2 March 2015

Weekly Commentary

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In this issue

A tight squeeze

While second-tier for markets, last week's local economic news further fleshed out the picture of a 'Goldilocks' economy – businesses expect above-trend growth, inflation expectations are subdued, and population growth is booming. This is good news for New Zealand businesses, employers and property owners, but it will do nothing to ease the Reserve Bank's angst around the Auckland property market.

We were particularly interested to see how the latest ANZ business survey – the first snapshot of New Zealand business sentiment since December – would digest the combination of emerging drought and lower fuel prices. In the event businesses have become slightly more upbeat on average, with expectations for their own activity actually rising across all major sectors. Surprisingly this was the case even in agriculture, which seems odd but may have been influenced by the recent rebound in dairy auction prices.

At the same time, businesses' expectations for inflation in the next 12 months fell sharply to 1.7%. That's the second-lowest level on record but not too surprising in the context of December's weak inflation print. Indeed, it seems rather high given what inflation is likely to be through this year as cheaper petrol works its way through the annual figures. Perhaps respondents were thinking ahead to early 2016, when the impact of cheaper petrol will have started to wash out and our own inflation forecast is 1.7%.

The Reserve Bank is likely to have taken greater note of businesses' stated pricing intentions. These were mixed, moderating further among retailers and construction companies, but rising slightly elsewhere – particularly in the agricultural sector, which again suggests that recent dairy auctions were a factor.

A similar theme – an upbeat economic outlook, and subdued, but not alarmingly low, inflation expectations – emerged from the Reserve Bank's own quarterly survey of

A tight squeeze continued

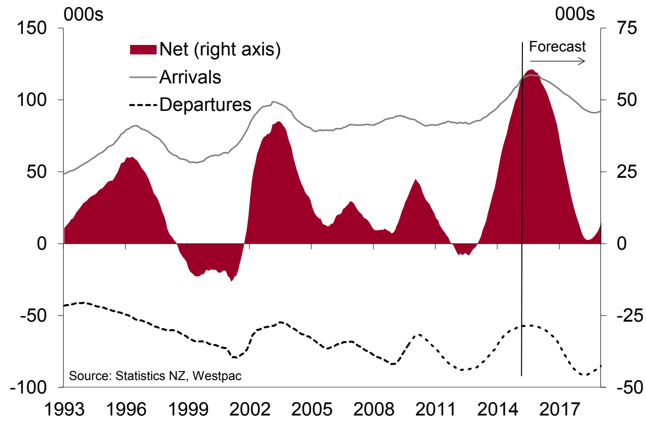
managers and professionals, which showed respondents revising up their expectations for economic growth over the next two years, but 2-year-ahead inflation expectations falling from 2.1% to 1.8%. Again this is a very low print by historical standards but not out of line with how this survey has responded to changes in petrol prices or headline inflation in the past.

All in all, the takeout for us is that price pressures are clearly sufficiently in check for the RBNZ to sit on the sidelines for quite some time, but there is nothing within line of sight that might prompt it to consider easing policy further.

That is also how the Reserve Bank is likely to interpret the latest migration data. Any hints that the flood of migrants entering New Zealand's shores might be moderating were swept aside by the January figures, which showed net immigration rebounding to a new monthly high of 5,500 people. In a clear vote of confidence in the New Zealand jobs market (at least compared to Australia's), the influx of migrants on temporary work visas is near record highs, while the outflow of New Zealanders in search of job opportunities in Australia is at a multi-decade low, thanks to the continued dearth of job opportunities on the other side of the Tasman. Even the recent influx of international students (which seems to have moderated a little, but remains very strong) may partly be work-related, as it began after a relaxation of work restrictions around student visas in late 2013.

This migration boom is boosting the labour force and thus indirectly contributing to low inflation. At the same time it is causing Auckland to burst at the seams and feeding the speculative frenzy in the Auckland property market. Net immigration added at least 25,000 people to Auckland's population over the past year. Coupled with favourable demographics, this could push the region's population growth north of 3% this year, a pace not seen since the early 2000s. And recent building consent data suggest that the construction

Annual net immigration



response remains disappointingly patchy. Building consents slowed as a result of uncertainties around the tax treatment of property ahead of last September's election, but have never fully rebounded since then, even as population growth and recent building policy measures have underscored the need to build more. Small wonder that the Auckland housing market remains extremely tight. The latest listings data from realestate.co.nz showed the inventory of Auckland property available for sale is sitting at just 11.5 weeks' worth of sales - above January's 8-year low, but not by much.

What is a Reserve Bank governor to do in this situation? At his testimony to a parliamentary Select Committee last week, Governor Wheeler seemed in little mood to do anything, stating that Auckland's rampant housing market was primarily a supply issue. However, that was also the Reserve Bank's stance in 2013, before it introduced LVR restrictions to slow demand while supply came on stream. Our view continues to be that the Reserve Bank's regulatory hand will be moved as the year progresses.

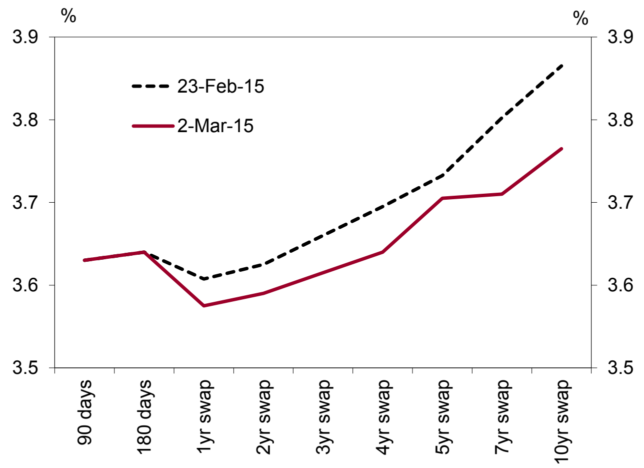
Fixed vs Floating for mortgages

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 still seem high relative to where we think shorter-term rates are going to go over the coming four or five years, though the gap has narrowed in recent weeks, and these longer-term rates do offer the benefit of 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

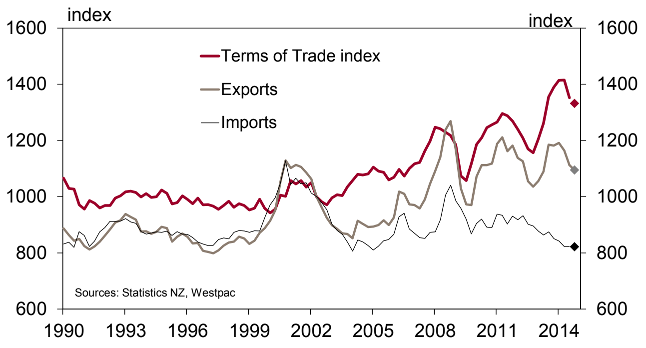


NZ Q4 terms of trade

Mar 2, Last: -4.4%, Westpac f/c: -1.5%, Mkt f/c: -3.0%

- We estimate that export prices fell 1.5% in the December quarter, compared to a 4.5% drop in the previous quarter. Last year's plunge in dairy prices had its greatest impact on December quarter exports, but it was partially offset by strong price gains for other commodities such as meat and logs.
- We expect import prices to be flat overall. Oil import prices fell by around 10%, but a weaker New Zealand dollar (down 2.5% on a trade-weighted basis) is likely to have bumped up prices for other, mostly manufactured, imports.
- New Zealand's terms of trade is nearing the end of its current downturn. An even sharper fall in oil prices in the March quarter will offset much of the decline in export commodity prices, and dairy prices will be rising strongly again by the June quarter. Indeed, the trough in the terms of trade is likely to be higher than the previous peak in 2011.

NZ Terms of Trade

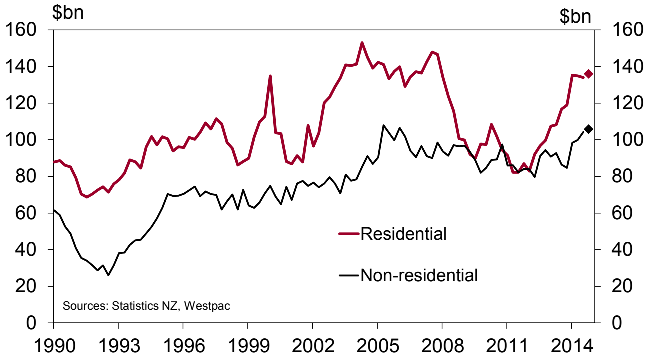


NZ Q4 building work put in place

Mar 4, Last: +1.5%, Westpac f/c: +1.5%, Mkt f/c: +1.0%

- Based on recent building consents, we expect a 1.5% rise in residential building work for the December quarter. Note that there are signs the housing market paused ahead of last September's election, due to fears of a change to the tax treatment of property. If that's the case, we could see a bigger bounce in activity than our model suggests.
- Non-residential building consents have had a strong upward trend over the last year. However, the transition to building activity can be lagged and lumpy. We estimate a 1.5% rise in building work here as well, but with a wide margin of error.
- The post-quake rebuild in Canterbury is still in the upswing phase, especially for non-residential construction. We expect the level of quake-related building activity to peak in late 2015/early 2016.

NZ real building work put in place

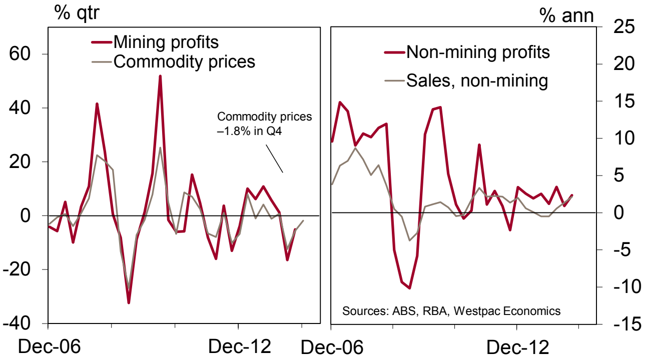


Aus Q4 company profits

Mar 2, Last: 0.5%, WBC f/c: –1.0%
Mkt f/c: 0.8%, Range: –3.0% to 2.6%

- Company profits, as reported in the Business Indicators (BI) survey, is forecast to decline by 1.0% in Q4.
- Mining profits have been dented of late by falling commodity prices. In Q4, commodity prices fell by almost 2% in AUD terms. We expect mining profits to fall by a similar magnitude.
- Profitability across the non-mining sectors is mixed at present, consistent with uneven growth conditions. For the non-mining sectors overall, we anticipate a broadly flat result in Q4.
- Note, estimates of profits can vary between the BI survey and the national accounts. For instance, in Q3 the BI survey reported +0.5%, but the national accounts printed –2.0%.

Company profits: mining profits take a hit

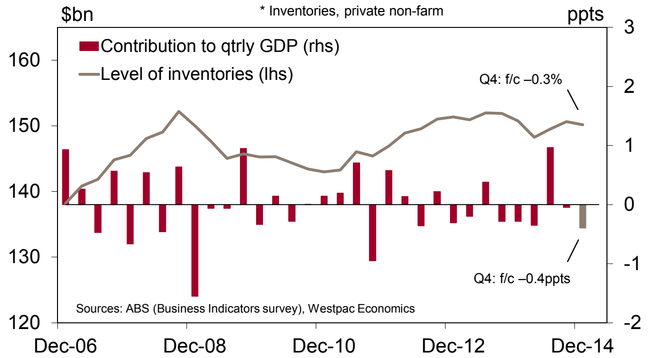


Aus Q4 inventories

Mar 2, Last: 0.7%, WBC f/c: –0.3%
Mkt f/c: 0.1%, Range: –0.7% to 0.7%

- Firms have been keeping a tight lid on inventories over the past couple of years, against the backdrop of uneven growth and a focus on cost control. This theme is likely to be evident in the final quarter of 2014, in our view.
- We forecast inventory levels to decline by 0.3% in the quarter. That follows a 0.7% rise in Q3. This would see inventories subtract 0.4ppts from Q4 GDP growth.
- Of note, import volumes were particularly soft in the December quarter, with goods volumes contracting by 2.2%. That is likely to flow through to a running down of inventories.
- Over the 2014 year, inventory levels declined by 0.4% on our estimates, following a 0.8% drop in 2013.

Inventories: f/c –0.4ppts cont'n in Q4*



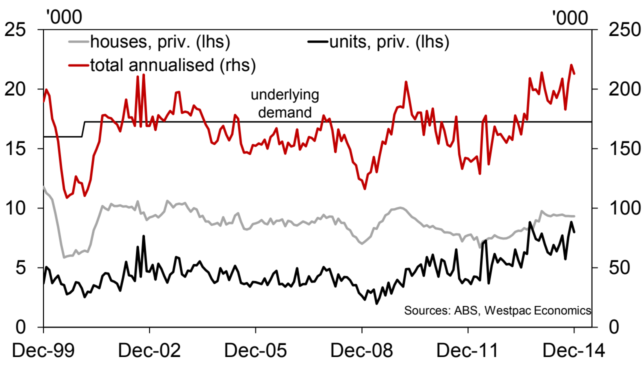
The week ahead

Aus Jan dwelling approvals

Mar 3 Last: –3.3%, WBC f/c: –2.0%
Mkt f/c: –1.8%, Range: –6.0 to 3.0%

- Dwelling approvals finished 2014 on a strong note. Although they fell 3.3% in Dec, that only partially reversed a 7.8% jump in Nov that was driven by a large project in Melbourne. The 'underlying' trend in other words was surprisingly positive. Annual approvals topped 200k in 2014, a record high.
- The summer break renders monthly approvals less useful in Jan – large seasonal adjustment factors mean small changes in the raw data can have a big impact on adjusted estimates. The backdrop more generally is also mixed. On the one hand, owner-occupier sentiment cooled over 2014 with industry figures showing a sharp drop in construction-related finance approvals in Jan. On the other hand, investor lending remains on a strong uptrend. Overall we expect a 2% dip in approvals in Jan. The RBA's Feb rate cut should impact from about Apr-May.

Dwelling approvals

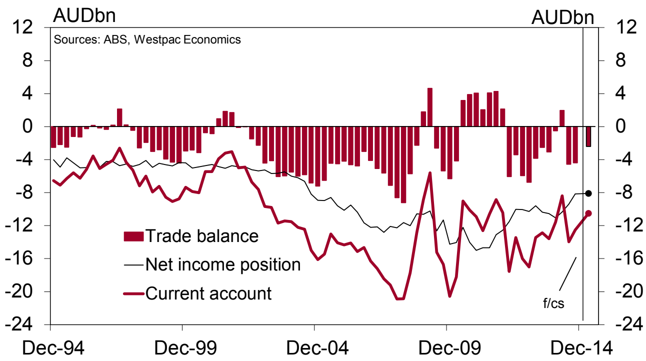


Aus Q4 current account, AUDbn

Mar 3, Last: –12.5, WBC f/c: –10.5
Mkt f/c: –10.8, Range: –12.0 to –9.3

- Australia's current account deficit narrowed in Q4, moderating to a forecast –$10.5bn from –$12.5bn in Q3.
- This $2bn improvement in the current account is explained by a narrowing of the trade deficit. The ABS announced a $2.4bn trade deficit for the quarter, following –$4.4bn in Q3, as originally reported but since revised to –$3.9bn.
- The trade numbers benefited from both a fall in imports and a rise in export earnings. In particular, real net exports increased, outweighing a fall in the terms of trade, down an estimated –2%qtr, –11%yr.
- The net income deficit was –$8.1bn in Q3, improving from around –$10bn a quarter earlier in the year. We expect the net income deficit to consolidate at this lower level in Q4. Aus Q4 current account, AUDbn

Current account: f/c –$10.5bn in Q4

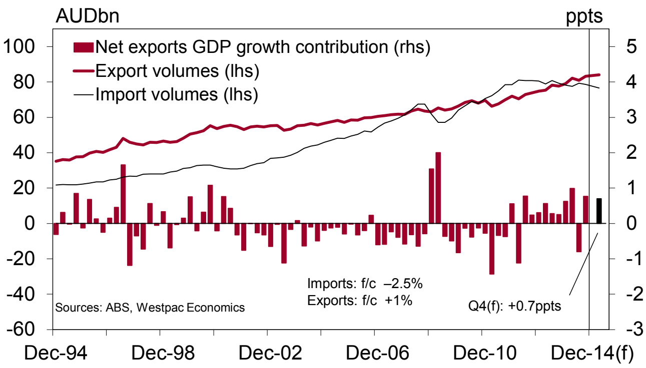


Aus Q4 net exports, ppt cont'n

Mar 3, Last: 0.8, WBC f/c: 0.7
Mkt f/c: 0.5, Range: –0.8 to 1.1

- Real net exports are set to make a sizeable positive contribution to growth in the December quarter, extending a trend evident from mid- 2012.
- In Q4, net exports are forecast to add 0.7ppts qtr, 1.7ppts yr. That follows a Q3 result of +0.8ppts qtr, +1.6ppts yr.
- Exports are trending higher, on expanding capacity in the mining sector. We estimate that export volumes increased by around 1%qtr, 6%yr in Q4.
- Imports are weak at present, with domestic demand mixed. The December quarter was a particularly soft quarter, with imports falling by an estimated –2.5%qtr, –2.0%yr, with weakness broadly based.

Net exports: f/c +0.7ppts in Q4

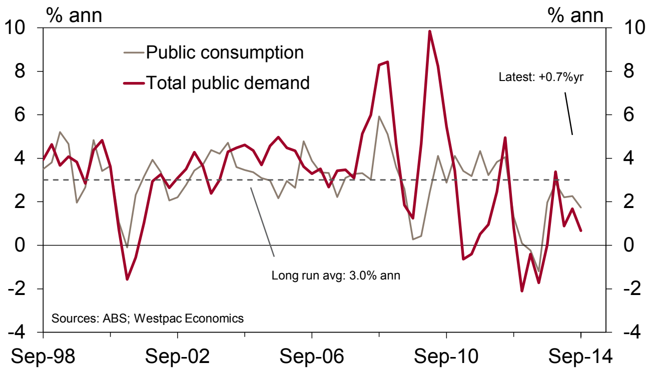


Aus Q4 public demand

Mar 3, Last: –1.7%, WBC f/c: 0.7%

- Public demand was weak in 2014 as budgets, both at the state and Federal level, remained under pressure against the backdrop of generally disappointing revenues.
- In Q4, we anticipate only a partial rebound in public demand, up 0.7%, following a 1.6% drop that sliced 0.3ppts off Q3 GDP.
- Investment slumped 11% in the September quarter, the initial quarter of the 2014/15 year. We expect more of a consolidation, up 2%, rather than a rebound.
- Public consumption was surprisingly resilient in Q3, up 0.8%. Even so, annual growth was stuck below 2%. We expect a subdued end to calendar 2014, +0.4%qtr, +2.0%yr.

Public demand: volatile around a weak trend



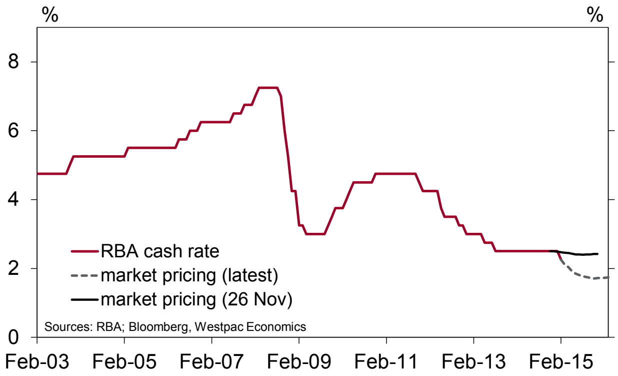
The week ahead

Aus RBA policy decision

Mar 3, Last: 2.25%, WBC f/c: 2.00%
Mkt f/c: 2.00%, Range: 2.00% to 2.25%

- The RBA surprised many with a 25bp rate cut at its first meeting in 2015. We expect a follow-up 25bp cut at its Mar meeting, taking the cash rate to 2%, with a clearer easing bais in the Governor's statement accompanying the move.

RBA cash rate

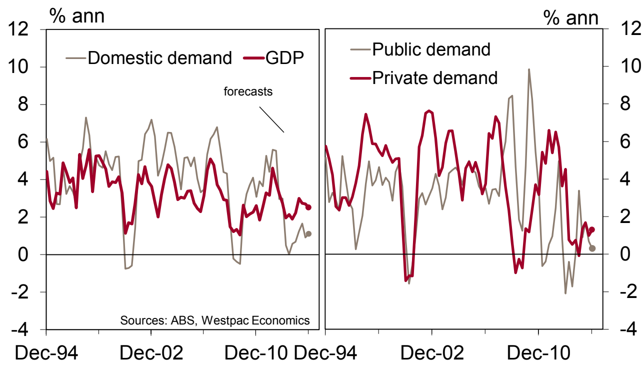


Aus Q4 GDP

Mar 4, Last: 0.3%, WBC f/c: 0.6%
Mkt f/c: 0.7%, Range: 0.3% to 0.9%

- The Australian economy expanded by a forecast 0.6% in Q4, representing an improvement on a 0.3% rise in Q3. Still, annual growth slows to 2.5%, a pace below trend, judged to be around 3% to 3.25%, and the softest result since the end of 2013.
- Domestic demand is up a forecast 0.3%qtr, following a 0.3% decline in Q3, the first contraction in demand since 2013Q1.
- The headwind from public demand and business investment is expected to be less intense in Q4, at –0.1ppts, after –0.5ppts in Q3. Dwelling investment advanced in the quarter, following a on-off dip in Q3. Consumer spending is forecast to rise by 0.6%, but the risks are to the upside.
- Net exports will be a major plus, f/c +0.7ppts, partially offset by inventories, f/c –0.4ppts.

Australian economic conditions

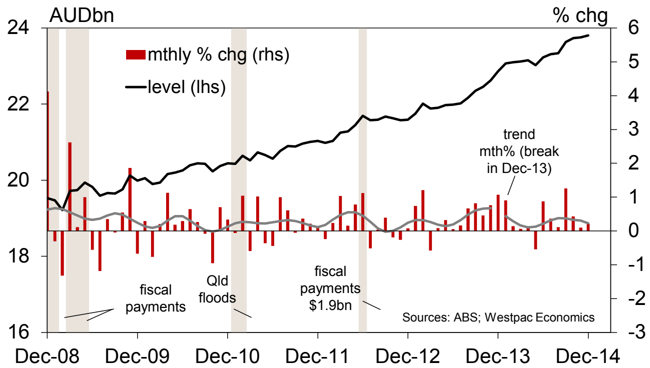


Aus Jan retail trade

Mar 5, Last: 0.2%, WBC f/c: 0.3%
Mkt f/c: 0.4%, Range: flat to 0.6%

- Retail sales nudged 0.2% higher in Dec. Although growth was soft it was better than expected coming off a cumulative rise of 1.8% over the previous three months. Those gains centred on a big 12% surge in electronic goods retailing that the ABS attributed to the launch of the iPhone 6.
- Sales in the electronic goods sub-category are likely to normalise at some stage. With consumer sentiment also falling heavily in Dec that presents clear downside risks to Jan retail sales. However, there are also upside risks with sharply lower petrol prices freeing up household budgets and a lower AUD improving the price competitiveness of local retailers vs offshore-based online merchants. Business surveys point to uneven trading conditions through Dec-Jan. On balance we expect Jan to show a 0.3% gain but there are big risks either side.

Monthly retail sales

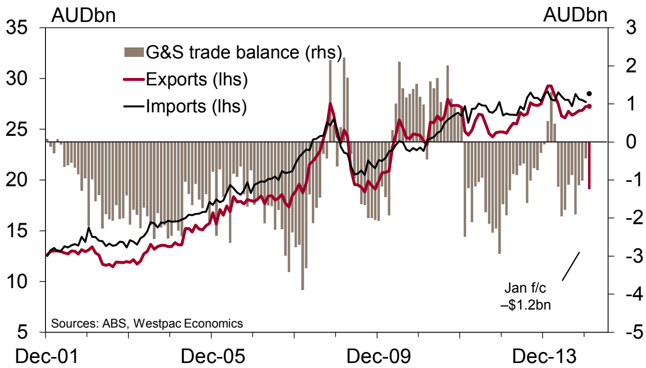


Aus Jan trade balance, AUDbn

Mar 5, Last: –0.4, WBC f/c: –1.2
Mkt f/c: –0.93, Range: –1.46 to zero

- Australia's trade account began the 2015 year in deficit, weighed down by lower commodity prices.
- The trade balance is forecast to widen in January to $1.2bn, a $0.8bn deterioration on December.
- The import bill increased by a forecast $0.8bn, a rise of 3.0%. The ABS advise that goods imports increased by 3.7%.
- Export earnings are expected to be broadly flat. Fuel exports are likely down on lower oil prices, but gold shipments, which typically spike ahead of Lunar New Year celebrations, may provide an offset. Both metal ores (dominated by iron ore) and coal export earnings are expected to be little changed.

Australia's trade position



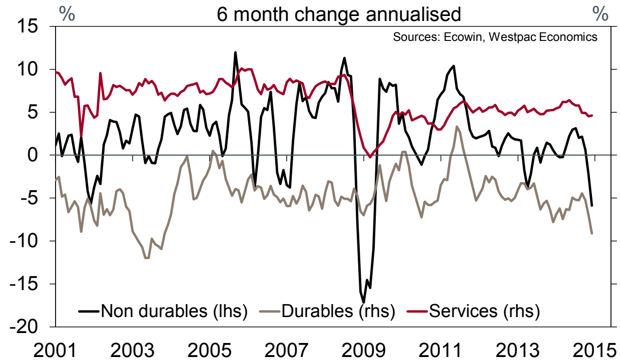
The week ahead

US Jan personal income, spending and PCE deflator

Mar 2, Personal income: Last: 0.3%, WBC f/c: 0.5%
Mar 2, Personal spending: Last: –0.3%, WBC f/c: flat
Mar 2, PCE deflator: Last: –0.2%, WBC f/c: –0.6%

- Income posted solid gains through late 2014: +0.3% in Nov/Dec and +0.4% in Oct. Oil further boosted real disposable income in Nov/Dec, up 0.4%/0.5%. Underlying momentum and minimum wage gains should see an outsized 0.5% rise in Jan.
- Despite strengthening income growth, personal spending is yet to benefit. In Dec, personal consumption fell 0.3%, with soft underlying demand failing to offset oil's effect. Retail sales pointed to conditions remaining sluggish in Jan as well as a larger negative oil impulse. But services should be supportive, resulting in a flat result for total spending.
- The headline PCE deflator will be materially impacted by Jan's oil price decline. Core pressures will be resilient, giving credence to the belief that disinflation will prove transitory.

Services inflationary offset against deflation

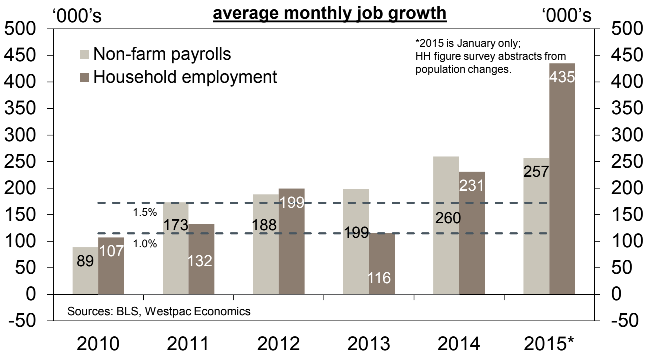


US Feb employment report

Mar 6, Nonfarm payrolls: Last: 257k, WBC f/c: 230k
Mar 6, Unemployment rate: Last: 5.7%, WBC f/c: 5.6%

- The Jan payrolls outcome was a particularly strong result, felt all the more because of waning expectations ahead of the release. Jan itself posted a job gain of 257k; back revisions to the previous two months were also supportive, taking the 3-month average to 336k and the 12-month average to 267k.
- Feb is likely to see a continuation of this robust trend, with firing historically low and the business surveys still pointing to an (albeit more modest) expansion in hiring. A question over the result is the degree to which the sharp decline in the price of oil impacts employment in the sector.
- On the household survey, a broadly stable participation rate and continued robust jobs growth should see the unemployment rate tick down to 5.6%.

US jobs: 'cumulative improvement' continues

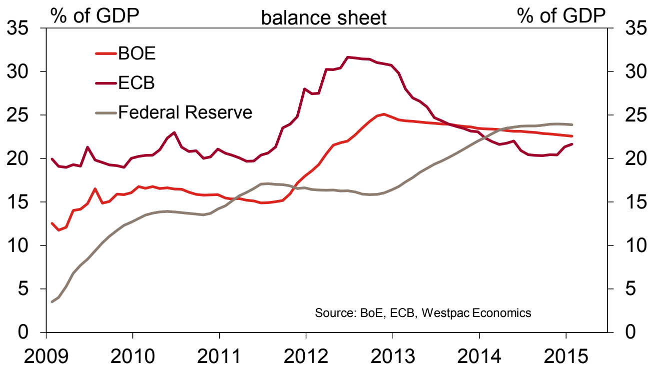


ECB policy meeting

Mar 5, Last: 0.05%

- Mar will be the first month in which the ECB's new asset purchase program takes full effect. €60bn in bonds are to be bought by the bank each month, from Mar 2015 until (at least) Sep 2016. That compares to the €13bn bought per month until now. Mar will also see the first TLTRO for 2015, although as was the case in late 2014, demand from the banks for liquidity for lending is unlikely to be significant in scale.
- With the above policies only just being initiated, there is no cause for further action by the ECB in Mar. Indeed, with GDP growth maintaining a circa 1% pace and given confidence has firmed somewhat after the Jan meeting, the Committee is likely to feel comfortable maintaining its current stance for many meetings hence. Key to the outlook for policy will be: the underlying inflation trend sans oil; activity growth; and how the liquidity offered by the ECB is used by market participants. All of this will only be known with considerable time.

North Atlantic – central bank balance sheets



Data calendar

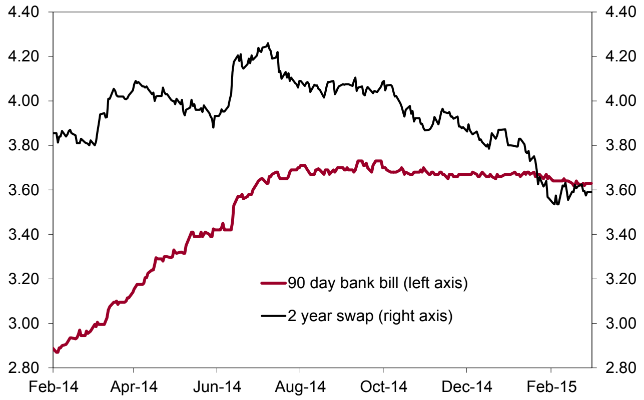
		Last	Market median	Westpac forecast	Risk/Comment
Mon 2					
NZ	Q4 terms of trade	–4.4%	–2.3%	–1.5%	Dairy prices weak but other export commodity prices strong.
Aus	Q4 company profits	0.5%	0.8%	–1.0%	Profits down, led lower by mining sector as commodity prices fell.
	Q4 inventories	0.7%	0.1%	–0.3%	Down as imports fell & sales rose, –0.4ppts impact on Q4 GDP.
	Feb CoreLogic RP Data home price index	1.3%	–	0.3%	Daily index shows another solid gain for Sydney, softness elsewhere.
	Feb TD-MI inflation gauge	0.1%	–	–	Petrol prices rose in Feb after big falls in Dec and Jan.
	Feb AiG PMI	49.0	–	–	Manufacturing index remains in contractionary zone, albeit only just.
Chn	Feb HSBC manufacturing PMI - final	50.1	50.1	-	Headline optimism, patchy detail. Timing of LNY = few late responses.
Eur	Feb Markit manufacturing PMI, final	51.1	–	51.1	Weaker than expected, but still consistent with expansion.
	Jan unemployment rate	11.4%	11.4%	11.4%	Labour market slack abounds.
	Feb CPI, advance, %yr	–0.6%	–0.4%	–0.5%	Oil effect significant; Euro weakness an offset; core sedate at 0.6%yr.
UK	Feb house prices	0.3%	0.4%	0.3%	Nationwide measure. Annual growth slowing, but still robust.
	Jan mortgage lending, £bn	1.6	1.7	–	Consumer credit data also due; up £0.6bn in Dec.
	Feb Markit manufacturing PMI	53.0	53.4	–	Comfortably in expansionary territory.
US	Jan personal income	0.3%	0.4%	0.5%	Has been robust of late; minimum wage gains to support in Jan.
	Jan personal spending	–0.3%	–0.1%	flat	Yet to see oil-induced discretionary income gain used by consumers.
	Jan PCE deflator	–0.2%	–0.5%	–0.6%	Oil to have significant effect; core pressures negligible, circa 0.1%.
	Feb Markit manufacturing PMI, final	54.3	54.2	–	The 'other' PMI showing a robust pace of gain.
	Feb ISM manufacturing	53.5	53.2	53.0	Has weakened of late; how did the weather impact activity?
	Jan construction spending	0.4%	0.4%	0.2%	Weather a factor? Sector's underlying momentum limited.
Can	Feb manufacturing PMI	51.0	–	–	RBC sponsored measure; pointing to continued modest expansion.
Tue 3					
NZ	Feb commodity prices	–0.9%	–	2.0%	Dairy prices at auction have been rebounding since January.
	Feb QVNZ house price index	5.7%	–	–	Auckland house prices have accelerated rapidly in recent months.
Aus	Jan dwelling approvals	–3.3%	–1.8%	–2.0%	Still coming off an 8% jump in Nov. Jan data less reliable.
	Q4 current account, AUDbn	-12.5	–10.8	–10.5	Deficit narrows on smaller trade deficit, despite drop in terms of trade ...
	Q4 net exports, ppts cont'n	0.8	0.6	0.7	... as real net exports advanced, export vols +1% & imports –2.5%.
	Q4 public demand	–1.6%	–	0.7%	A partial rebound, led by investment, which slumped 11% in Q3.
	RBA policy decision	2.25%	2.00%	2.00%	A follow-on rate cut accompanied by an explicit easing bias.
Eur	Jan PPI, %yr	–2.7%	–3.1%	–	Prices fell 1.0% in Dec; further decline certain in Jan on oil.
US	FOMC Chair Yellen speaking	–	–	–	On Bank regulation and supervision, NYC.
	Mar IBD/TIPP economic optimism	47.5	–	–	Fell sharply in Feb, potentially the result of higher oil price in Feb.
Can	Q4 GDP, annualised	2.8%	–	–	Monthly GDP data point to softening in Q4, down 0.2% in Dec, 1.9%yr.
Wed 4					
NZ	GlobalDairyTrade auction	10.1%	–	–	Drought warning for NZ has pushed world prices higher.
	Q4 building work put in place	1.5%	1.0%	1.5%	Growth driven by quake-hit Canterbury and undersupplied Auckland.
Aus	Q4 GDP	0.3%	0.7%	0.6%	Domestic demand +0.3%, following –0.3% in Q3.
Chn	Feb HSBC services PMI	51.8	–	–	Tracking much weaker than NBS; but did a good job over last year or so.
Eur	Feb Markit services PMI, final	53.9	–	53.9	Composite measure printed at 53.5 in preliminary reading.
	Jan retail sales	0.3%	–	0.2%	Improved confidence to support further modest gain; up 2.8%yr in Dec.
UK	Feb BRC shop price index, %yr	–1.3%	–	–	Supermarket price war saw 0.5% fall in prices in Jan.
US	Feb ADP private payrolls	213k	218k	200k	Revisions due to be released.
	Feb ISM non-manufacturing	56.7	56.5	56.2	Weather likely impacted activity; level of index very healthy.
	Federal Reserve Beige Book	–	–	–	Qualitative regional round up of conditions across the nation.
	Fedspeak	–	–	–	Evans and George on Economy; Fisher (Dallas Fed) also speaking.
Can	Bank of Canada policy meeting	0.75%	0.63%	0.50%	Softening growth amid declining commodity prices = policy easing.
Thu 5					
Aus	Jan retail sales	0.2%	0.4%	0.3%	Positives (petrol, AUD) and negatives (sentiment, iPhone) to cancel out?
	Jan trade balance, AUDbn	–0.4	–0.93	–1.2	Deficit back above $1bn. Imports +3%, exports flat.
	RBA Deputy Governor Lowe speaking	–	–	–	Global Macroeconomics Conference, Sydney 12.30 pm AEDT.
	2015 Intergenerational Report	–	–	–	"Australia in 2055", latest update of Treasury's five yearly report.
Eur	ECB policy meeting	0.05%	0.05%	0.05%	In wait and see mode.
Ger	Jan factory orders	4.2%	–	–	German industry ended 2014 strongly; momentum to carry into 2015.
UK	Bank of England policy meeting	0.5%	0.5%	0.5%	Comfortably on hold until inflation firms towards target.
	Feb house prices	2.0%	–0.3%	–	Halifax measure; tentative date; up 8.5%yr, 3-month average annual rate.
US	Feb Challenger job cuts, %yr	17.6%	–	–	Highly volatile annual growth measure of job losses.
	Q4 non-farm productivity, final	–1.8%	–2.4%	–2.4%	Downward revision on weaker growth which will also boost labour costs.
	Initial jobless claims, 28/2	313k	–	305k	Weak pace of firing key support for net employment growth.
	Fedspeak	–	–	–	Williams on economic outlook.
Can	Feb PMI	45.4	–	–	Ivey PMI providing materially different story to RBC measure.
Fri 6					
Eur	Q4 GDP, second estimate	0.3%	0.3%	0.3%	Germany and Spain are the driving force behind aggregate growth.
UK	Feb BoE/GfK 12mth inflation expect.	2.5%	–	–	An overestimate of actual inflation; but will likely be affected by oil.
US	Feb nonfarm payrolls	257k	240k	230k	Will we start to see impact of lower oil price on oil sector employment?
	Feb unemployment rate	5.7%	5.6%	5.6%	Flat participation rate and robust jobs gains to see unemp. move lower.
	Jan trade balance, $bn	–46.6	–41.5	–43.0	Lower oil price supportive for now while US production continues.
	Jan consumer credit, $bn	14.8	15.0	–	Student and auto loans still driving the underlying trend.
Can	Jan building permits	7.7%	–	–	Jumped higher in Dec, but only partial offset to Nov's 13.6% slump.

New Zealand forecasts

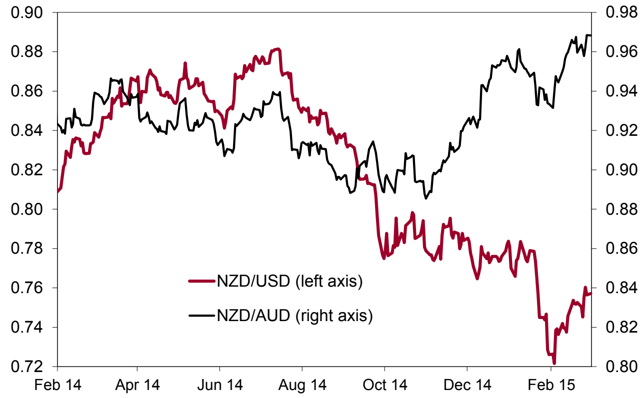
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014	2015f	2016f	2013	2014f	2015f	2016f
GDP (Production) ann avg	2.2	2.5	3.3	2.9	2.2	3.3	2.9	3.6
Employment	0.4	3.8	2.9	3.0	2.9	3.5	2.6	2.5
Unemployment Rate % s.a.	6.2	6.0	5.5	4.7	6.0	5.7	4.8	4.3
CPI	0.9	1.5	0.2	1.5	1.6	0.8	0.7	2.3
Current Account Balance % of GDP	-3.7	-2.6	-3.9	-5.0	-3.3	-3.1	-5.0	-4.6

Financial Forecasts	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Cash	3.50	3.50	3.50	3.50	3.50	3.75
90 Day bill	3.70	3.70	3.70	3.70	3.75	4.00
2 Year Swap	3.50	3.60	3.70	3.80	4.00	4.20
5 Year Swap	3.60	3.70	3.80	3.90	4.10	4.40
10 Year Bond	3.30	3.40	3.50	3.70	3.90	4.20
NZD/USD	0.71	0.73	0.74	0.75	0.77	0.79
NZD/AUD	0.95	0.95	0.95	0.95	0.95	0.94
NZD/JPY	83.9	87.6	90.3	93.0	95.5	98.8
NZD/EUR	0.62	0.64	0.64	0.65	0.66	0.66
NZD/GBP	0.47	0.48	0.47	0.47	0.48	0.47
TWI	74.9	76.3	77.1	77.9	79.2	80.1

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



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

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.63%	3.61%	3.65%
60 Days	3.63%	3.63%	3.66%
90 Days	3.63%	3.64%	3.66%
2 Year Swap	3.59%	3.57%	3.56%
5 Year Swap	3.71%	3.64%	3.57%

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

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7571	0.7463	0.7244
NZD/EUR	0.6770	0.6538	0.6403
NZD/GBP	0.4906	0.4836	0.4827
NZD/JPY	90.64	88.34	85.03
NZD/AUD	0.9683	0.9593	0.9347
TWI	78.60	77.28	75.32

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014e	2015f	2016f
Australia						
Real GDP % yr	2.7	3.6	2.1	2.7	2.7	3.5
CPI inflation % annual	3.0	2.2	2.7	1.7	2.1	3.0
Unemployment %	5.2	5.3	5.8	6.2	6.4	6.0
Current Account % GDP	-2.8	-4.4	-3.3	-2.9	-2.3	-1.0
United States						
Real GDP %yr	1.6	2.3	2.2	2.4	2.7	3.2
Consumer Prices %yr	3.1	2.1	1.5	1.6	1.0	2.1
Unemployment Rate %	8.9	8.1	7.4	6.2	5.5	5.0
Current Account %GDP	-2.9	-2.9	-2.4	-2.4	-2.4	-2.4
Japan						
Real GDP %yr	-0.3	1.8	1.6	0.4	1.0	1.7
Euroland						
Real GDP %yr	1.6	-0.6	-0.4	0.7	0.9	1.0
United Kingdom						
Real GDP %yr	1.1	0.3	1.7	2.6	2.5	2.7
China						
Real GDP %yr	9.3	7.7	7.7	7.4	7.3	7.5
East Asia ex China						
Real GDP %yr	4.5	4.5	4.3	4.1	4.8	5.8
World						
Real GDP %yr	4.1	3.4	3.3	3.2	3.5	4.4
Forecasts finalised 6 February 2015						

Interest Rate Forecasts	Latest	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Australia						
Cash	2.25	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.32	2.20	2.20	2.20	2.22	2.25
10 Year Bond	2.47	2.40	2.50	2.70	2.90	3.20
International						
Fed Funds	0.125	0.125	0.125	0.250	0.500	0.750
US 10 Year Bond	2.02	1.90	2.00	2.20	2.50	2.80
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	0.7794	0.75	0.77	0.78	0.79	0.81
USD/JPY	119.24	118	120	122	124	124
EUR/USD	1.1211	1.14	1.15	1.15	1.16	1.17
AUD/NZD	1.0326	1.05	1.05	1.05	1.05	1.05

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