Economic Overview

February 2012

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Note from Dominick

Welcome to the February 2012 edition of Westpac's *Economic Overview*.

We are now about halfway through the deterioration in export conditions that we first warned of in last July's *Economic Overview*. Europe's malaise is well-established, but Asia's slowdown has only just begun. This is bad news for New Zealand, given Asia's importance for global food prices. As the Asian dip deepens, so global prices for New Zealand's key export products and the exchange rate will drop over the first half of this year.

But it is a dip, rather than a disaster, that we envisage. Asia's central banks will be quick to ride to the rescue now that global inflation is retreating and China's property bubble has burst. So long as Europe doesn't spark a full-scale financial meltdown, the global economy should be back in gradual recovery mode by the second half of the year. New Zealand's export prices and exchange rate would rise on that tide.

Inflation has beaten a hasty retreat in New Zealand, allowing the Reserve Bank time to wait and watch how Europe's debt woes evolve. We expect the OCR hiking cycle will be delayed until the end of this year. Market pricing is consistent with the OCR remaining on hold until mid-2013, but we would not go that far. The economy is certainly slow at present, but New Zealand's housing market and consumer spending have actually perked up notably. If interest rates stay low house prices will keep rising. And let's not forget the inflationary consequences of the Christchurch rebuild, which is in its infancy. It is not at all difficult to foresee an environment in which the Reserve Bank feels entitled to nudge the OCR off its all-time low later this year.

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Text finalised 27 January 2012

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Patchwork quilt

The effects of deteriorating global growth prospects are starting to be felt in the New Zealand economy. We expect further weakness to hamper export prospects over the coming months. Despite this, GDP growth is set to pick up on the back of a turnaround in the construction sector. Building activity is already underway in Canterbury and the pace will accelerate from here.

Current situation

The New Zealand economy continued to roll down the potholed road of recovery in recent months. After scraping through with just 0.1% growth in the June quarter, the economy expanded 0.8% in the three months to September 2011. Activity was boosted in part by the Rugby World Cup and exceptionally good growing conditions for farmers. Consequently, there were strong contributions from retail trade and manufacturing activity (especially food processing). In contrast, the construction sector was once again a standout area of weakness. Residential construction recorded its 5th consecutive quarterly decline, and has now fallen 42% from recent peaks. Non-residential construction activity hasn't fared much better, falling in 4 out of the last 5 quarters including a 7% contraction in the September quarter.

Since September, there have been signs that the dismal global outlook is starting to permeate the domestic economy. After a period of stubborn resistance, both consumer and business confidence have soured – possibly as people in both sectors have become more concerned about the potential for offshore events to impact on their own activities. Firms have also reported a drop in domestic trading conditions, which suggests GDP growth slowed to 0.4% in the December quarter.

But it hasn't all been one-way traffic. Despite falling confidence, underlying growth in retail spending has actually been holding up reasonably well – electronic card spending finished the year up nearly 7% on 12 months earlier. And despite falls in headline business confidence, firms remained willing to invest. Furthermore there are signs that low interest rates are starting to impact the housing market, which finished the year with considerable momentum. All this suggests that 2012 has begun with a quarter of reasonable growth, despite the letdown following the World Cup.

Looking ahead

From relatively humble beginnings GDP growth is forecast to accelerate this year. However, the composition of this growth will differ markedly from what we saw over late 2010 and into 2011. Instead of being led by agricultural exports, we expect the construction sector will be the outperformer. Strong growth in plant and machinery investment is also forecast to continue. In contrast, externally oriented sectors are likely to come under increasing pressure as global growth slows – not only in Europe but also throughout New Zealand's key trading partners in Asia.

There are two components to our forecast of a rapid acceleration in building activity off a depressed base over the coming year.[1] The most obvious is the massive reconstruction task that lies ahead in Canterbury. We expect earthquake related building activity will add around $20bn to nationwide construction activity in the coming years (with the bulk of this residential construction activity).

Some work is already underway. By the end of 2011 Fletcher EQR (the company in charge of managing EQC repairs of between $10,000 and $100,000) had completed more than 8000 repairs, had a further 26,800 in progress and paid out $334m to contractors. There have also been some high profile commercial construction projects completed. In Kaiapoi (a town devastated by the first quake in September 2010) a rebuilt supermarket recently opened and another in Christchurch city is on track to open in the middle of this year. Elsewhere a significant proportion of the commercial demolition work (a vital prerequisite to re-building) has been completed. And it appears

1. For more detail on our thinking, see our recently published bulletin *Construction Sector Review* available on the Economic Reports section of our website www.westpac.co.nz

that work repairing infrastructure ramped up in the second half of 2011 (figure 1).

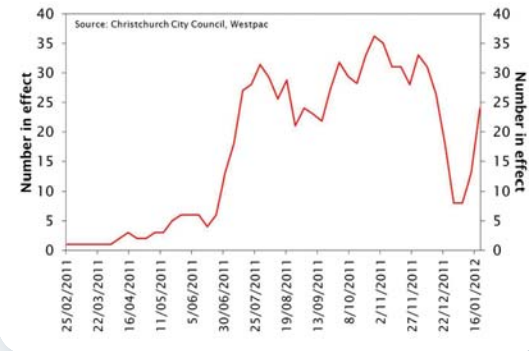


Figure 1: Notices of infrastructure repair work in force in Christchurch

We estimate that around $120m worth of residential repair and rebuild work took place in the December quarter. Because this activity is coming off such a depressed starting point, even this small volume of work progressing in Canterbury is enough to produce quite high rates of growth in the construction industry.

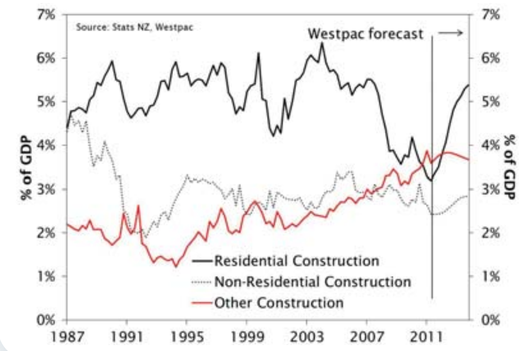


Figure 2: Residential, non-residential and other construction

Our assumption is that a bit more than 10% of all residential repair work is completed during 2012. In other words, the vast majority of work will face delays of more than a year from today as some Cantabrians continue to struggle with issues such as slow resolution of insurance claims, administrative holdups and difficulty obtaining new insurance. Nevertheless even the small quantum of residential construction work we expect to be completed this year is enough to drive 22% annual average growth in nationwide residential construction activity. As the pace of rebuilding ramps up, it will soak up spare capacity, pulling in resources from the construction sector and elsewhere. In turn this will put upward pressure on prices.

We also expect increased house building further north, particularly in Auckland, where the after-effects of the prolonged period of under-building are becoming increasingly apparent. There, house sales have been picking up convincingly, prices are rising, and in recent months there has been a strong pickup in building consents.

House prices have been rising for some time in Auckland and Christchurch, and recently began rising elsewhere. We suspect low interest rates are stimulating the market and will continue to do so this year. House prices rose 3.5% in 2011, and we expect them to rise another 3.5% over 2012 before rising interest rates put a lid on price rises in 2013.

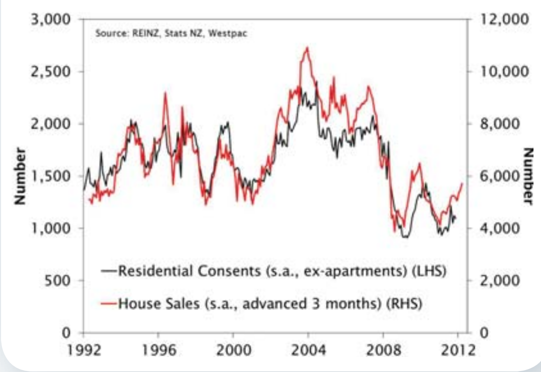


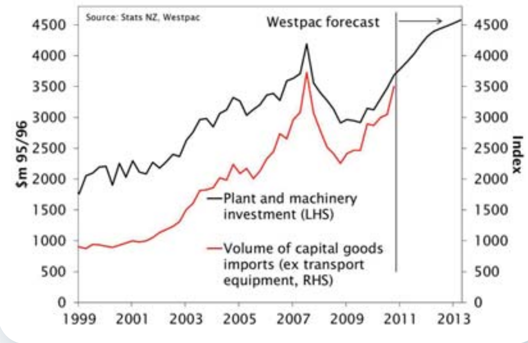
Figure 3: NZ house sales and building consents

More up-beat news on the housing front is likely to support consumer spending in 2012, as is a gradual improvement in the labour market (we expect the unemployment rate to fall from 6.6% to 5.9% by the end of 2012). However spending will continue to grow more slowly than production, meaning New Zealand will continue to deleverage.

Aside from strength in residential investment, our forecasts also incorporate further growth in business investment – particularly in plant and machinery. While it may have grabbed fewer headlines than other sectors, plant and machinery investment has accelerated very strongly over the past few years. Firms have taken advantage of the relatively strong NZD and low interest rates to finance and import equipment. Surveyed investment intentions have eased of late and as the NZD falls and, eventually,

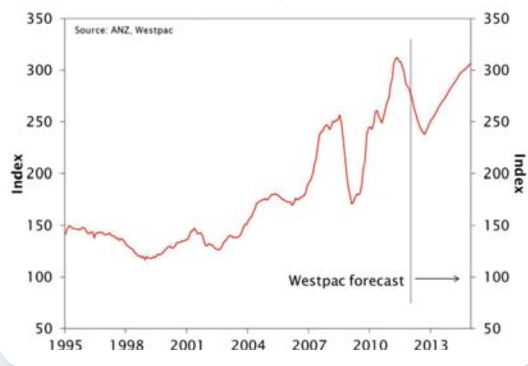
interest rates rise, we expect growth in plant and machinery investment to slow. However annual growth should remain firmly ensconced in double digit territory throughout 2012.

Figure 4: Imports of capital equipment and plant and machinery investment



The outstanding conditions commodity exporters faced in earlier in 2011 are already starting to fade as concerns over global growth come to the fore. NZ's export commodity prices have fallen almost 10% from their recent peaks and we expect further falls in the coming months as global growth slows further.

Figure 5: NZ export commodity prices



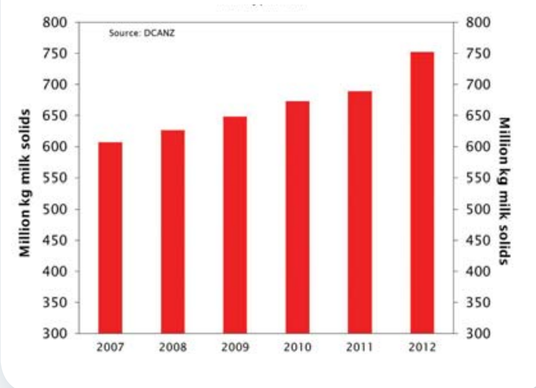
Importantly it is not our expectation of a European recession which is a fundamental driver of this forecast. Rather it is our forecast of sharply slower growth in China and a rockier outlook for the rest of Asia which are key (covered in detail in the International Outlook “Central Banks to the Rescue”, pg 9).

This is because Asia, and in particular China, are now firmly in the driver's seat when it comes to demand for New Zealand's commodity exports. Over the first half of 2012 we expect growth in demand for food and other NZ export products will slow in line with the moderation in economic growth in Asia. But over a longer horizon the major trends of population growth, urbanisation, and increasing incomes in the region should see demand outpace supply, putting upward pressure on commodity prices. We're anticipating a rebound in commodity prices in the latter part of this year.

Of course prices depend not only on demand but also supply conditions, and these can vary widely across commodities. Where New Zealand is a big player in international export markets (as is the case in the dairy industry) domestic conditions can impact global supply. This season has been a particularly strong one for NZ dairy farmers. Outstanding pasture growth nationwide (with the notable exception of the recent dry spell in Otago and Southland) has supercharged milk production. Combined with growing production in other important exporting regions we think this is likely to put additional downward pressure on world prices in the coming months.

In contrast global supplies in other markets are more stretched. In the case of lamb, supplies remain tight thanks to a multi-decade decline in flocks. Although New Zealand production should eventually be well up on last season's it is still set to be amongst the lowest in half a century. While we still expect prices in the market to come under downward pressure in the near term, tight supplies should underpin prices relative to other commodities.

Figure 6: NZ dairy production, June to November



Westpac

Elbow room

Global inflation is retreating, and New Zealand is no exception. The Reserve Bank will feel comfortable holding the OCR at today's record-low levels until late this year, before an extended hiking cycle becomes necessary. A sharp dip in Asian growth will spark corresponding dips in global food prices and the New Zealand dollar this year.

Interest rates and inflation

Global markets have stabilised in the last couple of months, but the massive repricing of risk during the second half of 2011 remains in place: interest rates are extremely high for those governments with unsustainable debt burdens, and at rock-bottom levels for those perceived as safe havens. New Zealand, despite its relatively high level of overseas debt, has fallen into the second category.

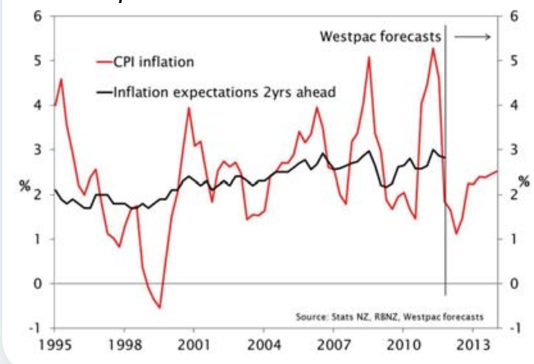
As well as the flight to safety, bond yields have been dragged down by the weaker outlook for global growth (see the International Outlook "Central Banks to the Rescue", pg 9) and anticipation that central banks will ease monetary policy further. Some have already started that process; others may join them in early 2012. Indeed, the recent lows in New Zealand's wholesale interest rates partly reflect a market judgement that rate hikes are a distant prospect and that the next move is more likely to be a cut (though the implied probability of this is not all that high).

The Reserve Bank itself has pushed back against the notion of rate cuts in the face of a weaker world economy – its December *Monetary Policy Statement* suggested that, even in the alternate scenario of a severe downturn in global growth, it would favour holding the OCR at record lows for several years rather than cutting. The reluctance to cut in the short term accurately reflects the unique outlook for the New Zealand economy – post-quake reconstruction is set to boost activity and soak up the nation's resources for years to come, independent of the broader economic cycle.

That said, a noticeable easing in inflation pressures in recent months (something that has been seen worldwide, not just in New Zealand) has dispelled the case for hikes in the near term. The first half of 2011 was characterised by sharp price rises for food and fuel, rising construction costs, and only a limited dampening effect from a stronger New Zealand dollar, raising concerns of an inflation breakout. However, these forces moderated or reversed in the second half of the year, bringing inflation back into a more comfortable range. By the end of the year annual inflation had slowed to 1.8%, and the various measures of 'core' inflation were close to the midpoint of the RBNZ's 1-3% target range.

The RBNZ will also feel vindicated around its stance on inflation expectations. A particular concern was that the GST increase in October 2010, which added around two percentage points to the inflation rate for the following year, could have secondary effects on wage- and price-setting behaviour, which, unlike the initial spike in inflation, would demand a monetary policy response. While surveyed inflation expectations have indeed been on the high side (figure 7), firms' pricing intentions have softened substantially in the last few months. And with the GST hike having now dropped out of the calculation, and no sign that inflation expectations have become self-fulfilling, the RBNZ will be able to breathe a sigh of relief.

Figure 7: Inflation with forecasts, and 2yr ahead expectations



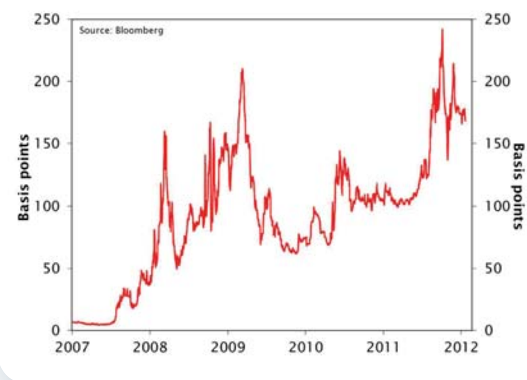
We expect annual inflation to slow further to 1.1% by the middle of this year, in part a legacy of the NZ dollar's gains last year. From there, we

expect it to return above 2% by year-end and to remain in the upper half of the target range over the medium term. Such an outlook for inflation would leave the RBNZ comfortable with raising rates at a gradual pace in the next few years.

The RBNZ will also have room to wait until some of the downside risks to global growth have been resolved before starting out on a tightening cycle.

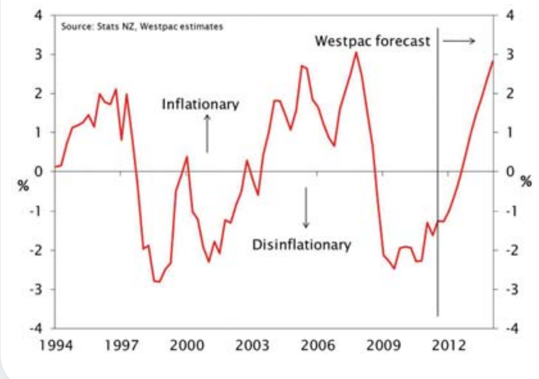
One factor muddling the pace of OCR hikes is the ongoing pressure on global credit markets. The margin above the benchmark swap rate that banks would pay to borrow overseas remains very high – not much lower than the 'crisis point' levels seen late last year (figure 8). Conditions are likely to remain tight for several more months, in particular as European banks shrink their balance sheets in order to meet tough new capitalisation rules by June. The longer that funding costs stay high, the more likely that lenders will need to raise retail interest rates independently of any moves in the OCR. And the RBNZ has strongly indicated that it will set monetary policy with the level of retail rates in mind.

Figure 8: Australian bank CDS spreads



The RBNZ's judgement on monetary policy back in December 2011 was that hikes would begin around June this year. The January OCR reviews and a recent speech together indicated that the expected timing now shifted out to the end of this year — a judgment we broadly agree with. Market pricing suggests hikes could be delayed until well into 2013, and many economists are tending that way. We would not go that far. Even with modest growth, the economy's non-inflationary spare capacity has narrowed in the last year, and is likely to be fully taken up this year as rebuilding gets into full swing (figure 9). The housing market is clearly responding to a long stretch of low interest rates. And consumer spending has warmed to some degree. If these trends continue this year, the RBNZ will feel entitled to nudge the OCR off its all-time lows.

Figure 9: Output gap



Exchange rates

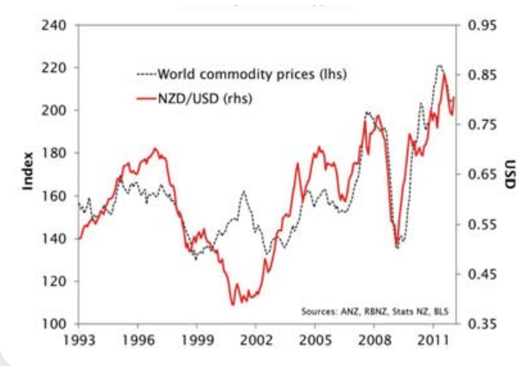
As ever, the New Zealand dollar remains a hostage to sentiment in global credit markets. In a more hostile environment, attracting investors to New Zealand requires a mix of higher yields and a lower exchange rate to make NZD-denominated assets cheaper (and offer the potential for future gains on the currency). The heightened fears about European debt default in late 2011 dragged NZD/USD down towards 0.75, but the currency has bounced back above 0.80 in recent weeks as fears of the worst-case outcome have passed.

A notable difference in recent months is that the rise in the NZD and the AUD has been more country-specific, rather than as part of a broad currency bloc acting as a counterweight to the safe-haven US dollar. In particular, the NZD has diverged from and gained substantially against the euro, with the market apparently taking a more isolated view of Europe's debt woes.

World prices for our main commodity exports continue to have a strong contemporaneous influence on the value of the NZD. Commodity prices are well into their expected cyclical downturn, but at current levels they still broadly support the NZD's return above 0.80 (figure 10). We expect both of these to soften further through the first half of this year as the world economy slows, taking the NZD into the low

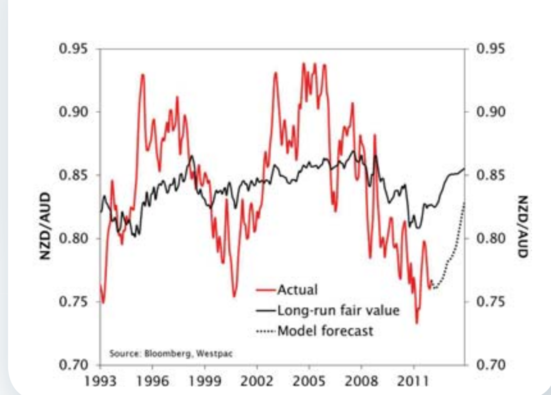
0.70s. However, in the longer term we still expect both to remain in a higher range than that seen in the previous few decades.

Figure 10: Inflation-adjusted commodity prices and NZD/USD



Credit conditions also matter for our exchange rate against our neighbour (and close substitute) Australia – New Zealand has a relatively larger overseas borrowing requirement, so any difficulties in accessing international credit markets would require a larger downward adjustment in the NZD than in the AUD. Persistently high funding costs argue against any substantial gains in the NZD/AUD exchange rate for the near future. However, going into the second half of the year, relative GDP growth, commodity prices and net migration flows are expected to turn in the NZD's favour (figure 11).

Figure 11: NZD/AUD forecasting model



Financial Markets Forecasts (end of quarter)

	OCR	90 day bill	2 year swap	5 year swap	NZD/ USD	NZD/ AUD	NZD/ EUR	NZD/ GBP	NZD/ JPY	TWI
Mar-12	2.50	2.70	2.90	3.60	0.76	0.77	0.60	0.51	57.0	68.9
Jun-12	2.50	2.70	3.20	3.90	0.72	0.77	0.60	0.49	55.4	67.2
Sep-12	2.50	2.80	3.50	4.20	0.75	0.77	0.61	0.50	58.5	68.9
Dec-12	2.75	3.20	3.90	4.50	0.78	0.77	0.61	0.51	63.2	70.7
Mar-13	3.25	3.50	4.20	4.80	0.80	0.78	0.63	0.50	67.2	72.5
Jun-13	3.50	3.80	4.50	5.00	0.79	0.79	0.63	0.49	64.8	71.8
Sep-13	3.75	4.00	4.80	5.30	0.78	0.80	0.63	0.47	63.2	71.5
Dec-13	4.00	4.30	5.00	5.40	0.77	0.80	0.64	0.46	63.1	71.3
Mar-14	4.25	4.70	5.20	5.60	0.76	0.80	0.64	0.46	63.1	71.0
Jun-14	4.75	5.10	5.40	5.70	0.75	0.81	0.64	0.45	63.0	70.7
Sep-14	5.00	5.40	5.60	5.80	0.74	0.81	0.64	0.45	62.9	70.4
Dec-14	5.50	5.80	5.80	5.90	0.73	0.81	0.63	0.45	62.8	70.1

Central banks to the rescue

Recession in Europe and a burst property bubble in China are likely to see global growth slowing sharply in coming months. However, many central banks are expected to ease monetary policy. That should buy time for Europe to work its way through its sovereign debt crisis, and set the stage for a gradual global recovery in the second half of the year.

In the past three months the global economy has evolved much as we outlined in our November *Economic Overview*. Europe is probably already in recession, the Chinese authorities have finally succeeded in bringing the property market to heel, and much of Asia is cooling, chilled by both tighter monetary policy at home and weaker export demand. There has been some good economic news in the US, but obstacles to a vigorous US recovery remain formidable. And in Australia, a mining investment boom continues to coexist with much less buoyant conditions in other parts of the economy.

Meanwhile the European sovereign debt crisis continues to loom over the global financial system. There have been some welcome developments on this front: most notably the European Central Bank (ECB) has given euro zone banks a big shot in the arm, making a self-fulfilling financial panic less likely. But there is much that can still go wrong in the dangerous game of chicken between indebted euro states and their potential saviours (the IMF, the ECB and Germany).

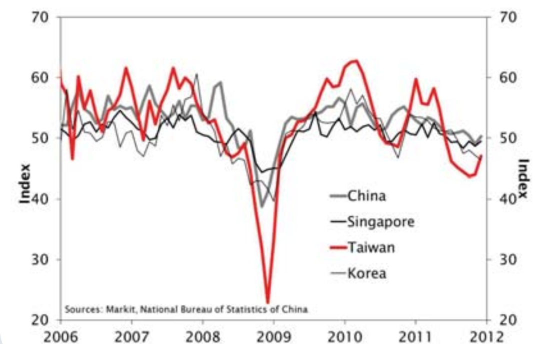
Our forecasts assume that when push comes to shove, the ECB will offer more direct support to beleaguered sovereigns, if the alternative is financial crisis and the risk of a euro zone breakup. We also expect monetary policy relief from central banks elsewhere. That should allow the global economy to pass the worst by mid-year. Even so, our expectation is now for euro zone GDP to shrink 1% this year, for Chinese growth to slow below 8%, and for much of South East Asia to grow below 2%. The US should escape recession, but is likely to putter along at low rates of growth. Growth is also likely to remain below trend in Australia until the second half of the year. Such widespread weakness means further falls in commodity prices and more challenging times for New Zealand exporters.

Europe and the US

In the last months of 2011, the European sovereign debt crisis escalated dangerously. First a chaotic Greek default looked imminent, then financial markets began to doubt the Italian government's willingness to put its house in order. For the moment it looks as if Europe has once again stepped away from the brink. The offending governments in Greece and Italy have been replaced by technocratic caretakers, and European governments appear to be rallying behind fiscal reform. In return, the European Central Bank has cut interest rates and, more importantly, offered more emergency loans to European banks, on very generous terms. This makes a damaging banking panic – where fears around the health of banks raise their funding

Figure 12: Advanced economies manufacturing PMIs

Figure 13: Emerging markets manufacturing PMIs



costs, causing them to go under or cut lending – a lot less likely. To the extent that the banks use some of the ECB money to buy government bonds, it may also help tide over the Spanish and Italian governments. Certainly those governments have found it a lot easier to raise funds than a few months ago.

But while a funding crisis may have been averted for now, Southern Europe's debt overhangs haven't gone away. Government budget cuts and reforms are driving the debtor economies into increasingly painful recessions. And European banks that leant to risky sovereigns are still rebuilding their fragile capital buffers. If a major bank or sovereign were to need fresh bailouts, we would no doubt see renewed risk aversion and market volatility while the terms of the bailout were negotiated. The next test will be in coming months, when the Greek government faces crunch time and a new round of data will reveal the scale of the European downturn.

Early indications are that the euro zone and UK started shrinking late last year. In the euro zone, the triple whammy of public sector cutbacks, deleveraging banks and jittery households makes a steep recession there almost inevitable. The outlook for the US and UK is a little less bleak – largely because the Fed and the Bank of England have already engaged in aggressive monetary policy easing over the past three years and would probably do more if needed. In fact, recent US data have shown some welcome glimmers of hope. Consumer confidence has picked up, business surveys have turned a corner, and most encouragingly there have been signs of life in the labour and housing markets. But the US has some way to go before it's safe to declare a vigorous recovery. The economy is still lying beneath huge piles of private and government debt, and US politicians are completely at odds on how to tackle the fiscal challenges. We expect the UK to scrape through with a mild recession and the US to maintain positive, but frustratingly low growth.

China

The massive monetary and fiscal stimulus the Chinese government injected back in 2008 unleashed a credit and real estate boom that the authorities have tried to tame for the past two years. It looks as if their increasingly draconian measures are finally bearing fruit: the 'shadow' banking system is buckling, property turnover has plunged, and house prices have been falling in most of China's major cities. With real estate investment growing at close to 30% over each of the past two years, and accounting for over 10% of China's economy, the unwinding of the property bubble will inevitably dent Chinese growth. Lower exports to Europe won't help either. GDP growth already slowed to 9.2% last year, down from over 10% in 2010, and we expect it to slow further in coming months. While the Chinese government won't want to see the construction sector collapse, it does want to see real estate prices fall to more affordable levels and to stamp out speculative excesses. Thus any support will be selective and we think the authorities will live with growth falling below 8%. However, we do expect overall Chinese policy settings to loosen moderately from here, setting the stage for a gradual recovery in growth by mid-year.

Other Asia

With Europe in likely recession and China set to slow sharply, the rest of Asia faces rocky months ahead. September quarter GDP growth in the region was mostly uninspiring and in some cases downright troubling, falling below 4% in Taiwan and Korea. Exports have slowed and business surveys are in stall or contraction mode. Meanwhile India's investment-led economy is finding the going tough since its central bank belatedly raised interest rates and foreign funding became harder to come by. Growth in the world's biggest democracy slowed to 6.9% in the September quarter, the lowest since 2009, and we expect it to fall to just 6% in 2012. East Asia (ex China) as a whole is forecast to grow just 1.8% this year, down from more than 4% last year. Again, monetary easing should ensure that the nadir is reached around mid-2012.

Japan's economy is one of the few set to grow faster this year than last, but that simply reflects more normal activity levels after last year's devastating earthquake and tsunami, as well as the rebuilding effort. GDP rebounded strongly in the September quarter and spare capacity is roughly back at pre-quake levels. But Japan will continue to suffer from low confidence and weak export earnings, thanks to gloomy global growth and a strong yen (the yen tends to strengthen when global risks abound and anxious Japanese investors repatriate their funds).

Australia

China's current rebalancing is unlikely to throw it off its longer-term urbanisation and development path (with its associated demand for raw materials), and therefore shouldn't derail the Australian mining investment boom. Mining investment was one of the standout positives in the latest Australian GDP report, and should continue growing at double digit rates this year and next. But with iron ore and coal prices well off their early-2011 highs, and a disappointing recovery in coal production after last year's floods, the near-term outlook for export earnings is looking less rosy. Other factors are also weighing on the immediate growth outlook. The public spending programmes put in place after the 2008 downturn are being unwound. House prices have fallen and jobs growth has been weak. Consumers are pessimistic and business confidence is fragile. And with the Australian dollar still close to historic highs, non-commodity exporters and import competing firms are hurting.

In November and December the Reserve Bank of Australia responded by cutting rates by a total of 50 basis points. We expect another 50 by mid-2012. That should give a boost to the Australian housing market and the broader economy. We expect 3% GDP growth for the year overall (up from 2% last year) – not stellar, but enough to ensure unemployment peaks at only 5.7% around mid-year.

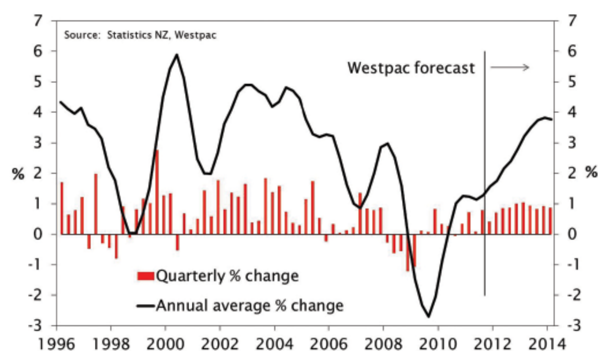
Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2008	2009	2010	2011f	2012f	2013f
New Zealand						
Real GDP % yr	-0.1	-2.0	1.3	1.6	2.8	3.8
CPI inflation % annual	3.4	2.0	4.0	1.8	2.2	2.4
Unemployment %	4.5	7.0	6.7	6.6	5.9	5.1
Australia						
Real GDP % yr	2.5	1.4	2.6	2.0	3.0	3.5
CPI inflation % annual	3.7	2.1	2.7	3.1	3.3	1.9
Unemployment %	4.3	5.6	5.2	5.1	5.6	5.4
United States						
Real GDP %yr	0.3	-3.5	3.0	1.7	1.7	2.1
Consumer Prices %yr	3.8	-0.3	1.6	3.1	2.0	2.0
Unemployment Rate %	5.8	9.3	9.6	9.0	9.1	9.1
Japan						
Real GDP %yr	-1.5	-6.7	4.4	0.1	2.0	1.9
Consumer Prices %yr	1.4	-1.3	-0.7	-0.3	-0.5	-0.3
Unemployment Rate %	4.0	5.0	5.1	4.5	4.2	4.5
Euroland						
Real GDP %yr	0.3	-4.0	1.7	1.6	-1.0	0.4
Consumer Prices %yr	3.3	0.3	1.6	2.7	1.0	0.8
Unemployment Rate %	7.6	9.6	10.1	10.1	11.0	11.5
United Kingdom						
Real GDP %yr	-1.1	-4.4	2.1	0.9	-0.1	0.6
Consumer Prices %yr	3.6	2.2	3.3	4.5	2.2	1.5
Unemployment Rate %	5.6	7.6	7.8	8.3	9.0	9.2
China						
Real GDP %yr	9.6	9.2	10.4	9.2	7.5	9.2
Consumer Prices %yr	5.9	-0.7	3.3	5.5	2.9	3.5

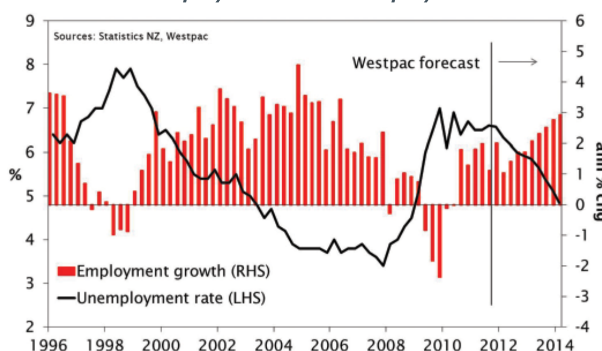
Forecasts finalised 27 January 2012

Annual Average % change	March years				Calendar years			
	2011f	2012f	2013f	2014f	2010	2011e	2012f	2013f
Private consumption	2.0	2.7	2.2	2.4	2.2	2.5	2.3	2.3
Government consumption	3.7	1.4	-0.6	-0.4	3.4	1.9	-0.1	-1.0
Residential investment	4.4	-10.9	32.8	25.8	4.6	-11.9	22.4	32.2
Business investment	7.5	5.6	11.7	6.9	1.9	7.6	10.2	8.6
Stocks (% contribution)	1.6	0.9	-0.3	0.0	2.1	0.5	0.0	0.0
GNE	4.8	4.0	4.5	3.7	4.4	3.5	4.5	4.1
Exports	1.9	2.3	2.4	3.1	2.9	2.2	2.7	2.5
Imports	10.5	6.2	4.5	3.1	10.3	6.6	4.8	3.5
GDP (production)	**1.2**	**1.8**	**3.2**	**3.8**	**1.3**	**1.6**	**2.8**	**3.8**
Employment (% annual)	1.8	1.0	2.1	2.9	1.3	2.0	1.7	2.8
Unemployment rate (% s.a. end of period)	6.5	6.3	5.9	4.8	6.7	6.6	5.9	5.1
Labour cost index (all sectors, % annual)	1.9	2.0	2.3	2.4	1.7	2.0	2.3	2.4
Inflation (% annual)	4.5	1.7	2.2	2.5	4.0	1.8	2.2	2.4
Current account balance (% of GDP)	-3.6	-4.4	-6.1	-5.6	-3.5	-4.0	-5.7	-5.9
Terms of trade	6.7	-3.2	-2.5	3.6	12.3	-0.5	-4.9	3.6
90 day bank bill (end of period)	3.00	2.70	3.50	4.70	3.18	2.71	3.20	4.30
5 year swap (end of period)	4.54	3.60	4.80	5.60	4.59	3.62	4.50	5.40
TWI (end of period)	67.2	68.9	72.5	71.0	67.8	68.7	70.7	71.3
NZD/USD (end of period)	0.76	0.76	0.80	0.76	0.76	0.78	0.78	0.77
NZD/AUD (end of period)	0.75	0.77	0.78	0.80	0.77	0.77	0.77	0.80
NZD/EUR (end of period)	0.55	0.60	0.63	0.64	0.56	0.58	0.61	0.64
NZD/GBP (end of period)	0.47	0.51	0.50	0.46	0.48	0.49	0.51	0.46

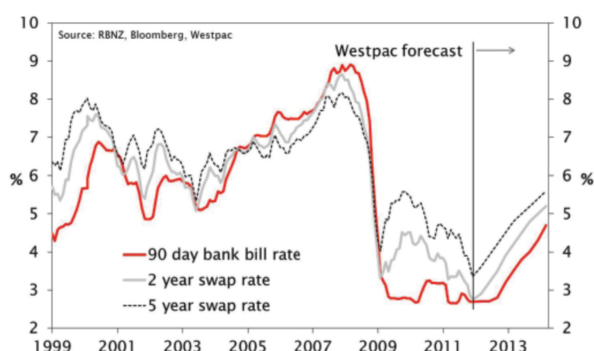
New Zealand GDP growth



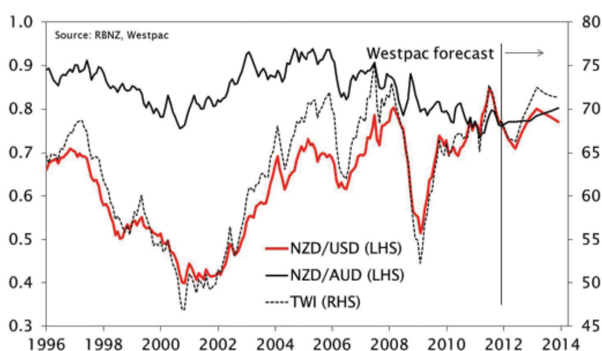
New Zealand employment and unemployment



90 day bank bill, 2 year and 5 year swap rates



NZD/USD, NZD/AUD and TWI



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