# Making gains, but with house price pains

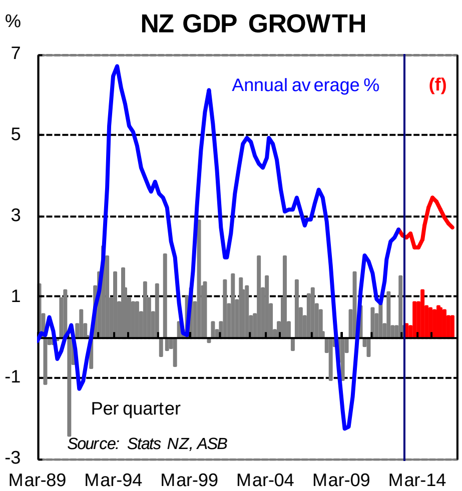
- NZ's recovery appears to be broadening in nature, though drought is still causing hurt this year.
- Global growth is mixed: Eurozone woes fester, Australia faces Chinese uncertainty, but US resilient.
- RBNZ's house price concerns have it reaching for its macro-prudential toolkit.

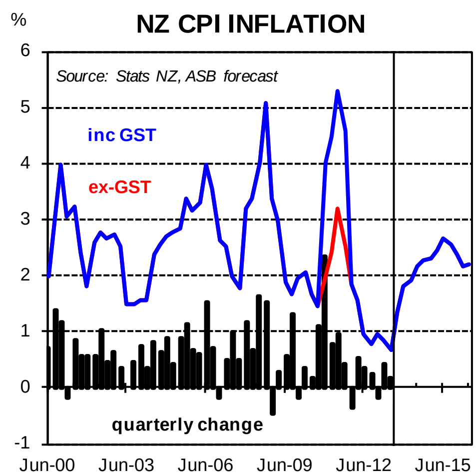
The NZ economy is making steady progress with its recovery from the deep recession over 2008 and 2009. Overall growth is still modest this year, in large part due to the impact of this year's drought. But momentum is becoming more evident across a broader range of economic activity, which is a pleasing development. Some events are going NZ's way. The NZ dollar has moderated against several currencies – this will be a relief for a number of exporters. Dairy prices have been strong enough, in the wake of the drought, to enable Fonterra to forecast a robust milk payout for the new season. Nevertheless, NZ does still face challenges. Strong house price growth in Auckland and Canterbury is causing the RBNZ concerns that any future pullback in prices could impact the financial system and broader economy. And the global environment still has potholes.

The domestic story is encouraging. The rebuild of Canterbury continues to gather momentum, as illustrated in our Cantometer. Recovery in the region is spreading beyond construction to other activity such as employment, strength in retail spending, car registrations, and a sharp pick-up in net external migration to the region. The strong housing market in Auckland is encouraging a degree of added building there, with more to come given the shortage of homes for sale. Retail spending in general is picking up a little more momentum, with the drivers more than just attributable to the housing market. Recent manufacturing surveys suggest that sector is recovering, no doubt aided by the expanding construction sector.

But over in Europe political instability is on the rise in Portugal and Spain, and Germany is reluctant to do anything adventurous to resolve the debt crisis ahead of its looming federal election. Closer to home, China's economic growth appears to be stabilising, but a recent crackdown on the 'shadow' banking system has raised fears growth could suffer in the near term. Australia is still undergoing a baton change from strong mining investment growth to boosting the non-mining sector via interest rate cuts and a fall in the Australian dollar. The Lucky Country is facing a degree of uncertainty over the success of this transition, not helped by other potentially unsettling developments involving sports coaches and a looming election (one that risks profiling 'budgie smugglers'). But as offsets to these risks, the US economy has shown enough encouraging signs for the Federal Reserve to signal it may soon slow the pace of its quantitative easing. Japan, which is embarking on aggressive quantitative easing, has seen stronger growth courtesy of a weaker yen.

Domestic developments have the RBNZ in a bind. As we discuss in this Quarterly's feature article, the on-going strength in the housing market is concerning the RBNZ that house prices could overshoot – creating a risk that house prices slump if NZ experiences an economic shock. The price squeeze is partly due to lack of construction in Auckland and Canterbury, partly to low mortgage rates making property more attractive in an environment of greater confidence. Barring an instant supply response, higher interest rates are the most effective way to curb rising house prices. But the inflation outlook doesn't warrant higher interest rates yet. That leaves the RBNZ reaching for its macro-prudential tools, with a strong likelihood it imposes restrictions on new mortgage lending at high (80+%) loan-to-value ratios. We still expect higher interest rates will be needed to rein in the housing market, even if LVR limits are put in place. But such limits risk placing the burden of dealing with overheating house prices on first-home buyers, arguably the most deserving of prospective home buyers.

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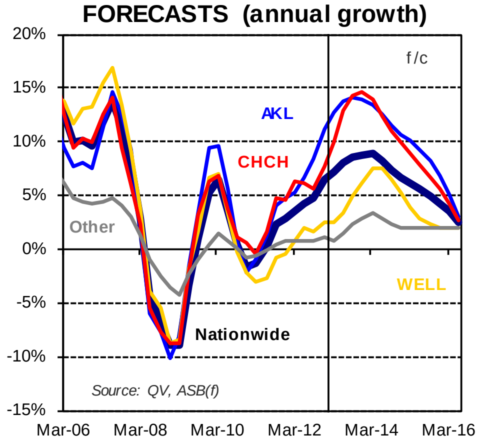
# Looking to reduce housing market pressures

**Housing market strength led by Auckland and Canterbury.**

House prices have steadily lifted since early 2011. Initially the increase was Auckland/Canterbury-centric due to undersupply. Since the Canterbury earthquakes, the challenging repair and rebuild process means Canterbury's housing stock remains substantially reduced. Meanwhile, strong and steady population growth in Auckland has put pressure on a region that had been underbuilding since the 2008 recession. Building activity in Auckland and Canterbury has since responded to supply shortages and increased over the past year. However, the supply response has been slow and it will be a number of years before the supply/demand imbalance is fully restored. A concerning development on the supply response is the strong growth in land prices over 2012 which has muted the price signal to build more houses rather than buy an existing one.

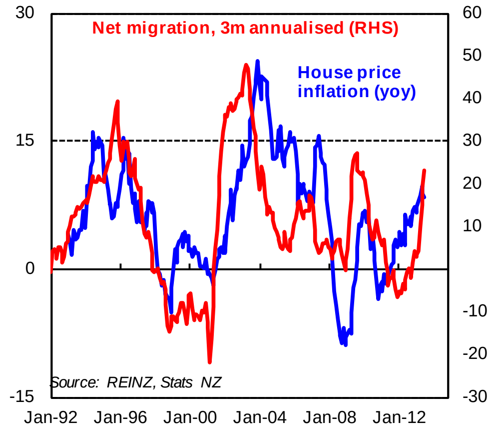
REGIONAL HOUSE PRICE FORECASTS (annual growth)




**Housing demand supported by low interest rates, recovering labour market and improving consumer confidence.**

More recently, housing demand has gradually lifted, becoming a contributing factor to broader housing market dynamics over the past 6 months. Low interest rates, a recovering labour market and increased consumer confidence have contributed to increased housing demand. The turnaround in net migration to positive inflows over 2013 will also add further to demand for housing. Meanwhile, investors have noticed the housing shortfall and potential for capital gains. Investor confidence in housing returns has steadily lifted over the past year.

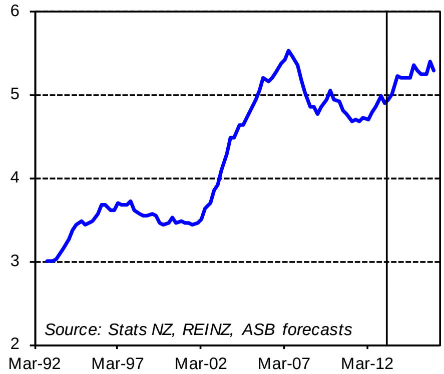
HOUSE PRICES & MIGRATION




**RBNZ wary of spill-over effects to consumer demand.**

In Auckland and Canterbury, house prices are now growing at double-digit rates. Outside of these areas, prices are growing at 4-5% per annum. From a monetary policy perspective the RBNZ will be mindful of the wealth impacts of stronger house prices, and the spillover to stronger consumer demand. From a financial stability perspective, the RBNZ is concerned house prices (and debt levels) have increased from already-elevated levels relative to fundamentals such as household income. Nationwide house prices are currently 5x household disposable incomes. The IMF sees the ideal level as being below 4x. Based off our house price inflation forecasts, house prices are likely to rise to 5.3x income by the end of 2015.

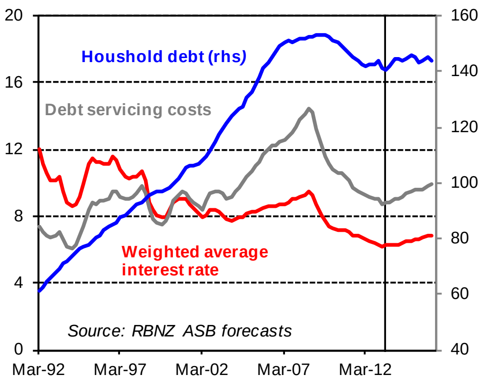
HOUSE PRICE TO HOUSEHOLD DISPOSABLE INCOME RATIO




**Low inflation environment means little urgency to lift OCR.**

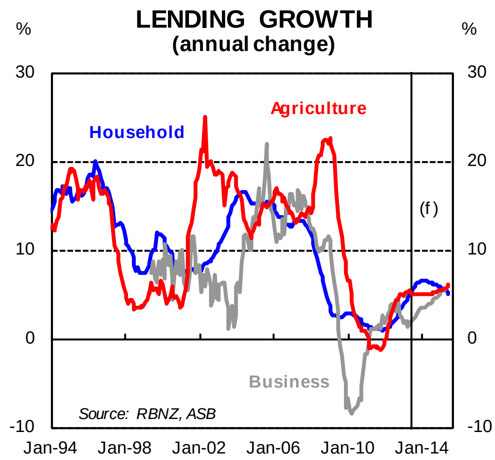
Low interest rates have played a role in contributing to high house prices. Very low debt servicing costs (as a share of disposable income) have maintained affordability of home ownership and reduced buyer resistance to the increase in house prices. Higher interest rates would reduce affordability and limit the growth in house prices. However, with inflation pressures muted, the RBNZ has been wary of lifting the OCR. Instead, it is seriously considering alternatives such as macro-prudential tools.

HOUSEHOLD DEBT & INTEREST COST (% of disposable income)



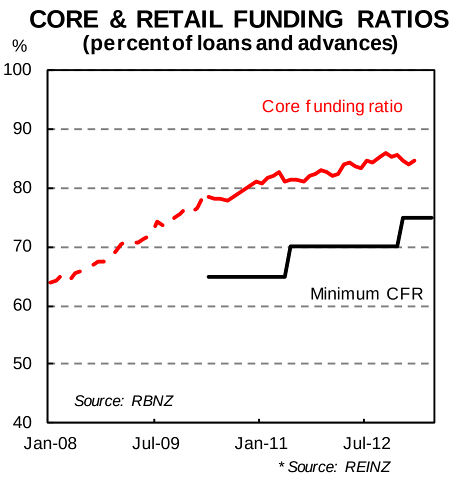
**RBNZ looking to Macro-prudential toolkit.**

Macro-prudential tools are intended to bolster the soundness of the overall financial system. The Governor of the Reserve Bank and Minister of Finance signed a [Memorandum of Understanding on Macro-Prudential Policy] in May. This outlines the governance arrangements for the use of the four macro-prudential tools it had publicly consulted on earlier this year : 1) Adjustments to the Core Funding Ratio (CFR); 2) Countercyclical Capital Buffer (CCB); 3) Adjustments to sectoral capital requirements; and 4) Limits on the share of high loan-to-value (LVR) mortgages.



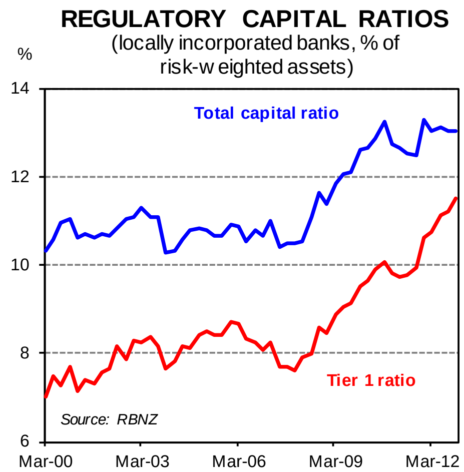

**Core funding ratio, counter-cyclical buffer, sectoral capital requirements and LVR limits being considered by the RBNZ.**

A minimum CFR sets out the minimum proportion of total lending which is funded by more stable 'core funding' sources, and was introduced as part of the RBNZ's new prudential liquidity policy in April 2010. The minimum CFR was increased to 75 percent at the beginning of this year, although the current proportion of core funding held by NZ banks is actually well above the minimum.




Meanwhile, a CCB framework will be in place from the beginning of next year as part of the Basel III banking regulatory standards. When deemed necessary, the RBNZ would require banks to hold an additional buffer of high-quality capital (of up to 2.5%) in addition to the minimum threshold of 10.5% of total capital.

Adjustments to sectoral risk weightings allow the RBNZ to target a particular sector (business, agriculture, or household) by prescribing the amount of capital that banks need to set aside to cover unexpected losses on their lending to different sectors. In March the RBNZ released a public consultation reviewing banks' baseline capital requirements for housing loans, particularly for high LVR mortgages.




The fourth macro-prudential tool places limits on high LVR loans and is a direct restriction on this particular type of lending. For in-depth discussion of these four tools, see our Special Focus Note: [The Macro-Prudential Toolkit].

**Macro-prudential tools may have been appropriate in last cycle boom.**

The RBNZ has noted in its June [Bulletin] that taking into consideration the suite of macro-prudential indicators it has now developed, the use of macro-prudential instruments may have been appropriate over the credit cycle from 2005 to 2008. Nonetheless, the RBNZ has acknowledged the effects of the tools on the cost of funding are modest, and there are limitations to the tools' ability to restrain credit growth.

**Limits on high LVR mortgages in the RBNZ's sights.**

Of the four macro-prudential tools, limits on high LVR mortgages have been the recent focus for the RBNZ, with the central bank noting other countries' experiences suggest there is some value in implementing this tool. RBNZ Deputy Governor Spencer, in his recent speech "[Macro-prudential policy and the NZ housing market]" also highlighted the LVR instrument as likely to be the most effective in dampening the current strong demand for housing and reducing the risk to bank balance sheets of a housing bust. The use of this tool would involve imposing 'speed limits' – which would restrict the share of new bank lending that has a high LVR. If recent housing and credit trends continue, there is a strong possibility this restriction is put in place over the second half of this year. Details of finalised changes are likely to be announced by the RBNZ soon.

# International outlook

**There was a slight improvement in international data over Q2.**

The international mood improved over the second quarter of the year, as economic data pointed to better conditions in the US, UK and parts of Europe. However, markets have also had to contend with the prospect of reduced monetary stimulus from the US Federal Reserve. There are also growing concerns over the outlook for growth and financial stability in China.

**Fiscal consolidation doesn't seem to have slowed US growth too much.**

In the US, it was feared that the fiscal consolidation that went into effect earlier in the year would dent growth over the second quarter. However, economic data have not pointed to any significant slowdown – employment growth has held up and consumer confidence and retail sales actually exceeded expectations. Recent data have been so encouraging that even a downward revision to Q1 growth was largely brushed off.

**The Fed has indicated it will slow its asset purchases as the economy improves.**

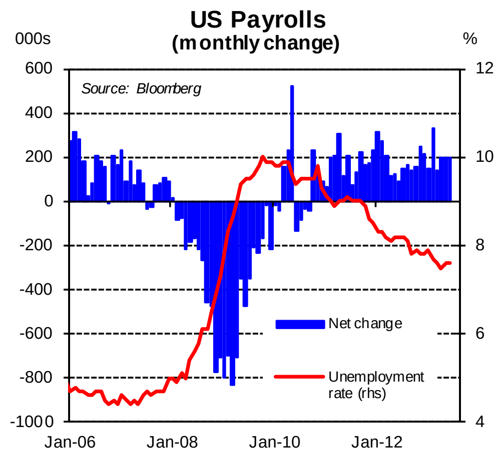
With improving economic prospects, though, has come a reassessment of the future path of monetary policy. In May the Federal Reserve started making noises about the possibility of 'tapering' its asset purchases as the economy improves. The fact that the Fed's programme of quantitative easing will end at some point should come as no surprise, but in acknowledging the fact the Fed seems to have caught markets by surprise. The clearest signal was sent by Chairman Ben Bernanke on 19 June, when he stated in a press conference that the rate of purchases would be reduced later this year *"if the economy improved as the Fed expected"*, coming to an end altogether by mid-2014.

**Large market reaction to a (possibly) more hawkish Fed.**

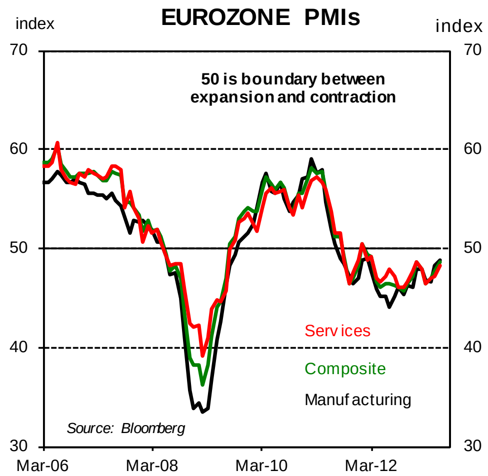
The Fed itself appears to have been surprised by the strength of the initial market reaction (particularly in US Treasury yields). However, the possibility of slower purchases may be acting as a signal of the Fed's general stance on the strength of the economic recovery – and so, crucially, may imply an earlier start to hikes in the Fed Funds rate. Indeed, market pricing for the start of the tightening cycle (in the Fed Funds rate) has moved forward from around mid-2015 (at the beginning of May) to the second half of 2014. Fed officials have recently been trying to more clearly separate asset purchases from forward guidance on the Fed funds rate, reassuring markets that interest rates will remain low for a while yet. Fed Board members' own expectations remain centred on a 2015 start to Fed Funds rate hikes.

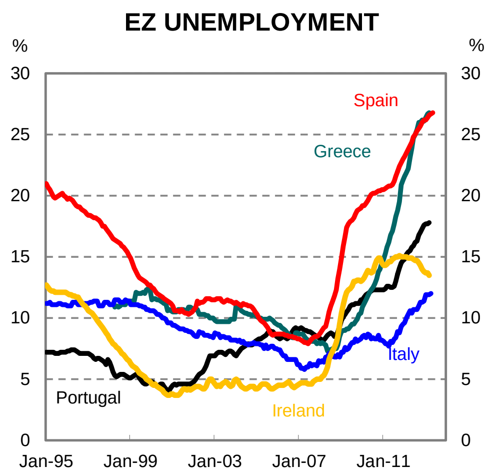
**The rate of decline in Europe may be slowing, but road back will be long and hard.**

Economic malaise continues to hold sway in most of Europe, including the UK. The Eurozone is showing some early signs that the pace of contraction is slowing, with manufacturing surveys improving for the last three months in a row. However, while things may be improving in a relative sense, the region remains in recession and unemployment continues to set record highs.







**The UK outlook has improved a little, and the economy grew in Q1.**

In the UK, the economic data have also improved somewhat over recent months. The UK also avoided another recession when Q1 GDP printed at +0.3% qoq. The effects of record-low interest rates, quantitative easing and the Funding for Lending scheme may finally be flowing through to the household sector; retail sales and house prices appear to be slowly recovering.

**'Abenomics' experiment continues in Japan.**

The 'Abenomics' experiment continues in Japan, where the Bank of Japan has embarked on a huge new quantitative easing programme. Initial declines in the Yen and spikes in Japanese equities have been partially unwound. However, the Yen has still weakened considerably over the last six months, which will provide a boost to Japan's exporters. The anticipated effects of the Bank of Japan's promised policies (doubling the money supply, targeting 2% annual inflation) may also have some impact on activity, but only time will tell. There were some encouraging economic data recently showing that industrial production and retail sales rose strongly in May, and annual inflation has also now edged 'up' to 0%.

**Chinese growth expectations have been revised down.**

Much recent attention has been focused on China rather than Japan. In contrast to most of the Western world, where the economic picture seems to be slowly brightening, Chinese data have softened a little lately. As a result, many forecasters have lowered their Chinese growth expectations for this year to around 7.5%. Gaining a clear picture of what is happening in the Chinese economy and – even more so – in the financial system is often difficult. A recent spike in inter-bank lending rates suggested a credit crunch may be imminent. To some degree, though, the environment of tighter credit appeared engineered by the authorities in an effort to reduce low-quality lending and force banks to more carefully consider the riskiness of their lending. The People's Bank of China was reluctant to step in to ease liquidity, in the end being forced by increasingly panicked markets at home and abroad to adopt a more reassuring tone.

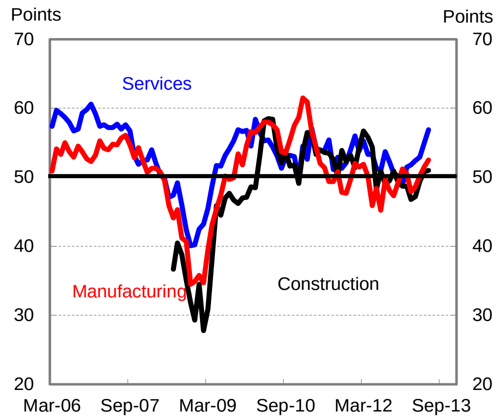
**Chinese authorities willing to sacrifice some growth in favour of reforms.**

Importantly, the whole episode demonstrated that the new Chinese regime is willing to sacrifice some growth in favour of reform. The key question is whether the quantity of poor-quality lending in the system is already too large to cope with a slowdown in growth or lending. To borrow a phrase, "it's only when the tide goes out that you learn who's been swimming naked."

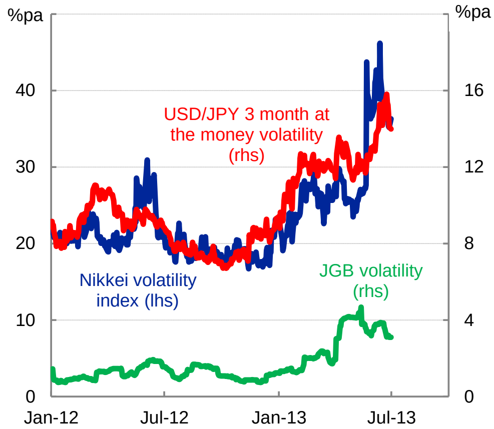
**Australian mining boom nearing its peak, RBA keeps cutting.**

Potentially slower growth in China has also impacted on expectations for Australia. Mining investment is expected to peak this year, and the RBA has kept cutting interest rates in an effort to enable the non-mining economy to pick up some of the slack that will emerge. At least one more rate cut is expected, and Australian growth is expected to run slightly below trend this year.

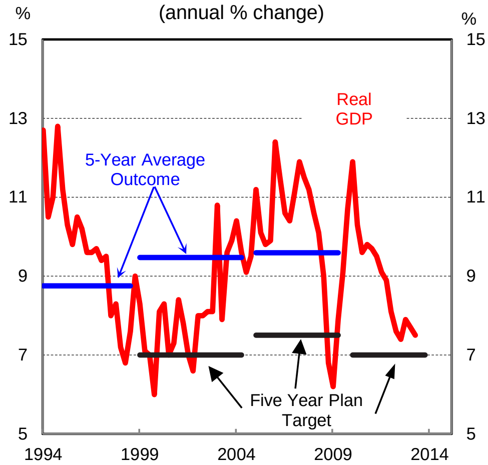
**UK PURCHASING MANAGERS' INDEX**



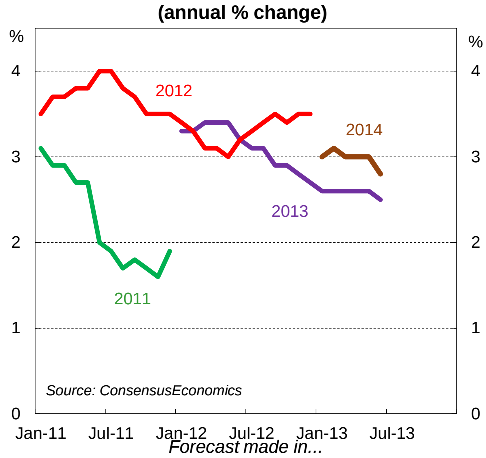

**VOLATILITY: JPY, NIKKEI & JGB**




**CHINA GDP GROWTH & TARGET**
(annual % change)



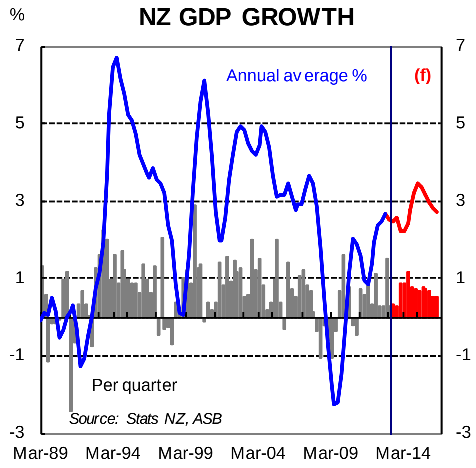

**AUS GDP CONSENSUS FORECASTS**
**(annual % change)**



# The New Zealand Economy

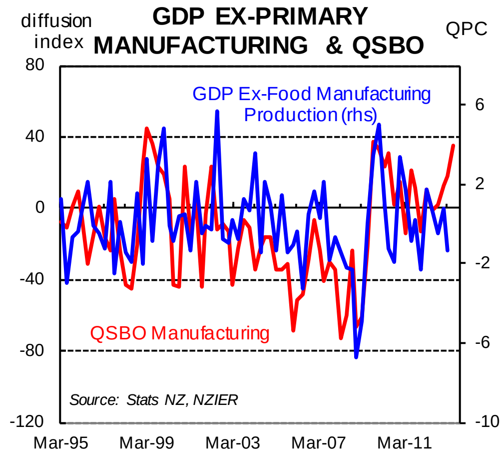
**Q1 growth underwhelmed.**

Growth over the first quarter of 2013 was modest following the strong result seen at the end of 2012. The softer than expected 0.3% increase in GDP over Q1 largely reflected a 3.1% decline in telecommunications activity. This substantial decline was driven by lower call minutes – Telecom noted in its submission on the Telecommunications Act the structural decline in call minutes given the surge in use of “network data” such as Viber, Skype and Google Talk.



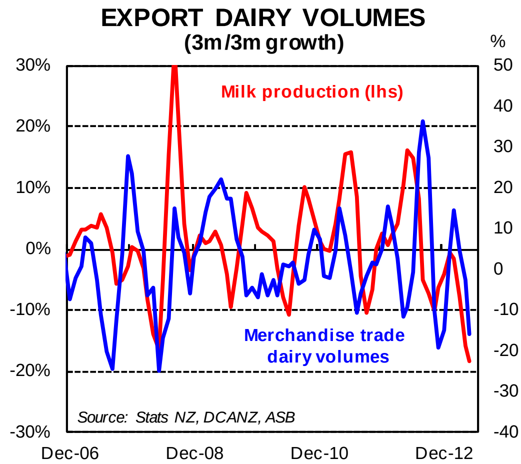

**Ex-primary manufacturing weaker than expected, but outlook more positive.**

Beyond the weakness in measured telecommunications activity, some other areas also underwhelmed. Manufacturing activity (excluding primary processing) was softer than expected, partly reflecting subdued demand for plant and machinery equipment in light of weak business investment. However, the outlook for core manufacturing activity is much more positive, with recent business confidence and manufacturing surveys showing a surge in activity expectations in the manufacturing sector. A large part of this improvement in manufacturing sector sentiment is likely to reflect higher domestic demand in light of the increase in construction activity as the earthquake rebuild gains momentum. Global influences are more mixed, with the lack of acceleration in China and recent surge in the NZD/AUD likely to provide some headwinds for the export sector.



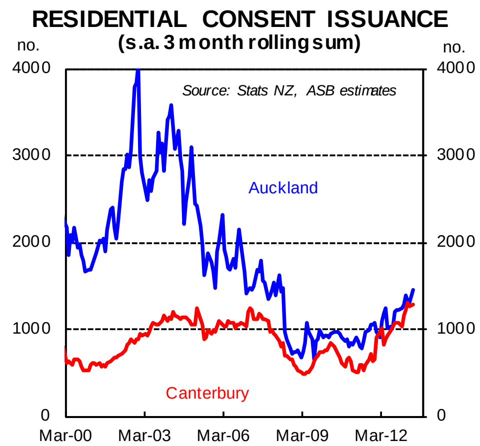

**Earlier livestock slaughter boosts primary manufacturing in Q1.**

Primary manufacturing was boosted in Q1 by the earlier timing of livestock slaughter, as farmers actively reduced cow and sheep numbers in the face of increasingly dry weather conditions over early 2013. We expect a decline in meat processing activity over the remainder of 2013, given the reduced livestock numbers.




**Drought reduces milk production over 2013.**

The drought also reduced milk production in Q1, and Fonterra has indicated further substantial declines occurred in Q2 as many farmers dried off their herds earlier than usual. Lower milk production has also been reflected in the decline in dairy export volumes. Although the widespread drought will dent growth over 2013, the substantial amount of rainfall over April and May bodes well for the upcoming milk production season. We expect dairy production will recover close to pre-drought levels, with dairy prices likely to remain high on strong global demand. The growing middle class in China is likely to support stronger demand for protein, which NZ as a food producer is well-placed to service.




**Stronger construction to drive economic growth over the coming years.**

Beyond the near-term effects of the drought, we expect stronger construction activity will underpin NZ economic growth over the coming years. Earthquake rebuilding in Canterbury and stronger house-building demand in Auckland have driven higher residential construction over the past year.

**Earthquake rebuild in Canterbury and stronger house-building demand in Auckland key drivers of higher construction activity.**

The earthquake rebuild is also starting to boost non-residential construction, although this recovery has been much more gradual relative to residential construction given the patchy nature of major commercial building projects. The sharp increase in demand for professional services such as engineering design and consulting in Canterbury and Auckland suggests many construction projects are in the pipeline. We expect Canterbury and Auckland will remain the key drivers of stronger construction activity over the coming years.

**We expect annual house price inflation to peak at just over 9% nationwide.**

Relatively strong house price inflation in Auckland has encouraged house-building in the region. While house sales in the region have remained steady in recent months, the continued decline in the number of days taken to sell a house suggests house sales may be constrained by supply. Housing inventory in the region continues to fall to very low levels, and this is putting upward pressure on house prices. We expect annual house prices in Auckland will continue to record double-digit growth until early 2015. Meanwhile, we expect annual house price inflation will peak at around 9% on a nationwide basis in early 2014.

**Higher house prices supported recovery in household spending.**

Higher house prices have supported an improvement in consumer confidence over the past year, which in turn has flowed through to retail spending growth. In particular, there has been a recovery in spending on durables, reflecting the improvement in household optimism about big-ticket purchases. We expect consumer spending will continue to recover over the coming years, as households feel more confident in light of higher house prices and improving labour market prospects.

**Improvement in hiring and investment intentions.**

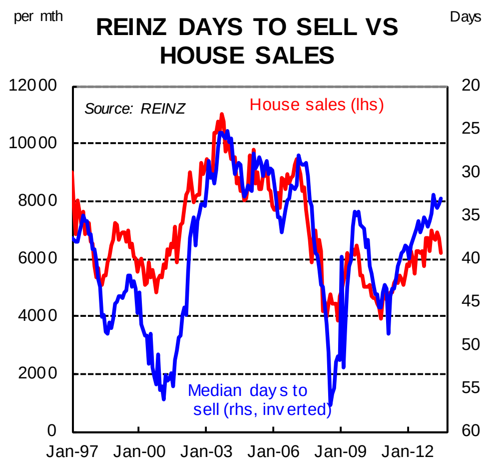
Business confidence surveys point to an improvement in hiring and investment intentions in recent months, as businesses feel more confident about expanding their operations. Consequently, employment growth should pick up over the coming year, gradually pushing the unemployment rate down over the coming years to reach 5% by the end of 2015.

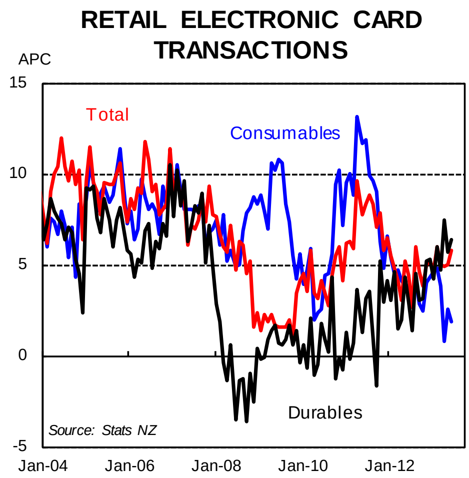
**We expect export growth to recover over 2014.**

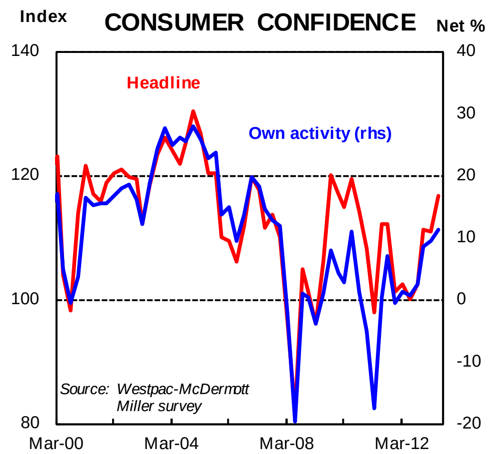
While the drought is expected to severely reduce exports over 2013, we expect a recovery over 2014. The negative effects on meat exports are likely to be slightly more persistent given the need for farmers to restore livestock numbers and condition in the wake of the drought. Meanwhile, we expect manufacturing exports to recover over the coming years, supported by a pick-up in global conditions.

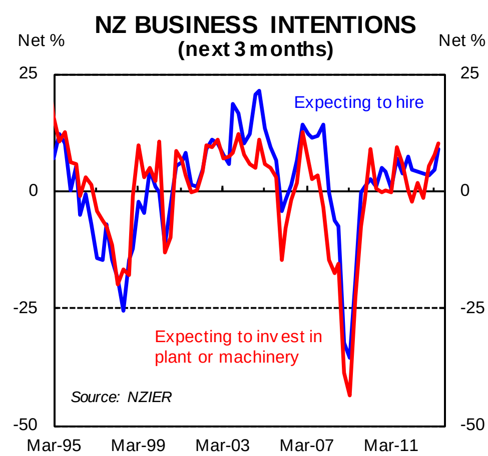
**We expect annual average growth to peak at around 3.5%.**

Overall, we expect stronger construction activity and recovery in business investment will drive GDP growth over the coming years. We expect annual average growth to reach around 3.5% in early 2015 before settling to just under 3%.



# Inflation outlook

**Inflation remains below the RBNZ's 1-3% target band.**

Inflation pressures remain very subdued and sitting below the RBNZ's target band of 1-3%. The weak inflation outcomes reflect the gradual pace of economic recovery over recent years, with very little pressure placed on resources. Modest consumer demand has resulted in aggressive retail discounting. In addition, the steady appreciation in the NZD on a trade-weighted basis has also lowered import prices and reduced tradable inflation. Finally, increased competition in the telecommunications industry has resulted in steady price declines since 2011 as cell phone plans offer better value and broadband plan data caps have increased.

**Construction costs to lift as building activity increases.**

Over the coming year, the economic recovery is set to step up in pace led by the Canterbury rebuild. In addition, construction activity will continue to lift in Auckland as house building demand picks up to relieve supply constraints. With strong building growth in both regions, the construction industry is likely to quickly reach capacity constraints. Canterbury construction costs are rising sharply already. Over the coming year, we expect construction costs to start to lift across NZ more broadly.

The economic recovery is also broadening beyond construction, with household demand clearly picking up. Given improved consumer confidence and increased retail spending, retailers may take the opportunity to recover lost margins.

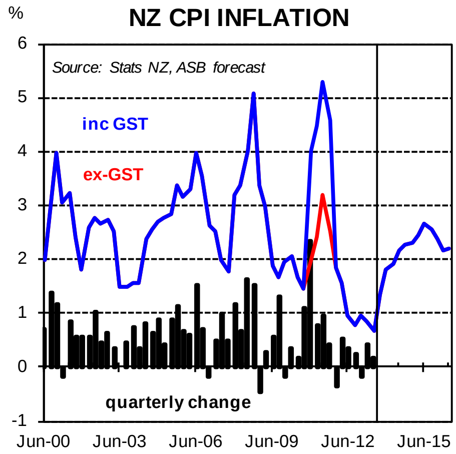
**Stronger wage growth to feed into stronger services inflation.**

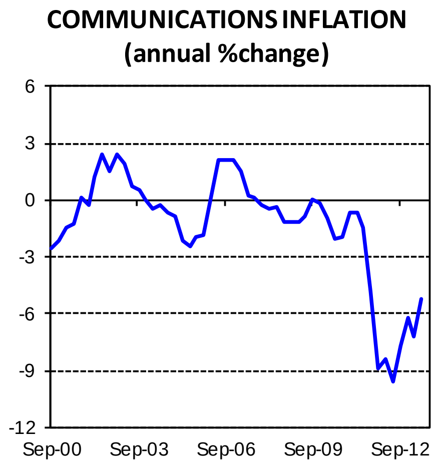
Despite the gradual pace of economic and labour market recovery, firms are already reporting difficulties in finding labour. As labour demand picks up in the coming year, wage inflation pressures are likely to lift. This will likely mean an increase in services inflation as well.

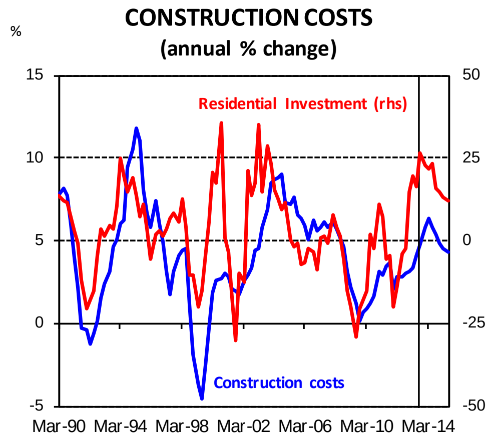
The increase in construction, retail and services inflation will underpin a lift in non-tradable inflation. The key uncertainty on the outlook is tradable inflation, particularly given the challenges in forecasting the NZD when global central banks are exerting a powerful influence.

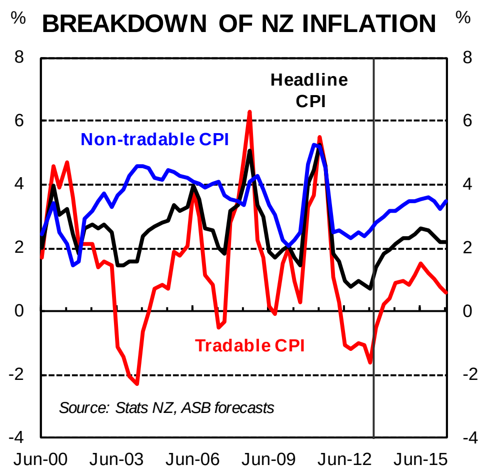
**Elevated NZD to keep tradable inflation muted.**

The NZD remains elevated on a trade-weighted basis. While the NZD/USD has dropped, this has been offset by a rise in the NZD/AUD. The NZD remains elevated against the JPY, EUR and GBP. As a result, imported inflation is likely to remain subdued. However, we expect that the NZD will start to ease slightly over the next few years. If this occurs, then tradable inflation will likely pick up at a time when non-tradable inflation will be elevated. This will push inflation pressures back into the upper half of the RBNZ's 1-3% target band.



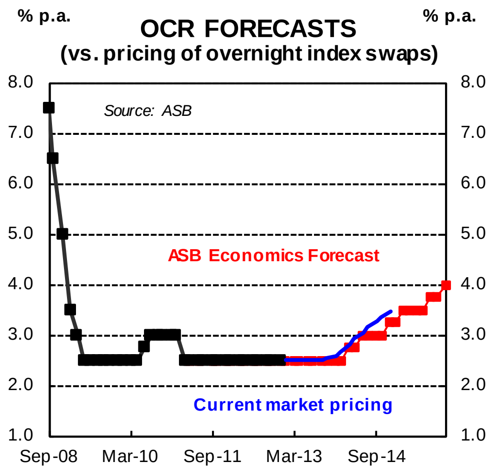



# Interest Rates and Exchange Rates

**Fed signalling drove a sharp rise in yields and interest rates.**

There were significant shifts in interest rates during Q2, driven primarily by expectations of future Federal Reserve policy. As US economic data improved slightly, the Fed openly acknowledged that it would consider slowing the pace of its asset purchases later this year. That drove US Treasury yields up sharply. From 1.85% at the end of March, the 10-year Treasury yield initially fell to 1.63% on the 2nd of May. Following the June Non-farm Payrolls release on 5th July the 10-year yield surged to 2.71%, though has fallen to around 2.5% since the Fed confirmed stimulus will be needed for some time yet.

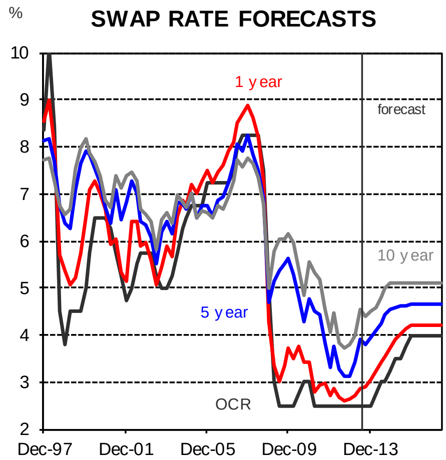



**Outlook for NZ monetary policy has not changed that much.**

Those considerable moves had repercussions around the world, including here in NZ where bond yields and swap rates rose sharply. Domestically, the outlook for monetary policy has not changed much, with most forecasters (including ourselves) expecting the OCR to rise in March 2014. With the NZD now a little lower, the housing market is likely to dominate the RBNZ's thoughts.

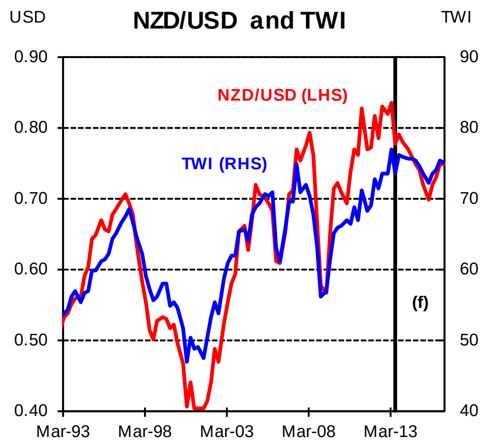
**Macroprudential tools likely to be utilised this year.**

The RBNZ is becoming more and more concerned about the rate of house price increases, and it has signalled that loan-to-value ratio restrictions will likely be used to limit risks to financial stability (and slow house price inflation). There is a high likelihood this measure is introduced later this year.



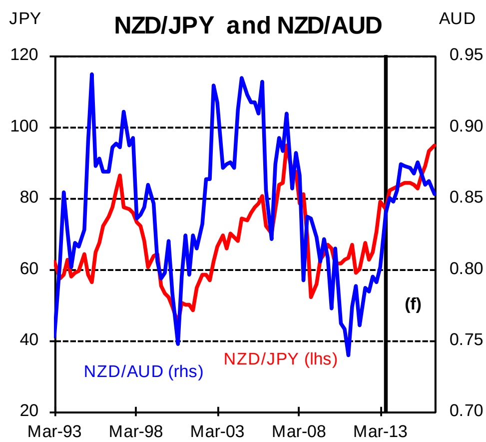

**USD has strengthened on Fed 'tapering' expectations.**

The theme of the last couple of months – Fed tapering – has also led to a bout of USD strength, driven by higher US bond yields and, possibly, heightened expectations of higher interest rates from the Fed in future. NZD/USD hit a peak of over 0.86 around mid-April (with the NZD TWI at a post-float high), but has since fallen steadily to a range of around 0.77-0.80.




**But the AUD has weakened, leading to a higher NZD/AUD.**

Offsetting the lower NZD/USD somewhat has been a stronger NZD/AUD. The AUD has been more directly affected by concerns over Chinese growth and the RBA's sustained easing bias. That has caused the NZD/AUD to strengthen to around 0.85, the highest level since late 2008. We expect that trend to continue over the rest of the year, with the RBA likely to cut its cash rate at least once more over coming months and the RBNZ poised to begin its tightening cycle in 2014.




**Fundamentals are still NZD-supportive, so the currency is likely to remain strong against most crosses.**

We also expect further falls in the NZD/USD to be limited. The fundamental themes have not changed and will hold the NZD at relatively high levels: NZ's economic outperformance; elevated commodity prices (notably dairy); large reinsurance inflows and the fact that a year from now the RBNZ will be one of the only central banks in the world tightening policy. Meanwhile, GBP, JPY and EUR are likely to remain weak on the back of underperforming economies and accommodative monetary policy.

## Economic Forecasts

| ASB economic forecasts | | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | <<actual | forecast >> | | | | | | | | |
| **NZ GDP real** | **AA%** | **2.5** | **2.5** | **2.6** | **2.2** | **2.2** | **2.4** | **2.7** | **3.2** | **3.4** | **2.8** |
| private consumption | AA% | 2.2 | 2.3 | 2.7 | 2.7 | 2.9 | 3.2 | 3.3 | 3.5 | 3.6 | 2.9 |
| dwelling construction | AA% | 19.3 | 21.3 | 21.7 | 23.4 | 20.7 | 18.7 | 16.6 | 14.0 | 12.8 | 10.1 |
| other investment | AA% | 3.6 | 0.9 | 1.5 | 1.6 | 4.0 | 6.1 | 6.5 | 6.5 | 5.4 | 3.5 |
| exports | AA% | 3.4 | 4.9 | 4.5 | 4.6 | 2.9 | 2.1 | 2.5 | 3.1 | 4.1 | 2.9 |
| imports | AA% | 0.5 | 2.0 | 3.2 | 4.8 | 6.3 | 6.3 | 6.2 | 5.4 | 4.7 | 3.2 |
| NZ GDP real | A% | 2.4 | 2.4 | 2.4 | 1.8 | 2.3 | 3.2 | 3.7 | 3.5 | 3.3 | 2.7 |
| NZ GDP real | Q% | 0.3 | 0.3 | | | | | | | | |
| **NZ CPI** | **A%** | **0.9** | **0.7** | **1.4** | **1.8** | **1.9** | **2.1** | **2.3** | **2.3** | **2.5** | **2.2** |
| NZ house prices (QV index) | A% | 7.1 | 8.0 | 8.6 | 8.8 | 8.9 | 8.2 | 7.2 | 6.6 | 6.0 | 3.5 |
| NZ unemployment (sa%) | Qtr | 6.2 | 6.4 | 6.4 | 6.2 | 6.1 | 5.8 | 5.6 | 5.5 | 5.4 | 4.9 |
| NZ private sector wages (LCI) | A% | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 |
| NZ current account ($b) | Yr | -10.1 | -9.2 | -8.5 | -8.7 | -9.4 | -10.4 | -11.9 | -12.6 | -12.8 | -13.8 |
| as a % of GDP | Yr | -4.8 | -4.3 | -3.9 | -3.9 | -4.2 | -4.6 | -5.2 | -5.5 | -5.5 | -5.6 |

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

## Financial Forecasts

| ASB interest rate forecasts | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|
| (end of quarter) | | <<actual | forecast >> | | | | | | | |
| NZ cash rate target | 2.50 | 2.50 | 2.50 | 2.50 | 2.75 | 3.00 | 3.00 | 3.25 | 3.50 | 4.0 |
| NZ 90-day bank bill | 2.64 | 2.65 | 2.7 | 2.8 | 3.0 | 3.2 | 3.3 | 3.5 | 3.7 | 4.2 |
| NZ 3-year swap rate | 3.07 | 3.50 | 3.4 | 3.6 | 3.7 | 3.9 | 4.0 | 4.2 | 4.2 | 4.4 |
| NZ 10-year gov't stock | 3.51 | 4.14 | 4.0 | 4.1 | 4.2 | 4.4 | 4.6 | 4.7 | 4.7 | 4.7 |

| ASB foreign exchange forecasts | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Mar-16 |
|---|---|---|---|---|---|---|---|---|---|---|
| (end of quarter) | | <<actual | forecast >> | | | | | | | |
| USD per NZD | 0.837 | 0.779 | 0.79 | 0.78 | 0.77 | 0.76 | 0.75 | 0.74 | 0.72 | 0.75 |
| GBP per NZD | 0.553 | 0.510 | 0.54 | 0.54 | 0.53 | 0.53 | 0.52 | 0.51 | 0.50 | 0.50 |
| AUD per NZD | 0.801 | 0.840 | 0.85 | 0.85 | 0.86 | 0.87 | 0.87 | 0.87 | 0.87 | 0.86 |
| JPY per NZD | 79.0 | 76.7 | 82 | 83 | 83 | 84 | 84 | 84 | 84 | 93 |
| EUR per NZD | 0.655 | 0.597 | 0.62 | 0.62 | 0.62 | 0.62 | 0.61 | 0.61 | 0.60 | 0.60 |
| TWI | 77.0 | 73.6 | 76.3 | 75.9 | 75.8 | 75.8 | 75.3 | 74.7 | 73.4 | 75.4 |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