Economic Overview

May 2012

The cusp of change

Dominick Stephens,
Chief Economist

Note from Dominick

Welcome to the fourth edition of our revamped *Economic Overview*.

Many of the forecasts from past *Economic Overviews* are now coming to fruition. The global economy has cooled, most importantly in China and India, and prices for New Zealand's export commodities have fallen. Many were surprised last year when we predicted that Fonterra's payout in the 2012/13 season would be as low as $6.00 per kilogram of milk solids, but now that prediction looks on the high side. The New Zealand economy is also evolving broadly as expected. The Canterbury rebuild is gathering pace, the housing market has perked up, and government cutbacks are becoming an increasing drag on GDP growth.

But there have also been surprises. The exchange rate has not dipped alongside global food prices. Inflation has been weaker than expected, both locally and globally. Government revenues have undershot forecasts, raising the prospect of deeper spending cuts over the next three years. And while not strictly a "surprise", informed thinking has shifted towards a more drawn out rebuild in Canterbury. Taking that on board is the main reason we've adjusted our GDP forecasts lower in this *Overview*.

The various surprises have one thing in common. They have all reduced the need for the Reserve Bank to increase the Official Cash Rate. We still expect interest rates to rise substantially over the next few years. But it now seems that rates will go up later, and more gradually, than we were forecasting last year.

There is an interesting corollary to all this. If interest rates stay low for longer, house prices will go up further. In turn, that could spur a bit more consumer spending and less economic rebalancing.

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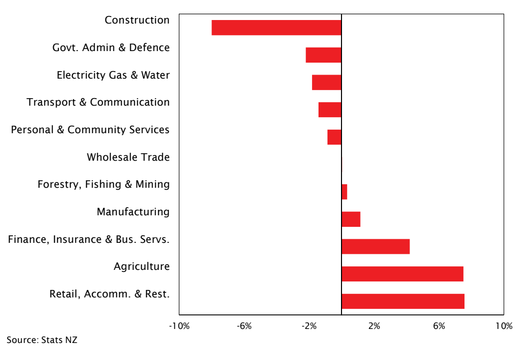
New Zealand Economy
The cusp of change

Despite February's devastating earthquake, the New Zealand economy still managed to grow a little faster in 2011 than a year earlier. Partly this was due to favourable weather for farmers, partly due to the Rugby World Cup party and partly due to a pickup in housing market activity. The New Zealand economy is now on the cusp of the changes we foreshadowed last year. A lift in construction activity will be a key driver as rebuilding efforts in Canterbury gain momentum. Low interest rates are set to be maintained for a while yet, and this will support the housing market and consumer spending. However the Government's cutbacks will be a partially offsetting drag on GDP growth, as will deteriorating export conditions.

The current situation

GDP growth picked up in the second half of last year, helped by Rugby World spending and a summer that may have been a bit disappointing for many holiday makers, but was great for farmers. That said, the 0.3% GDP growth recorded in the December quarter left many (ourselves included) disappointed. But while the headline may have fallen short of expectations, the composition of growth was exactly what we'd anticipated, with strong export volumes and retail trade, weak government consumption and, from a very weak base, positive growth in the construction sector.

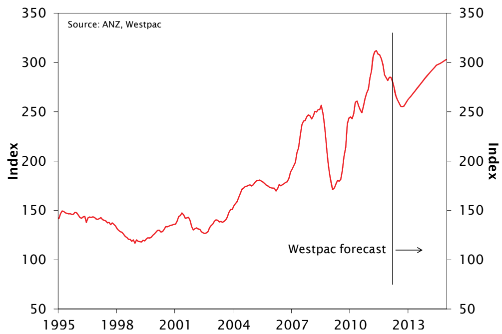
Figure 1: GDP growth by sector, 2011



The Rugby World Cup held in September and October last year helped get cash registers ringing throughout the country as both locals and visitors got into the spirit of the occasion. And the high exchange rate has helped extend the party for consumers. Sharp falls in traded goods prices have been a boon to consumers. But with the Rugby World Cup fast fading to a distant memory for many, consumer spending has come back to earth with a thump in early 2012.

The La Niña weather pattern which contributed to fantastic pasture growth throughout New Zealand over the summer and autumn is now fading. For dairy farmers, the spell of favourable weather has translated directly to near double digit growth in milk production, while other pastoral farmers benefitted from heavier stock and improved conditioning. This strong growth in production has taken the edge off lower product prices for farmers, but it has also been an important factor weighing on international prices – particularly in dairy markets. Against a backdrop of slowing growth in Asia and Europe, international prices for key exports such as meat (particularly lamb), wool, forestry products as well as dairy have all fallen further over the last few months, and we expect they have a little further to fall yet.

Figure 2: NZ export commodity prices



However, as global growth picks up again and the pace of growth in global production eases in some sectors, prices should start to recover late in the year. Historically, where commodity prices go, the exchange rate tends to follow. But over the last few months, the exchange rate and commodity prices have diverged (the exchange rate has remained high despite falling commodity prices). As we explain in the financial markets section (page 6) we expect this will correct in the near term via a weaker NZ dollar.

Alongside green paddocks, another notable feature of the domestic economy over the past 6 months has been an acceleration in housing market activity. Spurred on by low interest rates and tight supplies in regional hotspots of Auckland and Christchurch, the volume of house sales has lifted 25% over the last year, and nationwide house prices have edged 4% higher.

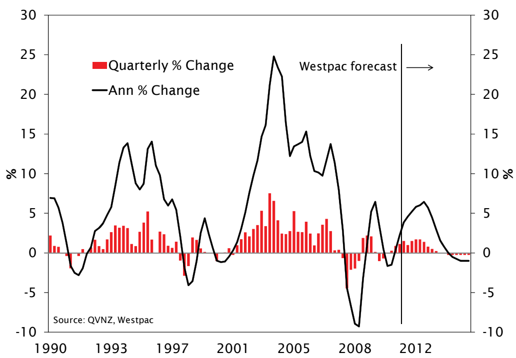
The outlook

There have been few developments over the last three months which have significantly challenged our underlying view that the pace of economic growth will accelerate, but that the composition of this growth will shift away from exports as growing conditions normalise, and towards construction. That said our GDP growth forecasts have been lowered slightly, largely due to a change in view on the assumed timeframe for the Canterbury rebuild. Based on information from those directly involved on the ground, we now assume residential reconstruction will take place over a 7 year period. This implies a lower peak level of construction in Canterbury, and a slower ramp up.

Importantly, a slower pace of economic growth implies less inflation pressure. For the Reserve Bank this in turn diminishes the need for interest rate hikes. This change has been reflected in our own forecasts, which now incorporate a later start date and a slower pace of OCR increases. Of course, keeping interest rates low for longer will have an effect on economic activity, and is an important reason we have revised up our house price forecasts for this year and next.

Already we have seen the housing market respond to the period of low interest rates. Average floating and 2 year mortgage rates offered by banks to new customers are now below levels reached in the immediate aftermath of the Global Financial Crisis. Combined with the outlook for the OCR to remain on hold this year, this is stoking demand for property – despite the backdrop of weak migration and relatively subdued consumer confidence. But there are also important regional differences. Auckland and Canterbury have led the charge, with supply shortages in these regions much more acute than elsewhere. Tight supplies have also been reflected in upward pressure on rents in these regions. We expect this upward pressure on rents to be sustained for a while yet. Nationwide, we eventually expect to see rent increases outpace inflation in the broader economy, while house prices increase around 6% this year and 3% in 2013. In line with this, the value of approvals for new mortgages has continued to climb, and in March was 48% higher than a year ago.

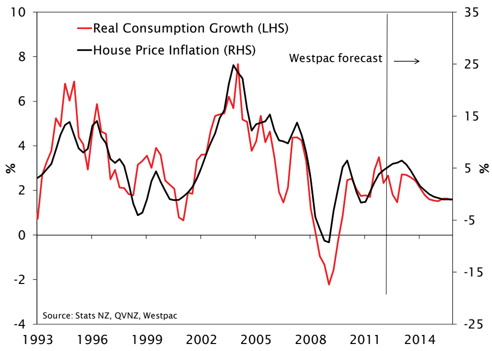
Figure 3: Annual house price inflation



Stronger momentum in the housing market should support consumer spending through the middle and latter part of 2012 and into 2013 (although as we explained earlier the near-term outlook for consumption is rather more modest thanks to a RWC hangover). But while consumption is forecast to grow by 2.1% 2012 and 2.6% in 2013, this is still below the pace of overall economic growth, reflecting the ongoing deleveraging by New Zealand consumers incorporated in our forecasts.

The improvement in housing market activity has also come despite limited improvement in the labour market. As at December 2012, unemployment had fallen a little from its peak of 6.9% to 6.3%, but the recovery in the labour market is at best at an early stage. And an unemployment rate at these levels is ensuring wage growth remains subdued. Looking ahead, we maintain our view that both employment and wage growth will pick up on the back of an accelerating economy and increased activity in the construction sector. The improvement in the labour market, particularly relative to Australia, should also drive a turnaround to a net inflow of migrants during the second half of this year.

Figure 4: Real consumption growth and house prices

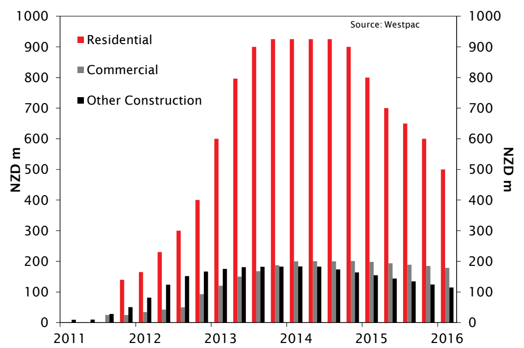


Of course an important, though not the only, factor underpinning our forecast of an acceleration in the construction sector is rebuilding in Canterbury. Although we now think that the residential rebuild will take longer to complete than previously thought, as best we can tell at this stage, the early phase of the rebuild is accelerating broadly in line with our expectations. Those who have the simplest repair jobs will be first in line, while those who face the biggest challenges (for example the most complicated insurance settlements, the most questionable land) will be further back in the queue.

We think around $140m of residential repair and reconstruction activity took place in Canterbury in the December quarter. This is equivalent to around 6% of pre-quake residential building activity in New Zealand, but just 1% of the total estimated residential repair bill. Clearly there is still a long road ahead. Nevertheless, this was enough to help drive a 4.2% lift in nationwide residential construction activity in the December quarter GDP data, breaking a run of 5 consecutive quarterly declines. At this stage much of the activity is dominated by repair rather than rebuilding work. Fletcher EQR (the company responsible for completing EQC repair jobs of between $10,000 and $100,000) has already completed 12,500 repairs, and paid at least $456m to contractors. Repairs have also been taking place on commercial buildings and infrastructure. Meanwhile residential building consent issuance has picked up in Canterbury, particularly in areas which were hit hard by the September 2010 quake but have been relatively less affected by subsequent aftershocks, such as Waimakariri.

Gathering momentum in the Canterbury rebuild has been an important factor driving business confidence in Canterbury higher. Confidence elsewhere has also improved as fears around the European sovereign debt crisis have receded. Improved business confidence should help underpin an ongoing recovery in business investment, particularly in plant and machinery investment, over the next few years.

Figure 5: Quake-related construction activity



In contrast to accelerating construction sector activity, reduced government spending is set to be a drag on GDP growth. In its second term the Government has continued down its cost cutting path, and the effects of this are becoming increasingly evident in indicators of economic activity. The latest national accounts data showed that the government sector (both local and national) shrank in the December quarter. And against an international environment which continues to be hostile to highly indebted sovereigns, the Government is steadfastly maintaining its target to get government books back in the black by 2015.

Financial Markets

Whittled away

The Reserve Bank has whittled away to nothing its forecast of higher interest rates, out of fear that the overvalued exchange rate will damage the economy. The OCR is most likely to remain unchanged this year, and there is even a risk it could be reduced. Our long-term assessment differs from the RBNZ and the market. We anticipate higher interest rates as the Canterbury rebuild stokes inflation pressures. But that is now a 2013 story.

Back in mid-2011 the Reserve Bank was warning that a sharp increase in the Official Cash Rate (OCR) was imminent. When the European sovereign debt crisis worsened in August the RBNZ began to soften this hiking bias. The tendency to soften the outlook continued in the new year, until in April the RBNZ abandoned altogether its forecast of higher interest rates.

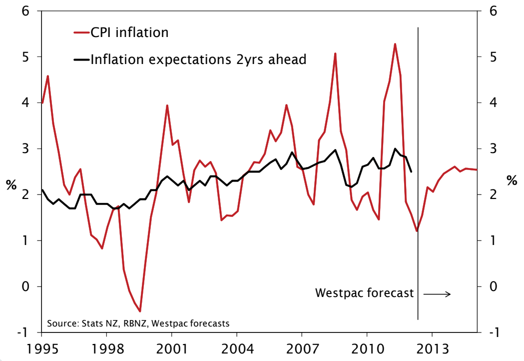
The first development that argued for the OCR to be kept low for longer was CPI data showing that inflation in 2011 was just 1.8% compared to the RBNZ's forecast of 2.5%. Next the balance of informed opinion on the Canterbury rebuild shifted in the direction of a lower peak rate of construction activity, which implies less pressure on inflation.

The biggest catalyst for the RBNZ's change of stance was the exchange rate, which appreciated sharply despite falling global food prices – a double-whammy for New Zealand's dominant export industries. The Reserve Bank said in April that "should the exchange rate remain strong without anything else changing, the Bank would need to reassess the outlook for monetary policy settings," but that "for now, it is appropriate for the OCR to remain at 2.5 percent."

Our interpretation is that an OCR cut is possible should the exchange continue to misbehave, although it is not necessarily likely. At the time of writing markets were pricing a 40% chance of an OCR cut by September 2012. We would put the odds closer to 25%.

While we recognise the possibility of an OCR cut, we would regard such an action as inappropriate for the New Zealand economy at this stage. Lower interest rates would pump up the housing market and wrong-foot the outgoing Governor's successor when the Canterbury rebuild stokes inflation pressure. Whether the OCR is cut this year or not, our expectation is for an extensive series of OCR hikes over the 2013 to 2015 period. That said, the first hike is not likely to come before March 2013. We expect the "headline" rate of inflation will remain below 2% until the December CPI is released in January 2013. We doubt that a new RBNZ Governor will see any need to hike the OCR before that time.

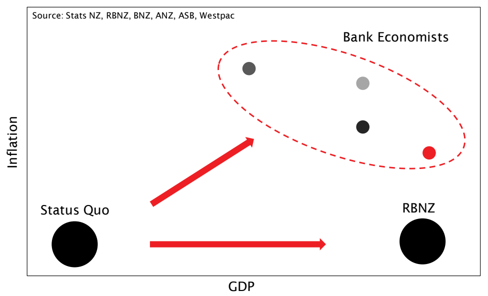
Figure 6: Inflation with forecasts, and 2yr ahead expectations



Three points of a triangle

The Reserve Bank's interest rate forecast roughly matches market pricing, but that does not imply that the Reserve Bank and markets are thinking in the same way. Our impression is that most

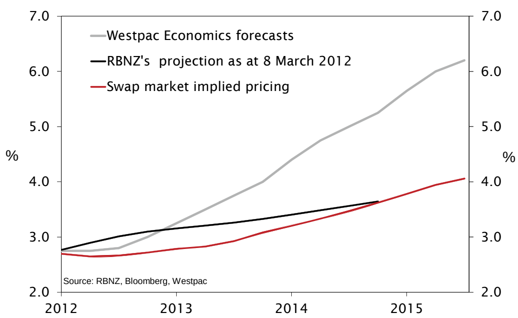
Figure 7: Three main points of view on the evolution of the New Zealand economy between now and March 2014



market participants and many in the business community hold a "status quo" view that today's environment of low GDP growth, low inflation and low interest rates will persist. By contrast, economists at New Zealand's major banks are all forecasting stronger GDP growth, higher inflation, and a significant rise in the OCR. The Reserve Bank adheres to neither view. Like the bank economists, the RBNZ anticipates accelerating GDP growth. But the RBNZ foresees little inflation pressure, and therefore sees little need for OCR hikes.

The uniqueness of the RBNZ's point of view has an important consequence. Signs of accelerating GDP would probably impress markets and spark higher swap rates. But such indications of economic buoyancy would be no surprise to the RBNZ, and would elicit no change in its stance. It is easy to imagine a year in which New Zealand swap rates trend higher, only to be interrupted by pull-backs following relatively dovish RBNZ statements.

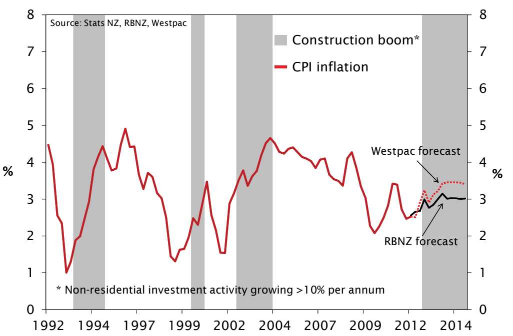
Figure 8: 90-day rate forecasts compared



We have three main reasons for forecasting a more extensive series of OCR hikes than the Reserve Bank. First, it no longer seems that the exchange rate is having an unusually strong dampening effect on inflation. That possibility certainly popped up when December quarter CPI data showed sharp price declines in exchange-rate sensitive items. But the March quarter CPI failed to confirm any significant exchange rate impact on inflation. For example, prices of household contents and services – a relatively import-heavy group – rose by 0.3%; and TV and computer prices continued their structural decline, but no faster than usual. With hindsight, it seems that some of the credit for the weak December quarter CPI can be shifted away from the exchange rate and towards temporary discounts on some large items.

Second, in contrast to the RBNZ we believe that the Canterbury rebuild will put a great deal of pressure on inflation. In recent history, periods of double-digit growth in residential investment activity have always been followed by sharply higher non-tradables inflation. The Reserve Bank assumes that this time will be different because economies of scale and insurance companies' market power will keep construction prices down.

Figure 9: Non-tradables inflation during construction booms



We are not sure. One could just as easily argue that insurance companies are less price-sensitive than property developers – in most instances they are obliged to rectify damage irrespective of cost, whereas high construction costs may have deterred some property developers during the 2000s. The Christchurch rebuild is forecast to ramp up more rapidly than other construction booms, implying greater pressure on construction prices, not less. Besides, construction costs themselves are not the real issue. History shows that although construction costs peak early in construction booms, their direct contribution to overall inflation is small. Generalised non-tradables inflation tends to rise later, with more impact on the CPI. During the Canterbury rebuild reinsurance money will stimulate a wide range of New Zealand industries, not just construction. And as workers are drawn into the rebuild, a wide range of industries may face increasing difficulty finding labour, forcing wage rates higher. We expect inflationary pressures to be apparent across a wide swathe of the New Zealand economy.

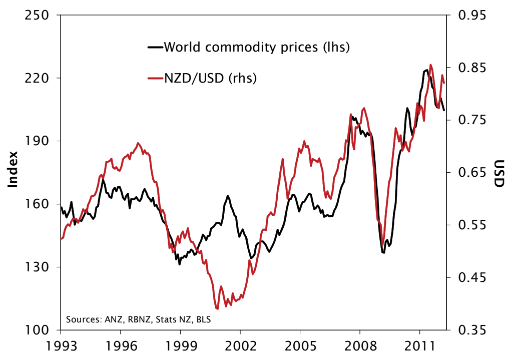
The final reason to expect a more extensive OCR hiking cycle is that we are not convinced the "neutral OCR" has fallen as far as the Reserve Bank assumes. The interest rate projection in the March *Monetary Policy Statement* did not explicitly show where the RBNZ expects the OCR to peak. However, last year the RBNZ was proposing 4.3% as the high-water mark for 90-day rates, equating to around 4% on the OCR. That would have constituted a multi-decade low until 2008.

Exchange rates

In January 2012 the New Zealand dollar (NZD) strengthened considerably, in tandem with improving global risk sentiment. It has since remained above $US0.80 despite falling prices for New Zealand's main export products. We expect the NZD will dip through the middle part of this year as slower growth in China and India causes global food prices to fall further. The NZD would also be impacted if market attention focused once again on Europe's malaise. Finally, the RBNZ might intervene in the exchange rate, although the impact this would have is questionable.

In any case, we expect any dip in the NZD to be short-lived. As growth returns in China global food prices and the NZD will be well supported. A more lasting decline in the exchange rate will have to wait until the US tightens monetary policy, which is a long way off indeed.

Figure 10: Inflation-adjusted commodity prices and the NZD



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	2.74	2.94	3.59	0.82	0.78	0.62	0.52	64.9	72.5
Jun-12	2.50	2.75	3.00	3.70	0.78	0.78	0.62	0.51	60.8	70.8
Sep-12	2.50	2.75	3.10	3.80	0.79	0.77	0.62	0.51	60.8	70.9
Dec-12	2.50	2.80	3.20	4.00	0.81	0.78	0.63	0.52	65.6	72.6
Mar-13	2.75	3.00	3.40	4.20	0.83	0.78	0.63	0.51	69.7	74.0
Jun-13	3.00	3.25	3.60	4.40	0.82	0.78	0.63	0.51	67.2	73.1
Sep-13	3.25	3.50	4.00	4.70	0.81	0.79	0.65	0.50	65.6	73.2
Dec-13	3.50	3.75	4.30	4.90	0.80	0.79	0.65	0.49	65.6	73.0
Mar-14	3.75	4.00	4.60	5.20	0.78	0.80	0.66	0.48	64.7	72.6
Jun-14	4.00	4.40	5.00	5.40	0.76	0.82	0.66	0.48	63.8	72.2
Sep-14	4.50	4.75	5.30	5.60	0.75	0.82	0.66	0.47	63.8	72.0
Dec-14	4.75	5.00	5.50	5.70	0.74	0.81	0.67	0.47	63.6	71.7

International Outlook
It's a wild world

After a brief wave of market optimism in the early part of this year, the global economy appears to be slipping back into line with our below-consensus view. Further policy support should set the stage for recovery later in the year, but in the meantime, slowing momentum in the major economies and Europe's hardball approach to resolving its debt crisis will continue to unnerve investors.

In the February *Economic Overview* we reiterated our below-consensus view on global growth, emphasising that recent policy measures have been little more than a band-aid on the long-running structural problems facing much of the developed world. At the time, global markets were turning more optimistic, encouraged by a pickup in US economic indicators, the suprising resilience of the Chinese GDP figures, and a massive injection of liquidity into the banking system by the European Central Bank (ECB), with another dose on the way.

The fading of these feel-good factors has come as no surprise to us, except perhaps in how quickly sentiment has soured again. Financial tensions are returning in Europe, particularly as attention turns to Spain – a much more daunting prospect than Greece, as it's both too big to be allowed to default and too big to rescue under current arrangements. US data has turned patchy again, though not enough to bring on a policy response at this point. And the efforts to slow China's economy are now more clearly bearing fruit; we think that a switch to easier policy settings is now appropriate, more so than the timid response so far.

Overall, conditions this year are likely to remain challenging for assets – and countries – that are highly keyed into global demand. We expect further downward pressure on commodity prices in the near term; even oil, the apparent holdout to date, should start to ease as seasonal price pressures unwind in the second half of the year. Further conventional or unconventional policy easing measures are likely in the major economies, which should help to put a floor under global activity and sentiment by the end of the year. But for New Zealand, we have shaded down our forecasts for export growth since February.

Australia

The "two-speed" nature of the Australian economy intensified in 2011. The mining investment boom, driven largely by a wave of investment in the gas sector, moved into full swing, while the rest of the domestic economy laboured under a strong currency, high interest rates, stretched housing affordability and fiscal consolidation. The net result was another year of sub-par growth by historical standards, a situation that it likely to remain through at least the first half of this year. However, the pace of mining investment has set the stage for stronger growth in 2013, and we have upped our forecast from 3.5% to 3.8%.

Unfortunately, it is the low-speed side of the Australian economy that tends to be more pertinent to New Zealand, particularly as building materials and household contents make up a significant share of our exports to Australia. House prices have been falling for the last year (though there are signs of bottoming out) and building approvals are close to a three-year low, as the Reserve Bank of Australia's 2009-2010 interest rate hikes have put pressure on an already stretched housing market. Consumer confidence is being undermined by a growing sense of unease about job security, with net employment growth coming to a standstill over the last year. We expect the unemployment rate to peak at 5.7% later this year.

Australian exporters of all stripes are struggling to adjust to the high Australian dollar as well as weakening global demand; mining income, while still strong, has not provided a complete offset. Export prices fell more than 8% in the second half of 2011, and the trade balance slipped into surprisingly large deficits in the first two months of this year.

The RBA has acknowledged the net negative impact of the two-speed economy, reducing the cash rate by 50 basis points since late 2011. We expect another 50bp of cuts in coming months (markets are factoring in even more than this); the softening in the latest inflation figures has removed the last barrier to doing so.

China

Chinese GDP growth slowed to 8.1%yr in the March quarter, weaker than most market forecasts, but in line with the softening across a swathe of activity indicators in recent months. The slowdown has not been particularly deep, but it has certainly been broad. The Chinese authorities' increasingly draconian measures to rein in a credit and real estate boom are now clearly bearing fruit. By last September, the "shadow" banking system had hit the wall, and banks had reduced their off-balance sheet activities considerably. That hurt many segments of the economy and put the onus squarely on conventional bank lending to keep things moving. Weaker growth and financial turmoil in Europe made things even tougher.

The overall picture is of an economy that now warrants a more accommodative policy stance. Some steps have been taken towards easing this year, although policy remains "prudent" in official parlance, as the government is fearful of reigniting the flames in the investor real estate market. A pickup in bank loans in March was the first real sign of these easing measures taking effect. That will help Q2 activity a little, but the major pay-off is still likely to be several quarters away. The recent move to widen the trading band of the yuan is not economically meaningful, but perhaps represents a vote of confidence by authorities – financial liberalisation tends to be put on the backburner in times of heightened uncertainty.

Europe

With an orderly outcome to the Greek government's debt default, and the ECB injecting around €1tn of long-term funding into the banking system, markets were able to take a breather from European turmoil by March. However, we felt that financial stability concerns would eventually re-emerge, given the brittle state of public and private sector balance sheets.

In the end the catalyst for this came surprisingly quickly: when the Spanish government indicated that it would miss its Budget deficit targets, the market's gaze quickly swung onto the euro zone's fourth-largest economy.

Spain's position is in some ways less dire than Greece: the central government is fundamentally solvent, but it faces a growing risk of having to bail out regional governments and finance companies or let them falter. But unlike Greece, Spain is clearly "too big to fail" – a default would lead to far greater losses than the private sector could absorb, or that could be covered by any of Europe's existing or proposed rescue facilities.

The key to resolving this situation is to bring market interest rates for Spain (and other troubled economies) down to levels that make interest payments sustainable over the long run. The ECB is the one organisation that could provide immediate relief on this front, but it has preferred to play hardball, demanding significant progress on reforms before even conceding the possibility of financial support. While we regard this as a negotiation ploy, we have to warn that it's also a recipe for ongoing market volatility.

We continue to expect a deeper recession in Europe this year than the majority are forecasting (indeed, some official forecasts are now moving in the other direction). Investors' hopes for the ECB to ride to the rescue will be dashed for some time yet, although we expect that it will eventually have to adopt an outright bond-buying programme in order to settle markets. Meanwhile, upcoming elections in France, Greece and possibly the Netherlands will probably result in a further waning of enthusiasm for austerity and reform.

US

The US economy has been attracting attention for entirely different reasons: stronger data through the early part of this year raised hopes that an enduring recovery may finally be under way. Unfortunately, the more recent indicators have yet to distinguish themselves from the "false dawns" of early 2010 and 2011. The unusually mild winter weather across the country has probably exaggerated the degree of improvement in the numbers, and even that effect has been extremely selective: for instance, the jobs market benefited largely from fewer seasonal layoffs in retailing and construction, while house sales have actually slowed.

What happens next in the labour market is a crucial question both for US consumers, who have increasingly been maintaining spending growth at the expense of saving, and for US monetary policy. Fed Chairman Bernanke is worried that the fall in the unemployment rate over the last year or so may not continue without faster economic growth. We share his concern. Much of the apparent improvement has come about through a growing number of people removing themselves from the workforce, particularly the younger cohorts. The recent surge in student loan debt suggests that many of them are opting for study; this is not itself a bad thing, but its usefulness depends on there being jobs available at the end.

At least the prospect of a major fiscal retrenchment as tax cuts and unemployment benefits expire has been delayed until next year; we suspect it will be pushed even further out into the future after the Presidential elections. Even so, the onus remains on the Federal Reserve if any further stimulus is needed. Support within the Fed for a third round of "quantitative easing" appears to be limited at the moment, but our view remains that the case for it will be made in the second half of the year, as the cyclical upturn fades and inflation starts to come off its current highs.

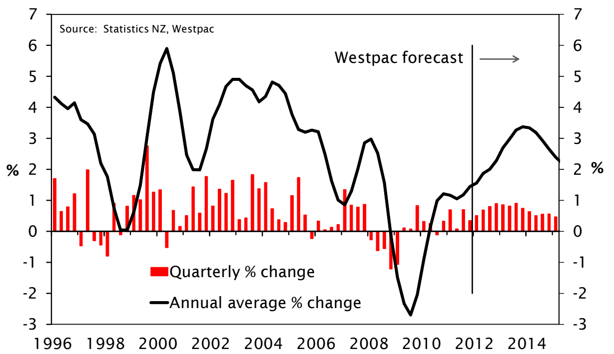
Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2008	2009	2010	2011	2012f	2013f
New Zealand						
Real GDP % yr	-0.1	-2.0	1.2	1.4	2.3	3.4
CPI inflation % annual	3.4	2.0	4.0	1.8	2.2	2.5
Unemployment %	4.5	6.9	6.7	6.3	5.9	5.0
Australia						
Real GDP % yr	2.5	1.4	2.5	2.0	3.0	3.8
CPI inflation % annual	3.7	2.1	2.7	3.1	2.7	2.2
Unemployment %	4.3	5.6	5.2	5.1	5.5	5.2
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	2.1	2.0
Unemployment Rate %	5.8	9.3	9.6	9.0	8.4	8.4
Japan						
Real GDP %yr	-1.7	-5.7	4.7	-0.6	1.9	2.1
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	-4.2	1.8	1.5	-1.0	0.3
Consumer Prices %yr	3.3	0.3	1.7	2.7	1.5	1.2
Unemployment Rate %	7.5	9.5	10.0	10.4	11.0	11.5
United Kingdom						
Real GDP %yr	-1.1	-4.4	2.1	0.8	0.0	0.7
Consumer Prices %yr	3.6	2.2	3.2	4.0	2.0	1.5
Unemployment Rate %	5.6	7.6	7.8	8.4	9.0	9.2
China						
Real GDP %yr	9.6	9.2	10.3	9.3	7.8	8.7
Consumer Prices %yr	5.9	-0.7	3.3	5.4	2.9	3.5

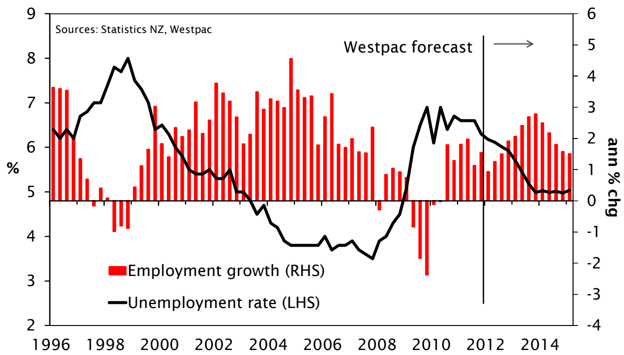
Forecasts finalised 27 April 2012

Annual Average % change	March years				Calendar years			
	2011	2012e	2013f	2014f	2011	2012f	2013f	2014f
Private consumption	2.0	2.6	2.1	2.5	2.5	2.1	2.6	1.8
Government consumption	3.7	1.1	-0.9	-1.3	1.8	-0.6	-1.5	-0.1
Residential investment	4.4	-11.2	23.7	30.7	-12.0	15.8	33.5	14.7
Business investment	7.5	3.9	6.1	8.2	6.9	4.4	8.6	5.3
Stocks (% contribution)	1.4	0.7	0.2	0.1	0.3	0.3	0.3	-0.1
GNE	4.6	3.1	3.7	4.1	2.9	3.5	4.5	2.6
Exports	1.9	2.6	2.7	3.3	2.4	3.1	2.6	3.8
Imports	10.5	5.2	3.8	5.3	6.0	3.5	5.5	3.4
GDP (production)	**1.2**	**1.6**	**2.7**	**3.3**	**1.4**	**2.3**	**3.4**	**2.6**
Employment (% annual)	1.8	0.9	2.1	2.5	1.5	1.9	2.8	1.6
Unemployment rate (% s.a. end of period)	6.6	6.2	5.7	5.0	6.3	5.9	5.0	5.0
Labour cost index (all sectors, % annual)	1.9	2.1	2.3	2.4	2.0	2.3	2.4	2.6
Inflation (% annual)	4.5	1.6	2.1	2.6	1.8	2.2	2.5	2.6
Current account balance (% of GDP)	-3.6	-4.5	-6.1	-6.3	-4.0	-5.8	-6.4	-6.0
Terms of trade (% annual)	6.7	-4.1	-2.5	1.6	1.1	-7.7	2.1	2.0
90 day bank bill (end of period)	3.00	2.74	3.00	4.00	2.71	2.80	3.75	5.00
5 year swap (end of period)	4.54	3.59	4.20	5.20	3.62	4.00	4.90	5.70
TWI (end of period)	67.2	72.5	74.0	72.6	68.7	72.6	73.0	71.7
NZD/USD (end of period)	0.76	0.82	0.83	0.78	0.78	0.81	0.80	0.74
NZD/AUD (end of period)	0.75	0.78	0.78	0.80	0.77	0.78	0.79	0.81
NZD/EUR (end of period)	0.55	0.62	0.63	0.66	0.58	0.63	0.65	0.67
NZD/GBP (end of period)	0.47	0.52	0.51	0.48	0.49	0.52	0.49	0.47

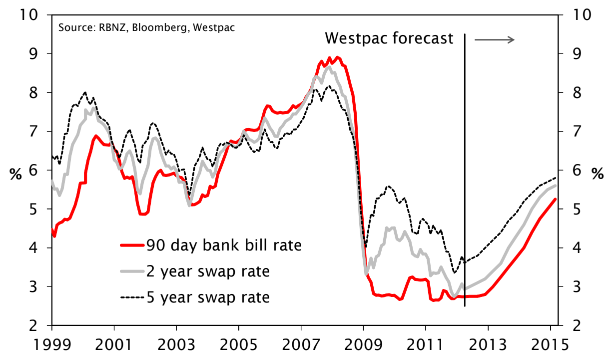
New Zealand GDP growth



New Zealand employment and unemployment



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



NZD/USD, NZD/AUD and TWI