breakdown and potential for back revisions.
UK	Feb BRC shop price index %yr	–1.0%	–	–	Deflation on High St since mid last year.
	Feb PMI services	58.3	58.0	58.3	Dec–Jan saw first sub 60 readings since June.
US	Feb ISM non–manufacturing	54.0	53.6	53.0	Some weather impact and underlying slowdown in key economic drivers.
	Feb ADP private payrolls	175k	158k	100k	ADP may have overstated turn of year hiring. Annual revisions to be made.
	Fed Beige Book	–	–	–	Fed summary of regional economic conditions
Can	BoC rate decision	1.0%	1.0%	1.0%	On hold policy stance to remain intact.
Thu 6					
Aus	Jan retail trade	0.5%	0.4%	0.3%	Showed good momentum in H2 2013 but likely slowed a touch in 2014.
	Jan trade balance, AUDmn	468	100	300	Imports up a f/c 0.6%, exports flat.
Eur	ECB rate decision	0.25%	0.25%	0.25%	ECB rate cut less likely with economy accelerating.
Ger	Jan factory orders	–0.5%	1.0%	–	Orders up 6.0% yr in Dec but running just 1.2 % annualised pace in H2.
UK	BOE policy decision £bn	375	375	375	Falling inflation to keep BoE MPC on sidelines.
US	Initial jobless claims w/e Feb 28	348k	335k	340k	Claims downtrend seems to have stalled 6 months ago.
	Q4 non-farm productivity % ann'lsd rev	3.2%	2.6%	–	GDP growth revisions due 28/2.
	Q4 unit labour costs revision	–1.6%	–1.0%	–	ULC declining through much of 2013.
	Jan factory goods orders	–1.5%	–0.5%	–0.5%	Durables fell 1.0% in Jan.
	Feb corporate layoffs announced %yr	11.6%	–	–	No clear trend over past year.
	Fedspeak	–	–	–	Fisher, Williams, Dudley, Plosser (in London) and Lockhart.
Can	Jan building permits	–4.1%	1.7%	–	Dec fall concentrated in residential (single/multiples), non-res up 4%.
	Feb Ivey PMI	56.8	–	55.0	Dec weather-disrupted plunge followed by Jan bounce.
Fri 7					
NZ	Q4 wholesale sales	1.5%	–	–	A sectoral input for GDP.
Aus	RBA Governor Stevens speaking	–	–	–	Appearance before House of Rep's Committee on Economics, Sydney.
Ger	Jan industrial production	–0.6%	0.6%	0.5%	Running 2.6% yr pace, but slowing from 2 year high in Nov.
US	Feb non–farm payrolls change	113k	150k	130k	Feb to see both weather impact and slower underlying jobs growth.
	Feb unemployment rate	6.6%	6.6%	6.7%	Household survey jobs to fall, lifting jobless rate.
	Jan consumer credit $bn	18.8	14.5	–	Student and auto loans the main drivers again in 2013.
	Jan trade balance bn	–38.7	–39.0	–	In Dec exports fell 1.8%; imports rose 0.3%.
Can	Feb employment ch	29k	17k	10k	Jobs growth slowly recovering from Dec fall.
	Jan trade balance C$bn	–1.7	–1.7	–	Exports up 0.9% and imports up 1.2% in Dec.
	Q4 labour productivity	0.2%	0.6%	–	Rising since Q4 12.
Sat 8					
Chn	Feb trade balance USDbn	31.9	13.2	–	X surprised high in Jan, payback expected. M likewise, esp, iron ore.

New Zealand forecasts

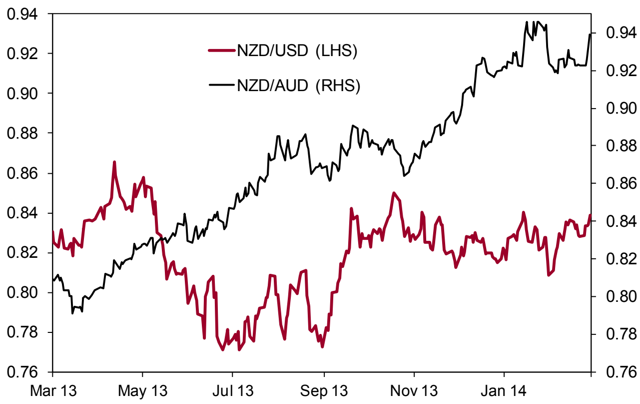
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014f	2015f	2016f	2012	2013e	2014f	2015f
GDP (Production) ann avg	2.3	3.2	4.2	3.0	2.6	2.8	4.2	3.2
Employment	0.4	3.3	2.8	1.5	0.4	2.9	3.0	1.7
Unemployment Rate % s.a.	6.2	5.8	5.1	4.8	6.8	6.0	5.1	4.7
CPI	0.9	1.4	1.8	2.3	0.9	1.6	1.7	2.2
Current Account Balance % of GDP	-3.9	-3.7	-5.7	-6.0	-4.1	-3.8	-5.0	-6.2

Financial Forecasts	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Cash	2.75	3.25	3.50	3.75	4.00	4.00
90 Day bill	3.10	3.50	3.75	4.00	4.20	4.30
2 Year Swap	3.90	4.10	4.30	4.50	4.65	4.80
5 Year Swap	4.60	4.70	4.80	4.90	5.05	5.20
10 Year Bond	4.70	4.80	5.00	5.10	5.20	5.30
NZD/USD	0.84	0.83	0.82	0.81	0.80	0.80
NZD/AUD	0.93	0.94	0.94	0.94	0.94	0.93
NZD/JPY	85.7	83.8	82.0	80.2	80.0	81.1
NZD/EUR	0.63	0.64	0.63	0.64	0.63	0.63
NZD/GBP	0.53	0.52	0.52	0.51	0.50	0.48
TWI	79.5	79.4	78.6	78.1	77.6	77.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 3 Mar 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.50%	2.50%	2.50%
30 Days	2.82%	2.75%	2.72%
60 Days	2.92%	2.87%	2.77%
90 Days	3.00%	2.97%	2.91%
2 Year Swap	3.82%	3.86%	3.85%
5 Year Swap	4.49%	4.58%	4.56%

NZ foreign currency mid-rates as at Monday 3 Mar 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8361	0.8378	0.8098
NZD/EUR	0.6073	0.6113	0.6005
NZD/GBP	0.4998	0.4997	0.4929
NZD/JPY	84.76	85.22	82.56
NZD/AUD	0.9401	0.9255	0.9232
TWI	78.57	78.50	76.85

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013f	2014f	2015f
Australia						
Real GDP % yr	2.3	2.6	3.6	2.4	2.6	3.0
CPI inflation % annual	2.8	3.0	2.2	2.7	2.3	2.5
Unemployment %	5.2	5.2	5.3	5.8	6.4	6.1
Current Account % GDP	-3.5	-2.8	-4.1	-2.9	-3.2	-2.2
United States						
Real GDP %yr	2.5	1.8	2.8	1.9	2.2	2.5
Consumer Prices %yr	1.6	3.1	2.1	1.5	1.5	1.5
Unemployment Rate %	9.6	8.9	8.1	7.4	6.8	6.2
Current Account %GDP	-3.0	-2.9	-2.7	-2.3	-2.2	-2.2
Japan						
Real GDP %yr	4.7	-0.6	2.0	1.8	1.8	1.4
Euroland						
Real GDP %yr	2.0	1.5	-0.6	-0.5	0.4	0.6
United Kingdom						
Real GDP %yr	1.7	1.1	0.2	1.9	2.6	1.9
China						
Real GDP %yr	10.4	9.3	7.7	7.7	7.4	7.5
East Asia ex China						
Real GDP %yr	7.8	4.3	3.9	3.9	3.7	4.8
World						
Real GDP %yr	5.2	3.9	3.2	2.9	3.2	3.7
Forecasts finalised 7 February 2014						

Interest Rate Forecasts	Latest	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Australia						
Cash	2.50	2.50	2.50	2.25	2.00	2.00
90 Day Bill	2.62	2.55	2.30	2.10	2.10	2.10
10 Year Bond	4.02	4.10	3.90	3.70	4.00	4.20
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.64	2.70	2.60	2.60	2.80	3.00
ECB Repo Rate	0.25	0.25	0.25	0.25	0.25	0.25

Exchange Rate Forecasts	Latest	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
AUD/USD	0.8954	0.90	0.88	0.87	0.86	0.85
USD/JPY	101.67	102	101	100	99	100
EUR/USD	1.3700	1.35	1.31	1.31	1.28	1.27
AUD/NZD	1.0672	1.07	1.06	1.06	1.06	1.06

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