Emerald Lakes, Tongariro National Park

4 November 2013

Weekly Commentary

In this issue



# On the straight and narrow

Thursday's October OCR Review by the Reserve Bank was the focus for markets last week. As expected, the OCR remained unchanged at 2.5% and the Bank reiterated the core message contained in the September Monetary Policy Statement (MPS) – the OCR will have to go up next year, but the exact timing and extent of the hiking cycle depends on the degree to which the buoyant housing market and construction sector generates inflation pressure.

As expected, the most substantive change compared to the September MPS was a new sentence on the exchange rate. Here, the Bank struck a more dovish tone by acknowledging that the future trajectory of the OCR would depend on what happened to the exchange rate. A stronger NZ dollar means less inflation pressure which in turn leaves the Bank with greater flexibility around the timing and extent of OCR increases. This was a departure from past language which tended to express concern about the exchange rate in terms of the plight of exporters this was confusing for markets and made it sound like the RBNZ was targeting the exchange rate or exports rather than inflation. In reality, monetary policy can't affect New Zealand's export performance in a sustained manner.

For us, this reference to the NZ dollar was very much in line with expectations and cemented our call for a later start date for the OCR hiking cycle. We now expect things will kick off with a 25 basis point hike in April 2014 (previously March) which puts us on the same page as the RBNZ. Importantly, the outlook for the peak in the tightening cycle is unchanged. We still expect the OCR will need to rise to 5.5% by the end of 2016 in order to keep inflation within the 1-3% target band.

# On the straight and narrow continued

Currency gyrations aside, ultimately it will be burgeoning domestic inflation pressure which tips the RBNZ into tightening mode. We have started to see construction cost inflation gathering momentum and in time this will spread to the wider economy. But to date, inflation related measures in business surveys have been mixed. Expectations of general inflation rose to its highest level in over a year in ANZ's October survey of business activity (though at 2.38% are not yet particularly high relative to history) while pricing intentions pulled back after rising strongly in the previous couple of months.

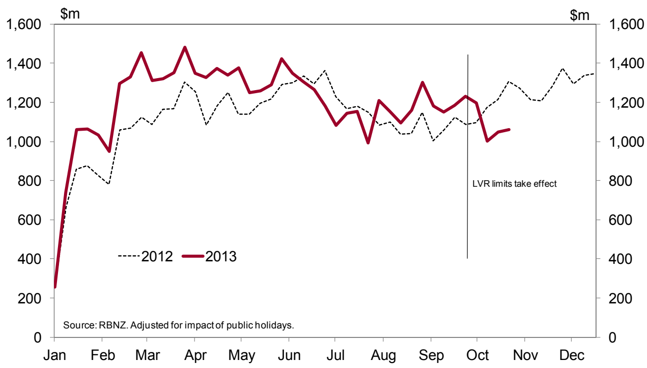
Yet while surveyed measures of inflation pressure have been mixed, activity components of business confidence surveys have been unambiguously strong. The more recent development of note has been that high levels of general confidence have been joined by a substantial lift in hiring (and investment intentions). Crucially, this suggests that firms are finally becoming confident enough about the future to make longer-term commitments. This should be reflected in this week's labour market data. The unemployment rate is forecast to fall to 6.1% in the September quarter but with plenty of spare capacity in most industries and inflation expectations relatively contained, wages will be more muted.

Another key piece of data last week was September building consents which provided an important update on activity in the construction sector. Residential consent issuance rose further in September. Excluding the volatile apartment component, consent issuance was up 2.6% in the month to reach a new five year high. In Canterbury, the rebuild is progressing and consent issuance has clearly taken a step up in the last few months, pushing issuance in the region to new all time highs. New records are likely to be set over the coming months as council processes are further streamlined and reconstruction is driven less by under-cap repairs and more by new building.

In contrast, growth in residential consent issuance in Auckland (the second regional hotbed of housing demand) has been a long way off record-breaking territory. While we fully expect construction activity in the region to ramp up further from here, in the near term, such subdued issuance will do little to relieve pressure in the undersupplied Auckland housing market.

As usual we are keeping a close eye on the impact of the RBNZ's new low equity lending restrictions. Complaints that the RBNZ's new low equity lending restrictions are impeding new home building have started surfacing. While anecdotes are notoriously difficult to interpret, such an effect is not entirely unexpected. The Reserve Bank acknowledged this might happen in published research estimating the impact of the restrictions. However its assessment is that ultimately the restrictions will limit demand more than they affect supply. Right now it's just too soon to tell whether this will hold true.

*Weekly mortgage approvals, by value*



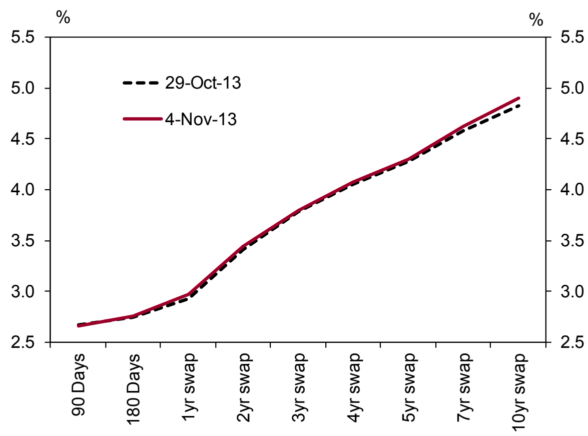

In September (the month before the new rules came into effect) mortgage lending by banks grew at a solid 0.5% (5.9% y/y). However timelier mortgage approval data suggests restrictions may be starting to bite. Since early October, when the LVR restrictions came into effect, mortgage approvals have been running about 15% down on the same time last year. But these figures don't include non-bank lenders and with a substantial volume of earlier pre-approvals still in the pipe-line, we aren't likely to see a change in the actual pace of credit growth, and housing turnover, until the November data at the very earliest. So for now our core view around the impact of higher mortgage rates and LVR restrictions on the housing market remains unchanged. We expect to see slowing turnover from around November this year with this to weigh on prices a couple of months after that.

## **Fixed vs Floating** for mortgages

We are now indifferent between fixing and floating.

In our view, interest rate markets are now "fairly priced". We expect short-term rates to rise substantially over the next three years. The level of long-term fixed rates, which are higher than short-term rates, is in tune with that expectation. This means we can discern no obvious interest rate advantage in any particular term. The decision can be treated as a risk management choice according to individual circumstances.

*NZ interest rates*



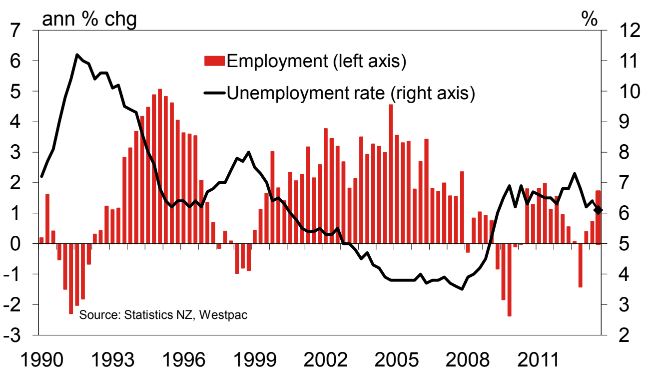
# The week ahead

## NZ Q3 household labour force survey

**Nov 6, Employment Last: 0.4%, WBC f/c: 0.6%, Mkt f/c: 0.6%**
**Unemployment rate Last: 6.4%, WBC f/c: 6.1%, Mkt f/c: 6.2%**

- We expect a small drop in the unemployment rate and modest employment growth over the September 2013 quarter, though with the usual risks to either side.
- Labour market indicators over the quarter have generally been positive. The Quarterly Survey of Business Opinion showed the strongest rise in staff numbers since March 2008, online job advertisements grew at an increasing pace, and benefit number continued to fall.
- However, the HLFS has been volatile on a quarterly basis and may have struggled to deal with population movements since the Canterbury earthquakes. The bigger picture to date has been of a continued gradual improvement in the labour market. It would take pervasive strength or weakness in Wednesday's data to shake that view.

*Household labour force survey*

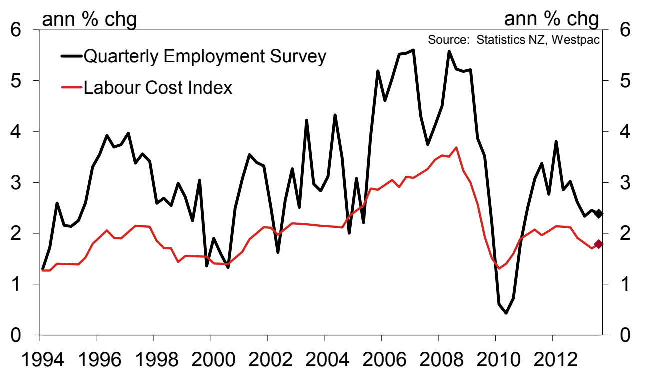



## NZ Q3 labour cost index

**Nov 6, LCI Last: 0.4%, WBC f/c: 0.6%, Mkt f/c: 0.5%**

- The Labour Cost Index (LCI) gives by far the cleanest read of New Zealand wage inflation – much more so than the QES's average hourly earnings measure.
- Overall labour cost increases have been held down by a subdued inflation environment to date, which is keeping cost of living adjustments down. Annual private sector wage growth edged down to 1.7% in the June quarter, and we expect only a small uptick to 1.8% in September.
- We will be parsing the details for signs that construction-related wage pressures are spreading. To date, wage inflation pressures have been fairly tightly confined within the Canterbury region. In contrast, the September quarter CPI showed growing evidence of housing-related inflation, and not just within Canterbury.

*NZ LCI and QES wages*

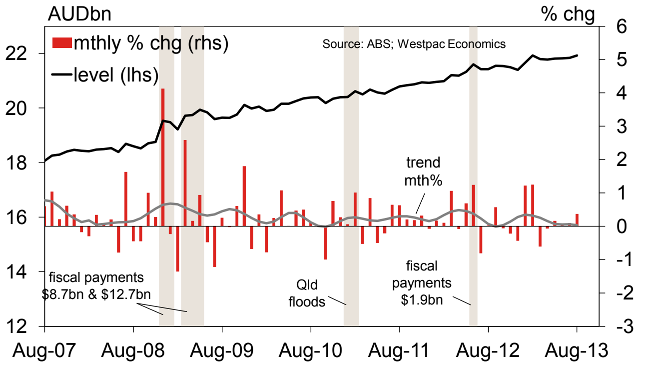



## Aus Sep retail trade

**Nov 4, Last: 0.4%, WBC f/c: 0.4%**
**Mkt f/c: 0.4%, Range: –0.2% to 0.8%**

- Although only so-so by historical standards, Aug's 0.4% rise in retail sales was the best result since Feb. Unfortunately, much of the monthly gain looks to be statistical 'pay-back' for seasonal adjustment 'anomalies' in Jul. The broad picture for retail is still one of little or no growth.
- The next few months' retail reads will be critical updates. Consumer sentiment rallied in Aug-Oct with survey responses also suggesting an easing in risk aversion. The RBA's 25bp rate cut in Aug would also have given disposable incomes a welcome boost in Sep, although labour markets remained soft and job-loss fears elevated. Business surveys suggest little or no improvement in trading conditions for retailers. Overall, we expect Sep sales to be up 0.4%, another modest gain all things considered.

*Monthly retail sales*

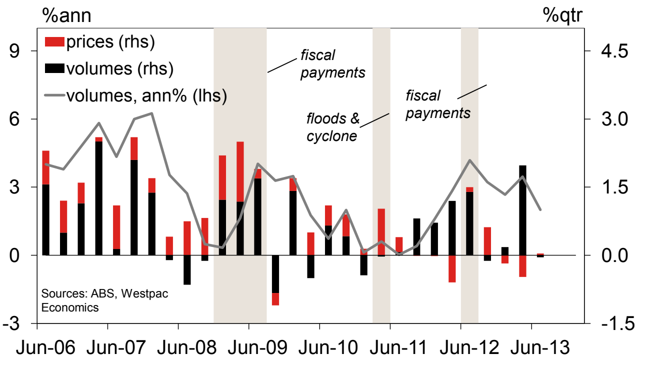



## Aus Q3 real retail sales

**Nov 4, Last: flat, WBC f/c: 0.3%**
**Mkt f/c: 0.2%, Range: –0.2% to 1.0%**

- Retail volumes flat-lined in Q2 after a 2% burst in Q1 and a weak 0.2% gain in Q4 of 2012. Abstracting from the stop-start quarterly profile, annual sales growth is running at 2%, a weak pace by historical standards.
- We expect the value of retail sales to be up 0.6% for Q3 as a whole, a clear improvement on Q2's flat nominal gain. However, the Q3 CPI suggests retail prices were slightly firmer with a 0.3% gain vs the 0.1% rise in Q2. The net result implies a 0.3%qtr gain in real retail sales, i.e. volumes, lifting the annual growth rate to a still soft 2.4%yr.

*Quarterly retail volumes and prices*



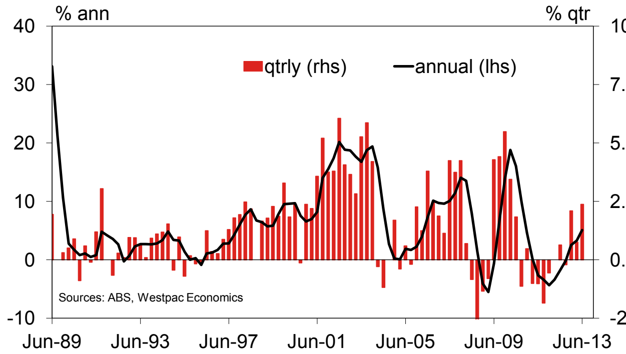
# The week ahead

## Aus Q3 house price index

**Nov 4, Last: 2.4%, WBC f/c: 2.0%**
**Mkt f/c: 2.2%, Range: 1.5% to 3.0%**

- The ABS measure posted a robust 2.4% gain in Q2 to be up 5.0%yr, broadly in line with private sector measures at the time. House prices got a wriggle on in Q3 with private sector measures showing a significant quickening in most markets. Sydney stands out with auction clearance rates hitting record highs and price gains running at a double-digit annual pace. Conditions have been more uneven elsewhere, with prices still notably soft in Brisbane and Adelaide.
- Available private measures show Q3 gains of 2.2%qtr, 7.8%yr (APM), 3.8%qtr, 5.7%yr (RP Data-Rismark), and 1.0%qtr, 4.7%yr (Residex to Aug). Some of the variation reflects different quarterly profiles on price moves over the 12mths. Overall, we expect the ABS measure to show a 2.0% gain for Q3, lifting annual growth to 7.4%yr. Note that the Bureau is making major changes to this publication from the Q4 release on, including expanded price measures that cover units etc.

*Established house prices, ABS measure*

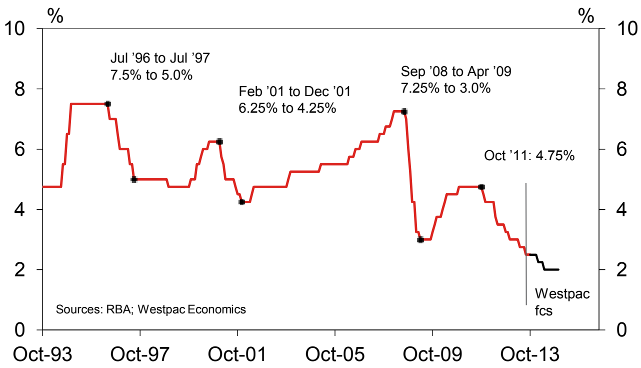



## Aus RBA policy announcement

**Nov 5, Last: 2.50%, WBC f/c: 2.50%**
**Mkt f/c: 2.50%, Range: 2.50% to 2.50%**

- The RBA is expected to leave the cash rate on hold at 2.5% at its Nov meeting.
- The Bank's 'Melbourne Cup Day' Nov meeting has seen a remarkable run of rate change decisions over the last decade – seven of the last ten meetings have seen policy moves. That was not the case in 2012 though and is very unlikely to be in 2013 either. After making a 25bp rate cut in Aug, the Bank has kept rates on hold with 'neutral' wording in the Governor's statements accompanying the Sep and Oct decisions but an implicit easing bias revealed in subsequently released minutes. We expect to see a similar mix with the Nov meeting, but retain our view that rates will need to lowered further in the first half of 2014 to support growth momentum.

*RBA cash rate: easing cycles*

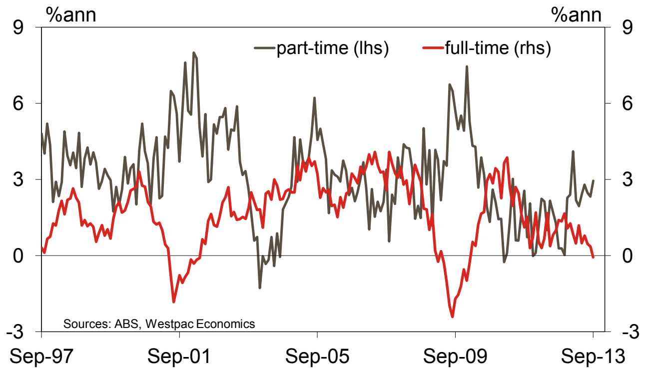



## Aus October employment

**Nov 7, Last: 9.1k, WBC f/c: –10k**
**Mkt f/c: 10k, Range: –10k to 40k**

- Total employment rose by 9.1k in September, disappointing expectations. That left annual employment growth at an insipid 0.8%yr. Total hours worked also fell 0.4% in the month, bringing annual growth in hours worked broadly into line with employment.
- In 2013, the mix of employment has remained poor, with 69.6k of the total jobs created part-time in nature; that contrasts to just 10.8k full-time jobs.
- We expect the poor 2013 employment trend to continue in October, in line with ongoing soft conditions. Despite the pick-up in business confidence following the election, the surveys suggest employment remains tepid. Total employment is expected to decline by 10k in the month, leaving annual growth broadly unchanged at 0.8%yr.

*Part-time employment growth well ahead*

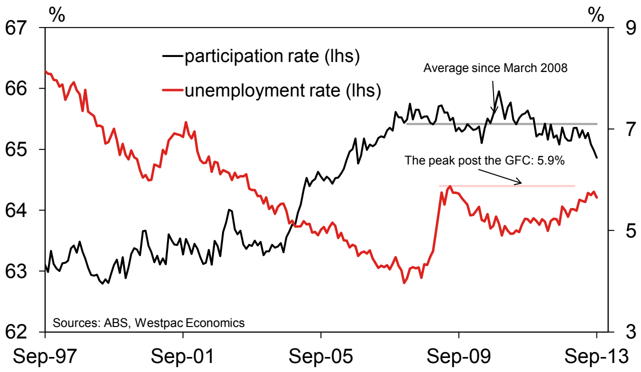



## Aus October unemployment rate

**Nov 7, Last: 5.6%, WBC f/c: 5.7%**
**Mkt f/c: 5.7%, Range: 5.6% to 5.9%**

- Despite the poor employment outcome in September, the unemployment rate reportedly fell from 5.8% to 5.6%. At two decimal places, the fall was only slightly more than 0.1ppts.
- The decline in the unemployment rate came about owing to a further fall in the participation rate, from 64.98% to 64.86%.
- A declining participation rate has been an enduring theme of late, holding the unemployment rate down despite poor employment growth. This is immediately apparent from the current level of the employment-to-population ratio: at 61.2%, it is below the low point reached in 2009.
- In October, we expect a further modest fall in the participation rate (to 64.76%) will temper the rise in the unemployment rate to 5.7%.

*Unemployment and participation rates*

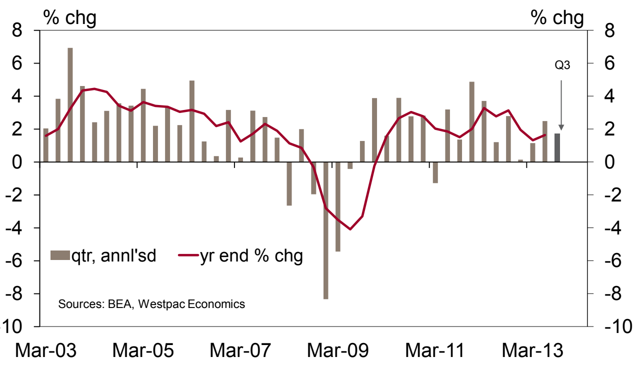


## US Q3 GDP growth: slower due gov't, destocking

**Nov 7, Last: 2.5% ann'lsd, WBC f/c: 1.7%**

- US GDP grew 2.5% annualised in Q2 (revised up from 1.7% in the advance report), but each of the four quarters prior to Q2 saw growth revised lower, such that the annual pace of growth in Q1 2013 was revised down from 1.6%yr to 1.3%yr. In Q2, it regained 1.6%yr. There were upward revisions to growth in Q1 2012 and earlier, even more starkly emphasising how the economy had lost momentum. When the Fed started QE3 in September last year, the economy was growing at 3.1%yr; in Q2, it was running at half that pace.
- We expect ongoing modest growth at a similar pace to Q2 for consumption, slightly softer housing and business spending, and a steeper drag from government spending as the sequester really bites. Inventories are a downside risk, while net exports are not expected to contribute to growth. All told, GDP growth probably slowed to a 1.7% annualised pace in Q3.

*US GDP growth*

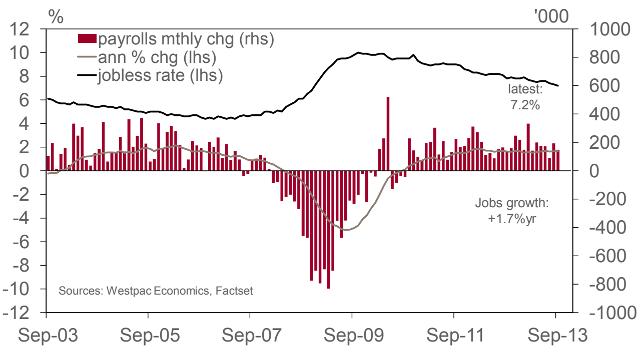



## US Oct payrolls: weak; some shutdown impact

**Nov 8, Payrolls: Last: 148k, WBC f/c: 140k**

- Coming in at 148k, the Sep payrolls print disappointed market expectations of around 180k. Over the six months to March 2013, nonfarm payrolls reported an average of 208k new jobs per month. The rate of gain decelerated to 182k in Q2, then to just 143k in Q3 owing to soft private-sector employment growth which slowed even further in Oct according to ADP.
- Oct's furloughed govt workers will be paid and remained on payrolls, but related private sector layoffs will weigh on payrolls. There is a greater degree of uncertainty over the household survey. It seems intuitive that Oct payrolls should be weaker than the Q3 average. We expect 140k and a tick up in the jobless rate to 7.3%. Note sampling differences due to the shutdown impacting data gathering should not be significant given the delayed release date, but will be reported by the BLS if considered relevant.

*US payrolls*

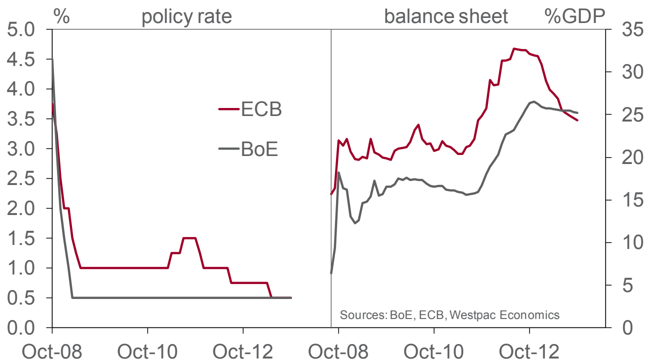



## European Central Bank and Bank of England

**Nov 7, ECB repo rate: Last: 0.5%, WBC f/c: 0.5%**
**Nov 7, BoE rate: Last 0.5%, WBC f/c: 0.5%**

- The Oct statement reiterated the "weak... fragile... uneven" recovery description; concern about evaporating lending to SMEs; and the possibility of further policy action from "a whole array of instruments". Since then, inflation has tumbled, unemployment hit a new cycle high, French/German retailing flatlined, but Spain "exited" its 2+ year recession with 0.1% growth in Q3 and Euro touched a 2-year high at USD1.38. No new ECB policy measures are expected in Nov, but if data weakness persists or Fed policy/ECB bank stress test-related asset repatriation push euro to 1.40+, another LTRO or extended unlimited s-t funding will be announced within months.
- Upgraded Bank of England growth and inflation forecasts will change the policy guidance timing, but that won't be revealed until the week after the Nov 7 policy decision at Gov Carney's second inflation report press conference.

*ECB & BoE*



# Data calendar

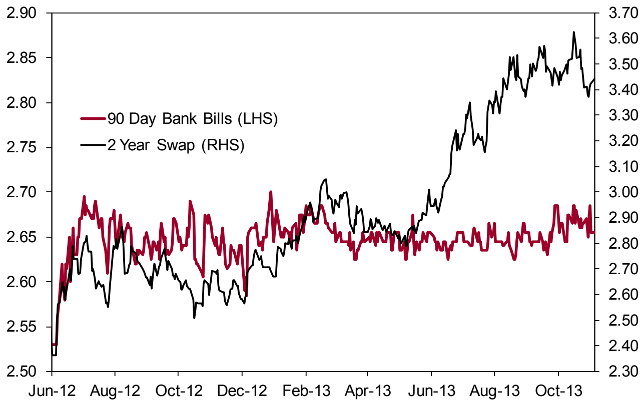
| | | Last | Market median | Westpac forecast | Risk/Comment |
|---|---|---|---|---|---|
| **Mon 4** | | | | | |
| **NZ** | Oct commodity price index | 0.9% | - | - | Expected to remain high. |
| **Aus** | Oct TD–MI inflation gauge %mth | 0.2% | - | - | The Q3 1.2% jump in CPI almost caught up to the fast running Gauge. |
| | Oct ANZ job ads %mth | 0.2% | - | - | Job ads –15%yr and is yet to show signs of a meaningful turnaround. |
| | Q3 ABS house price index | 2.4% | 2.2% | 2.0% | Private sector measures point to significant pick up in price growth. |
| | Sep retail sales | 0.4% | 0.4% | 0.4% | A critical read on whether sentiment rally is seeing a lift in spending ... |
| | Q3 real retail sales | flat | 0.2% | 0.3% | ... so far the reaction looks to be muted. |
| **Eur** | Nov Sentix investor confidence | 6.1 | 6.5 | 5 | Euro gains, plunging inflation, weak activity data - starting to impact. |
| | Oct PMI factory final | 51.3 a | 51.3 | 51.3 | Indicative of modest expansion continuing into Q4. |
| **UK** | Oct house prices %yr | 6.2% | 7.0% | - | Halifax index due 4-8 Nov. |
| | Oct PMI construction | 58.9 | 58.5 | 59 | Sector uplift through 2013. |
| **US** | Oct ISM New York | 53.6 | - | 57 | Post govt shutdown bounce likely. |
| | Aug/Sep factory orders | - | - | - | Double release as Aug data delayed by govt shutdown. |
| | Fedspeak | - | - | - | Powell, Rosengren. |
| **Tue 5** | | | | | |
| **Aus** | RBA policy decision | 2.5% | 2.5% | 2.5% | Nov meeting does not look to be 'live' - see p2. |
| **Chn** | Oct HSBC services PMI | 52.4 | - | - | Trailing official measure by some margin. |
| **Eur** | Sep PPI %yr | -0.8% | -0.8% | -0.7% | German PPI fell in Aug and Sep in annual terms. |
| | European Commission qtly forecasts | 1.2% | - | - | 2014 growth forecast too optimistic relative to our -0.1% view. |
| **UK** | Oct BRC sales %yr | 0.7% | - | - | Same store sales. |
| | Oct PMI services | 60.3 | 60 | 51 | All time high (since 2006) in Q3. |
| **US** | Oct ISM non-manufacturing | 54.4 | 54 | 56 | Post government shutdown bounce, probably temporary. |
| | Nov IBD-TIPP economic optimism | 38.4 | - | 41 | Post government shutdown bounce. |
| | Fedspeak | - | - | - | Lacker,Williams. |
| **Wed 6** | | | | | |
| **NZ** | GlobalDairyTrade auction | -1.9% | - | - | Despite strong growth in NZ dairy production, prices appear well supported. |
| | Q3 HLFS employment | 0.4% | 0.6% | 0.6% | Further modest growth, in line with a steady expansion phase. |
| | Q3 HLFS unemployment rate | 6.4% | 6.2% | 6.1% | Trending lower after an upward correction in Q2. |
| | Q3 QES average hourly earnings | 0.4% | - | 1.4% | QES employment and hours are an important guide to near-term GDP. |
| | Q3 labour cost index | 0.4% | 0.5% | 0.6% | Wage growth to remain modest on the back of low past inflation. |
| **Aus** | Sep trade balance | -815 | -500 | -500 | Stong export volumes help narrow trade deficit. |
| **Eur** | Sep retail sales | 0.7% | -0.5% | -0.7% | German retail sales and French consumer spending weak. |
| | Oct PMI services final | 50.9 a | 50.9 | 51 | Buoyant Eurozone business surveys this week suggest upward revision. |
| **Ger** | Sep factory orders | -0.3% | 0.5% | -0.3% | Third straight fall would be first triple down since 2011. |
| **UK** | Oct BRC shop price index %yr | -0.2% | - | - | Sometimes useful guide to direction of change of annual CPI. |
| | Sep industrial production | -1.1% | 0.6% | - | Official data yet to match PMI strength. |
| **US** | Oct corporate layoffs %yr | 19.1% | - | - | Challenger series. |
| | Sep leading index | 0.7% | 0.6% | - | Too early to show govt shutdown impact. |
| | Fedspeak | - | - | - | Pianalto. |
| **Can** | Sep building permits | -21.2% | - | - | Weakness led by non-residential, down 28% in Aug, res -5.4% in Aug. |
| | Oct Ivey PMI | 51.9 | - | 53 | Less volatile than in H1 2013, but weaker. |
| **Thu 7** | | | | | |
| **Aus** | Oct employment '000 | 9.1k | 10k | -10k | Yet to see a pick up in employment from the business surveys. |
| | Oct unemployment rate | 5.6% | 5.7% | 5.7% | A falling part-rate resulted in a falling unemployment rate in Sept. |
| **Eur** | ECB rate decision | 0.5% | 0.5% | 0.5% | Press conference will be sombre given collapsing inflation, euro gains. |
| **Ger** | Sep industrial production | 1.4% | 0.0% | -0.2% | PMI, orders data suggest Aug gain unsustainable. |
| **UK** | BOE policy decision | 0.5% | 0.5% | 0.5% | Asset purchases to remain suspended at £375bn. See text box. |
| **US** | Initial jobless claims w/e Nov 1 | 340k | 333k | 330k | Still elevated due to govt shutdown. |
| | Q3 GDP advance % annualised | 2.5% | 1.9% | 1.7% | Slower growth as sequester bites. See text box. |
| | Sep consumer credit $bn | $13.60 | $12.50 | - | Student and auto loans the main driver still. |
| **Fri 8** | | | | | |
| **Aus** | Nov RBA Statement on Monetary Policy | - | - | - | We expect the Bank to maintain its forecasts, see p2. |
| **Chn** | Oct trade balance USDbn | 15.2 | 24.3 | - | Sound raw material imports, soft exports, slowing imports of components. |
| **Ger** | Sep exports | 1.0% | 0.6% | 0.0% | Industrial sector failing to gain much altitude. |
| **UK** | Sep exports | 1.1% | - | - | Aug trade deficit £9.6bn. |
| | Sep construction output | -0.1% | - | - | Up 4%yr. |
| **US** | Oct non-farm payrolls ch' | 148k | 130k | 140k | See text box for thoughts behind delayed Oct jobs report. |
| | Oct jobless rate | 7.2% | 7.3% | 7.3% | Unemployment rate to be impacted by gov't workers and part rate. |
| | Sep core PCE deflator | 0.2% | 0.1% | 0.1% | Core CPI was 0.1% in Sep. |
| | Sep personal income | 0.4% | 0.3% | 0.1% | Hourly earnings up 0.1% in Sep, hours worked flat. |
| | Sep personal spending | 0.3% | 0.2% | 0.1% | Retail sales down in Sep. Data less mkt sensitive as Q3 data out 7/11. |
| | Nov UoM consumer sentiment prelim | 73.2 | 74.2 | 76 | Post government shutdown bounce. |
| | Fedspeak | - | - | - | Bernanke (on financial crises), Fisher, Lockhart, Williams. |
| **Can** | Oct housing starts | 5.3% | - | - | Sep bounce led by multiples. |
| | Oct employment ch | 12k | 15k | 15k | Jobs up 11k month average in Q3. |
| **Sat 9** | | | | | |
| **Chn** | Oct CPI %yr | 3.1% | 3.3% | - | Tentative date: Sep jump was all food, via fresh vegetables. |
| | Oct PPI %yr | -1.3% | -1.4% | - | Tentative date: Raw, intermediate, capital intensive all deflating. |
| | Oct industrial production %yr | 10.2% | - | - | Inventory mini-cycle maturing, base effects becoming less favourable. |
| | Oct fixed investment %ytd | 20.2% | 20.2% | - | Infrastructure cycle has rolled over, real estate improving. |
| | Oct retail sales %yr | 13.3% | 13.4% | - | Auto sales improved in September, labour market has firmed slightly. |

# New Zealand forecasts

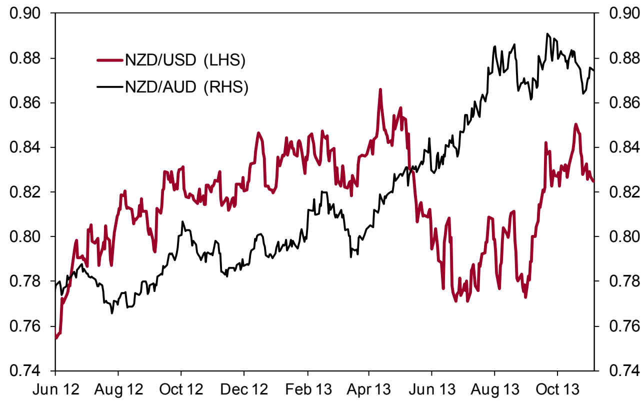
| Economic Growth Forecasts | March years | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|
| % change | 2012 | 2013f | 2014f | 2015f | 2011 | 2012 | 2013f | 2014f |
| GDP (Production) ann avg | 1.9 | 2.7 | 3.0 | 3.8 | 1.4 | 2.7 | 2.8 | 3.8 |
| Employment | 1.0 | 0.4 | 2.6 | 2.7 | 1.5 | -1.4 | 3.8 | 2.8 |
| Unemployment Rate % s.a. | 6.8 | 6.2 | 5.6 | 5.1 | 6.3 | 6.8 | 5.7 | 5.0 |
| CPI | 1.6 | 0.9 | 1.3 | 2.2 | 1.8 | 0.9 | 1.5 | 1.9 |
| Current Account Balance % of GDP | -3.8 | -4.5 | -3.8 | -4.9 | -3.6 | -4.7 | -3.9 | -4.4 |

| Financial Forecasts | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|---|---|---|---|---|---|---|
| Cash | 2.50 | 2.50 | 3.00 | 3.25 | 3.50 | 3.75 |
| 90 Day bill | 2.65 | 2.90 | 3.25 | 3.50 | 3.75 | 4.00 |
| 2 Year Swap | 3.50 | 3.70 | 3.90 | 4.10 | 4.40 | 4.60 |
| 5 Year Swap | 4.50 | 4.60 | 4.70 | 4.80 | 4.90 | 5.00 |
| 10 Year Bond | 4.60 | 4.70 | 4.75 | 4.80 | 4.85 | 4.90 |
| NZD/USD | 0.85 | 0.84 | 0.82 | 0.79 | 0.77 | 0.76 |
| NZD/AUD | 0.89 | 0.90 | 0.91 | 0.91 | 0.90 | 0.90 |
| NZD/JPY | 82.5 | 80.6 | 77.9 | 74.3 | 71.1 | 70.4 |
| NZD/EUR | 0.63 | 0.63 | 0.64 | 0.64 | 0.64 | 0.63 |
| NZD/GBP | 0.52 | 0.52 | 0.51 | 0.51 | 0.50 | 0.48 |
| TWI | 78.5 | 78.3 | 77.8 | 76.3 | 74.7 | 74.1 |

*2 Year Swap and 90 Day Bank Bills*




*NZD/USD and NZD/AUD*




*NZ interest rates as at market open on Monday 4 Nov 2013*

| Interest Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| Cash | 2.50% | 2.50% | 2.50% |
| 30 Days | 2.66% | 2.66% | 2.64% |
| 60 Days | 2.66% | 2.67% | 2.65% |
| 90 Days | 2.66% | 2.68% | 2.66% |
| 2 Year Swap | 3.44% | 3.55% | 3.46% |
| 5 Year Swap | 4.30% | 4.45% | 4.37% |

*NZ foreign currency mid-rates as at Monday 4 Nov 2013*

| Exchange Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| NZD/USD | 0.8250 | 0.8491 | 0.8321 |
| NZD/EUR | 0.6117 | 0.6205 | 0.6133 |
| NZD/GBP | 0.5180 | 0.5250 | 0.5192 |
| NZD/JPY | 81.45 | 83.09 | 80.95 |
| NZD/AUD | 0.8744 | 0.8779 | 0.8812 |
| TWI | 76.79 | 78.14 | 77.17 |

# International forecasts

## Economic and Financial Forecasts

| Economic Forecasts (Calendar Years) | 2009 | 2010 | 2011 | 2012 | 2013f | 2014f |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Real GDP % yr | 1.4 | 2.5 | 2.4 | 3.7 | 2.5 | 2.3 |
| CPI inflation % annual | 2.1 | 2.8 | 3.0 | 2.2 | 2.1 | 2.7 |
| Unemployment % | 5.6 | 5.2 | 5.2 | 5.4 | 6.1 | 6.7 |
| Current Account % GDP | -4.2 | -2.9 | -2.3 | -3.7 | -2.6 | -3.0 |
| **United States** | | | | | | |
| Real GDP %yr | -3.1 | 2.4 | 1.8 | 2.8 | 1.5 | 1.7 |
| Consumer Prices %yr | -0.3 | 1.6 | 3.1 | 2.1 | 1.4 | 1.6 |
| Unemployment Rate % | 9.3 | 9.6 | 8.9 | 8.1 | 7.6 | 7.5 |
| Current Account %GDP | -2.7 | -3.0 | -2.9 | -2.7 | -2.5 | -2.7 |
| **Japan** | | | | | | |
| Real GDP %yr | -5.7 | 4.9 | -0.5 | 1.9 | 1.9 | 2.4 |
| Consumer Prices %yr | -1.3 | -0.7 | -0.3 | 0.0 | -0.2 | 0.1 |
| Unemployment Rate % | 5.2 | 5.1 | 4.5 | 4.3 | 4.3 | 4.3 |
| Current Account %GDP | 2.8 | 3.6 | 2.0 | 2.1 | 2.0 | 2.0 |
| **Euroland** | | | | | | |
| Real GDP %yr | -4.4 | 1.9 | 1.6 | -0.6 | -0.5 | -0.1 |
| Consumer Prices %yr | 0.3 | 1.7 | 2.7 | 2.2 | 1.4 | 1.2 |
| Unemployment Rate % | 9.5 | 10.0 | 10.1 | 11.7 | 12.4 | 13.0 |
| Current Account %GDP | -0.2 | -0.1 | 0.0 | 0.9 | 1.0 | 1.0 |
| **United Kingdom** | | | | | | |
| Real GDP %yr | -4.0 | 1.8 | 0.9 | 0.2 | 1.1 | 0.9 |
| Consumer Prices %yr | 2.2 | 3.2 | 4.0 | 2.8 | 2.3 | 1.8 |
| Unemployment Rate % | 7.6 | 7.8 | 8.4 | 8.0 | 8.5 | 8.5 |
| Current Account %GDP | -1.3 | -2.5 | -1.9 | -3.8 | -2.5 | -1.5 |
| Forecasts finalised 7 October 2013 | | | | | | |

| Interest Rate Forecasts | Latest | Dec 13 | Mar 14 | Jun 14 | Sep 14 | Dec 14 |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Cash | 2.50 | 2.50 | 2.25 | 2.00 | 2.00 | 2.00 |
| 90 Day Bill | 2.58 | 2.60 | 2.35 | 2.10 | 2.10 | 2.10 |
| 10 Year Bond | 4.07 | 3.75 | 3.60 | 3.40 | 3.80 | 4.00 |
| **International** | | | | | | |
| Fed Funds | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 |
| US 10 Year Bond | 2.56 | 2.35 | 2.40 | 2.40 | 2.80 | 3.00 |
| ECB Repo Rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |

| Exchange Rate Forecasts | Latest | Dec 13 | Mar 14 | Jun 14 | Sep 14 | Dec 14 |
|---|---|---|---|---|---|---|
| AUD/USD | 0.9477 | 0.95 | 0.93 | 0.90 | 0.87 | 0.85 |
| USD/JPY | 97.94 | 97 | 96 | 95 | 94 | 93 |
| EUR/USD | 1.3552 | 1.36 | 1.33 | 1.28 | 1.23 | 1.20 |
| AUD/NZD | 1.1475 | 1.14 | 1.11 | 1.10 | 1.10 | 1.10 |

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