12 May 2014

Weekly Commentary

Lake Wanaka, New Zealand

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Good behaviour

The March quarter labour market figures confirmed that a hiring spree is under way as the economy gathers steam. But with more and more people being drawn into the workforce, we have so far avoided the labour shortages that were apparent in the previous decade's boom. Also unlike the previous boom, New Zealanders' penchant for borrowing has stayed relatively in check, a fact that the Reserve Bank acknowledged in two significant speeches last week.

The Household Labour Force Survey showed that employment is now rising strongly, even more so than expected – up 3.7% on a year ago. However, a further rise in the labour force participation rate, to a record 69.3%, left the unemployment rate unchanged at 6% – suggesting that the economy is less capacity-constrained than we thought. That in turn implies that the economic upturn could be sustained for longer without degenerating into inflation pressures and interest rate hikes.

The flipside has been that wage growth has remained subdued. The relative ease of finding workers, along with the legacy of sub-2% inflation over the last couple of years, left the rate of growth in the Labour Cost Index unchanged at 1.6%yr. With inflation forecast to be below the RBNZ's target midpoint of 2% for another year or so, it's likely that wage growth will remain similarly muted for a while longer.

Slower wage inflation, slower CPI inflation, a higher exchange rate and softer dairy export prices all point to a downgrade of the RBNZ's interest rate projections compared to the March *Monetary Policy Statement.* We've downgraded our forecast of the OCR track to a peak rate of 5.25% in 2016, compared to 5.5% previously. We've also reviewed the timing of rate moves for the remainder of this year: while a 25bp hike in June has been well foreshadowed, we no longer expect a fourth consecutive hike in July, with the next hikes now expected to fall in September and December.

Good behaviour continued

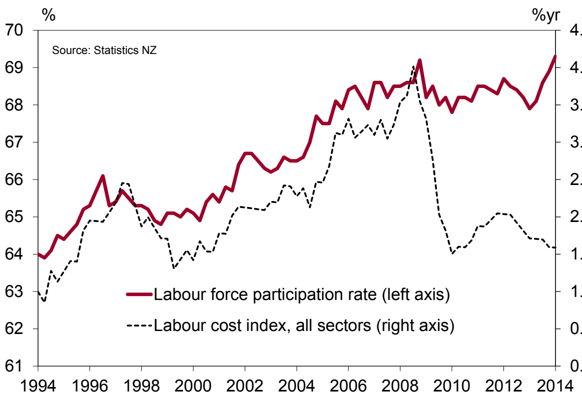
Last week brought two on-the-record speeches from the RBNZ, and in keeping with its renewed commitment to using speeches as a communication tool, there were some important policy details in both. The first was by Governor Wheeler on the dairy industry, and touched on several topics: the significance of New Zealand's dairy export trade with China, the impact of commodity prices on the New Zealand dollar, and the level of debt held against dairy farms.

With the NZ dollar trade-weighted index reaching a new post-float high at the time, the Governor reiterated his view that the exchange rate is overvalued and unsustainable. He went on to note that if the NZD were to remain high in the face of weakening fundamentals, namely dairy export prices, it would become more "opportune" for the RBNZ to intervene in the currency market. In other words, the RBNZ is closer to ticking off all of its four criteria for intervention: the exchange rate must be "exceptional" and "unjustified", intervention must be "consistent" with the inflation target, and must be "opportune" so that it has a reasonable chance of success. We don't see exchange rate intervention as a significant risk to the market in itself, but the threat of intervention is another signal that the strength of the NZ dollar does not sit well with the RBNZ's forecasts of growing inflation pressures and higher interest rates.

The other significant part of the speech was that the RBNZ seems relatively comfortable about dairy industry debt. The response to this year's record dairy payout has been fairly muted: agricultural lending growth had slowed to just 2.3%yr by March (while deposits were up 16.7%), as dairy farmers have used the higher payout to reduce debt and strengthen their balance sheets. There's been speculation that the RBNZ would look to apply macro-prudential restrictions such as loan-to-value ratio (LVR) limits to agricultural lending as well as housing; Mr Wheeler's speech suggests that the RBNZ doesn't see that as necessary at this stage.

The second RBNZ speech was by Deputy Governor Spencer on the housing market. We noted in our last weekly that we could soon see an announcement on the loosening of the limits on high-LVR home loans. When the limit was introduced last year, the RBNZ anticipated that the high-LVR share of new lending would be around 15% including exemptions; it's actually been around a third of that. We felt this was sufficient to warrant a 'recalibration' of the limit now, to bring lending back towards to the intended level.

Labour market conditions



Mr Spencer signalled a later, but more decisive, change than what we had in mind. He noted that the effect of the LVR limits has been "close to expectations", but that they were intended to be temporary and that there was scope to remove them as higher interest rates helped to cool the housing market. That would first require some assurance that higher mortgage rates were having the desired effect, and that immigration pressures weren't leading to a resurgence in house prices. He concluded that "at this stage we consider the earliest date for beginning to remove LVRs is likely to be late in the year."

We're confident that those conditions will be met. We have consistently argued that interest rates are the dominant driver of house prices, and we expect annual house price inflation to slow to around 5% this year (assuming, of course, that the RBNZ follows through with the rate hikes that it has signalled; pulling the plug on OCR hikes now would drive fixed-term mortgage rates lower and would risk reviving housing demand). We see immigration as a lesser influence on house prices; we'd also note that net immigration is already running at what we see as the peak monthly pace, so its ability to provide an additional boost to the housing market from here seems limited.

Fixed vs Floating for mortgages

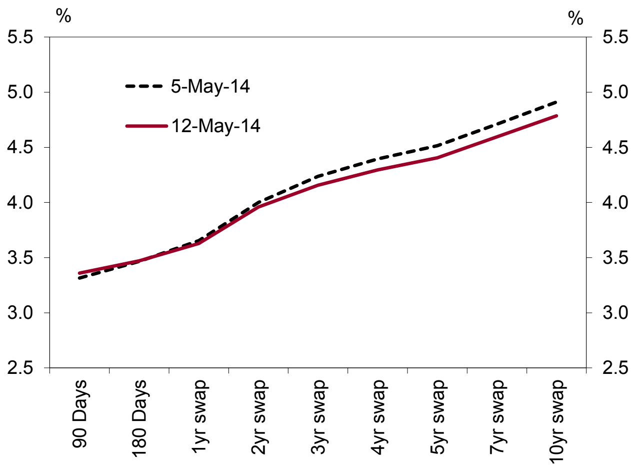
Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

For those who are looking to fix, there is little to gain from waiting. Fixed rates are more likely to rise than fall over the next few months.

Among the standard fixed rates, anything from six months to three years appears to offer similar value. Three-year rates are higher, but this is a fair reflection of where we think shorter-term rates are going to go over the next few years.

Fixing for four or five years may result in higher interest payments over the life of the loan than opting for shorter-term fixed rates. However, these longer-term fixed rates may still be preferred by those who are willing to pay for certainty.

NZ interest rates

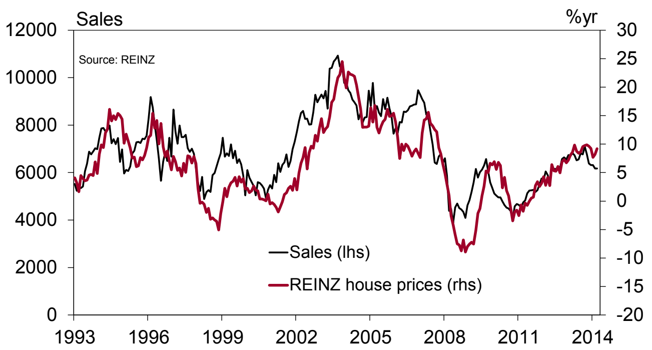


NZ Apr REINZ house prices and sales

May 12-14 (tbc), Sales last: -0.1%, Prices last: 9.2%yr

- House sales have fallen 13% from their peak last September, following the introduction of the RBNZ's restrictions on high loan-to-value home loans. We see a further decline in April as likely, based on lower mortgage approvals and reported sales from selected real estate agents. Note that the close proximity of Easter and Anzac Day this year may have led to a greater than usual slowdown in activity over this period.
- The impact of the LVR limits on house prices has been less than clear. We suspect that underlying house price growth has cooled, but it seems that some price measures are being skewed upward as sales of low-end properties slump. The 2% s.a. rise in the REINZ stratified price index for the March month was implausibly strong.

REINZ house prices and sales

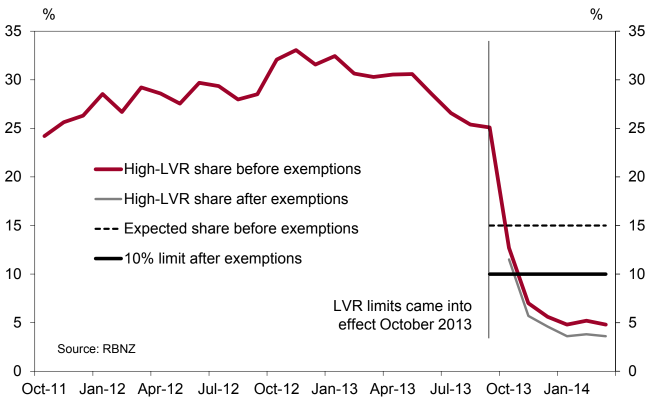


RBNZ Financial Stability Report

May 14

- The six-monthly Financial Stability Report has taken on more importance as a channel for policy communication, now that the RBNZ's suite of macro-prudential tools are 'live'.
- The RBNZ has indicated that the May report will include a detailed review of the housing market and the impact to date of the restrictions on high loan-to-value mortgage lending.
- However, the bottom line appears to have been pre-empted by a speech by RBNZ Deputy Governor Spencer, who noted that as higher mortgage rate take effect, and assuming that immigration pressures don't give a second wind to the housing market, the LVR limits could start to be removed later this year.

New mortgage lending by loan-to-value ratio

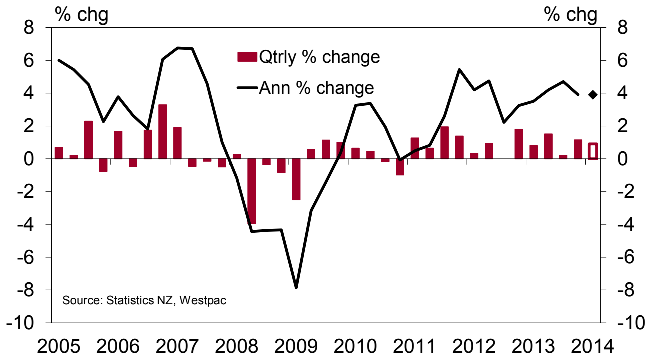


NZ Q1 real retail sales

May 14, Last: 1.2%, Westpac f/c: 0.9%, Mkt f/c: 0.9%

- Real retail spending rose strongly but less than we expected in the December quarter, largely due to a shortfall in vehicle sales. Vehicle registrations have been running rampant, yet somehow haven't translated into stronger sales to date.
- We expect another solid increase of 0.9% for the March quarter. Monthly figures on electronic card transactions point to a higher level of spending over the three months combined, even if the pace of growth was flattening out.
- Falling retail prices, particularly for electronic goods, were a notable factor once again in the March quarter CPI. Our retail sales estimate consists of a 0.7% nominal increase in spending and a 0.2% drop in retail prices, compared to the 1.2% nominal rise in spending and flat deflator in the December quarter.

Real retail sales

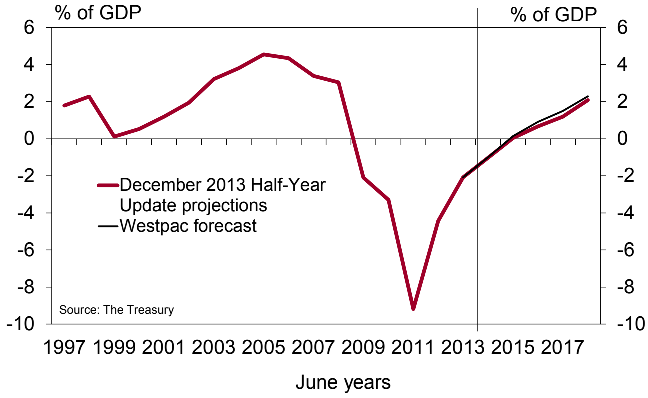


NZ Budget 2014

May 15, Last:-$3.7bn WBC f/c: -$2.3bn

- Despite the strengthening economic outlook, the government is likely to retain a familiar theme of 'fiscal discipline' in the 2014 Budget.
- However, with stronger economic growth set to translate to an improvement in revenue forecasts and larger surpluses relative to December's Half-Year Fiscal and Economic Update (HYEFU), there should be room for the government to both unveil some new spending initiatives and keep on track with its twin goals of achieving surplus in 2014/15 and reducing debt below 20% of GDP by 2020.
- There have been few of these initiatives announced ahead of the Budget. However the government is likely to retain its focused spending on healthcare, education, community safety and a reduction in welfare dependency.

Operating balance (excluding gains and losses)

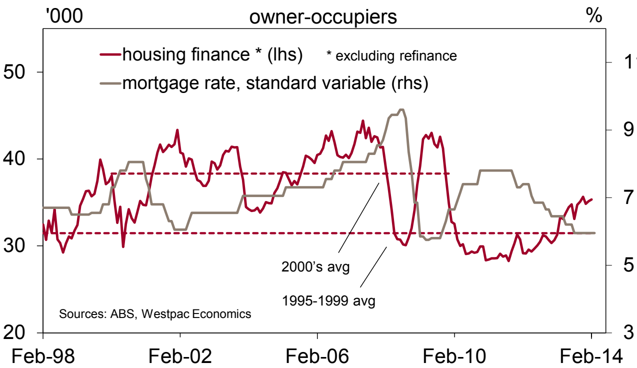


Aus Mar housing finance (no.)

May 13, Last: 2.3%, WBC f/c: –1.5%
Mkt f/c: 0.5%, Range: –2.7% to 1.9%

- The number of owner occupier finance approvals rose 2.3% in Feb, coming in above expectations but still consistent with a 'topping out' after a strong surge in 2013.the Annualised trend growth averaged 14.5% in 2013 but has been running at 3.9% so far in 2014.
- Industry figures suggest approvals softened again in Mar. We expect owner-occupier finance approvals to be down about 1.5% for the month. We expect owner-occupier activity to continue flattening out through the middle of the year following sharp declines in consumer assessments of 'time to buy a dwelling' since 2013. Investor activity – not covered by the headline approvals figure – is harder to predict.

Owner-occupier finance & the rate cycle

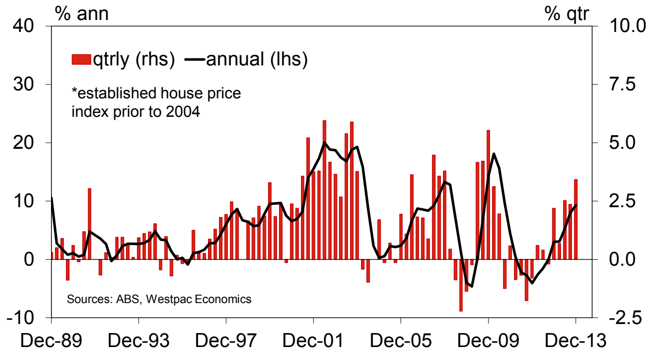


Aus Q1 residential property price index

May 13, Last: 3.4%, WBC f/c: 1.5% (all dwellings measure)
Mkt f/c: 2.9%, Range: 1.0% to 3.5%

- The ABS residential property price index rose sharply in 2013 posting gains of 2.5% in Q2, 2.4% in Q3 and 3.4% in Q4 to be up 9.3% for the year, the strongest annual price growth since 2010. Note that the ABS also introduced major changes to the measure in Q4 including expanded coverage to include 'attached' dwellings – the previous index's narrow coverage of only 'detached' dwellings had been a serious limitation. Unfortunately timeliness and a tendency for revisions remain significant shortcomings.
- Available private measures show prices continued to rise in 2014 albeit with at a slower pace than in Q4. 'All dwelling' measures show gains of 1.6%qtr, 9.6%yr (APM), 2.4%qtr, 9.1%yr (Residex), and 3.0%qtr, 10.2%yr (RP Data-Rismark). Overall we expect the ABS measure to show a 1.5% gain for Q1. Note that some of the quarterly slowing is seasonal.

Residential property price index, ABS measure

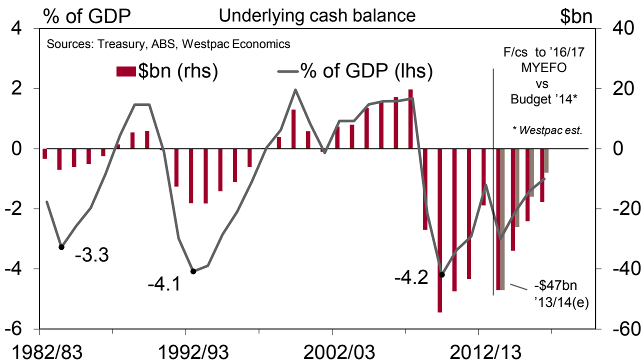


Aus Federal Budget 2014/15, AUDbn

May 13, Last: –47, WBC f/c: –26
Mkt f/c: –30, Range: –35 to –26

- Australia's Federal budget deficit in 2013/14 is an estimated $47.0bn (3.0% of GDP). This is the sixth consecutive deficit, with a cumulative deficit of almost $240bn over this period.
- The journey back to surplus is about to begin. The government will put in place a medium term strategy to repair the budget. The approach is likely to be incremental in the initial years, with more sizeable savings targeted at 2017/18 and beyond, the period when expenditure is set to jump on current policy.
- We expect the budget deficit to narrow to $26bn (1.6% of GDP) in 2014/15. This factors in modest discretionary net savings of around $5bn (0.3% of GDP), partially offset by a $1bn lift in infrastructure investment

Australian Federal budget balance

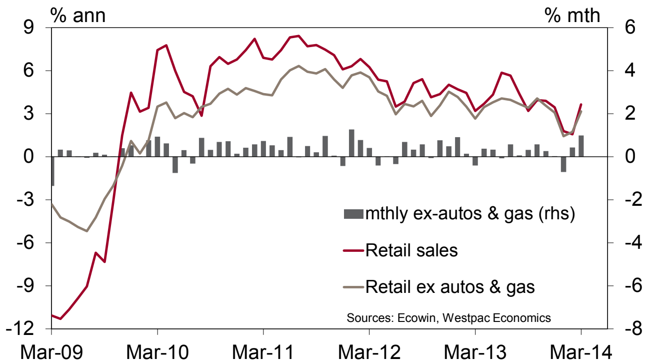


US Apr retail sales

May 13, Last: 1.2%, WBC 0.2%

- Retail sales rose 1.2% in March. Auto sales jumped more than 5% in Feb-Mar, reversing Dec-Jan declines. Gasoline sales fell 1.3% in March, and core retailing rose a solid 1.0%, most likely due to catch-up spending after nil growth between Oct-Feb, when the weather at times made shopping physically impossible. Notable in the detail were solid or back to back gains in restaurants, general merchandise, sporting goods and furniture, after steep or consecutive months of sales decline.
- But only six of the fourteen storetypes saw sales in March higher than a year ago and quarterly annualised sales paces of 0.3% for total retail in Q1 and 0.4% for core retailing compared to 2.9%/3.5% in Q4 2013. That slowdown may represent potential extra spending in months ahead, or could be lost forever. April data will be instructive here. We already know auto sales slipped in Apr but gasoline prices rose.

US retail sales

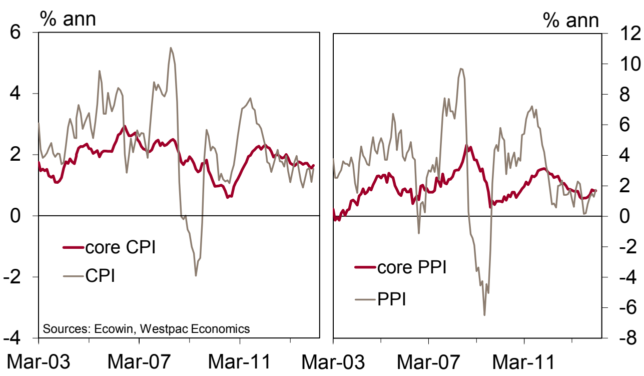


US Apr producer and consumer price indices

May 14, PPI final demand: Last: 0.5%, WBC f/c flat%
May 15, CPI: Last: 0.2%, WBC f/c: 0.2%

- The PPI rose 0.5% in March, with flat goods prices contrasting with a relatively rare 0.7% spike in services prices, its steepest rise in more than 4yrs although it followed a cumulative 0.4% fall over the previous 4mths. The new PPI demand weights food & energy only 12% (vs 40% of the old PPI) so the focus on the core PPI has lessened; occasional spikes in the 64% weighted services component are not significant when preceded (as in March) or followed by weakness (as we expect in April).
- The CPI rose 0.2% both headline and core (ex food & energy) in March. A 0.1% fall in energy (gasoline was down 1.7%) was offset by a 0.4% food price rise, building on Feb's rise. Rent rose 0.3% after a string of 0.2% gains so despite subdued price pressures elsewhere the core rate was lifted to its highest since January last year. That is unlikely to be replicated in April.

US price inflation

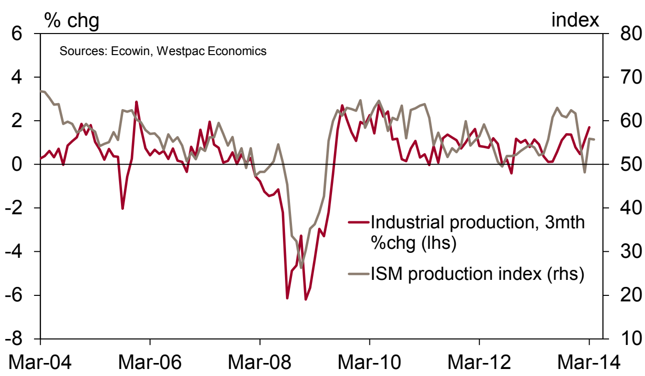


US Apr industrial production

May 15: Last: 0.7%, WBC f/c: flat%

- March IP grew 0.7%; Feb was revised up to 1.2%. Manufacturing rebounded a further 0.5%. Utilities/mining posted 1%+ gains.
- These Fed-sourced figures paint a clear picture of Jan industrial sector disruption but quick recovery since. That contrasts with the ISM manufacturing survey which reported moderating growth in Jan and a shock contraction in production in Feb, the month the Fed says manufacturing grew at the fastest pace in 7yrs. Further, the Markit PMI recorded its highest ever reading in Feb, with no hint of early 2014 disruption! Who to believe?
- Factory hours worked edged 0.1% higher in Apr. Auto sales were down in the month though Mar auto orders were solid and core capital goods orders rose sharply. The April ISM factory survey showed orders and production stalled. These factors point to a modest gain in factory output with utilities a downside risk to IP.

US industrial sector



US Apr housing starts/permits

May 16, Housing starts: Last: 2.8%, WBC f/c: 3.0%
May 16, Housing permits: Last: –2.4%, WBC f/c: 3.0%

- Housing starts rose 2.8% and permits fell 2.4% in March. The headlines were once again pushed around by multiples, 21%yr and 37%yr. The apartment building business is doing well.
- The single family dwelling picture is less impressive, a cumulative single starts rise of 9% in Feb-Mar recovering just some of the 20% plunge in Dec-Jan, for a 1.9%yr pace. But the March annualised starts pace of 635k remained 10.7% lower than the 2013 peak of 713k in Nov, and even the weather impacted Dec singles starts pace of 669k (when construction jobs fell 20k) was higher than mild March could muster. Was a late 2013 nascent house building boom cruelly nipped in the bud by the snow? Or might there be seasonal adjustment issues, with the factors boosting the shutdown months almost comically? Annual revisions with the Apr data might be revealing in this regard.

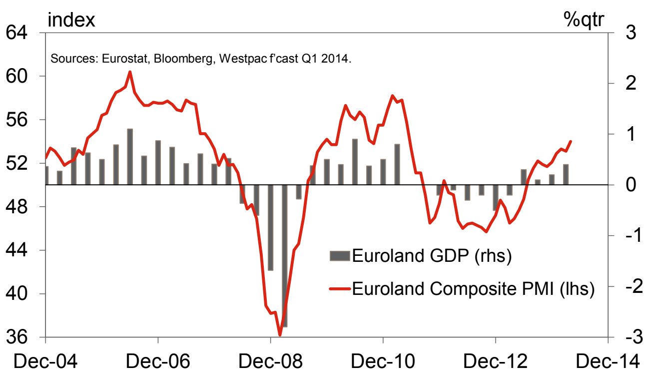
US housing starts & permits

Eur Q1 GDP

May 15: Last: 0.2%, WBC f/c: 0.4%

- Euroland GDP has recovered modestly from the shallow 2011-13 recession. Spain and Portugal exited recession a year ago, and Italy more recently, complementing mediocre outcomes in Germany, where net exports and investment contributed less than typically. Stop-start French GDP growth reflects ongoing competitiveness problems that so far have drawn only half-hearted attempts at structural reform.
- The Bundesbank assessed Q1 German growth as "very strong" due to fewer weather stoppages and Q4 orders driving a production upswing (though Q2 growth "will be significantly slower"). But French partial data on IP and consumer spending and wobbly PMIs in early 2014 suggest growth there may have stalled. Spain has already reported Q1 GDP at 0.4%.
- We expect Q1 Euroland GDP of 0.4%, the strongest yet of the year-long recovery but unlikely to be exceeded in 2014. Note Q4 GDP was quietly revised down from 0.3% to 0.2%.

EU GPD: 3yrs of stagnation, recession



Data calendar

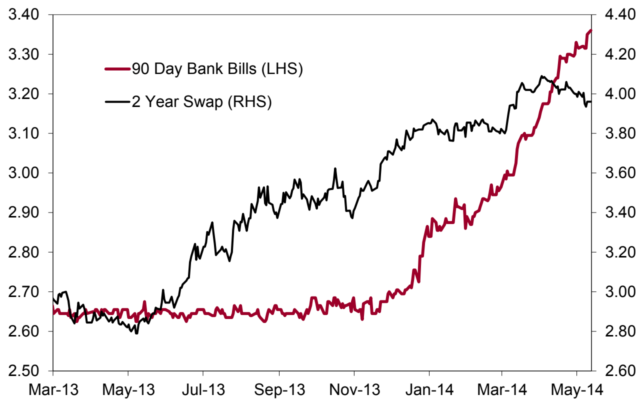
		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
NZ	Apr REINZ house sales	-0.1%	-	-	Due this week. Easter timing could mean a slower than usual April.
	Apr REINZ house price index %yr	9.2%	-	-	March was implausibly strong and maybe skewed by the mix of sales.
Aus	Apr NAB business survey	1	–	–	In Mar, conditions up 1pt to +1 but confidence down 3pts to +4.
US	Apr federal budget $bn	112.9	112.7	–	Budget position improved in recent years.
	Fedspeak	–	–	–	Plosser.
Tue 13					
NZ	Apr food price index	-0.3%	-	0.1%	Annual food price inflation starting to lift a little.
Aus	Mar housing finance	2.3%	0.5%	–1.5%	Owner-occupier activity topping out after a strong surge in 2013.
	Q1 ABS residential property price index	3.4%	2.9%	1.5%	Tentative signs market momentum slowing in early 2014?
	Federal Budget 2014/15, AUDbn	–47	–30	–26	Deficit to narrow to $26bn in 2014/15.
	RBA Head of Fin. Stability Ellis speaking	–	–	–	Panel, Thomson Reuters' 2nd Australian Regulatory Summit, 9.15AM Sydney
Chn	Apr fixed asset investment %ytd	17.6%	17.7%	–	Real estate and heavy industry softening, infrastructure a partial offset.
	Apr retail sales %yr	12.2%	12.2%	–	Consumer sentiment has been subdued in the year to date.
	Apr industrial production %yr	8.8%	8.9%	–	Stock overhang less extreme but final demand is underwhelming.
Ger	May ZEW analysts' expectations	43.2	41.0	40.0	Sentix slipped to weakest since Jan in May on Ukraine, China.
UK	Apr BRC retail survey %yr	–1.7%	–	–	Same store sales have see-sawed much like official retail data.
US	NFIB small business optimism	93.4	94.5		Slippage in other but not all business surveys in April.
	Apr advance retail sales	1.2%	0.4%	0.2%	Auto sales down, gasoline prices higher.
	Apr retail sales ex auto, gas	1.0%	0.5%	0.2%	Core retailing Mar catch-up pace unsustainable
	Mar business inventories	0.4%	0.4%	0.2%	Inventories both built up and depleted during Winter freeeze.
	Apr import prices %yr	–0.6%	–	–0.8%	Oil prices higher on avge than in Mar; US$ volatile but little changed.
	Fedspeak	–	–	–	Lockhart, Lacker.
Wed 14					
NZ	RBNZ Financial Stability Report	-	-	-	More detail on the impact of LVR limits, and conditions for removal.
	Q1 real retail sales	1.2%	0.9%	0.9%	Further solid growth as consumer confidence remained perky.
Eur	Mar industrial production	0.2%	–0.1%	–0.3%	Solid PMI. German factory output –0.4%, France –0.7% in Mar.
UK	BoE inflation report	–	–	–	How long will BoE remain comfortable with GDP/CPI mix.
	Apr unemployment ch'	–30k	–30k	–30k	Benefit claimants. Q1 jobs likely to beat Q2 12's 202k post GFC record.
US	Apr PPI	0.5%	0.2%	flat%	Mar PPI boosted by unusual surge in services prices.
Can	Apr house prices %yr	2.6%	–	–	Teranet/National Bank index.
Thu 15					
NZ	Apr manufacturing PMI	58.4	-	-	March was the second-highest reading in a decade.
	Budget 2014 NZDbn	-3.7	-	-2.3	On track for surplus in 2015, economic forecasts to be upgraded.
Aus	RBA Head of Fin. Stability Ellis speaking	–	–	–	Citibank Residential Housing Conference, 9.00AM. Sydney.
Eur	Apr CPI %yr final	0.7% a	0.7%	0.7%	April CPI lifted by late Easter impact on travel prices; will fall in May.
	Q1 GDP	0.2%	0.4%	0.4%	4th straight qtr of meek recovery.
Ger	Q1 GDP	0.4%	0.7%	0.7%	Buba described Q1 as "very strong".
US	Initial jobless claims w/e 10/5	319k	–	310k	Easter and spring break distortions passed.
	Apr CPI	0.2%	0.3%	0.2%	Gasoline prices higher in Apr, food price risk to the upside but core
	Apr CPI core	0.2%	0.1%	0.1%	pressures to ease back to trend.
	May NAHB housing market index	47	48	49	Still well off H2 2013 highs.
	May NY Fed factory survey	1.3	7.0	3.0	Prior tendency to slump mid year not so apparent in 2013.
	Mar TIC data, $bn	85.7	–	–	Net long term TIC flows.
	Apr industrial production	0.7%	flat	0.0%	Factory hours worked up 0.1%.
	May Phily Fed factory survey	16.6	12.5	8.0	Why is this index holding up?
Can	Apr existing home sales	1.0%	–	–	Housing slowdown still classed as soft landing by officials
	Mar manufacturing sales	1.4%	flat	–	Feb was multi-year high.
Fri 16					
Eur	Mar exports	1.2%	–	–	Exports showing renewed momentum so far in Q1 2014.
US	Apr housing starts	2.8%	3.9%	3.0%	Starts pace for (single family dwellings) has been running ahead of
	Apr building permits	–1.7%	1.8%	3.0%	permits. Multiples driving headlines.
	May UoM consumer sentiment prelim	84.1	84.5	82.5	300 responses in prelim; IBD-TIPP weaker in May with 900 replies.
	Fedspeak	–	–	–	Yellen to US Chamber of Commerce. Also Bullard.
Can	Mar wholesale sales	0.0%	–	–	Autos prevented decline in Feb. Essentially stalled since May last year.
	Apr CPI %yr	1.0%	–	–	BoC core rate was steady at 1.4% yr in Mar.
Sun 18					
Chn	Apr China property prices		–	–	

New Zealand forecasts

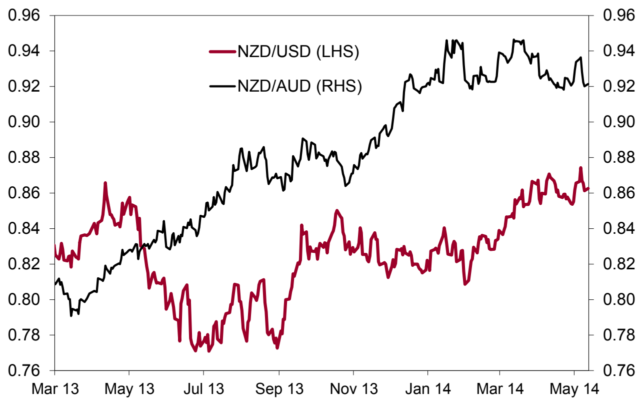
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014e	2015f	2016f	2012	2013	2014f	2015f
GDP (Production) ann avg	2.3	3.1	3.9	3.1	2.6	2.7	3.9	3.3
Employment	0.4	3.8	2.5	2.0	0.4	2.9	2.9	2.4
Unemployment Rate % s.a.	6.2	6.0	5.3	4.9	6.8	6.0	5.5	4.9
CPI	0.9	1.5	1.8	2.6	0.9	1.6	1.6	2.5
Current Account Balance % of GDP	-3.9	-2.8	-4.0	-4.5	-4.1	-3.4	-3.2	-4.7

Financial Forecasts	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Cash	3.25	3.50	3.75	3.75	4.00	4.25
90 Day bill	3.40	3.70	3.90	4.00	4.20	4.45
2 Year Swap	4.10	4.30	4.50	4.70	4.90	5.00
5 Year Swap	4.60	4.80	5.00	5.10	5.20	5.25
10 Year Bond	4.60	4.80	4.90	5.00	5.05	5.10
NZD/USD	0.86	0.86	0.85	0.84	0.84	0.84
NZD/AUD	0.93	0.94	0.94	0.93	0.91	0.90
NZD/JPY	86.9	85.5	85.0	84.8	85.7	86.5
NZD/EUR	0.62	0.63	0.63	0.63	0.62	0.62
NZD/GBP	0.50	0.50	0.50	0.48	0.46	0.45
TWI	79.9	79.9	79.9	78.9	78.3	78.1

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 12 May 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.00%	3.00%	2.75%
30 Days	3.19%	3.17%	3.05%
60 Days	3.27%	3.24%	3.13%
90 Days	3.36%	3.30%	3.22%
2 Year Swap	3.96%	4.02%	4.05%
5 Year Swap	4.41%	4.56%	4.63%

NZ foreign currency mid-rates as at Monday 12 May 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8626	0.8577	0.8683
NZD/EUR	0.6272	0.6197	0.6274
NZD/GBP	0.5122	0.5106	0.5195
NZD/JPY	87.90	87.63	88.23
NZD/AUD	0.9214	0.9247	0.9248
TWI	80.12	79.76	80.47

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013	2014f	2015f
Australia						
Real GDP % yr	2.2	2.6	3.6	2.4	3.0	3.0
CPI inflation % annual	2.8	3.0	2.2	2.7	2.5	2.6
Unemployment %	5.2	5.2	5.3	5.8	6.2	5.9
Current Account % GDP	-3.5	-2.8	-4.1	-2.9	-2.5	-1.2
United States						
Real GDP %yr	2.5	1.8	2.8	1.9	1.8	2.5
Consumer Prices %yr	1.6	3.1	2.1	1.5	1.6	1.6
Unemployment Rate %	9.6	8.9	8.1	7.4	6.5	5.9
Current Account %GDP	-3.0	-2.9	-2.7	-2.3	-2.7	-2.6
Japan						
Real GDP %yr	4.9	-0.3	1.5	1.5	1.3	1.3
Euroland						
Real GDP %yr	2.0	1.6	-0.7	-0.4	0.9	1.0
United Kingdom						
Real GDP %yr	1.7	1.1	0.3	1.8	2.6	2.1
China						
Real GDP %yr	10.4	9.3	7.7	7.7	7.2	7.6
East Asia ex China						
Real GDP %yr	7.8	4.4	4.0	4.0	4.2	5.0
World						
Real GDP %yr	5.2	3.9	3.2	3.0	3.1	3.7
Forecasts finalised 9 May 2014						

Interest Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Australia						
Cash	2.50	2.50	2.50	2.50	2.50	2.50
90 Day Bill	2.67	2.60	2.55	2.55	2.55	2.65
10 Year Bond	3.82	3.90	4.00	4.10	4.30	4.50
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.61	2.60	2.70	2.80	3.00	3.20
ECB Repo Rate	0.25	0.25	0.25	0.25	0.25	0.25

Exchange Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AUD/USD	0.9361	0.92	0.91	0.90	0.90	0.92
USD/JPY	101.73	101	100	100	101	102
EUR/USD	1.3839	1.38	1.36	1.34	1.34	1.35
AUD/NZD	1.0830	1.06	1.06	1.06	1.07	1.10

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Disclaimer continued

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