30 November 2015

Weekly Commentary

Church of the Good Shepherd, Lake Tekapo.

In this issue

Low for a long time

This week we take a look at what's been happening to inflation and why we think the RBNZ is facing an uphill battle. Inflation has been below the RBNZ's target band for a year now. And although the fall in the exchange rate since mid-2015 will result in some lift in prices, a sustained pick-up in inflation back to 2% still looks elusive. The main reason for this is that domestic growth is set to slow, which will result in continued downwards pressure on prices.

Last week was another quiet one in New Zealand in terms of economic developments. Among the limited data that was released, the standout was net immigration figures for October which, once again, rose to a record level. Strong growth in the population over the past year has boosted spending, and is one reason why business activity has held up in recent months.

But while we're seeing signs of firmness in activity right now, the same can't be said for inflation. At just 0.4%, annual inflation is only slightly higher than the 15 year low it reached earlier this year. And this isn't just a result of a few volatile items like petrol. Core inflation, which strips out such volatility, has lingered at low levels for several years now, and has only shown faint signs of picking up.

Other measures of inflation tell a similarly muted story. Producer price indices and surveys of business costs remain subdued. Retail prices have effectively been flat since 2010. And inflation expectations, which are key influences on wage and price setting decisions, remain at low levels compared to history.

Looking to the year ahead, we do expect some pick-up in inflation in the early part of 2016. Earlier weakness in petrol prices will soon drop out of annual figures. In addition, the exchange rate has fallen by more than 10% since mid-2015, which will gradually pass through to higher prices for many imported goods.

Low for a long time continued

Nevertheless, we are sceptical that this pick-up in inflation will be sufficient to meet the RBNZ's 2% inflation target. In fact, we're forecasting that inflation in the year to September 2016 will be just 1% - right at the bottom of the RBNZ's target band.

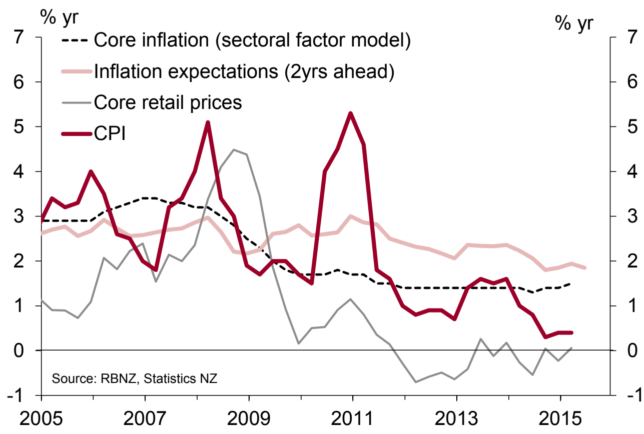
The key reason we expect inflation to remain so stubbornly low is the strength of domestic demand. Over the coming year, GDP growth is set to slow as the economy confronts a number of significant headwinds. These include drought, lower dairy prices, a softening in the housing market, and the plateauing of reconstruction activity in Canterbury. These conditions will result in unemployment rising and consumption spending growth easing back. Such an environment will make it hard for retailers to push through price increases.

At the same time, we're seeing downward pressure in terms of some key operating costs for business. Lingering weakness in the global economy is weighing on the prices of many internationally traded goods. This includes industrial commodities that are used in the production of other goods, such as fuels and metals. It also includes consumer goods that New Zealand imports, such as clothing and electronics.

There's also been strong growth in New Zealand's productive capacity in recent years. This has meant that the economy has been able to grow without generating significant cost pressures. One area where this can be seen particularly clearly is the labour market, where record high net immigration has resulted in a significant boost to the size of the labour force. This has helped to address specific skill shortages, such as the need for specialist labour for the Canterbury rebuild. However, the large increase in the labour force over the past year has also had a dampening effect on wages. And even though the current strength in migration will eventually turn, wage inflation is still likely to remain low for some time.

On top of this softness in demand and subdued cost pressures, there are some 'special' factors that are weighing on inflation. First, the coming years will see lower rates of increase for some government charges, such as the tobacco excise tax and ACC levies. Second, the continuing shift to online retailing and the related increase in import competition are likely to keep pressure on margins for some time.

Inflation measures



Putting it all together, the RBNZ is going to have its work cut out for it in terms of generating a sustained increase in inflation back to levels close to its 2% medium-term target. We're forecasting that the RBNZ will cut rates at its upcoming December decision, and expect that the OCR will continue to fall over the coming year down to a record low of 2%.

Looking to the week ahead, we'll receive several updates on economic conditions. First up will be business confidence on Monday. Confidence has risen in recent months, buoyed by earlier increases in dairy prices. We'll be watching to see whether these gains have been sustained now that diary prices have fallen back again. Also out over the coming week are building consents for October (Monday), QV house prices (Tuesday) and the results of the latest GlobalDairyTrade auction (Wednesday).

Fixed vs Floating for mortgages

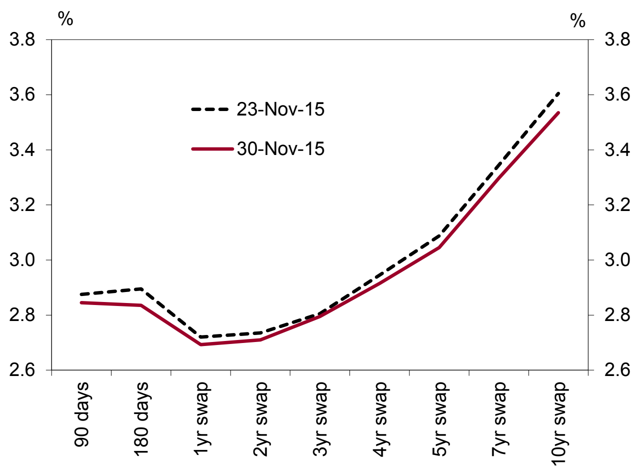
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

Longer-term fixed rates do offer the benefit of stability, but even those looking to fix may want to wait a while longer.

For borrowers with a deposit of 20% or more, the best value probably continues to lie in the two-year ahead and three-year ahead terms. Four- and five-year rates still seem high relative to where we think shorter-term rates are going to go over the next four or five years.

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

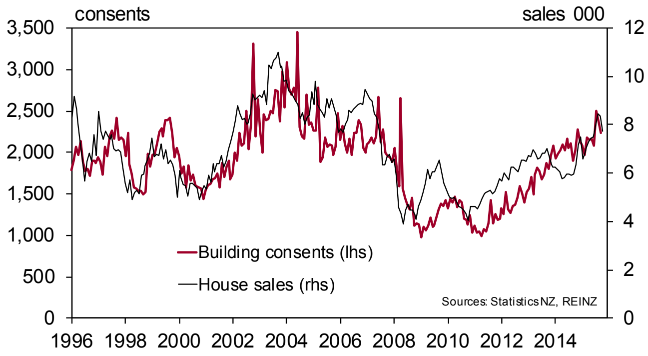


NZ Nov building consents

Nov 30, Last: 10.5, Westpac f/c: 3.0%

- New residential consents have fallen the last two months after a huge surge in July. This fallback was not surprising given the lumpiness of larger-scale residential developments (terraced houses and apartments in particular).
- We expect a rise overall this month as construction in Auckland continues to gather steam, offset by a continued decline in new building activity in Canterbury.
- The overall trend is still up, with growth also occurring in some other urban centres, most notably Hamilton and Tauranga.
- We expect non-residential activity to hold up well given the focus on this sub-sector in Canterbury.

NZ housing activity

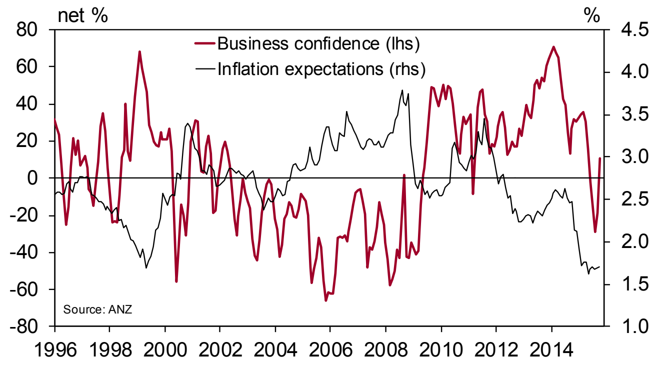


NZ Nov business confidence

Nov 30, Last: 10.5

- Business confidence plunged over the first half of this year but has resurfaced in the last two months, mirroring the sharp swings in world dairy prices. Further gains will depend on whether firms are paying attention to the twice-monthly GDT auctions (down sharply again this month) or the official farmgate milk price (no change since September).
- At current levels, business confidence is consistent with annual GDP growth of around 2% - not dire, but a marked slowdown from the 3%+ pace of growth seen last year.
- Inflation expectations and pricing intentions in general have remained very subdued despite the lower NZ dollar. That said, pricing intentions in the retail sector have risen sharply in recent months – it will be interesting to see whether retailers can follow through on this.

NZ business confidence and inflation expectations

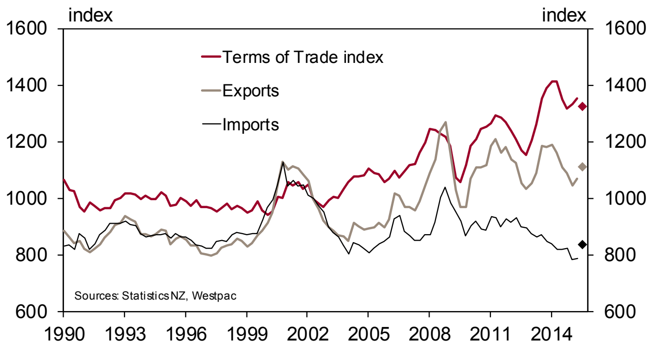


NZ Q3 terms of trade

Dec 1, Last: 1.1%, Westpac f/c: -2.0%

- We expect a 2% drop in New Zealand's terms of trade for the September quarter, largely due to the renewed plunge in world dairy prices through the middle of the year.
- Both sides of the terms of trade were boosted by the weaker NZ dollar. The trade-weighted index was almost 9% lower on average over the quarter, the biggest drop since 2008. Consequently, we expect to see dairy export prices roughly flat in NZD terms, against higher prices for other commodities such as meat, wood and oil.
- Overall, we estimate that export prices rose 4% in local currency terms, against a 6% rise in import prices.

NZ Terms of Trade

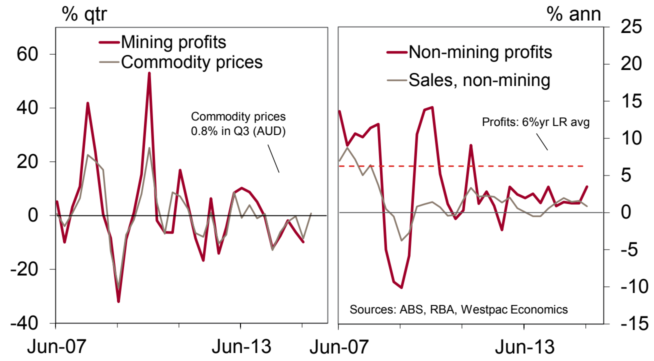


Aus Q3 company profits

Nov 30, Last: –1.9%, WBC f/c: –1.0%
Mkt f/c: 1.1%, Range: –1.5% to 2.9%

- Company profits trended lower from mid 2014 through into 2015, including a 1.9% decline in the June quarter.
- For Q3, profits – as measured in the Business Indicators survey – are forecast to decline by 1.0%. While we expect underlying profits to be flat, inventory prices are a likely negative.
- Mining profits, which have been hit by plunging commodity prices, are expected to stabilise in Q3. While commodity prices fell further, down 6% in USD terms, this was offset in Q3 by a 6.8% drop in the Australian dollar.
- Profits across the broader economy have been mixed, reflective of uneven economic conditions. On balance, we expect a broadly flat Q3, with consumer sectors up but business and distribution sectors under pressure.

Company profits: lower AUD a cushion in Q3

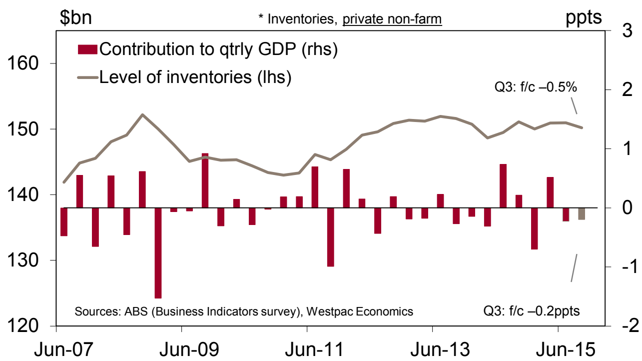


Aus Q3 inventories

Nov 30, Last: 0.0%, WBC f/c: –0.5%
Mkt f/c: 0.0%, Range: –1.0% to 1.0%

- Private non-farm business inventories are expected to be a negative in Q3, subtracting 0.2ppts from GDP growth. That would be a repeat of the result for Q2.
- Our view is that inventory levels will contract by 0.5% in September, following a flat June and a 0.6% rebuild in March.
- Consumer sectors have been generally restocking to meet rising demand, notwithstanding a small dip in Q2.
- However, against that, the manufacturing sector is running down stocks, with the auto sector winding down, and mining inventories have declined over recent quarters to meet export sales. In addition, in Q3, imports contracted, down 1.8%, a weak result which points to the risk of some inventory rundown.

Inventories: Q3 f/c –0.2ppts

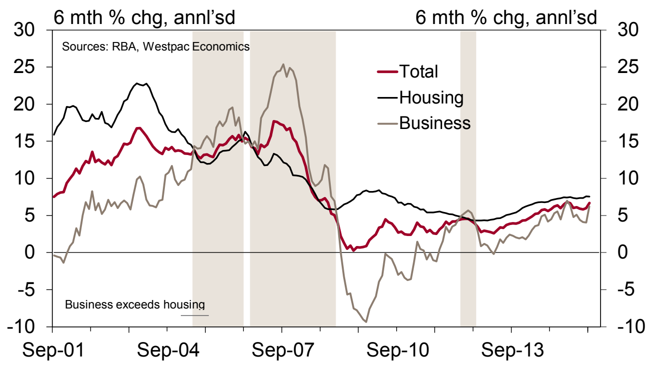


Aus Oct private sector credit

Nov 30, Last: 0.8%, WBC f/c: 0.5% Mkt f/c: 0.6%, Range: 0.5% to 0.7%

- Credit to the private sector had a relatively strong September quarter, with gains of 0.6% in July, 0.6% in August and 0.8% in September. That was a step-up from a 0.5% monthly average over the first half of 2015.
- For October, credit is forecast to grow by 0.5%, a return to the pace of the first half of the year.
- The business segment is central to our October view. For the past three months, gains in business credit have been, 0.7%, 0.5% and 1.2%, a jump from a 0.4% average over the preceding 6 months. The recent jump was, in part, due to a valuation boost associated with the drop in the AUD. For October, we anticipate a rise of 0.4%, with the currency consolidating.
- Housing credit grew by 0.6% in September, in line with previous months. We expect another gain of 0.6%.

Credit momentum

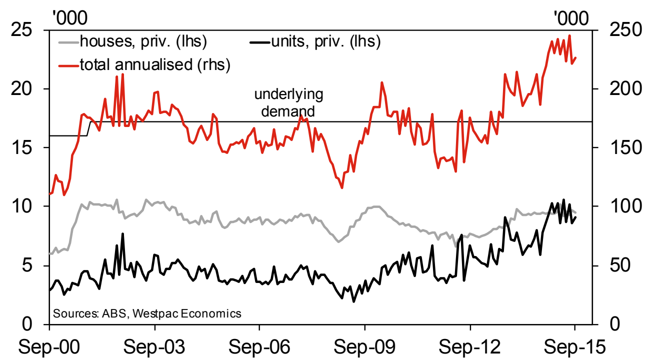


Aus Oct dwelling approvals

Dec 1 Last: 2.2%, WBC f/c: –3.0%
Mkt f/c: –2.5%, Range: –4.9% to 1.8%

- Dwelling approvals posted a better than expected 2.2% gain in Sep to be up 21.4%yr. However the detail was mostly on the weak side. In particular, the pattern of revisions hinted at a more rapid slowdown in approvals since peaking at the start of the year. Estimating the precise pace of the underlying cycle remains very difficult due to the high concentration of large high-rise projects and associated volatility in monthly approvals. Old rules of thumb such as the 'detached house' sub-group giving a better guide to overall trends in approvals are also of more limited use due to increased dominance of 'units'.
- We expect the Oct update to provide a clearer picture. On balance we expect a 3% decline, solidifying a downtrend running at about a 10% annualised pace – a relatively gentle slowdown by historical standards.

Dwelling approvals

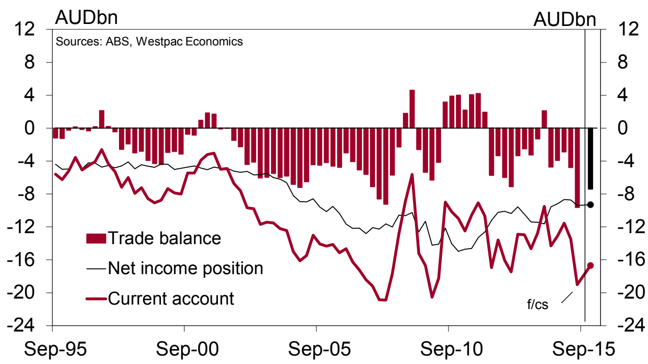


Aus Q3 current account, AUDbn

Dec 1, Last: –19.0, WBC f/c: –16.7
Mkt f/c: –16.7, Range: –17.3 to –9.9

- Australia's current account deficit is expected to improve modestly in the September quarter, to -$16.7bn (-4.1% of GDP).
- This follows a sharp deterioration in June to a deficit of $19.0bn, from $13.5bn in March.
- The trade deficit is the major swing factor. The deficit went from -$4.8bn in March to -$9.6bn in June, as the terms of trade fell and export shipments surprised, with a one-off fall. In September, the deficit was (only) -$7.4bn, with a further 2% fall in the terms of trade more than offset by a rebound in exports and weak imports.
- The net income deficit is expected to consolidate at $9.3bn, a result that would be little different from a year ago.

Current account: f/c –$16.7bn in Q3



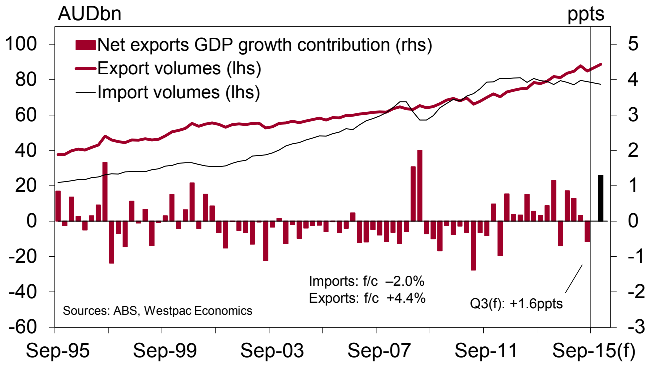
The week ahead

Aus Q3 net exports, ppt cont'n

Dec 1, Last: –0.6, WBC f/c: 1.3 Mkt f/c: 1.2, Range: 0.6 to 1.6

- In the June quarter, net exports were a negative for growth, subtracting 0.6ppts off GDP. That result was at odds with the recent trend of sizeable positive contributions.
- For the September quarter, we expect a reversion to the underlying trend, with net exports forecast to add to growth, contributing a hefty 1.3ppts.
- Export volumes are the major source of this bumpy profile, centred on volatile shipments of the key resources, iron ore, coal and gas. In Q3, total export volumes rebounded an estimated 4.4%, more than reversing a 3.3% dip in Q2, to be 6% higher than a year ago.
- Import volumes fell an estimated 2% in Q3, after a 0.7% decline in Q2. In Q3, goods imports were weak, -1.8%, on lower capital items, and services fell again, impacted by the lower AUD.

Net exports: f/c +1.3ppts in Q3

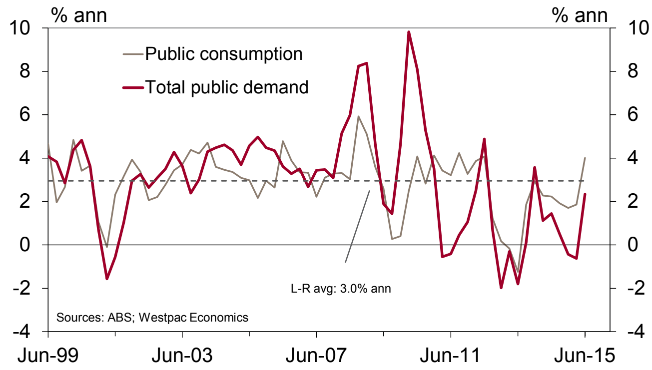


Aus Q2 public demand

Dec 1, Last: 2.7%, WBC f/c: –0.3%

- Public demand, representing just over 20% of the economy, stalled in 2014. A focus on budget repair and a lack of urgency around public infrastructure are key constraints.
- It came as a surprise then that the national accounts reported a 2.7% jump in public demand in Q2. This included a 2.2% rise in public consumption (dominated by the wage bill for public servants), which doubled annual growth to 4%. That seems a little odd.
- For Q3, we expect a return to soft public demand, forecasting a decline of 0.3%.
- That said, there is a risk that revisions to history, associated with the annual national accounts update, will alter the Q2 jumping off point - with potential flow-on effects to Q3.

Public demand: up in Q2 on end of FY spending

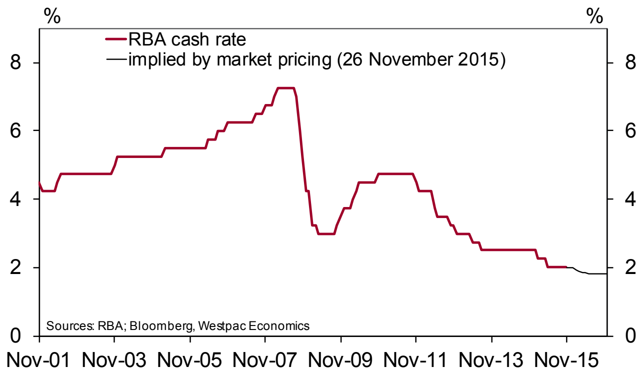


Aus RBA policy announcement

Dec 1, Last: 2.00%, WBC f/c: 2.00%
Mkt f/c: 2.00%, Range: 2.00% to 2.00%

- The RBA Board is expected to leave interest rates unchanged in Dec, for the 7th consecutive month. The Bank lowered rates in Feb and May. It has since been in 'watch and see mode' assessing the impact of these moves.
- The RBA has explicitly stated that low inflation may provide scope to lower rates if needed to further support demand. However, the Bank's current views on demand do not appear to give much of a case for more easing. The RBA retained its 3% growth forecast for 2016 in its Nov SoMP, also stating that it expected the unemployment rate to hold steady before eventually declining in late 2017. While risks remain tilted to the downside and the Governor's statement is likely to retain the reference to 'inflation providing scope' we expect rates to remain on hold in Dec and throughout 2016.

RBA cash rate

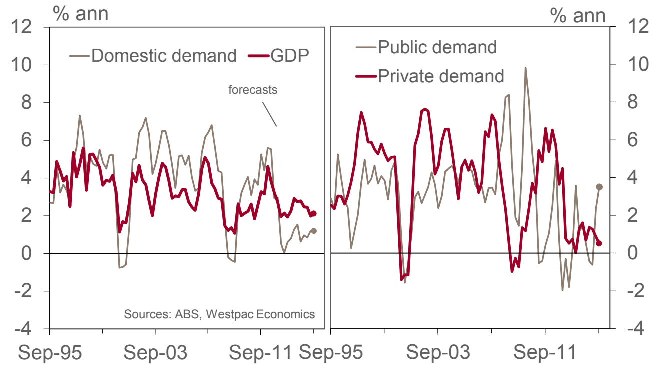


Aus Q3 GDP

Dec 2, Last: 0.2%qtr, 2.0%yr, WBC f/c: 0.7%qtr, 2.1%yr
Mkt f/c: 0.7%, Range: 0.1% to 0.9%

- Overall conditions in the Australian economy are lacklustre, with growth uneven. Notably, the mining investment downturn is a major headwind.
- For Q3, we expect GDP growth to print at 0.7%qtr and 2.1%yr (allowing for –0.2% for likely downward revisions to history from the annual national accounts). This follows a solid start to 2015, +0.9%qtr in Q1, followed by a meek 0.2%qtr gain in Q2.
- Stronger output growth in Q3 is centred on a turnaround in net exports, from -0.6ppts in Q2 to +1.3ppts in Q3. Domestic demand is forecast to contract by 0.5% in Q3, which would see annual growth hold steady at 1.2%. For Q3, business investment is a major negative, -5.0%, housing is a modest positive, +1.0%, and consumer spending is expected to be stuck at a lukewarm, 0.5%qtr, with soft incomes a constraint.

Australian economic conditions

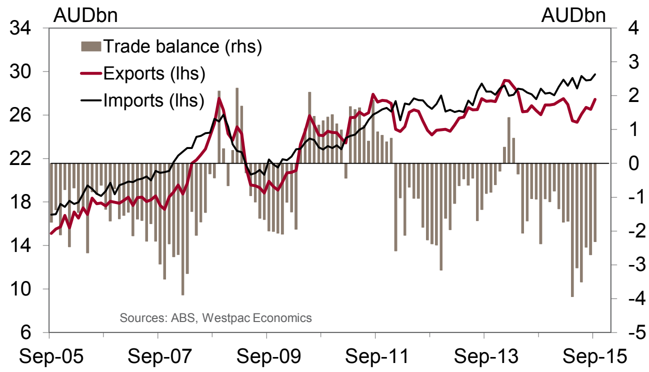


Aus Oct international trade balance, AUDbn

Dec 3, Last: –2.3, WBC f/c: –2.8 Mkt f/c: –2.6, Range: –3.5 to –1.8

- For October, Australia's trade deficit is expected to deteriorate on lower commodity prices.
- The deficit is forecast to widen by $0.5bn to $2.8bn. The deficit averaged $1.6bn in Q1, blowing out to $3.5bn in Q2 and then reversing partially to $2.5bn in Q3.
- Export earnings declined by a forecast 1.5% in October on lower prices for most commodities. Increased volumes are likely to provide only a partial offset.
- Imports edge a forecast 0.3% higher in the month, with the ABS advising that goods imports rose 0.4%. Note the AUD strengthened in October, up 2.2% against the USD to 72.1¢, and rose 1.4% on a TWI basis. Taken together, this suggests that import volumes moved a little higher in the month.

Australia's trade balance: –$2.3bn in Sep

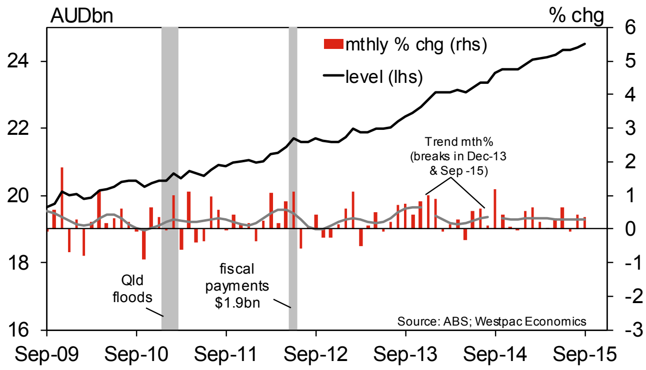


Aus Oct retail trade

Dec 3, Last: 0.4%, WBC f/c: 0.6% Mkt f/c: 0.4%, Range: flat to 0.6%

- The Sep retail report was mildly disappointing, showing continued subdued conditions despite more promising signs from the sector's responses to recent business surveys. Total retail sales rose 0.4%mth, repeating Aug's soft read and holding trend growth at a below average 3-3½% annualised pace. The Q3 detail shows renewed price discounting in key sectors may be holding back a boost from improved volumes.
- Consumer sentiment has rallied since Sep, lifting into slightly positive territory in Nov. We still expect some of the improvement evident in private sector surveys to show through in retail sales, with a 0.6% gain in Oct.

Monthly retail sales

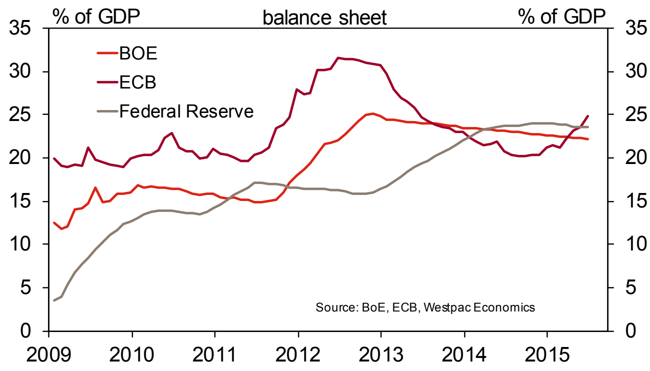


Eur ECB policy meeting

Dec 3 deposit rate Last: –0.30%, WBC f/c: –0.30%

- The ECB could not have been clearer in its recent communications: come December, the Governing Council will provide further accommodation to the Euro Area.
- The availability and cost of credit has improved markedly and labour markets across the region have begun to heal; but there is still much progress to be made. Unemployment is high; core inflation well below target; and real GDP growth modest.
- A deposit rate cut at the December meeting seems an almost certain outcome. What remains up for debate is whether the asset purchase program will be expanded (by asset type and/or scale) or simply extended in duration. Our expectation is the latter, with the ECB pushing out the end date of the program into 2017, while keeping the other parameters unchanged.

ECB expansion to continue into 2017

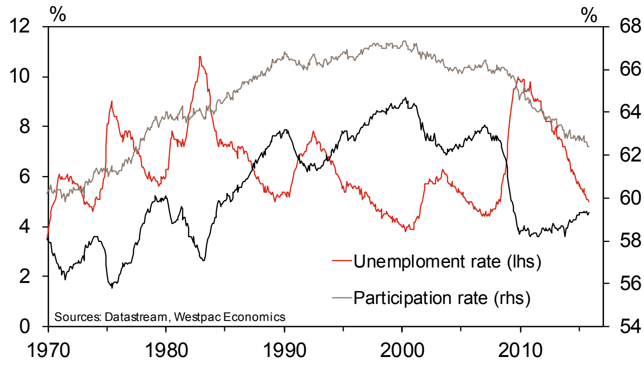


US November employment report

Dec 5 nonfarm payrolls, Last: 271k, WBC f/c: 210k
Dec 5 unemployment rate, Last: 5.0%, WBC f/c: 5.0%

- After two soft months, nonfarm payrolls growth accelerated sharply in October, with 271k jobs created. Revisions to the prior two months added a further 12k.
- Adding yet more positive sentiment, the household survey reported that the unemployment rate declined to 5.0%, its lowest level since early 2008.
- Come November, we expect another robust jobs print, circa 210k. Employment growth will surely slow back towards a pace more in line with population growth and participation; but momentum typically takes time to dissipate. Being broadly in line with FOMC estimates of full employment, we expect the unemployment rate to remain unchanged at 5.0%.

Unemployment rate at lows since 2008



Data calendar

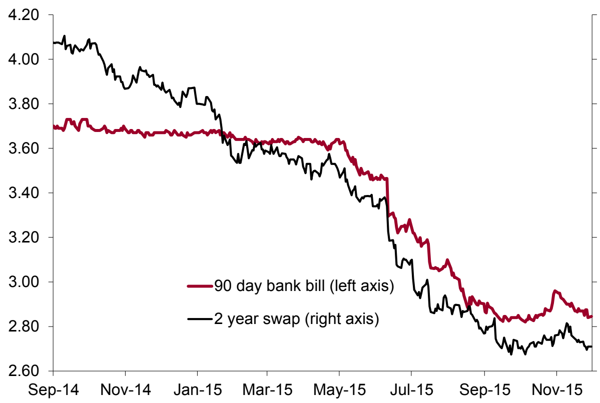
		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
NZ	Oct building consents	–5.7%	–	3.0%	Strengthening activity in Auckland is offsetting a softening in Canterbury.
	Nov business confidence – activity	23.7	–	–	Falls in commodity prices will challenge recent gains in confidence.
Aus	Nov TD-MI inflation gauge	flat	–	–	Has been a good guide to inflation over the last year.
	Q3 company profits	–1.9%	1.1%	–1.0%	Underlying profits flat given mixed conditions, but inventory prices a -ve.
	Q3 inventories	flat	flat	–0.5%	Inventories trimmed as suggested by declining imports.
	Oct private sector credit	0.8%	0.6%	0.5%	A more modest gain, with business unlikely to sustain recent burst.
UK	Sep net mortgage lending, £b	3.6b	–	–	Low interest rates have been boosting housing demand.
Ger	Nov CPI (provisional)	0.0%	0.1%	–	Annual headline inflation remains very weak.
US	Nov ISM Milwaukee	46.7	–	–	Remains low, weak external demand a headwind.
	Nov Chicago PMI	56.2	54.0	–	Has increased, but still signals modest growth.
	Oct pending home sales	–2.3%	1.5%	1.0%	Momentum in housing sales wavering. Rates a factor?
	Nov Dallas fed manuf activity	–12.7	–12.0	–	The USD and external demand are weighing on manufacturing.
Can	Q3 current account balance	–$17.4b	–$15.2b	–	Continued drag from weak external demand and low commodity prices.
Tue 1					
NZ	Q3 terms of trade	1.3%	–2.6%	–2.0%	Dairy export prices saw a renewed decline mid-year.
	Nov QVNZ house prices (%yr)	14%	–	–	Changes in tax and lending restrictions are weighing on prices.
Aus	Nov AiG PMI	50.2	–	–	Lost momentum in Oct after a mini-lift in Q3.
	Nov CoreLogic RP Data home value index	0.2%	–	–1.5%	Rapid cooling in Syd & Melb led boom amplified by seasonal softness.
	Oct dwelling approvals	2.2%	–2.5%	–3.0%	Volatility still making pace of underlying slowdown difficult to gauge.
	Q3 current account balance, AUDbn	–19.0	–16.5	–16.7	Current a/c improves a little on narrowing trade deficit.
	Q3 net exports cont'n, ppts	–0.6	1.2	1.3	Exports rebounded sharply and imports contract.
	Q3 public demand	2.7%	–	0.3%	A consolidation after Q2 bounce but potential revisions a complication.
	RBA policy announcement	2.00%	2.00%	2.00%	RBA to leave rates unchanged for a 7th consecutive month.
Chn	Nov manufacturing PMI	49.8	49.9	–	Long run average of 53.1 a long way off. Out 45 minutes before Caixin.
	Nov non–manufacturing PMI	53.1	–	–	Employment working on a nine month streak of sub-50 outcomes.
	Nov Caixin PMI manufacturing	48.3	48.3	–	Boosted by export orders jump from 44.6 to 50.7 in Oct – sustainable?
	Nov Caixin PMI services	52.0	–	–	Troubling decline in 'future business expectations'.
Eur	Nov Markit manufacturing PMI (final)	52.8	52.8	–	Stronger momentum in sector would be welcome, but unlikely.
	Oct unemployment rate	10.8%	10.8%	–	Very (very) gradual improvement likely – as long as growth persists.
Ger	Nov Markit manufacturing PMI (final)	52.6	52.6	–	Weak global activity constraining ability to grow.
UK	Nov Markit manufacturing PMI	55.5	53.6	–	External headwinds mean last month's increase isn't likely to be sustained.
US	Nov Markit manufacturing PMI (final)	52.6	52.6	–	Still elevated relative to ISM manufacturing.
	Nov ISM manufacturing	50.1	50.5	50.7	USD and energy sector significant impediments to momentum.
	Fedspeak	–	–	–	Evans speaks on the economy and policy in East Lansing.
Can	Q3 GDP annualised	–0.5%	2.4%	2.0%	Return to growth after two quarters of contraction.
	Nov manufacturing PMI	48.0	–	–	Weak demand, including soft exports, is weighing on manufacturing.
Wed 2					
NZ	GlobalDairyTrade auction results	–7.9%	–	–	Futures pointing to a small improvement.
	Nov commodity price index	6.9%	–	–	Reversal of fortune in dairy prices will be a drag.
Aus	Q3 GDP	0.2%	0.7%	0.7%	Boost from net exports turnaround, but demand hit by fall in investment.
Eur	Nov CPI (provisional)	0.1%	0.3%	–	Annual core remains at a disappointing 1.1%yr.
UK	Nov Markit construction PMI	58.8	58.6	–	Has remained firm, consistent with the pick up in the housing market.
US	Nov ADP employment change	182k	190k	195k	While often out of sync with payrolls, still suggests robust growth.
	Nov ISM New York	65.8	–	–	Conditions in the manufacturing sector remain soft.
	FOMC Chair Yellen	–	–	–	Major address at Economic Club of Washington.
	Fedspeak	–	–	–	Brainard and Lockhart at various events.
	Fed's Beige Book released				Economic conditions from around the 12 Fed regions.
Can	Bank of Canada rate decision	0.50%	0.50%	0.50%	Rates to remain low as commodity price weakness dampens growth.
Thu 3					
NZ	Q3 building work put in place	1.6%	1.8%	1.5%	Reconstruction spending is levelling off, Auckland conditions firm.
Aus	Oct trade balance, AUDbn	—2.3	–2.6	–2.8	Imports +0.3%, but exports -1.5% on lower commodity prices.
Eur	Nov Markit services PMI (final)	54.6	54.6	–	Composite at robust 54.4.
	ECB policy announcement	0.05%	0.05%	0.05%	Refi unchanged; but deposit rate to be cut & asset plan extended.
Ger	Nov Markit services PMI (final)	55.6	55.6	–	Composite at 54.9 indicative of healthy momentum.
UK	Nov Markit services PMI	54.9	55.0	–	Service sector activity has remained firm in recent months.
US	Initial jobless claims	260k	–	–	Jobless claims remain low, indicative of low firing rate.
	Nov Markit services PMI (final)	56.5	–	–	As for ISM benchmark, services momentum remains strong.
	Oct factory orders	–1.0%	1.0%	–	Core orders continue to disappoint; little optimism for investment.
	Nov ISM non-manufacturing index	59.1	58.0	–	Strong momentum abating somewhat.
	FOMC Chair Yellen	–	–	–	Before Congressional Joint Economic Committee.
	Fedspeak	–	–	–	Fischer, Williams and Mester.
Fri 4					
Aus	Oct retail trade	0.4%	0.4%	0.6%	Slow Q3 but business & consumer surveys more +ve heading into Xmas.
Ger	Oct factory orders	–1.7%	1.0%	–	Factory orders suggest momentum unlikely to pick up into year end.
US	Nov non-farm payrolls	271k	200k	210k	Oct was strong; momentum to only slowly subside...
	Nov unemployment rate	5.0%	5.0%	5.0%	... now that unemployment rate consistent with full employment.
	Oct trade balance	–$40.8b	–$40.7b	–	USD to remain material impediment.
	Fedspeak	–	–	–	Bullard and Kocherlakota speaking in Philadelphia.
Can	Nov Ivey PMI	53.1	–	–	Has fallen to modest levels.

New Zealand forecasts

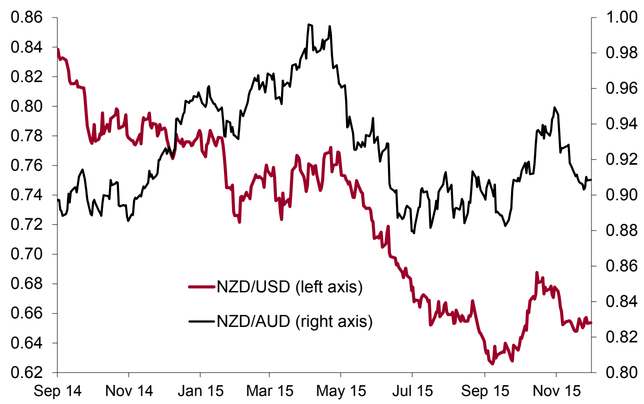
Economic Growth Forecasts	March years				Calendar years			
% change	2014	2015	2016f	2017f	2013	2014	2015f	2016f
GDP (Production) ann avg	2.5	3.2	2.1	2.1	2.3	3.3	2.3	2.0
Employment	3.8	3.2	1.5	2.0	2.9	3.6	2.0	1.5
Unemployment Rate % s.a.	6.0	5.8	6.4	6.2	6.1	5.7	6.1	6.3
CPI	1.5	0.3	1.1	1.5	1.6	0.8	0.3	1.7
Current Account Balance % of GDP	-2.6	-3.4	-4.4	-4.3	-3.2	-3.1	-3.9	-4.5

Financial Forecasts	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Cash	2.50	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.60	2.30	2.10	2.10	2.10	2.10
2 Year Swap	2.60	2.40	2.20	2.20	2.20	2.20
5 Year Swap	3.10	3.10	3.10	3.20	3.20	3.20
10 Year Bond	3.30	3.40	3.50	3.70	3.80	3.80
NZD/USD	0.64	0.63	0.62	0.62	0.62	0.62
NZD/AUD	0.94	0.95	0.94	0.93	0.90	0.89
NZD/JPY	78.1	77.5	76.9	77.5	78.1	76.3
NZD/EUR	0.60	0.61	0.60	0.59	0.58	0.57
NZD/GBP	0.43	0.43	0.42	0.42	0.41	0.40
TWI	70.5	70.4	69.3	69.0	68.1	67.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 30 November 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.75%	2.75%
30 Days	2.81%	2.89%	2.91%
60 Days	2.82%	2.90%	2.93%
90 Days	2.85%	2.91%	2.97%
2 Year Swap	2.71%	2.77%	2.76%
5 Year Swap	3.05%	3.14%	3.06%

NZ foreign currency mid-rates as at Monday 30 November 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6537	0.6530	0.6764
NZD/EUR	0.6173	0.6082	0.6126
NZD/GBP	0.4347	0.4288	0.4374
NZD/JPY	80.29	79.87	81.44
NZD/AUD	0.9086	0.9183	0.9499
TWI	71.27	71.18	73.12

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	2015f	2016f
Australia						
Real GDP % yr	2.7	3.6	2.1	2.7	2.2	2.7
CPI inflation % annual	3.0	2.2	2.7	1.7	1.6	2.3
Unemployment %	5.2	5.3	5.8	6.2	6.3	6.0
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.0	-4.0
United States						
Real GDP %yr	1.6	2.2	1.5	2.4	2.4	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.1	1.7
Unemployment Rate %	8.9	8.1	7.4	6.2	5.3	4.9
Current Account %GDP	-2.9	-2.9	-2.3	-2.2	-2.3	-2.3
Japan						
Real GDP %yr	-0.5	1.7	1.6	-0.1	0.6	1.3
Euroland						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.5	1.1
United Kingdom						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
China						
Real GDP %yr	9.5	7.7	7.7	7.3	7.0	6.6
East Asia ex China						
Real GDP %yr	4.5	4.6	4.2	4.1	3.5	4.0
World						
Real GDP %yr	4.2	3.4	3.3	3.4	3.0	3.6
Forecasts finalised 6 Nov 2015						

Interest Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.27	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.85	2.85	2.90	3.00	3.10	3.30
International						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.22	2.35	2.50	2.70	2.90	3.00
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
AUD/USD	0.7227	0.68	0.66	0.66	0.67	0.69
USD/JPY	122.54	122	123	124	125	126
EUR/USD	1.0611	1.06	1.04	1.04	1.05	1.07
AUD/NZD	1.0999	1.06	1.05	1.06	1.08	1.11

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