



Cardboard Cathedral, Christchurch

Weekly Economic Commentary.

Neither here nor there.

Economic growth remains muted in New Zealand, though the June quarter GDP figures were no worse than expected and are unlikely to move the dial for the Reserve Bank. We expect no change in the OCR at this week's review, but we do expect a further cut in November. We think this cumulative stimulus will be enough to meet the RBNZ's goals, but it has options if more is needed.

GDP rose by 0.5% in the June quarter, following a 0.6% rise in the March quarter. Annual growth over the year to June slowed to 2.4%, the lowest since 2013 – though that was at a time when population growth was slower than it is today. In per capita terms, annual growth slowed to 0.8%, its lowest since 2011.

There have been several factors behind the slowdown in growth. Some of them were foreseeable and indeed inevitable: population growth has slowed as net migration has passed its peak, and earthquake reconstruction work is gradually running off after peaking several years ago. In the last couple of years, two more themes have been prominent: a slowdown in the housing market, and a sharp drop in business confidence.

The weak housing market has impacted households' willingness to spend via the wealth effect. Household consumption rose by 0.5% in the June quarter after a 0.4% rise in March, both of which were down on the pace seen in earlier quarters. However, we are expecting the housing market to pick up in response to the recent sharp drop in mortgage rates, which should shore up consumption.

Businesses are finding themselves under pressure and are becoming more cautious about their expansion plans. Consequently, investment in plant and machinery has flattened out after strong growth in previous years, and more recently there have been signs of a slowdown in hiring.

At the same time, there are some growth factors that have gained momentum. Construction has been a bright spot,



even with the rundown in quake-related work. Homebuilding is up by around 5% in the last year as it continues to rise to the levels needed to meet population growth. Commercial construction is also on the rise, however civil construction has lagged.

Government expenditure has been on the rise, though it has not provided as much of a boost to GDP as we anticipated. The stimulus appears to have come more through transfers to households and higher pay for public servants, which have prevented consumer spending from being even weaker than otherwise. We expect government spending to pick up further in coming years.

Finally, export volumes have continued to grow modestly, and New Zealand's terms of trade have remained close to their all-time highs. Despite the growing sense of gloom about the global economy, it appears that the growth slowdown in New Zealand has largely been due to domestic forces.

The latest GDP figures were in line with what the Reserve Bank expected in its August *Monetary Policy Statement*, making them neither here nor there in terms of Wednesday's OCR decision. After the surprisingly large 50 basis point rate cut last month, we think that the RBNZ will stay its hand this time and assess the impact of its actions so far.

Recent economic developments have been mixed. The global economic outlook remains shaky, but arguably no worse than was expected in August. Business surveys and anecdotes suggest that local business activity has softened further in the past few months, making untenable the RBNZ's forecast that GDP growth will accelerate over the second half of this year.

On the plus side, world prices for key export products such as milk and logs have risen a little in recent weeks, and the exchange rate is substantially lower than the RBNZ's previous forecast on a trade-weighted basis.

Perhaps the most significant factor in this week's OCR decision is that the RBNZ had already cut aggressively in August, a move that was justified as 'getting ahead of the game'. It's too soon to judge the effectiveness of that move, and recent developments don't suggest that the RBNZ is at risk of falling behind again, weakening the case for a follow-up cut.

While we don't expect a move this week, we still think that the RBNZ is inclined towards further easing. We expect another cut at the November *Monetary Policy Statement*, taking the OCR to a new low of 0.75%. Our view is that by that point, the cumulative stimulus from lower interest rates and increasing government spending will be enough to shore up the economy, get unemployment falling again, and set inflation on a path towards 2%.

However, if an even greater shock were to hit the economy, it's not unthinkable that the OCR could be reduced all the way to zero. While that would mark the limits of conventional monetary policy, the RBNZ would still have options, ranging from a negative OCR to large-scale bond purchases to foreign exchange intervention. We argue that such measures could be effective if used with sufficient vigour. Of course, there would be challenges with the design of each of these measures, and they are likely to have some distortionary effects on the economy. But these concerns apply equally to conventional monetary easing.¹

¹ For more detail, see our article at www.westpac.co.nz/assets/Business/Economic-Updates/2019/Bulletins-2019/Quantitative-easing-economic-insight-WEB.pdf

Fixed vs Floating for mortgages.

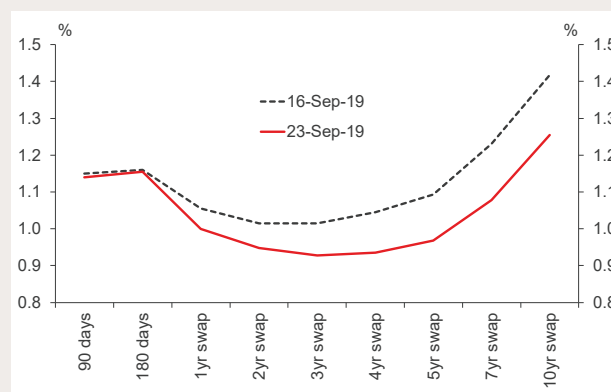
Mortgage rates are falling, and with the Reserve Bank expected to cut the OCR once more, we think they will keep falling. This means there is no hurry to fix.

Among the fixed rates on offer, we think the best value at present is the one-year rate. It is lower than the floating or six-month rates, yet it may still allow borrowers to roll onto lower rates at the end of the fixed term. Fixing for a longer term may mean that borrowers miss out on re-fixing at the lowest rates, at least according to our forecasts.

That said, fixing for longer terms does offer security against future interest rate increases, and therefore may be preferred by those with low risk tolerance.

Floating mortgage rates are normally expensive for borrowers, but they may be the preferred option for those who require flexibility in their repayments.

NZ interest rates



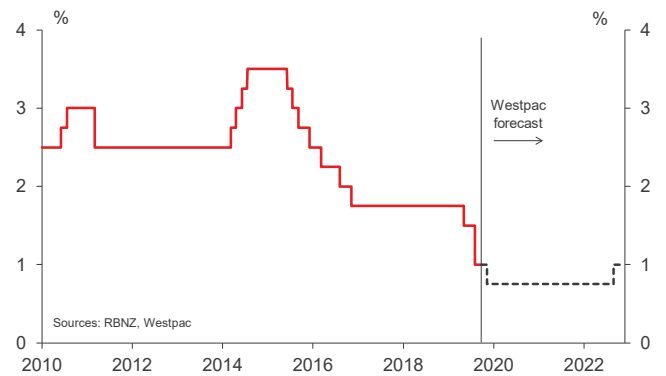
The week ahead.

RBNZ OCR Review

Sep 25, Last: 1.0%, Westpac f/c: 1.0%, Mkt: 1.0%

- We think the RBNZ will want to keep the OCR on hold and assess its previous action. The whole point of the RBNZ's jumbo-sized cut in August was to get ahead of the game.
- The RBNZ will probably use language about the "possibility" of a future cut rather than giving an overt signal of imminent easing.
- The domestic economy is shaping up weaker than the RBNZ's previous forecast; but offsetting that, the exchange rate is lower.

RBNZ Official Cash Rate

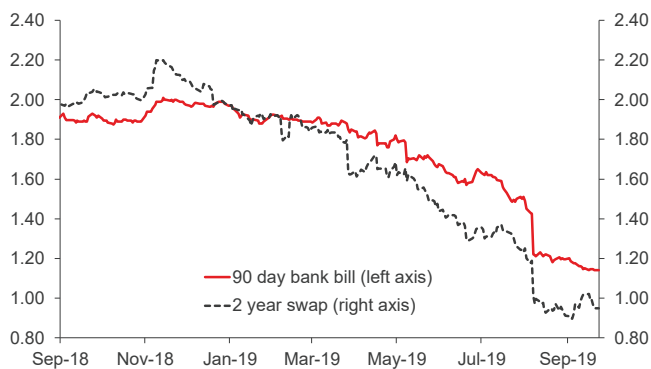


New Zealand forecasts.

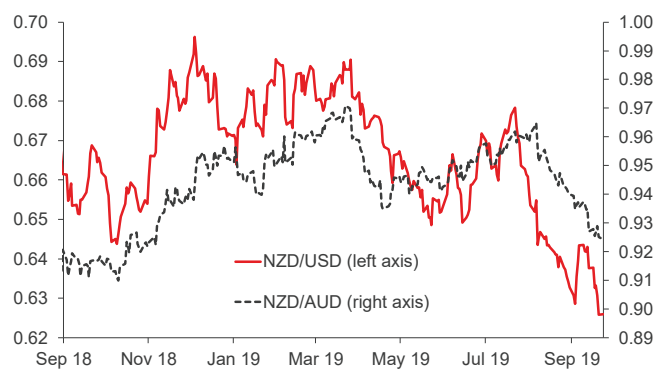
Economic forecasts	Quarterly				Annual			
	2019				2018	2019f	2020f	2021f
	Jun (a)	Sep	Dec	Mar				
% change								
GDP (Production)	0.5	0.4	0.5	0.6	2.8	2.2	2.3	2.8
Employment	0.8	0.1	0.4	0.3	2.3	1.2	1.8	2.0
Unemployment Rate % s.a.	3.9	4.2	4.3	4.4	4.3	4.3	4.3	3.8
CPI	0.6	0.6	0.3	0.4	1.9	1.6	1.7	1.8
Current Account Balance % of GDP	-3.4	-3.4	-3.2	-3.2	-3.9	-3.2	-3.0	-2.8

Financial forecasts	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Cash	0.75	0.75	0.75	0.75	0.75	0.75
90 Day bill	0.90	0.90	0.90	0.90	0.90	0.90
2 Year Swap	0.80	0.80	0.80	0.85	0.90	0.95
5 Year Swap	0.95	1.00	1.10	1.15	1.20	1.25
10 Year Bond	1.00	1.05	1.20	1.25	1.30	1.40
NZD/USD	0.63	0.62	0.62	0.63	0.63	0.64
NZD/AUD	0.94	0.94	0.94	0.94	0.94	0.94
NZD/JPY	66.2	64.5	64.5	66.8	68.0	70.4
NZD/EUR	0.59	0.59	0.58	0.59	0.58	0.58
NZD/GBP	0.54	0.53	0.52	0.52	0.51	0.50
TWI	71.4	70.6	70.1	70.6	70.1	70.6

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 23 September 2019

Interest rates	Current	Two weeks ago	One month ago
Cash	1.00%	1.00%	1.00%
30 Days	1.18%	1.19%	1.17%
60 Days	1.16%	1.17%	1.17%
90 Days	1.14%	1.18%	1.20%
2 Year Swap	0.95%	0.97%	0.97%
5 Year Swap	0.97%	1.02%	1.00%

NZ foreign currency mid-rates as at 23 September 2019

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6260	0.6422	0.6380
NZD/EUR	0.5683	0.5824	0.5719
NZD/GBP	0.5019	0.5232	0.5204
NZD/JPY	67.44	68.57	67.01
NZD/AUD	0.9243	0.9386	0.9468
TWI	69.85	71.65	71.33

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
Eur	Sep Markit manuf. PMI flash	47.0	47.5	-	Manufacturing remains weak...
	Sep Markit services PMI flash	53.5	53.2	-	... but services have to date been resilient.
	ECB President Draghi	-	-	-	Testimony to European Parliament.
US	Aug Chicago Fed activity index	-0.36	0.05	-	Manufacturing conditions are weak and likely to remain so...
	Sep Markit manufacturing PMI	50.3	50.3	-	... investment & employment in sector set to decelerate further.
	Sep Markit service PMI	50.7	51.5	-	Services at risk from global and manufacturing weakness.
	Fedspeak	-	-	-	Williams, Daly and Bullard.
Tue 24					
Aus	RBA Governor Lowe speaking	-	-	-	"An Economic Update", Armidale, 7:55pm.
UK	Aug public sector borrowing, £bn	-2.0	6.6	-	Borrowing in trend decline.
US	Jul FHFA house prices	0.2%	0.3%	-	House price growth has moderated over the past year...
	Jul S&P/CS home price index	0.0%	0.1%	- despite low rates and employment/ wage growth.
	Sep Richmond Fed index	1	2	-	Regional surveys are currently volatile.
	Sep consumer confidence index	135.1	134.0	-	Expectations materially weaker than current conditions.
Wed 25					
NZ	Aug trade balance \$m	-685	-1541	-1500	Dairy exports drop off sharply at the end of the season.
	RBNZ policy decision	1.00%	1.00%	1.00%	RBNZ to pause after last month's surprise 50bp cut.
US	Aug new home sales, %ann'd	-12.8%	2.8%	-	Construction activity remains subdued.
	Fedspeak	-	-	-	Evans, George and Kaplan.
Thu 26					
Eur	Aug M3 money supply, %yr	5.2%	5.1%	-	Credit growth robust, even before new stimulus.
	ECB President Draghi	-	-	-	Speaking in Frankfurt.
UK	BOE Governor Carney	-	-	-	Speaking on financial services in Frankfurt.
US	Q2 GDP, %ann'd	2.0%	2.0%	2.0%	A material revision unlikely in third estimate for Q2.
	Aug wholesale inventories	0.2%	-	-	Inventories remain volatile.
	Initial jobless claims	208k	-	-	Very low.
	Aug pending home sales	-2.5%	1.0%	-	Existing home sales continue to be held back by supply.
	Sep Kansas City Fed index	-6	-	-	Regional surveys are currently volatile.
	Fedspeak	-	-	-	Kaplan, Bullard, Clarida, Kashkari and Barkin.
Fri 27					
NZ	Sep ANZ consumer confidence	118.2	-	-	Uncertainty about the external environment is a drag.
Chn	Aug industrial profits, %yr	2.6%	-	-	Industry to remain under considerable pressure.
	Q2 current account balance	57.0	-	-	Final estimate for quarter.
Eur	Sep economic confidence	103.1	103.1	-	Businesses are becoming more fearful...
	Sep business climate indicator	0.11	0.11	-	... about the economic outlook.
UK	Sep GfK consumer sentiment	-14	-14	-	Supported by a strong labour market.
US	Aug durable goods orders	2.0%	-1.2%	-1.0%	Underlying trend weak and at risk of a further deterioration.
	Aug personal income	0.1%	0.4%	0.4%	Wages growth robust, but unlikely to accelerate further.
	Aug personal spending	0.6%	0.3%	0.3%	Spending expected to slow through the second half.
	Aug PCE deflator	0.2%	0.1%	0.1%	Core prices expected to rise 0.2% in month, 1.8%/yr.
	Sep Uni. of Michigan sentiment	92.0	92.1	-	Current and expected views have turned down.
	Fedspeak	-	-	-	Quarles and Harker.
Sat 28					
UK	Sep Nationwide house prices, %yr	0.6%	-	-	Brexit uncertainty weighing on housing market.

International forecasts.

Economic forecasts (Calendar years)	2016	2017	2018	2019f	2020f	2021f
Australia						
Real GDP % yr	2.8	2.4	2.7	1.8	2.4	2.7
CPI inflation % annual	1.5	1.9	1.8	1.7	1.9	2.1
Unemployment %	5.7	5.5	5.0	5.4	5.6	5.3
Current Account % GDP	-3.1	-2.6	-2.1	0.8	-0.5	-2.0
United States						
Real GDP %yr	1.6	2.2	2.9	2.3	1.6	1.5
Consumer Prices %yr	1.4	2.1	2.4	1.8	1.9	1.9
Unemployment Rate %	4.9	4.4	3.9	3.6	3.6	3.8
Current Account %GDP	-2.3	-2.3	-2.3	-2.6	-2.5	-2.4
Japan						
Real GDP %yr	0.6	1.9	0.8	0.7	0.3	0.4
Euro zone						
Real GDP %yr	2.0	2.4	1.8	1.2	1.1	1.2
United Kingdom						
Real GDP %yr	1.8	1.8	1.4	1.0	0.7	1.3
China						
Real GDP %yr	6.7	6.8	6.6	6.1	5.8	5.8
East Asia ex China						
Real GDP %yr	4.0	4.6	4.3	3.7	3.9	3.9
World						
Real GDP %yr	3.4	3.8	3.6	3.2	3.3	3.3

Forecasts finalised 11 September 2019

Interest rate forecasts	Latest	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jun-21	Dec-21
Australia								
Cash	1.00	0.75	0.50	0.50	0.50	0.50	0.50	0.50
90 Day BBSW	0.92	0.85	0.70	0.70	0.70	0.70	0.75	0.75
10 Year Bond	1.03	0.95	1.00	1.15	1.20	1.25	1.40	1.50
International								
Fed Funds	1.875	1.375	1.125	0.875	0.875	0.875	0.875	0.875
US 10 Year Bond	1.78	1.45	1.40	1.45	1.50	1.55	1.70	1.80
ECB Deposit Rate	-0.50	-0.60	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70

Exchange rate forecasts	Latest	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jun-21	Dec-21
AUD/USD	0.6788	0.67	0.66	0.66	0.67	0.67	0.69	0.72
USD/JPY	107.92	105	104	104	106	108	111	112
EUR/USD	1.1053	1.07	1.05	1.06	1.07	1.09	1.11	1.14
GBP/USD	1.2531	1.17	1.18	1.20	1.22	1.24	1.31	1.35
AUD/NZD	1.0787	1.06	1.06	1.06	1.06	1.06	1.07	1.08

Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Paul Clark, Industry Economist

+64 9 336 5656

Any questions email:

electronics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer.

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QF Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.