Weekly Commentary

4 March 2013

Pluses and minuses

Regular readers will know that we have long been optimistic about New Zealand's economic growth prospects for this year. And the latest round of data largely supports the idea that the economy has been gathering momentum in recent months. But in the interests of staying ahead of the curve, we should highlight a few issues that pose downside risks to growth over the next year.

Firstly, the bout of market turmoil surrounding last week's Italian elections shows that global risks remain. The headlines are certainly less dramatic than they were a year ago – when "Grexit" seemed to be taken as a given in some quarters – but underlying conditions in the euro zone are still fragile. GDP has contracted for five straight quarters across the region, unemployment is still rising, and the appetite for further reform and austerity is wearing thin.

Perceptions of risk in the region had eased significantly in the past six months. The main benefit to New Zealand has been a substantial improvement in the access to and cost of overseas funding – the indicative risk premium for Australasian banks' long-term funding has narrowed from about 200 basis points in June last year to 100 basis points today. A renewed 'blowup' in euro zone risks could reverse this process and dampen some of New Zealand's recent momentum.

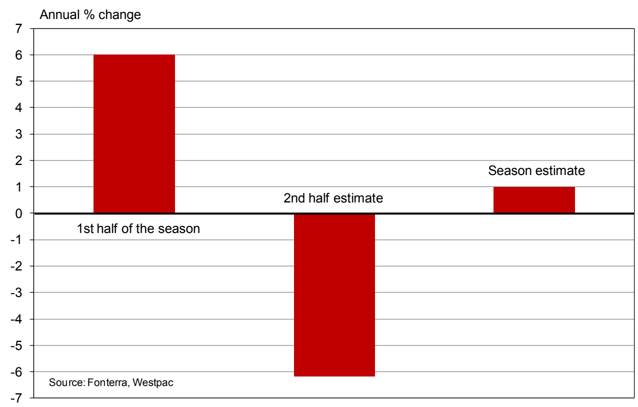
The second risk factor is the extremely dry summer, which we discussed in our bulletin "A season of two halves". New Zealand's pasture-based farming system relies on rain to grow animal feed. While improved irrigation in some areas has reduced this reliance, rain remains critical to farming. The very dry conditions for this time of year, particularly in the North Island, are hurting dairy production. While milk collection in the seven months to December was up 6% on the previous season, the last five months are shaping up to be much weaker – we expect production for the full season to be up only 1% on last year.

The weather matters for the New Zealand economy. In every recession for the last 50 years, drought has been at least a contributing factor. Our view at the moment is that the dry conditions won't be damaging enough to offset the positives of a strengthening housing market and the Christchurch rebuild, but it's a clear negative for the growth outlook this year, compared to how it was shaping up a few months ago.

The final factor is more speculative as a risk to growth this year, but it's certainly generating a lot of discussion. After years of development, the RBNZ is close to finalising its suite of 'macroprudential' policy tools, aiming at addressing the build-up of system-wide risks in the financial sector. Coincidentally, the housing market is gathering speed again, leading to renewed calls for new policy levers to deal with this issue directly. And recent statements have given the impression that macroprudential tools could soon be deployed for this purpose. Last month, the RBNZ Governor described the housing market as "overheating" in many parts of the country, especially Auckland, and noted its draft framework for macroprudential tools would be released in March. Last week, Finance Minister Bill English said that a memorandum of understanding between the RBNZ and Treasury as to how these tools will be used could be signed off by mid-year.

In an upcoming bulletin we've reviewed which of the RBNZ's four favoured tools might be used, and when, in the current environment. Despite the seeming urgency around getting these tools in place, we suspect that credit would need to be growing faster than it is today before these tools were activated. The latest credit data for January showed that housing lending has been growing at an annualized pace of around 5% for the last few months. That said, if our forecast of a 9% rise in house prices this year pans out, we could still see these tools triggered within a year.

Growth in Fonterra milk collections - 2012/13 season



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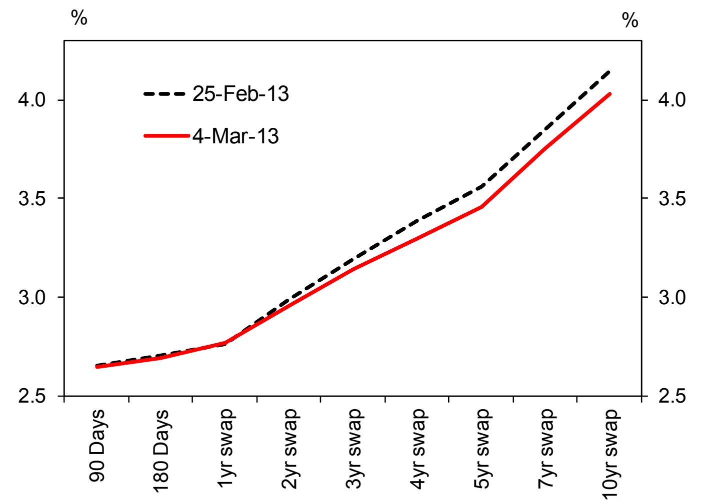
As for which tool might be used, while there's been much talk about maximum loan-to-value ratios (LVRs), we actually see this as the least likely option. In practice these kinds of rules are difficult to police (note that this is the only one of the proposed tools that doesn't form part of the current fabric of banking regulation), they run the risk of becoming politicised, and they can even be counter-productive by masking the true degree of risk in the financial system. The more likely option is increased bank capital requirements, which is the approach that other developed countries have taken in recent times.

Setting aside these risk factors, there were ample signs in the data last week that growth is accelerating, with increased business confidence, positive net migration, and a strong pickup in building consents. Excluding the volatile apartments component, residential consents rose nearly 10% in January, to their highest levels since early 2008. Consents in Auckland and Canterbury continue to trend higher; in the latter region they were close to record highs. Outside these regions, consents have also picked up modestly. This kind of supply response is a necessary outcome of rising house prices.

Fixed vs floating for mortgages: Fixing is likely to prove better value than floating over the next few years. Fixed-term rates out to two years are currently well below floating rates, while three-year and longer fixed rates are only slightly higher. Staying on floating would only be the better option if the RBNZ actually cut the OCR, and we regard that as fairly unlikely. Our view is that the OCR will stay on hold for now, and increase steadily from late 2013.

NZ interest rates



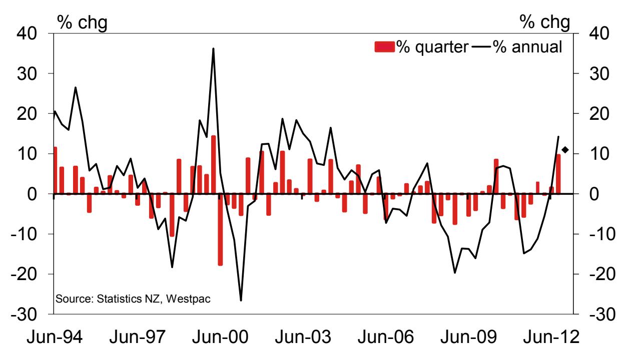
Key Data Previews

NZ Q4 building work put in place

Mar 6, Last: 9.6%, WBC f/c: 0%

- We expect a 4% rise in residential building work for the December quarter, which would lift the annual rate of growth to 18%. Activity is ramping up in Canterbury, as the post-earthquake rebuild proceeds, and in Auckland, which has suffered more than other regions from under-building in recent years.
- Offsetting this, we estimate that non-residential building fell by 4%. This is partial payback for the 12.4% jump in the September quarter, which was significantly stronger than was suggested by recent building consents.
- The building activity survey is sampled from building consents, so it is likely to understate the level of non-consented repairs going on in Canterbury. However, we suspect that consented rebuilds and alterations are now the greater source of growth.

NZ real building work put in place

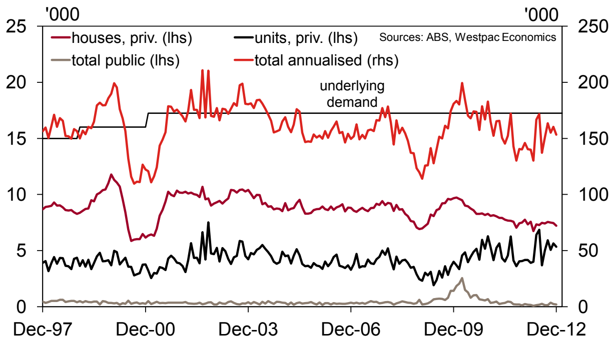


Aus Jan dwelling approvals

Mar 4, Last: –4.4%, WBC f/c: 1.5%
Mkt f/c: 2.8%, Range: 1.0% to 5.0%

- Approvals posted a weak finish to 2012, declining 4.4% in Dec. The fall was heavily concentrated in Vic where private house approvals alone were down 12.7%. State-specific policy changes are likely to have been a factor although the exact nature of their impact is unclear and harder to discern from state data on housing finance approvals.
- Even with the Dec fall, approvals are still tracking an uptrend. Pinpointing the exact pace is problematic though. The Jan data may give more clarity on policy influences in Vic but has the added complication of being a seasonal low. Approvals are about 30% lower in Jan and although the ABS adjusts for this regular seasonal shift the resulting estimates are less reliable than usual. Overall we think the underlying uptrend is a gradual one and expect Jan to show a 1.5% rise.

Dwelling approvals

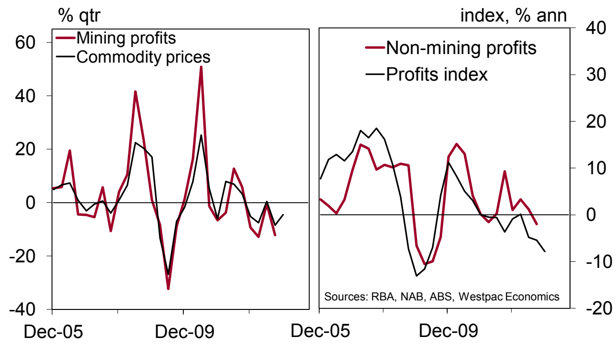


Aus Q4 company profits

Mar 4, Last: –2.9%, WBC f/c: –3.5%
Mkt f/c: –1.0%, Range: –5.0% to 3.0%

- Company profits most likely ended 2012 on a weak note, reflective of challenging conditions globally and domestically.
- Profits are forecast to fall by 3.5% in Q4. This follows four consecutive quarters of decline. Such an outcome would have profits down a cumulative 16% over five quarters. This is approaching the 20% slump experienced during 2008/09.
- Mining was hit by lower global commodity prices, down 4.5% in Q4. A rebound in volumes provided some relief.
- Profits across the broader economy have been under pressure from patchy sales. Private business surveys showed a further deterioration late in 2012. Notably, retail sales contracted 0.3% in Q3 and were broadly flat in Q4.

Company profits: a weak end to 2012

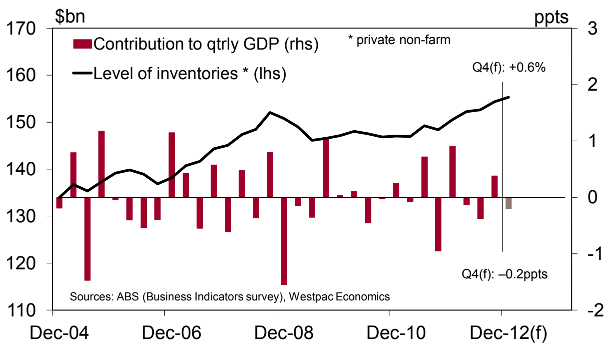


Aus Q4 inventories

Mar 4, Last: 1.1%, WBC f/c: 0.6%
Mkt f/c: 0.6%, Range: –0.5% to 1.5%

- Private non-farm business inventories are expected to be a small negative for growth in Q4, as the rate of inventory accumulation slows.
- There was a reasonably solid inventory build-up in the third quarter, with inventory levels rising by 1.1%.
- However, the Q3 outcome was inflated by a jump in mining inventories, up 7%. This was on the heels of a 10% rise in Q2. Domestic production was rising as the coal sector recovered and on greater capacity in iron ore. But, this was as global demand cooled. In Q4, China turned the corner and exports strengthened, pointing to an inventory correction.
- Across the broader economy, inventories are rising more modestly, up 0.5%qtr, 1.3%yr in Q3, consistent with patchy demand conditions.

Inventories, Q4 f/c: a negative for growth



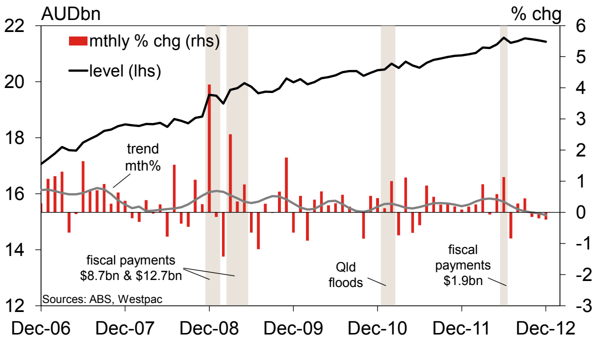
Aus Jan retail trade

Mar 5, Last: –0.2%, WBC f/c: 0.4%

Mkt f/c: 0.4%, Range: 0.2% to 0.9%

- Retail sales saw a significant loss of momentum over 2012. Sales fell 0.2% in Dec following similar declines in Nov and Oct. Q3 had also been poor but this mainly reflected a wind-down from fiscal boosts in Q2. The same can not be said for Q4. The spending detail also showed a shift from 'discretionary' towards 'staples' typical of cyclical slowdowns.
- Jan and Feb should be a little better. The RBA's Dec rate cut and a solid rise in consumer sentiment suggest some improvement although soft labour market conditions remain a drag. Bad weather - heatwaves in the eastern states and flooding in Qld – could factor as well. Company reports suggest sales have improved though. Overall we expect total retail sales to post a 0.4% rise for Jan. Some of the weakness is a retail-specific story but the latest slowdown appears to be part of a broader softening in consumer demand.

Monthly retail sales



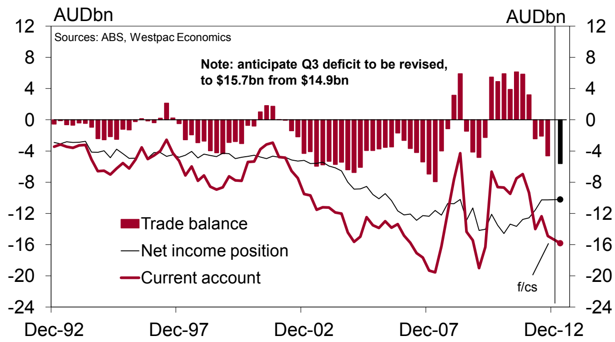
Aus Q4 current account, AUDbn

Mar 5, Last: –14.9, WBC f/c: –15.8

Mkt f/c: –15.3, Range: –17.0 to –10.0

- Australia's current account position weakened over the second half of 2011 and through 2012 as the terms of trade declined, albeit from a relatively favourable starting position.
- Revisions to trade numbers suggest the Q3 current account deficit will be revised from $14.9bn to around $15.7bn.
- From this revised starting position we expect little change in the current account, forecasting an outcome for Q4 of –$15.8bn (4.2% of GDP).
- The ABS advise that the trade balance was a deficit of $5.55bn in Q4, a rise of $164mn from a deficit of $5.39bn in Q3. We estimate that the terms of trade fell by about 2%.
- A consolidation of the net income balance, at around –$10.2bn, is expected to extend into Q4.

Current account: - $15.8bn Q4 f/c



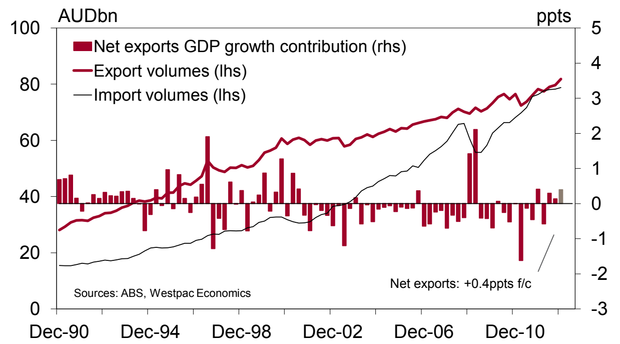
Aus Q4 net exports contribution, ppts

Mar 5, Last: 0.1, WBC f/c: 0.4

Mkt f/c: 0.5, Range: 0.2 to 0.9

- Net exports are expected to make a modest positive contribution to economic growth in Q4.
- We anticipate a contribution of 0.4ppt. This follows additions of 0.4ppt in Q4 2011, 0.3ppt in Q2 this year and 0.1ppt in Q3. This run was punctuated by a 0.6ppt subtraction in Q1.
- Exports advanced by a forecast 2.7% in the quarter, boosted by a turnaround in China's economy. This would have exports 4.5% higher than the same quarter a year earlier.
- Import volume growth has been sluggish, evidence of patchy domestic demand. We expect a 0.7% rise in Q4, following a broadly flat Q3 and a gain of 0.7% in Q2.

Net exports contribution: +0.4ppt Q4 f/c

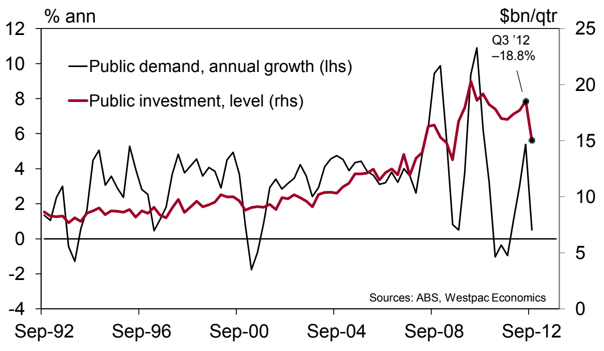


Aus Q4 public demand

Mar 5, Last: –4.4%, WBC f/c: 1.8%

- Public demand has been weak since March 2010 and this trend is likely to continue.
- However, quarterly numbers can be volatile and we expect a rise in Q4, of around 1.8%. This represents only a partial rebound from a sharp 4.4% slump in Q3.
- As well as the general weak trend in public demand, there was a bring forward into 2011/12. This led to a let down effect in the first quarter of 2012/13. Even so, the plunge in public investment of 18.8% in Q3 was surprising.
- For Q4, we expect public investment to recover somewhat. Note that Construction Work Done data reported public works up 1.4% in the quarter. We also anticipate a rebound in public consumption, following a 0.4% contraction in Q3.

Public demand: down sharply in Q3

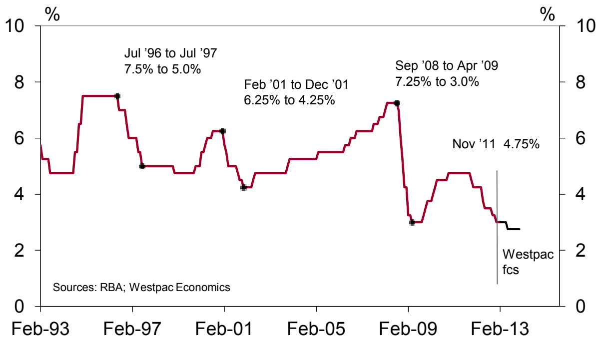


Aus RBA policy announcement

Mar 5, Last: 3.00%, WBC f/c: 3.00%
Mkt f/c: 3.00%, Range: 2.75% to 3.00%

- We expect the Board to hold rates steady at its March meeting. The Feb meeting saw the Board leave rates on hold but included a clear statement that further easing was possible with the minutes noting: "the inflation outlook ... would afford scope to ease policy further, should that be necessary to support demand".
- We expect the RBA Board to take a similar view in March. Developments over the last month, the Q4 CAPEX survey in particular, will be viewed as encouraging signs that the hoped for rebalancing in growth drivers towards non mining investment is starting to gain some traction. We still expect a further rate move will be required to ensure a smooth transition but now expect the move to come in June with the cash rate reaching the 2.75% low point we originally forecast back in May 2012. See main article on p2 for a full discussion.

RBA cash rate: easing cycles

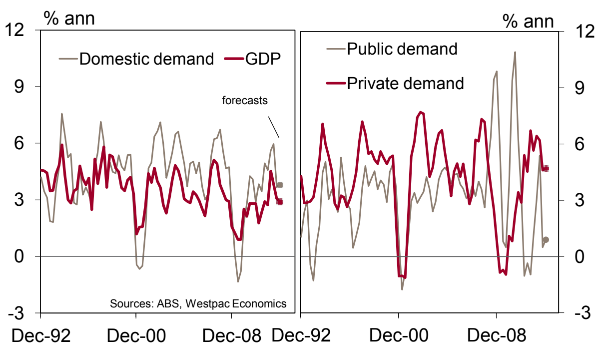


Aus Q4 GDP

Mar 6, Last: 0.5%, WBC f/c: 0.6%
Mkt f/c: 0.6%, Range: 0.3% to 0.8%

- We anticipate relatively modest growth during the final months of 2012, extending a loss of momentum apparent from the second quarter.
- Q4 GDP growth is forecast to be 0.6%qtr, 2.9%yr. This follows quarterly gains of 1.3% in Q1, 0.6% in Q2 and 0.5% in Q3.
- Consumer spending ended the year on a soft note, with retail sales up just 0.1%. Business was reluctant to invest, given challenging conditions globally and domestically. While we suspect that inventories were a small negative for growth.
- The positives were: net exports, adding a forecast 0.4ppts on a solid rise in exports; public demand, expected to rebound (albeit partially) from a sharp contraction in Q3; and, more fundamentally, new dwelling construction up 2.1%, in response to lower interest rates.

Australian economic conditions



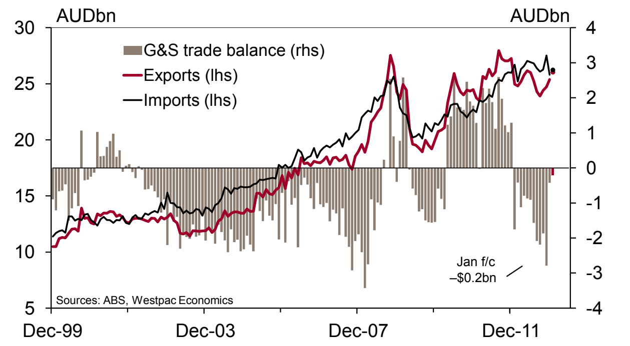
Aus Jan trade balance, AUDbn

Mar 7, Last: –0.4, WBC f/c: –0.2

Mkt f/c: –0.5, Range: –1.2 to +0.4

- Australia's trade position improved in December and it may well be that the 2013 year began with a surplus.
- However, our forecast is for a small deficit of $0.2bn.
- We expect the December deficit to be revised, potentially from –$0.4bn to –$0.6bn. Imports have been revised higher in Q4, although monthly details are not yet available.
- Exports rose a forecast 2.6% in January, while imports increased by a forecast 1.0%.
- Export earnings will be boosted by Lunar New year gold sales. Iron ore prices rebounded, although we suspect not by as much as spot. But iron ore shipments are flat (cyclones) and coal volumes are down (floods).

Austarlian trade position



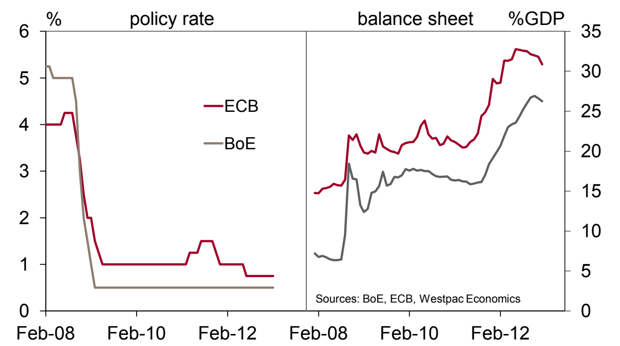
BoE and ECB on hold for now

Mar 7, BoE Last: 0.50%, WBC f/c: 0.50%

Mar 7, ECB Last: 0.75%, WBC f/c: 0.75%

- Only one (of 9) on the BoE policy committee voted for further asset purchases in Nov/Dec/Jan but in Feb the vote was 3:6, with the Governor in the minority. The case for some form of further easing is quite strong, but we don't expect it before the new governor takes over mid-year, and suspect it will be more targeted that the current asset purchase program.
- ECB chief Draghi will present new staff forecasts on Mar 7. The Dec GDP forecast for 2014 was 0.2-2.2% and it should be lowered but not yet to anywhere near our –0.5% forecast. Draghi will be questioned about the assumptions underlying the new forecast, whether growth can resume if confidence slides on Italian political concerns, indeed whether the OMT program has been undermined by the emerging anti-austerity movement. A rate cut is a matter of time.

ECB & BoE



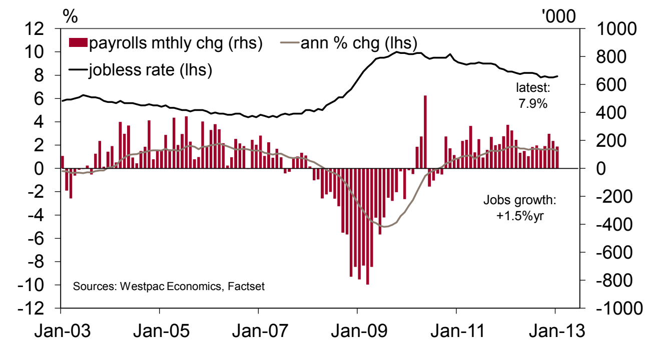
US non-farm payrolls

Mar 8, Payrolls chg Last: 157k, WBC f/c: 130k

Mar 8, Unemployment rate Last: 7.9%, WBC f/c: 7.9%

- Revisions saw Q4 payrolls revised up from 151k month average to 201k, so 157k in Jan represents a slowdown from late last year. For comparison, Q3 jobs growth averaged 152k, Q2 108k and Q1 262k. So Q4 and Q1 13 so far have failed to match the jobs growth high point of a year ago. Also, the separate household survey showed jobs up just 17k, so the jobless rate rose from 7.8% to 7.9%, its highest since August last year. Hourly earnings and aggregate hours worked have both slowed since Nov, from 0.4% to 0.2% and 0.5% to 0.1% respectively.
- Stalled Q4 GDP growth should tend to lean against hiring in the new year; solid retail hiring in recent months and reports of slower spending suggest some risk of job losses in that sector. Govt jobs will continue to be a drag. We expect 130k total payrolls gain and a steady jobless rate at 7.9%.

US Payrolls



Key Data and Events

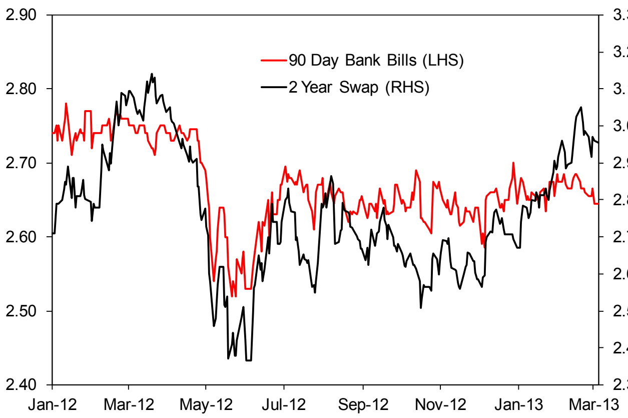
		Last	Market median	Westpac forecast	Risk/Comment
Mon 4					
NZ	Feb ANZ commodity price index	0.3%	–	–	Export commodity prices to lift strongly over 2013.
Aus	Jan dwelling approvals	–4.4%	2.8%	1.5%	Tracking a modest upturn buffeted by various state govt policy changes.
	Feb ANZ job ads	–0.9%	–	–	Jobs ads have slumped, with cost conscious firms not in a mood to hire.
	Feb TD inflation gauge	0.3%	–	–	Inflation is well contained.
	Q4 company profits	–2.9%	–1.0%	–3.5%	Weak end to 2012, commodity prices down, domestic sales weak.
	Q4 inventories	1.1%	0.6%	0.6%	Slower rate of accumulation, implies a negative for growth (–0.2ppts)
Eur	Mar Sentix investor confidence	–3.9	–4.5	–16.0	Implications of Italian vote should rattle recent investor complacency
	Jan PPI %yr	2.2%	1.7%	2.2%	German PPI edged up from 1.5% to 1.7% yr in Jan
UK	Feb house prices %yr	1.3%	–	–	Halifax index due 4-8 Mar.
	Feb house prices %yr	–0.3%	–	–	Hometrack index.
	Feb PMI construction	48.7	–	49.0	Sector in doldrums since middle of 2012.
US	Feb ISM New York	56.7	–	–	Entered 2013 expansionary after sub 50 readings in May, Jun and Oct.
Tue 5					
Aus	Jan retail trade	–0.2%	0.4%	0.4%	Dec rate cut, sentiment rise and anecdote suggests a better month.
	Q4 current account, AUDbn	–14.9	–15.3	–15.8	Terms of trade down further. Anticipate Q3 revision to –$15.7bn.
	Q4 net exports contribution, ppts	0.1	0.5	0.4	Solid export gain on stronger demand from China & imports subdued.
	Q4 public demand	–4.4%	–	1.8%	Trend growth is soft. Only a partial rebound in Q4 from sharp Q3 fall.
	RBA policy announcement	3.00%	3.00%	3.00%	Inflation outlook affords scope to ease if necessary to support demand.
Chn	Feb HSBC services PMI	54.0	–	–	Looking respectable again after a very patchy 2012.
Eur	Jan retail sales	–0.9%	0.2%	0.4%	German retail sales recovered some of their Dec plunge in Jan.
	Feb PMI services final	47.3 a	47.3	47.3	National data showed France very weak, Germany growing.
UK	Feb BRC sales %yr	0.6%	–	–	Same store sales.
	Feb PMI services	51.5	51.3	51.0	Dec saw weakest reading since 2009 recession, but back above 50 in Q1
US	Feb ISM non-manufacturing	55.2	55.0	56.0	New year seasonal upswing as in 2010, 2011, 2012...
	Mar IBD-TIPP economic optimism	47.3	46.0	50.0	All confidence indices sharply lower at start 2013, but some rebounding
Wed 6					
NZ	Q4 building work put in place	9.6%	–	0.0%	Residential work up, non-residential correcting lower.
Aus	Q4 GDP	0.5%	0.6%	0.6%	Loss of momentum extended into Q4. Consumer & business soft.
Eur	Q4 GDP revision	–0.6% a	–0.6%	–0.6%	More detail on components driving late 2012 slump.
UK	Feb BRC shop price index %yr	0.6%	–	–	Sometimes useful guide to direction of change of annual CPI.
US	Feb ADP private payrolls	192k	162k	140k	140k would be consistent with our 130k payrolls forecast.
	Jan factory goods orders	1.8%	–2.2%	–4.5%	Durables known down 5.2% in Jan.
	Fed beige book	–	–	–	Prepared ahead of Mar 20 FOMC decision.
	Fedspeak	–	–	–	Plosser
Can	Bank of Canada rate decision	1.0%	1.0%	1.0%	BoC's Carney said case for tightening less imminent.
	Feb Ivey PMI	58.9	–	57.0	Nov plunged to recessionary levels, Dec-Jan saw complete recovery.
Thu 7					
NZ	Q4 wholesale sales	–0.3%	–	–	Sectoral indicator for GDP, though one of the less reliable ones.
Aus	Jan trade balance, AUDbn	–0.4	–0.5	–0.2	Exports +2.6%, limited by lower coal vols. Imports +1.0% (see textbox).
Eur	ECB rate decision	0.75%	0.75%	0.75%	Press conference will be electric: has Italy mortally wounded OMTs?
UK	BOE policy decision	0.50%	0.50%	0.50%	Asset purchases to remain suspended at £375bn. See text box.
US	Initial jobless claims w/e Mar 2	344k	355k	360k	Recent swings due to seasonality issues rather than underlying trends.
	Jan trade balance $bn	–38.5	–43.0	–44.0	In Dec exports rose 2.1%, and imports slumped nearly 3%.
	Q4 productivity rev'n % ann'lsd	–2.0% a	–1.5%	–1.8%	GDP growth revised higher; implies less productivity decrease and
	Q4 unit labour costs rev'n	4.5% a	4.0%	4.3%	slower gain in ULC.
	Jan consumer credit $bn	14.6	15.0	–	Student and auto loans the main drivers in 2012.
	Feb corporate layoffs %yr	–24.4%	–	–	Challenger series.
	Fed stress test results	–	–	–	For the 6 largest banks: BoA, Citi, GS, JPM, MS, WF.
Can	Jan trade balance C$bn	–0.9	–0.55	–	Exports down 0.9% in Dec, imports down nearly 3%.
	Jan building permits	–11.2%	–	–	Weakness led by residential, down 27% yr in Dec; non-res +5%
Fri 8					
NZ	Q4 real manufacturing sales	2.6%	–	–	Sales were inflated by a stock rundown in Q3.
Chn	Feb trade balance USDbn	29.2	–	–	The range of potential outcomes is very large given the seasonality.
UK	Dec industrial production	0.3%	–	–	Dec's modest rise due oil/mining; factory output hasn't risen since Jul.
	Dec trade balance £bn	–9.2	–	–	In Nov exports rose 2.9%, imports rose 1.1%.
US	Feb non-farm payrolls ch'	157k	151k	130k	Stalled economy at end of 2012, correction in retail hiring and govt
	Feb jobless rate	7.9%	7.9%	7.9%	job losses to weigh against hiring in Feb. See text box.
	Jan wholesale inventories	–0.1%	0.3%	0.2%	Inventories being kept tight.
Can	Feb housing starts	–18.5%	–	–	Five straight declines in Sep-Oct-Nov-Dec-Jan.
	Feb employment chg	–22k	7.5k	15k	Jobs up 100k in Q4; Jan fall leaves trend at 19k, may be slowing.
	Q4 labour productivity	–0.5%	–	–	Jobs up 100k in Q4 but economy close to flat; productivity lower.

New Zealand Economic and Financial Forecasts

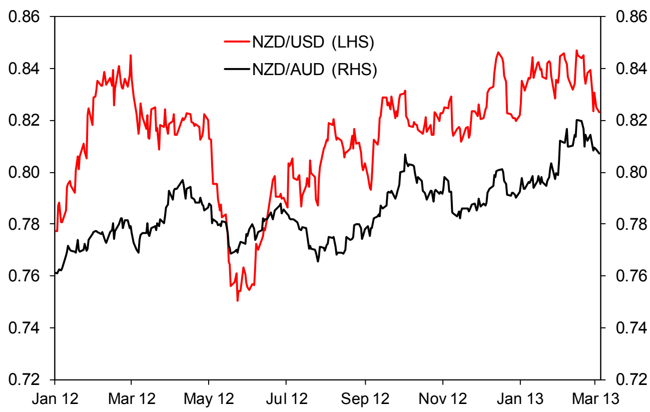
Economic Growth Forecasts	March years				Calendar years			
% change	2012	2013f	2014f	2015f	2011	2012e	2013f	2014f
GDP (Production) ann avg	1.9	2.2	3.3	3.1	1.5	2.4	3.0	3.2
Employment	1.0	0.1	2.8	2.5	1.5	-1.4	4.1	2.6
Unemployment Rate % s.a.	6.7	6.8	5.8	4.8	6.4	6.9	6.0	5.0
CPI	1.6	1.1	1.9	2.3	1.8	0.9	2.0	2.3
Current Account Balance % of GDP	-4.4	-4.9	-5.0	-6.3	-4.0	-5.0	-4.8	-6.1

Financial Forecasts	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Cash	2.50	2.50	2.50	2.75	3.25	3.50
90 Day bill	2.70	2.70	2.75	3.20	3.50	3.75
2 Year Swap	2.90	3.00	3.10	3.30	3.60	3.90
5 Year Swap	3.40	3.50	3.60	3.80	4.00	4.30
10 Year Bond	3.70	3.80	3.90	4.10	4.30	4.40
NZD/USD	0.85	0.86	0.87	0.87	0.85	0.83
NZD/AUD	0.80	0.80	0.83	0.84	0.84	0.84
NZD/JPY	77.4	76.5	75.7	73.6	70.6	67.2
NZD/EUR	0.63	0.63	0.66	0.67	0.68	0.67
NZD/GBP	0.54	0.53	0.54	0.54	0.53	0.51
TWI	76.4	76.4	78.0	78.2	77.5	76.0

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 4 March 2013

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.66%	2.66%	2.67%
60 Days	2.66%	2.67%	2.68%
90 Days	2.65%	2.69%	2.68%
2 Year Swap	2.96%	3.03%	2.91%
5 Year Swap	3.46%	3.56%	3.38%

NZ foreign currency mid-rates as at Monday 4 March 2013

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.8233	0.8441	0.8466
NZD/EUR	0.6327	0.6323	0.6206
NZD/GBP	0.5472	0.5444	0.5394
NZD/JPY	77.085	79.098	78.549
NZD/AUD	0.8074	0.8197	0.8139
TWI	75.600	76.890	76.270

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2009	2010	2011	2012e	2013f	2014f
Australia						
Real GDP % yr	1.4	2.5	2.4	3.5	2.5	2.3
CPI inflation % annual	2.1	2.8	3.0	2.2	2.3	2.8
Unemployment %	5.6	5.2	5.2	5.3	6.0	6.2
Current Account % GDP	-4.2	-2.9	-2.3	-3.8	-3.3	-4.0
United States						
Real GDP %yr	-3.1	2.4	1.8	2.2	1.6	1.5
Consumer Prices %yr	-0.3	1.6	3.1	2.0	2.0	2.0
Unemployment Rate %	9.3	9.6	8.9	8.1	8.0	7.9
Current Account %GDP	-2.7	-3.0	-3.1	-3.3	-3.5	-3.5
Japan						
Real GDP %yr	-5.7	4.9	-0.4	2.1	1.4	1.9
Consumer Prices %yr	-1.3	-0.7	-0.3	0.0	-0.2	0.1
Unemployment Rate %	5.2	5.1	4.5	4.3	4.3	4.3
Current Account %GDP	2.8	3.6	2.0	2.1	2.0	2.0
Euroland						
Real GDP %yr	-4.4	1.9	1.5	-0.5	-0.4	-0.5
Consumer Prices %yr	0.3	1.7	2.7	2.2	1.4	1.4
Unemployment Rate %	9.5	10.0	10.1	11.7	12.0	12.5
Current Account %GDP	-0.2	-0.1	0.0	0.9	1.0	1.0
United Kingdom						
Real GDP %yr	-4.0	1.8	0.9	0.0	0.7	0.2
Consumer Prices %yr	2.2	3.2	4.0	2.7	1.8	1.5
Unemployment Rate %	7.6	7.8	8.4	8.0	8.5	8.5
Current Account %GDP	-1.3	-2.4	-1.9	-3.8	-2.0	-1.5

Forecasts finalised 11 February 2013

Interest Rate Forecasts	Latest	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
Australia						
Cash	3.00	3.00	2.75	2.75	2.75	2.75
90 Day Bill	2.97	2.95	2.80	2.80	2.80	2.80
10 Year Bond	3.32	3.25	3.60	3.50	3.30	3.10
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.87	1.85	2.20	2.30	2.10	2.00
ECB Repo Rate	0.75	0.75	0.75	0.50	0.50	0.50

Exchange Rate Forecasts	Latest	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
AUD/USD	1.0230	1.06	1.07	1.05	1.03	1.01
USD/JPY	92.65	91	89	87	85	83
EUR/USD	1.3075	1.34	1.36	1.32	1.29	1.25
AUD/NZD	1.2370	1.25	1.24	1.21	1.18	1.19

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