Weekly Commentary

29 July 2013

Crossing the Rubicon

The Reserve Bank's stance on monetary policy has come into line with our long-held views – all now agree that the housing and construction booms will provoke inflation. Remaining uncertainties include the impact of mortgage restrictions and the reaction of business confidence to last weekend's earthquake. Meanwhile, the dairy sector will get a confidence boost from signs from a supercharged milk payment this year.

For some time the Reserve Bank has taken a sanguine approach to the long-term inflation outlook. The central bank adopted explicit assumptions that the Christchurch rebuild would have only modest inflationary effects, and that rising house prices would not cause households to 'leverage up'. Conditional on those assumptions, the RBNZ forecast the barest of OCR hiking cycles, not starting until late 2014 and subsequently progressing at a pace of 25 basis points per annum.

And the RBNZ's rhetoric failed to convey even that pale hiking cycle. Increasing the OCR was not mentioned once in any of the 14 press releases accompanying Monetary Policy Statements and Official Cash Rate reviews from December 2011 until June 2013.

That is why we consider last week's OCR review, in which the RBNZ explicitly discussed the need for future monetary tightening, a significant turning point.

Compared to previous missives, the RBNZ was slightly more bullish on the New Zealand economy. It lowered the degree of concern around the exchange rate by describing it as *"high"* rather than *"overvalued"*. But the biggest changes were to explicitly tie a future hiking cycle to the *"degree to which the growing momentum in the housing market and construction sector spills over into inflation pressures,"* and to mention hiking in the bottom line bias statement:

"Although the removal of monetary stimulus will likely be needed in the future, we expect the keep the OCR unchanged through the end of this year."

This was an appropriate response to recent evidence. The RBNZ's assumption that households won't spend up on the back of rising house prices has been cast into doubt by sky-high consumer confidence and the fact that both retail spending and household borrowing are growing comfortably faster than national income. As for the RBNZ's assumption of a non-inflationary construction boom, that was on firmer ground until the previous week, when Consumer Price Index figures showed widespread inflation in housing-related sectors.

We believe the RBNZ has crossed the Rubicon by elevating the idea of tighter monetary policy to the one-page OCR review. Barring major surprises, we suspect the September Monetary Policy Statement will confirm the RBNZ's new stance, and will fully articulate the details.

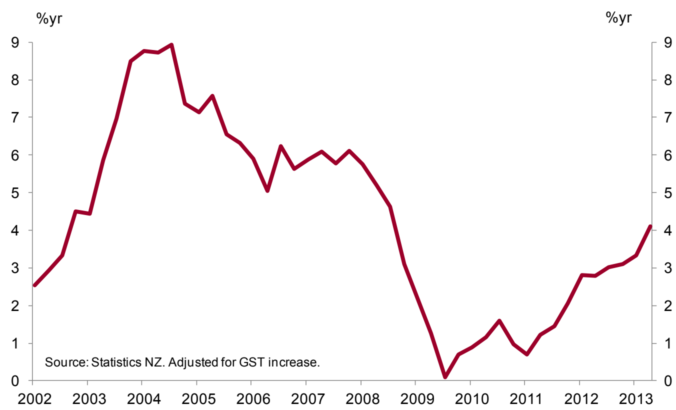
Regular readers will recognise that the RBNZ's new stance chimes more closely with our long-held views. We've always said that the Christchurch rebuild amounts to a helicopter-drop of $40bn onto a tiny $210bn economy – of course it is going to be inflationary. A year ago we added the idea that low mortgage rates would generate a house price boom, and consumer spending follow as night follows day. The factor holding back interest rate hikes was the rising exchange rate, which sent inflation falling below 1%. But now that the exchange rate is no longer rising, the field is clear. We continue to anticipate a hiking cycle that begins in March 2014 and peaks at 5.5%.

That said, there is always uncertainty in the world of monetary policy. In the near future we will be watching the August 7th labour market data, the impact of any RBNZ mortgage restrictions, and the reaction of business confidence to last weekend's earthquake.

More earthquakes

The earthquake that rocked central New Zealand on 21 July was of magnitude 6.5 and resulted in damage to dozens of buildings in Wellington. At this stage it looks as though the economic impact will be an order of magnitude smaller than the

CPI new dwelling prices, annual change



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Christchurch earthquakes, although experience cautions against judging the effect of earthquakes too soon.

The earthquake does have one clear directional implication for the economy. Great swathes of New Zealand's commercial building stock had already been deemed unsafe, especially in the lower North Island. The latest earthquake will further lift the urgency to either rebuild or strengthen these buildings – pressure will come from both the official sector and the market reality that tenants now prefer quake-safe buildings.

This amounts to yet another building project that will add to short-term GDP growth and inflationary pressures – and another reason to expect higher interest rates.

But earthquakes and seismic strengthening are not a free lunch. They clearly make New Zealand poorer by draining resources that could have been deployed elsewhere, and by increasing the premia we pay to overseas reinsurers. The Government's balance sheet is not nearly as robust as it was before the Christchurch earthquakes either. Another major event would be a major blow to the New Zealand Government Bond market.

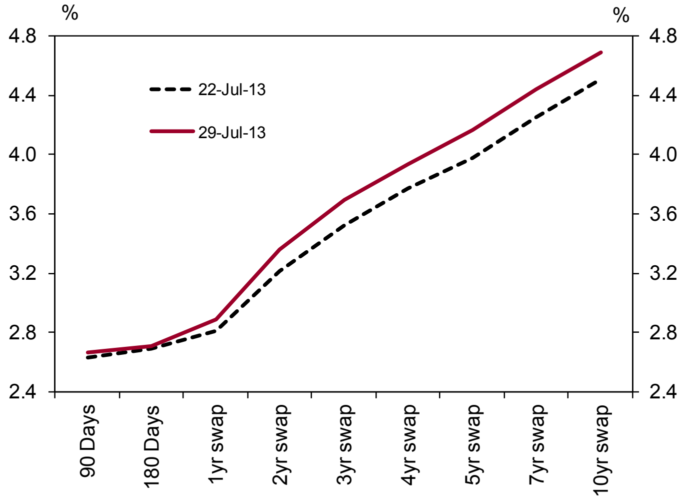
Perennial good news story – the world still wants our milk

Having covered the likelihood of higher interest rates and our seismic vulnerability, it is well that this Weekly Commentary ends on a positive note. We have revised up our forecast of the payment from $6.50 to $7.40 per kilogram of milksolids, thanks to surprisingly high GlobalDairyTrade auction prices and the fall in the New Zealand dollar. Our new forecast still incorporates a pessimistic assessment of China's growth trajectory and our forecast that the New Zealand dollar will rise back to USD 83 cents by year-end. When Fonterra announces its own forecast update on Tuesday or Wednesday, we suspect it will go for something even higher than $7.40.

It goes without saying that an extra 90 cents on the milk payment is fantastic news for the New Zealand economy.

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



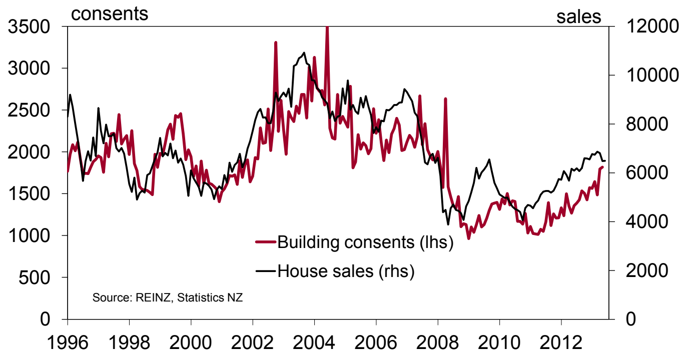
Key Data Previews

NZ Jun building consents

Jul 30, Last: +1.3%, WBC f/c: -4.0%

- Monthly building consents have been thrown around by the earlier timing of Easter this year; but with that effect now in the rearview mirror, the underlying trend appears to have been even stronger than we expected.
- Our pick for June assumes a continuation of the recent trend in single-dwelling consents (about 2% monthly growth), but a pullback to around average levels in the volatile apartments category, after two very strong months in a row.
- Growth in ex-apartment consents should again be led by the supply-constrained Auckland and Canterbury markets. The June figures will pre-date the debacle in Christchurch around the power to authorise consents, which was stripped from the Council in early July.

NZ housing activity

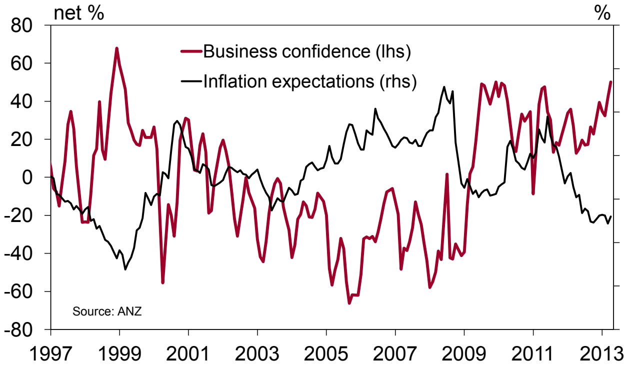


NZ Jul ANZ business confidence

Jul 31, Last: 50.1

- Business confidence rose to its highest in more than three years in June. Construction was understandably the most buoyant sector, but sentiment was markedly more positive across all of the broad categories.
- These kinds of readings are typically associated with quarterly GDP growth rates of 1% or more. However, we suspect that the effects of the drought earlier this year will substantially peg back Q2 growth to around 0.3%.
- We're keeping an eye on firms' pricing intentions, which have been creeping up for the last six months and were above their long-run average by June. Fuel prices could be an influence here; these hit new record highs in July.

NZ business confidence and inflation expectations

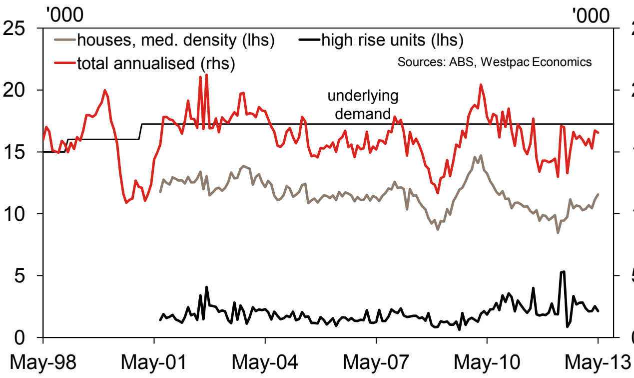


Aus Jun dwelling approvals

Jul 30, Last: –1.1%%, WBC f/c: –1.0%
Mkt f/c: 2.0%, Range: –2.0% to 5.0%

- The May report showed the housing upswing continuing to proceed at a solid pace. Dwelling approvals were 1.1% lower in the month but that left approvals up 8.4% on their March level with an underlying uptrend tracking a 12% annual pace. Construction-related finance approvals show a similar picture although some industry figures suggest June may have seen a setback. That would be a little surprising given May's rate cut and the strength of most other housing market indicators (auction clearance rates and to a lesser extent, prices).
- On balance we are inclined to discount the industry figures on finance with dwelling approvals forecast to show a further consolidation: a 1% dip in June but leaving the existing uptrend intact.

Dwelling approvals, high rise vs the rest

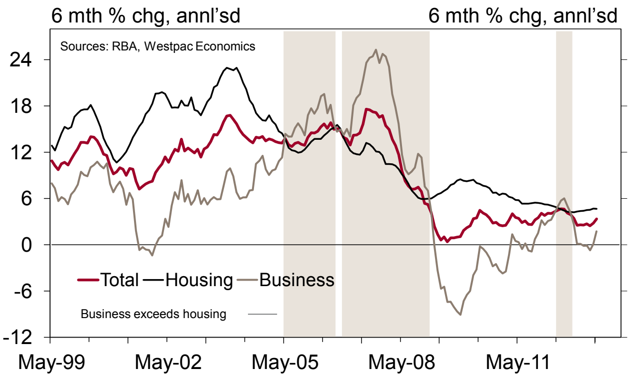


Aus Jun private credit

Jul 31, Last: 0.3%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: 0.2% to 0.4%

- Credit to the private sector is expanding at a slow pace. Annual growth moderated to 3.0% in May from 3.6% in Dec 2012.
- Monthly credit growth was 0.3% in April and in May, supported by a slight lift in business credit, +0.2% and +0.1%. This represents an up-tick from the previous nine months, when credit growth averaged 0.2% and business credit declined fractionally. We anticipate a further slight rise in business credit in June.
- Housing credit growth strengthened a touch in Q1, to 1.2%, from 1.1% in Q4. Notably, new lending is strengthening in response to lower interest rates. However, this has been largely offset by many existing mortgage holders taking advantage of lower rates to accelerate repayments.

Credit momentum

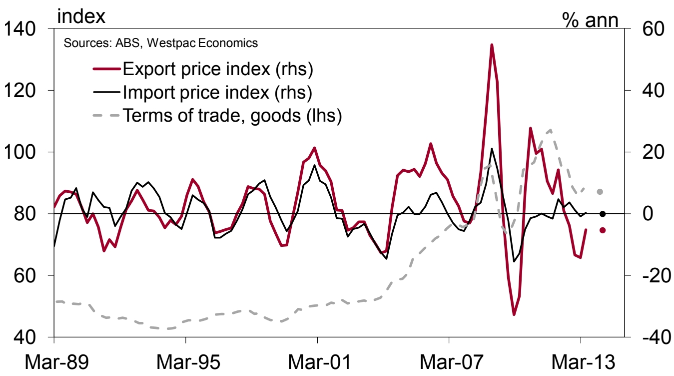


Aus Q2 import price index

Aug 1, Last: flat, WBC f/c: 2.0%
Mkt f/c: 2.0%, Range: 0.2% to 4.0%

- The Import Price Index is expected to rise in the June quarter, up a forecast 2.0%.
- Import costs rose as the Australian dollar fell. The AUD weakened 3.2% on a TWI basis and fell 4.5% against the USD.
- A fall in global oil prices (–7%) acted to temper the rise in import prices.
- Note, the import price index covers goods but excludes services.

Import & export prices

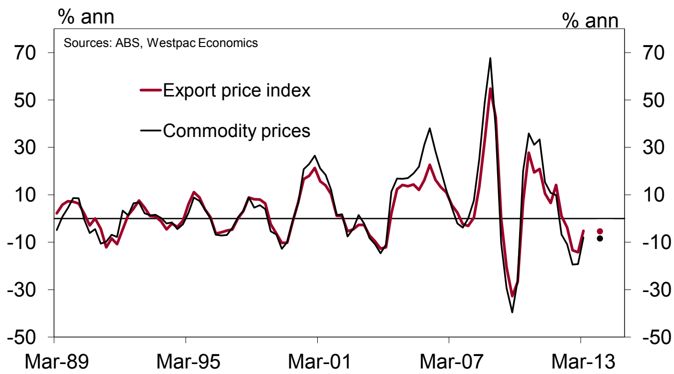


Aus Q2 export price index

Aug 1, Last: 2.8%, WBC f/c: 0.8%
Mkt f/c: 0.3%, Range: –5.0% to 2.3%

- The Export Price Index is expected to rise in the June quarter, increasing by a forecast 0.8%.
- A lift in prices is centred on a weaker currency, with the Australian dollar 4.5% lower against the USD.
- This was largely offset by softer global commodity prices, down around 4% in USD terms.
- Note, the export price index covers goods only.

Commodity prices & export price index

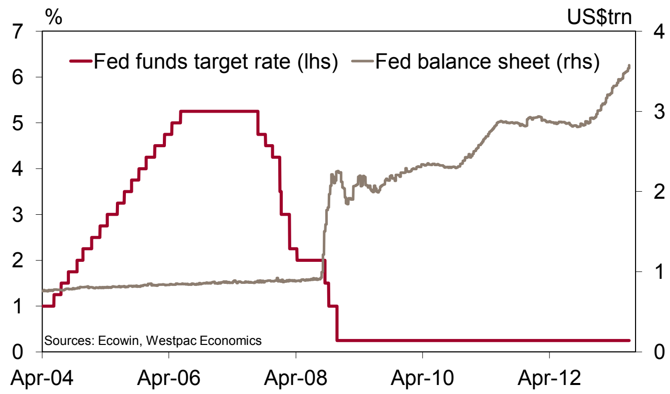


US FOMC meeting

Jul 31, Last: 0-0.25%, WBC f/c: 0-0.25%

- On our forecasts for the economy, the FOMC will not be comfortable as soon as the September meeting that the case in favour of tapering asset purchases has been made.
- The July meeting will see the usual press statement issued but there is no update of forecasts or press conference where the chairman can nuance the message.
- So this meeting is best viewed as an interim update; we will parse the statement language to understand how the Fed's assessment of the economy's progress may have evolved but are unlikely to learn anything particularly new about the prospect for any near-term policy shift.

Fed funds target rate and balance sheet

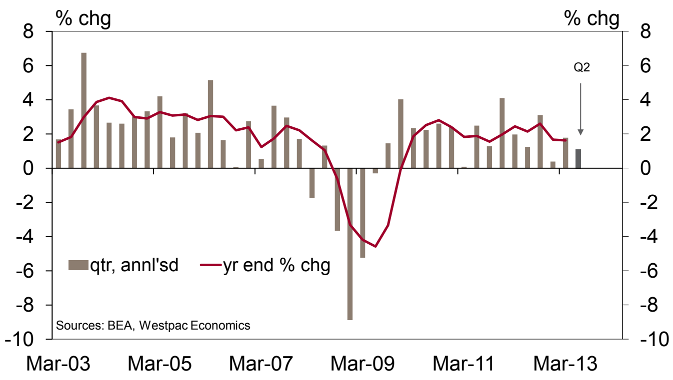


US Q2 GDP

Jul 31, Last: 1.8%, WBC f/c: 1.1%

- US GDP growth averaged an annualised growth pace of just over 2% in the first three quarters of 2012, but since then growth has averaged just 1.1%. Recent history will however be subject to benchmark revisions, so the starting point for the Q2 GDP forecast is more uncertain than usual.
- That said, partial data and anecdotal evidence point to softer consumption growth, modest business investment growth, and residential investment growth similar to Q1. There should be an ongoing drag from the public sector and, at the margin, inventories and net exports.
- Together these factors point to Q2 GDP growth in line with the recent subdued trend at 1.1% annualised.

US GDP growth



US Jul ISM, manufacturing

Aug 1, Last: 50.9, WBC f/c: 49.9

- The ISM manufacturing rose from 49.0 to 50.9 in June, recovering a little more than May's 1.7pts slide but still completing the weakest quarterly read for the ISM headline since the 2009 recession. The detail showed production recovering from 48.6 to 53.4 in June, orders up from 48.8 to 51.9, but jobs dipping from 50.1 to 48.7, the first sub 50 (contractionary) reading since 2009.
- It is interesting to note that the ISM only took four months to slide from a 20 month high to its weakest in 4 years. 2012 saw a similar peak reading of 54.1 in April before falling to 50.2 in June; in 2011 and 2010 similar patterns are apparent. We suspect that a seasonal factor distortion explains some of the decline within the year, but the progressively lower mid year slump level for three years running, and from much lower annual peaks in 2012 and 2013 is indicative of an industrial sector that lost considerable momentum last year and has failed to recover this year, despite some upbeat regional factory surveys.

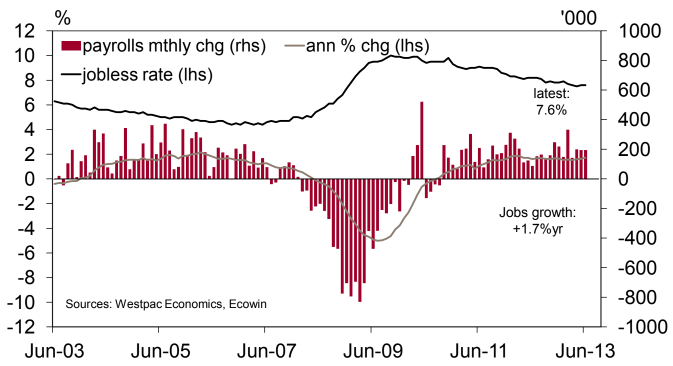
US ISMs

US non farm payrolls

Aug 2, Last: 195k, WBC f/c: 150k

- US non-farm payrolls rose 195k in June, and back revisions added a further 70k to the count earlier in Q2, for an average of 196k per month, a little slower than in the previous two quarters which averaged about 207k per month, but certainly stronger than the middle two quarters of 2012 when jobs growth averaged just 130k. The jobless rate was stalled at 7.6% because of a further uptick in participation from recent lows.
- Given that GDP growth was running at a 3% annualised pace at the start of 2012 (ie Q4-Q1) but only a 1.1% annualised pace at the start of this year, there could be downside risks ahead for jobs growth which simply cannot be sustained in such a subdued growth environment. We expect a 150k July rise.

US payrolls

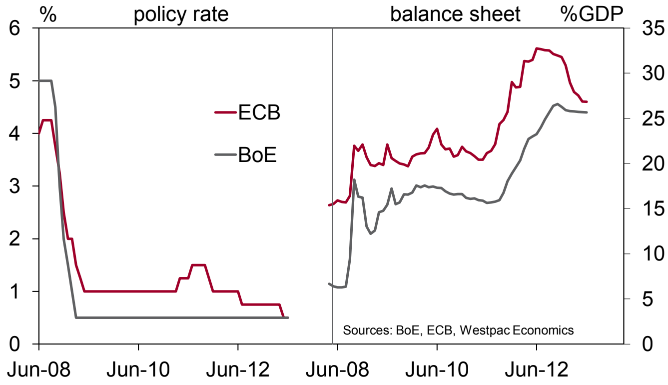


ECB & BoE announcements

Aug 1, ECB Last: 0.50%, WBC f/c: 0.50%
BoE Last: £375bn, WBC f/c: £375bn

- At the press conference ECB chief Draghi provided forward guidance for the first time, revealing that the Council had an easing bias, expecting key rates "to remain at present or lower levels for an extended period of time". There were no further announcements about other non-standard policy options such as negative rates and measures that could involve using the ECB's balance sheet to take on risk. The Council still expected recovery later this year but accepted that in July the economy was "going down, at a slower pace."
- The Bank of England also issued a statement after Governor Carney's first policy meeting, contrasting with the previous no change/no statement norm. It noted that incoming data had been consistent with May's inflation report outlook for growth and inflation, but that an upward movement in market rates was not, and this will weigh on the outlook. Also the MPC's recent assessment of the case for forward guidance "would have an important bearing on the Committee's policy discussions" at the August window.

ECB & BoE



Key Data and Events

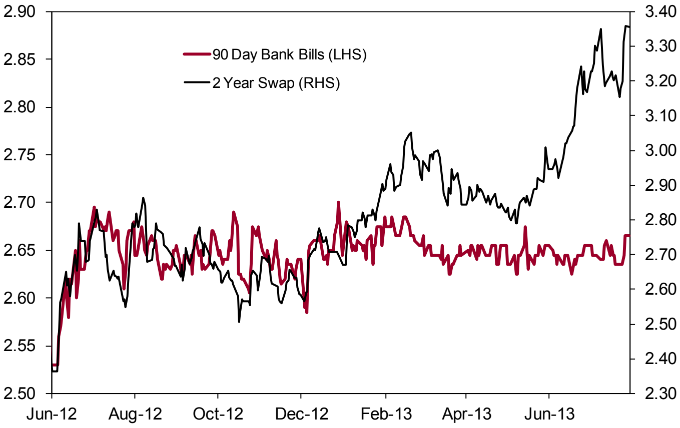
		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
Ger	Jun retail sales	0.7%	–0.2%	–	Tentative date.
UK	Jul house prices %yr	0.8%	–	–	Hometrack index
	Jul house prices %yr	1.9%	3.0%	–	Tentative date for Nationwide index due sometime this week.
	Jun mortgage approvals	58.2k	59.3k	59.5k	BBA data point to further increase.
	Jun net mortgage lending £bn	0.7	–	–	BoE/Treasury FLS credited with recent rise in household loan
	Jun net consumer credit £bn	0.3	–	–	outstandings, though demand for credit remains weak.
	Jun M4 money supply ex IOFCs %yr	4.3%	–	–	Down from 7.9%yr in Aug, partly a function of BoE APP suspension.
	Jul CBI retail survey	1	–	–	Reported sales index.
US	Jun pending home sales	6.7%	–1.2%	–2.3%	Constrained by supply and higher mortgage rates.
	Jul Dallas Fed factory index	6.5	6.5	0	July district Fed surveys mixed so far.
Tue 30					
NZ	Jun building consents	1.3%	–	–4.0%	Monthly noise masks a strong uptrend in homebuilding.
	Fonterra milk price forecast update	$7.00	–	$7.40	Date TBC. World prices remain high after drought-induced spike.
Aus	Jun dwelling approvals	–1.1%	2.0%	–1.0%	A monthly dip but 9.5% jump in Apr means this has uptrend consolidating.
	RBA Governor Stevens	–	–	–	Speaking at Anika Foundation Luncheon, Sydney, 1:05. Topic tba.
Eur	Jul business climate indicator	–0.68	–0.55	–0.45	Business surveys have had a less weak bias, mostly, in July, and
	Jul economic confidence	91.3	93.0	92	consumer confidence rose further.
Ger	Aug GfK consumer confidence	6.8	7.0	–	Surveyed early Jul but labelled Aug. Jul was highest since 2007.
	Jul CPI prelim %yr	1.8%	1.7%	–	Apr's 1.2%yr lowest since late '10, recent upside due to food, energy.
US	May house prices %yr	12.1%	12.4%	–	S&P-Case Shiller 20 city index.
	Jun Conf Board consumer confidence	81.4	81	80	Some pull-back likely given Detroit, gasoline prices
Can	May industrial product prices	0.0%	0.2%	–	Have not posted a rise since Feb.
Wed 31					
NZ	Jul ANZ business confidence	50.1	–	–	Confidence very strong outside of the direct impact of drought.
	Jun private sector credit %yr	4.2%	–	–	Household credit growth continues to inch up, business credit choppy.
Aus	Jun private sector credit	0.3%	0.3%	0.3%	Housing improving gradually. Business broadly flat.
	Jul AiG PMI	49.6	–	–	Manufacturing index surprised in June, +5.8ppts. Avg'd 43.4 H1 2013.
Eur	Jul CPI flash %yr	1.6%	1.7%	1.6%	Ger Jun CPI due 30/7 will provide guidance. Euro Jun core was 1.2%.
	Jun unemployment rate %	12.2%	12.2%	12.3%	Steady German jobless rate no longer offsets rises elsewhere.
Ger	Jul unemployment ch	–12k	0	–	German joblessness trending higher despite June fall.
UK	Jul BRC shop price index %yr	–0.2%	–	–	Jun was lowest reading since 2007.
	Jul GfK consumer confidence	–21	–19	–15	Jul spike will reflect Royal Baby birth.
US	Jul ADP private payrolls	188k	180k	140k	Q3 jobs growth to slow given decelerating GDP growth
	Q2 employment cost index	0.5%	0.4%	0.4%	Still quite soft labour market keeping costs down.
	Q2 GDP advance % annualised	1.8%	1.0%	1.1%	Sluggish quarter and benchmark revisions due. See text box.
	Jul Chicago PMI	51.6	54	56	Extremely volatile this year after downtrend in 2012.
	Jul Milwaukee NAPM	51.6	–	–	Little watched.
	FOMC decision	0-0.25%	0-0.25%	0-0.25%	Minor tweaks to statement, but no press conference. See text box.
Can	May GDP	0.10%	0.20%	0.30%	Partial data suggest GDP growth accelerating.
Thu 1					
Aus	Jul RP Data-Rismark home price index	2.0%	–	1.3%	Apr-May price softness has clearly passed. Annual growth about 4½%.
	Jul AiG PMI	49.6	–	–	Manufacturing index surprised in June, +5.8ppts. Avg'd 43.4 H1 2013.
	Q2 import price index	flat	2.0%	2.0%	Import costs up as AUD falls, tempered by lower global oil prices.
	Q2 export price index	2.8%	0.3%	0.8%	For exports, impact of lower AUD largely offset by softer global commodity prices.
Chn	Jul NBS manufacturing PMI	50.1	49.8	–	Decline in flash HSBC stocks index resolves some of wedge between the two series.
	Jul HSBC manufacturing PMI - final	47.7	47.7	–	Decline in headline flash measure, but some modestly promising detail emerging.
Eur	Jul PMI factory final	50.1 a	50.1	50.1	First reading above 50 in 2 years; probably not sustainable.
	ECB policy decision	0.50%	0.50%	0.50%	Draghi will note less-weak surveys, but peripheral concerns persist.
UK	BoE policy decision, asset purchases £bn	375	375	375	Mark Carney's first inflation report meeting as Governor. See text box.
	Jul factory PMI	52.5	52.9	52	Risks to downside from European/China concerns may be overstated
	Jul house prices %yr	1.9%	–	–	Tentative date for Halifax index due sometime from Aug 1.
US	Initial jobless claims, w/e 26/7	343k	345k	–	Recent volatility due summer auto plant shutdowns.
	Jul corporate layoffs %yr	4.8%	–	–	Challenger series.
	Jun construction spending	0.5%	0.4%	0.4%	Weak single-family starts in H1 2013 constraining residential.
	Jul ISM factory	50.9	52.0	49.9	Mixed Jul regional detail: NY/Philly Fed strong, Rich'd weak; see text box.
	Jul auto sales mn annualised	15.89	15.8	–	Sales in uptrend, above even Nov storm replacement spike to 15.5mn.
Fri 2					
Aus	Q2 producer price index	0.3%	–	0.6%	Up 1.6%yr. Now released post-CPI and thus of more limited interest.
Eur	Jun PPI %yr	–0.1%	0.10%	–0.2%	German PPI flat in June; still no price pressure from industry.
UK	Jul PMI construction	51	51.5	50.4	First back to back readings >50 since April-May last year.
US	Jul non-farm payrolls ch'	195k	184k	150k	Q3 jobs growth to slow given decelerating GDP growth
	Jun jobless rate	7.60%	7.50%	7.50%	Higher participation stalling jobless rate improvement.
	Jul ISM New York	47	–	–	Down 3.9pts in May, but still above March low for year so far of 51.2.
	Jun factory goods orders	2.1%	1.4%	–	Durables known 4.2% in June. Non-durables higher due to fuel prices.
	Jun core PCE deflator	0.1%	0.1%	0.1%	Core CPI was 0.2% in May but core PCE likely to round down to 0.1%.
	Jun personal income	0.4%	0.4%	0.7%	Hourly earnings up 0.4% in June, hours worked up 0.2%
	Jun personal spending	0.5%	0.5%	0.4%	Retail sales flat outside autos suggest some savings rebuild in June
	Fedspeak	–	–	–	Bullard on the economy

New Zealand Economic and Financial Forecasts

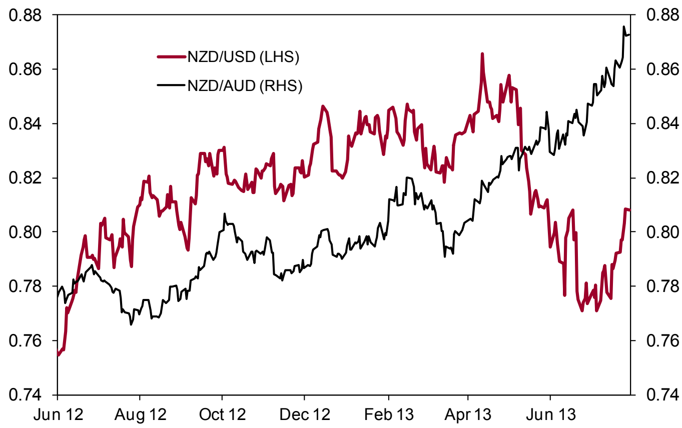
Economic Growth Forecasts		March years				Calendar years		
% change	2012	2013f	2014f	2015f	2011	2012	2013f	2014f
GDP (Production) ann avg	1.9	2.5	2.7	3.8	1.4	2.7	2.5	3.7
Employment	1.0	0.4	2.3	2.8	1.5	-1.4	3.5	2.8
Unemployment Rate % s.a.	6.7	6.2	5.7	4.8	6.3	6.8	5.9	4.9
CPI	1.6	0.9	1.7	2.3	1.8	0.9	1.5	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 29 July 2013

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.64%	2.65%	2.66%
60 Days	2.65%	2.65%	2.66%
90 Days	2.67%	2.67%	2.66%
2 Year Swap	3.36%	3.18%	3.17%
5 Year Swap	4.16%	3.97%	3.91%

NZ foreign currency mid-rates as at Monday 29 July 2013

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.8080	0.7785	0.7716
NZD/EUR	0.6081	0.5951	0.5927
NZD/GBP	0.5253	0.5150	0.5074
NZD/JPY	79.24	77.36	76.558
NZD/AUD	0.8726	0.8586	0.8463
TWI	75.96	74.05	73.34

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	2.50	2.50	2.25	2.00	2.00	2.00
90 Day Bill	2.73	2.55	2.30	2.10	2.10	2.10
10 Year Bond	3.78	3.60	3.40	3.30	3.20	3.10
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.58	2.40	2.20	2.10	2.00	2.00
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	0.9269	0.94	0.97	0.95	0.93	0.92
USD/JPY	98.84	100	99	98	97	96
EUR/USD	1.3280	1.32	1.33	1.30	1.27	1.25
AUD/NZD	1.1460	1.18	1.17	1.14	1.15	1.15

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