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Happy New Year!

We hope you had a relaxing and enjoyable break and wish you all the best for 2016.

Today's weekly publication includes a brief view of the major upcoming events for the next week. Our regular commentary will return next week.

Fixed vs Floating for mortgages

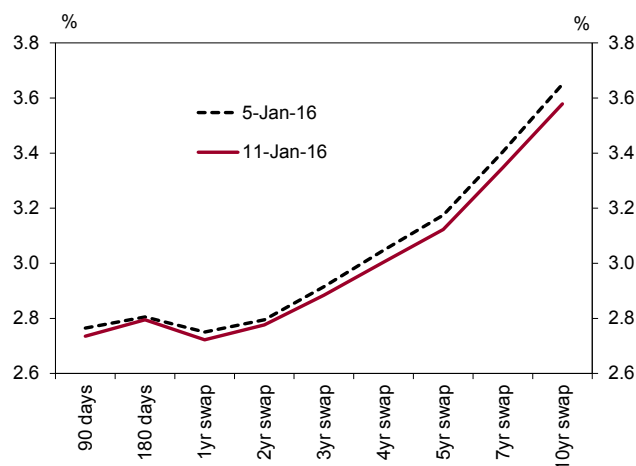
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

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

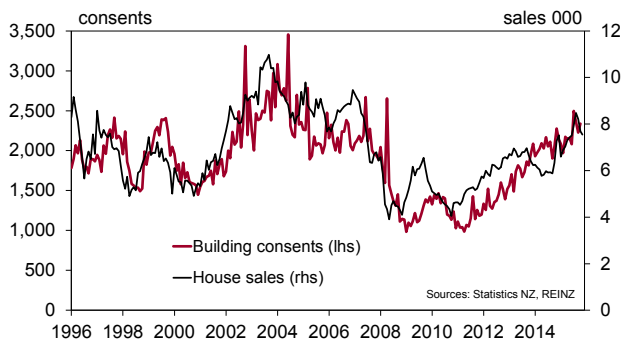


NZ Nov building consents

Jan 11, Last: 5.1%, Westpac f/c: 3.8%

- The trend in residential building consents is up. By Oct, annual consents were up 14.3% over the previous year.
- We expect this upward momentum to continue, with another small bump in residential consents come Nov.
- Auckland is still expected to be the residential growth story, while Canterbury may also see a small rebound after particularly sharp falls in the last few months to even lower levels of residential activity than we had been expecting given the stage of the rebuild.
- We are likely to see further robust residential consent activity in Tauranga and Hamilton.

NZ housing activity

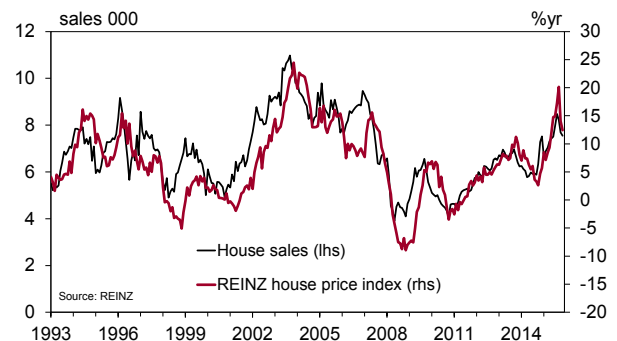


NZ Dec REINZ house prices and sales

Jan 8-13, Sales last: -1.9%, Prices last: 12.5%

- REINZ is expected to publish its data on nationwide house sales and prices this week.
- Since changes to tax rules and new RBNZ lending restrictions came into effect, the housing market in Auckland has slowed very sharply. Over Oct and Nov, house sales fell 27% and prices fell 6% (s.a.) in the region. We don't expect the Auckland market to continue to slow as sharply going forward, but this will be a key area to watch in December.
- With the Auckland market a big chunk of national turnover, this slowdown is weighing on the nationwide figures. But in other regions around NZ, housing market activity has been ticking along without too much fuss. There has been some evidence that investor activity has transferred outside of Auckland to centres like Hamilton and Tauranga.

REINZ house prices and sales

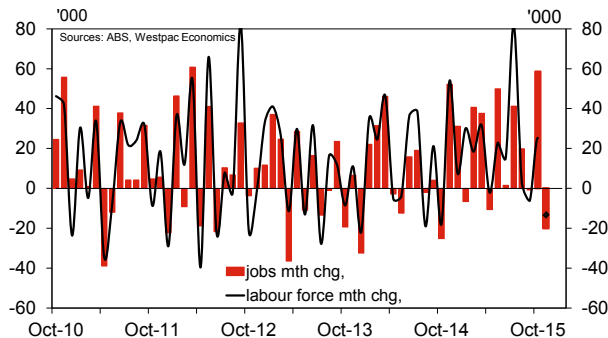


Aus Dec labour force survey - employment

Jan 14, Last: 71.4k, WBC f/c: -17k
Mkt f/c: -10k, Range: -45k to 15k

- While we can debate magnitudes, overall Australia currently has a robust labour market outside of WA.
- Total employment lifted 71.4k in Nov, more than triple the top of the market estimate of +20k. Westpac's forecast was -20k. Total employment grew 344.2k (or 3.0%) over the year to Nov, a significant acceleration from Sep's 2.0%yr.
- While the gross flows data is quite volatile, the Nov data (in original terms) does suggest that sample rotation may have played a role in boosting the result. If this was the case, and it was not part of an ongoing stronger underlying trend, it is likely we should see a correction of some sort in Dec.
- Our leading indicators suggest that total employment growth should be running around 2%yr versus the ABS' 3%yr. Our -17k forecast would take the annual rate down to 2.5%yr.

Labour force vs. total employment

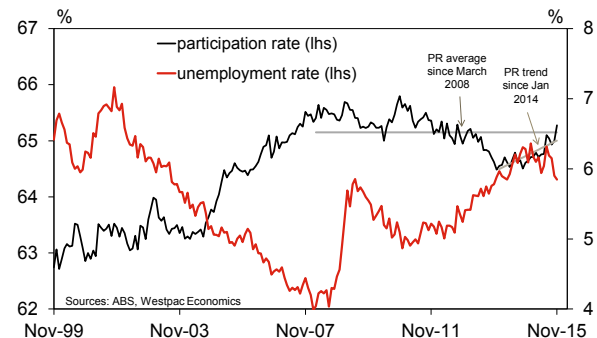


Aus Dec labour force survey - unemployment

Jan 14, Last: 5.8%, WBC f/c: 5.9%
Mkt f/c: 5.9%, Range: 5.8% to 6.0%

- The significant rise in employment in Nov was offset to some extent by a meaningful lift in participation from 65.0% to 65.3%. Nevertheless, the fall in the unemployment rate was still an impressive 0.1ppt, to 5.8%.
- Before you argue that this is all just monthly volatility, you should note the trend rise in participation since Dec 2013, when the participation rate bottomed out at 64.5%. The current participation rate is also around the average seen since Mar 2008, so it is far from an extreme print.
- As such, we are forecasting a modest pull back in the participation rate to 65.2%, limiting the rise in the unemployment rate to 5.9%.

Unemployment and participation rates

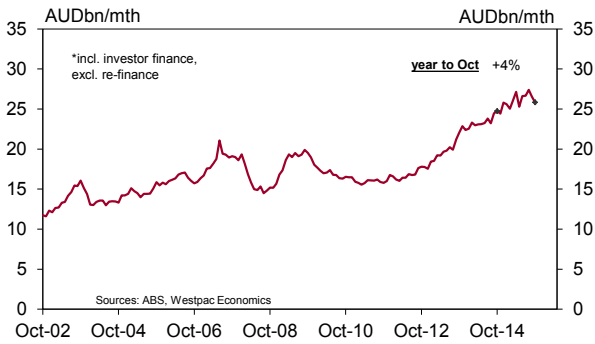


Aus Nov housing finance (no.)

Jan 15, Last: -0.5%, WBC f/c: -1.5%
 Mkt f/c: -0.5%, Range: -1.5% to 0.5%

- The number of owner occupier finance approvals dipped 0.5% in Oct, but was down 1.2% ex refi. The value of investor loans fell more sharply, -6.1% mth to be down 13.8% since Aug. Given the regulatory measures impacting investor lending and the indirect spillover boost to owner occupier loans, the best gauge of broader market conditions is the combined total value of loans. This declined 2.7% in Oct to be off 5.6% in two months.
- Housing markets are showing clear signs of cooling off, especially the previously 'hot' Sydney and Melbourne. We expect owner occupier approvals to show a 1.5% fall, with the total value of loans – covering both owner occupiers and investors – likely to show a decline as well.

New finance approvals: total

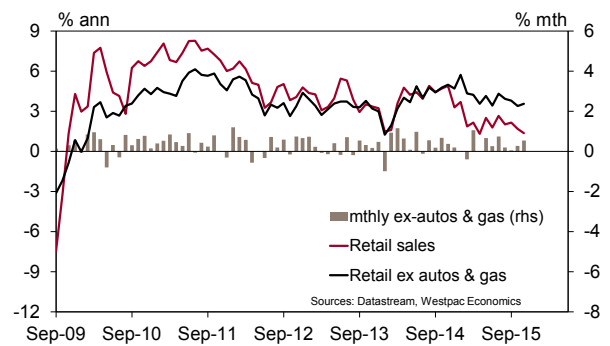


US Dec retail sales

Jan 15 Last: 0.2%, WBC f/c: 0.1%

- US retail sales have exhibited an underwhelming trend through 2015, with total retail sales up just 1.4% over the year to Nov.
- By and large, the primary cause of this persistent weakness has been the sharp decline in the price of oil, which continues to weigh heavily on nominal gasoline sales.
- That being said, annual growth in core sales also remains modest, 3.6%yr in Nov, amid volatile monthly outcomes.
- Come Dec, we expect total retail sales to again be little changed, with an incremental gain of 0.1%. Weakness in auto sales adds downside risk. Core retail sales should show stronger momentum, with a 0.4% gain.

US retail sales, momentum remains absent



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 11					
NZ	Dec REINZ house sales	-1.9%	-	-	Due this week. Sales falling on back of a sharp slowdown in Auckland.
	Dec REINZ house prices %yr	12.5%	-	-	Weaker Auckland market in last few months also weighing on prices.
	Nov building consents	5.1%	-	3.8%	Auckland remains key driver of lift in consent issuance.
Aus	Dec ANZ job ads %yr	12.3%yr	-	-	Growth in ads peaked in mid 2015 but appears to be getting a 2nd wind.
Eur	Sentix investor confidence	15.7	12.2	-	Tense global backdrop; fallible Dragi?
US	Dec labor market conditions index	0.5	-	-	Federal Reserve's composite indicator of the labour market.
Tue 12					
NZ	Dec ANZ Commodity Prices	-5.6%	-	-	Some stabilisation in prices expected.
UK	Nov industrial production	0.1%	0.1%	-	Soft global demand and the strong GBP are weighing on manufacturing.
US	NFIB small business optimism	94.8	95.2	-	Competition an issue; but strength in services a notable positive.
	Nov JOLTS job openings	5383	5400	-	Survey contains information on all labour market flows.
Wed 13					
NZ	Dec QV House prices %yr	15.0%	-	-	Auckland weak but market ticking along elsewhere.
Eur	Nov industrial production	0.6%	0.1%	-	A stronger global economy needed.
US	Federal Reserve's Beige Book	-	-	-	An update on conditions across the districts.
Can	Dec Teranet house prices	0.2%	-	-	Prices still up 6.1%yr at Nov; but momentum to slow.
Thu 14					
NZ	Dec electronic cards spending	0.3%	0.5%	0.6%	Fuel prices down, but spending on other goods firm.
Aus	Dec employment	71.4k	-10k	-17k	Labour market has improved but survey issues may also be a factor.
	Dec unemployment rate	5.8%	5.9%	5.9%	As employment has picked up so too has participation.
Eur	ECB policy meeting minutes	-	-	-	Details on policy effectiveness and Committee's willingness the focus.
UK	Bank of England rate decision	0.50%	0.50%	0.50%	Domestic activity has firmed, but external headwinds persist & inflation low.
US	Initial jobless claims	277k	-	-	Very low level of claims fits with tight labour market.
Fri 15					
NZ	Dec food prices	-0.2%	-	0.2%	Have been soft but expected to tick higher this month.
Aus	Nov housing finance	-0.5%	-0.5%	-1.5%	Housing markets clearly cooling off, especially Syd/Melb.
EU	Nov Trade Balance	19.9bn	-	-	External demand to remain of great importance to region.
UK	Nov construction output	0.2%	0.5%	-	Labour shortages are a constraint.
US	Dec retail sales	0.2%	0.1%	0.1%	Oil prices continue to weigh; autos a source of downside risk.
	Dec PPI	0.3%	-0.2%	-	Upstream inflation pressures absent; USD dampening import prices.
	Jan Empire manufacturing survey	-4.59	-4.00	-	Conditions weak in NY state.
	Dec industrial production	-0.6%	-0.2%	-	Mining heavily impacted by commodity prices; manufacturing the USD.
	Nov business inventories	flat	flat	-	Mid quarter partials pointing to significant inventory drag in Q4.
	Jan consumer sentiment, prelim	92.6	93.0	-	Uni of Mich measure; time to see how first hike will be digested.

New Zealand forecasts

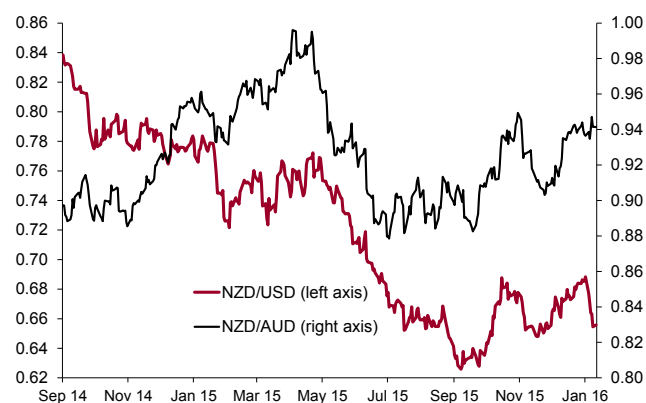
Economic Growth Forecasts	March years				Calendar years			
	2014	2015	2016f	2017f	2013	2014	2015f	2016f
% change								
GDP (Production) ann avg	2.5	3.2	2.2	2.2	2.3	3.3	2.4	2.0
Employment	3.8	3.2	1.0	2.3	2.9	3.6	1.2	2.1
Unemployment Rate % s.a.	6.0	5.8	6.4	6.3	6.1	5.7	6.3	6.4
CPI	1.5	0.3	1.1	1.5	1.6	0.8	0.3	1.7
Current Account Balance % of GDP	-2.6	-3.4	-3.7	-3.5	-3.2	-3.1	-3.4	-3.7

Financial Forecasts	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Cash	2.50	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.60	2.20	2.10	2.10	2.10	2.10
2 Year Swap	2.50	2.30	2.20	2.20	2.20	2.20
5 Year Swap	3.10	3.10	3.20	3.20	3.20	3.20
10 Year Bond	3.50	3.60	3.70	3.80	3.80	3.80
NZD/USD	0.63	0.62	0.62	0.62	0.62	0.62
NZD/AUD	0.93	0.94	0.93	0.90	0.89	0.87
NZD/JPY	78.1	77.5	78.1	78.7	76.9	76.9
NZD/EUR	0.60	0.60	0.60	0.60	0.59	0.58
NZD/GBP	0.43	0.42	0.42	0.41	0.40	0.39
TWI	69.8	69.6	69.4	68.7	68.0	67.4

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 11 January 2016

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.50%	2.50%	2.50%
30 Days	2.62%	2.63%	2.65%
60 Days	2.68%	2.69%	2.70%
90 Days	2.74%	2.76%	2.75%
2 Year Swap	2.78%	2.88%	2.77%
5 Year Swap	3.12%	3.23%	3.11%

NZ foreign currency mid-rates as at Monday 11 January 2016

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6558	0.6864	0.6718
NZD/EUR	0.6004	0.6258	0.6117
NZD/GBP	0.4514	0.4624	0.4413
NZD/JPY	76.90	82.62	81.33
NZD/AUD	0.9414	0.9440	0.9328
TWI	72.40	74.51	73.12



Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	2015f	2016f
Australia						
Real GDP % yr	2.7	3.5	2.0	2.6	2.3	2.8
CPI inflation % annual	3.0	2.2	2.7	1.7	1.7	2.2
Unemployment %	5.2	5.3	5.8	6.2	6.0	6.1
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.3	-5.5
United States						
Real GDP %yr	1.6	2.2	1.5	2.4	2.5	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	4.8
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	1.4
Euroland						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.4	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	3.6	3.8
World						
Real GDP %yr	4.2	3.4	3.3	3.4	3.1	3.5
Forecasts finalised 8 Dec 2015						

Interest Rate Forecasts	Latest	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.32	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.76	3.00	3.00	3.10	3.30	3.55
International						
Fed Funds	0.375	0.625	0.875	1.125	1.375	1.625
US 10 Year Bond	2.17	2.50	2.70	2.90	3.00	3.25
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
AUD/USD	0.7058	0.68	0.66	0.66	0.67	0.69
USD/JPY	118.25	125	126	127	128	125
EUR/USD	1.0888	1.05	1.02	1.02	1.03	1.06
AUD/NZD	1.0612	1.08	1.06	1.06	1.08	1.09

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