



Lake Wanaka, New Zealand

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Everyone can play

Last week's data has emphasised one of the important themes in the NZ growth story; that the current pickup in growth has become increasingly broad based. Across the country business and consumer confidence is rising, labour market conditions are improving and consumers are gradually opening their wallets a little wider.

For quite some time, Auckland and Canterbury were clearly the brightest stars, with confidence and activity quite flat elsewhere. But such a split is now no longer as obvious. Indeed our March Westpac McDermott Miller Regional Confidence survey showed the number of people optimistic about the outlook for their own region outnumbered pessimists in all New Zealand regions for the first time since late 2009.

Of course, while all regions are now net optimists, some regions are more upbeat than others. In particular, economic confidence in Canterbury remains the standout. The region has now been the most optimistic in the country for seven consecutive quarters as the enormous earthquake rebuild task continues to power ahead. The second and third most optimistic regions in New Zealand were Southland and Waikato respectively – two regions where the dairy industry plays an integral role in the local economy and where the expected record milk price for the current dairy season is set to have a sizable impact.

However, while Southlanders were noticeably more confident in March than December, confidence remains below its heights of 6 months ago in the Waikato, perhaps an indication that the extremely dry conditions in parts of the region are taking the gloss off the record dairy payout for some farmers. Confidence jumped in a number of regions in the March quarter, Northland, Bay of Plenty, Gisborne/Hawke's Bay, Otago and Southland all recorded notable improvements.

The other interesting development during an otherwise very quiet week on the NZ data front was a speech by RBNZ Deputy Governor Grant Spencer on the coordination of monetary policy and macro-prudential policy. A particularly topical issue given the

Everyone can play continued

introduction of Loan-to-Value ratio (LVR) restrictions on lending in October, the first increase in the OCR for several years this month, and the slowing housing market.

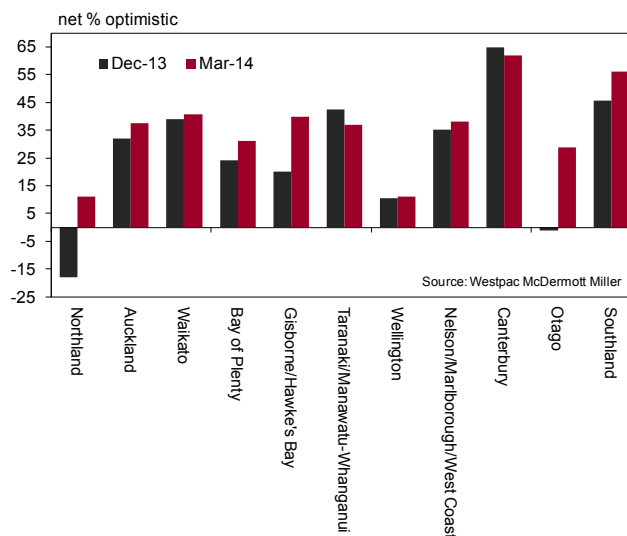
Under its framework, the Reserve Bank has both price stability and financial stability objectives (amongst other things). While monetary policy tools are used to achieve price stability objectives, the bank's macro-prudential tools are designed to help it achieve its financial stability aims. Mr Spencer's speech was about the scope for coordination between the two arms of policy, which will sometimes complement one another, and at other times conflict.

There were hints in the speech that in the last few months at least, the recently-introduced LVR restrictions have had a bigger impact than the RBNZ was anticipating. The RBNZ's latest estimates put the impact of LVR restrictions as equivalent to a 25-50 basis point increase in the OCR, which is a touch stronger than the Bank's initial assessment.

One reason for the larger than expected impact might be because banks have been even more conservative on lending than the RBNZ rules require. High-LVR lending is running at just 5.2% of total lending – well below the 15% speed limit (including exemptions such as refinancing loans and new construction) the RBNZ had in mind for this type of lending. While some degree of caution by banks is understandable (there could be harsh penalties if banks breach the rules) the extent of the pullback in low-equity lending might have been greater than the Bank anticipated. This has raised the possibility, in our minds, that if high-LVR spending remains low the RBNZ might consider relaxing the restrictions so the portion of low-LVR lending is closer to what was originally intended.

The speech also reiterated that it is not the Reserve Bank's intention for the LVR restrictions to become permanent. Indeed, it outlined the factors it would consider when contemplating the partial or full removal of the LVR restrictions. These include the extent to which the restrictions have slowed house price inflation and credit growth, whether house price inflation would surge again in the absence of the restrictions, and whether the policy is creating any distortions or inefficiencies. All of which are clearly financial stability (not price stability) considerations.

Regional economic confidence



It is encouraging to hear the Reserve Bank talking about its exit strategy from the LVR restrictions. There are ominously few examples from overseas of similar restrictions ever being removed. If the RBNZ's current rhetoric is to be believed, New Zealand could become the exception. We expect the housing market to slow substantially under the weight of rising interest rates, which will remain necessary because of the booming construction and primary export sectors. In such a scenario, the rationale for LVR restrictions might well disappear.

Fixed vs Floating for mortgages

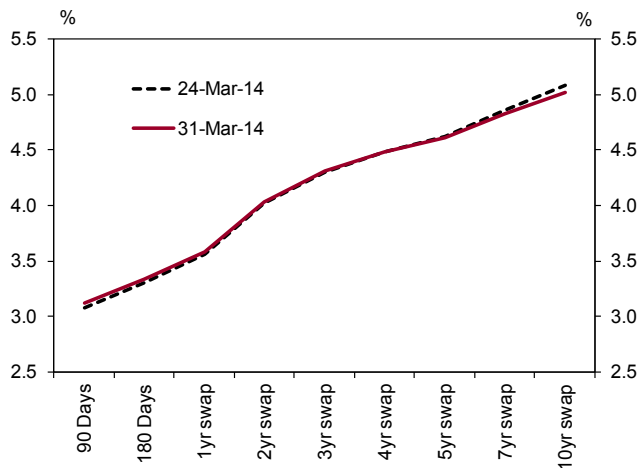
Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

For those who are looking to fix, there is little to gain from waiting. Fixed rates are more likely to rise than fall over the next few months.

Among the standard fixed rates, anything from six months to three years appears to offer similar value. Three-year rates are higher, but this is a fair reflection of where we think shorter-term rates are going to go over the next few years.

Fixing for four or five years may result in higher interest payments over the life of the loan than opting for shorter-term fixed rates. However, these longer-term fixed rates may still be preferred by those who are willing to pay for certainty.

NZ interest rates

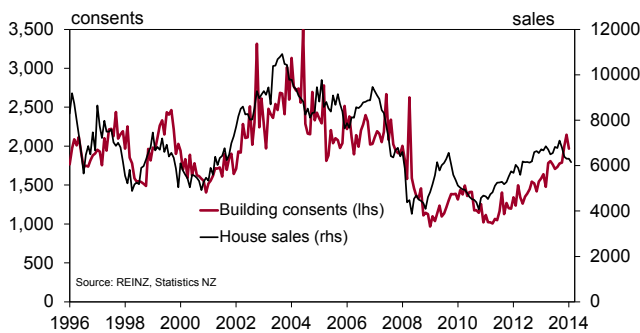


NZ Feb building consents

Mar 31, Last: **-8.3%**, Westpac f/c: **0.0%**

- The 8% pullback in residential building consents in January followed some whopping readings in the two previous months – a near-tripling of apartment consents in Nov–Dec and an 11% jump in single-home consents in December.
- Our forecast for a flat outturn in February assumes a further pullback in apartment consents, which were still at above-average levels in January. That said, there are signs that there may have been a genuine trend improvement in this component over the last year.
- Meanwhile, we have assumed a 2% rise in single home consents, likely to be led by Canterbury and possibly Auckland. Consents in Christchurch were lower in January than in December, but the trend has been strongly higher as the post-quake rebuild gears up.

NZ housing activity

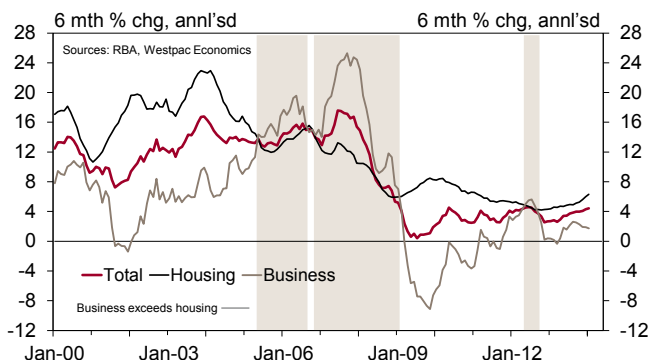


Aus Feb private credit

Mar 31 Last: **0.4%**, WBC f/c: **0.5%**
Mkt f/c: **0.4%**, Range: **0.3% to 0.6%**

- Credit to the private sector gained some momentum in late 2013 and into early 2014.
- We expect credit growth to print at 0.5% in February. That follows a run of 0.3% outcomes from July to November, a 0.5% result in December and a 0.4% in January.
- Business credit was broadly flat in the months August through to November. More recently, new lending has improved, translating in to credit gains of 0.4% in December and 0.2% in January, and the prospect of a further modest gain in February.
- Housing credit has strengthened, off a low base, as the sector responds to record low interest rates. Three month annualised growth in January was 7.0%, up from 4.7% in May.

Credit momentum

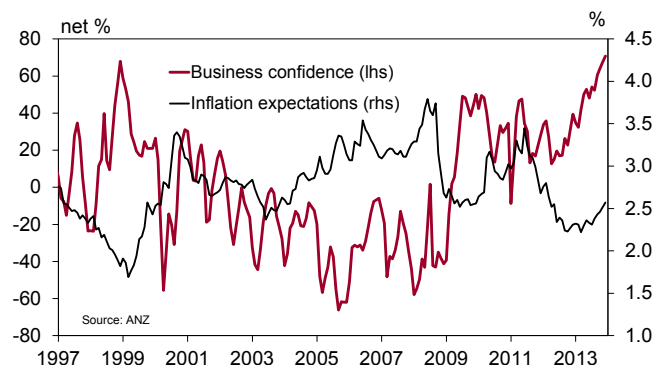


NZ Mar business confidence

Mar 31, Last: **70.8**

- Business confidence has been streaking higher over the last year, reaching a two-decade high in the latest survey in February. The data flow since then has generally remained positive, and the informal BNZ business confidence survey (taken in early March) was little changed from a month earlier.
- With the upturn in activity now well established, we are increasing our focus on the indicators of price pressures. Firms clearly recognise the need to expand capacity – both employment and investment intentions were at or near record highs in the February survey – and pricing intentions are now above their long-run average. However, the rise in inflation expectations in general has been modest to date.

NZ business confidence and inflation expectations

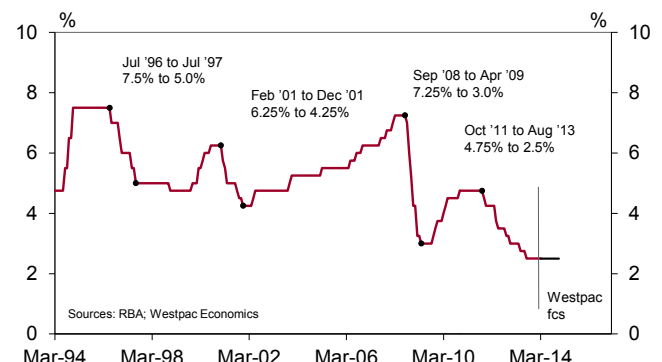


Aus RBA policy decision

Apr 1, Last: **2.50%**, WBC f/c: **2.50%**
Mkt f/c: **2.50%**, Range: **2.50% to 2.50%**

- The RBA is expected to again leave the cash rate on hold at 2.50% at its Apr meeting. The Bank moved to an explicit 'neutral' stance on the policy outlook at its Feb meeting and is unlikely to make any changes in Apr with the Governor's statement accompanying the decision expected to retain the key phrase that "... the most prudent course is likely to be a period of stability in interest rates".
- That 'prudent course' partly reflects uncertainty around inflation following Q4's surprising jump in the CPI. Although the Bank is sounding confident that this is not the beginning of a problematic rise, the Q1 CPI due Apr 23 will clearly be a critical update. More generally, the neutral stance also reflects the improved tone from economic data including on housing and retail sales (see below), and, more tentatively, jobs.

RBA cash rate: easing cycles

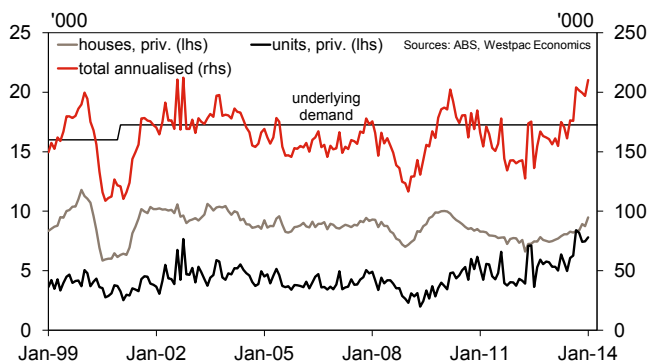


Aus Feb dwelling approvals

Apr 2, Last: 6.8%, WBC f/c: -1.5%
Mkt f/c: -2.0%, Range: -7.0% to 3.7%

- Dwelling approvals posted a remarkable 6.8% surge in Jan. Although seasonal adjustment issues make Jan reads a bit of a lottery, the high starting point and strength of the gain emphasises the strong outlook for new residential building in 2014. Indeed, barring a spectacular reversal in approvals in the next few months, new dwelling investment is set for strong, double-digit annual growth this year.
- Feb 'should' see some retraction, although we had expected to see just that in Jan. Indeed, we have warned of the potential for sharp pull backs for several months due to the high concentration of 'high rise' projects in recent readings. The surge in approvals over the last 6mths has also outstripped construction-related finance approvals. Overall we expect a 1.5% decline – downward revisions are also possible.

Dwelling approvals

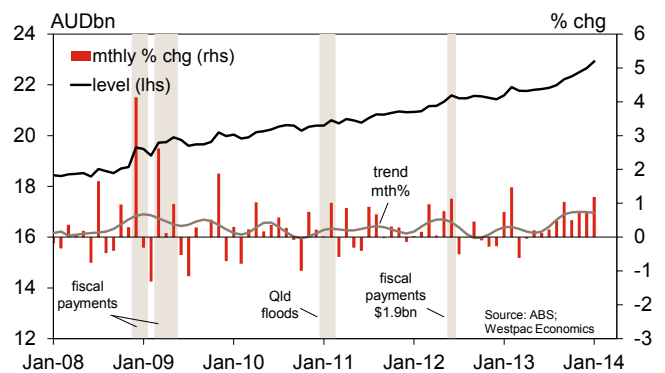


Aus Feb retail trade

Apr 3, Last: 1.2%, WBC f/c: 0.5%
Mkt f/c: 0.3%, Range: -1.0% to 0.8%

- Retail sales were much stronger than expected in Jan with the 1.2% mth rise the strongest since the start of 2013 and following a 5mth run of solid gains. The detail showed the rise broadly-based across categories and states and with a notable acceleration in discretionary segments. At 0.7% mth, trend sales growth is sustaining at a 9% annualised pace.
- That pace is likely to moderate in coming months. Consumer sentiment surrendered all of its post-election gains in early 2014, falling back to neutral in March. Confidence around jobs has deteriorated particularly sharply. That is likely to see consumers take a more conservative approach to spending, on 'big-ticket' discretionary items in particular. As such we expect the Feb retail sales to show some slowing with a more modest 0.5% gain taking trend growth back below 9%.

Monthly retail sales

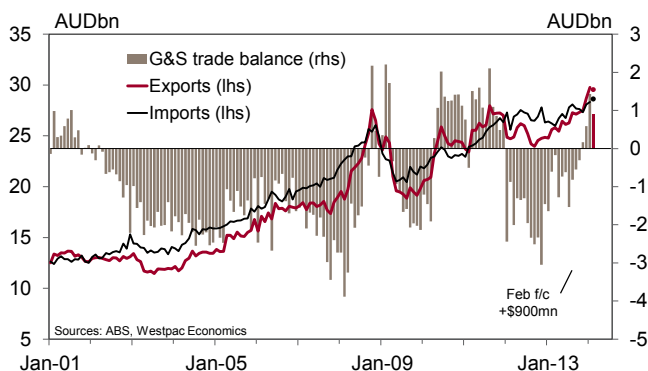


Aus Feb international trade, AUDmn

Apr 3 Last: 1,433, WBC f/c: 900
Mkt f/c: 800, Range: -1,100 to 1,800

- Australia's trade account looks set to be in surplus for a fourth consecutive month in February, after a run of 22 deficits from January 2012 to October 2013. Exports, notably resource exports, have been trending higher and imports have been soft.
- We anticipate a surplus of \$900mn in February, narrowing from a \$1,433mn surplus in January.
- Imports are forecast to rise by 1%, suggesting volumes were up in the month. Note, the AUD moved 1% higher in February, placing downward pressure on import and export prices.
- Exports are expected to decline by almost 1%, weighed down by lower commodity prices. Volumes were most likely mixed, with coal up but iron ore down a little.

Australia's trade position

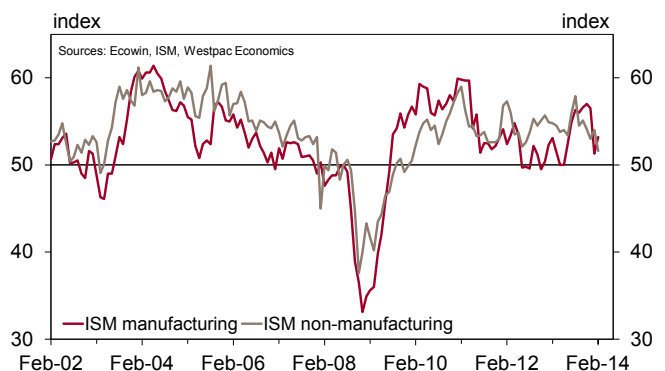


US Mar ISM surveys

Apr 1, ISM manufacturing Last: 53.2, WBC f/c: 53.5
Apr 3, ISM non-manufacturing Last: 51.6, WBC f/c: 53.5

- The ISM manufacturing index rose from 51.3 to 53.2 in Feb, despite a slump in the production index from 55 to 48, having been above 60 for the previous 6 months. Plant closures and staff absenteeism due to the weather were possible causes based on anecdotes noted by respondents but not quantifiable. With core capital goods orders weak in Feb, wildly varying signals from regional surveys and given our sense the economy has lost some of late 2013's apparent momentum, we expect only a modest further gain to 53.5.
- The ISM non-manufacturing index fell from 54.0 to 51.6 in Feb, its lowest in exactly four years, mainly due to a plunging jobs component. Weather may have been a factor at play. The Feb fall should mostly reverse without exceeding early Q4 readings, so to about 53.5 in March, as well.

US ISMs

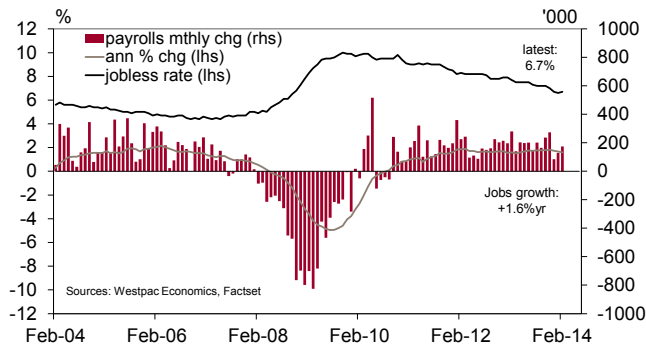


US Mar non-farm payrolls

Apr 4, Payrolls: Last: 175k, WBC f/c: 175k

- Payrolls rose 175k in Feb, and there were revisions which added a further 25k to the still modest jobs gains of the prior two months. There was little obvious impact on the number from snow disruption, although hours worked fell 0.2%. If we are right, Mar should be a clean read not boosted by a post-snow bounce (as Jan was relative to Dec).
- Initial jobless claims trended lower ahead of the March payrolls survey week, but small business hiring intentions were down in Feb, consumer confidence in the job market slipped in March and the latest ISM job readings were subdued (factories)/contracting (services). Business investment spending looks to be weakening too, correlated with jobs. We expect another 175k gain in March, which even with modest upward revisions to earlier in Q1, would see the qtr average pace down more than 30k on Q4's 198k.

US payrolls

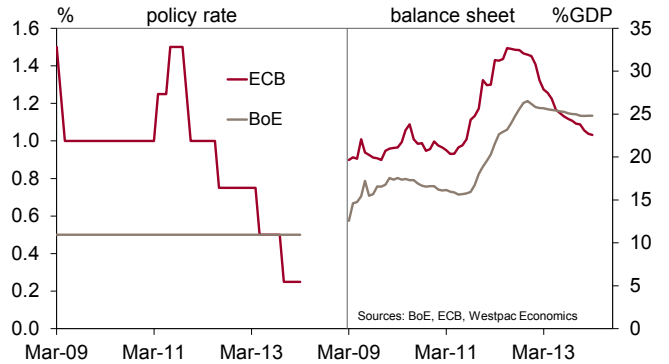


ECB policy decision

Apr 4, ECB Last: 0.25%, WBC f/c: 0.25%

- ECB chief Draghi has sounded more concerned about euro appreciation and the risks it poses to the fragile recovery and deflation expectations. Other Council members have indicated the policy tools under discussion now include quantitative easing, on top of another LTRO, non sterilization of SMP bonds, other measures aimed at boosting credit growth as well as rate cuts, to sub-zero even for deposit rates.
- The April meeting should be considered live. Our published forecasts are for on hold rates in Q2 but some form of balance sheet expansion. One option involves large scale purchases of foreign government bonds, most likely Treasuries. This would avoid breach of the no-financing member governments rule, and weaken the euro, giving a more evenly distributed imported inflation effect and competitiveness boost across eurozone member economies than tweaking already near zero interest rates could be hoped to achieve.

ECB & BoE



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 31					
NZ	Q1 Westpac-MM employt confidence	103.4	-	-	Labour market recovery has been gradual to date.
	Feb building consents	-8.3%	2.00%	0.00%	Room for a further unwind of the late-2013 spike.
	Mar ANZ business confidence	70.8	-	-	Evidence of pricing pressures becoming more pertinent.
	Feb private sector credit %yr	4.90%	-	-	Mortgage credit has slowed modestly.
Aus	Feb private credit	0.40%	0.40%	0.50%	An uptick in momentum, both housing & business credit.
	Mar TD-MI inflation gauge	2.70%	-	-	Has the recent uptick continued?
Eur	Mar CPI flash %yr	0.80%	0.60%	-	Core CPI was 1.0% yr in Feb.
Ger	Feb retail sales	1.70%	-0.5%	-	Jan jump reversed Dec fall in sales (tentative release date).
UK	Mar house prices %yr	5.40%	-	-	Hometrack index.
	Feb net mortgage lending £bn	1.4	-	-	Suspended BoE/Treasury FLS credited with rapid rise in household loan
	Feb net consumer credit £bn	0.7	-	-	outstandings, though demand for credit outside mortgages still weak.
	Feb M4 money supply ex IOFCs %yr	1.60%	-	-	Down from 7.9% yr in Aug 12, a function of BoE APP suspension.
US	Mar Dallas Fed factory index	0.3	-	2	Weather may have impacted in the south in Feb, but in Mar?
	Mar Chicago PMI	59.8	58.5	53	Some regional surveys impacted less than others by weather, but
	Mar Milwaukee NAPM	48.6	-	50.5	Chicago? - the midwest was hit especially hard, as Milwaukee shows
Can	Jan GDP	-0.5%	-	-	Weather disruption in Dec to reverse somewhat in Jan.
	Jan average weekly earnings %yr	2.50%	-	-	Still in downtrend from 2012 despite recent acceleration
Tue 1					
Aus	Mar RP Data-Rismark home price index	flat	-	2.00%	The first seasonally 'reliable' month for 2014 is looking like a strong gain.
	Mar AiG PMI	48.6	-	-	Manufacturing index above 50 in Sep & Oct. Avg'd 47.7 past 4 mnths.
	RBA policy decision	2.50%	2.50%	2.50%	Rates on hold. Next inflation update, Q1 CPI, on 23 April.
Chn	Mar manufacturing PMI	50.2	50.1	-	Yawning gap between private and public survey detail, esp. stocks.
	Mar HSBC manufacturing PMI	48.1	48.1	-	Flash was weak, with deflationary impulse coming through strongly.
Eur	Mar PMI manufacturing final	53.0 a	53	53	Has slipped for two months running.
	Feb unemployment rate %	12.00%	12.00%	12.00%	Steady German jobless rate and stabilising unemployment elsewhere.
Ger	Mar unemployment ch	-14k	-5k	-	German joblessness saw steep falls in Dec-Jan-Feb.
UK	Mar PMI manufacturing	56.9	56.5	56	Recent lower readings still point to solid growth.
	Mar house prices %yr	7.90%	9.30%	-	Tentative date, due this week, for Halifax index
US	Mar ISM manufacturing	53.2	54	53.5	Recent weakness may not be just snow-related.
	Feb construction spending	0.10%	0.10%	-	Constrained by weather maybe, but not as much as first feared.
	Mar total vehicle sales mn annualised	15.3	15.8	-	Recent sales peak 16.4mn in Nov.
	Feb IBD-TIPP economic optimism	45.1	-	44.5	Weekly data show confidence slipping recently.
Can	Feb industrial product prices	1.40%	-	-	Energy, autos and chemicals behind the jump in Jan.
Wed 2					
NZ	GlobalDairyTrade auction	-5.2%	-	-	Prices have fallen in last 2 auctions but remain high.
	Mar ANZ commodity price index	0.90%	-	-	To ease from record highs.
Aus	Feb dwelling approvals	6.80%	-2.0%	-1.5%	Has averaged 200k annual pace last 6mths, i.e. very strong.
Eur	Feb PPI %yr	-1.4%	-	-1.0%	German PPI edged up from -1.1% to -0.9% yr in Feb
UK	Mar PMI construction	62.6	63	61	Running at record high in Jan: have FfL scheme changes impacted?
US	Mar ADP private payrolls	139k	190k	170k	ADP also found weaker jobs story in early 2014.
	Feb factory goods orders	-0.7%	0.50%	1.00%	Durables rose 2.2% in Feb but core capital goods detail weaker.
	Mar ISM New York	57	-	-	Feb not especially weak even if there was disruption from weather.
	Fedspeak	-	-	-	Bullard and Lockhart.
Thu 3					
Aus	Feb retail trade	1.20%	0.30%	0.50%	Weakening confidence, renewed job loss fears to see slower momentum.
	Feb international trade, AUDmn	1,433	800	900	Imports +1%, higher volumes. Exports -1%, lower commodity prices.
	RBA Governor Stevens speaking	-	-	-	American Chamber of Commerce luncheon, Brisbane, 1pm AEDT.
Chn	Mar NBS non-manufacturing PMI	55	-	-	PBOC Q1 survey was soft, 55.0 on this index looks rich in comparison.
	Mar HSBC services PMI	51	-	-	Headline back at 2013Q2 levels after ho-hum gains in 2013Q4.
Eur	Feb retail sales	1.60%	-	-	German retail sales revised lower in Jan, may impact here too.
	Mar PMI services final	52.4a	51.9	51.8	National data showed France less weak, Germany stalled.
	ECB rate decision	0.25%	0.25%	0.25%	ECB rhetoric points to easing in Q2 but in what form? See text box.
UK	Mar PMI services	58.2	58.5	58.3	Dec-Feb sub 60 readings followed Jul-Nov >60.
US	Initial jobless claims w/e Mar 28	311k	-	315k	Claims downtrend being re-established.
	Feb trade balance bn	-39.1	-38.5	-39.0	In Jan exports were little changed but imports fell 1.6%.
	Mar corporate layoffs announced %yr	-24.4%	-	-	No clear trend over past year.
	Mar ISM non-manufacturing	51.6	53.4	53.5	Turn of year seasonal upswing not yet apparent; bad weather risk.
Can	Feb trade balance C\$bn	-0.2	-	-	Exports little changed but imports down 1.6% in Jan.
Fri 4					
Ger	Feb factory orders	1.00%	0.40%	-	Orders up 8.4% yr in Jan.
US	Mar non-farm payrolls change	175k	190k	175k	Payrolls growth has slowed sharply since Q4 last year. Not just due to
	Mar unemployment rate	6.70%	6.60%	6.60%	the snow. See text box.
Can	Mar employment ch	-7k	-	20k	42k jobs growth in Sep-Nov followed by 22k jobs lost in latest 3 mths.
	Mar Ivey PMI	57.2	-	57	Settled around 57, above mid-point of Q4's 46-63 range, so far in Q1.

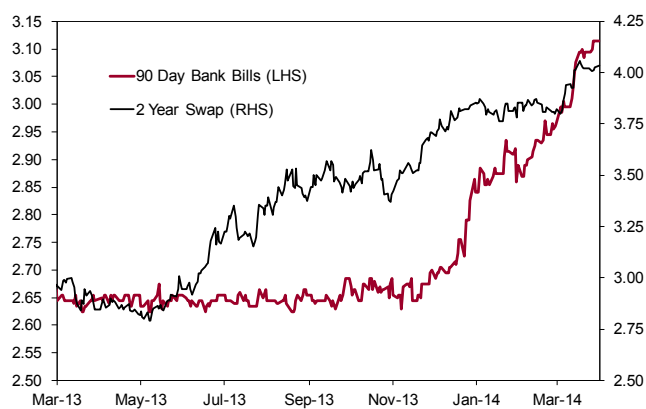


New Zealand forecasts

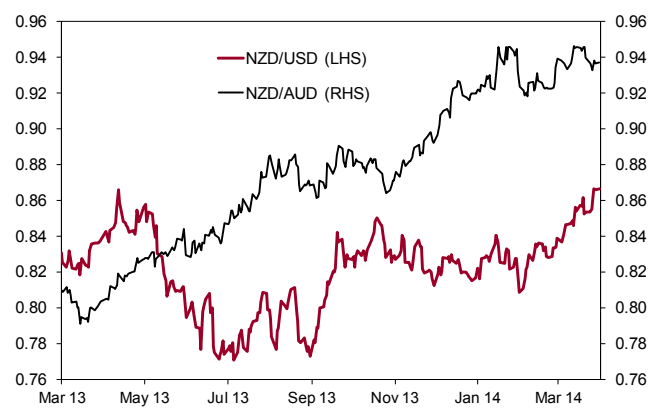
Economic Growth Forecasts	March years				Calendar years			
	2013	2014f	2015f	2016f	2012	2013	2014f	2015f
% change								
GDP (Production) ann avg	2.3	3.1	4.0	3.0	2.6	2.7	4.0	3.2
Employment	0.4	3.3	2.8	1.5	0.4	2.9	2.9	1.8
Unemployment Rate % s.a.	6.2	5.8	5.1	4.8	6.8	6.0	5.1	4.7
CPI	0.9	1.6	1.8	2.4	0.9	1.6	1.8	2.2
Current Account Balance % of GDP	-3.9	-3.1	-4.9	-5.2	-4.1	-3.4	-4.1	-5.3

Financial Forecasts	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Cash	3.25	3.50	3.75	4.00	4.00	4.25
90 Day bill	3.50	3.75	4.00	4.20	4.30	4.50
2 Year Swap	4.10	4.30	4.50	4.65	4.80	5.00
5 Year Swap	4.70	4.80	4.90	5.05	5.20	5.35
10 Year Bond	4.80	5.00	5.10	5.20	5.30	5.40
NZD/USD	0.86	0.86	0.84	0.83	0.82	0.83
NZD/AUD	0.95	0.96	0.95	0.95	0.94	0.93
NZD/JPY	89.4	88.6	85.7	85.5	85.3	86.6
NZD/EUR	0.63	0.63	0.64	0.64	0.63	0.63
NZD/GBP	0.50	0.51	0.50	0.49	0.47	0.45
TWI	80.5	80.9	80.0	79.6	78.6	78.4

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 31 Mar 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.75%	2.50%
30 Days	2.97%	2.94%	2.82%
60 Days	3.05%	3.01%	2.92%
90 Days	3.12%	3.06%	3.00%
2 Year Swap	4.03%	4.04%	3.82%
5 Year Swap	4.61%	4.57%	4.49%

NZ foreign currency mid-rates as at Monday 31 Mar 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8663	0.8530	0.8361
NZD/EUR	0.6294	0.6139	0.6073
NZD/GBP	0.5202	0.5128	0.4998
NZD/JPY	89.16	86.39	84.76
NZD/AUD	0.9373	0.9483	0.9401
TWI	80.82	79.67	78.57



Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013	2014f	2015f
Australia						
Real GDP % yr	2.2	2.6	3.6	2.4	2.7	3.0
CPI inflation % annual	2.8	3.0	2.2	2.7	2.4	2.5
Unemployment %	5.2	5.2	5.3	5.8	6.3	6.0
Current Account % GDP	-3.5	-2.8	-4.1	-2.9	-3.1	-2.0
United States						
Real GDP %yr	2.5	1.8	2.8	1.9	2.1	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	-2.4	-2.3	-2.3
Japan						
Real GDP %yr	4.9	-0.3	1.5	1.6	1.5	1.3
Euroland						
Real GDP %yr	2.0	1.5	-0.6	-0.4	0.6	0.8
United Kingdom						
Real GDP %yr	1.7	1.1	0.2	1.8	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	3.8	4.7
World						
Real GDP %yr	5.2	3.9	3.2	2.9	3.2	3.7
Forecasts finalised 10 March 2014						

Interest Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Australia						
Cash	2.50	2.50	2.50	2.50	2.50	2.50
90 Day Bill	2.71	2.55	2.55	2.55	2.55	2.65
10 Year Bond	4.07	3.90	3.70	4.00	4.20	4.20
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.68	2.60	2.60	2.80	3.00	3.20
ECB Repo Rate	0.25	0.25	0.25	0.25	0.25	0.25

Exchange Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AUD/USD	0.9265	0.91	0.90	0.88	0.87	0.87
USD/JPY	102.18	104	103	102	103	104
EUR/USD	1.3748	1.37	1.36	1.31	1.30	1.30
AUD/NZD	1.0680	1.06	1.05	1.05	1.05	1.06

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