# Weekly Commentary

27 February 2017

## In the zone

**The New Zealand is currently in a sweet spot. The economy has been growing at a steady pace, and we're expecting above-trend GDP growth for the next couple of years. At the same time, inflation is looking very well contained.**

We've just released our latest *Quarterly Economic Overview,* which discusses the factors shaping New Zealand's economic outlook. It's available using the link below.[1]

We're now entering our seventh year of continued GDP growth. That's one of the longest periods of continued expansion in New Zealand's history. Looking ahead, we expect momentum in activity will be sustained for some time yet, with GDP growth of 3.6% forecast in 2017, and 3.4% in 2018.

Normally at this late stage of the economic cycle, we wouldn't expect to see growth accelerating. However, record levels of net migration mean that the economy's demand base is continuing to swell, with population growth surging to more than 2% per annum. That's a rapid pace for any developed economy. Underlying the strength in migration are New Zealand's relatively stable and positive economic conditions, including the strength of our labour market. That's seen increases in the number of people arriving on work visas. It's also seen more New Zealanders choosing to stay on shore, or come back from overseas (especially from Australia). While net inflows are expected to ease back from the record level reached in 2016, they're likely to remain at elevated levels for some time yet.

Strong population growth is boosting demand for a range of goods and services, and is adding to the demand for housing. But a notable feature of the current migration cycle is that arrivals have been skewed towards working age people. The resulting increase in the labour force is boosting the economy's productive capacity, and has limited pressure on wages in most sectors.

Also helping to sustain the momentum in activity is a large pipeline of construction work, which is heavily centred on Auckland. Strong population growth and low building in previous years have left Auckland with an under-build of around 35,000 homes - that's about 6% of the current housing stock. On top of that, the region's population is expected to grow by around 15% over the next decade. This means we'll need a protracted period (around 10 years) of strong home building in the region, as well as increases in infrastructure spending. That won't be an easy task, with stains on capacity already emerging with building levels still below the required pace. It's likely that Auckland's housing shortage will get worse before it gets better.

Increasing construction in Auckland and elsewhere is helping to offset changing conditions in Canterbury. Six years on from the devastating February quake, close to two-thirds of planned work is now complete. There's still a lot to get done, and construction levels in the region remain strong. However, construction activity has started to gradually ease back. We've also seen a reorientation of work, with residential construction winding down, while non-residential work continues at a high level.

[1] http://www.westpac.co.nz/assets/Business/Economic-Updates/2017/Bulletins-2017/Westpac-QEO-February-2017_EMAIL.pdf

# **In the zone** continued

One of the big drags on the economy in recent years was low global dairy prices and the associated weakness in export earnings. However, tighter supply conditions (especially in Europe) and a recovery in Chinese imports saw prices recover last year, and those gains have largely been sustained into 2017. Nevertheless, we don't expect that spending in rural communities will come roaring back just yet, with farmers expected to focus on debt repayment and delayed maintenance. On this front, a majority of Fonterra suppliers took up Fonterra's loan offer in the second half of 2015. They will need to begin making repayments once the milk price hits $6/kgms on the advanced schedule, which is likely to occur later this year.

There are some clouds on the horizon. Most notably, the global backdrop remains a key source of risk, with high levels of uncertainty around the political environments in the US, UK and Europe, and associated concerns for global trade. We've also seen global interest rates rising in response to expectations of increased US fiscal spending and tightening of policy from the Fed. Combined with tightness in domestic funding markets, this has seen New Zealand borrowing rates rising in recent months.

This increase in borrowing rates brings some of the risks around the domestic economy into sharper focus. Household debt levels have risen rapidly in recent years, with much of that leveraged against housing assets, including investment housing. However, the rise in borrowing rates, as well as last year's tightening in lending standards, has seen house price inflation slow, with some further softening expected over the coming year. A moderation in house prices inflation is a welcome development from a financial stability stand point. But at the same time, house prices are a key channel that monetary policy uses to affect activity. And with house price growth having eased off, it implies less of a boost to demand over the coming years. Nevertheless, it's still hard to picture outright declines in house prices given the scale of the housing shortage.

Inflation has now returned to within the Reserve Bank's target range of 1-3%, having spent the previous two years below that. However, there's still a challenge ahead in getting inflation to settle around 2%, which we don't expect to happen until the latter half of 2018. The tradables component of the CPI remains very soft, and with the strengthening of the New Zealand dollar over the last year or so, there's likely to be fresh downward pressure on imported goods prices over the coming year.

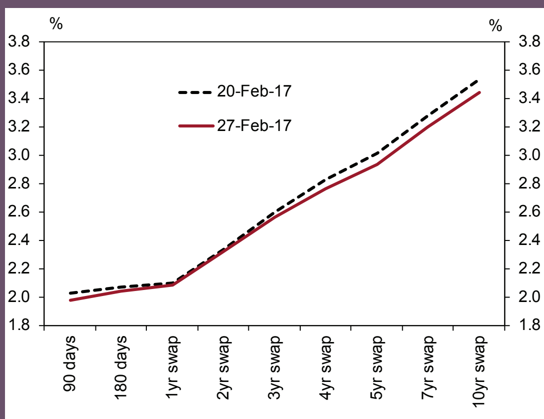
That leaves the onus on a pick-up in domestically-generated inflation in order to meet the overall target. And that means monetary policy will need to stay accommodative for quite a while longer, to spur growth in domestic spending and investment. But even with growth at rates that are moderately above trend, the economy doesn't look like it's at risk of significantly overheating, especially given the growth in the labour force. There is certainly little risk of the RBNZ having to act early to head off an overshoot of the inflation target.

# **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**



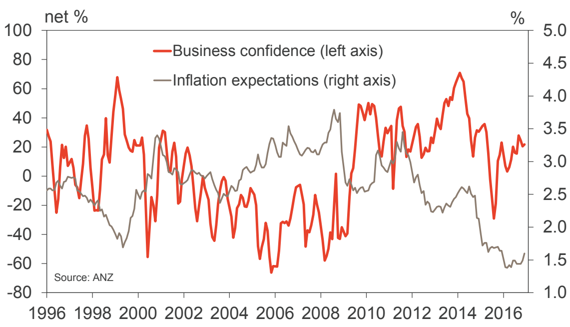
# The week ahead

### NZ Feb business confidence

**Feb 28, Last: 21.7**

- The last survey back in December showed that firms finished 2016 on a chipper note, indicative of continued strong growth through the final quarter of the year.
- This month's survey will provide a vital update on how the economy has fared thus far this year. Against a backdrop of strong population growth, a large pipeline of construction and an improved outlook for the dairy sector, conditions should have remained favourable. However, tighter credit conditions and some cooling in the housing market may weigh on growth.
- Last month, both inflation expectations and pricing intentions recorded notable increases. Whether we see further strong gains is important for the path of inflation from here. While it's clear inflation has risen from its trough, we expect the rise back to 2% to be gradual.

### NZ business confidence and inflation expectations

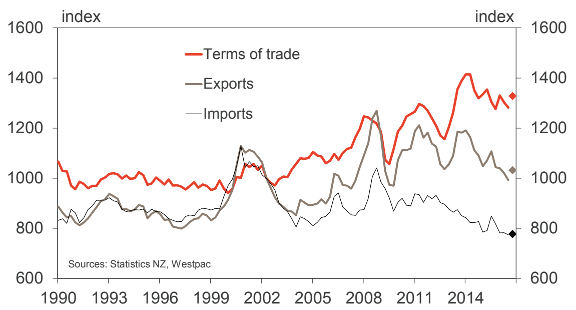



### NZ Q4 terms of trade

**Mar 1, Last: -1.7%, WBC f/c 3.7%, Mkt f/c: 4.0%**

- The terms of trade is estimated to have risen 3.7% in the December quarter, unwinding the decline seen over the previous six months.
- The expected improvement is driven by an estimated 4.1% rise in export prices. Global dairy prices turned a corner in the second half of last year rising more than 50%, and these price gains began translating into export receipts in the December quarter. Export prices of other commodities, including meat and forestry, also look to have strengthened.
- Import prices are estimated to have risen a modest 0.4%, as a rise in fuel import prices looks to have been partly offset by lingering softness in global inflation and further strengthening in the NZ dollar which is helping to keep imported inflation contained.

### NZ Terms of Trade

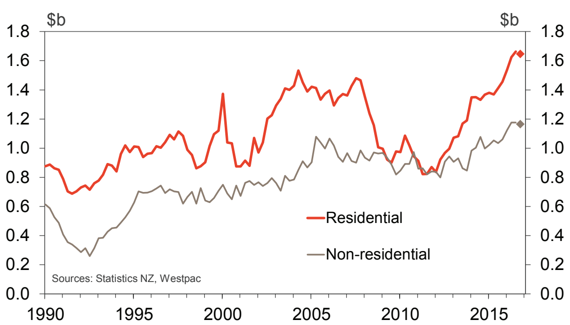



### NZ Q4 building work put in place

**Mar 3, Last: 1.4%, Westpac f/c: -1.0%, Mkt f/c: 1.5%**

- We expect that nationwide construction levels declined by 1.0% in the December quarter. That follows strong growth earlier in 2016, and will still leave construction activity up more than 13% over the year.
- Aggregate building figures are masking stark regional differences. Softness in the December quarter is expected to be centred on Wellington and parts of the South Island that were affected by Kaikoura earthquake. This is an area of downside risk to our forecast. We're also seeing building levels in Canterbury easing back as residential repairs have been completed. Balanced against those trends, building activity remains strong in Auckland, though capacity constraints and regulatory changes may mean that we only see gradual increases in building through late 2016 and early 2017.

### NZ real building work put in place



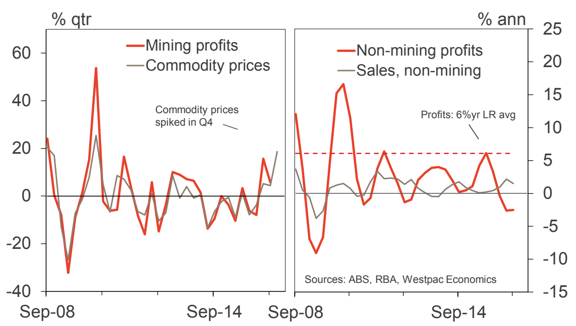

### Aus Q4 company profits

**Feb 27, Last: 1.0%, WBC f/c: 9.5%**

**Mkt f/c: 8%, Range: 0% to 13%**

- In Q3, company profits rose 1.0%, with mining up 5.8% on higher prices and non-mining down 0.7% as output contracted.
- In Q4, profits jumped sharply, up a forecast 9.5%, largely reflecting higher commodity prices. We expect mining profits to spike, +30%, while we anticipate a 1.3% rebound in non-mining profits as the economy emerges from the soft spot of mid-year.
- Note, the BI profit measure is impacted by the accounting treatment of changes in the value of inventories. For Q4, we expect company profits (ex finance) to increase by a still strong 8%.

### Company profits: boost from commodities



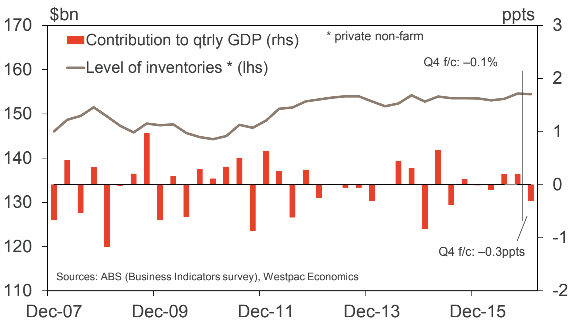
# The week ahead

### Aus Q4 inventories

**Feb 27, Last: 0.8%, WBC f/c: –0.1%**
**Mkt f/c: 0.5%, Range: -0.1% to 1.0%**

- In Q3, retailers and wholesalers were caught out by weak sales. The upshot, a $1.7bn, 1.8% run-up in inventories. Manufacturing inventories continued their structural decline, down $0.4bn, while elsewhere inventories slipped $0.1bn.
- Taken together, total inventories rose 0.8% in Q3, after a 0.2% rise in Q2, to be 0.7% above the level of a year ago. Inventories added 0.2ppts to Q3 GDP growth.
- For Q4, we expect destocking in the retail and wholesale sectors to contribute to a 0.1% decline in total inventories. That implies inventories will subtract 0.3ppts from Q4 GDP growth.
- This is a key judgement contributing to our below consensus Q4 GDP growth forecast of 0.4%qtr.

### Inventories Q4 f/c: -0.1%; -0.3ppts cont'n

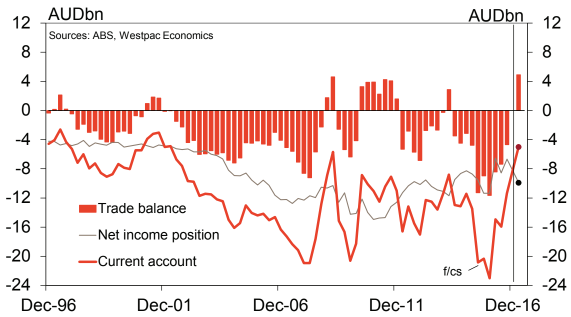



### Aus Q4 current account, AUDbn

**Feb 28, Last: –11.4, WBC f/c: –5.0**
**Mkt f/c: –4.0, Range: –2.0 to –9.6**

- Australia's current account deficit (CAD) has narrowed markedly as commodity prices bounce sharply off their lows.
- In Q3, the deficit was $11.5bn, moderating from $15.9bn in Q2 and well down from $23bn (5.6% of GDP) at the end of 2015.
- For Q4, we expect the CAD to shrink to $5.0bn. At 1.2% of GDP this will be the smallest deficit since March 1980, associated with the early 1980s recession.
- The trade surplus in Q4 was $4.9bn, a turnaround from a $3.6bn deficit in Q3 (revised from -$4.7bn). There will be some leakage from higher export earnings to foreign owners - although the extent and precise timing is uncertain. We expect the income deficit to increase to $9.9bn from $6.7bn.

### Current account: f/c –$5bn in Q4

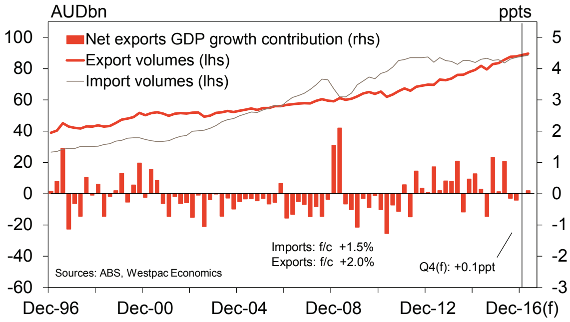



### Aus Q4 net exports, ppt cont'n

**Feb 28, Last: –0.2, WBC f/c: +0.1**
**Mkt f/c: 0.2, Range: –0.3 to 0.7**

- Export earnings rose by about 12% in Q4, while the import bill increased by around 1.5%. We estimate that the terms of trade increased by about 10%, as export prices jumped on higher commodity prices and import prices were broadly flat.
- Real net exports added an estimated 0.1ppts to Q4 GDP growth, following surprise back-to-back subtractions of 0.1 and 0.2.
- Export volumes rose an estimated 2% in Q4, led by iron ore, LNG, rural goods and services. That follows a rise of only 0.3% in Q3 in part due to supply disruptions in the resource sector.
- Import volumes, which trended higher in 2016, rose an estimated 1.5% in Q4, led by services and a surprise bounce in capital goods.

### Net exports: f/c +0.1ppt in Q4

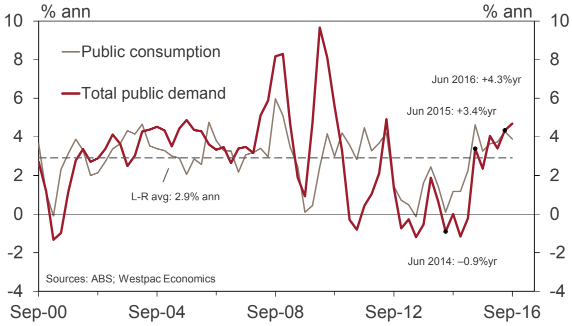



### Aus Q4 public demand

**Feb 28, Last: –0.6%, WBC f/c: 0.4%**

- In Q3, public demand contracted by 0.6%, a correction to a 2.8% jump in Q2, the largest quarterly increase since March 2010, associated with the fiscal stimulus package.
- For Q4, we anticipate only a modest increase of 0.4%.
- Public consumption (around 80% of public demand) is expected to increase by 0.5%. Underlying public sector employment growth appears to have moderated in 2016 following above par staffing additions in 2015.
- Public investment is trending higher, led by transport infrastructure projects. However, we see the risk of a flat Q4, constrained by a surprise 1.6% decline in public construction work (as reported in the construction survey).

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



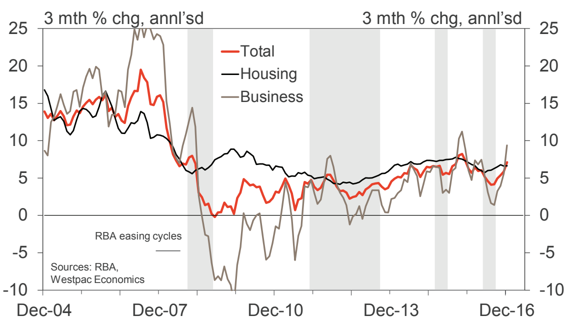
# The week ahead

## Aus Jan private sector credit

**Feb 28, Last: 0.7%, WBC f/c: 0.5%**
**Mkt f/c: 0.5%, Range: 0.4% to 0.6%**

- Credit to the private sector ended the 2016 year on a firmer note, with a gain of 0.7% in December. The result included a 1.1% jump in business credit, an outcome that is likely to be a one-off.
- For January, we anticipate a moderate 0.5% gain in total credit.
- Housing credit growth is robust, supported by RBA rate cuts in 2016. Expect a January result in line with that for December, at around 0.55%, or 6.8% annualised.
- In 2016, business credit grew by 5.6%, in what was a stop-start performance. Credit to businesses stalled around the July Federal election and then rose 2.3% in the December quarter as commercial finance rebounded. For January, we anticipate a 0.4% gain, mindful that finance eased back last month.

### Credit: momentum shift

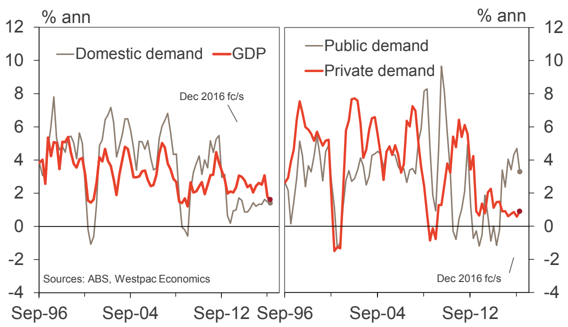



## Aus Q4 GDP

**Mar 1, Last: -0.5%qtr, 1.8%yr, WBC f/c: 0.4%qtr, 1.6%yr**
**Mkt f/c: 0.7%qtr, Range: 0.4%qtr to 1.0%qtr**

- In Q3, the Australian economy stumbled, contracting by 0.5%, with annual growth slowing from an above trend 3.1% to 1.8%. Uncertainty around the July Federal election, a number of one-offs and sluggish consumer spending against the backdrop of weak jobs growth were key factors.
- In Q4, the economy rebounded, although not sharply in our view, as suggested by a still sluggish labour market.
- The arithmetic of our Q4 GDP forecast of 0.4% is: domestic demand 0.6%; net exports +0.1ppts; and inventories -0.3ppts. In Q4, consumer spending improved, home building activity rebounded from weather disruptions and business investment stabilised after a string of negatives.

### Australian economic conditions

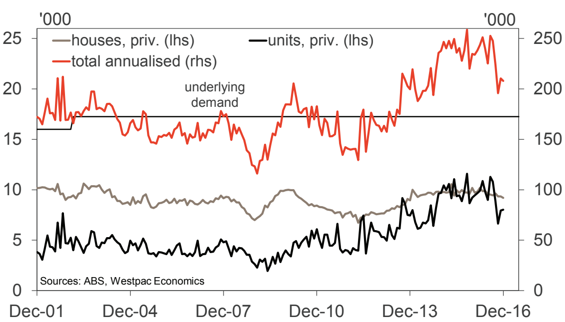



## Aus Jan dwelling approvals

**Mar 2 Last: –1.2%, WBC f/c: –1.0%**
**Mkt f/c: -0.5%, Range: -5.0% to 5.0%**

- Dwelling approvals posted a slight 1.2% decline in Dec following a 7.5% gain in Nov that was a partial rebound from a sharp 23% drop over the previous 3mths. That earlier move marked the first definitive sign that Australia's high-rise driven building boom was starting to turn down. The Nov bounce and Dec stabilisation scales back the pace of the decline but leaves the downtrend intact – trend approvals are now down 13%yr. While the high-rise story is tracking our expectations, weaker than expected non high rise approvals are an area to watch. The Jan update is expected to see a further 1% decline, essentially reconfirming the downtrend over the second half of 2016. That said, the data is prone to wild swings in Jan due to difficulties adjusting for the summer low season – raw figures are marked up 25-30% in the month, hence regular monthly 'noise' tends to be amplified.

### Dwelling approvals

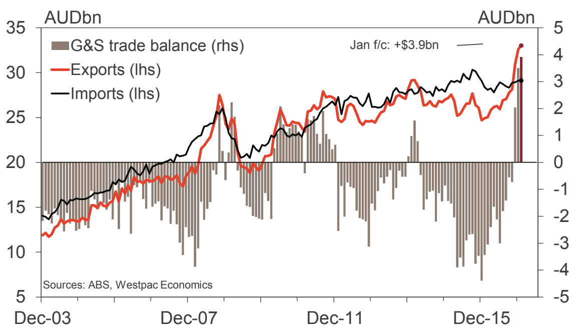



## Aus Jan trade balance, AUDbn

**Mar 2, Last: +3.5, WBC f/c: +3.9**
**Mkt f/c: +3.8, Range: +0.5 to +5.0**

- Australia's trade account has moved well into surplus as a spike in commodity prices boosts export earnings.
- In December, the surplus widened to $3.5bn from $2.0bn. For January, we expect a surplus of $3.9bn.
- Export earnings are forecast to rise by 1.2%, +$0.4bn, on higher prices (coal and rural goods) and volumes (iron ore and LNG), partially offset by a pull-back in gold.
- Imports are expected to be flat, with a slightly firmer dollar placing downward pressure on prices.
- NOTE: Since January 2016, there is additional uncertainty around the import and trade forecast. The ABS no longer publishes customs goods imports ahead of the trade release.

### Australia's trade surplus: approaching $4bn



# Data calendar

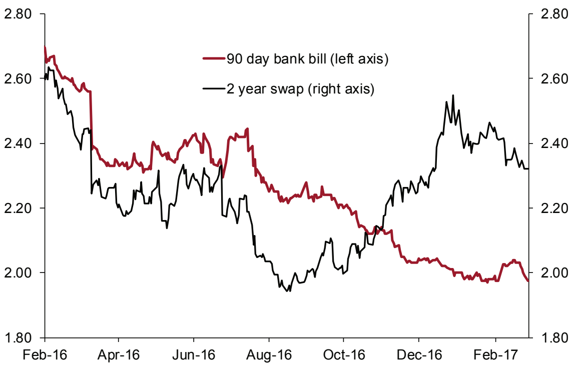
| | | Last | Market median | Westpac forecast | Risk/Comment |
|---|---|---|---|---|---|
| **Mon 27** | | | | | |
| **NZ** | Jan net migration | 6010 | – | 5900 | Departures of New Zealanders still low, arrivals strong. |
| **Aus** | Q4 company profits | 1.0% | 8.0% | 9.5% | Profits up sharply, largely on higher commodity prices. |
| | Q4 inventories | 0.8% | 0.5% | –0.1% | Destocking after unintended build–up. –0.3ppts impact on Q4 growth. |
| **Eur** | Jan M3 money supply %yr | 5.0% | – | – | Credit data also due. |
| | Feb economic confidence | 107.9 | – | – | Confidence at elevated levels ... |
| | Feb consumer confidence (final) | –6.2 | – | – | ... amongst households ... |
| | Feb business climate indicator | 0.77 | – | – | ... and firms. |
| **US** | Jan durable goods orders (provisional) | –0.5% | 1.6% | – | Investment growth to firm (a little) in coming months. |
| | Jan pending home sales | 1.6% | 0.9% | – | Existing home market likely to slow in 2017. |
| | Feb Dallas Fed manufacturing survey | 22.1 | 20.0 | – | Manufacturing outlook has firmed. Strong gains in recent months. |
| | Fedspeak | – | – | – | Kaplan in Oklahoma. |
| **Tue 28** | | | | | |
| **NZ** | Jan trade balance, $m | –41 | –25 | 20 | Exports bolstered by higher dairy prices and recovery in meat exports. |
| | Feb ANZ business confidence | 21.7 | – | – | Ended 2016 on positive note; gauge of momentum in early 2017. |
| **Aus** | Q4 current account balance, AUDbn | –11.4 | –4.0 | –5.0 | Smallest deficit since 1980. Export earnings boosted by higher prices. |
| | Q4 net exports, ppts cont'n | –0.2 | +0.2 | +0.1 | Export vols +2% after flat Q3. Imports trend higher, +1.5%. |
| | Q4 public demand | –0.6% | – | 0.4% | A modest increase. Investment flat, defying uptrend. |
| | Jan private sector credit | 0.7% | 0.5% | 0.5% | Moderate gain. Dec boosted by oversized increase in business. |
| **Eur** | Feb CPI %yr | 1.8% | – | – | Underlying inflation stubbornly weak. |
| **US** | Q4 GDP (annualised, 2nd est.) | 1.9% | 2.1% | – | First estimated disappointed; slight upward revision likely. |
| | Jan wholesale inventories | 1.0% | 0.4% | – | Uncertain outlook argues against inventory accrual. |
| | Dec S&P/C–S 20 city house prices | 0.9% | 0.7% | – | Price growth to moderate. |
| | Feb Chicago PMI | 50.3 | 53.0 | – | Weaker than other indicators of the US manufacturing sector. |
| | Feb consumer confidence index | 111.8 | 111.0 | – | Strength has been centred on current conditions. |
| | Feb Richmond Fed index | 12 | 10 | – | Positive state of mind apparent. |
| **Wed 1** | | | | | |
| **NZ** | Q4 terms of trade | –1.7% | 4.0% | 3.7% | Boosted by higher dairy prices, while import prices remain subdued. |
| **Aus** | Q4 GDP | –0.5% | 0.7% | 0.4% | Economy emerging from soft–spot. Domestic demand rebounds. |
| | Q4 GDP, annual growth | 1.8% | 1.9% | 1.6% | Annual growth has slowed from an above trend 3.1% in June. |
| | Feb CoreLogic home value index | 0.7% | – | 0.7% | Solid start to 2017. Feb to see annual price growth tip just over 10%. |
| | Feb AiG PMI | 51.2 | – | – | Jan, down 4.2pts. Manufn'g boosted by housing & lower AUD. |
| **Chn** | Feb non–manufacturing PMI | 54.6 | – | – | Uptrend has continued for services ... |
| | Feb manufacturing PMI | 51.3 | 51.1 | – | ... manufacturing edged back, but still near long–run average. |
| | Feb Caixin China PMI | 51.0 | 50.7 | – | Larger fall in Caixin likely suggests external demand softened. |
| **Eur** | Feb Markit manufacturing PMI – final | 55.5 | – | – | Flash showed more gains after it improved further in January ... |
| **UK** | Feb Markit manufacturing PMI (final) | 55.9 | 56.0 | – | Post–referendum fall in GBP is supporting manufacturing. |
| | Jan mortgage approvals | 67.9k | 68.8k | – | Low borrowing rates supporting housing demand. |
| **US** | Jan personal income | 0.3% | 0.3% | – | Increased 3.5%yr in 2016 compared to 4.4%yr in 2015. |
| | Jan personal spending | 0.5% | 0.3% | – | Domestic demand has been stronger with confidence up. |
| | Jan PCE deflator | 0.2% | 0.5% | – | Market expects Fed preferred core measure to push up to 1.8%yr. |
| | Feb Markit manufacturing PMI (final) | 54.3 | – | – | Flash estimate indicates a slight reversal from recent gains. |
| | Feb ISM manufacturing | 56.0 | 56.0 | – | Currently quite strong and in line with other manufacturing surveys. |
| | Jan construction spending | –0.2% | 0.7% | – | Surprise contraction in Dec with soft result from the public sector. |
| | Fedspeak | – | – | – | Williams in Santa Cruz, Bullard in Washington, Kaplan in Dallas. |
| | Federal Reserve Beige Book | – | – | – | Economic commentary from the regional Feds. |
| **Can** | Bank of Canada rate decision | 0.50% | 0.50% | 0.50% | Inflation pressures remain benign, growth moderate. |
| **Thu 2** | | | | | |
| **Aus** | Jan dwelling approvals | –1.2% | –0.5% | –1.0% | Downturn emerged in 2016 H2. Jan data less reliable due to seasonality. |
| | Jan trade balance, AUDbn | 3.5 | 3.8 | 3.9 | Surplus widens further. Exports +2% (prices & vols), imports flat. |
| **Eur** | Jan unemployment rate | 9.6% | – | – | Maintaining momentum. Dropped 0.8% in 2016. |
| **US** | Initial jobless claims | 244k | – | – | Remains at very low levels. |
| **Fri 3** | | | | | |
| **NZ** | Q4 building work put in place | 1.4% | 1.5% | –1% | Earthquake disruptions and Canterbury rebuild winding down. |
| | Feb ANZ Commodity Price Index | – | – | –0.1% | Gains in global beef prices expected to boost index. |
| **Aus** | Feb AiG PSI | 54.5 | – | – | Jan, down 3.2pts. Services a strong showing at turn of year. |
| **Chn** | Feb Caixin China PMI services | 53.1 | – | – | Eased back in January, in contrast to modest gain for NBS measure. |
| **Eur** | Feb Markit services PMI (final) | 55.6 | – | – | Unchanged in January at solid level. |
| **UK** | Feb Markit services PMI (final) | 54.5 | 54.0 | – | Has picked up, still at moderate levels. |
| **US** | Feb Markit services PMI (final) | 53.9 | – | – | A little softer than ISM measure, but still a robust level. |
| | Feb ISM non–manufacturing | 56.5 | 55.4 | – | Has seen strong readings in recent months, though jobs lagging. |
| | Fed Chair Yellen | – | – | – | Speaking at Executives Club of Chicago event. |
| | Fedspeak | – | – | – | Fischer, Evans and Lacker speaking at monetary policy forum. |
| | Fedspeak | – | – | – | Mester speaking on leadership in New York. |

# New Zealand forecasts

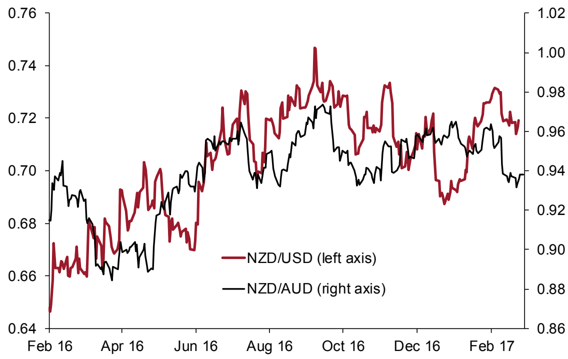
| Economic Forecasts | March years | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|
| % change | 2015 | 2016 | 2017f | 2018f | 2014 | 2015 | 2016f | 2017f |
| GDP (Production) ann avg | 3.4 | 2.4 | 3.5 | 3.6 | 3.4 | 2.5 | 3.3 | 3.6 |
| Employment | 3.2 | 2.0 | 5.3 | 2.1 | 3.6 | 1.4 | 5.8 | 2.3 |
| Unemployment Rate % s.a. | 5.4 | 5.2 | 4.8 | 4.4 | 5.5 | 4.9 | 5.2 | 4.4 |
| CPI | 0.3 | 0.4 | 1.7 | 1.5 | 0.8 | 0.1 | 1.3 | 1.5 |
| Current Account Balance % of GDP | -3.5 | -3.1 | -2.8 | -2.7 | -3.2 | -3.4 | -2.8 | -2.7 |

| Financial Forecasts | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
|---|---|---|---|---|---|---|
| **Cash** | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| **90 Day bill** | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| **2 Year Swap** | 2.40 | 2.50 | 2.50 | 2.50 | 2.50 | 2.60 |
| **5 Year Swap** | 3.00 | 3.15 | 3.20 | 3.30 | 3.35 | 3.45 |
| **10 Year Bond** | 3.30 | 3.45 | 3.50 | 3.60 | 3.65 | 3.75 |
| **NZD/USD** | 0.71 | 0.70 | 0.68 | 0.67 | 0.66 | 0.65 |
| **NZD/AUD** | 0.93 | 0.92 | 0.91 | 0.91 | 0.92 | 0.93 |
| **NZD/JPY** | 82.4 | 82.6 | 80.7 | 80.4 | 80.5 | 80.6 |
| **NZD/EUR** | 0.68 | 0.68 | 0.68 | 0.67 | 0.66 | 0.66 |
| **NZD/GBP** | 0.58 | 0.57 | 0.56 | 0.55 | 0.55 | 0.54 |
| **TWI** | 78.1 | 77.5 | 76.4 | 75.5 | 75.1 | 75.0 |

2 Year Swap and 90 Day Bank Bills




NZD/USD and NZD/AUD




NZ interest rates as at market open on Monday 27 February 2017

| Interest Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **Cash** | 1.75% | 1.75% | 1.75% |
| **30 Days** | 1.84% | 1.84% | 1.83% |
| **60 Days** | 1.92% | 1.93% | 1.91% |
| **90 Days** | 1.98% | 2.02% | 1.98% |
| **2 Year Swap** | 2.32% | 2.34% | 2.44% |
| **5 Year Swap** | 2.94% | 2.95% | 3.05% |

NZ foreign currency mid-rates as at Monday 27 February 2017

| Exchange Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **NZD/USD** | 0.7202 | 0.7198 | 0.7283 |
| **NZD/EUR** | 0.6816 | 0.6773 | 0.6809 |
| **NZD/GBP** | 0.5773 | 0.5768 | 0.5836 |
| **NZD/JPY** | 80.74 | 81.74 | 82.73 |
| **NZD/AUD** | 0.9379 | 0.9372 | 0.9646 |
| **TWI** | 78.47 | 78.59 | 79.89 |

# International forecasts

| Economic Forecasts (Calendar Years) | 2013 | 2014 | 2015 | 2016f | 2017f | 2018f |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Real GDP % yr | 2.1 | 2.8 | 2.4 | 2.2 | 2.1 | 2.8 |
| CPI inflation % annual | 2.7 | 1.7 | 1.7 | 1.5 | 1.9 | 1.9 |
| Unemployment % | 5.8 | 6.2 | 5.8 | 5.7 | 5.6 | 5.8 |
| Current Account % GDP | -3.4 | -3.0 | -4.8 | -2.9 | -1.2 | -2.5 |
| **United States** | | | | | | |
| Real GDP %yr | 1.5 | 2.4 | 2.6 | 1.6 | 2.2 | 2.4 |
| Consumer Prices %yr | 1.5 | 1.6 | 0.1 | 1.2 | 1.7 | 1.7 |
| Unemployment Rate % | 7.4 | 6.2 | 5.3 | 4.9 | 4.6 | 4.5 |
| 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 | 0.6 | 0.7 |
| **Euroland** | | | | | | |
| Real GDP %yr | -0.3 | 0.9 | 1.6 | 1.6 | 1.5 | 1.3 |
| **United Kingdom** | | | | | | |
| Real GDP %yr | 2.2 | 2.9 | 2.2 | 2.0 | 1.9 | 1.5 |
| **China** | | | | | | |
| Real GDP %yr | 7.7 | 7.3 | 6.9 | 6.7 | 6.6 | 6.0 |
| **East Asia ex China** | | | | | | |
| Real GDP %yr | 4.2 | 4.1 | 3.7 | 3.7 | 3.8 | 3.8 |
| **World** | | | | | | |
| Real GDP %yr | 3.3 | 3.4 | 3.1 | 3.2 | 3.5 | 3.5 |
| Forecasts finalised 17 February 2017 | | | | | | |

| Interest Rate Forecasts | Latest | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Cash | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 90 Day Bill | 1.78 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| 10 Year Bond | 2.73 | 2.95 | 2.95 | 3.00 | 3.05 | 3.15 | 3.25 | 3.40 |
| **International** | | | | | | | | |
| Fed Funds | 0.625 | 0.625 | 0.875 | 0.875 | 1.125 | 1.125 | 1.375 | 1.375 |
| US 10 Year Bond | 2.37 | 2.55 | 2.65 | 2.75 | 2.85 | 3.00 | 3.10 | 3.30 |
| ECB Deposit Rate | 0.00 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 |

| Exchange Rate Forecasts | Latest | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|---|---|---|---|---|---|---|---|---|
| AUD/USD | 0.7716 | 0.74 | 0.74 | 0.73 | 0.72 | 0.70 | 0.70 | 0.68 |
| USD/JPY | 112.72 | 116 | 118 | 118 | 120 | 122 | 124 | 126 |
| EUR/USD | 1.0584 | 1.05 | 1.03 | 1.01 | 1.00 | 1.00 | 0.99 | 0.98 |
| AUD/NZD | 1.0684 | 1.04 | 1.06 | 1.07 | 1.08 | 1.07 | 1.06 | 1.05 |

# Contact the Westpac economics team

**Michael Gordon,** Acting Chief Economist +64 9 336 5670

**Satish Ranchhod,** Senior Economist +64 9 336 5668

**Sarah Drought,** Economist +64 9 336 5696

**Any questions email:** economics@westpac.co.nz

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