# Weekly Commentary

30 October 2017

## Back to work

**We expect this week's labour market reports to show a solid rise in employment over the September quarter, though only slightly outstripping the growth in the working-age population. Strong net immigration flows have bolstered the workforce in recent years, but that pulse is now clearly in decline.**

A range of indicators suggest that New Zealand's labour market has continued to strengthen this year, even as the wider economy has entered a period of slower growth. Business surveys report that firms have been hiring at a rapid pace and intend to continue doing so, though skilled workers are becoming increasingly difficult to find. And in our quarterly employment confidence survey, households were optimistic about job opportunities for the first time in nine years.

We're wary that the labour market tends to be a laggard in the economic cycle. For example, unemployment didn't start to fall consistently until several years after the recovery from the financial crisis began, and wage growth has been even slower to respond. So while there's good reason to expect a solid set of labour market reports for the September quarter, there are some clouds on the horizon for the jobs market next year if the current growth slowdown persists.

From the Household Labour Force Survey (HLFS), we expect a solid 1% rise in employment. That follows an unexpected 0.2% fall in the June quarter, which was at odds with a swathe of otherwise strong indicators for that period. We have a suspicion that the revamp of the HLFS in June last year may have altered the seasonal pattern of the employment series (though it will take several more years of data from the new survey to confirm this). If this is the case, we see the risks towards a stronger rise in employment in the September quarter as payback from the previous weak reading.

The drop in employment last quarter was accompanied by a sharp fall in the labour force participation rate, from a record high of 70.6% to 70.0%. We expect some of that drop to be unwound too. But given the potential for unpredictable moves in both of these series, we recommend focusing on the unemployment rate as the more reliable gauge of the jobs market. We expect a modest improvement in the unemployment rate from 4.8% to 4.7%, which would be the lowest rate since December 2008.

The decline in unemployment over the last few years has been a gradual one. Nevertheless, the labour market is moving closer to what could be considered 'tight' territory – that is, an unemployment rate that is associated with rising inflation. There's no agreement as to what constitutes 'tight', but the experience of the last decade provides a useful guide. Wage growth began to tick up in the early 2000s as the unemployment rate fell below 5%, but it really took off once unemployment fell below 4%.

We expect the Labour Cost Index (LCI) to show a mild pickup in underlying wage growth in the September quarter – largely as compensation for inflation, which has picked up from its lows. However, the headline LCI result is likely to be dominated by the impact of the recent equal pay settlement for caregivers in the health sector. This historic

# Back to work continued

agreement will boost the wages of around 55,000 workers over the next few years, with the biggest increase coming into effect in July this year. We also expect to see some spillover to wage rates in associated occupations. We estimate that this wage increase will add 0.4% to the LCI for the September quarter.

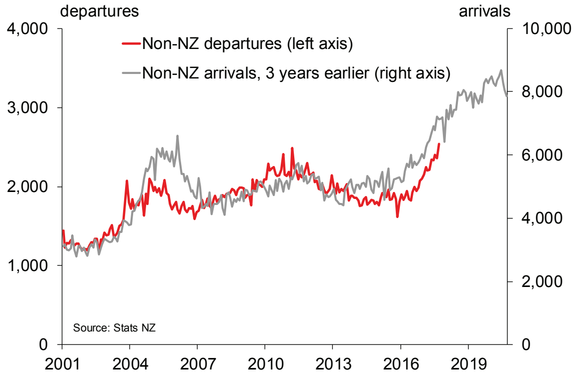
Taking out that impact, our forecast implies a modest uptick in annual labour cost growth, from 1.7% to 1.8%. That doesn't sound like a big shift, but the LCI tends to evolve slowly over time – a 1.8% rise would be the strongest annual increase in nearly five years.

Developments in the labour market are in many ways entwined with the trends in immigration. New Zealand has seen a major shift in migration trends in recent years, with the balance swinging from around zero five years ago to a record net inflow of 72,400 people in the year to July. That has fuelled a strong lift in the working-age population, which is up by 2.4% over the last year.

Immigration has a complex interaction with the labour market. A rise in people numbers adds to both demand and supply within the economy as a whole, but the net impact varies across sectors. For instance, an inflow of people is likely to be a net demand factor for the housing market – everyone needs a roof over their head, but only a small fraction of migrants go to work in the homebuilding industry.

It will be equally complex to tease out the effects of a slowdown in net migration, as we're expecting over the next few years. The newly-formed Government's policies are only one factor in this. The Government plans to tighten eligibility for student visas and low-skilled workers, which it estimates will reduce arrivals by 20-30,000 per year. But this will come on top of a decline in net migration that is already underway.

**Non-NZ migrant flows**




The key change has been a lift in departures of non-New Zealander departures, which have risen more than 20% in the last year. We've been expecting this for some time: a rise in arrivals, particularly those on temporary visas, is typically followed by some proportion of them leaving again, with an average gap of around three years. If that pattern holds, we can expect to see a further rise in departures over the next couple of years.

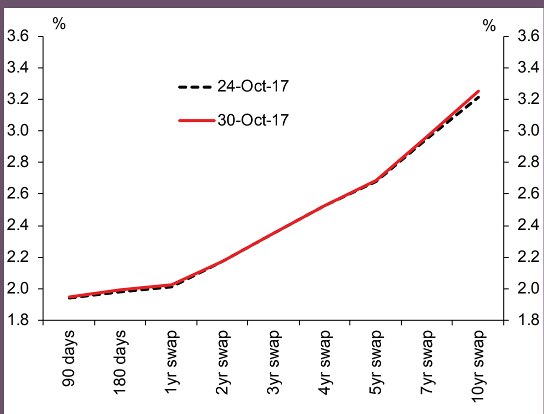
Even before the election, we were factoring in a drop in net migration to around 33,000 per year by the end of the decade (arrivals down ~20,000, departures up ~18,000). Now, with policy changes likely to put a further brake on arrivals, it's likely that the decline will be even more substantial.

# 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. Some lending and deposit rates have been falling recently, so it may be worth waiting to see if there are further modest reductions in fixed-term rates.

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**



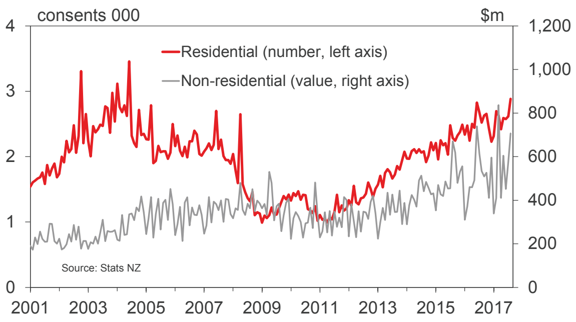
# The week ahead

## NZ Sep residential building consents

**Oct 31, Last: 10.2%, WBC f/c: -7.0%**

- Residential building consents jumped by 10% in August. The increase was driven entirely by consents for multiples (apartments, townhouses etc) which had their single biggest month in 13 years. This followed a shockingly low number in July.
- Smoothing through the month-to-month volatility, the pace of building in Auckland has flatlined over the last year, at a level well short of what's needed to match population growth. We continue to see moderate increases in most other regions excluding Canterbury.
- We expect the September consent figures to show a 7% drop in issuance as the recent volatility in multiple-consents passes. The underlying trend remains for a moderate increase in building as factors such as the slowing housing market weigh on activity.

### NZ building consents

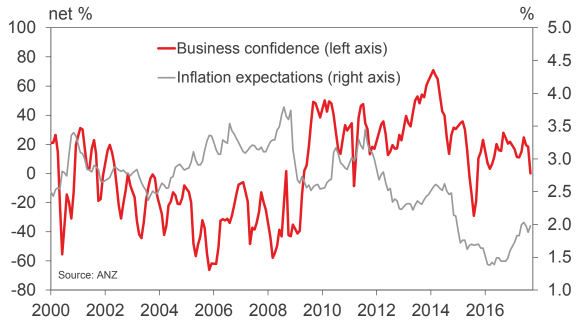



## NZ Oct business confidence

**October 31, Last: 0.0**

- New Zealand business confidence fell to a two-year low (0.0) in September, following a slightly soft result in August. While September's survey reflected the impact of election uncertainty, October's survey is likely to boast further concerns regarding the ensuing coalition discussions. However, given the timing of the survey the effect of the change in government is unlikely to be captured this month. Firms' own activity outlooks eased to 29.6, a low not seen since Q1 2016. Outside of the election, the September survey supports our slightly softer view of the economic outlook. The own activity results supports a GDP forecast of 2.5-3%, with economic growth for the year likely to ebb on the softer side of the range. Capacity utilisation fell sharply in the previous survey. Conversely, inflation expectations rose by 10 basis points to 1.98% (August: 1.88%), which is underpinned by the rise in overall pricing intentions and higher fuel prices observed over the month.

### NZ business confidence and inflation expectations

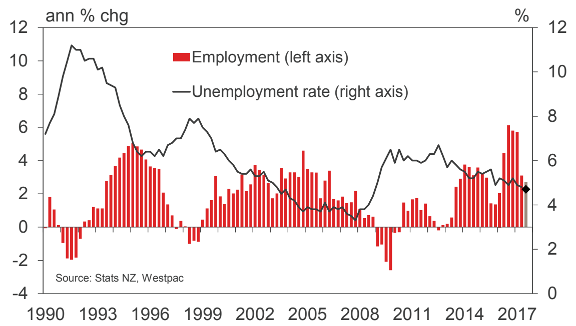



## NZ Q3 Household Labour Force Survey

**Nov 1, Employment last: -0.2%, WBC f/c: 1.0%, Mkt f/c: 0.8%**
**Unemployment, last: 4.8%, WBC: 4.7%, Mkt f/c: 4.7%**

- A range of indicators suggest that New Zealand's labour market has continued to strengthen this year, even as the wider economy has entered a period of slower growth. We expect the Household Labour Force Survey to show another modest decline in the unemployment rate to 4.7%, which would be the lowest since December 2008.
- Both employment and labour force participation are subject to quarterly volatility. This issue may have been exacerbated by a change to the survey in June 2016, which led to a one-off jump in the level of employment, but in doing so may have disrupted the seasonal pattern of the series. Our forecast of a strong rise in both employment and participation reflects payback for their unexpected declines in the June quarter.

### Household Labour Force Survey

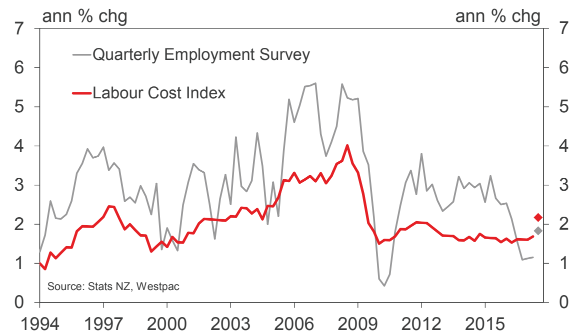



## NZ Q3 Labour Cost Index

**Nov 1, Private sector last: 0.4%, WBC f/c: 1.0%, Mkt f/c: 0.6%**

- With the labour market gradually tightening, and inflation no longer at rock-bottom levels, we expect to see a pickup in wage inflation over the next year or so. The process is likely to be a gradual one, though, as the Labour Cost Index tends to evolve slowly over time.
- However, the September quarter report is likely to see a substantial jump in labour cost inflation, due to the recent equal pay settlement for healthcare workers. (Our understanding is that this will show up in private sector wages, though it's publicly funded.) Excluding this effect, we expect to see a modest uptick in annual labour cost growth, from 1.7% to 1.8%. In the context of this slow-moving series, this would be a five-year high.

### LCI and QES wages



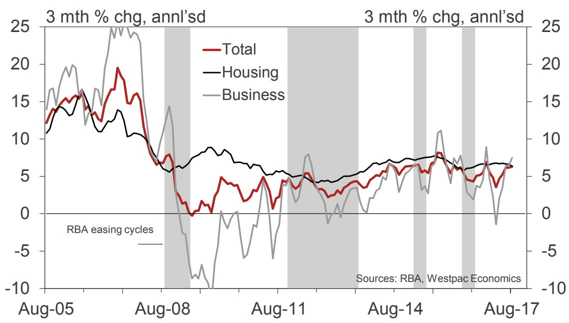
# The week ahead

### Aus Sep private credit

**Oct 31, Last: 0.5%, WBC f/c: 0.5%**
**Mkt f/c: 0.5%, Range: 0.3% to 0.7%**

- Private credit is expected to expand by 0.5% in September, matching the average pace for the September and June quarters. Annual growth will be 5.6%.
- Housing credit is expected to increase by 0.5%, 6.6%yr. There is an emerging gradual slowing after a tightening of lending conditions. The 3 month annualised pace eases to 6.3%, down from 6.8% in March. The total value of housing finance grew by 15% in the year to January, but has stalled since.
- Business credit has emerged from a soft spot to record robust growth of late. We expect a gain of around 0.4%, bringing the 6 month annualised pace to 6.0%, while annual growth will be about 4.8%. Commercial finance has rebounded since February and business investment has turned around from declines to modest gains.

**Credit: momentum shift**

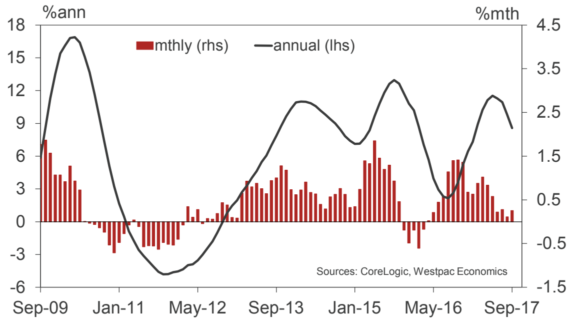



### Aus Oct CoreLogic home value index

**Nov 1, Last: 0.3%, WBC f/c: flat**

- The overhauled CoreLogic indexes provide a much more reliable guide to price changes and are now a clear 'benchmark' measure. In Sep, the combined capital city index rose 0.3%, annual growth slowing to 8.5%. Annual price growth peaked at 11.4% in May but has slowed materially as macro-prudential measures introduced in late March impacted. The slowdown in price growth has been particularly abrupt in Sydney.
- The daily measure points to a flat result in Oct, which will take the annual pace down to around 7%yr.

**CoreLogic home value index**

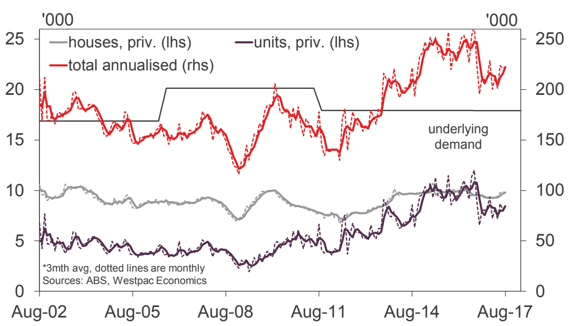



### Aus Sep dwelling approvals

**Nov 2, Last: 0.4%, WBC f/c: –3.0%**
**Mkt f/c: -1.0%, Range: -13.6% to 3.0%**

- Dwelling approvals rose 0.4% in Aug, essentially holding steady after an 11% jump back in June. The detail showed high rise approvals continuing to pull back sharply but offset by a strong lift in non-high rise approvals.
- We expect the support from non-high rise segments to drop away this month. After showing solid gains in previous months, construction-related housing finance approvals – a reasonable proxy for non high rise approvals – pulled back sharply in Aug-Sep. While there is invariably some slippage between finance and dwelling approvals, the non-high rise segment is unlikely to see continued strong gains. With high rise still winding down we expect total approvals to fall 3% in the Sep month.

**Dwelling approvals**

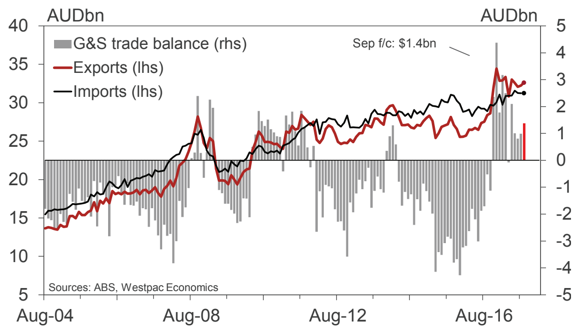



### Aus Sep trade balance, AUDbn

**Nov 2, Last: 1.0, WBC f/c: 1.40, Mkt f/c: 1.20, Range: 0.45 to 2.00**

- Australia recorded a $1.0bn trade surplus in August, the 9th surplus in the past 10 months.
- The surplus is expected to widen to $1.4bn in September.
- Export earnings are forecast to increase by 1.2%, $0.4bn. Increased shipments in iron ore and coal outweigh a temporary dip in LNG volumes and a decline in the iron ore price, while gold is expected to rebound, reversing a modest pull-back in August.
- Imports are expected to be unchanged in the month. Note that the dollar was broadly flat in the month, up only 0.1% on a TWI basis and 0.7% higher against the US dollar, rounding up to 79.7¢.

**Australia's trade balance**



# The week ahead

### Aus Sep retail trade

**Nov 3, Last: –0.6%, WBC f/c: 0.3%**
**Mkt f/c: 0.4%, Range: 0.2% to 1.2%**

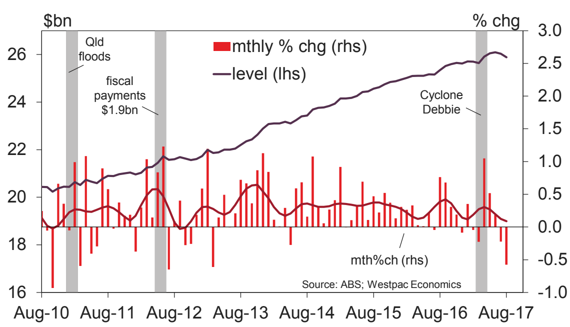
- Retail sales came in well below expectations in Aug recording a 0.6% contraction with Jul's flat result revised down to a 0.2% dip. Annual growth slowed to 2.1%, the weakest pace since June 2013. The 0.8% contraction over Jul-Aug is the largest 2mth decline since October 2010, near the tail-end of the RBA's 2009-10 tightening cycle.
- Consumer sentiment lifted in Sep-Oct, although pressures on family finances remained evident. Some drags, from higher mortgage rates and electricity prices, likely eased a touch and job gains remain strong but weak wages growth and concerns about potential rate increases and slowing housing markets are still clear negatives. Retailers are bearing the brunt of the spending slowdown and engaged in aggressive price discounting at the same time. We expect a better but still weak 0.3% gain for Sep.

### Aus Q3 real retail sales

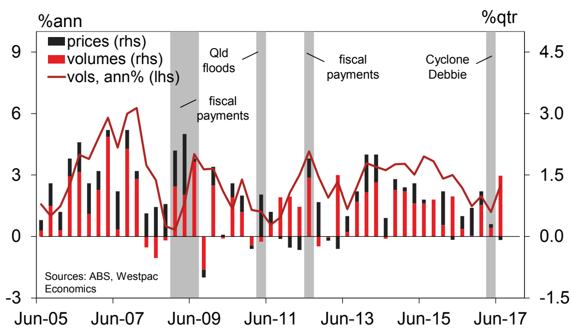
**Nov 3, Last: 1.5%, WBC f/c: –0.1%**
**Mkt f/c: 0.0%, Range: -0.4% to 0.5%**

- The last four quarters have been very choppy for real retail sales, a flat Q3 last year, sales followed by a decent 0.8% bounce in Q4, another abrupt slowing as weather conditions impacted in Q1 (+0.2%) and a stronger gain in Q2 (+1.5%). At 2.5%yr, annual growth has slowed overall and is weak by longer term historical standards.
- The Q3 update will show another abrupt slowing with volumes expected to be down slightly in outright terms (–0.1%qtr). Nominal sales are on track to be down 0.2%qtr. The CPI detail suggests about half of this is due to aggressive discounting, food prices alone down 0.9%qtr (this segment accounts for 40% of retail). Note that the retail measure remains an imperfect guide to the broader spending estimates in the national accounts – although the direction for Q3 looks accurate.

### Monthly retail sales




### Quarterly retail volumes and prices




### UK Bank of England policy decision

**Nov 2, Last: 0.25%, WBC f/c: 0.50% Mkt f/c: 0.50%**

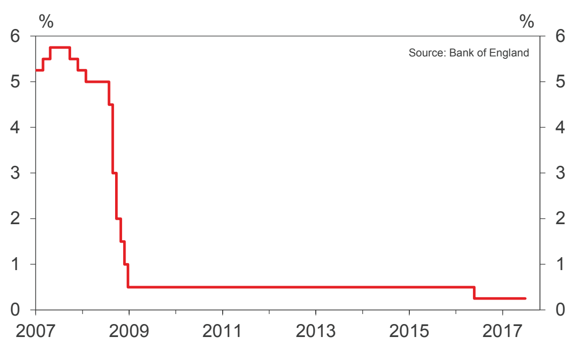
- The Bank of England left the Bank Rate on hold at its September meeting. However, the MPC noted that activity had actually been a little stronger than they had expected. In addition, the accompanying minutes noted that if activity proceeds as expected "some withdrawal of monetary stimulus was likely to be appropriate over the coming months."
- While we continue to see the longer-term risk for growth as being skewed to the downside, the potential for a prolonged overshoot of the inflation target is clearly weighing heavily on the BOE. As a result, we expect the BOE to increase the Bank rate by 0.25bps at its November meeting. This will still leave the Bank rate at very accommodative levels. Further ahead, adjustments in the Bank Rate are likely to be very gradual.

### US FOMC Nov policy meeting

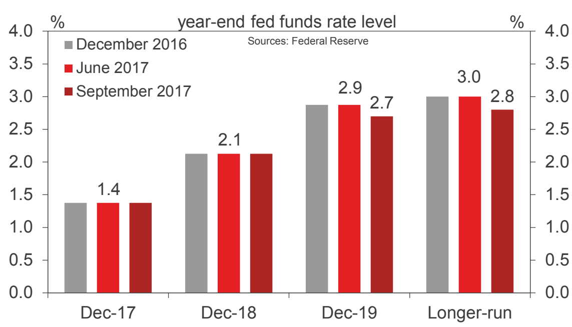
**Nov 1, fed funds rate, last 1.125%, WBC 1.125%**

- The November FOMC policy meeting is unlikely to provide any new revelations. Chair Yellen and the Committee have very clearly highlighted an intention to continue gradually tightening policy, with the next move to come before year-end (i.e. at the December meeting). The market has since responded, almost fully pricing in a December hike. The November meeting will therefore simply confirm an impending move.
- At this juncture, the focus of markets is instead on who will be the next FOMC Chair. A decision is expected to come from President Trump by the end of next week. If the market rumours are to be believed, then Jerome Powell and John Taylor are in prime position. Both could be seen as more hawkish than Chair Yellen. Hence, on announcement, there may be a shift in market rate expectations for 2018.

### Bank of England Bank Rate




### Compensation growth remains stable



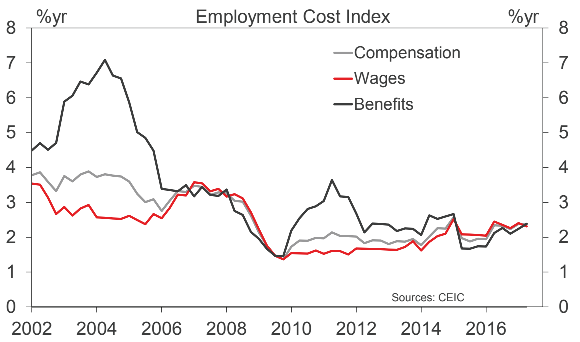
# The week ahead

### US Oct employment report and ECI

**Oct 31, Employment Cost Index, last 0.5%, WBC 0.7%**
**Nov 3, nonfarm payrolls, last –33k, WBC 260k**
**Nov 3, unemployment rate, last 4.2%, WBC 4.2%**

- The Employment Cost Index is the best gauge of overall wage and total compensation inflation in the US. In Q3, the annual rate is expected to hold around 2.5%.
- In contrast, a strong bounce is anticipated in nonfarm payrolls in October, 260k+, following the hurricane driven –33k print of September. Note that some of the rebound could also come in the form of a revision to September.
- The jump in household employment in September and an unemployment rate of 4.2% from the household survey (which was not affected by the weather) point to continued strength in the labour market which should be with us for some time yet.

#### FOMC plans to keep raising interest rates



# Data calendar

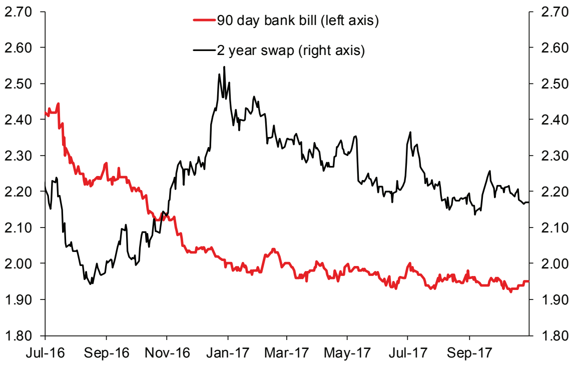
| | | Last | Market median | Westpac forecast | Risk/Comment |
|---|---|---|---|---|---|
| **Mon 30** | | | | | |
| **Eur** | Oct economic confidence | 113.0 | – | – | Sentiment is very strong and resilient. |
| | Oct business climate indicator | 1.34 | – | – | Current conditions very favourable. |
| | Oct consumer confidence | –1.0 | – | – | Declining unemployment a key positive. |
| **UK** | Oct Nationwide house prices | 0.2% | 0.2% | – | Finding a base, Brexit uncertainty still weighing on prices. |
| **US** | Sep personal income | 0.2% | 0.4% | 0.4% | Should continue to grow at robust pace... |
| | Sep personal spending | 0.1% | 0.8% | 1.0% | ... aiding spending, also boosted by storms. |
| | Sep PCE deflator | 0.2% | 0.4% | 0.3% | Pop higher on food and gas; core soft circa 0.1%. |
| | Oct Dallas Fed index | 21.3 | 21.0 | – | Remains strong. |
| **Tue 31** | | | | | |
| **NZ** | Sep building consents | 10.2% | – | –7.0% | Earlier boost in apartments to reverse, underlying trend flat. |
| | Oct ANZ business confidence | 0.0 | – | – | Confidence to continue to reflect election outcome uncertainty. |
| **Aus** | Sep private sector credit | 0.5% | 0.5% | 0.5% | Solid read, housing slowing gradually, business robust. |
| **Chn** | Oct manufacturing PMI | 52.4 | 52.2 | – | NBS measures continuing to point to robust momentum... |
| | Oct non–manufacturing PMI | 55.4 | – | – | ... with broad based support. |
| **Eur** | Sep unemployment rate | 9.1% | – | – | Will continue to trend down. |
| | Q3 GDP advance | 0.7% | – | 0.6% | Initial estimate, no detail; annual growth strong. |
| | Oct CPI %yr advance | 1.5% | – | – | Being helped by energy base effects currently; will fade. |
| **UK** | Oct GfK consumer confidence | –9 | – | – | Economic uncertainty continues to dampen confidence. |
| **US** | Q3 employment cost index | 0.5% | 0.7% | 0.7% | Annual growth remains around 2.5%. |
| | Aug S&P/CS home price index | 0.35% | – | – | Price momentum has been resilient. |
| | Oct Chicago PMI | 65.2 | 60.0 | – | Regional surveys and ISMs very strong. |
| | Oct consumer confidence index | 119.8 | 121.0 | – | Consumer responding to labour market strength. |
| **Wed 1** | | | | | |
| **NZ** | Q3 unemployment rate | 4.8% | 4.7% | 4.7% | Indicators point to a gradual tightening in the labour market. |
| | Q3 employment growth | –0.2% | 0.8% | 1.0% | Payback for weak Q2; survey chg may have altered seasonality. |
| | Q3 private sector wages incl overtime | 0.4% | 0.6% | 1.0% | Wages boosted by healthcare worker pay settlement. |
| **Aus** | Oct AiG PMI | 59.8 | – | – | Manufacturing boost from infrastructure, mining, agri. |
| | Oct CoreLogic home value index | 0.3% | – | flat | Annual price growth moderating to around 7%yr. |
| **Chn** | Oct Caixin China PMI | 51.0 | 51.0 | – | Smaller firms also benefitting from manufacturing upswing. |
| **UK** | Oct Markit manufacturing PMI | 55.9 | – | – | Lower GBP continuing to support manufacturing conditions. |
| **US** | Oct ADP employment change | 135k | 190k | 200k | Post-storm rebound? |
| | Oct Markit manufacturing PMI final | 54.5 | 54.5 | – | Business surveys disconnected from activity data... |
| | Oct ISM manufacturing | 60.8 | 59.1 | – | ... particularly the ISMs which are at record highs. |
| | Sep construction spending | 0.5% | –0.3% | – | Remains fickle. Hurricanes a downside risk. |
| | FOMC policy decision, midpoint | 1.125% | 1.125% | 1.125% | All is set for December hike. Just a matter of time. |
| **Thu 2** | | | | | |
| **NZ** | Oct QV house prices, %yr | 4.3% | – | – | Housing market cooled, election uncertainty a potential drag. |
| **Aus** | Sep dwelling approvals | 0.4% | –1.0% | –3.0% | High rise/non high rise mix points to fall. |
| | Sep trade balance, AUDbn | 1.0 | 1.2 | 1.4 | Surplus to widen, exports rise on iron ore & coal volumes. |
| **Eur** | Oct Markit manufacturing PMI final | 58.6 | – | – | Strong domestic demand and external competitiveness... |
| **UK** | Bank of England rate decision | 0.25% | 0.50% | 0.50% | Aware of declining spare capacity and current high inflation. |
| **US** | Initial jobless claims | 233k | – | – | Very low. |
| | Fedspeak | – | – | – | Powell speaks at a NY Fed alternative reference rates event. |
| **Fri 3** | | | | | |
| **Aus** | Oct AiG PSI | 53.0 | – | – | Fell 3.4pts in Aug, strength outside of retail & hospitality. |
| | Sep retail sales | –0.6% | 0.4% | 0.3% | Weak recovery from back to back falls in Jul–Aug, retail ... |
| | Q3 real retail sales | 1.5% | 0.0% | –0.1% | ... bearing brunt of soft consumer amid fierce price discounting. |
| **Chn** | Oct Caixin China PMI services | 50.6 | – | – | Lags official NBS measure; limited market interest. |
| **UK** | Markit/CIPS services PMI | 53.6 | – | – | Lower GBP and Brexit uncertainty weighing on conditions. |
| **US** | Oct non–farm payrolls | –33k | 310k | 260k | Also look for upward revisions to Sep result. |
| | Oct unemployment rate | 4.2% | 4.2% | 4.2% | Little further improvement anticipated for U/E rate. |
| | Sep trade balance US$bn | –42.4 | –43.5 | – | Sep a repeat of Aug. |
| | Oct ISM non–manufacturing | 59.8 | 58.0 | – | Extremely strong, at odds with GDP.... |
| | Oct Markit services PMI | 55.9 | – | – | ... so too Markit. |
| | Sep factory orders | 1.2% | 1.0% | – | Have seen a solid run of outcomes of late. |
| | Fedspeak | – | – | – | Bostic on "The vital role of government statistics" in Chicago. |
| | Fedspeak | – | – | – | Kashkari in Q&A on women in housing and finance. |

# New Zealand forecasts

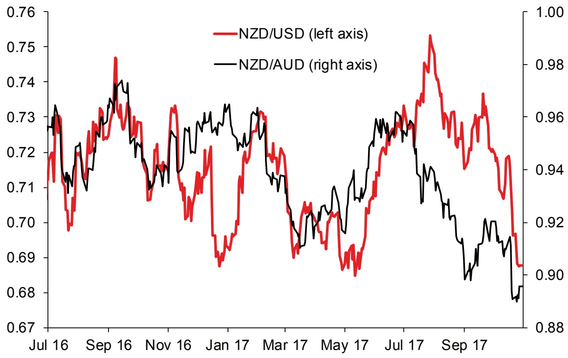
| Economic Forecasts | 2017 | | | | Calendar years | | | |
|---|---|---|---|---|---|---|---|---|
| % change | Jun | Sep | Dec | Mar | 2015 | 2016 | 2017f | 2018f |
| GDP (Production) ann avg | 0.8 | 0.7 | 0.6 | 0.8 | 2.5 | 3.0 | 2.6 | 2.9 |
| Employment | -0.1 | 1.1 | 0.4 | 0.6 | 1.4 | 5.8 | 2.6 | 1.8 |
| Unemployment Rate % s.a. | 4.8 | 4.6 | 4.7 | 4.7 | 4.9 | 5.2 | 4.7 | 4.6 |
| CPI | 0.0 | 0.5 | 0.3 | 0.3 | 0.1 | 1.3 | 1.8 | 1.3 |
| Current Account Balance % of GDP | -2.8 | -2.7 | -2.8 | -2.5 | -3.2 | -2.5 | -2.8 | -3.3 |

| Financial Forecasts | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|
| **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 | 2.15 | 2.20 | 2.30 | 2.40 | 2.50 |
| **5 Year Swap** | 2.70 | 2.80 | 2.90 | 3.00 | 3.10 | 3.20 |
| **10 Year Bond** | 2.95 | 3.10 | 3.20 | 3.30 | 3.40 | 3.45 |
| **NZD/USD** | 0.70 | 0.69 | 0.68 | 0.67 | 0.66 | 0.66 |
| **NZD/AUD** | 0.92 | 0.92 | 0.92 | 0.93 | 0.94 | 0.94 |
| **NZD/JPY** | 77.7 | 77.3 | 76.8 | 76.4 | 75.9 | 75.4 |
| **NZD/EUR** | 0.60 | 0.59 | 0.59 | 0.59 | 0.58 | 0.58 |
| **NZD/GBP** | 0.55 | 0.54 | 0.54 | 0.54 | 0.54 | 0.54 |
| **TWI** | 74.5 | 73.9 | 73.4 | 72.9 | 72.6 | 72.2 |

2 Year Swap and 90 Day Bank Bills




NZD/USD and NZD/AUD




NZ interest rates as at market open on 30 October 2017

| Interest Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **Cash** | 1.75% | 1.75% | 1.75% |
| **30 Days** | 1.79% | 1.81% | 1.84% |
| **60 Days** | 1.87% | 1.87% | 1.90% |
| **90 Days** | 1.95% | 1.93% | 1.96% |
| **2 Year Swap** | 2.17% | 2.19% | 2.22% |
| **5 Year Swap** | 2.69% | 2.69% | 2.75% |

NZ foreign currency mid-rates as at 30 October 2017

| Exchange Rates | Current | Two weeks ago | One month ago |
|---|---|---|---|
| **NZD/USD** | 0.6878 | 0.7170 | 0.7217 |
| **NZD/EUR** | 0.5927 | 0.6069 | 0.6119 |
| **NZD/GBP** | 0.5243 | 0.5390 | 0.5396 |
| **NZD/JPY** | 78.19 | 80.11 | 81.33 |
| **NZD/AUD** | 0.8957 | 0.9097 | 0.9221 |
| **TWI** | 73.22 | 75.56 | 76.31 |

# International forecasts

| Economic Forecasts (Calendar Years) | 2014 | 2015 | 2016 | 2017f | 2018f | 2019f |
|---|---|---|---|---|---|---|
| **Australia** | | | | | | |
| Real GDP % yr | 2.8 | 2.4 | 2.5 | 2.3 | 3.0 | 2.5 |
| CPI inflation % annual | 1.7 | 1.7 | 1.5 | 2.1 | 2.5 | 2.8 |
| Unemployment % | 6.2 | 5.8 | 5.7 | 5.7 | 6.1 | 6.0 |
| Current Account % GDP | -3.0 | -4.7 | -2.7 | -1.6 | -2.6 | -2.7 |
| **United States** | | | | | | |
| Real GDP %yr | 2.6 | 2.9 | 1.5 | 2.1 | 2.1 | 1.8 |
| Consumer Prices %yr | 1.6 | 0.1 | 1.3 | 2.0 | 1.8 | 1.8 |
| Unemployment Rate % | 6.2 | 5.3 | 4.9 | 4.4 | 4.2 | 4.3 |
| Current Account %GDP | -2.3 | -2.3 | -2.3 | -2.6 | -2.5 | -2.4 |
| **Japan** | | | | | | |
| Real GDP %yr | 0.3 | 1.1 | 1.0 | 1.3 | 0.8 | 0.7 |
| **Euroland** | | | | | | |
| Real GDP %yr | 1.3 | 2.0 | 1.8 | 2.1 | 1.8 | 1.6 |
| **United Kingdom** | | | | | | |
| Real GDP %yr | 3.1 | 2.2 | 1.8 | 1.6 | 1.6 | 1.5 |
| **China** | | | | | | |
| Real GDP %yr | 7.3 | 6.9 | 6.7 | 6.7 | 6.2 | 5.9 |
| **East Asia ex China** | | | | | | |
| Real GDP %yr | 4.2 | 3.8 | 3.9 | 4.1 | 4.1 | 4.2 |
| **World** | | | | | | |
| Real GDP %yr | 3.6 | 3.4 | 3.2 | 3.6 | 3.6 | 3.5 |
| Forecasts finalised 13 October 2017 | | | | | | |

| Interest Rate Forecasts | Latest | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Cash | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 90 Day Bill | 1.69 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| 10 Year Bond | 2.77 | 2.75 | 2.85 | 2.85 | 2.95 | 3.00 | 3.00 | 3.00 |
| **International** | | | | | | | | |
| Fed Funds | 1.125 | 1.375 | 1.375 | 1.625 | 1.625 | 1.875 | 1.875 | 1.875 |
| US 10 Year Bond | 2.46 | 2.40 | 2.60 | 2.75 | 2.90 | 3.00 | 3.00 | 3.00 |
| ECB Deposit Rate | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.40 | –0.30 | –0.30 |

| Exchange Rate Forecasts | Latest | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|---|---|---|---|---|---|---|---|---|
| AUD/USD | 0.7634 | 0.76 | 0.75 | 0.74 | 0.72 | 0.70 | 0.70 | 0.70 |
| USD/JPY | 114.10 | 113 | 114 | 114 | 115 | 115 | 116 | 116 |
| EUR/USD | 1.1639 | 1.17 | 1.16 | 1.15 | 1.14 | 1.13 | 1.13 | 1.13 |
| AUD/NZD | 1.12 | 1.09 | 1.09 | 1.09 | 1.07 | 1.06 | 1.06 | 1.07 |

# Contact the Westpac economics team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