Weekly Commentary

5 August 2013

Rollin', rollin', rollin', rawhide

Last Thursday we released our Quarterly Economic Overview where we detailed how the economy's upswing is now becoming self-reinforcing. Data out last week built on this theme. The next phase of the upswing, price pressures, is also beginning to emerge. The last penny to drop will be the labour market, about which we will learn more this week.

The highlight of last week was another strong business confidence survey. Headline business confidence rose to its highest since 1999. Firms' own-activity expectations, which more closely follow quarterly GDP, fell slightly, but were still the second-highest monthly reading in three years.

Recent readings are consistent with quarterly GDP growth of 1% or more. However, we expect June quarter GDP growth to fall well short of this, due to the impact of the drought. On the other hand, our preliminary forecast of 0.6% growth in the September quarter is looking on the light side.

While construction understandably remains the most buoyant sector, confidence has strengthened considerably across all sectors over the course of this year. This is consistent with the upswing in activity becoming self-reinforcing. Continued overleaf.

STOP PRESS

Fonterra product recall

During the weekend, news of a Fonterra milk product recall affecting China and four other countries affected New Zealand markets.

Market reaction so far has been clearly negative. The NZD/USD exchange rate fell hard on Monday morning, 0.7693, although it is recovering as we write to 0.7759. The New Zealand dollar has also fallen against the Australian dollar. NZ interest rate reactions have been modest so far. The NZ 2yr and 10yr swap rates have risen 2bp on the Fonterra news. The 10yr swap spread (swap-NZGB) has decreased by 1.5bp.

Further reaction is possible but will depend on the nature of fresh information which unfolds. Indeed, reaction reversals are possible if the scale of the issue is less than media reports initially implied. Assuming some exports are affected for a significant period, the NZD should weaken and NZ long-maturity interest rates should rise, all else equal. The latter is because an additional risk premium would be incorporated into NZ interest rates. The implication for short-maturity interest rates is ambiguous. In the near term, a knee-jerk market reaction lower is to be expected, but beyond that the lower NZD could also have positive implications for inflation and the OCR.

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WIB IQ.

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The increasingly buoyant sentiment is contributing to higher profit and capacity utilisation expectations, and – wait for it – price pressures. Pricing intentions rose to the highest in over two years and above their long-run average, while inflation expectations for the year ahead ticked up for a second month. Record-high fuel prices may have been a factor behind the July uptick, but the fact that profit expectations are so buoyant suggests firms are beginning to rebuild margins after being under pressure for so long.

We are increasingly confident in our long held views that the rebuild-led construction boom and hot housing market will lead to inflation pressures. After last week's OCR announcement, it now appears that the Reserve Bank is coming around to our view.

The next penny to drop will be the labour market. This Wednesday will reveal progress in this regard.

There is a general consensus that the labour market is improving, and the expectation is that it will continue to do so as the economy picks up further pace. Moreover, the vast bulk of recent data have been pointing in this direction.

While labour market data are volatile and unpredictable, we do tentatively expect a small lift in the unemployment rate, and modest employment growth in this week's release. The small lift in the unemployment would be more symptomatic of payback from the massive March quarter fall than of any actual slowdown in the labour market.

Perhaps a little more than usual we will be paying close attention to wages as reported in the Labour Cost Index. To date, the data have shown wage pressures firmly confined to the Canterbury construction sector. While we don't expect to see economy-wide wage inflation picking up yet, we will be alert to signs that those isolated pockets of wage pressure are spreading.

Another highlight from last week, which continued self-reinforcing theme, came as Fonterra lifted its milk price forecast for the 2013/14 season to a level very similar to that we had earlier pencilled in. Our forecast sits at $7.40 per kg of milk solids (while Fonterra is a tad higher at $7.50 per kg).

The extra income compared to last season will be a boon for the dairy sector and the wider economy. The $1.60 lift in the milk price and a 5% lift in production would boost the economy by around $3.3 billion or around 1.6% of nominal GDP compared to the 2012/13 season.

This boost to farm incomes will increasingly allow farmers to put the drought in the rear-view mirror. We expect farmers to use the extra cash to pay off debt, particularly overdrafts run-up during the drought; invest some back into their farms; and there may even be some left over to take the family out for dinner. To the extent that farmers invest or spend rather than pay off debt, this will add to the already building inflation pressures.

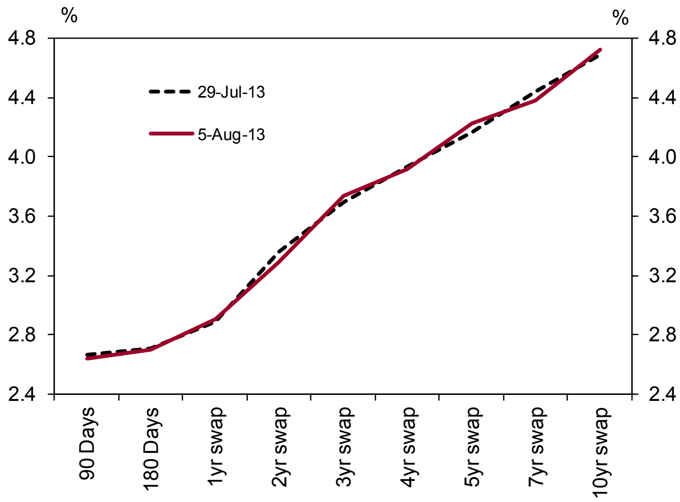
As we said in the Quarterly Economic Overview the outlook for the NZD/USD exchange rate really hinges on whether the US Federal Reserve goes ahead and "tapers" its quantitative easing program. It will only do so if the data is sufficiently strong.

On that front, the data last week were mixed. First off, historical GDP data was revised lower and showed that the economy had less momentum than previously thought. Later in the week, however, indicators headed in the other direction as manufacturing and labour market data were better than expected. Overall, while the jury will remains out we maintain that the conditions necessary for the Federal Reserve to tighten monetary conditions (i.e. taper) are not yet in place.

On the domestic front things are clearer. Overall, the economy is picking up steam and continuing to eat into its excess capacity, which appears to be dwindling by the day. With this in mind, we remain comfortable in our view that the Reserve Bank will need to begin raising the OCR from early 2014.

Fixed vs floating for mortgages: We favour fixing over floating. Fixed-term rates out to two years are currently below floating rates, while three-year and longer fixed rates are only slightly higher. Staying on floating would only be the lower-cost option if the RBNZ actually cut the OCR, which we regard as unlikely. In fact, we expect the floating mortgage rate to rise significantly over the 2014 to 2016 period. There may be value in fixing sooner rather than later. Wholesale interest rates have risen sharply in recent weeks, and fixed mortgage rates are already rising in response. We think fixed mortgage rates may rise further in the near term.

NZ interest rates

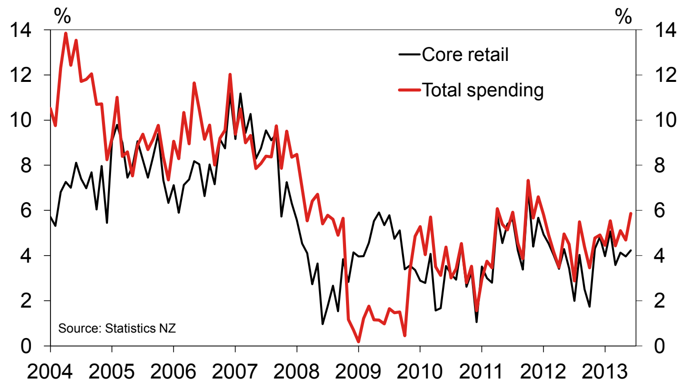


NZ Jul electronic card transactions

Aug 9, Last: 1.2%, WBC f/c: 0.5%

- The 1.2% rise in card spending in June was dominated by a sharp rise in fuel prices. Even so, the 0.7% rise in the core retailing sectors showed a stronger underlying pace of spending growth than we thought.
- The July figures will incorporate a further lift in fuel prices, reaching new record highs during the month. We've assumed a modest lift in ex-fuel spending.
- Growth in ex-fuel spending to date has been largely volume-driven, as the strong New Zealand dollar has depressed the prices of imported goods. It remains to be seen what impact the currency's recent softening will have on retail prices. Business surveys show that pricing intentions are picking up in the retail sector, though they are still below their long-run average.

Card transactions, annual % change



NZ Q2 HLFS employment and unemployment
NZ Q2 Quarterly Employment Survey

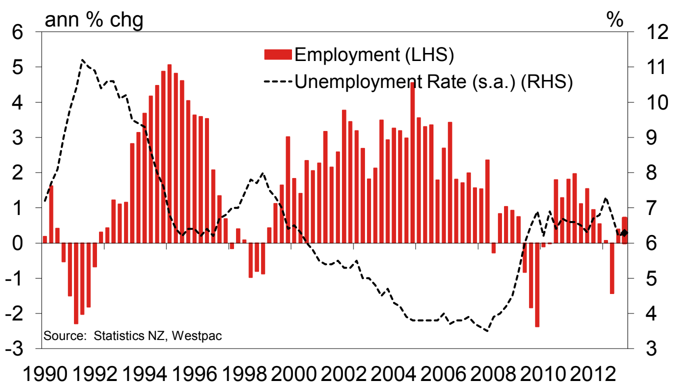
Aug 7, Employment Last: 1.7%, WBC f/c: 0.3%, Mkt f/c: 0.3%

Unemployment rate Last: 6.2%, WBC f/c: 6.3%, Mkt f/c: 6.3%

QES average hourly earnings Last: 1.0%, WBC f/c: 0.7%, Mkt f/c: 0.6%

- Starting Wednesday, Statistics NZ will release all three of New Zealand's major labour market reports in one go. That should encourage a more holistic assessment of the data, but also raises the risk of greater market volatility on the day.
- We expect the Household Labour Force Survey (HLFS) to show a small bounce in the unemployment rate and modest employment growth, following a very strong Q1 outturn. The Quarterly Employment Survey (QES) should show continued moderate jobs growth. Looking beyond the volatile HLFS, the bigger picture to date has been of a continued gradual improvement in the labour market. It would take pervasive strength or weakness in Wednesday's data to shake that view.

Household labour force survey

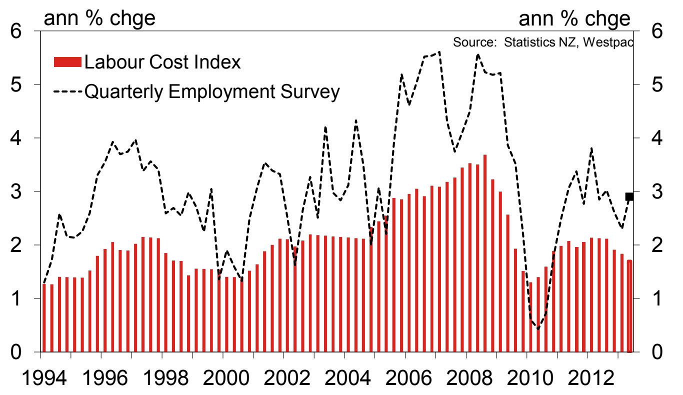


NZ Q2 labour cost index

Aug 7, LCI Last: 0.4%, WBC f/c: 0.4%, Mkt f/c: 0.5%

- The Labour Cost Index (LCI) gives by far the cleanest read of New Zealand wage inflation – much more so than the Quarterly Employment Survey's average hourly earnings measure.
- Overall labour cost increases are being held down by a very subdued inflation environment, which is keeping cost of living adjustments down. Annual private sector wage growth edged down to 1.8% in the March quarter, and we expect it to fall further to 1.7% in June.
- However, we will be parsing the details for signs that construction-related wage pressures are spreading. As recently as March, any wage inflation pressures were tightly confined within the Canterbury region. Wednesday's data will be an important follow-up to the June quarter CPI, which showed growing evidence of housing related inflation, and not just in Canterbury.

Private sector earnings and labour costs



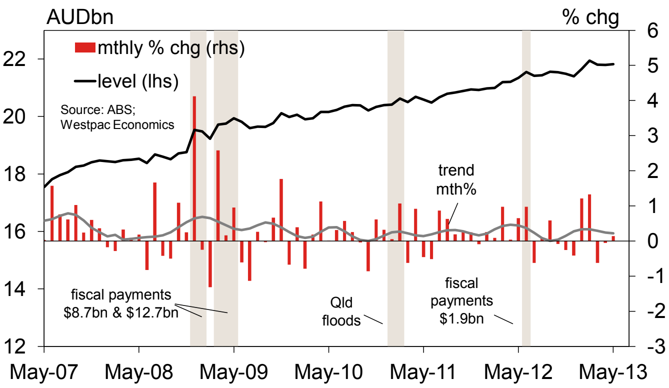
Aus Jun retail trade

Aug 5, Last: 0.1%, WBC f/c: 0.3%

Mkt f/c: 0.4%, Range: –0.1% to 0.6%

- The May retail report was disappointing with sales up just 0.1%mth and previous estimates revised down so that sales over the 3mths to May were down –0.5%. That number would have been +0.2% if May had instead been in line with the consensus forecast and previous months been unchanged.
- Consumer sentiment recovered some lost ground in Jun but job loss fears remained intense though, escalating sharply in the month. The mortgage belt would have received a boost to disposable incomes from the RBA's 25bp rate cut in May but they have shown a strong tendency towards paying down debt with this source of spare cash rather than spending it. Business surveys showed weak conditions for retail in Jun although anecdotal reports were a little better. Overall we expect only a slight reprieve in Jun with sales up 0.3%.

Monthly retail sales



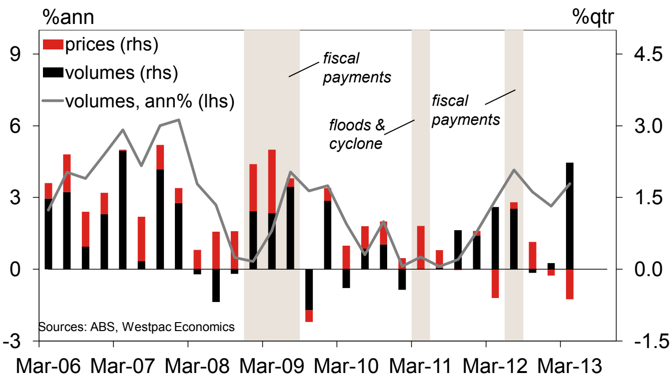
Aus Q2 real retail sales

Aug 5, Last: 2.2%, WBC f/c: –0.1%

Mkt f/c: –0.1%, Range: –0.5% to 1.0%

- Retail volumes recorded an explosive 2.2% gain in Q1 that proved to be highly misleading – total consumption posting a much milder 0.6% gain in the Q1 national accounts and subsequent monthly retail releases showing an equally abrupt loss of momentum since Feb. Indeed, there is a good chance the Q1 estimate gets revised down with the Q2 release.
- With a modest gain in the Jun month, we expect the value of retail sales to be up 0.2% for Q2 as a whole, compared to the 1.5% surge in Q1. Worse, the Q2 CPI detail suggests all of this gain is due to higher prices: whereas the retail deflator fell –0.7%qtr in Q1 we expect it to be up +0.3%qtr in Q2 – food prices alone will account for much of the turnaround with the –0.8% fall in the Q1 CPI reversing to a +0.1% rise in Q2. The net result implies total real retail sales, i.e. volumes, down –0.1%qtr for Q2.

Quarterly retail volumes and prices



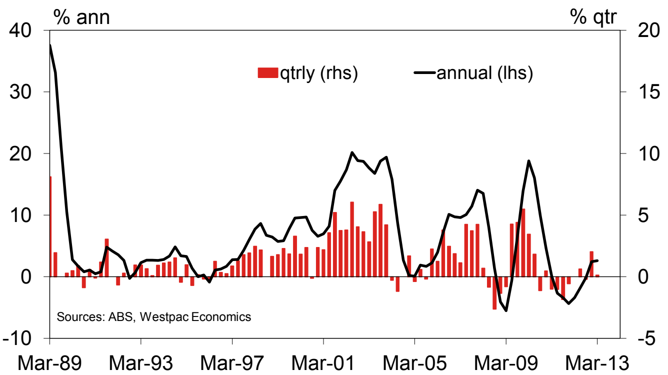
Aus Q2 house price index

Aug 6, Last: 0.1%, WBC f/c: 2.0%

Mkt f/c: 1.0%, Range: 0.1% to 2.0%

- House prices have been firming modestly since mid-2012. The official measure from the ABS is for detached houses only and is a preliminary estimate subject to revision as new data comes in. It bounced 2.0% in Q4 but was up just 0.1% in Q1 with annual price growth at 2.6%.
- The Q1 estimates looks likely to be revised up. It was well shy of private sector measures at the time and these have gone on to confirm a continued rise in prices in Q2. Available private measures show Q2 gains of 2.8%qtr, 5.4%yr (APM) and 0.3%qtr, 3.9%yr (RP Data-Rismark). The weaker read on the RP Data-Rismark measure is mainly due to a soft patch in Apr-May – the same figures as at Jul are +2.3%qtr, +4.9%yr.
- We expect the ABS measure to show a 2% gain for Q2. It tends to track the APM measure more closely than the others and is technically similar in construction.

Established house prices, ABS measure



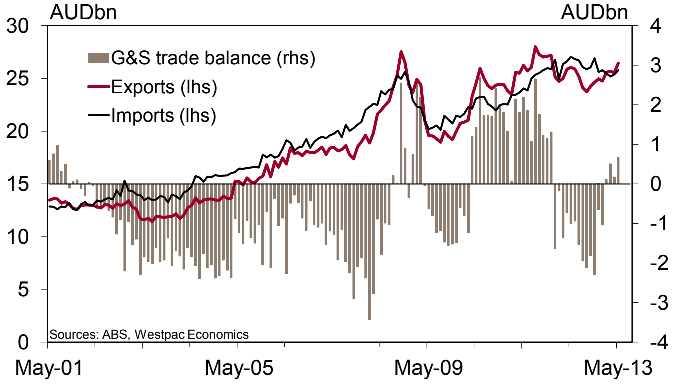
Aus Jun trade balance, AUDmn

Aug 6, Last: 670, WBC f/c: 900

Mkt f/c: 800, Range: zero to 1400

- Australia's trade balance is expected to remain comfortably in surplus in June. We anticipate a surplus of around $900mn, following a $670mn surplus in May (subject to revision).
- Note, the AUD moved sharply lower in June, down almost 5% both against the USD and on a TWI basis.
- Export earnings are forecast to decline by around 0.3%. Commodity prices weakened in USD terms, but rose around 2% in AUD terms. Goods volumes were most likely a little softer, with lower shipments of iron ore and coal, and generally subdued global demand. Tourist arrivals jumped 7.6%, boosted by the Lions Tour.
- Imports are forecast to decline by 1%, with goods down 2%, suggesting lower volumes, partially offset by a lift in services.

Australia's trade balance



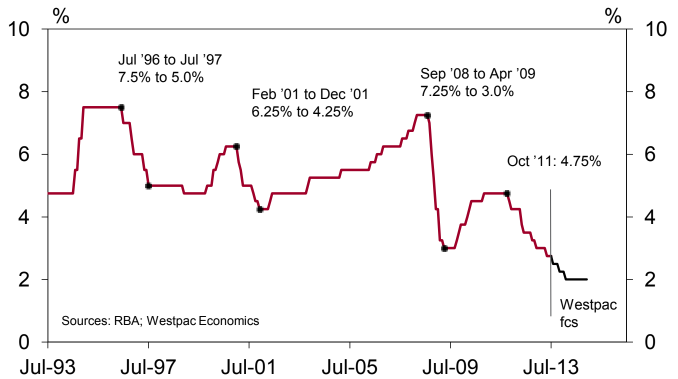
Aus RBA policy announcement

Aug 6, Last: 2.75%, WBC f/c: 2.50%

Mkt f/c: 2.50%, Range: 2.50% to 2.75%

- The RBA is expected to cut the cash rate by 25bps to 2.50% at its Aug meeting and to maintain a clear easing bias.
- The Bank has had a clear easing bias since its last rate cut in May, with the Governor's statement accompanying the Jul 2 decision carrying the concluding line: "the inflation outlook, as currently assessed, may provide some scope for further easing, should that be required to support demand." The benign Q2 CPI data released since then would have given further comfort on the inflation front, a view confirmed specifically by Governor Stevens in a speech on Jul 30. The case for providing more support to demand also looks well established. We continue to expect an Aug cut to be followed by another 25bp cut in Q4 and a 25bp cut in Q1 taking the cash rate to 2%. See p2 for a full discussion.

RBA cash rate: easing cycles



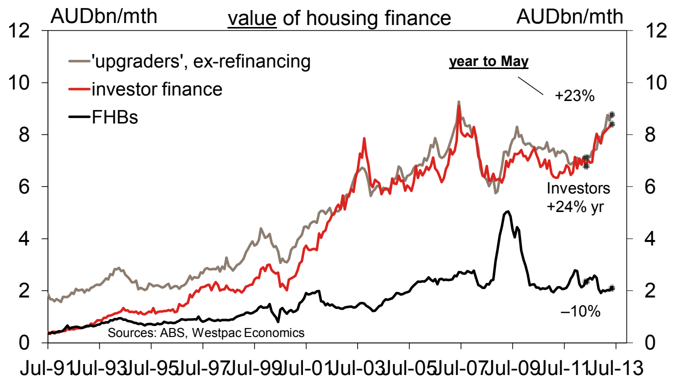
Aus Jun housing finance (no.)

Aug 7, Last: 1.8%, WBC f/c: 1.5%

Mkt f/c: 2.0%, Range: 1.0% to 2.0%

- The underwhelming recovery in housing finance approvals continued in May with a 1.8% rise following a 1.2% gain in Apr and a 4.8% rise in Mar. Approvals are up 15.1%yr (ex refinance) – a recover, but a lukewarm one by historical standards. First home buyer activity remains a clear weak spot.
- Jun should show more of the same. Auction markets showed a clear pick-up in activity through the middle of the year, as did dwelling prices, although conditions remain uneven. Industry figures also point to a solid gain in finance approvals for the month. Overall we expect approvals to be up 2%. July may be a bit shakier due to expiring first home buyer assistance in Vic.

Value of finance approvals by segment

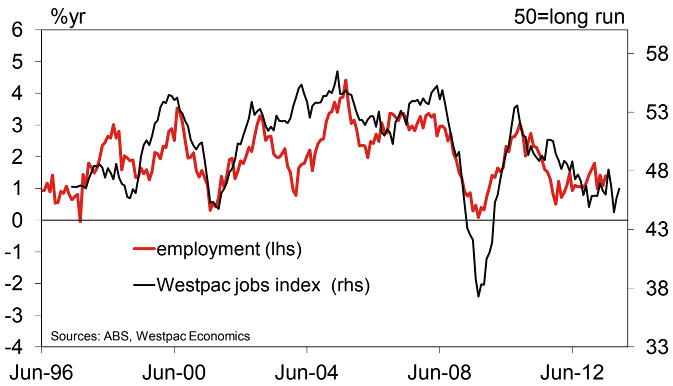


Aus Jul emploment

Aug 8, Last: 10.3k, WBC f/c: –5k
Mkt f/c: 6k, Range: –15k to 17.5k

- Total employment rose 10.3k in June, better than the market median (flat) and Westpac's forecast (–15k).
- The mix of employment was soft, –4.4k full-time vs +14.8k part-time; but there was a solid 0.5%mth rise in total hours worked lifting the annual pace from –0.2%yr to 1.9%yr. So far this year, part-time employment is up 82.7k, compared to a very modest 22k rise in full-time employment.
- By state, just about all of the June gains were in Victoria (+15.1k), but interestingly the unemployment rate there rose to 5.8%, from 5.4%. NSW saw a modest fall in employment (–4.5k) but surprisingly the unemployment rate fell to 5.4% from 5.6%.
- For July, the leading indicators suggest employment growth is soft, not collapsing hence our forecast for a modest 5k fall.

Jobs index suggest the labour market is soft

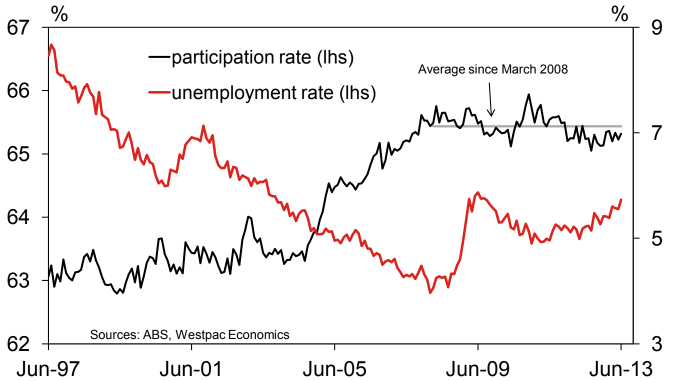


Aus Jul unemployment rate

Aug 8, Last: 5.7%, WBC f/c: 5.8%
Mkt f/c: 5.5%, Range: 5.5% to 5.8%

- At one decimal place, the unemployment rate rose to 5.7% from 5.6% (revised from an originally reported 5.5%). But at two decimal places, you would have to describe it as a surge with a rise to 5.73% (a real 5.7%) from 5.55%.
- The rise in the unemployment rate was due to a bump in the participation rate, from 65.23% to 65.32%, and the resulting 34.1k surge in the labour force associated with ongoing solid gains in the working age population.
- In July, the underlying population gains will still be there but we are expecting the participation rate to ease a touch to 65.2%. This will be enough to limit the rise in the unemployment rate to 5.8% even with the forecast 5k fall in total employment.

Unemployment and participation rates



Key Data and Events

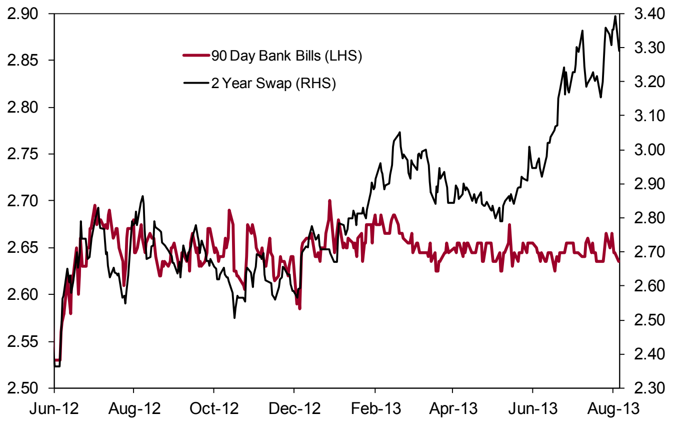
		Last	Market median	Westpac forecast	Risk/Comment
Mon 5					
NZ	Jul ANZ commodity price index	–3.7%	–	–	Prices up a tad in July, but to fall from earlier record over rest of 2013.
Aus	Jun retail sales	0.1%	0.4%	0.3%	Difficult conditions persist with only a slight reprieve in Jun.
	Q2 real retail sales	2.2%	–0.1%	–0.1%	Q1 burst was highly misleading. Monthly sales & CPI detail point to Q2 dip.
	Bank holiday, NSW & ACT	–	–	–	Markets open. No daily reports from the Sydney office.
Chn	Jul HSBC services PMI	51.3	–	–	Expectations declined in Jun, margin squeeze implied, backlog of work <50.
Eur	Jul PMI composite final	50.4 a	50.4	50.5	PMI factory revised higher. PMI services may not be.
	Jun retail sales	1.0%	–0.5%	–0.8%	French consumer spending, German retail weak in June.
	Aug Sentix investor confidence	–12.6	–10.0	–10.0	Recent surveys improved and ECB commentary less concerned, for now.
UK	Jul PMI services	56.9	57.1	58	Royal Baby boost.
US	Jul ISM non-manufacturing	52.2	53.0	53.7	Summer madness seems to be hitting these surveys in US and elsewhere.
	Q2 mortgage delinquencies	7.25%	–	–	Tentative date for MBA data on arrears, repossessions.
Tue 6					
Aus	Jul TD–MI inflation gauge %mnth	flat	–	–	The current annual pace of 2.4%yr with a lingering CPM effect.
	Jul ANZ job ads %mth	–1.8%	–	–	June was the 4th consecutive fall for a –18.8%yr annual pace.
	Q2 ABS house price index	0.1%	1.0%	2.0%	Q1 may be revised up. Private measures show clear firming in prices.
	June trade balance, AUDmn	670	800	900	Imports –1%. Exports –0.3%, supported by Lions Tour. See text box.
	RBA policy decision	2.75%	2.50%	2.50%	Q2 CPI eased any qualms about inflation. Demand clearly needs support.
Ger	Jun factory orders	–1.3%	0.9%	–0.5%	Orders fell in April and May, June surveys suggest some improvement.
UK	Jul BRC sales %yr	1.4%	–	–	Same store sales. Sweltering weather will be a driving factor.
	Jun industrial production	flat	0.5%	0.8%	50+ PMI readings imply rising output, warmer weather could impact utilities.
US	Jun trade balance $bn	–45.0	–43.5	–41.0	Exports slipped 0.3% but imports kept rising, by 1.9%, in May.
	Jul IBD-TIPP economic optimism	47.1	47.7	47.5	First read on August sentiment.
	Fedspeak	–	–	–	Evans.
Can	Jun trade balance C$bn	–0.3	–0.5	–	Exports down 1.6% in May, imports down 1.2%.
Wed 7					
NZ	Q2 HLFS employment	1.7%	0.3%	0.3%	Modest growth expected after Q1 surge.
	Q2 HLFS unemployment rate	6.2%	6.3%	6.3%	Modest payback expected from a very strong Q1.
	Q2 QES average hourly earnings	1.0%	0.6%	0.7%	QES employment and hours an important guide to near-term outlook.
	Q2 labour cost index	0.4%	0.4%	0.5%	Wage growth to remain subdued on the back of low inflation.
Aus	Jun housing finance	1.8%	2.0%	1.5%	More of the same 'lukewarm' recovery.
Ger	Jun industrial production	–1.0%	0.4%	–0.5%	Factory PMI sub 50; and orders down in April and May.
UK	Bank of England Inflation Report	–	–	–	What format/guidance changes will Carney implement?
US	Jun consumer credit $bn	19.6	15.0	–	Student and auto loans the main drivers in 2012 and so far this year.
	Fedspeak	–	–	–	Plosser, Pianalto.
Can	Jun building permits	4.5%	–	–	Up 5 months running already this year, latest rise led by multiples again.
	Jul Ivey PMI	55.3	56.0	64.0	Will July continue uptrending see-saw pattern of 2013 to date?
Thu 8					
Aus	Jul employment	10.3k	6k	–5k	The leading indicators point to a soft, but not collapsing labour market.
	Jul unemployment rate	5.7%	5.8%	5.8%	A drop in participation will not stop a rise in unemployment.
Chn	Jul trade balance USDbn	27.1	25.9	–	Stable import and export growth vs Jun would narrow surplus to ~20bn.
Ger	Jun exports	–2.0%	0.9%	–0.2%	If IP is down, exports are unlikely to recover until July.
US	Initial jobless claims w/e Aug 2	326k	335k	340k	Auto plant shutdown distortion now passed, cleaner reads on layoffs.
Can	Jun new house prices	0.10%	–	–	Running ~2%yr annual pace since 2010, but slipped to 1.8%yr in May.
Fri 9					
NZ	Jul electronic card transactions	1.2%	-	0.5%	Fuel prices higher again in July; modest spending growth elsewhere.
Aus	Aug RBA Statement on Monetary Policy	–	–	–	Expect 2014 growth forecasts to be lowered from 2½-3½% to 2¼-3¼%.
Chn	Jul consumer prices %yr	2.7%	2.8%	–	Housing peaked Apr, non-food steady at 1.6%, food main source of pressure.
	Jul producer prices %yr	–2.7%	–2.1%	–	July 2012 was steepest m-o-m decline this cycle, so y-o-y should rise.
	Jul industrial production %yr	8.9%	8.9%	–	PMIs indicate a diminishing pulse, but base effect is flattering.
	Jul fixed investment %ytd	20.1%	20.0%	–	Manufacturing slowdown, transport plateauing, real estate likewise.
	Jul retail sales (goods) %yr	13.3%	13.4%	–	Volumes edged up Q2 over Q1, but lagging 2012 in ytd.
	Jul new yuan loans	861	615	–	Tentative date. Big 5 to gain share in slowing market post June cleanout.
	Jul M2 money supply %yr	14.0%	13.9%	–	Tentative date. On track to hit annual target after May-Jun capital outflows.
	Jul aggregate financing RMBbn	1038	–	–	Tentative date. Shadow finance to suffer from June disruptions.
UK	Jun trade balance £bn	–8.5	–8.4	–	Exports up 1.4% and imports up 1.3% saw May deficit widen slightly.
US	Jun wholesale inventories	–0.5%	0.4%	–	Inventories expanded in Jan but kept tight since then.
Can	Jul housing starts	–2.5%	–5.1%	–	H1 2013 upswing in starts stalling?
	Jul employment ch'	0k	6k	10k	May's 95k jump restored jobs uptrend after weak Q1.

New Zealand Economic and Financial Forecasts

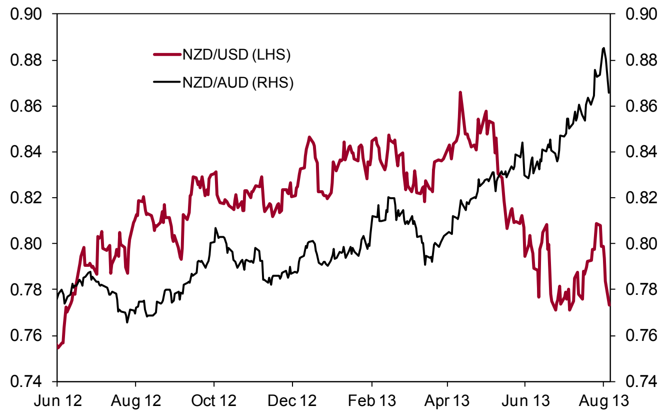
Economic Growth Forecasts		March years				Calendar years		
% change	2012	2013f	2014f	2015f	2011	2012	2013f	2014f
GDP (Production) ann avg	1.9	2.5	2.7	3.8	1.4	2.7	2.5	3.7
Employment	1.0	0.4	2.3	2.8	1.5	-1.4	3.5	2.8
Unemployment Rate % s.a.	6.7	6.2	5.7	4.8	6.3	6.8	5.9	4.9
CPI	1.6	0.9	1.7	2.3	1.8	0.9	1.5	2.2
Current Account Balance % of GDP	-4.4	-4.8	-5.0	-5.9	-4.0	-5.0	-4.7	-5.8

Financial Forecasts	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Cash	2.50	2.50	2.75	3.00	3.25	3.50
90 Day bill	2.70	2.75	3.00	3.25	3.50	3.75
2 Year Swap	3.30	3.30	3.50	3.60	3.80	4.00
5 Year Swap	4.00	3.90	4.00	4.10	4.20	4.40
10 Year Bond	4.10	3.90	3.90	4.00	4.10	4.20
NZD/USD	0.81	0.84	0.83	0.82	0.81	0.81
NZD/AUD	0.86	0.87	0.87	0.88	0.88	0.87
NZD/JPY	81.0	83.2	81.3	79.5	77.8	77.0
NZD/EUR	0.61	0.63	0.64	0.65	0.65	0.64
NZD/GBP	0.53	0.52	0.53	0.52	0.52	0.50
TWI	76.2	78.0	77.9	77.6	77.1	76.4

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 5 August 2013

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.63%	2.63%	2.65%
60 Days	2.63%	2.63%	2.65%
90 Days	2.64%	2.63%	2.65%
2 Year Swap	3.29%	3.22%	3.28%
5 Year Swap	4.22%	3.98%	4.07%

NZ foreign currency mid-rates as at Monday 5 August 2013

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7731	0.7915	0.7693
NZD/EUR	0.5821	0.6023	0.6004
NZD/GBP	0.5055	0.5181	0.5168
NZD/JPY	76.49	79.41	77.87
NZD/AUD	0.8659	0.8619	0.8501
TWI	73.63	75.08	73.87

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2009	2010	2011	2012	2013f	2014f
Australia						
Real GDP % yr	1.4	2.5	2.4	3.6	2.5	2.3
CPI inflation % annual	2.1	2.8	3.0	2.2	2.3	2.6
Unemployment %	5.6	5.2	5.2	5.4	6.1	6.0
Current Account % GDP	-4.2	-2.9	-2.3	-3.7	-2.4	-2.6
United States						
Real GDP %yr	-3.1	2.4	1.8	2.2	1.6	1.6
Consumer Prices %yr	-0.3	1.6	3.1	2.1	1.6	1.8
Unemployment Rate %	9.3	9.6	8.9	8.1	7.7	7.6
Current Account %GDP	-2.7	-3.0	-3.0	-2.8	-2.8	-2.9
Japan						
Real GDP %yr	-5.7	4.9	-0.5	1.9	1.7	2.2
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	-0.9	-0.6
Consumer Prices %yr	0.3	1.7	2.7	2.2	1.4	1.2
Unemployment Rate %	9.5	10.0	10.1	11.7	12.4	13.0
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	0.2	0.5	0.4
Consumer Prices %yr	2.2	3.2	4.0	2.8	2.3	1.8
Unemployment Rate %	7.6	7.8	8.4	8.0	8.5	8.5
Current Account %GDP	-1.3	-2.5	-1.9	-3.8	-2.5	-1.5

Forecasts finalised 5 July 2013

Interest Rate Forecasts	Latest	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
Australia						
Cash	2.75	2.50	2.25	2.00	2.00	2.00
90 Day Bill	2.60	2.55	2.30	2.10	2.10	2.10
10 Year Bond	3.78	3.50	3.20	3.10	3.10	3.20
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.71	2.50	2.30	2.20	2.20	2.40
ECB Repo Rate	0.50	0.50	0.50	0.50	0.50	0.50

Exchange Rate Forecasts	Latest	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
AUD/USD	0.8907	0.92	0.95	0.93	0.91	0.89
USD/JPY	99.60	100	99	98	97	96
EUR/USD	1.3209	1.32	1.33	1.30	1.27	1.25
AUD/NZD	1.1292	1.14	1.13	1.12	1.11	1.10

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