# Weekly Commentary

4 September 2017

# Auckland construction falling behind

New Zealand is wrestling with a large and growing shortage of houses, with the shortfall centred squarely on Auckland. However, strong headwinds in the construction sector mean that building levels are likely to rise only gradually. This will challenge the strength of GDP growth over the coming year, and reinforces the case for the OCR staying on hold for an extended period.

## Pressures in the Auckland housing market have continued to grow...

Back in 2009, we highlighted the emerging pressures in the Auckland housing market, and forecast that this would result in a strong pick up in construction activity. Eight years on, that's exactly what we have seen. Residential construction has risen rapidly in recent years. That includes a sizeable lift in home building in Auckland.

But despite the lift in home building, pressures in the Auckland market haven't gone away. In fact, they've gotten worse. Auckland's population has risen by much more than expected, and home building has not kept pace. This has seen housing market tightness in Auckland rising to acute levels, reflected in a sharp increase in the average number of people per dwelling.

Looking ahead, Auckland's population is set to continue growing at a rapid pace, with around 290,000 more people expected to settle in the region over the coming decade. Coming on top of the existing tightness in the Auckland housing market, this signals the need for a significant number of new homes in the region.

## ... however growing headwinds mean that residential construction is set to increase only gradually...

Despite the growing need for new building in Auckland, headwinds in the construction sector mean that we're expecting only subdued growth in residential construction over the coming year. And recent developments indicate that growth in construction could be even softer than we're assuming.

Several factors are providing a brake on residential construction. First is that developers are encountering increasing difficulties accessing finance. This is particularly important in Auckland, given the greater prevalence of medium to high-density housing developments, for which finance can be a significant hurdle.

At the same time, capacity in the construction sector has become stretched following strong increases in building activity over the past few years. This has resulted in building costs rising at a rapid pace, with the cost of building a new home in Auckland up around 40% over the past five years alone.

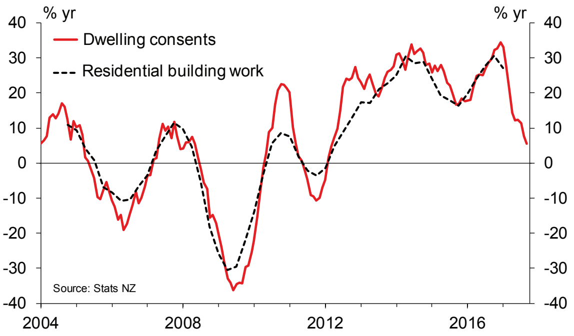
Importantly, this rise in building costs has come at the same time as the housing market in Auckland has been softening. Existing homes prices in Auckland are down 4% since the start of this year, and sales are at their lowest level since 2011. Many developers will be nervous about building into a slowing market.

These headwinds have sapped the momentum in Auckland's construction sector, which showed through

# Auckland construction falling behind
continued

very clearly in last week's July dwelling consent numbers. Consent issuance in Auckland has fallen 8% over the past three months (though that does include a pullback in the volatile multiples consent category). Looking at the longer-term trend, annual dwelling consent numbers have essentially flatlined at just over 10,000 since the start of this year. And the most recent figures actually point to some softening in building activity over the coming months. Importantly, dwelling consents numbers have plateaued at levels that are still well short of what's needed to keep up with population growth. Consequently, it's likely that tightness in the Auckland housing market will get worse before it gets better.

**Auckland building work and dwelling consents**




### … reinforcing the case for the OCR remaining low for an extended period

Our forecasts for subdued residential construction are a key point of difference between us and the Reserve Bank. The RBNZ's August policy assessment factored in continued strong increases in residential construction over the next few years. However, such increases look doubtful, especially with the slowdown in Auckland coming on top of the continued gradual wind-down of reconstruction work in Canterbury.

This subdued outlook for residential construction has important implications for economic conditions more generally. Construction activity was a key contributor to increases in GDP and employment in recent years, with spillovers to a number of associated industries. But with the momentum in the construction sector now waning, it's likely that we'll see more moderate GDP growth over the coming year. This will make it even harder for the RBNZ to generate the pick-up in domestic inflation that they have long pursued.

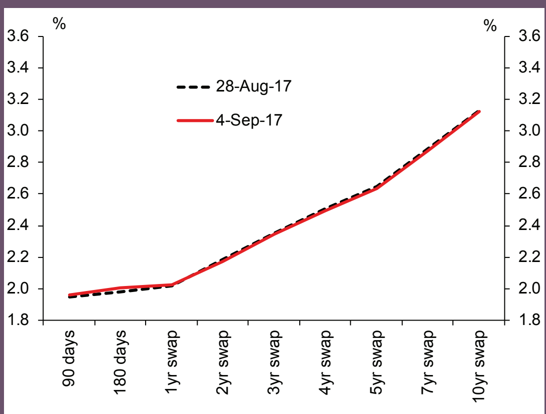
With the headwinds for growth increasing and a sustained pick-up in domestic inflation remaining elusive, the case for Official Cash Rate hikes in the near term looks thin. We expect that the OCR will remain on hold until late 2019. This is in contrast to financial markets pricing, which is consistent with OCR hikes from around September of next year.

# Fixed vs Floating for mortgages

For borrowers with a deposit of 20% or more, the best value lies in the two-year rate or shorter terms. Three- to five-year rates seem high relative to where we think short-term rates are going to go over that time. That said, these rates are most likely to be pressured higher by global market trends, so borrowers who prefer the security of a longer term still have a chance to lock in at historically quite low levels.

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**



# The week ahead

## NZ Q2 building work put in place

**Sept 5, Last: -3.5%, Westpac f/c: +4.5, Mkt f/c: 1.6%**

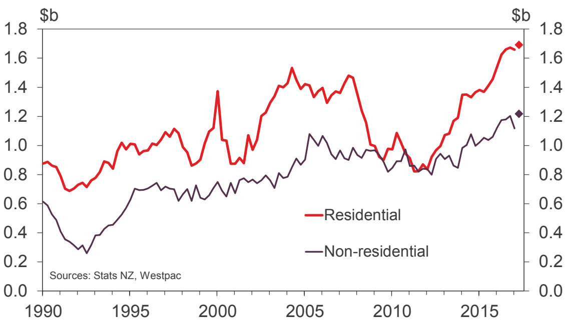
- Following an unexpected fall in March, we expect the upcoming building work report will show that construction activity rebounded in the June quarter.
- Much of the weakness seen earlier in the year related to non-residential projects, which can be lumpy on a quarter-to-quarter basis. With a large amount of construction activity occurring nationwide, we expect a solid rise in non-residential building in June.
- Residential construction is also expected to rise modestly. However, rising building costs, stretched capacity in the building sector, and tighter bank lending standards for property developers are all providing some brake on how quickly building activity ramps up.

## Aus Q2 profits

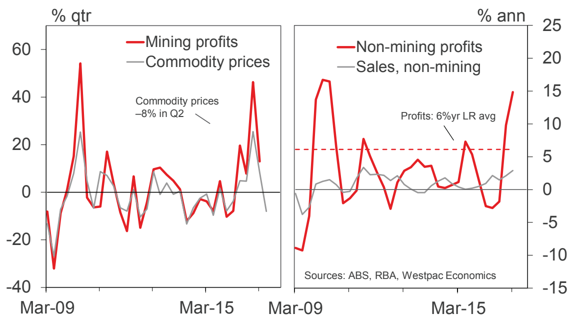
**Sep 4, Last: 6.0%, WBC f/c: -4.0%, Mkt f/c: -4.0%, Range: -9.0% to 6.0%**

- In the year to March 2017, company profits surged, jumping 40%, including a 6% rise in the quarter. The key was the rebound in commodities, up from the lows of late 2015, early 2016. Mining profits (36% of the total) more than doubled, +113%, over the period, while profits ex-mining rose 17%. However, in the June quarter, commodity prices stumbled and hence profits dipped. We anticipate the Business Indicators survey will report profits declined by 4%. Mining profits came off their highs in the quarter, with a potential double digit fall, a forecast -11.5%, associated with an 8% decline in global commodity prices. Non-mining profits were potentially constrained to only a small rise, a forecast +0.5%. Expanding sales were a plus in Q2 but margins remained under pressure, with a lack of pricing power at a time of rising costs.

### NZ real building work put in place




### Company profits: Q2 hit from commodities




## Aus Q2 inventories

**Sep 4, Last: 1.2%, WBC f/c: 0.2%**
**Mkt f/c: 0.3%, Range: -0.7% to 1.0%**

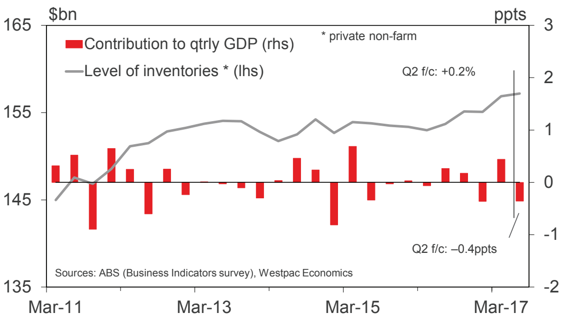
- Inventories were a likely swing factor over the first half of 2017, centred on mining. In Q1, inventories rose 1.2%, +$1.8bn, the largest rise since March 2012, and added 0.4ppts to quarterly growth. There was a $1.0bn build-up on mining inventories as some rail links to the ports were closed due to flooding.
- In Q2, we expect total inventories to increase by only 0.2%, subtracting 0.4ppts from growth. The headline figure is constrained by a likely drawing down of mining inventories as rail links re-opened.
- Total inventories ex mining and ex manufacturing (where there is a structural decline) are forecast to rise by a strong 1.5% in Q2, matching the outcome for Q1. Firms across the non-mining economy are expanding inventories to meet rising sales.

## Aus Q2 current account, AUDbn

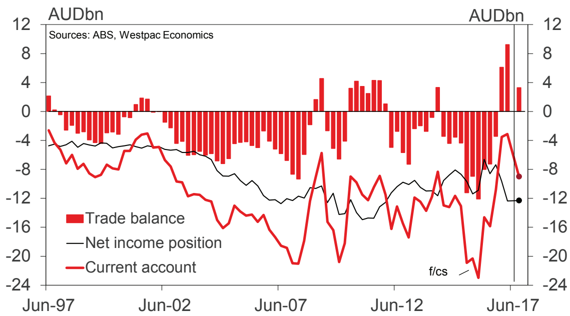
**Sep 5, Last: -3.1, WBC f/c: -9.0**
**Mkt f/c: -7.4, Range: -9.5 to -1.0**

- Australia's current account deficit narrowed to only $3.3bn in Q1, 0.7% of GDP. That was the smallest deficit as a share of the economy since the end of 1979. The trade surplus was 2.1% of GDP, the largest since mid-1973. In Q2, the current account widened to a forecast $9.0bn as the trade position deteriorated on a dip in export prices as commodity prices eased. The trade balance was $3.3bn in Q2, a $5.9bn deterioration on Q1 (or, after revisions, a deterioration of $4.0bn). Export earnings declined by around 3%, dented by lower prices, while the import bill increased by around 2%. The terms of trade declined by an estimated 5%. The net income deficit is expected to hold around the Q1 level of $12.35bn, which represented a $5bn deterioration on six months earlier, as foreign investors in the mining sector enjoyed stronger returns.

### Inventories Q2 f/c: +0.2%; –0.4ppts cont'n




### Current account: f/c –$9.0bn in Q2



# The week ahead

### Aus Q2 net exports, ppts cont'n

**Sep 5, Last: –0.7, WBC f/c: 0.10**
**Mkt f/c: -0.05, Range: -0.60 to 0.10**

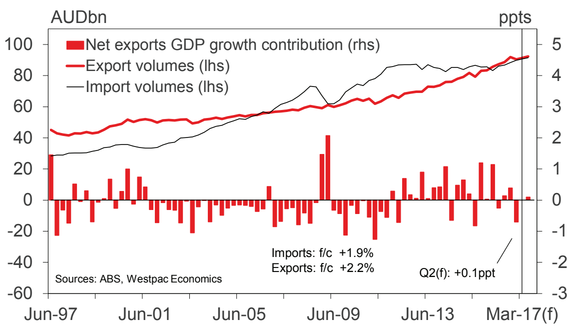
- Net exports, like inventories, were a swing factor over the first half of 2017 - but moving in the opposite direction. In Q1, net exports subtracted a hefty 0.7ppts from growth as exports fell by 1.6% and imports increased by 1.6%, to meet rising demand. The key surprise was that resource exports slumped 4.6%, subtracting 2.5ppts of total exports, hit by bad weather and mechanical disruptions.
- In Q2, net exports are expected to be broadly neutral, at +0.1ppt.
- Export volumes rose an estimated 2.2%, with gains in iron ore, LNG, services and manufacturing outweighing a fall in coal. Coal shipments are set to rebound in Q3 with a return to more normal conditions. Import volumes advanced a further 1.9% we estimate, with broad based strength (excluding gold).

### Aus Q2 public demand

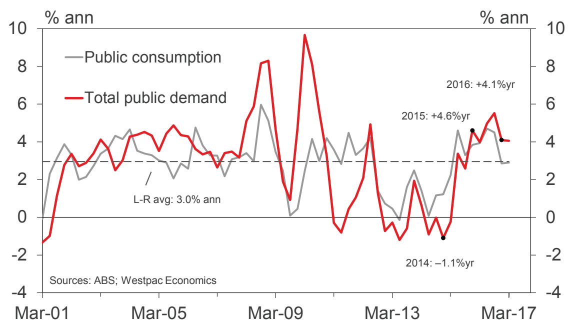
**Sep 5, Last: 0.5%, WBC f/c: 1.3%**

- Public demand grew by an above trend pace in 2015 and 2016, 4.6% and 4.1%, respectively. This followed four years of weakness.
- An upswing in public investment is underway, lifting from recent lows, as governments commit to additional projects now that earlier fiscal pressures at the state level have receded.
- In Q1, public demand surprised to the down side, with a gain of only 0.5%, constrained by a dip in investment.
- In Q2, the upswing in public investment resumed. Overall public demand is expected to increase by 1.3% in the quarter, adding 0.3ppts to growth.

### Net exports: f/c +0.1ppt in Q2




### Public demand: 2 years of above trend growth




### Aus RBA policy decision

**Sep 5, Last: 1.50%, WBC f/c: 1.50%**
**Mkt f/c: 1.50%, Range: 1.50% to 1.50%**

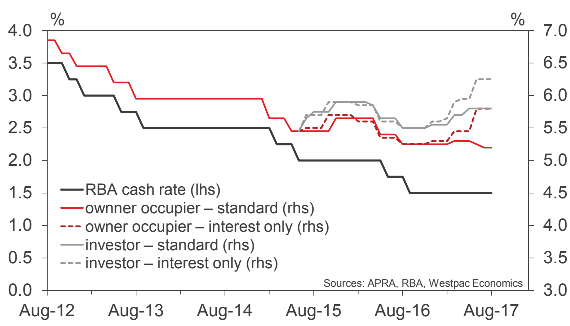
- The RBA is certain to leave rates unchanged again at its September meeting. The Bank has left the cash rate unchanged since August last year. Over the past year, economic growth has been patchy, core inflation is below the target band, there is significant slack in the labour market and wages growth is at historic lows.
- With a number of these trends likely to persist, we expect rates to remain on hold throughout 2017 and 2018. However, market pricing is for one rate hike by the second half of 2018.
- The 2018 outlook is critical to the rates debate. The RBA's central case forecast is for growth to accelerate to be above trend in 2018 and into 2019. We are less convinced, expecting growth to slow to below trend in 2018.

### Aus Q2 GDP

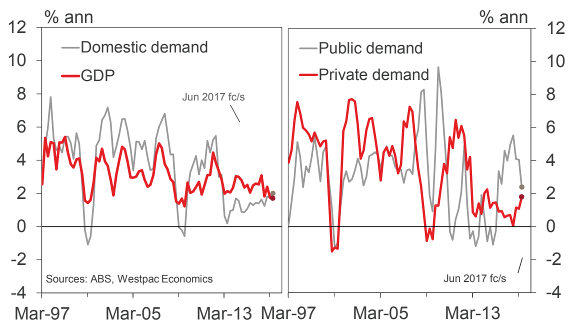
**Sep 6, Last: 0.3%qtr, 1.7%yr; WBC f/c: 0.7%qtr, 1.7%yr**
**Mkt f/c: 0.7%, Range: 0.5% to 1.0%**

- The Australian economy gained momentum in Q2. Real GDP grew by a forecast 0.7%, after a 0.3%, comprised of: domestic demand +1.0%; inventories -0.4ppts; and net exports +0.1ppts. Conditions rebounded from recent weather disruptions (except coal shipments in April). Public investment and business investment increased, with the waning of the mining investment downturn. As well, global growth has improved. There was a hiring burst in the period, with employment up 0.9%, including full-time +1.1%, and hours worked rose 1.2%. This corrects for undue employment weakness in 2016. Consumers spent more freely in the period, a forecast +1.0%, twice the Q1 pace. Household incomes were supported by employment strength but wages growth remains weak. Home building activity was little changed in the quarter.

### RBA cash rate and mortgage interest rates




### Australian economic conditions



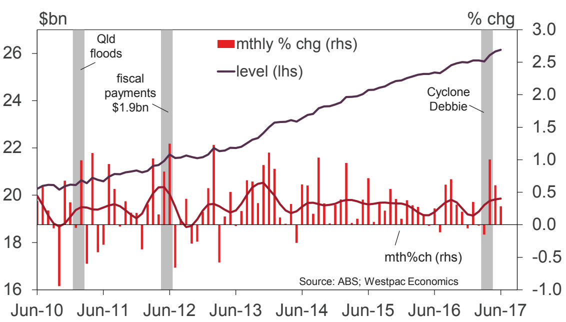
# The week ahead

## Aus Jul retail trade

**Sep 7, Last: 0.3%, WBC f/c: 0.2%**
**Mkt f/c: 0.2%, Range: 0.1% to 0.6%**

- Recent months have seen retail sales recover from weather disruptions at the start of the year, with a 1% rise in Apr followed by a 0.6% gain in May and a 0.3% gain in June. Recall that the start of 2017 saw an abnormally high number of heatwave and wet weather days across the eastern capital cities with severe weather from Cyclone Debbie also impacting in late March.
- The rebound in momentum is now fading. Meanwhile the backdrop in terms of consumer sentiment remains shaky with signs family finances came under renewed pressure through mid 2017 with mortgage rate increases and continued concerns around housing markets more than offsetting an improvement in labour markets. Aggressive price discounting remains a factor as well. On balance, we expect July to post a weak 0.2% gain for monthly sales.

### Monthly retail sales

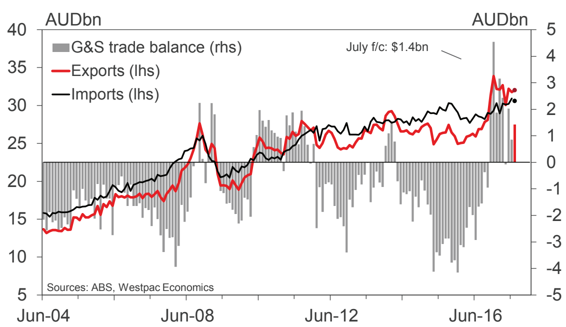



## Aus Jul trade balance, AUDbn

**Sep 7, Last: 0.9, WBC f/c: 1.4**
**Mkt f/c: 0.9, Range: 0.2 to 3.0**

- Australia's trade balance has been in surplus in seven of the past eight months.
- For July, we expect the surplus to widen from $0.86bn to $1.4bn, an improvement of $550mn.
- Export earnings are forecast to rise by 0.8%, $250mn. Gains in iron ore (higher prices) and coal (volumes) offset slippage in LNG (disruptions) and gold (off a high base).
- The import bill declines by an anticipated 1%, $300mn, as prices fall in association with a stronger currency. The Australian dollar made solid gains in the month, up 3% against the US dollar and +2.5% on a TWI weighted basis.

### Australia's trade balance

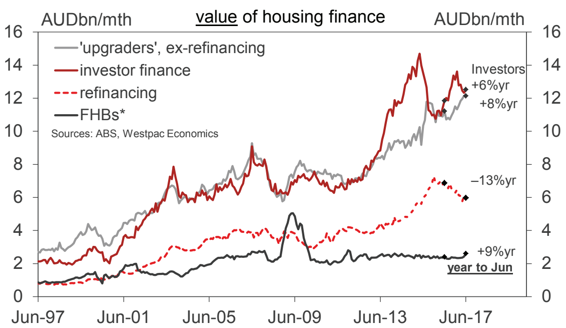



## Aus Jul housing finance (no.)

**Sep 8, Last: 0.5%, WBC f/c: 1.5%**
**Mkt f/c: 1.0%, Range: -4.0% to 2.5%**

- The number of housing finance approvals to owner occupiers edged up 0.5% in June but with the detail more positive, approvals ex-refi up 1.9% and investor loans and construction-related loans also posting solid rises. Note that the first round of mortgage interest rate rises associated with macro prudential tightening measures came through in late March with a second round of changes only coming in late June.
- The July update should provide more clues as to the impact of these measures although its still likely to be too early for June rate moves to impact. Industry data points to a solid lift in owner occupier loans in the July month, some of which may be indirect spillover effects of higher rates for investor loans. We expect approvals to be up 1.5% but the focus will be on investor loans.

### Value of finance approvals by segment

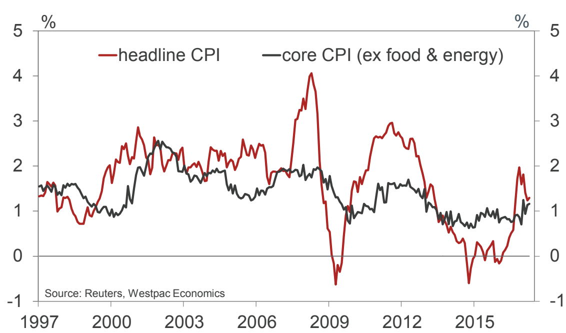



## ECB Sep policy meeting

**Sep 7, deposit rate -0.40%**

- President Draghi put off speaking on the topic of monetary policy at the Jackson Hole Symposium, instead choosing to focus on the long-term concerns of confidence and productivity. Before and after that engagement, the Euro continued to rally past USD1.20.
- To our mind, the ECB Governing Council is not overly concerned about the current level of the currency, but a further jolt higher is certainly not desired.
- Come September, the market will be focused on guidance on a 2018 taper and forecast revisions. To hold off a higher Euro, the Council needs to emphasise that the taper process will be slow and that rates won't rise until well after it is completed. Note it is not a given that hard detail on the taper will be provided in September; the Council may wait until October or December.

### Inflation still a long way from target



# Data calendar

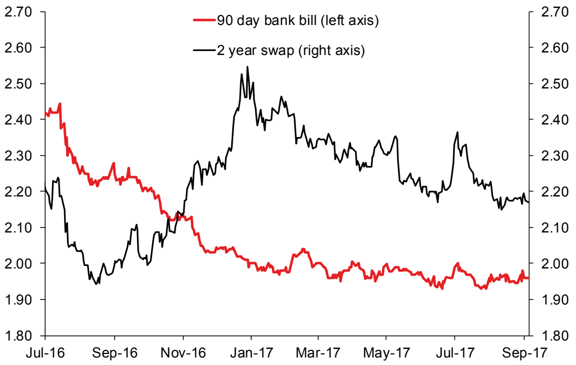
| | | Last | Market median | Westpac forecast | Risk/Comment |
|---|---|---|---|---|---|
| **Mon 4** | | | | | |
| **Aus** | Q2 company profits | 6.0% | –4.0% | –4.0% | Profits dip on lower commodity prices & margin squeeze. |
| | Q2 business inventories | 1.2% | 0.3% | 0.2% | Q2 –0.4ppt impact, on pull-back in mining. |
| | Aug ANZ job ads | 1.5% | – | – | In a solid recovery up 12.8%yr fastest pace since Oct 15. |
| | Aug MI inflation gauge | 2.7% | – | – | The pace lifted through Q2 but has eased back since May. |
| **Eur** | Sep Sentix investor confidence | 27.7 | 27.3 | – | Strong and will remain that way. |
| **US** | Labor Day | – | – | – | National public holiday. |
| **Tue 5** | | | | | |
| **NZ** | Aug ANZ commodity prices | –0.8% | – | – | Commodities firmness to continue, driven by dairy and meat. |
| | Q2 building work put in place | –3.5% | 1.6% | 4.5% | Recovery in non-res construction, limited gain in residential. |
| **Aus** | Q2 current account balance, AUDbn | –3.1 | –7.4 | –9.0 | Trade surplus narrowed, lower export (commodity) prices. |
| | Q2 real net exports, ppts cont'n | –0.70 | –0.05 | 0.10 | Broadly neutral impact, export shipments rebound. |
| | Q2 public demand | 0.5% | – | 1.3% | Above trend growth past 2 yrs, public investment upswing. |
| | Aug AiG services PSI | 56.4 | – | – | Strength overdone? July reading on par with 2007/08 period. |
| | RBA policy announcement | 1.50% | 1.50% | 1.50% | On hold for over a year, likely to remain so for some time yet. |
| | RBA Governor Philip Lowe | – | – | – | Remarks at RBA Board dinner, Brisbane. |
| **Chn** | Aug Caixin China PMI services | 51.5 | – | – | NBS variant disappointed in August. |
| **Eur** | Q2 GDP – final | 0.6% | 0.6% | 0.6% | Growth has broad support. |
| | Aug Markit services PMI – final | 54.9 | 54.9 | – | Conditions very strong. |
| | Jul retail sales | 0.5% | –0.5% | – | Annual pace trend up in 2017. |
| **UK** | Aug Markit services PMI | 53.8 | 53.5 | – | Elevated in line with other developed economies' PMIs. |
| **US** | Jul factory orders | 3.0% | –3.2% | – | Durables slumped back in Jul; though core pulse solid. |
| | Fedspeak | – | – | – | Brainard on economy and policy, Kashkari holds townhall. |
| **Wed 6** | | | | | |
| **NZ** | GlobalDairyTrade auction | –0.4% | – | – | WMP dairy futures signalling a decline in prices. |
| **Aus** | Q2 real GDP | 0.3% | 0.7% | 0.7% | Rebound from weather disruptions, consumer spending up… |
| | Q2 real GDP, %yr | 1.7% | 1.8% | 1.7% | … supported by hiring burst, business & public investment up. |
| | RBA Head of Economic Analysis | – | – | – | Alex Heath, Economic Society, Tasmania, 2:30pm. |
| **US** | Jul trade balance US$bn | –43.6 | –44.5 | – | Weaker USD won't spur export momentum. |
| | Aug Markit service PMI – final | 56.9 | – | – | Held up better than ISM variant which… |
| | Aug ISM non–manufacturing | 53.9 | 55.1 | – | … slowed sharply in Jul across all major components. |
| | Federal Reserve's Beige book | – | – | – | Conditions across the districts. |
| | Fedspeak | – | – | – | Kaplan speaks to Dallas business club. |
| **Thu 7** | | | | | |
| **Aus** | Jul retail trade | 0.3% | 0.2% | 0.2% | Rebound from weather disruptions fading. |
| | Jul trade balance, AUDbn | 0.9 | 0.9 | 1.4 | Exports +0.8%, prices (iron ore) & vols (coal), imports –1%. |
| **Chn** | Aug foreign reserves $bn | 3080.7 | – | – | Have been very stable since January. |
| **Eur** | ECB policy decision | –0.40% | –0.40% | –0.40% | Revised forecasts due. Clarity on 2018 tapering desired. |
| **UK** | Aug Halifax house prices | 2.1% | – | – | Uncertainty continuing to dampen house price growth. |
| **US** | Initial jobless claims | 236k | – | – | Very low. |
| | Q2 non–farm productivity (final) | 0.9% | 1.0% | – | Productivity remains sluggish. |
| | Fedspeak | – | – | – | Mester on economic outlook and monetary policy. |
| **Fri 8** | | | | | |
| **NZ** | Q2 manufacturing activity | 2.8% | – | – | Manufacturers' confidence high throughout the quarter. |
| **Aus** | Jul housing finance | 0.5% | 1.0% | 1.5% | Owner occupier loans firm – investors the main focus. |
| | RBA Deputy Governor | – | – | – | Guy Debelle, FINSIA Regulators panel, Sydney, 12:30pm. |
| | RBA Governor Philip Lowe | – | – | – | Bank of China, Dinner, Sydney, 6:30pm. |
| **Chn** | Aug trade balance USDbn | 46.7 | 48.6 | – | Widened for a fifth month in July. |
| | Aug foreign direct investment %yr | 2.3% | – | – | Up modestly over the year– tentative date. |
| **UK** | Jul trade balance £bn | –4564 | – | – | Remains in deficit. |
| | Jul industrial production | 0.5% | 0.2% | – | Lower sterling helping to support demand. |
| | Jul construction output | –0.1% | –0.1% | – | Softness in both commercial and residential activity. |
| **US** | Jul consumer credit $bn | 12.4 | 15.0 | – | Auto and student loans still the focus. |
| | Jul wholesale inventories | 0.4% | 0.4% | – | Were broadly stable in Q2. |
| | Fedspeak | – | – | – | Dudley, George, Bostic on economy. Harker on cons. credit. |
| **Sat 9** | | | | | |
| **Chn** | Aug CPI %yr | 1.4% | 1.6% | – | Inflation remains weak. |
| | Aug PPI %yr | 5.5% | 5.4% | – | Commodity prices continue to aid producer price inflation. |

# New Zealand forecasts

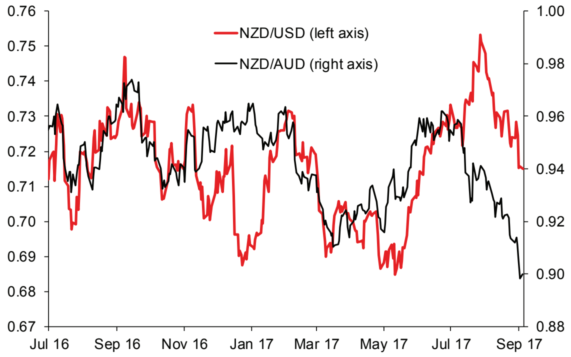
| Economic Forecasts | 2017 | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|
| % change | Mar (a) | Jun | Sep | Dec | 2015 | 2016 | 2017f | 2018f |
| GDP (Production) ann avg | 0.5 | 0.8 | 0.9 | 0.7 | 2.5 | 3.1 | 2.6 | 3.0 |
| Employment | 1.1 | -0.1 | 1.3 | 0.5 | 1.4 | 5.8 | 2.8 | 1.8 |
| Unemployment Rate % s.a. | 4.9 | 4.8 | 4.5 | 4.5 | 4.9 | 5.2 | 4.5 | 4.5 |
| CPI | 1.0 | 0.0 | 0.5 | 0.4 | 0.1 | 1.3 | 1.9 | 1.5 |
| Current Account Balance % of GDP | -3.1 | -2.9 | -2.9 | -3.0 | -3.4 | -2.8 | -3.0 | -3.3 |

| Financial Forecasts | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|---|
| **Cash** | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| **90 Day bill** | 1.95 | 1.95 | 1.95 | 1.95 | 1.95 | 1.95 |
| **2 Year Swap** | 2.10 | 2.10 | 2.15 | 2.20 | 2.30 | 2.40 |
| **5 Year Swap** | 2.65 | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 |
| **10 Year Bond** | 2.90 | 2.95 | 3.10 | 3.20 | 3.30 | 3.40 |
| **NZD/USD** | 0.72 | 0.70 | 0.69 | 0.68 | 0.67 | 0.66 |
| **NZD/AUD** | 0.92 | 0.92 | 0.92 | 0.92 | 0.93 | 0.94 |
| **NZD/JPY** | 79.2 | 77.7 | 77.3 | 76.8 | 76.4 | 75.9 |
| **NZD/EUR** | 0.62 | 0.60 | 0.59 | 0.59 | 0.59 | 0.58 |
| **NZD/GBP** | 0.57 | 0.56 | 0.56 | 0.55 | 0.55 | 0.55 |
| **TWI** | 76.4 | 75.0 | 74.3 | 73.8 | 73.4 | 72.9 |

### 2 Year Swap and 90 Day Bank Bills




### NZD/USD and NZD/AUD




### NZ interest rates as at market open on Monday 4 September 2017

| Interest Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **Cash** | 1.75% | 1.75% | 1.75% |
| **30 Days** | 1.85% | 1.84% | 1.86% |
| **60 Days** | 1.90% | 1.89% | 1.90% |
| **90 Days** | 1.96% | 1.95% | 1.95% |
| **2 Year Swap** | 2.17% | 2.17% | 2.19% |
| **5 Year Swap** | 2.63% | 2.64% | 2.69% |

### NZ foreign currency mid-rates as at Monday 4 September 2017

| Exchange Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **NZD/USD** | 0.7150 | 0.7314 | 0.7404 |
| **NZD/EUR** | 0.6016 | 0.6220 | 0.6289 |
| **NZD/GBP** | 0.5517 | 0.5686 | 0.5677 |
| **NZD/JPY** | 78.26 | 79.98 | 82.01 |
| **NZD/AUD** | 0.8999 | 0.9223 | 0.9344 |
| **TWI** | 74.98 | 77.29 | 78.27 |

# International forecasts

| Economic Forecasts (Calendar Years) | 2013 | 2014 | 2015 | 2016 | 2017f | 2018f |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Real GDP % yr | 2.1 | 2.8 | 2.4 | 2.5 | 2.3 | 3.0 |
| CPI inflation % annual | 2.7 | 1.7 | 1.7 | 1.5 | 2.0 | 2.5 |
| Unemployment % | 5.8 | 6.2 | 5.8 | 5.7 | 5.7 | 6.1 |
| Current Account % GDP | -3.4 | -3.0 | -4.7 | -2.7 | -1.2 | -2.1 |
| **United States** | | | | | | |
| Real GDP %yr | 1.5 | 2.4 | 2.9 | 1.5 | 2.1 | 2.1 |
| Consumer Prices %yr | 1.5 | 1.6 | 0.1 | 1.3 | 2.0 | 1.8 |
| Unemployment Rate % | 7.4 | 6.2 | 5.3 | 4.9 | 4.4 | 4.3 |
| Current Account %GDP | -2.3 | -2.3 | -2.3 | -2.6 | -2.7 | -2.8 |
| **Japan** | | | | | | |
| Real GDP %yr | 1.4 | 0.0 | 0.5 | 0.6 | 1.1 | 1.0 |
| **Euroland** | | | | | | |
| Real GDP %yr | -0.3 | 0.9 | 1.6 | 1.7 | 1.9 | 1.5 |
| **United Kingdom** | | | | | | |
| Real GDP %yr | 2.2 | 2.9 | 2.2 | 2.0 | 1.8 | 1.6 |
| **China** | | | | | | |
| Real GDP %yr | 7.7 | 7.3 | 6.9 | 6.7 | 6.7 | 6.2 |
| **East Asia ex China** | | | | | | |
| Real GDP %yr | 4.2 | 4.1 | 3.7 | 3.7 | 3.7 | 3.8 |
| **World** | | | | | | |
| Real GDP %yr | 3.3 | 3.4 | 3.2 | 3.2 | 3.5 | 3.5 |
| Forecasts finalised 11 August 2017 | | | | | | |

| Interest Rate Forecasts | Latest | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Cash | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 90 Day Bill | 1.74 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| 10 Year Bond | 2.69 | 2.75 | 2.80 | 2.90 | 2.95 | 2.95 | 3.00 | 3.00 |
| **International** | | | | | | | | |
| Fed Funds | 1.125 | 1.125 | 1.375 | 1.375 | 1.625 | 1.625 | 1.875 | 1.875 |
| US 10 Year Bond | 2.13 | 2.40 | 2.50 | 2.75 | 2.85 | 2.90 | 3.00 | 3.00 |
| ECB Deposit Rate | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.30 |

| Exchange Rate Forecasts | Latest | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|---|---|
| AUD/USD | 0.7946 | 0.78 | 0.76 | 0.75 | 0.74 | 0.72 | 0.70 | 0.70 |
| USD/JPY | 110.10 | 110 | 111 | 112 | 113 | 114 | 115 | 115 |
| EUR/USD | 1.1907 | 1.17 | 1.17 | 1.16 | 1.15 | 1.14 | 1.13 | 1.13 |
| AUD/NZD | 1.1069 | 1.08 | 1.09 | 1.09 | 1.09 | 1.07 | 1.06 | 1.06 |

# Contact the Westpac economics team

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