1 December 2014

Weekly Commentary

Surf break, Piha.

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New lease of life

The New Zealand economy is carrying a substantial degree of momentum into year-end, but the two-speed nature of this upturn is becoming increasingly apparent. Domestic activity has if anything gained a fresh lease of life now that pre-election uncertainty has cleared, while the deterioration in the prospects for New Zealand's biggest export earner have yet to be fully reflected in the official data.

Business confidence rose for a second straight month in November, having bottomed out just ahead of the 20 September election. The mood was generally positive across most sectors, even in agriculture – good growing conditions and high beef prices will have gone some way to ease the pain of falling dairy prices. Firms also appear to have taken to heart the soft September quarter CPI outturn and the recent falls in petrol prices: only a net 25% of firms expect interest rates to rise in the next year, the lowest since March 2013 (a time when OCR hikes were indeed a year away).

The post-election rebound has been most obvious in the housing market, which is understandable given that what was most at stake ahead of the election was the likelihood of a less favourable tax treatment for property in the event of a change of government. We'd already seen a bounce in mortgage approvals, property listings and house sales in October, and last week we learnt that building consents, which fell 12% in September ahead of the election, recorded an 8.8% rebound in October.

The RBNZ's weekly report on mortgage approvals shows that this momentum continued into November. The value of approvals is now running well ahead of year-ago levels, a time when the speed limit on high loan-to-value ratio (LVR) was starting to bite. It's worth noting that the share of high-LVR loans hasn't risen meaningfully in this time – at least up until October – which means that the renewed strength in the housing market is largely being driven by low-LVR borrowers.

Housing demand is being exacerbated to some degree by the ongoing surge in net immigration, which reached a record 5,250 people in October. We're expecting the

New lease of life continued

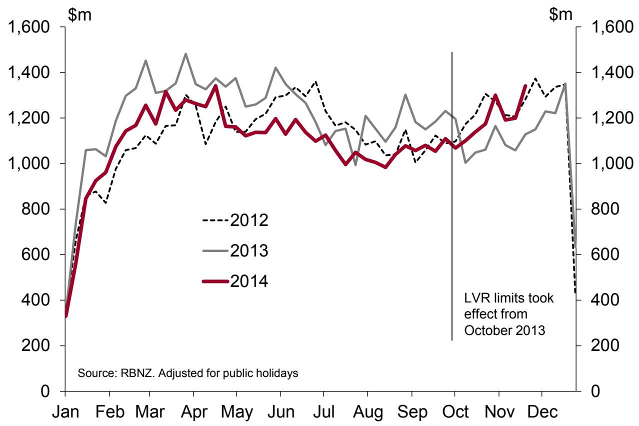
annual net inflow to reach an unprecedented 55,000 people by the middle of next year. The relationship between net immigration and the housing market is not straightforward (and is typically overstated in our view), but the scale of this surge in migration is too great to not have an impact on housing demand.

When the RBNZ introduced the high-LVR loan limit, it said that the goal was to slow housing demand until housing supply had a chance to catch up. That goal is now looking increasingly distant: while building activity has picked up in the last few years, the upward trend in building consents has actually slowed this year. Most worryingly, consents have actually fallen in recent months in Auckland, the region (aside from quake-hit Canterbury) where the incentive to build should be strongest. House prices have risen faster in Auckland, population is growing faster, the degree of under-building in previous years was greater, and there have been concerted efforts to reduce red tape for homebuilding.

All together, the prospects of the RBNZ loosening the high-LVR limit any time soon are dim. In fact, we have to seriously consider that the next move on macro-prudential policy could be a tightening, not a loosening. That wouldn't necessarily be a tighter LVR limit, although the only other housing-specific tool in the kit is higher bank capital requirements for home loans, which would probably take some time to phase in.

Turning to the overseas trade figures, the October deficit was larger than expected, sending the annual trade balance into deficit for the first time since December last year. The greater surprise was on the imports side, with strong growth in imports of intermediate and consumer goods – perhaps another indication of a pickup in domestic demand. Meanwhile, exports fared much as expected, apart from a sharp jump in log exports that probably reflects the timing of shipments.

Weekly mortgage approvals, by value



Both prices and volumes of dairy exports were down about 4% for the month in seasonally adjusted terms, and were down sharply on a year ago. It's clear now that this time last year, China was stocking up heavily on imported milk powder, on concerns that drought could disrupt supply. Those concerns appear to have been overdone, leaving Chinese buyers with excess inventories that will need to be run down before demand, and hence prices, return to more normal levels.

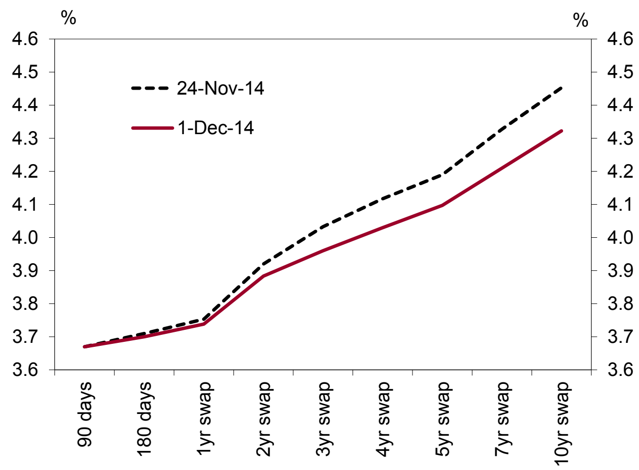
The September quarter terms of trade, to be released today, will shed some more light on the impact of falling dairy prices on New Zealand's trade position. Prices for dairy products are set about three months before shipment on average, so the September quarter data will largely reflect the fall in prices up until June. That also means that the fall in the official terms of trade series is likely to continue well into next year, long after we expect to see some stabilisation in world dairy prices.

Fixed vs Floating for mortgages

Among the standard fixed rates, the best deal for borrowers with a deposit of 20% or more is the two-year term, which offers substantial value relative to where we expect short-term rates to go over the next two years. Current three-year rates offer slightly less value, but it may be worth waiting a few weeks for further 'specials' that could make them the most appealing option. Four- and five-year rates seem high relative to where we think shorter-term rates are going to go over the coming four or five years, though they do offer stability.

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

NZ interest rates



NZ Q3 terms of trade

Dec 1, Last: +0.3%, Westpac f/c: -4.6%, Mkt f/c: -4.5%

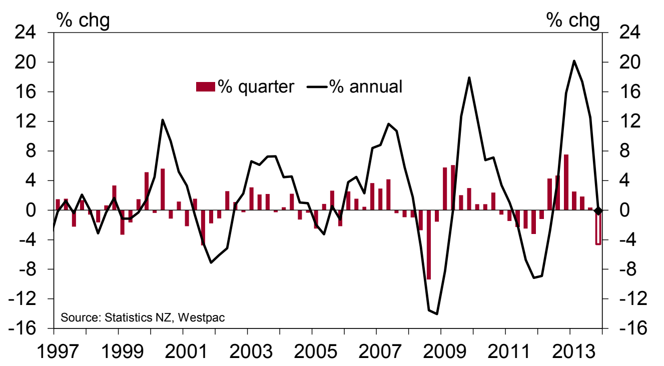
- New Zealand's terms of trade managed to eke out one last high in the June quarter, as import prices fell by slightly more than export prices.
- There is no chance of that being repeated in the September quarter. We expect a 4.2% drop in export prices, including a 12% fall in dairy prices as the impact of the fall in world prices this year comes through with its usual lag.
- The NZ dollar was 0.9% lower on average over the quarter. This did little to ameliorate the impact of falling commodity export prices, but it does contribute to our forecast of a 0.4% rise in import prices.

NZ Q3 building work put in place

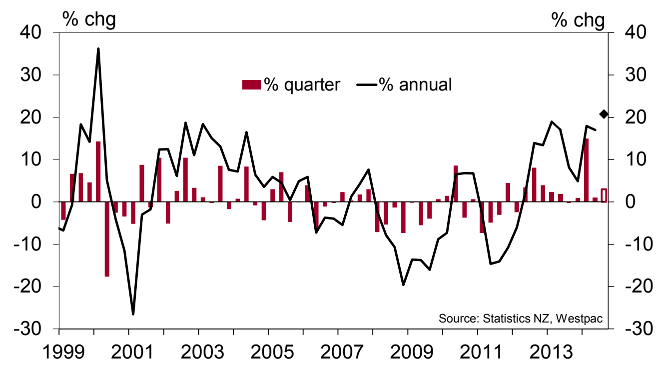
Dec 3, Last: +1.0%, Westpac f/c: +3.0%, Mkt f/c: +2.6%

- The construction industry has been one of the biggest contributors to GDP growth in the last few years as a whole, although the performance from quarter to quarter has been highly variable. A record 15% jump in activity in the March quarter this year was followed by a 1% rise in the June quarter.
- Lagged building consents provide the best lead on building work over the quarter. On that basis, we're expecting a 3% rise in both residential and non-residential construction, noting that the latter is much more uncertain.
- The post-quake rebuild in Canterbury is still in the upswing phase, especially for non-residential construction. We expect the level of quake-related building activity to peak around late 2015/early 2016.

NZ Terms of Trade



NZ real building work put in place



Aus Q3 company profits

Dec 1, Last: –6.9%, WBC f/c: 1.0%
Mkt f/c: –1.3%, Range: –3.0% to 3.0%

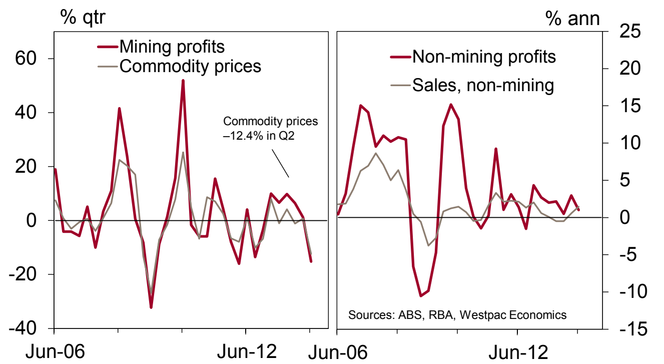
- Company profits, as reported by the Business Indicators survey, is forecast to edge 1% higher in Q3 after a 6.9% slump in Q2.
- In underlying terms, we assess that profits softened in the quarter, led lower by a drop in mining profits. Global commodity prices fell almost 6% in AUD terms in the quarter, coming on the back of a 12%+ drop in Q2.
- Importantly, we expect the national accounts to report profits fell in Q3, down 1%. The wedge between the two measures of company profits largely reflects the impact of price changes on the value of inventories, which is booked as a profit or loss in the BI survey but is not included in the national accounts.
- In Q2, the BI survey reported a 6.9% drop in profits, while the national accounts reported a more moderate decline of 3.7%.

Aus Q3 inventories

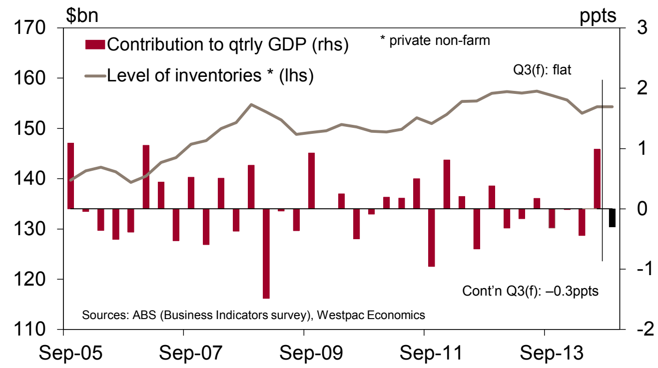
Dec 1, Last: 0.8%, WBC f/c: flat
Mkt f/c: 0.2%, Range: –0.6% to 1.3%

- Inventory levels increased by 0.8% in the June quarter. We interpreted that as a catch-up following an excessive run-down over earlier quarters, reflective of the overly cautious mood of business at present. Inventories, even with the 0.8% rise in Q2, declined by 2.0% over the year.
- For Q3, we expect inventory levels to be held flat as firms quickly revert to a cost control focus against the backdrop of patchy and uneven turnover. We note that imports were relatively soft in the quarter, with goods volumes down 0.8%.
- Our forecast would see inventories subtract 0.3ppts from Q3 GDP growth. Over the first half of the year, inventories subtracted 0.4ppts in Q1 but added a sizeable 1ppt in Q2.

Company profits: led lower in Q2 by mining



Inventories, Q3 f/c: –0.3ppts

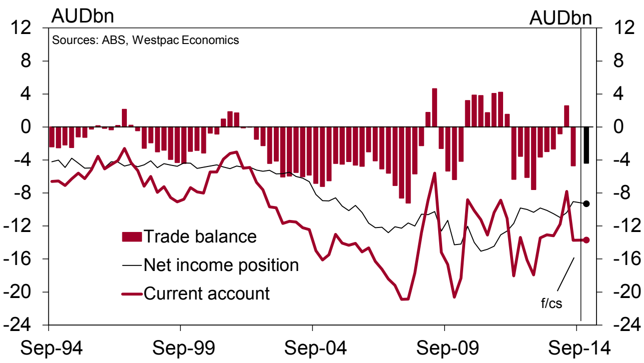


Aus Q3 current account balance, AUDbn

Dec 2, Last: –13.7, WBC f/c: –13.7
Mkt f/c: –13.5, Range: –16.3 to –12.3

- Australia's current account balance is expected to hold steady at a deficit of $13.7bn in the September quarter, representing 3.4% of GDP. That is a resilient performance in the face of the current sharp decline in global commodity prices.
- The trade balance in Q3 was a deficit of $4.4bn, the ABS advise, a $0.2bn improvement on Q2. The terms of trade declined by an estimated 2.9% in the quarter. Offsetting this, real net exports improved, on a lift in export volumes and a dip in imports.
- The income deficit is expected to edge higher in the quarter, to $9.3bn. That represents only a partial reversal of the sharp $1.3bn improvement in the June quarter to $9.1bn.

Current account: f/c to hold at –$13.7bn in Q3

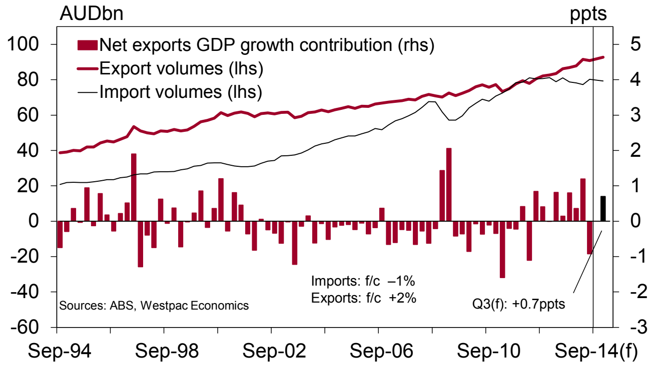


Aus Q3 net exports, ppt cont'n

Dec 2, Last: –0.9, WBC f/c: 0.7
Mkt f/c: 0.65, Range: –0.1 to 0.8

- Net exports have been on a trend improvement since the second half of 2012. Exports are advancing as additional capacity in the resource sector comes on stream and as imports are soft as mining investment declines.
- In Q3, we estimate that net exports made a sizeable positive contribution to GDP growth of 0.7ppts.
- Exports advanced by an estimated 2%, centred on a rise in resource exports. Imports declined by an estimated 1%, on softness in services and capital goods.
- In Q2, net exports made an atypical sizeable subtraction from GDP growth, of 0.9ppts. Export shipments had been brought forward into Q1 and imports rose, after a string of declines.

Net exports: f/c +0.7ppts in Q3

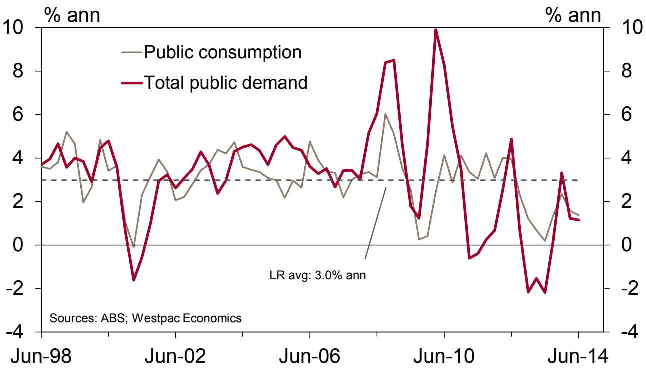


Aus Q3 public demand

Dec 2, Last: 0.3%, WBC f/c: flat

- Public demand is subdued at present, with investment in a soft spot and government's, both state and federal, looking to contain the cost of the public service.
- In Q3, we expect public demand to have stalled, following a rise of 0.3%qtr, 1.2%yr in Q2.
- Public investment, which rose 0.6%qtr, 0.2%yr in Q2, may well have dipped in Q3, weighed down by a 5% drop in construction work.
- Public consumption is expected to grind a little higher, up 0.3%, a result that would match the outcome for Q2.

Public demand: volatile around a weak trend

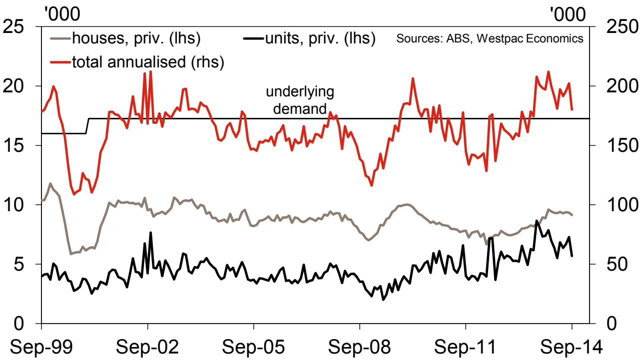


Aus Oct dwelling approvals

Dec 2 Last: –11.0%, WBC f/c: 5.0%
Mkt f/c: 5.0%, Range: –0.7% to 12.0%

- Dwelling approvals recorded a sharp 11% fall in Sep that was concentrated in Vic but included significant declines in most other states and segments. While they were coming from a high starting point and big monthly moves are quite common, the Sep fall goes beyond noise and one-offs.
- Our initial take was that an underlying trend decline was now in place after a high cyclical peak at the start of the year – a view corroborated by the clear cooling in homebuyer sentiment and house price growth more generally. Recent data on housing finance approvals casts some doubt on this though, with construction-related finance approvals kicking up to new highs in recent months.
- On balance we expect approvals to rebound 5% in the Oct month with a modest-to-flat underlying downtrend.

Dwelling approvals



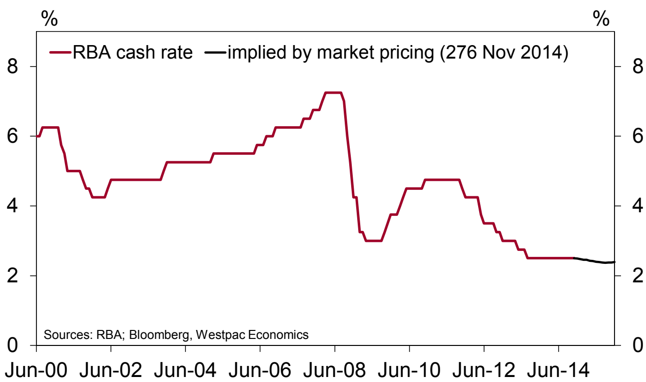
The week ahead

Aus RBA policy decision

Dec 2, Last: 2.50%, WBC f/c: 2.50%
Mkt f/c: 2.50%, Range: 2.50% to 2.50%

- The RBA left the cash rate unchanged at its Nov meeting, retaining its guidance that "... the most prudent course was likely to be a period of stability in interest rates".
- Tone-wise, the Nov Statement on Monetary Policy that followed this decision, the minutes from the Nov Board meeting and recent speeches from bank officials have been a touch more dovish, with downside risks around China given more prominence, a less 'alarmist' take on household leverage and rising house prices, and continued agitating for a lower AUD.
- Despite these shifts in emphasis the RBA is unlikely to alter its policy position. We expect the Bank RBA to again leave the cash rate and its policy guidance unchanged in Dec.

RBA cash rate

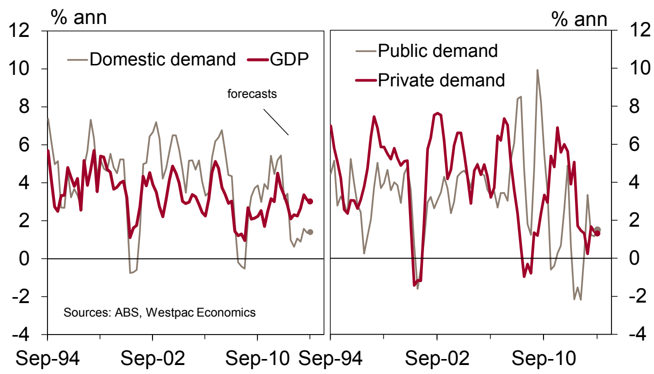


Aus Q3 GDP

Dec 3, Last: 0.5%, WBC f/c: 0.8%
Mkt f/c: 0.7%, Range: 0.4% to 0.9%

- The economy expanded by a forecast 0.8%qtr, 3.0%yr in the September quarter. That quarterly gain matches the average rise over the first half of the year (1.1% followed by 0.5%).
- Domestic demand is forecast to increase by a modest 0.4%, as it did in both Q1 and Q2. In Q3: consumer spending is expected to be up by a modest 0.6%, in contrast to the strong 1.0% lift in retail sales; home building dipped, after a strong six months; public demand is expected to be flat, weighed down by a fall in public construction; and business investment edges higher, led by the service sectors.
- Net exports add 0.7ppts as resource exports expand on rising capacity in the sector and on a decline in imports. That is partially offset by inventories, which subtract 0.3ppts.

Australian economic conditions

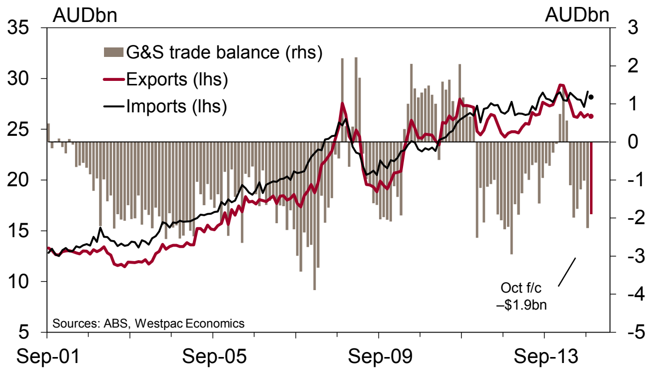


Aus Oct trade balance, AUDbn

Dec 4, Last: –2.3, WBC f/c: –1.9
Mkt f/c: –1.8, Range: –2.4 to –0.9

- Australia's trade account is set to be in deficit for a 7th consecutive month in October, as export earnings are dented by falling commodity prices.
- In October, we expect the deficit to improve by almost $400mn to $1.9bn from a $2.3bn deficit in September.
- Export earnings are forecast to decline by 0.7%, on lower global energy prices and an anticipated correction in gold, following a 60%, $585mn spike in September, partially offset by a lift in iron ore volumes.
- Imports are forecast to moderate by 2.0%, with the ABS advising that goods imports fell by 2.4%. This decline in imports comes on the back of a 5.6% jump in September.

Australia's trade position

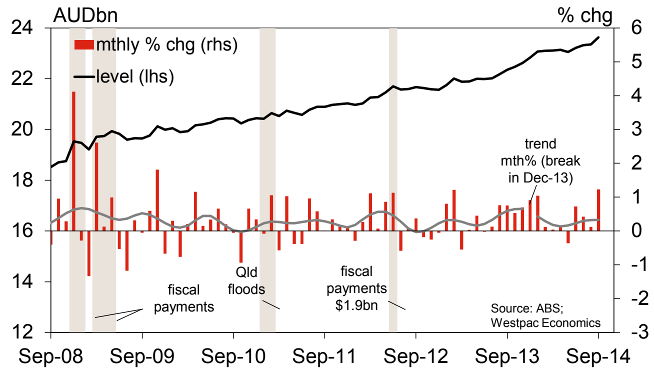


Aus Oct retail trade

Dec 4, Last: 1.2%, WBC f/c: –0.2%
Mkt f/c: 0.1%, Range: –0.3% to 0.9%

- Retail sales recorded a rare and unexpected burst in Sep, the 1.2%mth rise the strongest since late 2009. However, nearly half of the gain looks to be due to a one-off factor – an extraordinary 9.2%mth jump in 'electrical and electronic goods retailing' attributed to the launch of the iPhone 6. Sales ex this category were up a solid but much less spectacular 0.7%mth.
- This jump will clearly reverse in Oct. We may also see Sep's gain revised down – previous iPhone releases have not seen jumps this large and seasonal adjustment issues may be compounding things. 'Underlying' sales momentum is expected to remain subdued. Consumer sentiment lapsed back towards post-Budget lows in Sep and improved only slightly in Oct. Business surveys point to better but still patchy conditions month to month. Overall we expect retail sales to dip 0.2%mth.

Monthly retail sales



US Nov ISM surveys

Dec 2, Manufacturing: Last: 55.7, WBC f/c: 53.5
Dec 4, Non-manufacturing: Last: 58.6, WBC f/c: 55.5

- The manufacturing ISM index edged up from 56.2 to 56.4 in Oct, its highest in two and a half years, continuing to out-perform the official factory data which averaged 0.1% monthly growth through Q1 and Q2, and less than that (0.067%) in Q3.
- That said, we expect GDP growth to slow to below 1% annualised in Q4; at some point the ISM survey should fall back towards the low 50s (it averaged 51.5 in H1 2013 when GDP was 1.8% annualised).
- The non-manufacturing ISM index rose from 54.4 to 55.4 in Oct, just shy of our 56.0 forecast, a rise we expect to be a temporary bounce due to short-term relief about the government shutdown.

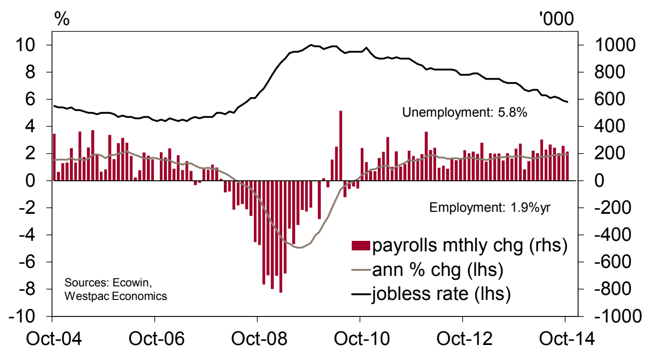
US ISMs

US Nov non-farm payrolls

Dec 6, Payrolls: Last: 204k, WBC f/c: 140k

- Payrolls rose by an impressive 204k in Oct, for a three month average gain of 202k in Aug–Oct. Looked at this way, it appears that jobs initially grew at a much faster pace during the first half of the past year, before losing some momentum in mid 2013 and only partially recovering it since then. Interpretation is clouded, however, by the unknown number of private sector jobs that were temporarily lost during the October government shutdown.
- We expect GDP growth to slow to below 1% annualised in Q4. Payrolls growth of 200k+ is not consistent with that, so we should see payrolls growth slow substantially in Nov and/or downward revisions to recent history.

US payrolls

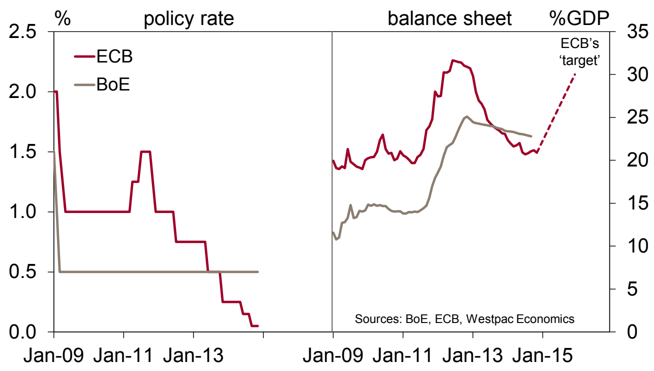


ECB policy decision

Dec 5, ECB repo rate: Last: 0.25%, WBC f/c: 0.25%

- At the Nov press conference, chief Draghi said that the ECB is ready to act as rising money-market rates threaten higher borrowing costs: “We will remain particularly attentive to the implications that these developments may have to the stance of monetary policy... I'm very, very cautious about the recovery. I can't share enthusiasm, it's just the beginning. The shoots are still very, very green”.
- The ‘Draghi dangle’ refers to the ECB's hints at possible policy measures such as negative deposit rates, using the balance sheet to take on risk, or another long-term refinancing operation, without actually doing anything. It remains to be seen how long this soft option can be deployed. Westpac continues to expect ECB balance sheet expansion before the end of the first quarter.

ECB & BoE



Data calendar

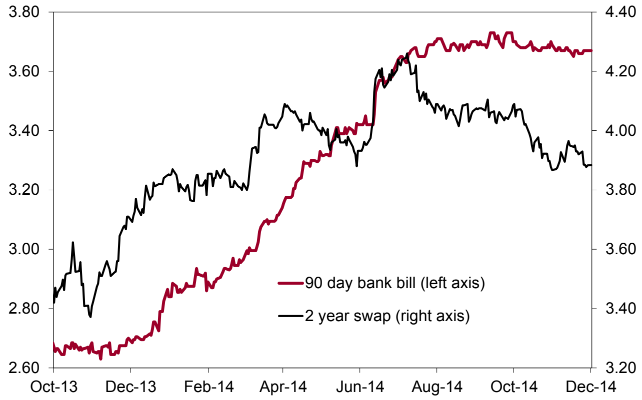
		Last	Market median	Westpac forecast	Risk/Comment
Mon 1					
NZ	Q3 terms of trade	0.3%	–4.5%	–4.6%	Coming off a 40-year high as dairy prices plunged by 12%.
Aus	Q3 company profits	–6.9%	–1.3%	1.0%	Underlying soft, but headline boosted by inventory prices.
	Q3 inventories	0.8%	0.2%	flat	Q2 saw some inventory catch-up. A flat Q3 would see a –0.3ppts cont'n.
	Nov AiG PMI	49.4	–	–	Manufacturing index close to 50 mark, following a dip in Aug & Sep.
	Nov TD inflation gauge	0.2%	–	–	Inflation benign at present. Lower AUD to boost cost of imports.
	Nov RP Data CoreLogic home value ind.	1.0%	–	–0.3%	Rebadged RP Data-Rismark index. Daily measure –0.3% month to date.
Chn	Nov NBS manufacturing PMI	50.8	50.5	–	Flash HSBC fell back 0.4ppts, this index tends to be more stable.
	Nov HSBC manufacturing PMI - final	50.0	50.0	–	Loss of altitude in output, jobs, resilient domestic orders, lower stocks.
Eur	Nov PMI factory, final	56.0	–	55.5	Survey strength not reflected in official IP data.
UK	Oct net consumer credit £bn	0.9	1.1	–	Consumer and especially mortgage outstandings have grown more ...
	Oct net mortgage lending £bn	1.8	1.8	–	... rapidly but now slowing as approvals fall and rate rise debate continues.
	Oct money supply M4 %yr	–2.5%	–	–	M4 ex-IOFCs 3mth ann'lsd 3.5% in Sep.
	Nov house prices %yr smoothed	8.8%	7.9%	–	Halifax index due 1-5 Dec.
	Nov PMI factory	53.2	53.0	55.5	Sharply lower Q3 due to geopolitical tension; rebound underway in Q4?
US	Nov PMI factory final	54.7a	55.0	–	Fit with ISM not good but some guidance in there in its own right.
	Nov ISM manufacturing	59.0	57.8	56.5	Recent out-performance against official IP data unsustainable.
Can	Nov PMI factory	55.3	–	–	RBC sponsored index less volatile than Ivey equivalent.
Tue 2					
NZ	Nov commodity prices	–0.8%	–	–3.0%	Further decline in dairy prices, beef prices coming off their peak.
Aus	Q3 current account balance, AUDbn	–13.7	–13.5	–13.7	Terms of trade down, offset by positive real net exports.
	Q3 net exports, ppt cont'n to GDP	–0.9	0.65	0.7	Sizeable positive cont'n as export lift & imports decline.
	Q3 public demand	0.3%	–	flat	Dip in public investment to offset subdued rise in public consumption.
	Oct dwelling approvals	–11.0%	5.0%	5.0%	Sep fall led by Vic but soft ex Vic as well. Finance giving 'mixed signals'.
	RBA policy announcement	2.50%	2.50%	2.50%	In the past 25 years, rates on hold throughout 1995, 2004 & now 2014.
Eur	Oct PPI %yr	–1.4%	–	–	Falling producer prices adding to ECB's deflation concerns.
UK	Nov PMI construction	61.4	61.5	62.0	Sector uplift through 2013 largely maintained in 2014.
US	Nov ISM New York	59.3	–	55.0	Post govt shutdown bounce likely to reverse somewhat.
	Oct construction spending	–0.4%	0.6%	–	Both residential and non-residential spending have slowed.
	Nov auto sales	16.4	16.5	–	Auto sales and production spike in early Q3 has not been sustained.
Wed 3					
NZ	GlobalDairyTrade auction	–3.1%	–	–	Still awaiting some sign of stabilisation in prices.
	Q3 building work put in place	1.0%	2.6%	3.0%	Continued growth in quake-hit Canterbury and elsewhere.
Aus	Q3 GDP	0.5%	0.7%	0.8%	Domestic demand 0.4%, net X +0.7ppts, inventories -0.3ppts.
Chn	Nov HSBC services PMI	52.9	–	–	Arguably a better read on Q3 soft patch than manuf. equivalent.
	Nov NBS non-manufacturing PMI	53.8	–	–	Not closely watched, but a useful cross reference for other surveys.
Eur	Oct retail sales	–1.3%	0.5%	–	German retail sales/French consumer spending data due 27-28/11.
	Nov PMI services final	51.3	51.3	–	Economy not gaining momentum in Q4.
	Q3 GDP revision	0.2% a	0.2%	0.1%	Q3 was 0.16% before rounding, any revision would be to downside.
UK	Nov BRC shop price index %yr	–1.9%	–	–	Leads change in direction of annual CPI change by 1-3 months.
US	Nov ADP private payrolls chg	230k	222k	210k	ADP outperformed payrolls in Oct after underperformance in Q3.
	Q3 productivity revisions	2.0%	2.2%	–	GDP was revised up from 3.5% to 3.9%. Productivity to follow suit.
	Nov ISM non-manufacturing	57.1	57.5	54.4	Peaked in Aug, Markit survey of same sector suggests further to fall.
	Fed beige book	–	–	–	Fed's regional assessment ahead of last FOMC of year.
Can	BoC rate decision	1.0%	1.0%	1.0%	Forward guidance in statement suspended for time being.
Thu 4					
Aus	Oct trade balance, AUDbn	–2.3	–1.8	–1.9	Imports –2%, following +5.6% in Sep. Exports –0.7%.
	Oct retail trade	1.2%	0.1%	–0.2%	Sep burst partly due to iPhone 6 launch (added ~0.5ppts).
Eur	ECB policy decision	0.05%	0.05%	0.05%	Edging closer to sovereign bond purchases.
UK	BoE policy decision	0.50%	0.50%	0.50%	Rate rise timing has been pushed back substantially.
US	Initial jobless claims w/e Nov 29	313k	–	300k	Nov prone to holidays distortion due Veteran's Day, Thanksgiving.
	Nov corporate layoffs %yr	–4.2%	–	–	Challenger series.
Can	Nov Ivey PMI	51.2	–	–	Volatility of H1 2013 is back, making this survey difficult to interpret.
Fri 5					
Ger	Oct factory orders	0.8%	0.4%	–	Orders down 1.0% yr in Sep. Weakness intensified in 2nd half of year.
US	Nov non-farm payrolls chg	214k	225k	140k	Payrolls growth has moderated; jobless rate to show renewed drop.
	Nov unemployment rate	5.8%	5.8%	5.8%	Unemployment rate decline largely function of lower participation.
	Oct trade balance $bn	–43.0	–41	–	Exports down 1.5% in Sep, imports flat.
	Oct factory orders	–0.6%	–0.2%	–	Durables known +0.4%.
	Oct consumer credit $bn	$15.9	–	–	Student and auto loans the main driver still.
	Fedspeak	–	–	–	Cleveland Fed President Mester.
Can	Nov employment ch	43k	5k	–	Jobs up 11k month average in Q3, heading for similar in Q4.
	Oct trade balance C$bn	0.7	–	–	Exports up 1.1% in Sep, imports down 1.5%.

New Zealand forecasts

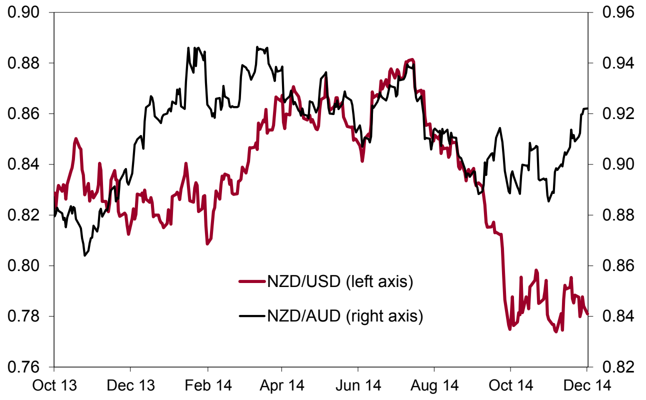
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014	2015f	2016f	2013	2014f	2015f	2016f
GDP (Production) ann avg	2.7	2.8	3.2	3.1	2.6	3.3	3.1	2.9
Employment	0.4	3.8	2.8	2.6	2.9	3.0	2.7	2.0
Unemployment Rate % s.a.	6.2	5.9	5.2	4.8	6.0	5.4	4.9	4.5
CPI	0.9	1.5	1.3	2.2	1.6	1.0	2.2	2.4
Current Account Balance % of GDP	-3.8	-2.7	-4.6	-5.8	-3.3	-3.4	-5.9	-5.0

Financial Forecasts	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Cash	3.50	3.50	3.50	3.75	4.00	4.25
90 Day bill	3.70	3.70	3.75	4.00	4.25	4.50
2 Year Swap	3.80	3.90	4.10	4.50	4.70	4.80
5 Year Swap	4.10	4.20	4.40	4.70	4.90	5.00
10 Year Bond	3.90	4.00	4.20	4.50	4.70	4.80
NZD/USD	0.77	0.77	0.78	0.79	0.80	0.81
NZD/AUD	0.88	0.88	0.87	0.87	0.87	0.87
NZD/JPY	89.3	90.1	91.3	94.0	96.8	98.8
NZD/EUR	0.63	0.63	0.63	0.63	0.63	0.64
NZD/GBP	0.49	0.49	0.48	0.48	0.48	0.47
TWI	76.4	76.5	76.8	77.6	78.3	78.9

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 1 December 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.65%	3.64%	3.66%
60 Days	3.66%	3.66%	3.68%
90 Days	3.67%	3.67%	3.70%
2 Year Swap	3.88%	3.95%	3.87%
5 Year Swap	4.10%	4.21%	4.16%

NZ foreign currency mid-rates as at Monday 1 December 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7810	0.7922	0.7757
NZD/EUR	0.6265	0.6319	0.6203
NZD/GBP	0.4989	0.5049	0.4861
NZD/JPY	92.70	92.33	87.57
NZD/AUD	0.9221	0.9039	0.8878
TWI	78.24	78.35	76.34

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014f	2015f	2016f
Australia						
Real GDP % yr	2.6	3.6	2.3	3.2	3.2	3.5
CPI inflation % annual	3.0	2.2	2.7	1.8	2.5	2.7
Unemployment %	5.2	5.3	5.8	6.3	5.9	5.2
Current Account % GDP	-2.8	-4.4	-3.3	-3.1	-2.4	-1.2
United States						
Real GDP %yr	1.6	2.3	2.2	2.2	2.5	3.2
Consumer Prices %yr	3.1	2.1	1.5	1.8	1.8	2.0
Unemployment Rate %	8.9	8.1	7.4	6.3	5.7	5.2
Current Account %GDP	-2.9	-2.9	-2.4	-2.3	-2.2	-2.2
Japan						
Real GDP %yr	-0.3	1.5	1.5	1.0	1.4	1.6
Euroland						
Real GDP %yr	1.6	-0.6	-0.4	0.7	0.9	1.0
United Kingdom						
Real GDP %yr	1.1	0.3	1.7	3.0	2.5	2.7
China						
Real GDP %yr	9.3	7.7	7.7	7.4	7.5	7.8
East Asia ex China						
Real GDP %yr	4.5	4.5	4.3	4.1	5.1	5.7
World						
Real GDP %yr	4.1	3.4	3.3	2.9	3.7	4.5
Forecasts finalised 7 November 2014						

Interest Rate Forecasts	Latest	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Australia						
Cash	2.50	2.50	2.50	2.50	2.75	3.00
90 Day Bill	2.76	2.65	2.55	2.65	3.00	3.25
10 Year Bond	3.03	3.50	3.70	4.00	4.50	4.60
International						
Fed Funds	0.125	0.125	0.125	0.125	0.250	0.500
US 10 Year Bond	2.21	2.50	2.60	2.80	3.20	3.30
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
AUD/USD	0.8496	0.88	0.88	0.90	0.91	0.92
USD/JPY	118.21	116	117	117	119	121
EUR/USD	1.2448	1.23	1.23	1.24	1.25	1.26
AUD/NZD	1.0842	1.14	1.14	1.15	1.15	1.15

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Disclaimer continued

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